Degroof Petercam

Annual report 2019

Consolidated financial statements for the year ended 31 December 2019

Annual report 2019

Table of contents


Degroof
Petercam
Imagine Tomorrow since 1871

Message from the Board of Directors

“In this exceptional context, we are pursuing more than ever our ambition to give our clients the means to achieve their ambitions and to be their independent resource as a financial partner so that they remain confident about their financial future.”

In 2019, Degroof Petercam Luxembourg benefited from the favourable development of the equity markets, closing the financial year with 14.1% growth by our reference fund DP Global Strategy L medium. Global equities (represented by the MSCI All Country World Index) returned 26.6% in US dollar terms in 2019. Bond yields in developed countries declined significantly over the period, benefiting the price of gold, which ended with a gain of 18% in US dollar terms. The main factor supporting the financial markets was the reversal of central banks’ monetary policy projections. The more accommodating position adopted by the central banks, in the form of postponing or abandoning rate increases and then implementing rate cuts, had a favourable effect on the financial markets. After showing initial signs of recovery, the yield curve steepened again at the end of the year, confirming the persistent negative trend in short-term interest rates.

Consolidated net income for the financial year amounts to EUR 40.3 million, an increase of 20% compared to the previous financial year (EUR 33.6 million). Current consolidated gross income amounted to EUR 49.5 million, down 13% compared to the previous financial year. These results reflect the good performance of our businesses, supported by the equity markets and a lower level of exceptional expenses than in 2018, while the low interest rate climate had a negative impact on our cash results and administrative expenses were higher than in 2018. Against the backdrop of falling interest rates, the results mainly reflect the performance of commission-generating businesses.

As at 31 December 2019, the Asset Services business recorded EUR 40.4 billion in assets under administration and/or custody, including EUR 10.0 billion for third-party funds. These assets grew by 15.8% over the previous year. The major contribution of the Asset Services business line to the earnings of the Luxembourg division was further strengthened in 2019, confirming the strategic positioning of the investment fund services business line. Continuing the strategy of centralising the centres of competence for support services related to investment funds in Luxembourg, at the beginning of October 2019, the Belgian branch of the Luxembourg bank acquired the status of custodian bank and took in deposit a range of funds totalling EUR 6.3 billion in assets. In 2019, the teams also prepared the migration to our Asset Services platform of two Group sicavs still administered by and deposited with third-party service providers; this migration of EUR 8.4 billion of assets was successfully completed on 2 January 2020.

Private client assets under management amounted to EUR 5.3 billion as at 31 December 2019 compared to EUR 5.2 billion a year earlier. Our experts have delivered top-notch performance ensuring very positive returns for our clients. Although the strengthening of the regulatory and compliance framework slowed the inflow of new assets, Private Banking continued to develop its business by ensuring greater visibility in the national media and by organising events around the theme of art, as well as by strengthening its position as a European hub serving international clients residing outside Luxembourg. Private Banking also saw a significant increase in the number of clients connected to the My DP digital platform, enabling them to consult their portfolios online.

Outstanding loans to customers grew significantly and amounted to EUR 661 million as at 31 December 2019, up by almost 11% compared to the end of 2018.

The development of our visibility in 2019 also focused on the local entrepreneurial market with the launch of a Corporate Finance activity specific to the Luxembourg division. This offer of independent and multidisciplinary advisory services covers all investment banking business lines in close collaboration with the Group's teams of experts.

Various projects were successfully carried out in 2019, such as the migration of employees' desktop computers to portable workstations and the preparation of the migration of the data centres to a service provider outside Luxembourg.

Looking ahead, the coronavirus pandemic has triggered an unprecedented crisis since the end of February 2020, which has been accompanied by a sharp market correction and extreme levels of volatility. The impacts of this health crisis on the world economy are still uncertain at this point in time and their magnitude will depend heavily on its duration.

Degroof Petercam Luxembourg has put in place a continuity plan for its operational activities, piloted by a Crisis Committee, which enabled, among other things, more than 90% of its employees to work from home from day one of the containment measures, while continuing to carry out their mission in the service of internal and external clients.

The market downturn recorded since the end of February 2020 will weigh on 2020 results and will have a negative impact on commissions based on client assets as well as on new asset inflows. On the other hand, high market volatility generates higher commissions associated with increased transaction volumes.

The Management Board, under the supervision of the Board of Directors, manages on an ongoing basis the future short- and medium-term effects, in particular the liquidity risk and the risks associated with the recoverability of credits as well as the possible impacts on profitability and solvency. Analyses carried out at the balance sheet date show that the solidity of the consolidated balance sheet of the Luxembourg division, which comprises more than 60% high quality liquid assets, a large majority of mostly guaranteed loans (lombards) and shareholders' equity of more than EUR 276 million, makes it possible to cope, without anticipating major difficulties, with sharply deteriorating market situations while maintaining regulatory ratios above the required thresholds. Despite having an extremely strong balance sheet and ample liquidity, the Group is also analysing the implementation of measures that could, if necessary, be activated in the event of a possible more severe or persistent deterioration in the economic environment in the longer term.

The recent lockdown events have shown us the exceptional capacity of our employees and our organisation to mobilise to continue to guarantee a high quality of service to our private and institutional clients, despite the containment. In this exceptional context, we are pursuing more than ever our ambition to give our clients the means to achieve their ambitions and to be their independent resource as a financial partner so that they remain confident about their financial future. We will overcome this unprecedented health crisis by showing solidarity, through total commitment to our clients, by demonstrating the perfect cohesion of our activities and by relying on our independence, an element that allows us to show agility in these difficult times.

We would like to take this opportunity to express our sincere thanks and gratitude to our staff who, through their commitment, teamwork and contribution, strive every day to meet the expectations of our clients. We would also like to thank the members of our Board of Directors and the shareholders for their ongoing support. Finally, we would like to thank our clients for their loyalty and the constantly renewed trust they place in our Group.

Bruno Houdmont
Managing Director

Alain Schockert
Chairman of the Board of Directors

Consolidated management report

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with IFRS.

1. Consolidated financial position of Banque Degroof Petercam Luxembourg S.A.

1.1. Consolidated income of Banque Degroof Petercam Luxembourg S.A.

Consolidated net income for 2019 was up by 20% on 2018, totalling EUR 40.3 million. Current gross income, which excludes exceptional charges, amounted to EUR 49.5 million, down 13% compared to the previous financial year.

The interest margin and processing income were stable compared to the previous year. The interest margin continues to be impacted by low interest rates, which are still negative in the short term, as the interest rate of the Central Bank's deposit facility fell further in September 2019 to-50 basis points.

Boosted by rising equity markets, commission income from asset management, administration and intermediation activities increased slightly in 2019.

The increase in general expenses of 6.9% reflects the increase in personnel and administrative expenses. This increase reflects higher operating costs re-invoiced by the parent company, the costs of IT environment improvement projects and regulatory projects.

The cost-to-income ratio remains satisfactory (62.8%), making it possible to achieve a return on equity of 17.4%.

The balance sheet total stands at EUR 2.7 billion, and for years now the Bank has had a very solid level of solvency: the CET1 ratio stood at 26.9% at 31 December 2019, well in excess of the legal requirement.

The Bank and its subsidiaries had a total of 372 employees at 31 December 2019 (compared with 364 at the end of 2018).

1.2. Main risks to which the Luxembourg division is exposed

The exposure to risks is described in Note 7 to the financial statements for the year ended 31 December 2019. By the nature of its activities, the Luxembourg division is exposed to certain risks. The main risks are as follows:

- market risks, mainly related to investment activities in securities portfolios (equities, bonds) and to interest rate transformation activity (ALM);
- liquidity risk resulting from maturity differences between financing (generally short-term) and reuse;
- counterparty risk related to credit activity (which is severely limited by the use of collateral in the form of securities portfolios) and derivative intermediation transactions;
- risks related to the asset management business (risk of legal action by clients whose mandates have not been complied with, commercial risk of loss of dissatisfied clients and related reputational risks);
- the operational risk resulting from its activities, including banking (error in order execution, fraud, cybercrime, etc.), custodian bank (loss of assets) or fund manager (non-compliance with constraints).

1.3. Circumstances likely to have a significant influence on the Group's development

In general, the Group's growth and profitability are also influenced by: changes in customer capital and equity markets, and the macroeconomic and regulatory environment.

1.4. Policy on the use of financial instruments

Derivatives are used as follows for own account:

- As part of ALM (asset and liability management), interest rate derivatives (mainly futures and interest rate swaps) are used to hedge the Group's long-term interest rate risk.
- Interest rate swaps are used on a global basis from a macro-hedge perspective, but also to hedge a portfolio of sovereign bonds and covered bonds position by position, from a micro-hedge perspective. This use of derivatives is supervised by the Assets and Liabilities Management Committee (Almac).
- Similarly, the Group's treasury (interest rate risk < 2 years) uses interest rate derivatives and cash swaps to manage the Group's interest rate risk and cash position.
- The management of the foreign exchange position also involves the use of derivatives (forward foreign exchange contracts and currency swaps) to hedge commitments to clients and the financing of subsidiaries in the currency corresponding to their activities.
- The Bank also acts as an intermediary for its clients.

1.5. Research and development activities

The Group continues its research and development activities through the progressive implementation of its operational and support application transformation program. The Bank and its subsidiaries have no new plans to capitalise development costs in 2019.

1.6. Treasury shares

The Bank and its subsidiaries did not acquire any treasury shares during the year.

2. Changes in the profits of the entities of the Luxembourg division

2.1. Banque Degroof Petercam Luxembourg S.A.

Banque Degroof Petercam Luxembourg S.A. ("BDPL") is the umbrella and consolidating entity of the Luxembourg division of the Degroof Petercam Group.
In 2019, profits were positively impacted by lower non-current expenses than those recorded in 2018. The increase in dividends from DPAS offset the impact of the loss of fund administration fee revenues following the transfer of these activities to DPAS in the last quarter of 2018. The increase in depreciation on property, plant and equipment is related to depreciation on leases following the implementation of IFRS 16 as of 1 January 2019.
On a parent-company basis, BDPL closed the 2019 financial year with net banking income up 7% and a net profit of EUR 30.5 million (EUR 19.9 million in 2018).
The Belgian branch of BDPL (BDPLB) acquired the status of custodian bank in October 2019 and took in deposit a range of funds totalling EUR 6 billion in assets at the beginning of October 2019. It ended the 2019 financial year with a loss of kEUR 69.3.

The Board of Directors proposes to the general meeting to allocate the profit for the financial year as follows:

Net profit for the year	30,484,458
Profit carried forward from 31 December 2018	140,131,162
Allocation to other reserves	6,469,625
Allocation to unavailable reserve	96,297
Allocation to the wealth tax reserve 2020	- 6,000,000
Profit to be distributed	171,181,542
Retained earnings	171,181,542

2.2. Degroof Petercam Asset Services S.A. ("DPAS")

DPAS, a wholly-owned subsidiary of Banque Degroof Petercam Luxembourg S.A. (BDPL), is the result of the merger in 2016 of Degroof Gestion Institutionnelle - Luxembourg S.A. with Petercam Institutional Asset Management S.A. Approved as a UCITS management company in accordance with Chapter 15 of the law of 17 December 2010 and as an alternative investment fund manager (AIFM), DPAS provides its services to the Degroof Petercam Group's UCIs as well as to third party initiators, thanks to the integrated UCITS/AIFM services as well as a specific offering of Currency Hedging, Asset Management and Risk Management.
In 2018, the Degroof Petercam Group restructured certain activities previously carried out by Banque Degroof Petercam Luxembourg S.A., either directly or through its Belgian branch. In this context, DPAS has become, within the Degroof Petercam Group, the centre of expertise for administrative services related to UCIs. As part of the centralisation of the competence centres, fund administration activities were transferred from BDPL to DPAS as of the last quarter of 2018. This change at the end of the 2018 financial year had a significant impact on the entity's revenues and expenses in 2019 and on the comparison of the year's results with those of the previous year.

With a balance sheet total of EUR 116.0 million and equity of EUR 50.0 million at 31 December 2019, DPAS ended 2019 with net income of EUR 24.0 million, more than 70.8% up relative to net income for 2018 (EUR 14 million).
With a total of EUR 40.6 billion at 31 December 2019, DPAS' assets under management or administration were up by 15% relative to year-end 2018. Assets under management for third-party originators grew by 15% to EUR 10.0 billion, representing 25% of total assets under management.

The assets of Group UCIs for which DPAS acts as management company, AIFM or Administrative Agent reached EUR 30.7 billion at the end of 2019.
At the end of December 2019, DPAS had a total of 110 employees in Luxembourg.

2.3. Degroof Petercam Insurance Broker S.A. ("DPIB")

DPIB is a wholly-owned subsidiary of BDPL. Its corporate object is insurance brokerage through duly approved natural persons, in accordance with the provisions of the law of 7 December 2015 on the insurance sector, as amended.
With a balance sheet total of kEUR 889.7 and equity of kEUR 711.6 at 31 December 2019, DPIB ended 2019 with net income of kEUR 141.3 (kEUR 96.8 in 2018).
As in 2018, the Company employs 2 people.

2.4. Immobilière Cristal Luxembourg S.A. ("ICL")

ICL is a wholly-owned subsidiary of BDPL. Its corporate object is the profitable exploitation of its own real estate assets.
With a balance sheet total of EUR 102.7 million (EUR 98.9 million in 2018) and equity of EUR 100.7 million as at 31 December 2019 (EUR 98.1 million in 2018), ICL ended the 2019 financial year with a net profit of EUR 2.6 million (EUR 2.8 million in 2018).
ICL's revenues come mainly from rents received from tenants of the building located on rue Eugène Ruppert in Luxembourg.
In 2019, ICL did not employ any personnel.

2.5. Other holdings

With the exception of the minority shareholdings of Promotions Partners S.A., a subsidiary of the Bank, in a property development project currently being finalised in the Grand Duchy of Luxembourg, the other consolidated subsidiaries are companies with no employees and no operating activities as at 31 December 2019. No particular comments are required in their regard.

3. Significant events after the balance sheet date

Since the balance sheet date, Degroof Petercam Luxembourg has been fully mobilised to deal with the health crisis linked to the coronavirus, which has been accompanied by a sharp correction in the markets and extreme levels of volatility. The impacts of this health crisis on the world economy are still uncertain at this point in time and their magnitude will depend heavily on its duration.

Degroof Petercam Luxembourg and the other entities of the Group have fully and successfully activated the teleworking process, thus ensuring full operational and IT continuity. Through its intensive implementation of teleworking in the context of containment, the group has also made a point of prioritising the safety and health of all its staff and clients.

The Group is impacted by the volatility on the financial markets, which have experienced a sharp decline since the start of the crisis and which have therefore resulted in a substantial decrease in the assets under management as well as administered assets of clients. We expect the turnover and profitability of our four main businesses to be strongly impacted by this market downturn in the coming months. The value of its own portfolio (mainly bonds), largely hedged by derivatives, has held steady until now without the need to make forced disposals or record material losses. The current crisis should have little impact on our credit activity given the very high level of collateralisation of our Lombard loans, which represent the vast majority of our loans to clients.

The accounting and prudential impacts of this situation are being regularly reviewed by the management.

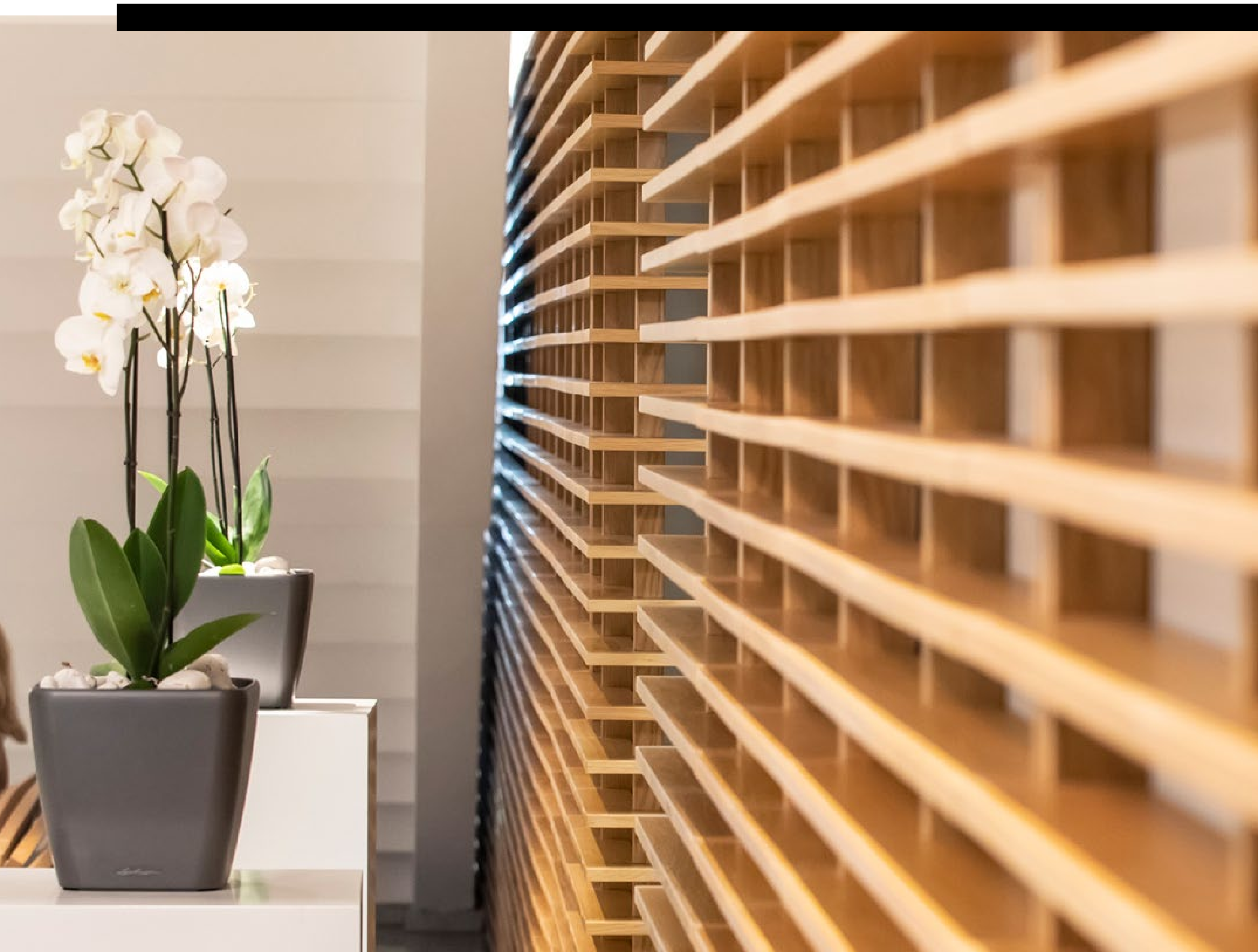
In addition, we would also like to point out that the 2019 closing figures were be impacted by the financial consequences of this crisis, as the crisis is a post-closing event that does not affect them.

Analyses carried out at the balance sheet date show that the solidity of the consolidated balance sheet of the Luxembourg division, which comprises more than 60% high quality liquid assets, and shareholders' equity of more than EUR 276 million, makes it possible to cope, without anticipating major difficulties, with sharply deteriorating market situations while maintaining regulatory ratios above the required thresholds. In the event of a possible even more severe deterioration in the economic environment in the longer term, the Group is also analysing the implementation of measures that could, if necessary, be activated.

Even in the event of a significant negative impact on the results for the year 2020, Degroof Petercam Luxembourg therefore has sufficient consolidated equity capital to overcome this gap. The going concern principle is well established, both in terms of solvency, with a comfortable safety margin with regard to regulatory obligations, and in terms of liquidity, with cash largely in excess of the main maturities of our commitments

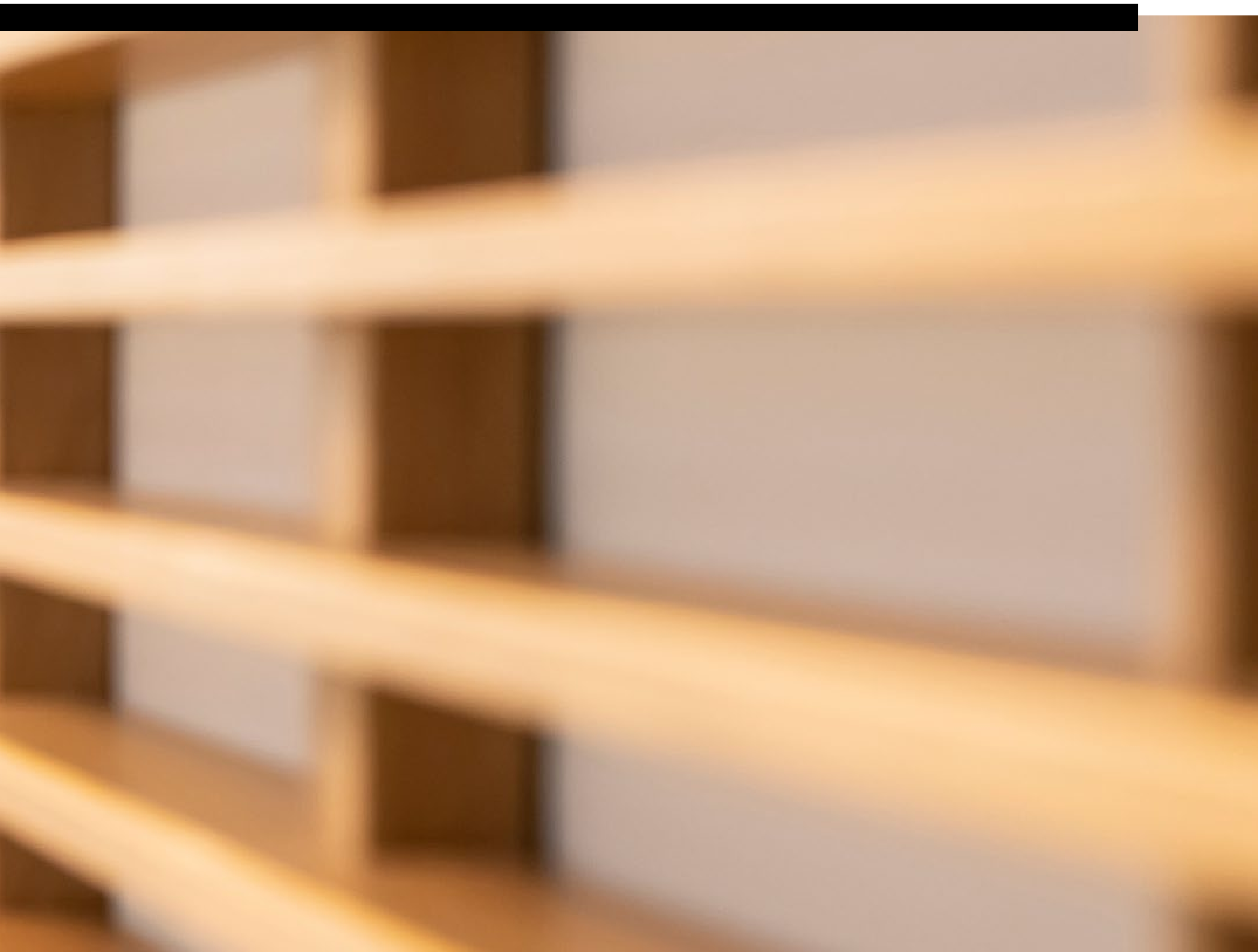
Bruno Houdmont
Managing Director

Alain Schockert
Chairman of the Board of Directors



Audit Report

To the Board of Directors of
Banque Degroof Petercam Luxembourg S.A.



Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Banque Degroof Petercam Luxembourg S.A. (the “Bank”) and its subsidiaries (the “Group”) as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the net consolidated income and consolidated other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the “Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the consolidated financial statements” section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation No 537/2014.

The non-audit services that we have provided to the Bank and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 10.10 to the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Existence and accuracy of commissions received

For the year ending 31 December 2019, the Group generated commissions received for an amount of EUR 293.9 million such as presented in Note 10.3 of the consolidated financial statements. These commissions received are mainly derived from the services provided by the Bank and Degroof Petercam Asset Services S.A. to their customers and result from a high number of individual transactions.

We have focused our attention on the existence and accuracy of commissions received for the following reasons:

- These items represent a significant portion of the Group's total revenue for the year ending 31 December 2019;
- Pricing is often specific to the customer and the number of derogating conditions is important;
- The amounts involved for each of the transactions taken individually are generally low. Thus an isolated error would be difficult to detect and not significant, but an error affecting a large number of transactions could have a material financial impact.

.

How our audit addressed the Key audit matter

We have examined the Group's internal control system, including the organisational provisions relating to commissions received and the related IT systems.

The following control procedures have been performed:

- Interviews with management and heads of departments;
- Performing walkthrough tests to identify and carry out an inventory of controls for the various commission flows;
- Inspection of controls reports (ISAE 3402) prepared by an independent auditor related to the depositary bank and the funds management services;
- Inspection of controls carried out by the Bank's support services for the existence of client assets under management in order to ensure the accuracy of the calculation base;
- Review of compliance with the segregation of duties and controls relating to the validation of pricing conditions when entering into a relationship;
- Reperformance on a sample baisis of controls carried out as part of the settings and modifications of the pricing conditions;
- Reperformance on a sample basis of controls carried out by the Bank as part of commissions calculations.

The following substantive procedures have been performed:

- Inspection of information and supporting documents (agreements, transaction statement, etc.), for a sample of commissions;
- Recalculation of certain commissions, based on samples and verification that the amount obtained following this calculation is correctly recorded in the accounting;
- Receipt of external confirmations for a sample of Bank's client accounts to validate that the information presented in the account statements reflects the exact situations of the assets of these clients of the Bank;
- Verification of the net asset values used as a basis for calculating commissions for investment funds clients of Degroof Petercam Asset Services against published external data;
- Consultation of the customer complaints register.

Key audit matter

Valuation of loans and receivables from customers measured at amortised cost for banking activity

The amount of loans and receivables from customers before impairment represented EUR 622 million at 31 December 2019 and corresponds to 22% of the consolidated assets. As presented in Note 9.7 to the consolidated financial statements, these loans and receivables are mainly composed of collateralised term loans (Lombard loans) for an amount of EUR 426.1 million, current account advances for EUR 146 million as well as mortgage loans for EUR 48.1 million.

We have focused our attention on the valuation of loans and receivables for the following reasons:

- The valuation of loans and receivables from customers is subject to Management's judgement regarding the expected credit losses and impairments;
- The credit risk assessment is based on the identification of credit deterioration indicators as well as the evaluation of the guarantees received. This approach is based on both qualitative and quantitative criteria and includes a certain degree of judgment.

How our audit addressed the Key audit matter

We have examined the internal control system, including the organisational provisions relating to loans and receivables from customers and the related IT systems.

The following control procedures have been performed:

- Inspection of the periodic review of the credit portfolio;
- Inspection of the identification system and alerts related to overdue loans;
- Inspection on a sample basis of the periodic controls on the adequacy of the collateralisation of the granted loans;
- Inspection of a sample of controls on late payments of loan instalments;
- Inspection of a sample of reconciliations between the accounting system and the loan management system.

The following substantive procedures have been performed:

- Inspection of supporting documents (agreement signed between the different parties, assessments based on external data when the loans were granted, etc.) for a sample of granted loans;
- Assessment, on sample basis, of the reasonableness of the impairments based on the consultation of information relating to the credit file as well as the existence and valuation of the collateral;
- Inspection for a sample of credits of the adequacy of certain characteristics in the computer system in relation to the information included in the contractual documentation signed between the parties;
- Verification of the valuation of a sample of loans among those included in the "watch-list".

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal 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 the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

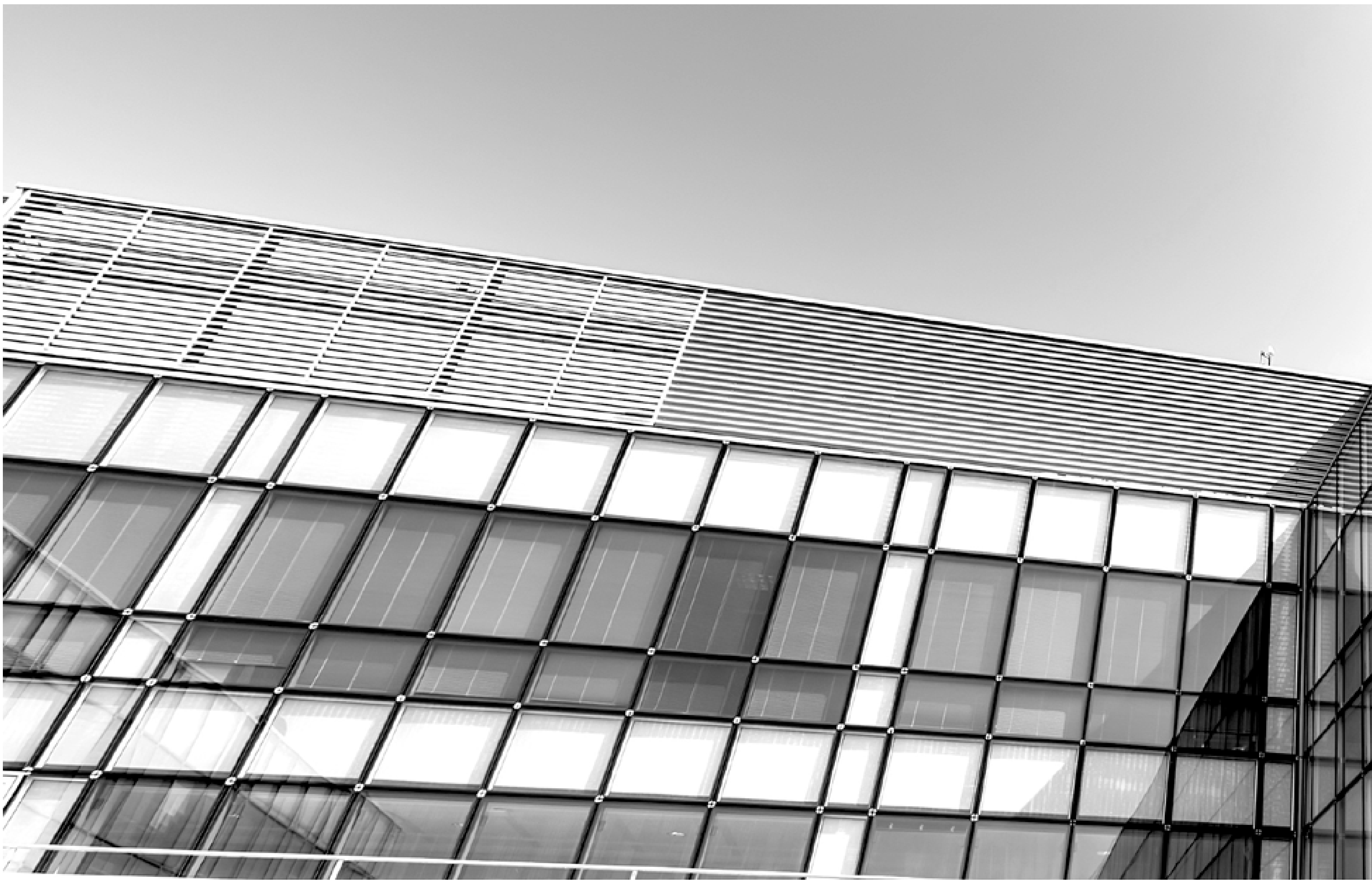
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

PricewaterhouseCoopers, Société coopérative
Represented by
Luxembourg, le 24 april 2020

Only the French version of these consolidated financial statements has been audited by the "Réviseur d'entreprises agréé". Consequently, the audit report only refers to the French version of the report; other versions result from a conscientious translation made under the responsibility of the Board of Directors. In the event of discrepancies between the French version and the translation, the French version prevails.

Consolidated statement of financial position



(in EUR)

	Notes	31.12.2019	31.12.2018
ASSETS			
Cash and sight accounts with central banks	9.1	481,651,362	1,101,017,209
Financial assets held for trading	9.2	76,350,791	85,222,250
Hedging of financial assets	9.3	1,486,460	710
Financial assets held for non-trading purposes that are required to be measured at fair value through profit and loss	9.4	8,571,622	26,951,238
Financial assets measured at fair value through other comprehensive income	9.5	203,487,792	196,059,611
Loans and receivables from credit institutions measured at amortised cost	9.6	94,486,824	241,984,669
Loans and receivables from customers measured at amortised cost	9.7	610,717,245	456,818,531
Debt instruments measured at amortised cost	9.8	1,113,371,226	635,024,267
Property, plant and equipment	9.9	40,141,939	41,575,958
Intangible assets	9.10	13,738,339	12,643,528
Holdings in companies accounted for by the equity method	9.11	1,967,328	-
Other assets	9.12	71,682,073	68,384,907
TOTAL ASSETS		**2,717,653,001**	**2,865,682,878**

The accompanying notes are an integral part of the consolidated financial statements.

(in EUR)

	Notes	31.12.2019	31.12.2018
LIABILITIES			
Debts			
Financial liabilities held for trading	9.13	76,579,311	83,180,666
Financial liability hedges	9.14	19,345,855	6,354,182
Deposits with credit institutions	9.15	61,650,854	67,832,030
Deposits to customers	9.16	2,193,838,323	2,354,979,517
Provisions	9.17	1,101,832	2,789,487
Current and deferred tax liabilities	9.18	18,620,809	23,103,784
Other liabilities	9.19	70,440,131	66,231,272
TOTAL DEBTS		**2,441,577,115**	**2,604,470,938**
EQUITY			
Capital subscribed	9.20	37,000,000	37,000,000
Issue premium	9.20	40,356,000	40,356,000
Reserves and retained earnings	9.20	158,067,618	149,778,680
Cumulative other comprehensive income	9.20	299,809	449,257
Net income for the year, group share	9.20	40,352,459	33,628,003
TOTAL EQUITY		**276,075,886**	**261,211,940**
TOTAL LIABILITIES		**2,717,653,001**	**2,865,682,878**

The accompanying notes are an integral part of the consolidated financial statements.

Net consolidated income and consolidated other comprehensive income

(in EUR)

	Notes	31.12.2019	31.12.2018
Interest income	10.1	81,226,301	87,019,905
Interest expenses	10.1	-67,087,138	-73,762,819
Dividend income	10.2	817,071	37,292
Commissions received	10.3	293,926,491	294,712,592
Commissions paid	10.3	-193,489,885	-195,833,302
Net gains (losses) on financial instruments held for trading	10.4	4,348,999	6,092,238
Net gains (losses) on financial instruments required to be measured at fair value through profit or loss	10.5	3,172,226	-8,492,457
Net gains (losses) on financial instruments not measured at fair value through profit and loss	10.6	16,438	89,940
Net gains from hedge accounting	10.7	-943,802	2,013,958
Other net operating income	10.8	6,452,875	7,105,890
Net revenues		**128,439,576**	**118,983,237**
Staff expenses	10.9	-39,991,239	-39,257,899
General and administrative expenses	10.10	-34,451,684	-30,374,912
Depreciation of property, plant and equipment and amortisation of intangible assets	10.11	-6,289,403	-6,110,297
Provisions	10.12	1,218,461	-671,441
Net impairment of assets	10.13	-1,954,095	-2,596,608
Share in the result of companies accounted for by the equity method		3,642,148	-309,684
Profit or loss before tax		**50,613,764**	**39,662,396**
Income tax expense	10.14	-10,261,305	-6,034,393
Income for the year		**40,352,459**	**33,628,003**
NET INCOME FOR THE YEAR, GROUP SHARE		**40,352,459**	**33,628,003**

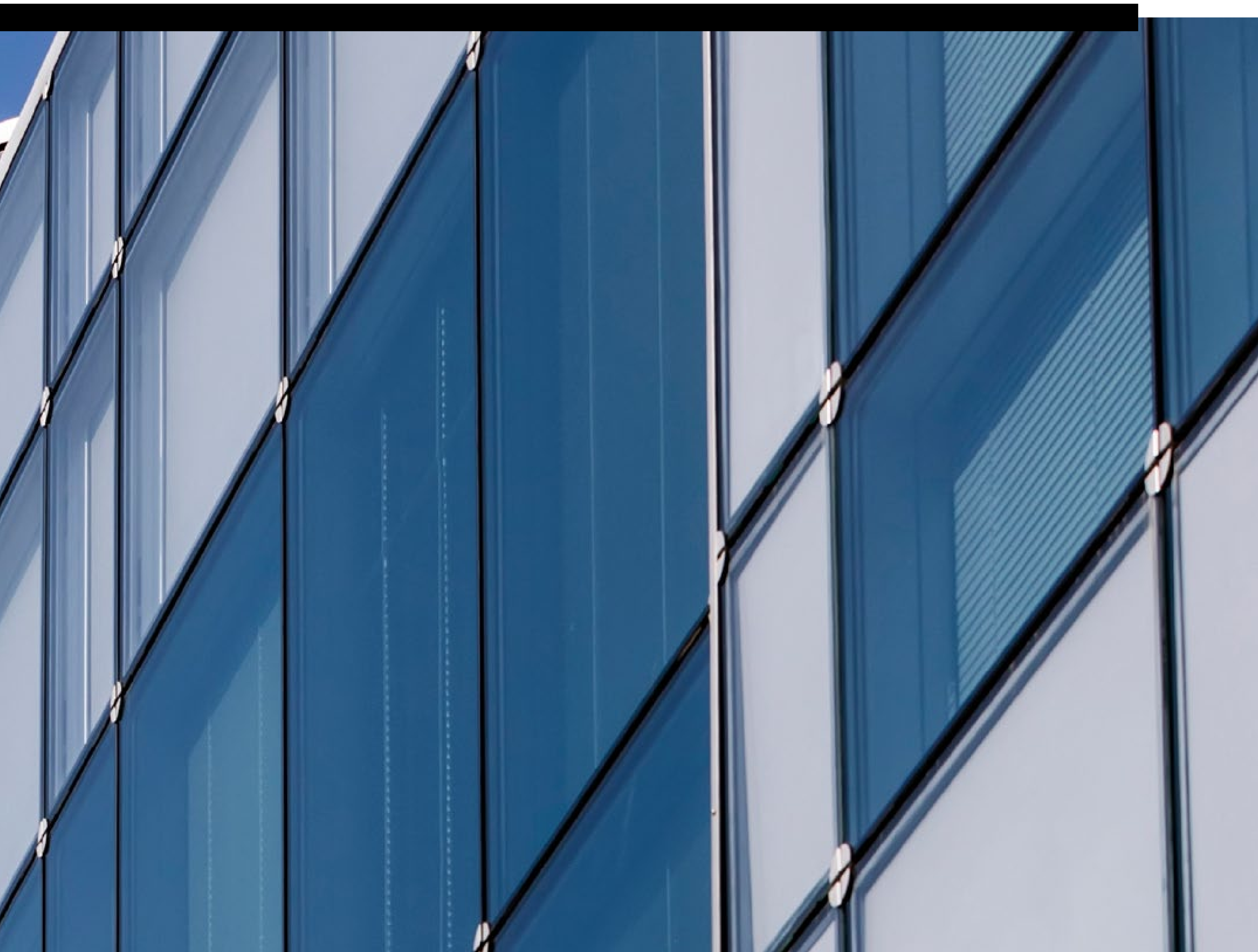
The accompanying notes are an integral part of the consolidated financial statements.

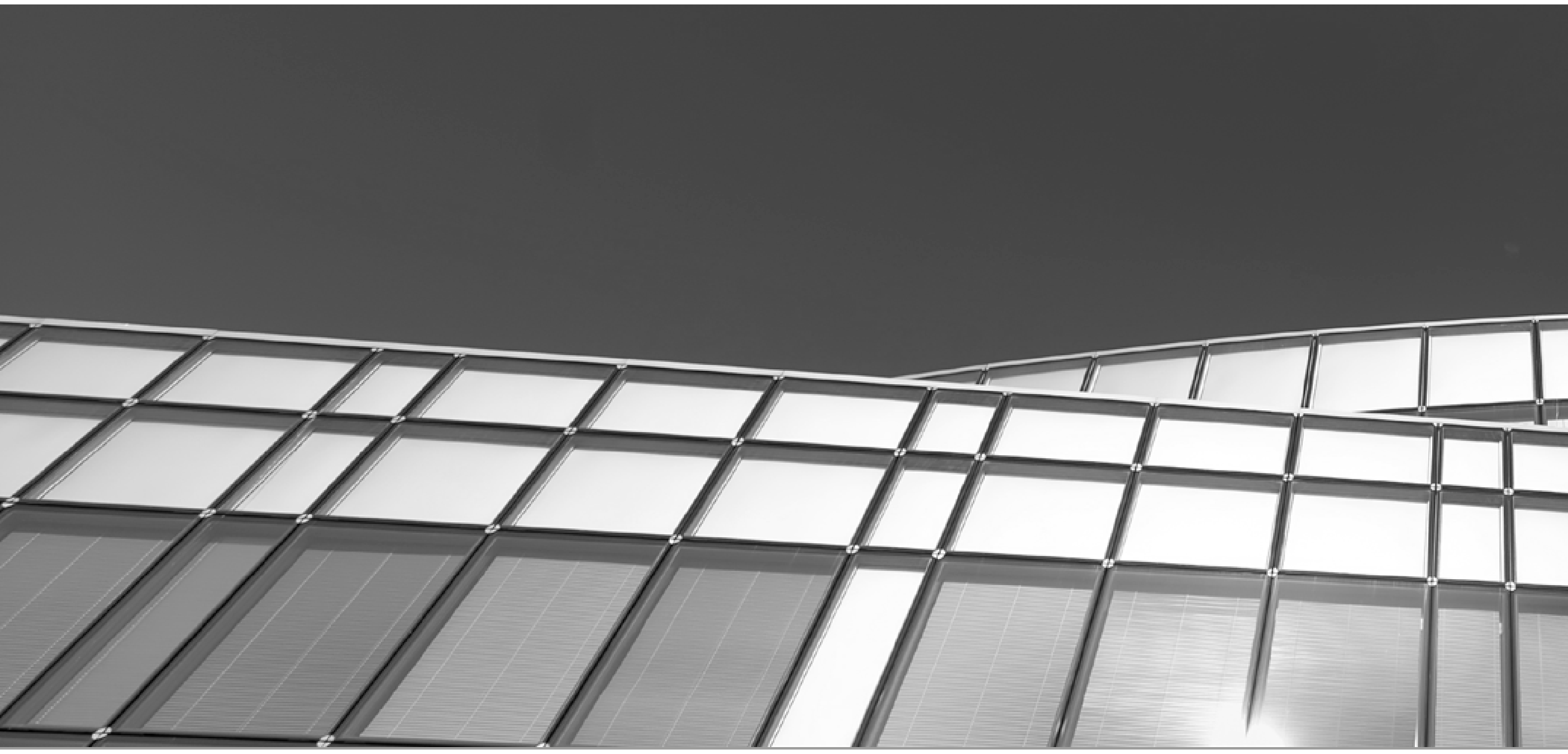
(in EUR)

	Notes	31.12.2019	31.12.2018
Income for the year		40,352,459	33,628,003
Items likely to be subsequently reclassified to net income			
Fair value revaluation- Financial assets measured at fair value through other comprehensive income	10.15	-149,448	-200,992
Total other comprehensive income		**-149,448**	**-200,992**
TOTAL COMPREHENSIVE INCOME		**40,203,011**	**33,427,011**
COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		**40,203,011**	**33,427,011**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity





	Share capital	Issue premium	Reserves and retained earnings	Revaluation reserves	Currency translation differences
Balance as at 01.01.2018	**37,000,000**	**40,356,000**	**126,291,110**	**650,249**	**-**
Transactions with minority shareholders	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-
Appropriation of prior year's profit or loss	-	-	48,647,570	-	-
Profit or loss for the year	-	-	-	-	-
Currency translation differences	-	-	-	-	-
Revaluation to fair value	-	-	-	-200,992	-
Interim dividend payment	-	-	-25,160,000	-	-
Other changes[1]	-	-	-	-	-
Balance as at 31.12.2018	**37,000,000**	**40,356,000**	**149,778,680**	**449,257**	**-**
Transactions with minority shareholders	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-
Appropriation of prior year's profit or loss	-	-	33,628,003	-	-
Profit or loss for the year	-	-	-	-	-
Currency translation differences	-	-	-	-	-
Revaluation to fair value	-	-	-	-149,448	-
Interim dividend payment	-	-	-	-	-
Other changes[1]	-	-	-327,065	-	-
Balance as at 31.12.2019	**37,000,000**	**40,356,000**	**183,079,618**	**299,809**	**-**

The accompanying notes are an integral part of the consolidated financial statements.

(1) Changes due to Group incentive plans (see note 11.2).

(in EUR)

Profit or loss for the year	Interim dividend payment	Equity: Group share	Non-controlling interests presented within shareholders' equity	Total equity
48,647,570	**-**	**252,944,929**	**31,169**	**252,976,098**
-	-	-	-	-
-	-	-	-31,169	-31,169
-48,647,570	-	-	-	-
33,628,003	-	33,628,003	-	33,628,003
-	-	-	-	-
-	-	-200,992	-	-200,992
-	-	-25,160,000	-	-25,160,000
-	-	-	-	-
33,628,003	**-**	**261,211,940**	**-**	**261,211,940**
-	-	-	-	-
-	-	-	-	-
-33,628,003	-	-	-	-
40,352,459	-	40,352,459	-	40,352,459
-	-	-	-	-
-	-	-149,448	-	-149,448
-	-25,012,000	-25,012,000	-	-25,012,000
-	-	-327,065	-	-327,065
40,352,459	**-25,012,000**	**276,075,886**	**-**	**276,075,886**

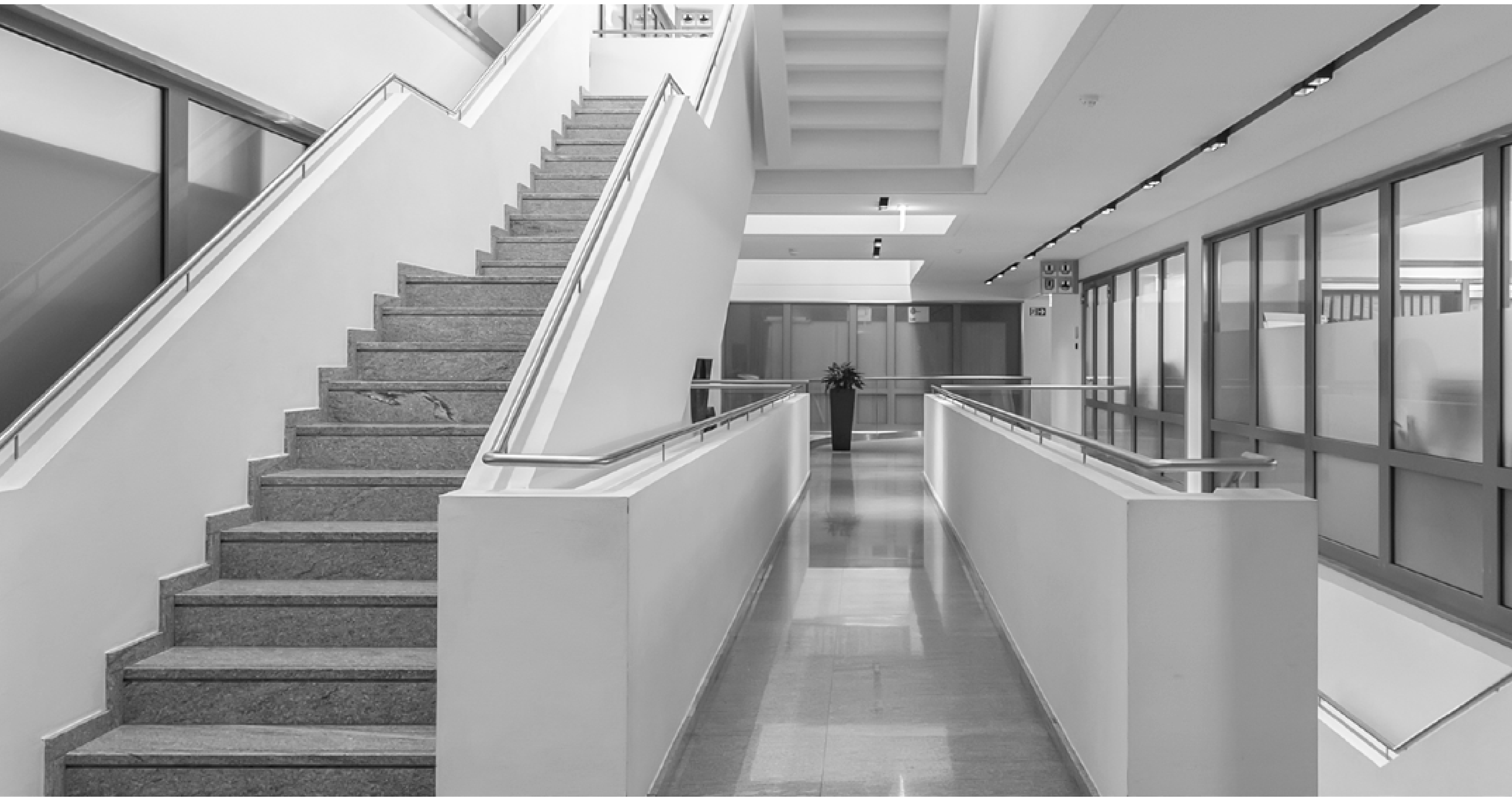
Consolidated cash flow statement

(in EUR)

	Notes	31.12.2019	31.12.2018
Earnings before taxes		**50,613,764**	**39,662,396**
Non-monetary items included in profit and other adjustments:		**2,911,879**	**8,580,953**
Share-based compensation expenses	10.9	-327,065	-
Depreciation on intangible assets or property, plant and equipment	10.11	6,289,403	6,110,297
Income from associates		-3,642,148	-309,684
Impairment	10.13	1,954,095	2,596,608
Gains/losses on investments		-143,945	-
Net allocations to provisions and other liabilities	10.12	-1,218,461	183,732
Change in assets and liabilities from operating activities:		**-777,477,879**	**-480,668,503**
Financial assets held for trading		-54,490,367	-105,118,796
Hedging of financial assets		-1,825,267	78,476
Financial assets held for purposes other than trading that must be measured at fair value through profit or loss		18,379,616	38,263,153
Financial assets measured at fair value through other comprehensive income		-8,444,863	-6,276,627
Loans and receivables		-146,267,789	2,657,847
Debt instruments measured at amortised cost		-482,038,360	-266,099,354
Other assets		-3,297,166	13,754,080
Liabilities held for trading		44,675,239	87,224,484
Financial liability hedges		17,945,646	8,214,863
Amounts owed to credit institutions		-7,398,348	5,595,407
Amounts owed to customers		-154,173,540	-250,980,952
Provisions and other liabilities		-542,680	-7,981,084
Interest received		79,034,654	87,506,915
Dividends received		817,071	36,553
Interest paid		-68,144,169	-73,286,188
Taxes paid on income		-14,688,063	-7,485,664
Net cash flows from activities activities (A)		**-726,932,743**	**-425,653,538**

The accompanying notes are an integral part of the consolidated financial statements.

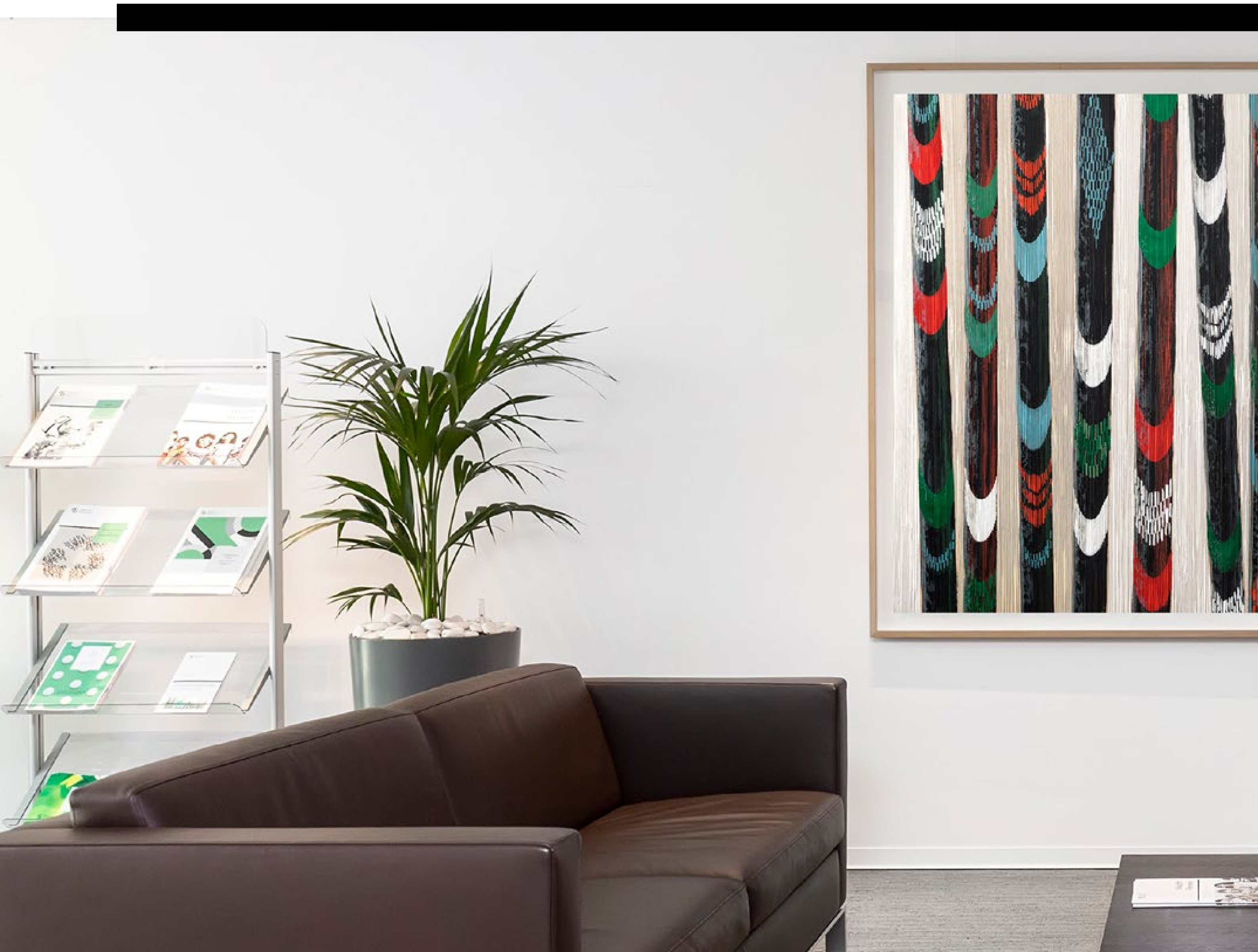
The composition of cash and cash equivalents in 2018 has been reviewed to comply with the definitions set out in note 5.17.



(in EUR)

	Notes	31.12.2019	31.12.2018
Disposal of subsidiaries and associates		34,000	12,395
Other cash outflows related to investing activities		1,649,521	281,651
Acquisition of intangible assets or property, plant and equipment	9.9/9.10	-6,630,185	-3,396,291
Sale of intangible assets or property, plant and equipment		1,861,849	89,409
Net cash flows from activities activities (B)		**-3,084,815**	**-3,012,836**
Dividends paid		-25,012,000	-25,160,000
Net cash flows from activities financing (C)		**-25,012,000**	**-25,160,000**
Effect of exchange rate changes on cash and cash equivalents		-493,459	412,527
Net increase/decrease in cash and cash equivalents (A + B + C)		-755,029,558	-453,826,374
Cash and cash equivalents at the beginning of the year		1,267,898,530	1,721,312,377
Cash and cash equivalents at end of period		**512,375,513**	**1,267,898,530**

Composition of cash and cash equivalents		**512,375,513**	**1,267,898,530**
Cash and balances with central banks	9.1	481,753,259	1,101,161,454
Current accounts with credit institutions	9.6	80,444,748	86,498,247
Term loans to credit institutions	9.6	-	128,500,000
Overdrafts with credit institutions	9.15	-13,824,435	-30,481,934
Term deposits with credit institutions	9.15	-35,998,059	-17,779,237



Notes to the consolidated financial statements

1. General considerations

BANK DEGROOF PETERCAM LUXEMBOURG S.A. (formerly "BANQUE DEGROOF LUXEMBOURG S.A." until 31 March 2016) (hereinafter "the Bank") was incorporated on 29 January 1987 as a société anonyme (public limited company) under Luxembourg law. It was listed on the Luxembourg Stock Exchange on 29 November 1999 and subsequently delisted on 15 December 2005.
On 1 April 2016, BANQUE DEGROOF LUXEMBOURG S.A. and PETERCAM (LUXEMBOURG) S.A. merged with retroactive effect from 1 January 2016; the new company is called BANQUE DEGROOF PETERCAM LUXEMBOURG S.A. The merger legally results in the absorption of all the assets and liabilities of Petercam (Luxembourg) S.A. (absorbed company) by Banque Degroof Luxembourg S.A. (acquiring company). The Bank has opted for the book value method to treat this transaction, which under IFRS constitutes a business combination under common control. The difference between the consideration paid by Banque Degroof Luxembourg S.A. of EUR 136,522,000 and the carrying value of the net assets of Petercam represented the goodwill recorded in reserves of EUR 73,025,963. Following this merger, the Bank also recognised an additional amount of EUR 17,280,050 as part of the purchase price allocation (PPA) estimation exercise, corresponding to three new businesses.

As part of the merger, Petercam (Luxembourg) S.A. sold the shares of its subsidiary Petercam Banque Privée (Suisse) S.A. to Banque Degroof Petercam S.A. on 16 February 2016 and sold the shares of its subsidiary Petercam Institutional Asset Management (Luxembourg) S.A. to Degroof Petercam Asset Services S.A. on 18 February 2016.
The purpose of the Bank is to carry out all banking and savings activities, in particular to receive all deposits and make all credit transactions, as well as all transactions whatsoever, in securities, asset management, trust and financial services, and finally all commercial, financial, securities and real estate transactions enabling the achievement of the corporate purpose thus defined.
The Bank and its subsidiaries (hereinafter referred to as "the Luxembourg division") are also included in the consolidation of Banque Degroof Petercam S.A., established at 44 rue de l'Industrie, 1040 Brussels.
On 1 October 2015, Banque Degroof S.A. and PetercamS.A. merged; the new entity bears the name Banque Degroof Petercam S.A.
The Luxembourg division and Banque Degroof Petercam S.A. constitute "the Group".
The Bank's financial statements are available on its website: www.degroofpetercam.lu. The financial statements of Banque Degroof Petercam S.A. are available at: www.degroofpetercam.com.
Since 9 December 2005, the Bank has had a branch in Belgium, located at 19 rue Guimard, 1040 Brussels.
288 Rue St Jacques, Unite 300, Montréal
H2Y 1N1 QC, Canada
Since 1 October 2018, the investment fund administration services business line held by the Bank has been transferred to its subsidiary Degroof Petercam Asset Services S.A.

As part of a strategy to centralise the activities and restructure certain functions related to the administration of UCIs within the Degroof Petercam Group, the Bank, acting through its Belgian branch, sold this activity to its subsidiary Degroof Petercam Asset Services S.A. with effect from 1 October 2018.
In line with this strategy within the Degroof Petercam Group, Banque Degroof Petercam S.A. has assigned to Banque Degroof Petercam Luxembourg S.A., acting through its Belgian branch, the activity of custodian bank for UCIs under Belgian law with effect from 10 October 2019.
The financial statements were approved by the Board of Directors on 16 April 2020.

2. Regulatory context

The consolidated financial statements of the Luxembourg division have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of these standards valid as at 31 December 2019 and as approved in the European Union.

The accounting policies used to prepare these consolidated financial statements as at 31 December 2019 are consistent with those applied as at 31 December 2018, with the exception of those set out in Note 3 “Changes in accounting principles and methods”.

The accounting principles used by the Luxembourg division are based on International Financial Reporting Standards (“IFRS”) as adopted by the European Union and applicable at that date, of which only the following standards have been adopted:

- IAS 8 Accounting policies, changes in accounting estimates and errors;
- IAS 10 Events after the reporting period;
- IAS 12 Income taxes;
- IAS 16 Property, plant and equipment;
- IAS 19 Employee benefits;
- IAS 20 Accounting for government grants and disclosures about government assistance;
- IAS 21 Effects of changes in foreign exchange rates;
- IAS 23 Borrowing costs;
- IAS 24 Related party disclosures;
- IAS 27 Separate financial statements;
- IAS 28 Investments in associates and joint ventures;
- IAS 32 Financial instruments: Presentation;
- IAS 36 Impairment of assets;
- IAS 37 Provisions, contingent liabilities and contingent assets;
- AS 38 Intangible assets;
- IFRS 9 Financial instruments (applicable from 1 January 2018);
- IFRS 10 Consolidated financial statements;
- IFRS 11 Joint arrangements;
- IFRS 12 Disclosure of interests in other entities;
- IFRS 13 Fair value measurement;
- IFRS 15 Revenue from customer contracts;
- IFRS 16 Leases;

As the Luxembourg division has no equity securities or borrowings traded or being issued on a public securities market, IFRS 8 (“Operating segments”) and IAS 33 (“Earnings per share”) are not applied in accordance with their scope.

It is also for this reason that the Luxembourg division does not provide interim information to the market and therefore has only one reporting date, the one corresponding to its annual closing date.

The main accounting policies and valuation rules applied in the preparation of the financial statements are described below. These methods have been applied, unless otherwise stated, on a permanent basis for the financial years presented.

3. Changes in accounting principles and methods

The following IFRS standards (new, revised or amended) and IFRIC interpretations apply for the first time in the current financial year:

- IFRS 16 "Leases";
- Amendments to IFRS 9 "Early redemption clauses providing for negative compensation";
- Annual improvements (2015-2017) to IFRS;
- Amendments to IAS 28 "Long-term interests in associates and joint ventures";
- IFRIC 23 "Uncertainty regarding tax treatments";

IFRS 16 is intended to replace IAS 17 "Leases" and all related interpretations. The most significant change introduced by IFRS 16 is that most leases will be recorded on the lessees' balance sheets. The new standard abandons the classification of leases as operating or finance leases for them, treating all leases (subject to limited exceptions) as finance leases. This requires the lessee to recognise most leases in the balance sheet as a right-of-use asset and a rental liability. This asset is then depreciated, in general, on a straight-line basis over the term of the contract, and impaired if necessary. The rental liability is recorded at amortised cost using the effective interest rate method.

With regard to the lessor's accounting, the impact is limited, as many aspects provided for in IAS 17 are included in IFRS 16.

At the date of first application, the Group recognised a rental liability measured at the present value of the remaining lease payments and a right-of-use asset measured at an amount equal to the rental liability adjusted, where appropriate, by the amount of prepaid or payable rentals that were recognised in the financial statements immediately prior to the date of first application. Previously, under IAS 17, there were no leases that were classified as finance leases.

The application of IFRS 16 did not have an impact on shareholders' equity.

Additional information regarding the nature and effects of these changes is detailed in the Notes to the Financial Statements.

At the transition date, Banque Degroof Petercam Luxembourg has chosen to apply the following simplification measures proposed by the standard:

- Not recognising a rental liability and an asset under the right of use for certain lease contracts whose residual term is less than 12 months following the date of first application;
- Application of a single discount rate to a portfolio of rental contracts with reasonably similar characteristics.

The discount rate used to calculate the right of use and the rental liability is the marginal borrowing rate at the date of first application of IFRS 16, corresponding to the residual term of the contract at 1 January 2019.

The application of the other provisions has no material impact on the Group's income and shareholders' equity.

Among the standards, amendments to standards or interpretations published by the International Accounting Standards Board (IASB) and adopted in the European Union on 31 December 2019, those listed below are effective for subsequent financial years:

- Amendments to references to the conceptual framework in IFRS;
- Amendments to IAS 1 and IAS 8 "Definition of 'material'".

The following standards and amendments to standards have not yet been adopted in the European Union as at 31 December 2019 but the Bank will apply them when they come into force:

- Amendments to IFRS 9, IAS 39 and IFRS 17 "Reform of benchmark interest rates";
- Amendments to IFRS 3 "Definition of an enterprise";
- IFRS 17 "Insurance contracts".

For the aforementioned texts, the Group does not expect any material effects when they are applied.

4. Judgments and estimates used in the preparation of the consolidated financial statements

The preparation of financial statements in accordance with IFRS requires the use of judgments and estimates. Although the Luxembourg division believes that it has taken into consideration all available information in determining these opinions and estimates, the reality may be different and these differences may have an impact on the financial statements.

These estimates and judgments mainly concern the following subjects:

- the determination of the fair values of unlisted financial instruments;
- the classification of financial instruments according to the business models defined by the Group for the management of financial instruments and the analysis of the contractual terms of the financial asset to determine whether they comply with the "SPPI" criteria;
- the determination of a reference obligation ("proxy") to estimate the impact of changes in risk-free interest rate risk on the hedged instrument in a hedging relationship;
- assessing the effectiveness of hedging in hedging relationships;
- the definition of the useful life and residual value of intangible assets and property, plant and equipment;
- the estimated recoverable amount of impaired assets;
- the assumptions used to calculate expected credit losses, the use of future macroeconomic forecasts and the assessment of criteria for significant credit risk deterioration;
- the assessment of the current obligation resulting from past events in the context of the recognition of provisions;
- determining the goodwill value;
- assessing whether it is reasonably certain to exercise an option to renew a lease or not to exercise an option
- determination of the discount rate for rent not yet paid.

5. Summary of accounting principles and methods

5.1 Consolidation principles

Scope of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries refer to any company controlled by the Bank, i.e. entities over which the Bank has, directly or indirectly, the power to govern financial and operational policies in order to obtain benefits from these activities.
Subsidiaries are consolidated using the full consolidation method from the date on which effective control is transferred to the Bank and are removed from the scope of consolidation on the date on which control ceases.
The financial statements of the Bank and its subsidiaries are prepared as at the same date and using similar accounting methods, with restatements if necessary.
Intra-group balances, transactions, income and expenses are eliminated.
Non-controlling interests, presented within shareholders' equity, are presented separately in the consolidated income statement and in the consolidated balance sheet.
As an exception to these rules, companies of negligible interest are excluded from the scope of consolidation according to the following criteria implemented within the group:

- The combined balance sheet total for all fully consolidated non-consolidated companies must be less than 0.5% of the Group's consolidated balance sheet total.
- The total equity plus all fully consolidated non-consolidated companies must be less than 1% of the group's total consolidated equity.
- The total income of a fully consolidated non-consolidated company must be less than 0.5% alone of the group's consolidated income total.
- The combined income total for all fully consolidated non-consolidated companies must be less than 1% of the Group's consolidated income total.
- The total income of a fully consolidated non-consolidated company must be less than 0.5% alone of the Group's consolidated income total.

Partnerships

Partnerships means any undertaking over which the Bank exercises joint control directly or indirectly, i.e. no decision on the relevant activities can be taken without the unanimous agreement of the parties sharing control.
If the holdings exceed the materiality threshold, they are accounted for using the equity method for partnerships defined as joint ventures (companies in which joint control gives rights to the net assets of the joint venture) or the equity method for the proportionate interest in assets and liabilities, income and expenses for partnerships defined as joint ventures (enterprises in which joint control gives rights over assets and obligations over liabilities relating to them), as from the date on which joint control is held and will no longer be recognised in this way on the date on which joint control is relinquished. The materiality threshold is based on the analysis of various criteria including the share in consolidated shareholders' equity, the share in consolidated income and the share in the consolidated balance sheet total.
The financial statements of the partnership are prepared as at the same date and using similar accounting policies to those of the parent company of the group, with restatements if necessary.

Associates

Associates refer to any company in which the Bank exercises significant influence, i.e. the power to participate in financial and operational policy decisions without, however, having joint control or supervision over these policies.
If these companies are above the materiality threshold, they are accounted for using the equity method from the date on which the significant influence is held and will no longer be accounted for in this way on the date

of the sale of this significant influence. The materiality threshold is based on the analysis of various criteria including the share in consolidated shareholders' equity, the share in consolidated income and the share in the consolidated balance sheet total.
The financial statements of the associate are prepared as at the same date and using similar accounting policies to those of the parent company of the group, with restatements if necessary.

5.2 Translation of financial statements and transactions in foreign currencies

The consolidated financial statements are prepared in euros («EUR»), the functional currency of the Luxembourg division.
On consolidation, the balance sheets of entities whose functional currency is different from that of the Bank are translated at the exchange rate prevailing at the end of the financial year. However, the income statements and cash flow statements of these same entities are translated at the average exchange rate for the period hedged. Exchange differences arising from these conversions are recognised in shareholders' equity.

5.2.1 Conversion of transactions in foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing on the transaction date.
Monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, resulting in an exchange difference that is recognised in the income statement.
Non-monetary items measured at fair value are translated at the exchange rate at the balance sheet date. The exchange difference resulting from this conversion is recognised in equity or in the income statement depending on the accounting allocation of the item concerned.
Other non-monetary items are valued at the historical exchange rate, i.e. the exchange rate prevailing on the transaction date.

5.3 Financial instruments

5.3.1 Recognition date of financial instruments

All derivatives and all purchases or sales of securities under a contract whose terms require delivery of the security within the time period generally defined by regulation or agreement in the relevant market are recognised on the transaction date.
Receivables and deposits are recognised on the settlement date.

5.3.2 Compensation

A financial asset and a financial liability are offset if and only if the Luxembourg division has a legally enforceable right to offset the recognised amounts and if it intends to settle the net amount or to realise the asset and settle the liability simultaneously.

5.3.3 Derecognition of financial instruments

A financial asset is derecognised when:

- the contractual rights to the cash flows attached to the financial asset expire; or
- the Bank has transferred substantially all the risks and rewards of ownership of this financial asset. If the Bank does not transfer or retain substantially all the risks and rewards of ownership of the financial asset, it is derecognised if control of the financial asset is not retained. Otherwise, the Bank keeps the financial asset on the balance sheet to the extent of its continuing involvement in this asset.

A financial liability is derecognised if the liability is extinguished, i.e. when the obligation specified in the contract is cancelled or expires.

5.3.4 Financial instruments - Principles and methods (IFRS 9)

5.3.4.1 Valuation of financial assets

IFRS 9 sets out the provisions for the recognition and measurement of financial assets and liabilities, as well as certain contracts for the purchase or sale of non-financial assets. This standard replaces IAS 39 "Financial instruments: Recognition and measurement" as at 1 January 2018.
On initial recognition, a financial asset is classified in one of the following measurement categories:

- Amortised cost (AC);
- Fair value through other comprehensive income for debt instruments (FVOCI);
- Fair value through other comprehensive income for equity instruments (FVOCI);
- Fair value through profit and loss (FVTPL).

The classification of an asset is based both on the business model of the Bank's financial assets and on the contractual cash flow characteristics of the financial asset, i.e. whether the contractual terms of the financial asset generate cash flows at specified dates that are solely capital and interest payments ("SPPI test").
Reclassifications only occur when the Asset and Liability

Management Committee (hereinafter referred to as "ALMAC Committee") decides to modify the business model of an asset portfolio, following external or internal changes. Changes must be significant to the Bank and demonstrable to external parties. The Bank then reclassifies all the assets concerned prospectively from the first day of the following reporting period (the reclassification date). Prior periods are not restated.

5.3.4.1.1 Financial assets and liabilities held for trading and hedging purposes

Held-for-trading financial assets or liabilities are financial assets or liabilities acquired or assumed primarily for the purpose of a short-term sale or redemption, or as part of a portfolio of financial instruments that are managed together and that have indications of a recent pattern of short-term profit taking.
These assets or liabilities are initially recognised at fair value (excluding transaction costs recognised directly in the income statement) and subsequently remeasured at fair value. Changes in fair value are recognised in profit and loss under "Net result on financial instruments held for trading". Interest received or paid on non-derivative instruments is recognised under "Interest income and charges". Dividends are included under "Dividend income".
All derivative financial instruments with a positive (negative) replacement value are considered as "financial assets (liabilities) held for trading", with the exception of hedging derivatives which are classified as "Hedging financial instruments" (see section 5.3.4.1.6). Derivatives are recorded at their fair value at the inception of the transaction and subsequently measured at fair value. Changes in fair value are recognised in "Net gains on financial instruments held for trading" for trading derivatives and in "Net income from hedge accounting" for other derivatives. Interest received or paid on-derivative instruments is recorded under "Interest income or expense".
The Bank has designated interest rate swaps as hedging items (see section 5.3.4.1.6). If the hedging relationship is terminated and the derivative is still outstanding, it is designated as held for trading or designated in a new hedging relationship. Such a designation must always be approved by the ALMAC Committee.

5.3.4.1.2 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held in an business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the remaining principal due.

Financial assets measured at amortised cost are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less any impairment losses.
Depreciation using the effective interest rate method is recorded in the income statement under "Interest income". Impairment amounts are recognised in the income statement under "Net impairment of assets".

5.3.4.1.3 Debt instruments measured at fair value through other comprehensive income.

A debt instrument is measured at fair value through other comprehensive income if the following two conditions are met:

- the financial asset is held in an business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets; and
- the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the remaining principal due.

These financial assets are initially measured at fair value and subsequently remeasured at fair value. With the exception of impairment, all changes in fair value are recorded under a specific heading in shareholders' equity. When these assets are realised, the cumulative revaluation results, previously recognised in equity, are recognised in the income statement under the heading "Net gains on financial instruments not measured at fair value through profit or loss". Impairment amounts are recognised in the income statement under "Net impairment of assets".
Income from positive interest-bearing instruments recognised using the effective interest rate method is included under "Interest income".

5.3.4.1.4 Equity instruments measured through other comprehensive income.

On initial recognition, the Bank may irrevocably elect to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
Only dividend income is recognised in the income statement under "Dividend income", unless it clearly represents a refund of part of the cost of the investment (i.e. a capital reduction).
Other income is recognised in equity under "Accumulated other comprehensive income" and is never reclassified to the income statement.
This category of financial assets is not subject to impairment.

5.3.4.1.5 Financial assets valued at fair value through profit and loss.

All other financial assets, i.e. financial assets that do not meet the criteria for classification as "at amortised cost" or "at fair value through other comprehensive income", are recognised at fair value on the balance sheet and all changes in fair value are recognised in income. These assets include derivative instruments.
Changes in the fair value of securities are recognised under "Net gains on financial instruments measured at fair value through profit or loss" and interest is recognised under "Interest income". Dividends are included under "Dividend income".
In addition, the Bank has the option, on initial recognition, to irrevocably designate a financial asset at fair value through profit or loss if such designation eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as an accounting mismatch) that would arise if not used. This category has the same valuation rules as those applied to assets measured at fair value. The same headings as defined above are used for the recognition of interest and dividends. However, changes in fair value are recognised in "Net gains on financial instruments designated at fair value through profit or loss".

5.3.4.1.6 Hedge accounting

In order to qualify for hedge accounting and to establish the relationship between hedging instruments and hedged items, the following conditions must be met:

- the relationship includes only permissible hedging instruments and permissible hedged items;
- formal documentation about the hedging instrument and the underlying to be hedged must be prepared, describing the hedging relationship, the strategy and nature of the risk being hedged, and how the effectiveness of the relationship will be assessed;
- demonstrate that there is an economic relationship between the hedged item and the hedging instrument and that the hedged item and the hedging instrument partially or fully offset each other;
- credit risk does not have a dominant effect on the changes in value resulting from this economic link;
- the hedge ratio must reflect the actual number of hedging instruments used to hedge the actual number of hedged items.

When the Bank initially elects to hedge the interest rate risk of a debt or credit instrument with one or more interest rate swaps, the hedged financial asset is measured using the "fair value hedging" principle and changes in the fair value of the interest rate risk of that debt instrument are recognised in "Net income from hedge accounting" regardless of the type of initial valuation assigned to the debt instrument.

All hedging derivative financial instruments with a positive (negative) replacement value are considered as "Hedging financial assets (liabilities)". Derivatives are recorded at their fair value at the inception of the transaction and subsequently measured at fair value. Changes in fair value are recognised in "Net income from hedge accounting". Interest received or paid on-derivative instruments is recorded under "Interest income or expense".

5.3.4.2 Classification

5.3.4.2.1 Equity instruments

Equity instruments that do not fall into the equity category are classified in the category "Financial assets at fair value through profit or loss" unless the Bank has decided to irrevocably classify them as "equity instruments measured through other comprehensive income" as described in section 5.3.4.1.4. An equity instrument is defined as any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. A financial instrument that does not meet the definition of an equity instrument is classified as a debt instrument.

5.3.4.2.2 Debt instruments

Debt instruments include debt securities, loans, deposits, receivables from (or to) credit institutions and customers. The decision tree that determines the classification and measurement of debt instruments at initial recognition and future recognition (continuous monitoring process and potential reclassification) is based on the economic asset holding model and the SPPI (Solely Payments of Principal and Interest) test (conclusive or not).

A. Business model
The term "business or management model" refers to the way in which the Bank manages its financial assets in order to generate cash flows. The Bank determines the Business model at a level that reflects how groups of financial assets are managed together to achieve a given economic objective. As a result, the Bank does not determine instrument by instrument management models, but at a higher level of aggregation. The assessment of the business model is important for debt instruments to determine whether they can be measured at amortised cost or at fair value through other comprehensive income.
There are three types of business models:

- "Hold to collect" (hereinafter "HTC"): the objective is to hold assets to collect contractual cash flows, and sales are ancillary to the objective of the model. However, the Bank is not required to hold all these assets until maturity. Debt instruments included in this model are measured at amortised cost.

- “Hold to collect & sell” (hereinafter “HTCS”): the collection of contractual cash flows and sales are an integral part of achieving the objective of the business model. This model is generally associated with more sales (in frequency and higher value) than in the HTC model. Debt instruments included in this model are measured at fair value through other comprehensive income.
- Other business models include financial assets held for trading and financial assets that are not classified in the HTC or HTCS categories either because the collection of contractual cash flows is ancillary to the financial asset or because the SPPI test is inconclusive.

B. “Principal and Interest” criterion (“Solely Payments of Principal and Interest” test or “SPPI” test)

The classification and measurement of debt instruments also depend on the analysis of the contractual cash flow characteristics of the instrument (“SPPI” test). The “SPPI” test is satisfied if the contractual terms of the debt instrument give rise, at specified dates, to cash flows that are only repayments of principal and interest payments on the outstanding principal.

For the purpose of this assessment, “principal” is the fair value of the financial instrument at initial recognition and “interest” reflects the time value of money, the credit risk associated with the principal remaining due for a given period of time and other risks and fees associated with a basic loan, as well as a margin.

To determine whether the “SPPI” test is met, the Group analyses the contractual terms of the instrument to assess whether it contains a term that could modify the timing or amount of the contractual cash flows so that the instrument does not meet this condition. To this end, the Group has set up a checklist to verify whether the cash flows of debt instruments represent only principal and interest payments. During this assessment, the Group considers in particular the following elements:

- A triggering event that would change the timing or amount of the contractual cash flows;
- Leverage effect;
- Prepayment or extension option;
- A term that limits the Bank’s receivables to the cash flows generated by specified assets (for example, non-recourse financial assets);
- Characteristics that change the consideration for the time value of money (for example, periodic revision of the interest rate).

5.3.5 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. The effective interest rate is the rate that discounts future cash payments or receipts over the expected life of the financial instrument or, as the case may be, over a shorter period to obtain the net carrying amount of the financial asset or liability.

The amortised cost determined using the effective interest rate method is calculated by taking into account premiums and discounts as well as commissions and transaction costs that are an integral part of the effective interest rate. Depreciation using the effective interest rate method is recorded in the income statement under “Interest income or expense”. Impairment amounts are recognised in profit and loss under “Net impairment of assets”. Loans and receivables mainly include interbank and customer loans and receivables.

5.3.6 Other financial liabilities

Other financial liabilities include all other subordinated and unsubordinated financial liabilities (except derivatives) that are not classified as held for trading or designated at fair value through profit or loss.

Other financial liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest rate method. Interest and accrued interest (including any difference between the net amount received and the repayment value) is recognised in profit and loss using the effective interest rate method, under “Interest expenses”.

5.3.7 Fair value of financial instruments

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants on the main market or the most advantageous market on the valuation date. Fair value is determined based on prices quoted in an active market (quotations established by an exchange, broker or any other source recognised by investors). When there is no market or market prices are not available, valuation techniques are used to estimate fair value at the measurement date based on current market conditions. These techniques use a maximum of observable market data, commonly used calculation methods and a variety of other factors such as time value, credit risk and liquidity risk. The fair value estimated by these techniques is therefore affected by the data used. Valuation techniques include, in particular, discounted cash flow methods, reference to the market value of other comparable instruments, option valuation models and other appropriate valuation models.

On initial recognition, the fair value of a financial instrument is the transaction price (i.e. the value of the consideration paid or received) unless another fair value can be evidenced by a price in an active market for the same instrument or by a valuation technique that is based solely on observable market data.

To determine the fair value of financial instruments, the Bank uses the following main valuation methods:

- Active market

Financial instruments are measured at fair value by reference to quoted prices in an active market when they are readily and regularly available, taking into account criteria such as transaction volumes or recent transactions. Listed securities and derivatives on organised markets (futures and options) are valued in this way.
OTC derivatives such as interest rate swaps, options and foreign exchange contracts are valued using widely accepted models (discounted future cash flow method, Black and Scholes model, etc.) that use observable market data.
The valuation of these derivatives includes a credit risk adjustment (CVA – Credit Value Adjustment; DVA – Debit Value Adjustment). The CVA consists of adjusting the fair value of derivatives to take into account the creditworthiness of the counterparty in the valuation. Similarly, the DVA reflects the effect of the Group's credit quality on the valuation of derivatives.
For valuations that use "mid-market" prices as a basis for determining fair value, a price adjustment is applied, per risk position, to net open positions using the bid or ask price, as appropriate.

- No active market

Most derivatives are traded on active markets.
When the price of a transaction in an inactive market does not correspond to the fair value of other observable transactions in that market for the same instrument or to the valuation with an internal model based on observable market data, this difference is recognised directly in the income statement.
However, if this difference (commonly known as "Day 1 profit and loss") is generated by a valuation model the parameters of which are not all based on observable market data, it is either recognised in profit and loss on a staggered basis over the life of the transaction, or deferred until the date on which the instrument is derecognised. In any case, any unrecognised difference is immediately recognised in profit and loss if the parameters that were not originally observable later become so, or if the fair value can be determined by reference to a price quoted on an active market involving the same instrument. For all transactions, the appropriate method for recognising this difference in the income statement is determined individually.

- No active market – Equity instruments (unlisted shares)

In the absence of recent transaction prices under normal market conditions, the fair value of unlisted shares is estimated using recognised valuation techniques such as the discounted future cash flow method, the method of applying multiples of comparable companies and the asset method.

The carrying amount of short-term financial instruments approximates their fair value.

5.3.8 Embedded derivatives

An embedded derivative is defined as a component of a composite (hybrid) instrument that includes both a derivative financial instrument and a non-derivative host contract. This assessment applies only to financial liabilities, non-financial contracts and financial assets that do not fall within the scope of IFRS 9.
An embedded derivative must be separated from the host contract and accounted for as a derivative when:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same conditions as the embedded derivative would meet the definition of a derivative;
- the hybrid (compound) instrument is not held for trading.

This (embedded) derivative is valued at fair value through profit and loss in the same way as a standalone derivative. The host contract is accounted for and valued according to the principles governing the category to which it belongs.
Insofar as the separation of the embedded derivative is permitted (see above), the entire hybrid contract can be designated as a financial asset or liability at fair value through profit and loss. However, if it is not possible to measure the embedded derivative separately, the entire hybrid contract must be designated as a financial asset or financial liability at fair value through profit or loss.

5.4 Lease contracts

A lease is a contract, or part of a contract, that conveys the right to control the use of an asset for a specific period of time in return for payment of consideration.

- As Lessee

Lease contracts, with the exception of certain short-term contracts (<= 12 months) and certain low-value contracts, are recognised in the balance sheet at the effective date of the contract. This requires the lessee to recognise an asset in the balance sheet in respect of the right to use the leased asset and a rental liability representing the commitments over the term of the contract.
The lease term of a contract is the non-cancellable term of the contract adjusted for renewal options that the lessee is reasonably certain to exercise and termination options that the lessee is reasonably certain not to exercise.
The rental liability is initially measured at the present value of the amount of the rentals remunerating the right to use the leased asset over the term of the lease and not yet paid at the effective date of the contract. The present value of rents paid is calculated using the lessee's

marginal borrowing rate. Subsequently, the rental liability is measured by increasing its carrying amount to reflect the interest due on the rental liability (using the effective interest rate method) and decreasing its carrying amount to reflect the rent paid.
Rental liabilities are presented under “Other liabilities”.
The cost of the asset recognised as a right to use comprises the initial measurement amount of the rental liability plus initial direct costs, prepayments less inducements received and restoration costs. This asset is then depreciated, in general, on a straight-line basis over the term of the contract, and impaired if necessary.
The asset recorded for the right of use is included under the same heading as property, plant and equipment.
Rental liabilities and the right of use may be revalued in the event of a change in the lease contract, a re-estimation of the lease term or a revision of future rentals due to changes in indexes.
Rental payments associated with leases considered as short-term or low-value contracts are expensed under “General and administrative expenses” on a straight-line basis over the term of the lease.
As a simplification measure, IFRS 16 allows lessees not to separate rental components from non-rental components and to account for rental and related non-rental components as a single rental component. The Group has not opted for this simplification measure.

- As Lessor

Assets leased under an operating lease are maintained as fixed assets and depreciated according to the same depreciation rules applied to assets of a similar nature.
Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

5.5 Property, plant and equipment

Property, plant and equipment are recorded at their acquisition cost (including directly attributable costs) less accumulated depreciation and any impairment losses.
The Luxembourg division applies the method of accounting for fixed assets by component (mainly for buildings) and the depreciable amount is determined after deduction of its residual value.
Depreciation is calculated on a straight-line basis over the useful life of the assets concerned. The useful lives used are as follows:

NATURE OF THE ASSET OR COMPONENT AND USEFUL LIFE

Land	**Indefinite**
Buildings, structures	**40 years**
Technical installations	**10 years**
General installations	**20 years**
Finishings	**5 to 10 years**
IT/telecoms eqpmt	**4 years**
Miscellaneous eqpmt	**5 years**
Office furniture	**10 years**
Vehicles	**4 years**

Land and works of art have an indefinite useful life and are therefore not depreciated, but can be subject to impairment losses.
At each balance sheet date, if there is any indication that an item of property, plant and equipment may have been impaired, an impairment test (by comparing the carrying amount of the asset with its recoverable amount) is performed. An impairment loss is recognised when the carrying amount of the asset exceeds its estimated recoverable amount.
The useful life and residual value of property, plant and equipment are reviewed at each balance sheet date.

5.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. This asset is initially recognised at cost if it is expected to generate future economic benefits and if the acquisition cost of the asset can be measured reliably.
Intangible assets include software acquired or developed in-house as well as goodwill acquired in a business combination.
Purchased software is amortised on a straight-line basis over a four-year period from the time it becomes usable. Software maintenance costs are expensed as incurred. However, expenditure that improves the quality of the software or helps extend its useful life is added to the initial acquisition cost. For internally generated software, development costs are amortised on a straight-line basis over the period during which the benefits of the asset are expected to be realised. Research costs are expensed directly as incurred.
Business goodwill is amortised on a straight-line basis over the period during which the benefits of the asset are expected to be received. This useful life does not exceed 20 years.
At each balance sheet date, if there is any indication that an item of intangible assets may have been impaired, an impairment test (by comparing the carrying amount of the asset with its recoverable amount) is performed. An impairment loss is recognised when the carrying amount of the asset exceeds its estimated recoverable amount. For goodwill, the recoverable amount is estimated on the basis of the change in capital under management.
Intangible assets are recorded at cost less accumulated amortisation and impairment losses. The useful life and residual value of intangible assets are reviewed at each balance sheet date.

5.7 Other assets

Other assets mainly include accrued income (excluding interest), deferred charges and other receivables. Also included in this item are amounts receivable from employees.

5.8 Impairment of assets

The impairment model for credit risk is based on expected credit losses (“ECL”).
The Bank recognises impairment losses based on the expected credit loss model on:

- loans and receivables from credit institutions measured at amortised cost;
- customer loans valued at amortised cost;
- debt instruments measured at amortised cost;
- debt instruments measured at fair value through other comprehensive income;
- undrawn loan commitments and financial guarantees issued.

Expected losses are a probabilistically weighted estimate of credit losses over the expected life of a financial instrument. The calculation of these losses is based, among other things, on the following parameters: the probability of default (PD), the loss given default (LGD), the amount of exposure (residual accounting) in the event of default (exposure at default or EAD) and the discount rate. The amount of expected credit losses is calculated on the basis of a weighted average of probabilised scenarios. Financial assets are classified on the basis of the extent of credit deterioration since their initial recognition into three categories:

- stage 1 (initial recognition: performing): impairment is measured at the amount of expected losses over the useful life resulting from risks of default within 12 months of the balance sheet date;
- stage 2 (significant increase in credit risk: underperforming): impairment is measured at the amount of expected losses over the life of the financial instrument;
- stage 3 (financial assets in default for which there is objective evidence of default at the balance sheet date: non-performing): impairment is measured as the difference between the asset’s carrying amount and its expected recoverable amount.

To assess the deterioration of credit risk, the risk of default at the reporting date is compared with the initial recognition of the financial asset. In order to classify its credit exposures, the Bank has decided to implement an internal rating model based on credit events for its credit portfolios.
For debt instruments, external agency ratings are mainly used and the Bank makes use of the low credit risk exception.
In the balance sheet, value adjustments for losses related to financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.
For debt instruments at fair value through other comprehensive income, the impairment loss adjustment

does not reduce the carrying amount of financial assets and is recognised in other comprehensive income.
For loan commitments given and financial guarantees issued, expected credit losses are recorded as liabilities in the balance sheet under “Provisions”.
Losses are recognised in the income statement under “Net impairment of assets”.

5.8.1 Defining default

The Bank uses the same definition of default as that used for internal credit risk management purposes. This definition of default is also in line with the regulatory standards currently in force in the sector.
A financial asset is considered in default if at least one of the following two conditions is met:

- the Bank considers that payment by the debtor is unlikely without recourse to actions such as the realisation of collateral;
- the debtor has material arrears of more than 90 days.

5.8.2 Impaired financial assets (stage 3)

The level of collateral pledged is not relevant to the categorisation of financial assets in stage 3: as soon as a loan meets at least one of the two conditions mentioned above, this financial asset is considered in default and is classified in stage 3, even if the valuation of the guarantees received exceeds the amount due to the Bank.
When the expected recoveries are less than the Bank’s exposure, an ECL is recorded.

5.8.3 Restructuring due to financial difficulties

In the event of the borrower’s financial difficulties, and in order to maximise the possibilities of recovery, the Bank may, in certain specific cases and under certain conditions, accept the restructuring of a loan, which generally takes the form of an extension of the residual term of the loan or an extension or spread of certain contractual deadlines.
These loans are systematically classified in stage 2, unless the investment is considered in default, in which case it will be classified in stage 3.

5.8.4 Significant deterioration in credit risk

In accordance with the ECL model, impairment of a financial asset is measured at the amount of expected losses over the life of the financial instrument as soon as the credit risk for that financial asset has significantly deteriorated. This assessment of the material deterioration in credit risk is a relative assessment in relation to the level of risk that was estimated at initial recognition of the financial instrument.

For the bond portfolio and interbank deposits, the significant deterioration in credit risk is assessed mainly on the basis of an external rating (or, failing that, on the basis of a corresponding internal rating):

- the Bank uses the exception for low credit risk allowed by IFRS 9, which means that instruments with an investment grade rating at the reporting date are always classified in stage 1 and are therefore assigned an ECL amounting to the amount of expected losses over the life of the instrument resulting from the risk of default within 12 months of the reporting date;
- for financial assets for which the low credit risk exception cannot be applied (i.e. assets with a rating below investment grade), the Group performs an assessment of the relative evolution of credit risk by comparing the probability of default (PD) over the life of the instrument to initial recognition with the PD at the reporting date (for an equivalent life). This assessment is carried out individually at the level of each exposure and at each reporting date.

The Group has developed an internal rating model for the loan portfolio The changes to this internal rating determines the level of credit risk deterioration. It is recalculated at each reporting date individually, at the level of the credit facility and changes according to credit events such as:

- a restructuring due to financial difficulties (“forborne”): a financial asset being restructured due to the borrower’s financial difficulties is always classified in stage 2, unless the loan is considered in default, in which case it is classified in stage 3;
- watch-list entry: the loans included in this list are classified in at least stage 2;
- a margin call made by the Bank (lombard loans) when it considers that the collateral provided as collateral by the counterparty is no longer sufficient;
- material arrears of more than 30 days: the Bank has aligned itself with international standards, since a transfer to stage 2 takes place when a financial asset has material arrears of more than 30 days.

Since the Bank never acquires portfolios of past due assets, all financial instruments are always classified in stage 1 at the time of initial recognition. For reports at later dates, as long as none of the criteria mentioned above are met, the asset remains in stage 1.
As soon as an instrument meets at least one of the criteria to be considered as an asset that has suffered a significant deterioration in credit risk since its initial recognition, it is classified in stage 2 and an ECL corresponding to the amount of expected losses over the entire life of the instrument is recognised.
A financial asset is considered in default (i.e. in stage 3) when it meets the definition of default mentioned above.

Transfers between categories are symmetrical, which means that a financial instrument that has migrated at a given time to stage 2 or 3 can return to stage 2 or 1 at a later reporting date if none of the migration criteria are met, provided that any probation periods, in accordance with industry regulatory standards, are met.

5.8.5 Governance and measurement of expected credit losses (ECL model)

The ECL is the result of the product of the probability of default (PD), the estimated exposure at the time of default (EAD) and the loss in the event of default (LGD). The calculation of the ECL is carried out in such a way that it reflects:

- an unbiased amount, weighted with a probability of occurrence;
- the time value of money;
- information on past events, current conditions and future macroeconomic forecasts.

The maximum period taken into account for the calculation of the ECL is the maximum contractual period (including extensions).
The lifetime ECL represents the sum of ECLs over the entire life of a financial asset, discounted at the effective interest rate. It is used for all financial instruments classified in stage 2 or higher.
The 12-month ECL represents the portion of the ECL over the lifetime resulting from a defect within 12 months of the reporting date. It is used for instruments in stage 1.
The Bank does not have Basel PD and LGD models, as it has opted for the standard approach for prudential purposes. As part of IFRS 9, the Group has developed its own PD and LGD models in order to perform ECL calculations.
Three different macroeconomic scenarios are taken into account for the calculation of the ECL. A weighting is applied to each of these 3 scenarios. The baseline macroeconomic scenario is considered to represent the most likely future forecasts. This scenario is also used for other internal and external needs.
The calculation of the ECL requires important judgments on various aspects such as, for example, the borrower’s financial situation and ability to repay, the value of collateral and recovery possibilities or future macroeconomic forecasts: the most neutral approach possible is applied in this respect.

5.8.6 Impairment loss

An impairment loss is a reduction in the gross carrying amount of a financial asset when there is no longer a reasonable expectation of recovery for all or part of the asset or when it has been fully or partially surrendered. This situation results in removal from the balance sheet.

The Bank decides to remove an asset from the balance sheet early on an individual basis and taking into account various factors, such as:

- the financial asset is fully impaired;
- the period of time since the date of the last impairment;
- whether or not the collateral that can be realised within a normal period of time will be realised;
- the probability of recovering contractual flows and the estimated time frame for any such recovery;
- the number of days since the last contractual flow received;
- the status of the loan and/or the debtor.

5.9 Provisions

A provision is recognised when:

- the Luxembourg division has a present legal or constructive obligation resulting from a past event;
- it is likely that an outflow of resources will be required to settle the obligation;
- the amount of the obligation can be estimated reliably.

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

5.10 Taxes

- Current taxes

Current tax assets and liabilities correspond to amounts payable or recoverable, determined on the basis of the tax rules and rates in force at the balance sheet date, as well as tax adjustments relating to previous years.

- Deferred taxes

Deferred taxes are recognised as soon as there is a temporary difference between the tax value of assets and liabilities and their carrying amount. Deferred taxes are measured using the liability method, which consists of calculating, at each balance sheet date, deferred taxes based on the tax rate in effect or which will be in effect (if known) at the time the temporary differences are reversed.
Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those:

- related to the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit; or
- associated with investments in subsidiaries, affiliates and joint ventures to the extent that the date on which the temporary difference will be reversed can be controlled and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses carried forward and unused tax credits to the extent that it is probable that future taxable profit, against which these differences can be utilised, will be available, unless the deductible temporary difference is:

- related to the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit; or
- related to investments in subsidiaries, affiliates and joint ventures to the extent that this difference will not be reversed in the foreseeable future.

Current and deferred taxes are recognised in the income statement as tax income or expenses, unless they relate to items recognised in equity (revaluation to fair value of available-for-sale assets), in which case they are recognised in equity and then recognised in the income statement at the same time as the realised gains or losses.

5.11 Employee benefits

In compliance with national regulations and industry practices, the pension scheme in force in the Luxembourg division is that of a group insurance scheme, a defined contribution scheme.
For both the defined contribution plan and the residual defined benefit cases, the Luxembourg division pays the insurer the amounts calculated in accordance with the regulations at the beginning of each financial year. These bonuses are recognised as expenses for the year.
The results relating to the profit-sharing plans set up within the Luxembourg division are recognised in the income statement with a corresponding entry in shareholders' equity.
Long-term benefits include benefits such as bonuses, provided they are not expected to be paid in full within twelve months of the end of the financial year in which the employees render the related services. A provision is made for the portion expected to be paid in more than one year.

5.12 Other liabilities

Other liabilities include dividends payable, accrued liabilities (excluding interest), deferred income and other liabilities.

5.13 Interest income and expenses

Interest income and expenses with a positive interest rate are recognised in the income statement for all interest-bearing instruments using the effective interest rate method. The effective interest rate is the rate that discounts the future cash flows over the life of the financial instrument, or such shorter period as may be appropriate, so as to obtain an NPV equal to the net carrying amount of the instrument. The calculation of this rate includes all commissions received or paid in respect thereof, transaction costs and premiums or discounts. Transaction costs are additional costs directly related to the acquisition, issue or sale of a financial instrument.
Once an interest-bearing financial asset has been written down following an impairment, interest income continues to be recognised at the rate used to discount the future cash flows to NPV in order to determine the recoverable amount.
Interest income and expenses on derivatives held for trading are presented under this heading.
Accrued interest is recorded in the balance sheet in the same account as the corresponding financial asset or liability.

5.14 Dividends

Dividends are recognised once the shareholders' right to receive payment has been established.

5.15 Fees and commissions

The Luxembourg division recognises in the income statement fees and commissions resulting from various services provided to its clients. The recognition of these fees and commissions depends on the nature of these services.
Commissions remunerating a service over a given period are spread, as the service is rendered or linearly, over the duration of the operation generating the commission. This is the case for management, administration, financial services, custody and other service fees.

Fees related to the performance of a significant act, such as intermediation, placement, performance and brokerage fees, are deferred and recognised in the income statement when the act is performed.

5.16 Result from the revaluation or disposal of financial instruments

Results from trading transactions include all gains and losses resulting from changes in the fair value of financial assets and liabilities held for trading.
(Un)realised gains and losses (excluding accrued interest and dividends) on financial instruments designated at fair value through profit or loss are included in the

revaluation results relating to these instruments.
Gains and losses on the sale or disposal of financial instruments not measured at fair value through profit and loss or held for trading are recognised under "Gain or losses on financial instruments not designated at fair value through profit or loss, net".

5.17 Cash and cash equivalents

The concept of cash and cash equivalents includes

- cash;
- balances with central banks excluding the amount of minimum reserves;
- credit institutions' debit and credit balances at sight, except for vostro and balances guaranteeing repurchase agreements or derivatives transactions;
- loans and deposits from credit institutions with an initial maturity of less than three months.

The instruments are readily convertible into cash and are subject to an insignificant risk of change in value.
The Bank presents cash flows from operating activities using the indirect method, whereby net income is adjusted for the effects of non-cash transactions, any timing or adjustment of past or future operating cash inflows or outflows from operations and items of income or expenses related to cash flows from investments or financing.

Tax flows, interest received and interest paid are presented in full with operating activities. Dividends received are classified as cash flow from operating activities.
Dividends paid are recorded as cash flows from financing activities

6. Implementation of the new IFRS 16 rules as at 1 January 2019

At 1 January 2019, the Group applied IFRS 16 “Leases” and chose the modified retrospective method without restating comparative information, recognising the cumulative effect of the initial application of the standard as an adjustment to the opening balance of equity. The impact of the first-time adoption of IFRS 16 is detailed below.

The Group has entered into various lease agreements for vehicles and, to a lesser extent, IT equipment.

On the date of first-time application the Group recognised assets for the right of use and rental liabilities in the amount of EUR 1,855,840 with no impact on shareholders’ equity. The breakdown of these impacts by type of fixed asset is detailed in Note 9.9 for rights of use and Note 9.19 for rental liabilities; the accounting principles are set out in Note 5.4.

The discount rate used to calculate the rental liability is the marginal borrowing rate at the date of first application of IFRS 16, corresponding to the residual term of the contract at 1 January 2019.

The table below shows the balance sheet items that were adjusted following the application of IFRS 16 in EUR:

	Carrying amount as at 31.12.2018	Impact of the application of IFRS 16	Carrying amount as at 01.01.2019
Property, plant and equipment	**41,575,958**	**1,855,840**	**43,431,798**
Gross value	53,098,536	1,855,840	54,954,376
Amortisation/depreciation	-11,522,578	-	-11,522,578
TOTAL ASSETS	**2,865,682,878**	**1,855,840**	**2,867,538,718**
Other liabilities	66,231,272	1,855,840	68,087,112
TOTAL LIABILITIES	**2,865,682,878**	**1,855,840**	**2,867,538,718**

7. Risk management

7.1 Risk management organisation

The risk management strategy is determined by the Board of Directors and is in line with the strategy defined for the entire Group by the Board of Directors of the parent company, Banque Degroof Petercam S.A. The Management Board of Banque Degroof Petercam S.A. is responsible for its application at all Group companies . In this context, it regularly assesses the level of risks taken and carries out an annual review of all position limits.
The Management Board of Banque Degroof Petercam Luxembourg S.A. is responsible to the parent company and the Board of Directors for implementing this strategy by implementing a risk management policy at local and subsidiary level.
In order to implement its risk management policy, the Management Board of Banque Degroof Petercam S.A. has delegated some of its responsibilities to committees on which Banque Degroof Petercam Luxembourg S.A. is represented. The committees that concern Banque Degroof Petercam Luxembourg S.A. are:

- the ALMAC Committee (Asset and Liability Management Committee) is responsible for the Group's balance sheet and off-balance sheet management in order to achieve a stable and sufficient financial margin within acceptable risk limits. It also manages consolidated liquidity risk;
- the Limits Committee is responsible for granting the Group new limits for all types of products to bankers and brokers. It also ensures the regular revision of existing limits.

The Risk Management department of Banque Degroof Petercam Luxembourg S.A. is responsible for day-to-day risk management. This ensures the integrity and effectiveness of the processes related to the risk management mission. The concept of risk management refers to the identification, assessment, monitoring and control/mitigation of risks.
At the Bank's request, the CSSF (Commission de Surveillance du Secteur Financier, the Luxembourg financial supervisor) had approved the total exemption of the risks on the Banque Degroof Petercam S.A. Group from the calculation of major risk limits, in accordance with part XVI, point 24 of Circular 06/273 as amended. Under the new prudential requirements set out in Regulation (EU) 575/2013, this exemption remains valid by virtue of Article 493, paragraph 3 point c of said Regulation and CSSF Regulation 14-01 Article 20.

7.2 Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to meet its financial commitments as they become due at a reasonable cost.
This risk is managed at consolidated level by the ALMAC Committee on a monthly basis, while the Bank's day-to-day management has been delegated to the Treasury Department of the trading room, under the supervision of the Risk Management Department.

The Luxembourg division applies a prudent strategy to cash management. The Luxembourg division invests its liquid assets with the Banque Centrale du Luxembourg and in a portfolio of highly liquid bonds, which can be liquidated at any time via sale or repurchase agreements. With regard to non-sovereign bonds, the Luxembourg division applies rigorous selection criteria in terms of rating and liquidity of the security and imposes diversification of issuers in order to reduce concentration risk as much as possible. This ensures the liquidity of its portfolios, either through sales or through "two or three-party repository" programs.
The Luxembourg division requires the maintenance of monetary reserves with the Banque Centrale du Luxembourg and/or an amount of extremely liquid

bonds (Extremely High Quality Assets) free of commitments to give it the daily liquidity necessary to cope with any withdrawals. The minimum amount for the 2019 and 2018 financial year was set at EUR 225 million.
In accordance with CSSF Circular 09/403, which requires the implementation of stress tests, the control exercised by Risk Management is based on three scenarios: day-to-day management, management in a period of generalised market liquidity crisis and management in a liquidity crisis specific to the Luxembourg division. Cash flows must be sufficient to enable the Bank to cope with each of these three scenarios, which are monitored rigorously on a daily basis.
The Luxembourg division has put in place a liquidity management policy linked to the crisis scenarios referred to above. In the event of a generalised liquidity crisis scenario, it provides for the possibility of generating immediate liquidity through repo operations on all the bonds held in the Luxembourg division's portfolio. In the event of a liquidity crisis specific to the Luxembourg division, the policy implemented provides for the immediate liquidation of the bond portfolio.
The Liquidity Coverage Ratio (LCR) introduced under the Basel III agreements by the CRR/CRD IV package stood at 214% as at 31 December 2019 (31 December 2018: 188%) and demonstrates the Luxembourg division's good liquidity level.
Another obligation imposed by the CRR/CRD IV package on the Luxembourg division is the monitoring of its encumbered and unencumbered assets. Each amount is the median value of the quarterly data for the previous 12 months.
It is important to note that the Bank does not have a covered bond program. Its main sources of encumbered assets are related to its activities on the repo and securities lending market, the amount of the mandatory reserve deposited with the Banque centrale du Luxembourg and the collateral exchanged to hedge derivative exposures. In the latter case, the collateral pledged results in part from the collateral received by other counterparties with whom the Bank is active on the derivatives market.

The tables below break down the assets according to whether or not they are encumbered (median value of the data for the 4 quarers in EUR):

31.12.2019	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the Bank	**173,569,365**	**n/a**	**2,542,223,763**	**n/a**
Equity instruments	-	-	8,674,104	8,674,104
Debt instruments	121,197,818	121,514,035	981,339,163	983,978,557
Other assets	-	n/a	212,656,573	-

31.12.2018	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the Bank	**194,483,901**	**n/a**	**2,967,680,017**	**n/a**
Equity instruments	-	-	4,406,137	4,406,137
Debt instruments	118,796,327	113,949,961	824,706,189	831,356,145
Other assets	-	n/a	214,169,066	-

The encumbered debt instruments consist of loaned securities and securities sold under repurchase agreements.

The guarantees received by the Luxembourg division are broken down in the following table (median value in euros) depending on whether or not they are encumbered or likely to be so:

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Fair value of collateral received	Fair value of collateral received available for encumbrance	Fair value of collateral received	Fair value of collateral received available for encumbrance
Guarantees received by the reporting institution	**-**	**175,637,907**	**-**	**214,222,211**
Equity instruments	-	-	-	-
Debt instruments	-	137,649,744	-	198,158,988
Other guarantees received	-	-	-	-

The bonds available for encumbrance were obtained through reverse repurchase agreements and securities lending.
The carrying amount of liabilities that may result in additional charges on the assets and the carrying amount of the associated encumbered assets and guarantees are shown in the table below (median value in EUR):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Corresponding liabilities, contingent liabilities or loaned securities	Encumbered assets, guarantees received	Corresponding liabilities, contingent liabilities or loaned securities	Encumbered assets, guarantees received
Carrying amount of selected financial liabilities	**211,307,273**	**173,569,365**	**195,158,145**	**194,483,901**

The adjusted liquidity gap is always calculated taking into account the ability to mobilise bond portfolios.

The tables below detail the liquidity gaps based on contractual (known or estimated) and undiscounted cash flows for financial assets and liabilities (in EUR):

31.12.2019	At sight	Up to three months	From three months to one year	From one to five years	Over five years	Total
FINANCIAL ASSETS						
Loans and receivables from credit institutions[1]	576,068,138	-	-	-	-	576,068,138
Loans and receivables from customers	137,026,360	86,606,600	84,928,650	223,214,074	91,764,819	623,540,503
Bonds and other fixed income securities[2]	-	94,676,874	215,994,215	571,373,210	436,355,027	1,318,399,326
Derivatives	38,215,743	2,531,684,361	143,912,389	24,771,641	4,776,189	2,743,360,323
Unused credit lines	100,022,946	-	-	-	-	100,022,946
Total assets	**851,333,187**	**2,712,967,835**	**444,835,254**	**819,358,925**	**532,896,035**	**5,361,391,236**
FINANCIAL LIABILITIES						
Deposits with credit institutions	23,936,233	36,002,506	1,713,385	-	-	61,652,124
Deposits to customers	1,993,611,859	165,507,519	33,235,050	1,888,701	-	2,194,243,129
Derivatives	38,283,344	2,535,104,517	145,959,480	37,536,815	5,853,342	2,762,737,498
Guarantees granted	-	27,406,319	-	-	-	27,406,319
Total liabilities	**2,055,831,436**	**2,764,020,861**	**180,907,915**	**39,425,516**	**5,853,342**	**5,046,039,070**
Liquidity gap	**-1,204,498,249**	**-51,053,026**	**263,927,339**	**779,933,409**	**527,042,693**	**315,352,166**
Consideration of the repo capacity of the bond portfolio[2]	1,309,029,016	-94,676,874	-215,994,215	-562,002,900	-436,355,027	-
Corrected liquidity gap	**104,530,767**	**-145,729,900**	**47,933,124**	**217,930,509**	**90,687,666**	**315,352,166**

31.12.2018	At sight	Up to three months	From three months to one year	From one to five years	Over five years	Total
FINANCIAL ASSETS						
Loans and receivables from credit institutions[1]	1,194,522,261	128,499,359	20,100,829	-	-	1,343,122,449
Loans and receivables from customers	108,694,480	80,150,639	37,527,597	194,143,168	44,162,153	464,678,037
Bonds and other fixed income securities[2]	-	168,431,113	49,175,375	389,397,957	218,415,724	825,420,169
Derivatives	4,685,398	2,997,172,409	551,011,803	44,241,602	8,026,315	3,605,137,527
Unused credit lines	166,162,038	-	-	-	-	166,162,038
Total assets	**1,474,064,177**	**3,374,253,520**	**657,815,604**	**627,782,727**	**270,604,192**	**6,404,520,220**
FINANCIAL LIABILITIES						
Deposits with credit institutions	50,048,674	17,783,570	-	-	-	67,832,244
Deposits to customers	2,220,236,676	128,077,851	5,146,417	1,883,718	-	2,355,344,662
Derivatives	4,606,188	2,998,394,797	550,625,991	41,966,959	9,423,101	3,605,017,036
Guarantees granted	-	26,312,456	-	-	-	26,312,456
Total liabilities	**2,274,891,538**	**3,170,568,674**	**555,772,408**	**43,850,677**	**9,423,101**	**6,054,506,398**
Liquidity gap	**-800,827,361**	**203,684,846**	**102,043,196**	**583,932,050**	**261,181,091**	**350,013,822**
Consideration of the repo capacity of the bond portfolio[2]	796,523,705	-148,426,450	-49,175,375	-380,506,156	-218,415,724	-
Corrected liquidity gap	**-4,303,656**	**55,258,396**	**52,867,821**	**203,425,894**	**42,765,367**	**350,013,822**

(1) Includes cash and balances with the central bank.
(2) The majority of the EUR bonds in this table are considered to be quickly liquidatable via repurchase agreements.

7.3 Market risk

7.3.1 Policy

Market risks are the risks of adverse changes in market factors (interest rates, share prices, exchange rates, etc.) affecting the value of the Luxembourg division's proprietary positions.

Treasury, foreign exchange and bond trading activities are monitored daily using indicators such as Value-at-Risk (VaR), interest rate sensitivity, scenario analyses and, more simply, nominal volumes.

These activities are comparable to limits set by the Management Board within the framework dictated by the parent company and are characterised by small amounts of assets in relation to shareholders' equity.

Under Basel III, the calculation method was chosen based on the impact of a 200 basis point interest rate movement for interest rate risk and historical VaR (indicator measuring maximum loss with a 99% confidence interval and a one-day horizon) for currency risk. These indicators are used to calculate economic capital for interest rate and foreign exchange market risks.

7.3.2 Interest rate risk

Interest rate risk results from differences between the maturities or revaluation dates of on- and off-balance sheet assets and liabilities. This is the financial risk resulting from the impact of a change in interest rates on the interest margin and on the fair value of fixed income instruments.

This risk is monitored daily via the Value Basis Point (VBP) indicator, which only takes into account items that are sensitive to interest rate risk, regardless of maturity. This risk is managed on a monthly basis by the ALMAC using a standard defined in terms of duration gap. This standard was constructed on the basis of the maximum acceptable loss in the event of a 1% increase in interest rates, allocated by the Management Board of Banque Degroof Petercam S.A. to the Group's transformation activity and divided between the parent company in Brussels and the Bank in Luxembourg. This includes all balance sheet items and therefore all cash positions.

The limit on the maximum acceptable amount of loss as a result of a 1% movement in interest rates is set at EUR 9 million. This results in a VBP (Value per Basis Point) operational limit of EUR 100,000 which includes all interest rate positions. The latter limit has not changed since 31 December 2018.

The following table shows the key figures relating to the exposure to interest rate risk (VBP in euros):

2019	**31.12.2019**	**Average**	**Minimum**	**Maximum**
Interest rate risk	63,232	62,348	44,854	82,722
2018	**31.12.2018**	**Average**	**Minimum**	**Maximum**
Interest rate risk	60,271	72,041	21,461	88,385

In addition, in accordance with Basel II, a stress test compares the loss that would be recorded in the event of a parallel increase in interest rates of 2% to shareholders' equity. The result of this test was 5.6% of useful equity at 31 December 2019 (4.4% in 2018).

Since 1 January 2018, the Bank has decided to apply hedge accounting. The hedging instruments are Interest Rate Swaps (IRS).
At inception, the Bank documents all hedging relationships. Hedging documentation includes the identification of the obligation or credit, the nature of the risk being hedged, the hedging instrument used and the method used to assess the effectiveness of the hedge. The Bank also assesses on an ongoing basis whether hedging instruments effectively offset changes in the fair value of hedged items.

7.3.3 Exchange risk

This mainly concerns the hedging and optimisation of the exchange rate risk generated by all the Bank's departments. Foreign exchange trading is prohibited.
The indicators used to monitor daily currency risk are:

- the limits set in terms of nominal value;
- historical VaR.

The table below shows the key figures relating to exposure to foreign exchange risk (total foreign exchange position in EUR):

(in EUR)

2019		**31.12.2019**	**Average**	**Minimum**	**Maximum**
Exchange risk	Nominal	497,089	1,088,425	497,089	2,412,155
2018		**31.12.2018**	**Average**	**Minimum**	**Maximum**
Interest rate risk	Nominal	1,112,134	978,788	326,568	2,904,095

The limits for currency risk have been set at nominal value.

Overnight limits in absolute values:

	Week	**Weekend**
Current currencies (limit by currency)	2,000,000	1,000,000
Exotic currencies (limit by currency)	250,000	250,000
TOTAL ALL CURRENCIES COMBINED	**3,000,000**	**2,000,000**

The limits have not changed since the 2018 financial year.

In addition, DPAS retains a residual position of USD 0.4 million which is not included in the exchange limits that govern the activities of the Financial Markets department, however, this position is subject to specific monitoring by the Luxembourg ALM Committee.

7.4 Credit risk

7.4.1 Definition

Credit risk is the risk of loss resulting from a counterparty (institutional, legal or private person, etc.) failing to meet its contractual obligations within the prescribed time limits. This risk is monitored on a daily basis.
As regards counterparty limits, exposure is calculated in line with changes in market value, plus an add-on reflecting the risk of future changes in this value. This exposure is then compared with the limits granted by the Limits Committee.
As part of the entry into force of IFRS 9, the Bank now classifies each financial asset (which falls within the scope of the standard) on the basis of the extent of the increase in credit risk ("Significant Increase in Credit Risk", "SICR") since initial recognition and, based on this classification, calculates impairment losses for each financial asset based on a model of expected credit losses over the entire life of the asset in question ("Expected Credit Loss", "ECL"). When the expected recoveries are less than the Bank's exposure, an ECL is recorded.

In accordance with IFRS 9, credit risk is classified into three levels, also known as "stages" (see Note 5.8.1.2). The table below details the carrying amount per stage as at 31 December 2019 (in EUR):

31.12.2019	Stage 1	Stage 2	Stage 3
Loans and receivables from credit institutions	100.00%	-	-
Loans and receivables from customers	96.84%	2.14%	1.02%
Debt instruments measured at fair value through other comprehensive income	100.00%	-	-
Debt instruments measured at amortised cost	100.00%	-	-
Contingent liabilities and commitments	99.37%	0.63%	-

31.12.2018	Stage 1	Stage 2	Stage 3
Loans and receivables from credit institutions	100.00%	-	-
Loans and receivables from customers	91.20%	6.78%	2.02%
Debt instruments measured at fair value through other comprehensive income	100.00%	-	-
Debt instruments measured at amortised cost	100.00%	-	-
Contingent liabilities and commitments	98.29%	1.71%	-

Since the Bank never acquires portfolios of past due assets, all financial instruments are systematically classified in stage 1 at the time of initial recognition. As soon as an instrument meets at least one of the criteria to be considered as having suffered a significant deterioration in credit risk since its initial recognition (see below), this financial instrument is classified as stage 2. A financial asset goes into stage 3 when it is considered in default.

7.4.2 Models

The models used to assess the significant increase in credit risk under IFRS 9 are based on the following principles:

Bond portfolio and interbank deposits

- Using the low credit risk exception permitted by the accounting standard, instruments with an investment grade rating at the reporting date are systematically classified as stage 1. For other financial assets, the Bank assesses the relative evolution of credit risk by comparing the probability of default (PD) over the life of the instrument with the initial recognition with the PD at the reporting date (for an equivalent life). This assessment is carried out individually at the level of each exposure and at each reporting date.
- For non-investment grade instruments, there is a transition to stage 2 as soon as at least one of the following conditions is met: the PD is three times higher than the initial PD (or twice as high if the initial PD is above a certain level), the credit spread increases by more than 100%, a forborne measure (i.e. restructuring of an instrument following financial difficulties of the counterparty), a payment arrears of at least 30 days.
- A financial asset is transferred to stage 3 as soon as it meets one of the following conditions:
  - the Bank considers that the debtor is unlikely to pay;
  - the debtor has material arrears of more than 90 days.

  In this case, the financial asset is considered in default. This definition of default is also in line with the regulatory standards currently in force in the sector.
- Similarly, a return to a more favourable stage is provided for as soon as no conditions justifying a more unfavourable stage are fulfilled, provided, however, that the probationary periods are respected.

Loans to customers

The Bank has developed an internal rating model for customer loans. The changes to this internal rating determines the level of credit risk deterioration.

- At initial recognition, all credit exposures are classified as stage 1.
- A transition to stage 2 is carried out as soon as at least one of the following credit events is reported: a forborne measure and/or entry on the watch-list (decrease in the value of the borrower’s assets, non-compliance with financial ratios for companies, bridge of a covenant, etc.) and/or a margin call (typically used in the context of “lombard” loans for which the securities portfolio is pledged) when the Bank considers that the credit guarantee is no longer sufficient, and/or a payment arrears of at least 30 days is reported.
- A transition to stage 3 takes place as soon as at least one of the following credit events is reported: the debtor is unlikely to pay and/or there is a payment arrears of at least 90 days.
- The Bank does not take into account the level of collateral provided in the categorisation of financial assets in stage 3: as soon as a loan meets at least one of the two conditions mentioned above, this financial asset is considered in default and is classified in stage 3, even if the valuation of the guarantees received exceeds the amount due to the Bank.
- Similarly, a return to a more favourable stage is provided for as soon as no conditions justifying a more unfavourable stage are fulfiled, provided, however, that the probationary periods are respected..

Calculation of the ECL

The ECL calculation model is based on the following elements:

- The Bank does not have Basel PD and LGD models; it has opted for the standard approach for prudential purposes. For the purposes of the IFRS 9 accounting standard, PD and LGD models have been developed within the Bank in order to perform ECL calculations (see Note 5.8.1.5).

- An estimate of expected credit losses based on a calculation approach: probability of default (PD) multiplied by loss in the event of default (LGD), this is therefore a collective approach for instruments in stages 1 and 2 with, however, for loans granted to customers, the consideration of the guarantee (if applicable) on an individual basis (for each loan). In stage 3, the estimation of ECLs is systematically carried out on an individual basis, using the discounted cash flow method.
- This PD x LGD approach is applied to each financial instrument and for each residual year. The maximum period taken into account for the calculation of the ECL is the maximum contractual period (including extensions). The lifetime ECL represents the sum of ECLs over the entire life of a financial asset, discounted at the effective interest rate. It is used for all financial instruments classified in stage 2 or higher. The 12-month ECL represents the portion of the ECL over the lifetime resulting from a defect within 12 months of the reporting date. It is used for instruments in stage 1.
- Risk parameters (in particular PD and LGD) are recalculated at the end of each year, on the basis of historical data, current and forward-looking elements.
- The result is established by probabilistic weighting, i.e. the Bank takes into account 3 different macroeconomic scenarios for the calculation of the ECL. A weighting is applied to each of these 3 scenarios. The baseline macroeconomic scenario represents the Bank's most likely future forecast. This scenario is also used for other internal and external needs.

7.4.3 Credit risk management

The amount of the Luxembourg division's exposure to credit risk is represented by the carrying amount, net of value adjustments, of the assets, guarantees issued and unused confirmed credits granted to its clients.
The amount of the Luxembourg division's exposure to credit risk on derivative financial instruments is represented by their overall replacement cost. To reduce the credit risk on these transactions, the Luxembourg division has signed CSA (Credit Support Annex) agreements with a majority of its counterparties.
The tables below detail the Luxembourg division's exposure to credit risk, calculated in accordance with Basel III regulations as at 31 December 2019 and 2018 (in EUR):

31.12.2019	Net value at risk	Final value at risk[1]	Risk-adjusted assets[2]
Total	**2,225,366,751**	**1,853,184,266**	**479,235,521**
Loans and receivables from credit institutions	94,486,824	94,486,824	13,281,213
Loans and receivables from customers	610,717,245	331,810,191	302,181,376
Debt instruments	1,318,019,794	1,318,019,794	65,230,450
Public issuers	*543,352,897*	*543,352,897*	*0*
Other issuers	*774,666,897*	*774,666,897*	*65,230,450*
Equity instruments	8,668,070	8,668,070	11,136,565
Contingent liabilities and commitments	127,420,991	45,600,768	44,519,374
Derivatives held for trading	66,053,827	54,598,619	42,886,543

31.12.2018	Net value at risk	Final value at risk[1]	Risk-adjusted assets[2]
Total	**1,786,805,916**	**1,324,985,148**	**381,217,652**
Loans and receivables from credit institutions	241,984,669	148,692,780	41,947,872
Loans and receivables from customers	450,561,418	271,580,106	236,809,888
Debt instruments	851,289,191	851,289,191	58,503,523
Public issuers	*452,082,764*	*452,082,764*	*0*
Other issuers	*399,206,427*	*399,206,427*	*58,503,523*
Equity instruments	9,034,064	9,034,064	11,341,028
Contingent liabilities and commitments	192,470,514	13,367,649	11,989,371
Derivatives held for trading	41,466,060	31,021,358	20,625,970

(1) The final value at risk takes into account credit risk mitigation techniques (mainly guarantees) as well as the off-balance sheet conversion factor.
(2) The amount of risk-adjusted assets corresponds to the final value at risk multiplied by the weighting associated with the counterparty to each exposure.

A distinction can be made among three categories of credit:

a) the granting of limits for bank counterparties

The granting of interbank limits is centralised at Group level and is based on the granting and review of limits by the Limits Committee, which brings together, on a monthly basis, officials from the parent company in Brussels and the Bank in Luxembourg.

b) the granting of customer loans for non-bank counterparties

The Bank's willingness to take on credit risk is limited. The Bank will only consider lending to private individuals up to the equivalent amount of appropriate collateral. Corporate credit is reserved for first-class debtors.

c) the bond portfolio of the Luxembourg division

The Bank's overall bond portfolio has undergone a complete overhaul and is now divided into two portfolios corresponding to two main categories. The first category includes public sector bonds, which include sovereign issuers, government agencies, government guaranteed bonds and bonds issued by supranational issuers. The second category includes private sector bonds, which in this case consist exclusively of covered bonds issued by the banking sector. A limit of EUR 625 million has been granted for this second category.
As at 31 December 2019, the "public sector" portfolio stood at EUR 734.1 million (2018: EUR 504.6 million). All issuers have an investment grade rating except for commercial papers and one regional issue (French Community of Belgium) which do not have a rating.
As at 31 December 2019, the outstanding "private sector" portfolio, consisting mainly of covered bonds, amounted to EUR 582.1 million
(2018: EUR 320.8 million). The average rating is AAA but the portfolio includes an unhedged bank bond position for EUR 20 million maturing on 25 January 2020. This position was validated by the ALMAC Committee in January 2018 and is included in the total amount of EUR 582.1 million.

7.4.4 Guarantees received as part of the customer loan portfolio

Guarantees received in connection with loans to customers break down as follows (in EUR):

	31.12.2019	**31.12.2019**	**31.12.2018**	**31.12.2018**
Nature of the guarantee	**Valuation value**	**Percentage**	**Valuation value**	**Percentage**
Bonds	70,592,051	3.55%	52,621,595	3.57%
Cash	133,967,960	6.74%	74,983,130	5.09%
Mortgages	250,122,461	12.59%	168,213,879	11.42%
Other	508,181,824	25.57%	195,986,419	13.31%
Shares	440,534,970	22.17%	449,696,527	30.53%
Funds	583,873,355	29.38%	531,490,740	36.08%
Total	1,987,272,621	100%	1,472,992,290	100%

As at 31 December 2019 and 2018, the majority of the guarantees consist of investment fund units and shares deposited with the Bank, which represent 51.55% and 66.61% of the total guarantees, respectively. Other collateral consists mainly of cash and securities deposited outside the Bank.

The Bank has put in place a methodology to assess the degree of liquidity of the various positions taken in the pledge base. As shown in the table below, 62.41% (2018: 58.33%) of the total guarantees in the form of cash and securities are valued as highly liquid with an impact in terms of weighting in the Bank's own funds of 0% (no haircuts applied).

	31.12.2019	31.12.2018
Level of liquidity	**Percentage**	**Percentage**
Level 1: Highly liquid guarantees	62.41%	58.33%
Level 2: Medium-liquid guarantees	19.78%	19.46%
Level 3: Illiquid guarantees	17.81%	22.21%
Total	**100%**	**100%**

In the event of default, the Bank executes the guarantees in accordance with the contractual terms.

7.4.5 Overdue credits

Overdue and unimpaired loans consist solely of loans and receivables granted to customers that are either in arrears or have been terminated. The amounts shown in the table below (in euros) correspond to amounts outstanding in the case of overdue receivables or the full amount of the loan (principal and interest) in the case of cancelled loans; the duration is the number of days since first unpaid due date or termination date respectively:

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Credits	**Guarantees[1]**	**Credits**	**Guarantees[1]**
Less than three months	34,744,809	525,428	2,114,769	1,356,820
Three months to one year	-	-	503,355	7,911
From one to five years	71,515	-	229,956	-
More than five years	-	-	1,229	-
Total non-performing loans	**34,816,324**	**525,428**	**2,849,309**	**1,364,731**

7.4.6 Derecognition (write-off)

The Bank only derecognises (writes off) on a case-by-case basis.

The Credit Committee decides on these derecognitions on a purely individual basis (for each loan), and taking into account various factors:

- whether or not the collateral can be realised within a normal period of time;
- the probability of recovering cash flows and the estimated time frame for any such recovery;
- the number of days since the last cash flow received;
- the status of the loan and/or the debtor;
- the duration (generally 5 years) from the date of the last impairment of the receivable concerned.

As at 31 December 2019, the Bank derecognised a receivable amounting to EUR 10,897; it was neither written off nor impaired, unlike the receivables as at 31 December 2018 amounting to EUR 733,395, which were all written off and fully impaired.

(1) The amount of guarantees received is limited to the amount of loans covered. Guarantees include cash, securities and mortgages.

7.4.7 Restructuring due to financial difficulties (forebearance)

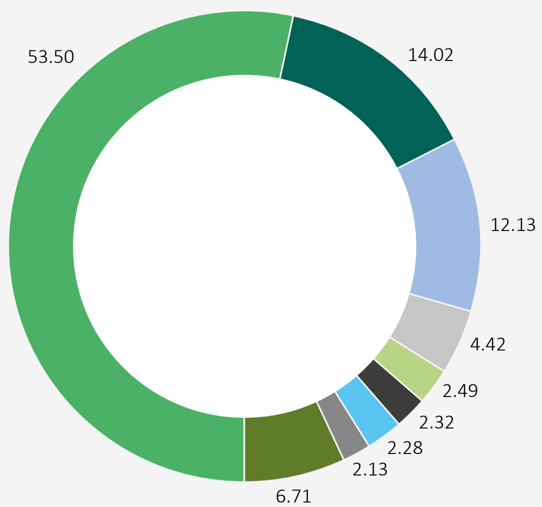
In the event of the counterparty's financial difficulties, and in order to maximise the possibilities of recovery, the Bank may, in certain specific cases and under certain conditions, accept the restructuring of a financial instrument, which generally takes the form of an extension of the residual term of the loan or an extension or spread of certain contractual deadlines, without loss to the Bank.

As at 31 December 2019, the amount of loans renegotiated due to financial difficulties resulting in a restructuring or renegotiation of the terms and conditions of the contract was EUR 10,579,398 (2018: EUR 16,903,017).

As at 31 December 2019, impairments amounting to EUR 3,410,506 (2018: EUR 2,964,200) were recognised on these loans.

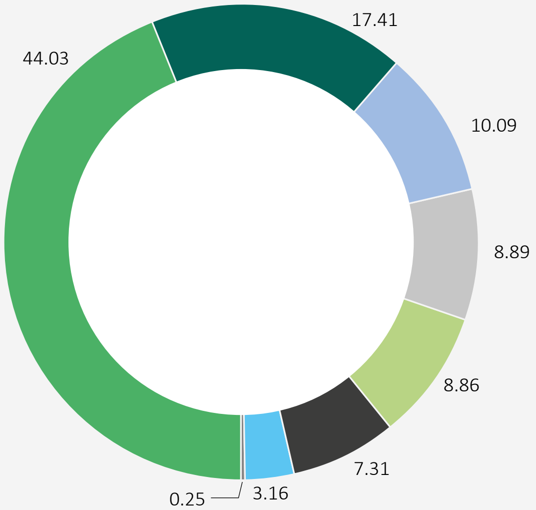
7.4.8 Geographic exposure

Geographically, the Luxembourg division has no exposure to "emerging" countries and focuses its activity mainly on the European Union and certain OECD countries. The list of authorised countries is reviewed regularly.
The table below shows the geographical distribution of the credit lines granted as at 31 December 2019. The category "Other countries" includes percentages below 2%.



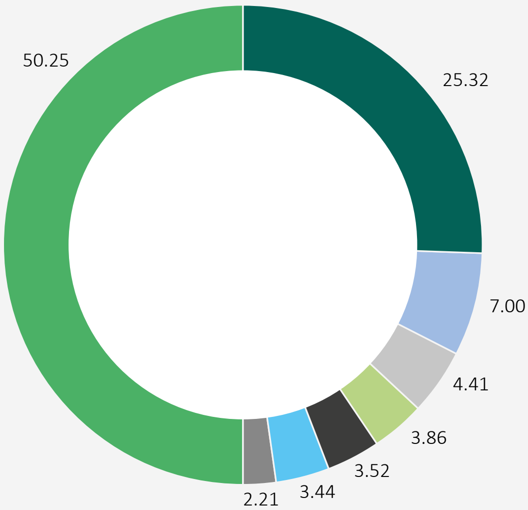
Luxembourg	53.50%
Belgium	14.02%
France	12.13%
Switzerland	4.42%
Canada	2.49%
Malta	2.32%
Jersey	2.28%
Monaco	2.13%
Other countries	6.71%
TOTAL	**100.00%**

The following table shows the geographical distribution of "public sector" portfolio bonds as at 31 December 2019.



Belgium	44.03%
Spain	17.41%
France	10.09%
Italy	8.89%
Supranational institutions	8.86%
Canada	7.31%
Germany	3.16%
Luxembourg	0.25%
TOTAL	**100.00%**

The table below shows the geographical distribution of bonds in the "private sector" portfolio.



France	50.25%
Belgium	25.32%
Canada	7.00%
Sweden	4.41%
Norway	3.86%
Netherlands	3.52%
Austria	3.44%
Finland	2.21%
TOTAL	**100.00%**

7.5 Asset management risk

Asset management risk is the financial risk resulting from a possible lack of consistency or excessive risk-taking in the management strategies pursued throughout the Luxembourg division.
This risk is monitored within each entity by the respective control departments, as well as at the consolidated level, via aggregated data. The controls relate to compliance with the management constraints set by both the client and the Group's Management Board (in particular with regard to diversification, equity ratio and authorised management products and MiFID II constraints), as well as to performance monitoring. Controls are carried out by the first lines of defence and are reviewed quarterly by the Risk Management of the Luxembourg division.
The consistency of controls and management principles across the various subsidiaries is ensured by the Risk Management department of the Banque Degroof Petercam S.A. Group.

7.6 Return on assets

The return on the Group's assets (in EUR) calculated by comparing the result for the year with the balance sheet total is as follows:

	31.12.2019	31.12.2018
Total assets	2,717,653,001	2,865,682,878
Income for the year	40,352,459	33,628,003
Return on assets ratio	**1.48%**	**1.17%**

7.7 Capital management

The main objective of the Luxembourg division's capital management is to ensure that the Bank and the management company meet regulatory requirements and maintains a level of capitalisation consistent with the level of activity and the risks incurred.
The comparative capital and ratio information for 2018 in the table below has been revised to conform to the current year's presentation changes: CRR/CRD IV regulatory capital includes audited earnings and dividends to be distributed. Shareholders' equity at 31 December 2019 and 2018 (in EUR) is broken down as follows:

	31.12.2019	31.12.2018
Tier 1 capital	264,401,903	224,111,024
Total capital	**264,401,903**	**224,111,024**
Capital requirements	66,647,358	58,117,548
Ratio	**31.74%**	**30.85%**

Once a year, the Luxembourg division produces a report on the ICAAP (Internal Capital Adequacy Process) in accordance with the regulations in force. This report is approved by the Bank's Board of Directors and its Management Board. It certifies the adequacy of equity capital in relation to the risks incurred, even in crisis scenarios.

8. Scope of consolidation

Denomination	Headquarters	Proportion of share capital held as at 31 December 2019	Proportion of share capital held as at 31 December 2018
Parent company:			
Banque Degroof Petercam Luxembourg S.A.	Luxembourg		
Fully-consolidated subsidiaries:			
Degroof Petercam Insurance Broker- Luxembourg S.A., (formerly D.S Lux), DPIB	Luxembourg	100.00%	100.00%
Degroof Petercam Asset Services S.A., (formerly Degroof Gestion Institutionnelle- Luxembourg), DPAS	Luxembourg		
Promotion Partners S.A.	Luxembourg	100.00%	100.00%
Immobilière Cristal Luxembourg S.A. , ICL	Luxembourg	100.00%	100.00%
3P(L) S.à r.l.	Luxembourg	100.00%	100.00%
Associated company included by the equity method			
Promotion 777 S.A.	Luxembourg	-	34.00%
Stairway To Heaven S.A.	Luxembourg	48.00%	48.00%
Le Cloître S.A.	Luxembourg	33.60%	33.60%

On 19 September 2018, the Extraordinary General Meeting of DPAS and the Bank approved the contribution of an investment fund administration services business line held by the Bank to DPAS with effect from 1 October 2018.
The articles of association of Degroof Petercam Insurance broker S.A. were amended on 24 June 2019. The share capital was set at EUR 125,000 represented by five thousand and forty (5,040) shares.
As part of a strategy to centralise the activities and restructure certain functions related to the administration of UCIs within the Degroof Petercam Group, the Bank, acting through its Belgian branch, transferred the activity of UCI Accounting Administration to DPAS with effect from 1 October 2018.
With effect from 1 October 2019, the fund custody business under Belgian law was transferred from Degroof Petercam Corporate Finance to the Belgian branch of Banque Degroof Petercam Luxembourg.

Since 31 December 2015, the Bank has included the following associates in its consolidation scope: Promotion 777 S.A., Stairway To Heaven S.A., Seniorenresidenz Berdorf S.A. and Le Cloître S.A., which is held directly by Stairway To Heaven S.A. and indirectly by the Bank.
Promotion 777 was sold on 23 April 2019.

As at 31 December 2019, a limited number of companies had not been consolidated.

All conditions as listed in the consolidation principles are met.

9. Annexes to the balance sheet

9.1 Cash and sight accounts with central banks

The breakdown of “Cash and sight accounts with central banks” is as follows (in euros):

	31.12.2019	31.12.2018
Cash	437,121	462,828
Balances with central banks other than minimum reserves	481,316,138	1,100,698,626
Accrued interest	-100,000	-142,000
Expected credit losses	-1,897	-2,245
Total	**481,651,362**	**1,101,017,209**

As at 31 December 2019 and 2018, the Bank fulfiled its obligations to hold “mandatory reserves” with the Banque centrale du Luxembourg.

The following amounts included in cash and cash equivalents are as follows (in EUR):

	Notes[1]	31.12.2019	31.12.2018
Cash	9.1	437,121	462,828
Balances with central banks other than minimum reserves	9.1	481,316,138	1,100,698,626
Current accounts with credit institutions	9.6	80,444,748	86,498,247
Term loans with credit institutions	9.6	-	128,500,000
Overdrafts with credit institutions	9.15	-13,824,435	-30,481,934
Term deposits with credit institutions	9.15	-35,998,059	-17,779,237
Total		**512,375,513**	**1,267,898,530**

The composition of cash and cash equivalents in 2018 has been reviewed to comply with the definitions set out below.
The total amount of cash and cash equivalents includes:

- cash;
- balances with central banks excluding the amount of minimum reserves;
- institutions’ debit and credit balances at sight, except for vostro and balances guaranteeing repurchase agreements or derivatives transactions;
- loans and deposits from credit institutions with an initial maturity of less than three months.

(1) The amounts in the table are based on the balances detailed in the notes indicated.

9.2 Financial assets held for trading

Financial assets held for trading consist of the following types (in EUR):

	31.12.2019	31.12.2018
Derivatives held for trading	75,102,938	82,413,930
Debt instruments	1,240,839	2,248,508
Accrued interest	16,385	666,881
CVA/DVA	-9,371	-107,069
Total assets held for trading	**76,350,791**	**85,222,250**

The tables below show the breakdown of derivatives held for trading (in euros):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Carrying amount	**Notional value**	**Carrying amount**	**Notional value**
Foreign exchange derivatives	**17,844,249**	**1,335,641,276**	**24,335,224**	**1,741,020,263**
Over-the-counter				
Forward contracts	13,286,847	783,492,139	13,726,243	684,759,560
Exchange contracts	4,514,102	516,679,730	10,608,981	1,034,849,824
Vested options	43,300	3,992,167	-	-
Organised market				
Futures	-	31,477,240	-	21,410,879
Interest rate derivatives	**27,303,729**	**1,464,286,843**	**14,868,425**	**1,241,028,694**
Over-the-counter				
Exchange contracts	12,813,724	970,366,715	14,868,425	927,097,983
Organised market				
Vested options	14,490,005	38,896,171	-	-
Futures	-	455,023,957	-	313,930,711
Equity derivatives	**28,154,974**	**2,139,970,097**	**43,210,281**	**461,332,303**
Organised market				
Vested options	28,154,974	2,015,329,205	43,208,601	353,836,360
Futures	-	124,640,892	1,680	107,495,943
Total derivatives	**73,302,952**	**4,939,898,216**	**82,413,930**	**3,443,381,260**

The breakdown of fair values (excluding accrued interest), based on whether they are derived from a published market price or a valuation technique, is provided in Note 9.21.

9.3 Hedging of financial assets

To hedge the interest rate risk on certain debt instruments, the Bank has applied the hedge accounting provisions of IFRS 9 since 1 January 2018. Detailed information on hedged items, hedging instruments and hedge ineffectiveness is provided in Note 9.24. Financial asset hedges consist of the following types (in EUR):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Carrying amount	**Notional value**	**Carrying amount**	**Notional value**
Interest rate swaps	1,555,301	147,901,549	-7,889	15,000,000
Accrued interest	-68,841	-	8,599	-
Total hedging instruments	**1,486,460**	**147,901,549**	**710**	**15,000,000**

9.4 Financial assets held for purposes other than trading that must be measured at fair value through profit or loss

The breakdown of FVTPL financial assets is as follows (in EUR):

	31.12.2019	31.12.2018
Equity instruments	**4,936,990**	**4,622,012**
Shares	4,936,990	4,622,012
Debt instruments	**3,634,632**	**22,329,226**
UCI units	3,634,632	22,329,226
Total financial assets held for purposes other than trading that must be measured at fair value through profit or loss	**8,571,622**	**26,951,238**

UCI units are classified as debt instruments because they do not meet the definition of equity instruments in IFRS 9; the decrease in this item is mainly due to the sale of two open-ended investment companies (Sociétés d'Investissement à Capital Variable- SICAV), which were heavily impacted by the market downturn at the end of the 2018 financial year.

In 2019, the Group pursued its strategy of developing its commercial offer in private equity products. In this context, the Bank has undertaken to acquire on its own account positions in private equity funds promoted or structured by the Group, in support of its clients. The amount of shares included in the above table corresponds to subscriptions for the year, while the residual balance of commitments is detailed in Note 11.4.

9.5 Financial assets measured at fair value through other comprehensive income

The breakdown of FVTPL financial assets is as follows (in EUR):

	31.12.2019	31.12.2018
Equity instruments	**3,731,080**	**4,420,137**
Shares	3,731,080	4,420,137
Debt instruments	**199,213,832**	**190,810,975**
Government bonds	89,282,175	130,122,835
Bonds from other issuers	109,931,657	60,688,140
Accrued interest	**542,880**	**828,499**
Total financial assets measured at fair value through other comprehensive income	**203,487,792**	**196,059,611**

FVOCI assets are recorded at fair value. The breakdown of fair values (excluding accrued interest), based on whether they are derived from a published market price or a valuation technique, is provided in Note 9.21.
Impairment tests carried out in accordance with IFRS 9 as at 31 December 2019 did not reveal any impairment to be recorded on this portfolio. Only expected credit losses classified in phase 1 (performing) were recognised in 2019 and 2018; at 31 December 2019, the amount included in accumulated other comprehensive income was EUR 14,583 (2018: EUR 22,041).
Changes in fair value related to the interest rate risk on bonds designated as "hedged items" are recognised in accumulated other comprehensive income in the amount of EUR 388,882 as at 31 December 2019 (2018: EUR 103,169). Detailed information on hedged items, hedging instruments and hedge ineffectiveness is provided in Note 9.24.
The amounts of bonds lent are detailed in Note 9.22.

The table below shows the movements relating to the revaluation reserve of the FVOCI financial assets portfolio (in EUR):

	Debt instruments	Equity instruments	Total
Balance as at 01.01.2018	**977,338**	**-327,090**	**650,248**
Increase (decrease) in unrealised gross revaluation gains- FVOCI portfolio	-866,129	769,000	-97,129
Decrease (increase) in gross unrealised revaluation losses- FVOCI portfolio	-599,327	514,873	-84,454
Changes in fair value related to interest rate risk	-103,169	-	-103,169
Expected credit losses	22,041	-	22,041
Deferred taxes charged to shareholders' equity	401,390	-333,936	67,454
Deferred taxes charged to the income statement	-5,734	-	-5,734
Balance as at 31.12.2018	**-173,590**	**622,847**	**449,257**
Increase (decrease) in unrealised gross revaluation gains- FVOCI portfolio	1,095,109	187,870	1,282,979
Decrease (increase) in gross unrealised revaluation losses- FVOCI portfolio	-1,110,907	-864,426	-1,975,333
Changes in fair value related to interest rate risk	492,051	-	492,051
Expected credit losses	-7,458	-	-7,458
Deferred taxes charged to shareholders' equity	-121,525	177,741	56,216
Deferred taxes charged to the income statement	2,097	-	2,097
Balance as at 31.12.2019	**175,777**	**124,032**	**299,809**

9.6 Loans and receivables from credit institutions measured at amortised cost

Interbank loans and receivables are detailed as follows (in EUR):

	31.12.2019	31.12.2018
Current accounts	94,491,697	93,508,502
Term loans	-	48,500,000
Reverse repo transactions	-	100,000,000
Accrued interest	-4,848	-23,073
Carrying amount before impairment	**94,486,849**	**241,985,429**
Expected credit losses	-25	-760
Total loans and receivables from credit institutions measured at amortised cost	**94,486,824**	**241,984,669**

Impairment tests carried out as at 31 December 2019 did not reveal any impairment to be recorded on interbank loans and receivables. Only expected credit losses classified in stage 1 (performing) were recorded in 2019 and 2018.

9.7 Loans and receivables from customers measured at amortised cost

Loans and receivables from customers are as follows (in EUR):

	31.12.2019	31.12.2018
Current account advances	145,923,450	118,166,324
Mortgage loans	48,119,466	28,423,616
Term loans (including Lombard loans)	426,142,340	320,263,067
Accrued interest	1,885,013	1,519,511
Carrying amount before impairment	**622,070,269**	**468,372,518**
Expected credit losses	-11,353,024	-11,553,987
Total loans and receivables from customers	**610,717,245**	**456,818,531**

The mortgage loans listed above consist of loans for real estate purposes that are mainly secured by a real estate property.
During the last financial year, the Bank recorded write-downs on receivables for which it considered that it was not reasonably possible to recover all or part of the asset for a gross value of EUR 10,897 (2018: EUR 733,395).

The classification of impairment losses according to the different levels and the related 2019 movements are as follows (in EUR):

	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.18	**-1,327,173**	**-495,266**	**-11,074,913**	**-12,897,352**
Increase due to new acquisitions or new loans	-141,782	-7,209	-	-148,991
Decrease due to refunds or sales	193,048	4,066	-	197,114
Modifications following changes in credit risk	666,343	461,390	-561,910	565,823
Decrease due to write-off	-	-	733,395	733,395
Exchange rate differences and other movements	5	-2	-3,979	-3,976
Opening balance as at 01.01.2019	**-609,559**	**-37,021**	**-10,907,407**	**-11,553,987**
Increase due to new acquisitions or new loans	-363,532	-	-125,000	-488,532
Decrease due to refunds or sales	260,114	28,303	1,119,895	1,408,312
Modifications following changes in credit risk	118,325	1,640	-839,340	-719,375
Decrease due to write-off	-	-	-	-
Exchange rate differences and other movements	558	-	-	558
Balance at the end of the year	**-594,094**	**-7,078**	**-10,751,852**	**-11,353,024**

Stage 1: Financial instruments without a significant increase in credit risk since initial recognition.
Stage 2: Financial instruments with a significant increase in credit risk since initial recognition.
Stage 3: Impaired financial assets.

The changes in the stage of credit losses and impairments between the classification at the beginning and at the end of the financial year are as follows (in EUR) for 2019 and 2018:

	31.12.2019	31.12.2018
From stage 2 to stage 1	-172	-
From stage 1 to stage 2	-4,841	-103
Total	**-5,013**	**-103**

9.8 Debt instruments measured at amortised cost

Financial assets measured at amortised cost are broken down as follows (in EUR):

	31.12.2019	31.12.2018
Treasury bills and government and central bank bonds	451,034,234	279,273,862
Bonds from credit institutions	644,845,784	349,121,055
Premiums / discounts	-231,050	265,878
Changes in fair value related to interest rate risk	15,521,583	5,101,022
Accrued interest	2,298,332	1,318,843
Carrying amount before impairment	**1,113,468,883**	**635,080,660**
Expected credit losses	-97,657	-56,393
Total financial assets measured at fair value through other comprehensive income	**1,113,371,226**	**635,024,267**

Changes in fair value related to interest rate risk on bonds designated as “hedged items” and detailed information on hedged items, hedging instruments and hedge ineffectiveness are disclosed in Note 9.24.
The amounts of bonds lent are detailed in Note 9.22.
Impairment tests performed as at 31 December 2019 and 2018 did not reveal any impairment to be recorded on the portfolio valued at amortised cost. Only expected credit losses classified in stage 1 (performing) were recorded in 2019 and 2018.

9.9 Property, plant and equipment

Property, plant and equipment can be broken down as follows (in euros):

	Land and buildings[1]	IT equipment	Office equipment	Other equipment	Total
Net carrying amount at 31.12.2018	**38,692,710**	**1,963,458**	**622,249**	**297,541**	**41,575,958**
Acquisition value	40,940,026	8,385,625	2,972,316	800,569	53,098,536
Accumulated depreciation and impairment	-2,247,316	-6,422,167	-2,350,067	-503,028	-11,522,578
Lease contracts: effect of the first-time application of IFRS 16 on 01.01.2019	**-**	**233,469**	**-**	**1,622,371**	**1,855,840**
Utilisation rights	-	233,469	-	1,622,371	1,855,840
Net carrying amount at 31.12.2019	**35,583,574**	**1,950,781**	**647,607**	**284,152**	**38,466,114**
Acquisition value	39,232,804	5,184,512	1,759,919	771,222	46,948,457
Accumulated depreciation and impairment	-3,649,230	-3,233,731	-1,112,312	-487,070	-8,482,343
Lease contracts 31.12.2019	**-**	**37,649**	**-**	**1,638,176**	**1,675,825**
Utilisation rights	-	233,469	-	2,409,754	2,643,223
Depreciation of utilisation rights	-	-195,820	-	-771,578	-967,398

The change in the net carrying amount is explained as follows (in EUR):

	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Closing balance as at 31.12.2017	**40,121,492**	**1,493,728**	**581,560**	**258,879**	**42,455,659**
Changes in the scope of consolidation	-	-2,084	-164	-888	-3,136
Acquisitions	319,022	1,105,449	178,843	42,188	1,645,502
Disposals	-	-115,839	-98,001	-	-213,840
Amortisation/depreciation	-1,828,774	-581,439	-100,779	-2,638	-2,513,630
Reversal of depreciation/amortisation following disposals	-	63,643	60,790	-	124,433
Exchange difference	80,970	-	-	-	80,970
Closing balance as at 31.12.2018	**38,692,710**	**1,963,458**	**622,249**	**297,541**	**41,575,958**
Acquisitions	480,553	786,145	145,814	3,528	1,416,040
Disposals	-2,245,378	-3,987,258	-1,358,212	-32,876	-7,623,724
Amortisation/depreciation	-1,917,787	-798,822	-120,456	-10,546	-2,847,611
Reversal of depreciation/amortisation following disposals	527,464	3,987,258	1,358,212	-	5,872,934
Reversal of impairment on disposal	-	-	-	26,505	26,505
Exchange difference	46,012	-	-	-	46,012
Closing balance as at 31.12.2019	**35,583,574**	**1,950,781**	**647,607**	**284,152**	**38,466,114**

The residual values of fully depreciated fixed assets are estimated at zero.
Land has an indefinite useful life and is therefore not depreciated.

(1) The acquisition value of the land is €10,248,000 for Immobilière Cristal Luxembourg S.A.

The change in the net carrying amount of “Lease contracts” is explained as follows (in EUR):

Lease contracts	**IT equipment**	**Cars**	**Total**
First-time application of IFRS 16 on 01.01.2019	**233,469**	**1,622,371**	**1,855,840**
New contracts	-	991,302	991,302
Matured contracts	-	-192,826	-192,826
Amortisation/depreciation	-195,820	-928,844	-1,124,664
Reversal of depreciation/amortisation following matured/transfered contracts	-	157,266	157,266
Other	-	-11,093	-11,093
Closing balance as at 31.12.2019	**37,649**	**1,638,176**	**1,675,825**

9.10 Intangible assets

Intangible assets can be broken down as follows (in euros):

	Goodwill	**Software**	**Total**
Net carrying amount at 31.12.2018	**8,941,249**	**3,702,279**	**12,643,528**
Acquisition value	33,502,543	16,630,819	50,133,362
Accumulated amortisation	-20,405,176	-12,928,540	-33,333,716
Impairment	-4,156,118	-	-4,156,118
Net carrying amount at 31.12.2019	**11,243,881**	**2,494,458**	**13,738,339**
Acquisition value	21,054,615	10,849,201	31,903,816
Accumulated amortisation	-6,783,734	-8,354,743	-15,138,477
Impairment	-3,027,000	-	-3,027,000

The change in the net carrying amount is explained as follows (in EUR):

	Goodwill	**Software**	**Total**
Closing balance as at 31.12.2017	**14,949,309**	**2,669,216**	**17,618,525**
Acquisitions	-	1,750,787	1,750,787
Disposals	-16,197,928	-	-16,197,928
Amortisation/depreciation	-2,878,943	-717,724	-3,596,667
eversal of depreciation/impairment following disposals	15,068,810	-	15,068,810
Impairment	-3,129,117	-	-3,129,117
Reversal of impairments following disposals	1,129,118	-	1,129,118
Closing balance as at 31.12.2018	**8,941,249**	**3,702,279**	**12,643,528**
Acquisitions	3,750,000	1,464,145	5,214,145
Disposals	-	-5,482,919	-5,482,919
Amortisation/depreciation	-1,447,368	-869,760	-2,317,128
Reversal of depreciation/impairment following disposals	-	5,482,919	5,482,919
Impairment	-	-1,802,206	-1,802,206
Closing balance as at 31.12.2019	**11,243,881**	**2,494,458**	**13,738,339**

In accordance with the accounting methods and principles described in Note 5.6, the Bank tests intangible assets for impairment at least at each balance sheet date or more frequently if there is any indication that an intangible asset may have declined in value.

At 31 December 2019, depreciation of EUR 1,802,206 was recognised following the discontinuation of an IT development.
The value in use has been used to estimate the value of business assets relating to the merger with Petercam (Luxembourg) S.A. concerning customer relations in the context of private banking and institutional management activities.
The Group did not perform any impairment tests of PIAM Luxembourg as no incident showed that business was declining.
The valuation performed for impairment tests is based on the same model as that used for the initial determination of the value of this goodwill. This model consists of a discounting of cash flows, based on projections of revenues generated by the management of client capital, over a finite period ending in 2026. The gradual attrition of the traditional discretionary private banking client base is assumed to be 10.8% per year, while the annual growth of the remaining managed capital is estimated at 3%. Cash flows are discounted at the capital cost after taxes of 7.6%. No impairment was recorded at 31 December 2019 (2018: EUR 2,000,000).

At 31 December 2018, the goodwill of Degroof Conseil Luxembourg S.A. was fully impaired for a total amount of EUR 1.129.118.

As the carrying amount of these business assets became nil at 31 December 2018, they were removed from the balance sheet.

The table below shows cumulative impairments recognised per goodwill item (in euros):

	31.12.2019	31.12.2018
Degroof Conseil (Luxembourg) S.A	-	-1,129,118
Petercam (Luxembourg) S.A.	-3,027,000	-3,027,000
Total impairments	**-3,027,000**	**-4,156,118**

9.11 Holdings in associates accounted for by the equity method

At 31 December 2019, an amount of EUR 1,967,328 was included in the asset item “Holdings in companies accounted for by the equity method” and at 31 December 2018 an amount of EUR 1,649,521 was included in the item “Other liabilities”.

	31.12.2019	31.12.2018
Promotion 777 S.A.	-	25,299
Stairway to Heaven S.A.	-5,427	92
Le Cloître S.A.	1,972,755	-1,674,912
Total holdings in companies accounted for by the equity method	**1,967,328**	**-1,649,521**

9.12 Other assets

The item "Other assets" includes the following items (in EUR):

	31.12.2019	31.12.2018
Income receivable	64,261,172	60,790,217
Deferred charges	3,736,963	3,420,146
Tax receivables	631,191	426,465
VAT	1,519,798	959,696
Other assets	1,532,949	2,788,383
Total other assets	**71,682,073**	**68,384,907**

Accrued income is mainly commissions receivable from investment funds. The heading "Tax advances" includes advances on taxes other than those on income and taxes to be recovered defined according to national provisions.
The Bank has opted to set up an Irrevocable Payment Commitment of 15% of the amount due to the Resolution Fund for the financial year. As at 31 December 2019, the receivable amounts to EUR 369,482 (2018: EUR 210,576) and is recorded under "Other assets".

9.13 Financial liabilities held for trading

Details by type of financial liabilities held for trading are as follows (in euros):

	31.12.2019	31.12.2018
Derivatives held for trading	74,672,413	81,974,018
Accrued interest	1,914,205	1,260,684
CVA/DVA	-7,307	-54,036
Total financial liabilities held for trading	**76,579,311**	**83,180,666**

The tables below show the breakdown of derivatives held for trading (in euros):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Carrying amount	Notional value	Carrying amount	Notional value
Foreign exchange derivatives	**19,781,731**	**1,474,857,413**	**27,092,341**	**1,864,647,241**
Over-the-counter				
Forward contracts	10,604,834	803,530,560	21,364,419	1,451,660,727
Exchange contracts	9,133,597	635,857,446	5,727,922	391,575,635
Options issued	43,300	3,992,167	-	-
Organised market				
Futures	-	31,477,240	-	21,410,879
Interest rate derivatives	**26,735,708**	**1,229,708,977**	**11,694,234**	**1,331,648,465**
Over-the-counter				
Exchange contracts	12,245,703	735,788,849	11,694,234	1,017,728,639
Organised market				
Options issued	14,490,005	38,896,171	-	-
Futures	-	455,023,957	-	313,919,826
Equity derivatives	**28,154,974**	**2,139,745,192**	**43,208,601**	**461,332,303**
Organised market				
Vested options	28,154,974	2,015,329,205	43,208,601	353,836,360
Futures	-	124,415,987	-	107,495,943
Total derivatives	**74,672,413**	**4,844,311,582**	**81,995,176**	**3,657,628,009**

The breakdown of fair values (excluding accrued interest), based on whether they are derived from a published market price or a valuation technique, is provided in Note 9.21.

9.14 Financial liability hedges

To hedge the interest rate risk on certain debt instruments, the Bank applies the hedge accounting provisions of IFRS 9. Detailed information on hedged items, hedging instruments and hedge ineffectiveness is provided in Note 9.24. Financial liability hedges consist of the following types (in EUR):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Carrying amount	Notional value	Carrying amount	Notional value
Interest rate swaps	17,372,701	638,300,000	4,817,588	402,500,000
Accrued interest	1,973,154		1,536,594	
Total financial liability hedges	**19,345,855**	**638,300,000**	**6,354,182**	**402,500,000**

9.15 Deposits with credit institutions

Interbank loans and receivables are detailed as follows (in EUR):

	31.12.2019	31.12.2018
Demand deposits	23,935,364	50,049,651
Term deposits	37,693,968	7,442,278
Repo transactions	-	10,336,959
Accrued interest	21,522	3,142
Total deposits with credit institutions	**61,650,854**	**67,832,030**

9.16 Deposits to customers

Deposits from customers break down as follows (in euros):

	31.12.2019	31.12.2018
Demand deposits	1,990,861,016	2,219,876,342
Term deposits	202,800,638	134,875,076
Accrued interest	176,669	228,099
Total customer deposits	**2,193,838,323**	**2,354,979,517**

9.17 Provisions

Provisions break down as follows (in euros):

	31.12.2019	31.12.2018
Provision for restructuring	-	1,260,000
Provisions for disputes	300,000	798,992
Provisions for commitments and guarantees given	8,272	3,980
Long-term personnel benefits	793,560	726,515
Total provisions	**1,101,832**	**2,789,487**

Comparative information in the above table for 2018 on the provision for long-term employee benefits has been reclassified to conform to the current year's presentation changes. These provisions correspond to premiums whose payment is deferred over time.
The restructuring provision was recognised following the reorganisation of activities as a result of the merger of the Degroof and Petercam groups which took effect on 1 April 2016 through the merger of the Luxembourg divisions. During the last financial year, this provision was reversed for an amount of EUR 1,260,000 whereas in 2018 it was used in the amount of EUR 1,090,000.
Provisions for disputes are based on the best estimates available at the end of the financial year, taking into account the opinions of internal or external experts. In 2019 an allocation of EUR 37,247 was recorded (2018: EUR 667,503) and EUR 536,293 was used (2018: EUR 0).

ECLs calculated on loan commitments given and financial guarantees issued are recorded under "Provisions for commitments and guarantees given". The classification of impairment losses according to the different levels and the related 2019 movements are as follows (in EUR):

	Stage 1	Stage 2	Total
Opening balance as at 31/12/2018	**3,785**	**195**	**3,980**
Increase due to new acquisitions or new loans	6,515	-	6,515
Decrease due to refunds or sales	-1,323	-183	-1,506
Modifications following changes in credit risk	-610	-9	-619
Exchange rate differences and other movements	-99	1	-98
Balance at the end of the year	**8,268**	**4**	**8,272**

Stage 1: Commitments and financial guarantees without a significant increase in credit risk since initial recognition.
Stage 2: Commitments and financial guarantees with a significant increase in credit risk since initial recognition.

No impairment was recorded on off-balance sheet commitments in 2019 and 2018.

9.18 Current and deferred tax liabilities

Tax liabilities can be summarised as follows (in euros):

	31.12.2019	31.12.2018
Current taxes	15,720,340	19,360,161
Deferred taxes	2,900,469	3,743,623
Total current and deferred taxes	**18,620,809**	**23,103,784**

The change in deferred taxes is due to (in EUR):

	31.12.2019	31.12.2018
Balance at beginning of year	**3,743,623**	**5,430,075**
Charge (Income) to profit and loss	-786,938	-1,610,584
Items directly charged to shareholders' equity	-56,216	-67,454
Reclassification and revaluation of financial instruments in accordance with IFRS 9 charged to equity	-	-8,414
Balance at the end of the year	**2,900,469**	**3,743,623**

Deferred taxes are calculated on the following temporary differences (in EUR):

	31.12.2019	31.12.2018
Property, plant and equipment, and intangible assets	2,354,877	2,602,969
Provisions	449,612	988,458
Financial assets measured at fair value through other comprehensive income	95,980	152,196
Deferred taxes	**2,900,469**	**3,743,623**

At 31 December 2019 and 2018, deferred taxes are calculated on the basis of the tax rate of 24.94% applicable at 1 January 2019 and 26.01% at 1 January 2018.

9.19 Other liabilities

Other liabilities comprise the following items (in euros):

	31.12.2019	31.12.2018
Payroll and social security liabilities	5,551,241	5,980,027
Accrued expenses	49,553,443	50,493,010
Deferred income	-	69,437
Other financial liabilities	3,716,797	3,619,092
Lease liabilities	1,700,594	-
Other liabilities	9,918,056	4,420,185
Associates accounted for by the equity method	-	1,649,521
Total other liabilities	**70,440,131**	**66,231,272**

Comparative information in the above 2018 salary and benefits liability table has been reclassified with respect to long-term employee benefits to conform to the current year's presentation changes.
The re-invoicing of support costs by Banque Degroof Petercam S.A. in the amount of EUR 3,235,922 (2018: EUR 5,952,217) is recorded in accrued expenses.
Lease liabilities have been recorded following the application of IFRS 16 since 1 January 2019.
The "Accrued expenses" item is mainly composed of provisions for commissions payable in the accounts of Degroof Petercam Asset Services Luxembourg S.A.
As at 31 December 2019, the item "Other debts" includes the debt related to the sale of the activity of custodian bank of UCIs under Belgian law between Banque Degroof Petercam S.A. and the Belgian branch of the Bank for an amount of EUR 3,762,424.

The change in the net carrying amount of "Lease liabilities" is explained as follows (in EUR):

	IT equipment	Cars	Total
First-time application of IFRS 16 on 01.01.2019	**233,469**	**1,622,371**	**855,840**
New contracts	-	991,302	991,302
Matured contracts	-	-35,242	-35,242
Contractual payments	-197,276	-911,011	-1,108,287
Interest	251	5,821	6,072
Other	-	-9,091	-9,091
Closing balance as at 31.12.2019	**36,444**	**1,664,150**	**1,700,594**

9.20 Equity

The table below shows the composition of equity (in euros):

	31.12.2019	31.12.2018
Capital subscribed	37,000,000	37,000,000
Issue premium	40,356,000	40,356,000
Legal reserve	3,700,000	3,700,000
Reserve for wealth tax	40,209,999	37,370,949
Other reserves and retained earnings	114,157,619	108,707,731
Cumulative other comprehensive income	299,809	449,257
Profit or loss attributable to owners of the parent	40,352,459	33,628,003
Total	**276,075,886**	**261,211,940**

The Bank's subscribed capital is represented by 740,000 shares, each with a par value of EUR 50.

Legal reserve

In accordance with the law on commercial companies, a levy of at least 5% is charged annually on net profits, which is allocated to the creation of a legal reserve until this reserve reaches 10% of the share capital. The legal reserve has reached 10% of the share capital.

Wealth tax reserve

In accordance with paragraph 8a of the law on wealth tax, the Bank deducts the wealth tax due for the year from the amount of the wealth tax. To this end, the Bank's general meeting of shareholders allocates to a non-distributable reserve an amount corresponding to five times the amount of the wealth tax allocated.

Cumulative other comprehensive income

Accumulated other comprehensive income includes net unrealised gains and losses on financial assets measured at fair value through accumulated other comprehensive income (see Note 9.5). In accordance with CSSF Regulation No. 14-02, unrealised income net of tax included in revaluation reserves will be charged to a non-distributable reserve.

Other reserves and retained earnings

Other reserves and retained earnings include the impact of the transition to IFRS for an amount of EUR 16,594,740 as well as the result related to the incentive plan set up within the Group.
As at 31 December 2019, the cumulative amount related to the incentive plan included in other reserves amounts to EUR 4,221,078 (2018: EUR 4,548,143).
Other reserves also include goodwill of EUR 73,025,963 recorded in 2016 following the integration of Petercam (Luxembourg) S.A. and the reclassification of the profit and loss account to reserves of gains realised by Petercam (Luxembourg) S.A. at the time of the sale of PIAM Luxembourg to DPAS for EUR 7,547,663.

In accordance with CSSF Regulation No. 14-02, the unrealised income net of tax on securities in the portfolio "financial assets designated at fair value through profit or loss" included in the profit or loss carried forward for the 2018 financial year was charged to a non-distributable reserve in the amount of EUR 380,892 (2018: EUR 883,165) while the amounts unrealised for the financial year 2017 and realised in 2018 were reversed for an amount of EUR 883,165 (2017: EUR 3,643,265).

Dividends

When approving the distribution of the 2018 profit, the general meeting of 21 May 2019 decided to pay dividends amounting to EUR 25,012,000 (2018: EUR 25,160,000).

9.21 Fair value of financial instruments

The carrying amounts and fair values of financial instruments are shown, by financial instrument category, in the table below (in euros):

	31.12.2019 Carrying amount	31.12.2019 Fair value	31.12.2018 Carrying amount	31.12.2018 Fair value
FINANCIAL ASSETS				
Cash and balances with central banks	481,651,362	481,651,362	1,101,017,209	1,101,017,209
Financial assets held for trading	76,350,791	76,350,791	85,222,250	85,222,250
Hedging of financial assets	1,486,460	1,486,460	710	710
Financial assets held for purposes other than trading that must be measured at fair value through profit or loss	8,571,622	8,571,622	26,951,238	26,951,238
Financial assets measured at fair value through other comprehensive income	203,487,792	203,487,792	196,059,611	196,059,611
Loans and receivables from credit institutions measured at amortised cost	94,486,824	94,486,824	241,984,669	242,104,508
Loans and receivables from customers measured at amortised cost	610,717,245	623,470,455	456,818,531	464,084,417
Debt instruments measured at amortised cost	1,113,371,226	1,116,308,777	635,024,267	638,735,874
Total	**2,590,123,322**	**2,605,814,083**	**2,743,078,485**	**2,754,175,817**
FINANCIAL LIABILITIES				
Financial liabilities held for trading	76,579,311	76,579,311	83,180,666	83,180,666
Financial liability hedges	19,345,855	19,345,855	6,354,182	6,354,182
Deposits from credit institutions	61,650,854	61,852,124	67,832,030	67,832,244
Customer deposits	2,193,838,323	2,193,433,517	2,354,979,517	2,355,344,662
Total	**2,351,414,343**	**2,351,210,807**	**2,512,346,395**	**2,512,711,754**

The fair value of financial instruments includes accrued interest.
For financial instruments that are not measured at fair value in the financial statements, the following methods and assumptions are used to determine the fair value of instruments that are not quoted in an active market:

- the carrying amount of short-term financial instruments or financial instruments with no fixed maturity, such as current accounts, is a reasonable approximation of fair value.
- other loans and borrowings are revalued by discounting their future cash flows, based on market interest rate curves at the balance sheet date.

The fair value of financial instruments is determined using the methods described in Chapter 5.3.7 “Fair value of financial instruments”.
The classification of financial instruments according to the fair value hierarchy is based on criteria such as the measurement of a market’s liquidity level, the average volumes of transactions recorded and the frequency of valuations.
Financial instruments are classified into one of the following three categories:

- Level 1 includes valuations based on prices published in active markets. No valuation models or techniques are used.
- Level 2, which relies on valuation models and techniques using observable parameters on an active market.
- Valuations based on unobservable inputs, outside an active market, are classified in level 3.

The following tables show the classification of fair values (excluding accrued interest) according to valuation category (in EUR):

31.12.2019	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Cash and balances with central banks	-	481,751,362	-	481,751,362
Derivatives held for trading	42,643,731	30,649,850	-	73,293,581
Other financial assets held for trading	26,037	1,214,802	-	1,240,839
Hedging derivatives	-	1,555,301	-	1,555,301
Financial assets held for purposes other than trading that must be measured at fair value through profit or loss	152,483	7,315	8,411,824	8,571,622
Financial assets measured at fair value through other comprehensive income	179,215,032	19,998,800	3,731,080	202,944,912
Loans and receivables from credit institutions measured at amortised cost	-	94,491,672	-	94,491,672
Loans and receivables from customers measured at amortised cost	-	548,098,758	74,688,575	622,787,333
Debt instruments measured at amortised cost	873,447,510	240,562,935	-	1,114,010,445
Total	**1,095,484,793**	**1,418,330,795**	**86,831,479**	**2,600,647,067**
FINANCIAL LIABILITIES				
Derivatives	42,643,536	32,021,570	-	74,665,106
Hedging derivatives	-	17,372,701	-	17,372,701
Deposits from credit institutions	-	61,651,255	-	61,651,255
Customer deposits	-	2,194,253,071	-	2,194,253,071
Total	**42,643,536**	**2,305,298,597**	**-**	**2,347,942,133**

31.12.2018	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Cash and balances with central banks	-	1,100,875,209	-	1,100,875,209
Derivatives held for trading	43,208,601	39,098,260	-	82,306,861
Other financial assets held for trading	498,292	1,750,216	-	2,248,508
Hedging derivatives	-	-7,889	-	-7,889
Financial assets held for purposes other than trading that must be measured at fair value through profit or loss	20,765,490	-	6,185,748	26,951,238
Financial assets measured at fair value through other comprehensive income	170,792,777	20,018,326	4,420,009	195,231,112
Loans and receivables from credit institutions measured at amortised cost	-	242,107,930	-	242,107,930
Loans and receivables from customers measured at amortised cost	-	426,043,460	37,414,821	463,458,281
Debt instruments measured at amortised cost	451,881,260	185,535,771	-	637,417,031
Total	**687,146,420**	**2,015,421,283**	**48,020,578**	**2,750,588,281**
FINANCIAL LIABILITIES				
Derivatives	43,187,443	38,732,539	-	81,919,982
Hedging derivatives	-	4,817,588	-	4,817,588
Deposits from credit institutions	-	67,833,221	-	67,833,221
Customer deposits	-	2,355,196,503	-	2,355,196,503
Total	**43,187,443**	**2,466,579,851**	**-**	**2,509,767,294**

Comparative information for 2018 has been revised to include details of financial assets and liabilities measured at amortised cost.

During the last financial year, two SICAVs were reclassified from level 1 to level 3 following a review of the frequency of listing as well as one share following a delisting for amounts of EUR 364,532 and EUR 2, respectively.
As at 31 December 2019 and 2018, the securities classified in level 3 are all variable-income securities; the majority of the securities were reclassified to the “Financial assets measured at fair value through other comprehensive income” (FVOCI) portfolio and the remainder to the “Financial assets held for purposes other than trading required to be measured at fair value through profit or loss” (FVTPL) portfolio.
The FVTPL portfolio is mainly made up of securities linked to the Bank’s private equity activity.

The following table shows the movements relating to the carrying amount of assets included in level 3 (in EUR):

	FVTPL Portfolio	AFS / FVOCI Portfolio	Total
Closing balance as at 31/12/2017	**-**	**3,176,094**	**3,176,094**
IFRS 9 Reclassifications	39,958	-39,958	-
Purchase	5,649,341	-	5,649,341
Revaluation of securities	496,449	1,283,873	1,780,322
Closing balance as at 31/12/2018	**6,185,748**	**4,420,009**	**10,605,757**
Purchase	1,207,402	-	1,207,402
Sale	-27,689	-	-27,689
Level changes			
Transfer level 1 to level 3	364,532	2	364,534
Dissolution	-	-12,374	-12,374
Change in exchange rate	177,657	-	177,657
Revaluation of securities	504,174	-676,557	-172,383
Closing balance as at 31/12/2019	**8,411,824**	**3,731,080**	**12,142,904**

The results recognised as a result of these movements are set out in the following table (in euros):

	31.12.2019	31.12.2018
Net gains or losses on financial instruments that must be measured at fair value through profit or loss- FVTPL	680,898	496,449
Tax on income for the financial year	-169,816	-129,126
Effect on profit(loss) for the financial year	**511,082**	**367,323**
IFRS 9 Reclassifications	-	-17,481
Revaluation to fair value	-676,557	1,283,873
Other net income- FVOCI	-12,374	-
Taxes charged directly to reserves	171,819	-329,389
Effect on other components of comprehensive income	**-517,112**	**937,003**
Effect on total comprehensive income	**-6,030**	**1,304,326**

9.22 Financial assets transferred

Financial assets transferred at 31 December 2019 and 2018 but which remain fully recognised consist solely of debt instruments.
As at 31 December 2019, the Bank has no position related to repurchase agreements with outright repurchase, while as at 31 December 2018, repurchase agreements with reverse repurchase agreements relate to bonds in the "Financial assets at fair value through other comprehensive income" portfolio.
The carrying amount and fair value of these assets and liabilities are shown in the following table (in EUR):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Repos	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets transferred	-	-	10,324,393	10,324,393
Associated financial liabilities	-	-	10,336,500	10,336,700
Net position		**-**	**-12,107**	**-12,307**

The amounts of bonds lent in the securities lending activity are detailed by asset category in the following table (in EUR):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Securities lending	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets measured at fair value through other comprehensive income	3,396,633	3,396,633	87,643,982	87,643,982
Debt instruments measured at amortised cost	47,360	47,194	58,767,587	59,110,984
Total financial assets transferred	**3,443,993**	**3,443,827**	**146,411,569**	**146,754,966**

9.23 Offsetting financial assets and liabilities

The Luxembourg division does not practice accounting clearing but has signed “master netting agreements” with certain counterparties, such as:

- “ISDA Master Agreement” for OTC derivative transactions;
- “Global master repurchase agreements” for repurchase and reverse repurchase transactions;
- “Global master securities lending agreements” for securities lending transactions.

The assets given or received as collateral related to these financial transactions may be as follows:

- cash and securities for repurchase and reverse repurchase transactions as well as for OTC derivative transactions for which the Bank has signed a credit support annex contract complementary to the ISDA contract;
- securities for securities lending transactions.

The table below sets out the financial assets subject to offsetting covered by an enforceable offsetting master agreement or a similar agreement (in euros). Securities guarantees are reported at their valuation value.

Financial assets subject to offsetting				Offsetting potential		
	Amount before compensation	Balance sheet compensation with financial intermediaries	Net amount recognised	Financial liabilities	Collateral received	Net amount after taking account of offsetting potential
31.12.2019						
Derivatives	33,925,416	-	33,925,416	-17,933,203	-13,146,973	2,845,240
Securities lending	3,443,993	-	3,443,993	-	-	3,443,992
Total	**37,369,409**	**-**	**37,369,409**	**-17,933,203**	**-13,146,973**	**6,289,232**
31.12.2018						
Derivatives	39,292,325	-	39,292,325	-28,454,235	-10,838,091	-
Reverse repos	99,975,833	-	99,975,833	-	-99,975,833	-
Securities lending	146,411,569	-	146,411,569	-	-146,411,569	-
Total	**285,679,727**	**-**	**285,679,727**	**-28,454,235**	**-257,225,493**	**-**

Financial liabilities subject to offsetting				Offsetting potential		
	Amount before compensation	Balance sheet compensation with financial intermediaries	Net amount recognised	Financial assets	Collateral provided	Net amount after taking account of offsetting potential
31.12.2019						
Securities lending	53,197,597	-	53,197,597	-17,933,203	-30,490,067	4,774,327
Total	**53,197,597**	**-**	**53,197,597**	**-17,933,203**	**-30,490,067**	**4,774,327**
31.12.2018						
Derivatives	46,236,823	-	46,236,823	-28,454,235	-17,782,589	-
Repos	10,336,500	-	10,336,500	-	-10,324,010	12,490
Total	**56,573,323**	**-**	**56,573,323**	**-28,454,235**	**-28,106,598**	**12,490**

9.24 Hedge accounting – Fair value hedge of interest rate risk

The Bank's exposure to market risks (including interest rate risk) and its approach to managing these risks are discussed in Note 7 "Risk Management". In accordance with the management strategy in place, the Bank enters into interest rate swap agreements to hedge the interest rate risk on fixed-rate bonds using a reference interest rate (mainly Euribor). The reference rate is a component of interest rate risk that can be reliably observed and measured. Hedge accounting is used when economic hedging relationships meet the criteria for hedge accounting. When the Bank wishes to protect itself against changes in fair value related to interest rate risk when purchasing a bond, it enters into an interest rate swap agreement whose essential characteristics correspond perfectly or almost perfectly to those of the security. The Bank prospectively assesses the effectiveness of the hedge by comparing changes in the fair value of the investment in acquired securities resulting from changes in the benchmark interest rate with changes in the fair value of the interest rate swaps used to hedge the exposure.
The hedging ratio is determined by comparing the notional amount of the derivative with the principal amount of the purchased bond or loan granted.
The Bank has identified the following main sources of inefficiency:

- the effect of counterparty credit risk and the Bank's credit quality on the fair value of the interest rate swap, which is not reflected in changes in the fair value of the hedged item due to changes in interest rates;
- differences in the timing of settlement of hedging instruments and hedged items: due to the micro hedge structures created before the implementation of hedge accounting in accordance with IFRS 9, the interest rate swap contracts already had an existing value as at 31 December 2017, unlike the benchmark bonds created on 1 January 2018, which results in a source of inefficiency. To compare the impact of changes in the fair value of swaps with that of benchmark bonds since the introduction of IFRS 9, the value of swaps is smoothed over its residual term. "Smoothing" is the market value of the hedging instrument (interest rate swap) at 31 December 2017 amortised between that date and the reporting date.

No other sources of ineffectiveness have been identified in these hedging relationships.

As at 31 December 2019 and 2018, the nominal amounts and weighted average fixed interest rates of the IRS held as fair value hedges of interest rate risk are broken down as follows by residual maturity (in EUR):

31.12.2019	**Less than 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
DEBT INSTRUMENTS COVERAGE				
Notional value	-	-	359,201,549	422,700,000
Weighted average fixed interest rate	-	-	0.21%	0.38%
Loans coverage				
Notional value	-	-	-	4,300,000
Weighted average fixed interest rate	-	-	-	0.46%

31.12.2018	**Less than 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
DEBT INSTRUMENTS COVERAGE				
Notional value	67,500,000	4,000,000	109,000,000	217,000,000
Weighted average fixed interest rate	1.06%	-0.03%	0.20%	0.66%

The following tables detail the hedging instruments, the hedged items and hedging ineffectiveness (in EUR):

31.12.2019	Notional value	Carrying amount: Assets	Carrying amount: Liabilities	Changes in fair value used to calculate hedge ineffectivenes	Ineffectiveness of the hedge recognised in income[1]
DERIVATIVE INSTRUMENT HEDGES					
IRS- Hedging of debt instruments	781,901,549	1,486,460	19,205,658	-11,027,768	-1,291,783
IRS- Hedging of loans	4,300,000	-	140,197	-123,767	-4,159
Total	**786,201,549**	**1,486,460**	**19,345,855**	**-11,151,535**	**-1,295,942**

31.12.2018	Notional value	Carrying amount: Assets	Carrying amount: Liabilities	Changes in fair value used to calculate hedge ineffectivenes	Ineffectiveness of the hedge recognised in income[1]
DERIVATIVE INSTRUMENT HEDGES					
IRS	417,500,000	710	6,354,182	-3,827,615	473,129
Total	**417,500,000**	**710**	**6,354,182**	**-3,827,615**	**473,129**

31.12.2019	Carrying amount	Accumulated fair value adjustments of the hedged item included in the carrying amount	Changes in fair value used to calculate hedge ineffectiveness	Residual adjustment following the discontinuation of hedge accounting
ASSETS DESIGNATED AS HEDGED ITEMS				
Debt instruments measured at amortised cost	**1,431,914,918**	**15,641,192**	**10,540,169**	**-**
Debt instruments	1,427,470,297	15,521,583	10,420,560	
Loans	4,444,621	119,609	119,609	
Debt instruments measured at fair value through other comprehensive income	**81,252,613**	**-388,882**	**-492,051**	**-**
Debt instruments measured at fair value through other comprehensive income	81,252,613	-388,882	-492,051	-
Total	**1,513,167,531**	**15,252,310**	**10,048,118**	**-**

31.12.2019				
ASSETS DESIGNATED AS HEDGED ITEMS				
Debt instruments measured at amortised cost	381,811,232	5,101,022	5,101,022	-
Debt instruments measured at fair value through other comprehensive income	40,975,823	103,169	103,169	-
Total	**422,787,055**	**5,204,191**	**5,204,191**	**-**

(1) After smoothing the market value of the hedging instrument as at 31 December 2017: estimated depreciation of EUR 903,447.

10. Notes to the income statement

10.1 Interest income and expenses

Details of interest income and expenses by type of financial instrument generating interest income are as follows (in EUR):

	31.12.2019	31.12.2018
Interest income	**81,226,301**	**87,019,905**
Financial assets held for trading	64,511,316	72,802,835
Financial instrument hedges	262,077	19,500
Financial assets measured at fair value through other comprehensive income	532,856	572,034
Loans and receivables from credit institutions measured at amortised cost	431,427	474,786
Loans and receivables from customers measured at amortised cost	7,415,008	6,632,264
Debt instruments measured at amortised cost	4,629,626	3,100,881
Interest income on liabilities	3,443,991	3,417,605
Interest expenses	**-67,087,138**	**-73,762,819**
Financial liabilities held for trading	-50,623,073	-58,339,498
Financial instrument hedges	-4,517,413	-3,095,633
Amounts owed to credit institutions	-325,771	-502,440
Amounts owed to customers	-7,019,084	-5,948,041
Interest expense on assets- Central banks	-2,643,414	-4,899,397
Interest expense on assets- other	-1,958,383	-977,810
Net interest margin	**14,139,163**	**13,257,086**

Negative interest gives rise to interest income mainly on customer deposits and interest expense on other assets, debt instruments.
Interest expense on lease liabilities results from the application of IFRS 16 as at 1 January 2020. These debts are detailed in Note 9.9.

10.2 Dividend income

Dividend income by category of financial assets is detailed below (in EUR):

	31.12.2019	31.12.2018
Financial assets designated at fair value through profit and loss	817,070	-
Financial assets designated at fair value through comprehensive income	1	1
Holdings	-	37,291
Total	**817,071**	**37,292**

10.3 Commissions received and paid

The commissions received and paid are distributed on the basis of the following services (in EUR):

	31.12.2019	31.12.2018
Commissions received	**293,926,491**	**294,712,592**
Investment fund activities- Custodian bank	14,658,870	13,020,465
Investment fund activities- Central government	35,041,467	2,440,189
Investment fund activities- Other	195,359,993	227,775,192
Asset management	7,131,831	7,348,568
Brokerage services	8,534,968	12,545,531
Securities-related activities (other than custody fees)	17,876,596	16,892,507
Custodian fees	10,794,542	10,348,669
Other	4,528,224	4,341,471
Commissions paid	**-193,489,885**	**-195,833,302**
Investment fund activities- Central government	-78,268	-1,712,553
Investment fund activities- Other	-174,052,667	-171,159,939
Brokerage services	-8,540,764	-9,341,992
Securities-related activities (other than custody fees)	-5,594,324	-8,908,476
Custodian fees	-4,090,409	-3,424,264
Other	-1,133,453	-1,286,078
Net fees & commissions	**100,436,606**	**98,879,290**

The item “Investment fund activities- Other” mainly includes distribution and management fees.
As at 1 October 2018, the investment fund administration services activity has been transferred from the Bank to DPAS, which explains the increase in fees received in connection with “Central administration” investment fund activities.

10.4 Gains or losses on financial instruments held for trading, net

The table below breaks down the gains and losses on held-for-trading financial instruments by type of financial instrument (in euros):

	31.12.2019	31.12.2018
Equity instruments and related derivatives	-142,397	-34,954
Interest rate instruments and associated derivatives	-1,688,517	-250,979
Foreign exchange transactions	6,179,913	6,378,171
Total	**4,348,999**	**6,092,238**

All interest received and paid on financial instruments is recorded in interest income. The above-mentioned gains and losses include the revaluation to fair value of these financial instruments as well as the realised results.

10.5 Net gains or losses on financial instruments that must be measured at fair value through profit or loss

The results on financial instruments designated at fair value through profit or loss are broken down as follows by type of financial instrument (in EUR):

	31.12.2019	31.12.2018
Equity instruments	-286,299	246,522
Debt instruments- UCI units	3,458,525	-8,685,245
Other debt instruments	-	-53,734
Total	**3,172,226**	**-8,492,457**

Equity instruments relate to private equity funds.

As at 31 December 2018, the losses recorded on UCI units concerned support positions that were heavily impacted by the market downturn at the end of the financial year; the majority of income as at 31 December 2019 is the result of the sale in 2019 of these UCI units.

10.6 Net gains or losses on financial instruments not measured at fair value through profit or loss

As at 31 December 2019 and 2018, the total amount of the item was generated by financial assets measured at fair value through other comprehensive income.
All interest received and paid on financial instruments is recorded in interest income.
The revaluation at fair value is recognised in shareholders’ equity in accumulated other comprehensive income. Only realised results related to these instruments are included in this item.

10.7 Net income from hedge accounting

Gains and losses on hedging instruments break down as follows (in EUR):

	31.12.2019	31.12.2018
Net gains or losses on hedged financial instruments for the portion attributable to interest rate risk	10,048,118	5,204,191
Net gains or losses on hedging derivatives	-10,991,920	-3,190,233
Total	**-943,802**	**2,013,958**

Net income on the hedged financial instruments for the portion attributable to interest rate risk includes only the change in fair value related to the interest rate risk of the bonds designated as hedged items at 31 December 2019. Interest on hedged financial instruments is recognised in interest income and expenses.

Realised gains and losses on hedged bonds measured at amortised cost or at fair value through other comprehensive income are recognised in "Net gain or loss on financial instruments not measured at fair value through profit or loss".

Net income on interest rate swaps designated as hedging items includes revaluation results and realised results; interest is recognised in interest income and expenses.

10.8 Other net operating income

Other operating income or expenses, net break down as follows (in euros):

	31.12.2019	31.12.2018
Other operating income	**6,507,533**	**7,139,911**
Rental income	1,781,867	1,854,480
Recovery of miscellaneous charges	**2,911,646**	**1,448,268**
Miscellaneous	1,814,020	3,837,163
Other operating expenses	**-54,658**	**-34,021**
Miscellaneous	-54,658	-34,021
Other net operating income	**6,452,875**	**7,105,890**

Following the transfer of the UCI accounting administration activity from the Bank to DPAS, an increase in the item "Recovery of miscellaneous charges" is due to the re-invoicing of certain costs to the SICAVs.

10.9 Staff expenses

Staff expenses comprise the following (in euros):

	31.12.2019	31.12.2018
Wages and salaries	-34,370,779	-33,743,187
Social security, social insurance and supplementary insurance	-4,149,201	-3,784,408
Pension-related expenses	-1,102,661	-954,371
Employee benefits related to the incentive plan	327,066	-17,882
Other costs	-695,664	-758,051
Total	**-39,991,239**	**-39,257,899**

Note 12 provides information on employee benefits and the incentive plan.
The average number of staff employed is as follows:

	31.12.2019	31.12.2018
Management	11	11
Senior executives	169	160
Employees	190	183
Total	**370**	**354**

The amount of remuneration allocated during the financial year to the members of the management bodies (Board of Directors and Management Board) amounts to (in EUR):

	31.12.2019	31.12.2018
Directors	-244,238	-264,713
Management	-3,878,066	-4,493,232
Total	**-4,122,304**	**-4,757,945**

As at 31 December 2019, the total amount of advances/credits granted to directors amounted to EUR 450,886 (2018: EUR 450,287) while no advance was granted to members of the management body in 2019 and 2018.
As at 31 December 2019, other commitments had been granted to the directors for EUR 3,300 (2018: EUR 100) while no advance was granted to members of the management body in 2019 and 2018.

10.10 General and administrative expenses

General and administrative expenses break down as follows (in euros):

	31.12.2019	31.12.2018
Marketing, advertising and public relations	-655,504	-725,804
Professional fees	-7,408,689	-5,713,230
Operating leases	-2,079,157	-3,243,638
IT and telecommunications expenses	-8,255,425	-7,314,017
Repair and maintenance	-610,485	-840,177
Other general and administrative expenses	-15,442,424	-12,538,046
Total	**-34,451,684**	**-30,374,912**

Other general and administrative expenses mainly include representation and travel expenses, supplies and documentation, training expenses, and contributions and insurance other than those related to staff.
At 31 December 2019, the contribution of EUR 900,469 to the national resolution fund (2018: EUR 638,241) and the provision of EUR 104,119 to the deposit guarantee fund (2018: EUR 234,122) are also included in this item.
For leases registered in accordance with IFRS 16 from 1 January 2019, the Bank recognises depreciation on rights of use rather than rentals received, as described in Note 5.4 of the accounting principles. At December 31, 2019, the “Operating leases” item includes lease payments associated with leases considered as short-term or low-value contracts.
The re-invoicing of support costs by Banque Degroof Petercam S.A. in the amount of EUR 7,983,048 (2018: 5,952,217) is recorded in other general and administrative expenses.
Fees recognised for services invoiced to the Bank during the year by the audit firm are as follows (excluding VAT, in EUR):

	31.12.2019	31.12.2018
Legal and contractual audit of the consolidated annual accounts	-375,706	-425,250
Tax advisory services	-35,132	-78,676
Other services	-40,413	-230,201
Total	**-451,251**	**-734,127**

10.11 Depreciation of intangible assets and property, plant and equipment

During the financial period ended 31 December 2019, depreciation of property, plant and equipment amounted to EUR 3,972,275 (2018: EUR 2,513,630) and amortisation of intangible assets amounted to EUR 2,317,128 (2018: EUR 3,596,667).
Details of these depreciations by class of intangible assets and property, plant and equipment are provided in Notes 9.9 and 9.10.

10.12 Provisions

During the last financial year, the Bank reversed the balance of the provision for restructuring in the amount of EUR 1,260,000 (2018: EUR 0).
In 2019, provisions for litigation were made for an amount of EUR 37,247 (2018: EUR 667,503).
The provision for ECLs calculated on loan commitments given and financial guarantees was EUR 4,292 at 31 December 2019 (2018: EUR 3,938).

10.13 Net impairment of assets

The net impairment of assets breaks down as follows (in EUR):

	31.12.2019	31.12.2018
Interbank loans and receivables	1,083	-760
Loans and receivables from customers	-119,166	611,704
Debt instruments measured at fair value through other comprehensive income	7,458	-22,041
Debt instruments measured at amortised cost	-41,264	-56,393
Intangible assets (goodwill)	-1,802,206	-3,129,118
Total	**-1,954,095**	**-2,596,608**

Details of changes in impairment on loans and receivables are provided in Note 9.7.

10.14 Income tax expense

The net tax expense is explained as follows (in euros):

	31.12.2019	31.12.2018
Income taxes for the year	11,010,216	7,207,622
Deferred taxes	-786,936	-1,616,318
Tax on income for the financial year	**10,223,280**	**5,591,304**
Reversal of previous years' provisions	38,025	443,089
Net income tax expense	**10,261,305**	**6,034,393**

As at 31 December 2019 and 2018, the amounts of deferred taxes are due to balance sheet movements included under the heading “Current and deferred tax liabilities” (Note 9.18) in the amount of EUR 659,576 and EUR 1,408,095, respectively, and to movements relating to the revaluation reserve (Note 9.5) in the amount of EUR 2,097 at 31 December 2018 (2018: EUR 5,734).
The following table shows the reconciliation (in EUR) of the standard tax rate in Luxembourg (24.94% at 31 December 2019 and 26.01% as at 31 December 2018) with the Bank’s effective tax rate.

	31.12.2019	31.12.2018
Earnings before taxes	50,613,764	39,662,396
Tax rate applicable at the end of the year	24,94%	26,01%
Notional tax on profit	**12,623,073**	**10,316,189**
Effect of tax rate differences in other jurisdictions	-5,884	224,629
Tax effect of non-deductible expenses	210,689	1,805,858
Tax effect of non-taxable income	-850,423	-172,111
Deductible tax expenses	-277,501	-3,128,410
Effect of other items	-1,476,674	-3,454,851
Tax on income for the financial year	**10,223,280**	**5,591,304**
Average effective tax rate	**20.20%**	**14.10%**

10.15 Other comprehensive income items

Other components of comprehensive income consist of results not recognised through profit and loss.
As at 31 December 2019 and 2018, other comprehensive income consists solely of unrealised gains and losses on the revaluation of the portfolio of financial assets measured through other comprehensive income shown in the table below in EUR. These results recognised directly in equity (see Note 9.5) are likely to be recognised in the income statement in a subsequent financial year.

	31.12.2019	**31.12.2018**
Debt instruments	**349,369**	**-1,150,929**
Fair value adjustment before taxes	1,409,544	-1,832,082
Transfer from reserve to pre-tax profit		
Reversal of the reserve following transfers / repayments	-1,425,341	366,625
Changes in fair value related to interest rate risk	492,051	-103,169
Expected credit losses	-7,458	22,041
Taxes charged directly to the income statement	2,097	-5,734
Taxes charged directly to reserves	-121,524	401,390
Equity instruments	**-498,817**	**949,937**
Fair value adjustment before taxes	-676,557	1,283,873
Transfer from reserve to pre-tax profit		
Reversal of the reserve following transfers / repayments	-	-
Taxes charged directly to reserves	177,740	-333,936
Total other comprehensive income	**-149,448**	**-200,992**

11. Rights and commitments

11.1 Assets in open custody

Assets in open custody are basically transferable securities that have been entrusted for safekeeping by clients, regardless of whether or not the holder's free disposition is limited or whether the securities are covered by an asset management agreement with the Luxembourg division. These assets are measured at fair value.
The Luxembourg division's assets in open custody as at 31 December 2019 and 2018 amounted to EUR 62,247,901,934 and EUR 48,235,207,058, respectively. The increase in assets is mainly due to the fact that during the last financial year Banque Degroof Petercam Luxembourg S.A. became the custodian bank for new Group SICAVs under Belgian law.

11.2 Guarantees given

As at 31 December 2019, the Bank had issued bank guarantees totalling EUR 7,848,404 and completion guarantees amounting to EUR 7,420,525 (2018: EUR 7,707,905 and EUR 7,420,525 respectively).
As at 31 December 2019, the amounts of cash and securities given as collateral amounted to EUR 30,846,848 and EUR 22,232,444, respectively, in the context of derivative transactions for own account and for the account of customers (2018: EUR 24,452,035 and EUR 0).

11.3 Guarantees received

Total guarantees received in the form of assets, sales of assets and guarantees in connection with loans granted to clients, securities lending and derivative transactions amounted to EUR 638,047,165 as at 31 December 2019 (2018: EUR 815,276,245). Among these guarantees, EUR 632,855,830 (2018: EUR 811,236,369) consist of mortgages and pledges of cash and securities.
As at 31 December 2018, EUR 99,975,833 of collateral was obtained in repurchase agreements and none had been used to collateralise repurchase agreements; no reverse repurchase agreements existed as at 31 December 2019.

11.4 Commitments

The Bank is committed to meet the credit lines granted to customers for which the unused amount as at 31 December 2019 was EUR 100,022,946 (2018: EUR 166,162,038).
As at 31 December 2019, other commitments, including commitments to subscribe to private equity funds (note 9.4), amounted to EUR 12,137,390 (2018: EUR 11,184,026).
As at 31 December 2019, the amount of fiduciary transactions was EUR 109,312,168 (2018: EUR 35,821,189).

The Law on measures for the resolution, reorganisation and liquidation of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (the Law), transposing into Luxembourg law Directive 2014/59/EU establishing a framework for the reorganisation and resolution of credit institutions and Directive 2014/49/EU on deposit guarantee and investor compensation schemes, was adopted on 18 December 2015.

The deposit guarantee and investor indemnification system in force until now, run by the AGDL (Association pour la Garantie des Dépôts Luxembourg) will be replaced by a new contribution-based deposit guarantee and investor compensation system. The new system will guarantee all eligible deposits from the same depositor up to a maximum of EUR 100,000 and investments up to EUR 20,000. The law also provides that deposits resulting from specific transactions or fulfiling a social objective or linked to particular life events are protected beyond EUR 100,000 for a period of 12 months.

The amount of financial resources of the Luxembourg Resolution Fund (FRL) must reach, by the end of 2024, at least 1% of the guaranteed deposits, as defined in Article 1, number 36 of the Law, of all credit institutions authorised in all participating Member States. This amount will be collected from credit institutions through annual contributions during the years 2015 to 2024.

The target level of the financial resources of the FGDL (Fonds de Garantie des Dépôts Luxembourg or Luxembourg Deposit Guarantee Fund) has been set at 0.8% of the member institutions' guaranteed deposits as defined in Article 163 no. 8 of the Act and must be attained by the end of 2018. Contributions will be payable annually from 2016 to 2018. For the 2015 financial year, a provision of 0.2% of the guaranteed deposits was made by credit institutions in anticipation of these contributions.

When the 0.8% level is reached, Luxembourg credit institutions will continue to contribute for a further 8 years in order to provide an additional cushion of 0.8% of the guaranteed deposits as defined in Article 163 No. 8 of the Law.

During the year, the Bank paid annual contributions to the FGDL of EUR 104,119 (2018: EUR 234,122) and to FRL of EUR 1,059,375 (2018: EUR 750,871).

12. Employee benefits and stock-based remuneration plans

12.1 Post-employment benefits

Post-employment benefits consist of defined contribution pension plans. The contributions expense during this financial year was EUR 1,102,661 (2018: EUR 954,371).

12.2 Group incentive plans

Banque Degroof Petercam S.A. has issued several incentive plans in recent years, for the benefit of either the directors or senior managers of the Banque Degroof Petercam Group, or both simultaneously, in order to increase their loyalty and align their interests with those of the Banque Degroof Petercam Group. These plans are drawn up in accordance with local legal provisions. The counterpart of the reversal of the financial year of EUR 327,065 in 2019 is recorded in shareholders' equity. No restatement was recorded for the 2018 financial year.

The incentive plans issued include plans that will be settled in cash and plans that will be settled in shares. Over the past two years, the Bank has not issued any plans.

13. Related parties

Parties related to the Luxembourg division are the associated companies, members of the Board of Directors and other managers of the Bank and its subsidiaries ("Key Executives") as well as close family members of the aforementioned persons or any company controlled or significantly influenced by one of the aforementioned persons.
The tables below summarise, by nature, the transactions that have been carried out with related parties of the Banque Degroof Petercam S.A. Group (in EUR):

31.12.2019

Balance sheet	Parent company	Key executives	Associates	Other related parties	Total
Current account advances	4,868,360	886	-	25,000	4,894,246
Term loans	-	-	17,379,728	-	17,379,728
Other assets	-	-	-	2,859,472	2,859,472
Total assets	**4,868,360**	**886**	**17,379,728**	**2,884,472**	**25,133,446**
Term deposits	5,690,211	3,627,342	823,585	37,362,806	47,503,944
Other liabilities	27,650,149	-	-	4,973,872	32,624,021
Total liabilities	**33,340,360**	**3,627,342**	**823,585**	**42,336,678**	**80,127,965**
Guarantees given	**61,225**	**3,300**	**7,420,525**	**-**	**7,485,050**
Guarantees received	**-**	**453,300**	**17,379,728**	**-**	**17,833,028**
Other commitments	**-**	**450,000**	**-**	**-**	**450,000**

Income statement	Parent company	Key executives	Associates	Other related parties	Total
Financial expenses	-4,965	-9,768	-	-23,041	-37,774
Fees and commissions	-84,878,611	-	-	-31,053,245	-115,931,856
Staff expenses	-	-4,122,304	-	-	-4,122,304
Other	-8,145,273	-	-	-354,023	-8,499,296
Total expenses	**-93,028,849**	**-4,132,072**	**-**	**-31,430,309**	**-128,591,230**
Interest income	1,428	4,396	781,768	204,238	991,830
Fees and commissions	219,332	172,434	1,825	6,239,176	6,632,767
Dividends	-	-	-	-	-
Other	30,668	-	49,917	310,855	391,440
Total revenues	**251,428**	**176,830**	**833,510**	**6,754,269**	**8,016,037**

31.12.2018

Balance sheet	Parent company	Key executives	Associates	Other related parties	Total
Current account advances	62,133,667	450,287	21,758,899	25,000	84,367,853
Term loans	-	-	-	48,504,516	48,504,516
Other assets	42,719,262	-	-	1,828,513	44,547,775
Total assets	**104,852,929**	**450,287**	**21,758,899**	**50,358,029**	**177,420,144**
Term deposits	24,786,697	1,168,186	362,918	6,350,483	32,668,284
Repos	-	-	-	10,336,500	10,336,500
Other liabilities	27,069,776	-	-	4,666,735	31,736,511
Total liabilities	**51,856,473**	**1,168,186**	**362,918**	**21,353,718**	**74,741,295**
Guarantees given	**61,225**	**-**	**7,420,525**	**-**	**7,481,750**
Guarantees received	**-**	**450,387**	**21,761,299**	**-**	**22,211,686**
Other commitments	**-**	**100**	**-**	**63,500,000**	**63,500,100**

Income statement	Parent company	Key executives	Associates	Other related parties	Total
Financial expenses	-4,311	-1,629	-	-22,548	-28,488
Fees and commissions	-88,759,307	-	-	-27,851,547	-116,610,854
Staff expenses	-	-3,612,876	-	-	-3,612,876
Other	-5,985,774	-	-	-384,704	-6,370,478
Total expenses	**-94,749,392**	**-3,614,505**	**-**	**-28,258,799**	**-126,622,696**
Interest income	6,244	4,741	626,215	145,827	783,027
Fees and commissions	273,045	99,441	-	7,105,524	7,478,010
Other	705,544	-	-	266,343	971,887
Total revenues	**984,833**	**104,182**	**626,215**	**7,517,694**	**9,232,924**

All transactions with related parties included in the above tables were carried out under normal market conditions.

Key management personnel costs break down as follows (in euros):

	31.12.2019	31.12.2018
Short-term personnel benefits	-3,814,974	-4,407,145
Post-employment employee benefits	-307,329	-350,800
Employee benefits related to the incentive plan	327,065	-
Total	**-3,795,238**	**-4,757,945**

14. Geographic information

The Bank and its main subsidiaries are based in Luxembourg.
The tables below summarise the Group's main information by country in which the subsidiaries are domiciled (in EUR):

31.12.2019

	Average number of FTE employees	Net revenues	Profit or loss before tax	Taxes on income
Luxembourg	370	128,439,576	50,613,764	10,261,305
Total	**370**	**128,439,576**	**50,613,764**	**10,261,305**

31.12.2018

	Average number of FTE employees	Net revenues	Profit or loss before tax	Taxes on income
Luxembourg	354	118,983,237	39,662,396	6,034,393
Total	**354**	**118,983,237**	**39,662,396**	**6,034,393**

15. Post-balance sheet events

Since the balance sheet date, the coronavirus pandemic has triggered an unprecedented crisis since the beginning of March 2020, which has been accompanied by a sharp market correction and extreme levels of volatility. The impacts of this health crisis on the world economy are still uncertain at this point in time and their magnitude will depend heavily on its duration. The 2019 closing figures are not impacted by the financial consequences of this crisis, which remains a post-closing event.

Banque Degroof Petercam Luxembourg has put in place a continuity plan for its operational activities, piloted by a Crisis Committee, which enabled, among other things, more than 90% of its employees to work from home from day one of the containment measures.

The market downturn recorded since the end of February 2020 will weigh on 2020 results through the anticipated negative impact on commissions based on client assets as well as on new asset inflows. In addition, high market volatility generates higher commissions associated with transaction volumes.

The Management Board and the Board of Directors monitor on an ongoing basis the future short- and medium-term effects, in particular the liquidity risk and the risks associated with the recoverability of credits as well as the impacts on profitability and solvency. Analyses carried out at the balance sheet date show that the solidity of the balance sheet, which comprises more than 60% high quality liquid assets, a large majority of mostly guaranteed loans (lombards) and shareholders' equity of more than EUR 276 million, makes it possible to cope, without major difficulties, with sharply deteriorating market situations while maintaining regulatory ratios above the required thresholds. The current situation does not call into question the Bank's ability to continue as a going concern. In the event of a possible even more severe deterioration in the economic environment in the longer term, the Group is also analysing the implementation of measures that could, if necessary, be activated.

Banque Degroof Petercam Luxembourg S.A.
Zone d'activité
La Cloche d'Or
12, Rue Eugène Ruppert
L-2453 Luxembourg
bienvenue@degroofpetercam.lu

Responsible Publisher
Adel Nabhan

The annual report is available
at degroofpetercam.lu

blog.degroofpetercam.com
degroofpetercam.lu