



Pillar 3 disclosures 2014

Capital adequacy and risk report





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1. Introduction

Pursuant to the Capital Requirement Directive (*CRD*) of the European Union, this report is published on an annual basis. It contains all the information that is relevant for being in a position to assess the risk profile and capital adequacy of Argenta Spaarbank.

1.1 Profile of Argenta Savings Bank

Argenta Spaarbank PLC (hereinafter the Company, abbreviated to Aspa) is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company that has made a public appeal to the savings system. The company is established for an unlimited term and the registered office is at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a Belgian credit institution. The Company's core activities are attracting retail savings funds, offering mortgages to retail clients and providing payment services.

1.2 Application framework

Any financial institution subject to the own capital regulations must, under the applicable legislative framework, make certain defined disclosures about its risk and own funds position.

On 1 January 2014, a new CRR (Capital Requirement Regulation) and CRD IV came into operation. These regulations (so-called Basel III) impose stricter rules concerning, among other things, the solvency, liquidity and leverage of financial institutions. The regulations are focused here on increasing the capital buffers and improving the quality of capital.

Within the European Union, these regulations are implemented through the above-mentioned CRR. This is European legislation that comes into force directly at the national level. This CRR transcends national legislation and also contained the requirements for publication of the risk and own funds position. The *Capital Requirement Directive IV* (CRD), on the other hand, contains directives that have to be translated into national laws.

The present document contains the required disclosures on the consolidated financial position of the Company. The document is published in full each year on the Argenta Group website (www.argenta.be).

The disclosures in the present document relate to the Company and its subsidiary companies (the Bank Pool). The consolidation scope is defined according to the International Financial Reporting Standards (IFRS). At the Company, the IFRS consolidation scope and the CRR consolidation scope (scope according to the CRR guidelines) match.



Table 1: Entities included in the IFRS year-end consolidation

	Percentage holding	31/12/2013	31/12/2014
Argenta Spaarbank nv	-	consolidating entity	consolidating entity
Argentabank Luxemburg SA (ABL)	99.71%	full consolidation	full consolidation
Argenta Nederland nv (Arne)	100%	full consolidation	full consolidation
Green Apple bv (SPV)	0%	full consolidation	full consolidation

Since 1 January 2015, the company ABL has acted exclusively as a fund manager and administrative agent for Argenta funds. In this context, at the start of 2015, ABL's status was converted from that of financial institution to funds manager under the new name of AAM (Argenta Asset Management).

The company Argenta Nederland (ARNE) is a management company under Dutch law and has issued bonds in the past. In June 2014, the last bond matured, so that ARNE had no more activities at the end of 2014.

Although there is no capital link with the Company, the Board of Directors has (on the basis of the relevant IFRS rules, including SIC-12 Consolidation – Special Purpose Entities (SPV) judged that Green Apple as an SPV needs to be consolidated.

In this way, the mortgage loans transferred to Green Apple remain on the Bank Pool balance sheet. Further information on this Green Apple SPV can be found in Chapter 11 'Disclosures concerning securitization'.

The Company has no other subsidiaries that were not included in the consolidation scope.

There are, outside the legal restrictions, no other existing or expected material, practical or legal obstructions which stand in the way of a transfer of equity or repayment of obligations between the Company and its subsidiary companies.

Note on the scope of Bank-en Verzekeringsgroep (Banking and Insurance Group - BVg)

Argenta Bank- en Verzekeringsgroep (BVg) is the management holding company - mixed financial holding - above the Company. BVg also has a participating interest in the insurer Argenta Assuranties.

The Company and BVg are subject to the Basel legislation and the insurer to the Solvency (II) legislation. Because these two sets of legislation are not similar, a so-called CRR consolidation has been required for the reporting at the consolidated BVg level.

What we have here is a consolidation without the insurer (i.e. a consolidation of the Bank Pool plus BVg on an unconsolidated basis). Since BVg is a mixed financial holding company with no activities other than providing services to the subsidiary entities, there is only a very small difference between the own funds requirements of the Company and those of BVg according to the CRR scope.

An important additional element at BVg CRR scope level is the application of the Danish Compromise (DC). It is a compromise that - subject to approval by the regulator - can be applied by mixed financial holding companies.

Under this compromise, the participation value in the insurers can be included as own funds. The accumulated reserves and profits of the insurers may not be included. The participation value needs to be weighted below - as added exposure - at 370% (IRB approach).



Note on difference in risk perception under IFRS and Basel (CRD/CRR)

The perception of risk varies depending on the purpose for which risk exposure is calculated. The reporting and presentation under IFRS is used to indicate the balance sheet positions and to measure the financial results. Here the balance sheet positions are often displayed (as in the Belgian GAAP accounting standards) in order of liquidity by category of financial instrument. This form of representation does not take into account any differences in creditworthiness or any collateral or guarantees received.

The Basel rules and reporting are directed at risk measurement for the purpose of achieving a risk-weighted representation of the balance sheet of a financial institution. Based on the corresponding calculations, sufficient capital buffers need to be available or maintained for expected and unexpected losses. In this case, the calculations include the collateral and other security available to the financial institution in the event of counterparty default.

1.3. Implementation of Basel III in Europe

1.3.1. Structure of the guidelines

The Basel legislation provides guidelines for determining how much capital financial institutions must maintain at a minimum in order to absorb unexpected losses arising from their financial and operational risks. The latest reforms have also added additional obligations.

A three-pillar concept is used here. Pillar 1 contains the guidelines for calculating the minimum capital requirement for credit, market and operational risks

Pillar 2 provides additional rules that assess the solvency of an institution based on specific scenarios. The starting point is the calculation of the minimum amount of capital that the institution itself needs to hold in order to cover all its risks.

This pillar includes additional risks over and above those taken into account in Pillar 1 (more information regarding these risks is included in Chapter 10 'Internal Capital Adequacy Assessment Process (ICAAP)').

Pillar 3 sets out, finally, the guidelines for reporting on the risks to which the institution is exposed and the capital that it has available to cover unexpected losses deriving from these risks.

1.3.2. Evolution towards Basel III

The purpose of the guidelines is to tighten the resilience of the European banking sector so that it can better absorb economic shocks while remaining able to finance economic activity and growth.

Basel III is a comprehensive set of reforms in banking supervision which is being developed by the Basel Committee of Banking Supervision (BCBS). These reforms are intended to improve the ability of the banking sector to absorb economic and financial shocks, to improve risk management and governance and to increase the transparency and clarification of the banking sector. Most of the reforms are directly applicable, but some of the new guidelines will be only gradually come into effect between 2014 and 2019.

These rules are just one step in a process of changes to the regulatory framework. CRD IV has since led to changes in national laws and regulations, monitoring policies and the behaviour of institutions, with the ultimate goal of a safer and more stable financial system.



Throughout this document we discuss the impact of certain of these developments on the Company. In the course of 2014, the competent institutions concerned provided greater clarity on the concrete implementation of some of the requirements. Other proposed requirements were implemented by means of monitoring - known as Quantitative Impact Study (QIS) exercises - following which further guidelines were drawn up.

1.4. Role of the EBA

The European Banking Authority (EBA) is an independent EU authority that aims to achieve an effective and consistent level of prudential regulation and supervision in the European banking sector. Its general objectives are maintaining financial stability in the EU and ensuring the integrity, efficiency and orderly functioning of the banking sector.

EBA is part of the European System of Financial Supervision (ESFS), made up of three supervisory authorities, the European Securities and Markets Authorities (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The EBA is independent, but accountable to the European Parliament, the European Council of the European Union and the European Commission.

The national supervisory authorities remain in charge of supervising individual financial institutions. For the Member States participating in the new joint supervisory mechanism (an important pillar of the so-called 'banking union'), the European Central Bank (ECB) is also partly responsible for the supervision of financial institutions.

The EBA is intended to improve the functioning of the internal market by ensuring adequate, efficient and harmonized European supervision and regulation. Its main task here is to set binding technical standards and guidelines that contribute to the creation of a single European rulebook for the banking sector. This rulebook aims at achieving harmonized prudential rules for financial institutions across the EU, contributing to a level playing field and adequate protection of investors, fund providers and consumers.



2. Risk management

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

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

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

Risk management at the Company

The Executive Committees of the Company, Argenta Assuranties and BVg are integrated, with a number of members in common: the CEO (Chief Executive Officer), CFO (Chief Financial Officer) and CRO (Chief Risk Officer).

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

The Argenta Group continued to develop its conservative and transparent risk management in 2014. Additional policy documents were approved (including the ICAAP (Internal Capital Adequacy Assessment Process) charter), while the operation of the risk committees was optimized in terms of composition, regular agenda items, monitoring of key risk indicators and communication.

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

A direct link exists between, on the one hand RAF risk indicators and on the other the ICAAP and the policy documents via the further translation into operational risk limits. This has resulted in the daily embedding of risk awareness in first line management and in better and leaner risk management processes. At the same time, more forward-looking elements were processed in ICAAP in 2014.

As well as optimizing risk governance, the risk metrics were also greatly improved. In this process, the RAF risk parameters were refined by assigning and monitoring an overall risk score and by extending the implementation of a new internal control maturity matrix.

Alongside the quantitative RAF, the qualitative RAF was introduced in 2014. As a result, the NPS score, the MiFID score and the Internal Control maturity scores were included and monitored in the RAF dashboard.



- The Net Promoter Score (NPS) is a simple but powerful tool for measuring customer satisfaction.
- MiFID (Markets in Financial Instruments Directive) is intended, among other things, to protect investors and the integrity of financial markets and to promote fair, transparent, efficient and integrated financial markets.

• ICAAP / SREP (Supervisory Review and Evaluation Process)

The ICAAP (Internal Capital Adequacy Assessment Process) results were compared with the SREP, that is the assessment of risks and capital requirement undertaken by the National Bank of Belgium (NBB) according to its own internal methodology.

This comparison occasioned no fundamental observations about the ICAAP with respect to structure and risk measurement. At the end of 2014, a letter was received from the ECB stating its intent to introduce a supplementary capital and liquidity requirement. These were finally confirmed in early 2015. Given that the Company currently more than meets the capital and liquidity requirements, these Pillar 2 requirements will have no impact.

• RRP (Recovery and Resolution Plan)

The requirement to prepare recovery plans is part of the structural reforms initiated by the G20 (group of 19 countries and the European Union) following the banking crisis.

The recovery plan is based on the observation that certain solutions can be examined prior to the outbreak of a crisis. Such crises call for the rapid assessment and implementation of complex solutions.

For this reason, banks are required, as a preparatory measure, to weigh up the various options available to them for improving their financial situation in the event of a serious crisis. It is crucial that the bank be able to demonstrate the feasibility and effectiveness of the chosen recovery options in various crisis scenarios.

The Company's recovery plan was completed in 2014 and approved by the supervisory authority. The recovery plan demonstrates that the Company has a very strong capital and liquidity position, enabling it to withstand severe crises. In this way the recovery- and resolution thresholds are activated only in very extreme scenarios.

• ECB Comprehensive Assessment

In November 2013, the ECB (European Central Bank) and the NBB launched the Comprehensive Assessment process preparatory to the transfer of banking supervision of the largest European financial institutions to the ECB. In this way, a number of Belgian financial institutions, including the Company, came from 4 November 2014 under the direct supervision of the ECB.

Governance

Besides the independent Internal Audit and Compliance control functions, group risk management is organized mainly at Argenta Group level. In the Risk Management Charter, the risk management function is defined as the **second line function** that controls general risk management within the Argenta Group.



The Risk Management function supervises and controls the first line in terms of risk management and provides supporting risk advice. It is performed by the Risk Management and Validation division and is under the hierarchical responsibility and supervision of the CRO.

The **first-line** risk management is organized and handled autonomously within each entity, and hence comes under the responsibility of the various group companies' management bodies.

Between the first and second line, there is also the Credit Risk Policy (KRB) department, the knowledge centre for the modelling and analysis of retail credit risks. This knowledge centre plays a fundamental role in the Company's risk management by providing information and advice geared to the retail loan portfolio.

Significant efforts have been made to define and distinguish roles and responsibilities in these specialist fields. The Risk & Validation division:

- undertakes here the independent second-line control;
- has as its basic principle: 'identify, report, monitor and mitigate' for all material risk factors, which are then integrated into the ICAAP for the Bank Pool. In this way, it also controls the (economic) capital management;
- has a 'radar' function of pro-active identification of not-yet-identified risks;
- plays an important policy definition and validation role in risk modelling;
- undertakes the necessary formal risk controls, and in its overall capacity plays an active role in, among others, the Group Risk Committee (GRC) and the Asset and Liabilities committee (ALCO);
- advises the Executive Committees and Boards of Directors and the Audit and Risk Committees (ARCO) in an independent manner on the risk management process within the Argenta Group.

The monthly umbrella (GRC) has an alternating agenda consisting of one month ICAAP topics, and the following month credit risk subjects (Kreco – Credit Risk Committee) and after that operational risk (Orco – Operation Risk Committee).



Validation

Along with second-line risk control, validation of the risk models is an essential core activity of the validation unit within the Risk & Validation division. The supervisory authorities require financial institutions to have the risk models they develop confirmed by an independent validator.

The activities of the Validation unit included in 2014:

- validation of the backtesting and recalibration of the credit risk models of the mortgage portfolios of Belgium, the former CBHK channel and credits Netherlands;
- validation of the review and the recalibration of the investment portfolio (more particularly of exposure to financial institutions, corporations and covered bonds, and central, regional and local government authorities);
- validation of the updating of the overlay templates and related stress tests;
- validation of the stress test of the models for central, regional and local government authorities;
- opinion of the Netherlands prepayment model;
- cooperation on the AQR (Asset Quality Review) and related stress tests for the ECB.

The Company's risk profile

This annual report discusses the activities of the Bank Pool and, pursuant to Article 119.5 of the Belgian Companies Code, a summary is provided below of the objectives and the policy concerning the management of the banking risks.

The Company's policy and organizational structure with regard to risk management are designed in order for the known risks to be properly identified, analysed, measured, monitored and managed at all times.

The nature of the Company's activities exposes it to various risks. The Company's risk management distinguishes, among others, between the following categories of risk: market risk (primarily interest rate risk), liquidity risk, credit risk (including concentration risk and sovereign risk), operational risk and other risks.

These risks are managed uniformly across the Argenta Group, using the above-mentioned RAF, the policies and the established procedures.

2.1. Market risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Within this market risk, there are four relevant risks: interest risk, spread widening risk, equities risk, and property risk.

- ⇒ Changes in interest rates and yield curves, and fluctuating rates of return can affect the interest margin between the cost of lending and the cost of borrowing for the Bank Pool;
- ⇒ Similarly the level of the credit spread or its volatility – not necessarily caused by a change in the issuer's creditworthiness – is a key factor for the return and economic value of the investment and loan portfolio;
- ⇒ The performance of the financial markets can also cause the value of the investment portfolio to fluctuate

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

2.1.1. Interest risk

The professional management of these risks is – given the Company's specific strategic positioning as a savings bank – especially focused on the judicious management of the interest rate risk, which is the primary component of its market risk.

The results and capital position of the Company display a certain sensitivity to changes in interest rates. This is because a major component of the business strategy consists of attracting short to medium-term funds – primarily via savings deposits and retail savings certificates placed with retail customers – and reinvesting these via various forms of loans and investments. As the term of these reinvestments does not necessarily match that of the funds raised, a maturity mismatch occurs. Via the interest rate differentials between the various maturities this gives rise to a transformation result.

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

This market value sensitivity is therefore one of the main instruments used by the Company to steer – based on its views as to future interest rate developments – its operating results, also taking into account the potential impact of this sensitivity on the gross value of the company as a guidemark for its capital position.

Market value sensitivity can be adjusted flexibly in the short term by means of financial instruments. It can also be adjusted in the longer term by considering a fundamental change in the positioning of certain activities.



In its risk management procedures, the Company pays much attention to having a consistent internal structure, enabling it to perform these activities judiciously, objectively and efficiently and to provide the various competent management bodies with timely, comprehensive reports. This is embodied first and foremost in the Asset and Liability committee. This has specific responsibilities for monitoring the day-to-day management of the financial positions, reporting on this to the Executive Committee. It has a permanent remit to maintain both the income sensitivity of the net interest income and the market-value sensitivity of equity within set limits.

The structural interest rate risk of the balance sheet is monitored using various risk management tools including economic value and NII (Net Interest Income) -based risk benchmarks. The norm is based on the maximum acceptable loss in the event of a 1% (100 basis points) change in interest rates.

Sensitivity analysis – interest risk in the banking book

The following table shows, at 31 December 2014, the interest rate sensitivity of i) the P&L (earnings) over the following 12 months and ii) the equity of the Company, in the event of a parallel interest rate shock of 100bp and compares the result with a similar situation as at the end of 2013. The interest rate shock is assumed to take place in 4 x 25bp steps: immediately, and after 3, 6 and 9 months.

Table 2: Sensitivity analysis - interest rate risk

	delta 2014	delta in %	delta 2013	delta in %
Interest rate rises by 100 bp	19,623,294	3.89%	43,368,477	8.99%
Interest rate falls by 100 bp	42,852,548	8.50%	2,343,988	0.49%

Economic value	delta 2014	delta in %	delta 2013	delta in %
Interest rate rises by 100 bp	25,418,162	1.24%	-185,295,716	-8.55%
Interest rate falls by 100 bp	10,164,982	0.50%	77,370,815	3.57%

The calculations are done by the ALM department, using the standard hypothesis based on a static balance sheet: i.e. the outstanding positions and the balance sheet mix at 31 December are held constant.

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

- loan prepayments (impact of interest rates on the expected Constant Prepayment Rate and of the reinvestment fee to be received);
- expected draw-downs of approved, but not yet (fully) drawn down credit facilities at position date;
- interest rate caps and floors on loans with revisable interest rates;
- options in the securities portfolio (calls of weighted average life);
- value variations of interest rate derivatives to which hedge accounting does not apply (fair value through profit & loss);
- a 0% floor in the event of downward interest movements.

The increased share of savings accounts in the 2014 balance sheet, combined with the faster pricing in of interest rate rises in savings rates, has increased the interest rate sensitivity of the 12 months' results to a rate increase of 100bp.

Last year, the following methodological changes were made in the calculation of the interest rate sensitivity of equity:

- Revision of the CPR model for Dutch mortgages
- Discounting of internal interest rates (= cash flows excluding spreads above the risk-free transformation curve)
- Integration of interest rate risk on the credit pipeline
- Implementation of a replicating model for Belgian savings accounts, while maintaining an average duration of 2 years as imposed by the NBB.

The measurement per 31 December 2013 was brought in line with the above-mentioned approach in order to maintain a uniform basis of comparison over two years.

The interest rate sensitivity of equity was in 2014 heavily reduced through the prepayment behaviour. With an interest rate increase of 100bp, the positive effect due to reduced prepayments even outweighs the negative effect of the bank's natural transformation position (longer assets than liabilities). Only when the interest rate increase reaches 200bp, does the natural transformation position begin to dominate.

Risk mitigation strategies

In order to keep market sensitivity within the risk appetite guidelines approved by the Company's Board of Directors and not to exceed the National Bank of Belgium's (NBB) flashing light levels, additional interest rate swaps were concluded in 2014. These instruments complement the portfolio of derivative instruments (caps and swaps) that were used in the past to hedge interest rate risk. This exogenous hedging serves to supplement the maximally endogenous management of the balance sheet that is permanently striven for.

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

On the other hand, it is important to be able to convert long-term fixed-rate assets into floating ones when interest rates are rising. With interest rate hedging, budgeted long-term fixed-rate mortgage production can be made floating in the event of a future rise in interest rates, providing both income and value protection.

Under IFRS, strict regulations are applicable to the accounting processing of hedging, and not every economic hedge that is used to hedge the interest risk is regarded as a hedge under IFRS, which implies a degree of volatility in the IFRS result.

Further developments in risk management

Active management and monitoring of the structural market risk (principally interest rate risk) are essential in order to safeguard the solvency, profitability and strategic objectives of the Bank Pool. With this in mind, the following projects started in 2013 were continued in 2014:

- the ALM replicating model of the savings account was approved in 2014 and further embedded in the interest rate risk reporting and monitoring;
- work started in 2014 on updating the pricing model of the savings accounts - an econometric model that models the dynamics of the savings account.
- the updating and implementation of the prepayment models for Belgian and Dutch mortgages;
- the Strategic Asset Allocation project was further optimized in 2014 and complemented with a Tactical Asset Allocation module. The project will be delivered in early 2015;

- the diversification of the investment portfolio was continued with the cautious expansion of the knowledge base into new asset categories. Funding projects for local and regional public entities were successfully concluded and public-private partnerships (PPPs) launched. Investments in the real estate area were undertaken within a strict investment framework.

The Company's earnings quality remained very high in 2014 thanks to an efficient ALM policy and wise commercial policy. The current European interest rate environment and the sharp fall in bond yields confronts the Company with major future challenges.

Despite low interest rates and spreads the Company succeeded in 2014 in steadily growing its interest margin within the set risk appetite framework. That is the outcome of a healthy risk-return mix of housing loan production and re-investments in the investment portfolio, of a balanced liabilities pricing policy and a well-conceived hedging policy.

Both the income and the value volatility remained controlled within the contours of the limit framework. Even so, persistent uncertainty about future macroeconomic developments calls for very close monitoring of interest rate and spread movements.

Equity as a risk buffer

As with any other risk, the interest rate risk requires a risk buffer in the form of equity capital. Although neither European or Belgian legislators nor regulatory authorities have to date prescribed precise capital requirements for the interest rate risk, the Company specifies a certain volume of required capital in its ICAAP.

The ongoing development of its activity as a traditional savings bank and hence, among other things, as a 'transformation bank' – i.e. a bank whose activity consists of converting (transforming) short-term deposits into long(er)-term investments – naturally requires a continuous monitoring of this required capital and, whenever necessary, capital increases.

The Company's earnings quality remained very high in 2014 thanks to an efficient ALM policy and wise commercial policy. The current European interest rate environment and the sharp fall in bond yields confronts the Company with major future challenges.

The combination of endogenous and supplementary exogenous ALM hedging ensures that the commercial strategy of the Bank Pool (including long-term relationships with households, growth in mortgage business, and the sustainable and profitable growth in deposits) fully complies with the approved RAF.

2.1.2. Spread widening risk

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

These market risk factors, which we refer to as spread widening risk, form, alongside the pure interest rate risk, the main driver of asset returns and the economic value of the investment portfolio. In addition, the market value of the investment portfolio included in the calculation of the prudential capital base of the bank (CRD IV guidelines). For the recording of latent values on 'available-for-sale assets', there is a phasing-in period, with a certain degree of discretion left to national regulatory authorities in determining the extent to which these values affect the capital base.

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

The conduct of sound investment policy is guided by a strict investment framework that determines, based on the creditworthiness of the issuer, the permissible investment level and maximum maturity. This investment policy is shaped by a thorough analysis of the credit sectors and investment files and an active screening of market opportunities. The Strategic Asset Allocation project started in 2013 and expanded in 2014, is providing Argenta with the required insights and knowledge to enable investment decisions to be directed maximally towards optimal portfolio allocation.

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

2.1.3. Equities risk

The Bank Pool does not invest in individual shares and therefore is not directly impacted by the evolution of equities prices. Indirectly, it is influenced by the fact that the Bank Pool offers equity investment funds to customers, and that sales of these funds also depend on the evolution of equities prices.

2.1.4. Property risk

The evolution of real estate prices has an influence on lending to individuals and also influences the credit risk through the giving of property as collateral.

The Company has here a concentration in lending to private individuals in Belgium and the Netherlands, more particularly in the form of retail mortgage lending. This makes the company dependent on developments in the housing market.



2.2. Liquidity risk

The liquidity risk is that of the Company being unable to honour its financial commitments at a reasonable cost on due date. It needs therefore to be able to satisfy the liquidity requirements of depositors or other contract holders, without suffering unacceptable losses in releasing existing assets to meet its financial obligations in both normal and stressed circumstances.

Since the outbreak of the liquidity and credit crisis, liquidity management has been central to global bank management and bank supervision. The inclusion of specific liquidity standards within the new capital regulations endorses the importance of robust liquidity management in the banking sector.

In order to measure, monitor, check and report on the liquidity risk, the Company has an extensive reporting system with a set of specially adapted indicators, as well as a plan for being able to adequately manage its liquidity in both normal and exceptional circumstances.

The liquidity risk is monitored, inter alia, using two regulatory risk indicators, the LCR Liquidity Coverage Ratio and the NSFR (Net Stable Funding Ratio).

The LCR tests the liquidity buffer against a pre-defined outflow, under stress assumptions, of collected funds that are callable within 30 days. The NSFR tests the available liquidity against the required liquidity over a period of at least one year. The RAF provides a minimum limit of 100%, (the regulatory minimum), but the Company targets a ratio of at least 120% so as to have a comfortable liquidity situation at all times.

Table 3: Basel III liquidity ratios

	31/12/2013	31/12/2014
LCR	258%	182%
NSFR	150%	145%

The daily liquidity management, the definition of Early Warning Indicators (EWIs) and the organization of stress tests and other internal liquidity indicators are described in a Liquidity Contingency Plan (LCP).

Funding reports are distributed daily to a broad target group. Additionally, discussion of the liquidity indicators is a fixed agenda item of the fortnightly ALCO meeting. In other words, senior management is continuously involved in liquidity management.

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

- a substantial base of customer deposits (see liquidity sources below with customer deposits and term savings products purchased by retail customers);
- total independence of interbank financing: the Company does not have to go onto the interbank market for funding (but has developed the possibilities to do so if opportune, for example from considerations of return);
- a low loan-to-deposit ratio reflects the fact that, to a large extent, the amount of loans made is lower than the total amount of customer deposits;
- a securities portfolio that is liquid and readily convertible into cash (usable as collateral with the ECB or saleable).



Liquidity sources

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

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

The financing structure of the Bank Pool is managed in such a way that a substantial diversification is maintained and that the level of dependency on capital market funding remains very limited.

Reporting to the supervisory authority

The significant efforts made in recent years in the area of liquidity management were further consolidated in 2014. Additionally, further developments in the new liquidity reporting and the reporting of the LCR and NSFR were systematically monitored and reported to the Asset-Liability Committee.

In the framework of the existing liquidity standards, liquid financial assets and liquidity inflows and outflows are systematically reported to the supervisory authority. In the table below readers will find the reported liquid financial assets of the Bank Pool. The decrease in 'ECB-eligible securities' (as collateral) is the result of a decline in the securities portfolio.

Table 4: Breakdown of liquid financial assets

Breakdown of liquid financial assets	31/12/2013	31/12/2014
Cash and cash assets with central banks	228,548,966	373,355,235
ECB-eligible securities	10,490,541,277	8,542,188,495
Securities that can be liquidated through sale	835,134,885	874,097,375
Balance sheet total	32,146,953,508	33,524,075,038

2.3. Credit risk

Generally speaking, credit risk arises when a customer or counterparty is no longer able to meet its contractual obligations. This can be the result of the insolvency of a customer or counterparty. This risk arises both with traditional lending and with investment activities (other interest-bearing assets). As regards the latter, widening spreads and rating downgrades are indicators of credit risk.

Essentially two sub-areas are of importance for the Company in terms of credit risk: the market of mortgage lending to individuals on the one hand and the investment portfolio on the other. Credit risk management for this reason is focused on these two segments:

Credit risk management

The management of credit risks in the Company is governed by the 'Credit risk– retail lending' policy and the 'Treasury & ALM' policy, covering other interest-bearing assets. The policies set out the basic principles, rules, instructions and procedures for identifying, measuring, approving and reporting credit risk.

All divisions of the Company have adequate measuring instruments, guidelines and procedures with which to manage credit risk. These include a fully independent loan approval process with set limits for creditworthiness, monitoring procedures, and overall indicators of the quality of the retail loan portfolio and the investment portfolio. Governance is also supported by a number of (consultation) committees like the Rating Consultation, the Investment Consultation, the Credit Risk Committee and the Asset and Liability Committee.

Retail lending

The Company has a concentration in retail lending in Belgium and the Netherlands, and more specifically housing loans to individuals. This makes the Company sensitive to developments in the housing market and to the repayment capacity of individual borrowers in Belgium and the Netherlands.

The Bank Pool generally endeavours to maintain a low risk profile in its lending. This strategic option is confirmed in, among other things, the Company's credit acceptance conditions and procedures, of which the provision of security (mainly mortgage registrations on buildings) is one of the basic conditions, together with the strategic focus on lending to retail customers.

The credit risk of the mortgage portfolios remains fairly stable. The portfolio outstandings are growing significantly as a result of increasing production.

The risk models for Dutch loans have since been revised. The open risk of the Dutch portfolio is calculated and studied on a quarterly basis. The Dutch government's recent lending reforms will in the long run have an additional beneficial effect on the credit quality of the Dutch mortgages.

Investment portfolio

A precise rating allocation that has been refined in-house, plays a major role in monitoring the quality of Argenta's securities portfolio. Thus the asset quality of the various portfolio components is closely monitored using the average rating concept based on internal ratings and the internally agreed rating factors. This involves the calculation of an Average Portfolio Rating (APR) on the basis of the internal ratings (or externally derived ones if no internal ones are available) and a Probability of Default (PD) table as a function of the rating.

The risk framework has been fine-tuned by a selective update of the financial policies. The prudent investment policy remains an effective first line of defence.

The investment framework remains directed at strong counterparty quality. This is visible in the fact that average portfolio quality has remained high. During 2014, also in reaction to the low interest rate environment, the Company diversified more into investments in companies, and more positions were taken in securities issued by or loans to local authorities.

The investment framework is clearly described and detailed in the revised Treasury and ALM policy based, among other things, on the following principles:

- A country limit is applied which measures, besides the sovereign risk, the risk of all counterparties/borrowers for each country.
- A separate internal limit is used for repos, derivatives and covered bonds, in addition to the bond limit.
- Counterparty limits are based not only on ratings, but also on term.
- Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) are allowed only under very strict conditions: 5% retention by the issuer/initiator; permanent monitoring of the underlying exposures for arrears or default, known underlying assets and clear view of the structure: no RMBS on RMBS/ABS on ABS but in each case direct underlying collateral.

Within this policy framework, attention is also paid to developing and applying the framework of limits, in which country concentration and asset quality ratios also play an important role.

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

In the area of governance, the first line control of and reporting on portfolio transactions have been strengthened by close cooperation between the various first line departments and the Risk division.

As before, each quarter, the Company's investment portfolio undergoes a thorough analysis, including a risk check. This analysis forms the basis of regular reporting to, and discussion within Alco, the Executive Committee and the Board of Directors.

Credit risk and the Basel Capital Accord

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

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

On the basis of this policy option and its above-mentioned long experience, the Company has therefore opted to perform its mortgage lending under the Basel Capital Accord on the basis of internal ratings and to calculate the capital requirements according to the F(IRB) method, subject to exceptions that are not material. This means that a rating is assigned to each loan when granted. To this end, the Company has, where applicable, developed one or more of its own models.

The choice of this IRB method has also led to changes in the operational credit management, the authorization framework, pricing, internal monitoring and reporting, and the responsibilities of Executive Committees and Boards of Directors.

Collateral

Security in the form of personal guarantees or material collateral is always requested when granting mortgage loans. The lower a borrower's creditworthiness, the more security the customer is required to provide. Under the foreclosure policy, it may occasionally occur that certain collateral is acquired and recognized on the balance sheet.

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

Foreclosure policy

If all other means of obtaining financial settlement for a loan in default have been exhausted, the Company will, when property is available, proceed to a private or public sale. As a result of the conservative loan policy and the strict monitoring strategy, loan losses within the Company's various fields of activity have been low in recent years.

Forbearance

The European Securities and Markets Authority (ESMA) has requested financial institutions to provide information on loan refinancings and maturity extensions. This relates to refinancings and extensions in the context of arrears situations.

In 2014, based on the EBA definition of forbearance, the necessary internal policy documents were completed, with adjustments made to the internal credit systems for better recording of the files concerned.

As of the 30 September 2014 reporting date, the FINREP reporting (reporting of the consolidated figures to IFRS standards) needs to include figures on these files.

The reported figures were recorded in an annexe. This is a snapshot as of 31 December 2014, with the already recorded files included.

Table 5: Files for which forbearance measures have been taken

Performing exposures with forbearance measures	4,096,225
Non-performing exposures with forbearance measures	2,374,130
Cumulative impairments and provisions for these exposures	-337,210
Security received for exposures with forbearance measures	6,200,684

The forbearance files designated as non-performing are always subject to 'individual assessment'. The amount of collateral received in these cases is higher than the outstanding amounts.



Concentration of credit risk

Concentration may consist of various elements, including concentration of lending to an individual counterparty or a group of inter-related counterparties (single name concentration or counterparty concentration).

A concentration of lending can also come about as the result of an uneven distribution among sectors or countries/regions (sector concentration). The latter may arise due to significant exposure to groups of counterparties where the probability of default is due to common underlying factors.

The credit risk management policy includes limits for concentration risk. These limits are systematically monitored and reported on.

One of these limits relates to the maximum exposure per counterparty in retail lending. It stipulates that this maximum exposure to a single retail counterparty may never exceed EUR 1 million.

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

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

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

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

The 'Treasury & ALM' policy establishes which bonds and which ratings are eligible for investment. The ratings of all fixed-income securities are then systematically monitored. If (after purchase) the rating of a bond drops below the set minimum rating requirement, the bonds concerned will be discussed again by Alco and the Rating Consultation (RC).

Alco, and consequently the Company's Executive Committee, must then make an explicit judgement on whether or not to maintain the position. The positions held are also reported to the Board of Directors.



2.4. Operational risk

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

The Company's activities depend on the ability to process a very large number of transactions efficiently, accurately and in accordance with its policies and with regulations. Potential operational risks include violation of the money laundering legislation, breach of confidentiality obligations and the execution of unauthorized transactions.

The Company has a fairly limited number of products and services. This allows the operational risks to be kept limited. In general, however, it is assumed that operational risks will gradually increase in the various businesses, owing, among other things, to the rapidly changing technological environment, the increasing complexity and growing range of products and the general trend towards outsourcing of non-core business activities.

Although the Company has taken measures to control the risks and limit any losses, as well as earmarking substantial funds for the development of efficient procedures and staff training, it is impossible to implement procedures that can exclude these operational risks in a completely effective manner.

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

A Disaster Recovery Program (DRP) exists, covering all facets of Disaster Recovery. All Disaster Recovery tests will be planned and implemented annually. The presence of a Disaster Recovery Manager gives operational depth to this process.

Operational risk policy

The Orco (Operational Risk Committee) is a permanent part of the GRC. It is organized on a quarterly basis. In 2014, the policy for operational risk was totally reworked.

In 2014, a large part of the annual planning was devoted to the implementation, migration and testing of the loss database in the Pentana Vision software. This software package was then adapted to permit the conduct and reporting of RCSA's (Risk & Control Self-Assessments). The first line users were also trained and helped to set to work in this new environment.

In addition to the daily monitoring and support functions (e.g. facilitating RCSAs, putting together the annual internal control report, monitoring BCPs), work was also done on commencing quarterly operational risk reporting, the KRIs (Key Risk Indicators) were redefined, and the contact persons designated by the different departments received further training.

In the area of BCM (Business Continuity Management), both the BCPs (Business Continuity Plans) and the specific contact information were thoroughly updated. In addition, a crisis simulation was again organized this year with the CMT (Crisis Management Team). Preparations were also made to counter possible strike and power problems.

In the context of information security, annexes were prepared to the Information Security Code of Conduct (rules on personal mobile devices with access to the Argenta network and additional hardware in the workplace).

The risk scoring within the audit universe is done on parameters, including the maturity of the internal controls and the presence or absence of RCSAs.



2.5. Other risks

With no attempt to be exhaustive, this section mentions certain other risks.

2.5.1. Strategic risk

The strategic risk to which the Company is exposed is the risk of the effect on current and future earnings and capital of poor policy decisions, poor implementation of decisions or a lack of responsiveness to changing market conditions (both commercial and financial).

In order to achieve the strategic objectives, as defined in the business strategy, the Company makes resources available (including communication channels, systems, personnel, networks, managerial time and managerial capacities). The strategic goals are defined by the Executive Committee and approved by the Board of Directors.

The ultimate realization of the business strategy depends on the adequacy of the resources made available and the way in which these resources are applied. This is assessed on an ongoing basis.

2.5.2. Business Risk

Business risk is the risk that current and future earnings and capital will be affected by changes in business volumes, or by changes in margins and costs, both caused by changing market conditions or the organization's inability to take advantage of such changes. This risk also refers to a poor diversification of earnings or the inability to maintain a reasonable level of profitability.

In order to diversify the business risk to which the Company is exposed, the Argenta Group has made a strategic choice to sell products that generate fee income alongside its traditional activities. Alongside the other lines of Insurance, Lending and Savings & Payments, this fourth business line should produce a greater diversification of earnings generation. Another important factor here is cross-selling, in order to attract as many customers as possible to several business lines concurrently.

As regards the profitability of the products of the Bank Pool, price setting must take account of funds transfer pricing on an economic basis, in order to determine the earnings contribution of each product.

2.5.3. Reputational risk

Reputational risk is the risk of damage (loss) through a deterioration of reputation or standing caused by a negative perception of the image of the organization by its customers, counterparties, shareholders and/or supervisory authorities.

This is a second-order risk; in other words, a risk that derives from another risk but which has its own impact. The Company considers this risk as a vertical risk, i.e. a risk that runs through all other risks. By monitoring and managing the other risks, reputational risk is also kept under control.

2.5.4. External service providers

The Company is exposed to the risk of termination of major contracts with external service providers. Termination of one of these contracts could result in an interruption of business or delays in key business processes, against which the Company covers itself as far as possible through an appropriate business continuity policy and transitional arrangements in the relevant contracts.



2.5.5. Legislative and regulatory developments

In all places where the Company operates, it is subject to the laws, regulations, administrative measures and regulations on financial services policy. Changes in the area of supervision and regulation can affect the activities, products and services and the value of the assets of the Argenta Group. Although the Company works closely with the supervisory authorities and constantly monitors the situation and future legislative changes, fiscal policy and other policies are at times unpredictable.

European legislation and regulations have required much additional attention in recent years and will continue to do so, given in particular the European Commission's strong preference for maximum harmonization of European legislation. Maximum harmonization of legislation and regulations in the interest of the financial sector, because it contributes to a level playing field for all market players.

Below is a brief overview of some national and international developments that are relevant for the Company.

Deposit Guarantee Scheme (DGS)

The Belgian DGS guarantees deposits from individuals and small businesses at banks up to a maximum of EUR 100,000 per depositor per bank. DGS will pay amounts when individuals and companies no longer have access to their funds owing to financial institutions becoming illiquid.

The contributions that the Belgian financial sector is required to pay into the DGS have systematically increased in recent years. Meanwhile, there is talk of a European DGS fund, with mandatory contributions from all European market players.



Banking Act in Belgium

Following several new European laws including the new CRD (Capital Requirement Directive), a new banking act was introduced in Belgium. All financial institutions are required to implement all elements of this act (including, for example a suitability test for directors and specific and more comprehensive governance requirements).

Regulatory capital requirement

The European Council adopted on 20 June 2013 a new CRR (Capital Requirement Regulation) and CRD IV, both to come into effect on 1 January 2014. These regulations (so-called Basel III) impose stricter rules concerning, among other things, solvency, liquidity and leverage, which will gradually apply. The focus here has been on increasing the capital buffers and improving the quality of capital. The capital buffer acts as a cushion for economic hard times.

Within the European Union, these regulations are implemented through the above-mentioned Capital Requirement Regulation (CRR). This is European legislation that directly enters into force at the national level.

Bank Recovery and Resolution Directive (BRRD)

This Directive focuses on the full cycle of crisis management, ranging from the preparation to early intervention, to settlement and financing. The Directive aims to improve the resolution framework for banks with the help of harmonized and effective tools and powers, so as to tackle a banking crisis as early as possible and avoid the need for a financial rescue of credit institutions by the government.

European Market Infrastructure Regulation (EMIR)

The EMIR regulation tightens supervision of, among other things, off-exchange trading (OTC) and the derivatives market. With the advent of EMIR, the central clearing of standardized derivatives becomes mandatory. The post-trading infrastructure is also enhanced by harmonizing and extending rules for central counterparties (CCPs): in future data on transactions in OTC derivative contracts need to be reported to trade repositories (data warehouses). The rules will contribute to the transparency of these markets.

Prohibition of distribution fees in Netherlands

In the Netherlands, there is already a ban on charging commission when granting mortgage loans. From 1 January 2014, an additional ban has been imposed on distribution fees for all investment services. From that date onwards, investment companies are no longer permitted to receive commissions from 'product suppliers' and 'fund providers' and will therefore have to charge their costs directly to the customer. The Company does not provide investment services in the Netherlands, but this evolution, which will possibly also spread to other countries, is being systematically monitored.

Tax legislation

National and international rules on tax topics change periodically as a consequence of local or international economic factors. In Belgium for example, from fiscal year 2015, an amendment has been approved to the notional interest deduction system for financial institutions.



Right now, for example, discussions are under way to reach a tax ruling with the Netherlands and Belgium on corporate taxation.



Following the sentence handed down on 15 May 2012, a repayment was received from the tax authorities of stock exchange and delivery tax for the period 15 July 2002 - 15 July 2004. No appeal was made against this judgement, which thereby became final.

3. Composition of equity

3.1. Components and characteristics of equity items

This paragraph provides information on the various equity items of the Bank Pool. These equity items are the basis for the calculation of qualifying capital under the Basel regulations.

Table 6: Equity and its components at year-end

Components	31/12/2013	31/12/2014
Paid-in share capital	518,246,650	579,077,650
Revaluation reserve for available-for-sale financial assets	132,452,018	137,852,251
Reserves (including retained earnings)	568,990,611	673,416,410
Result of the current year	174,974,622	173,058,525
Cash flow hedge	-6,636,672	-13,729,427
Total equity attributable to shareholders	1,388,027,229	1,549,675,409
Minority interests	79,518	74,294
Total capital and minority interests	1,388,106,747	1,549,749,703



'Paid-in share capital'



The paid-in share capital, represented by 168,975 shares (without par value), amounts to EUR 579,077,650 (EUR 518,246,650 at 31 December 2013). The increase is the result of a capital increase of EUR 59,141,250, which took place on 21 October 2014.

This capital increase took place without issuing new shares and was subscribed by the existing shareholders (after receiving on dividend in the same amount from the Company in December).

'Revaluation reserve for available-for-sale financial assets'

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

The reported fluctuations in fair value are reflected in shareholders' equity in the item 'revaluation reserve for available-for-sale financial assets'. This reserve evolved from EUR 132,452,018 at 31 December 2013 to EUR 137,852,251 at 31 December 2014.

Table 7 : Breakdown of revaluation reserve

Breakdown of revaluation reserve	31/12/2013	31/12/2014
Total latent capital gains and losses – fixed-income securities	260,153,385	320,864,966
Latent value included in the context of micro hedges	-43,141,251	-102,391,411
Total latent taxes on fixed-income securities	-73,760,421	-74,259,161
Latent capital gains and losses – non-fixed-income securities	338	479
Latent capital loss on reclassified assets	-16,361,208	-9,638,876
Latent tax on reclassified assets	5,561,175	3,276,254
Total revaluation reserve	132,452,018	137,852,251

At the end of 2014, the unrealized capital losses on fixed-income securities amounted to EUR 320,864,966 before tax and including minority interests, and the unrealized gains on non-fixed income securities to EUR 479.

After transferring the market value of the fixed-income securities recognized in micro-hedges as hedged positions (EUR 102,391,411), the recognition of the latent tax on the fixed-income AFS portfolio (EUR 74,259,161) and a frozen AFS reserve of reclassified assets (EUR 6,362,622), we arrive at a net positive amount of EUR 137,852,251 on the separate line 'revaluation reserve for available-for-sale financial assets'.

'Reserves (including retained earnings)'

This item includes the statutory reserves of the Company, along with the retained earnings from previous years.



'Profit from the current year'

This line records the earnings of the current financial year.



'Cash flow hedge'

In 2012, an interest rate swap of EUR 100 million (notional) was contracted. Under IFRS hedge accounting principles, this was accounted for as a cash flow hedge.

As of 31 December 2014, the swap in question had a negative market value of EUR 18,305,903. After deducting an unrealized tax claim of EUR 4,576,476, an amount of EUR 13,729,427 was recorded on the 'cash flow hedge' line in equity.

'Minority interests'

Accounted for under this item are the 'reserve for revaluation and valuation differences' and 'remaining equity components' of minority interests.

The Company's minority interests in 2014 relate to one share in the subsidiary Argentabank Luxembourg SA (ABL) that was not held by the Company.

The minority interests item also includes the entire capital (EUR 18,000) of the Green Apple SPV. Although there is no capital link with the Company, this company is consolidated, in accordance with IFRS rules (SIC 12).

3.2. Qualifying capital for regulatory purposes

The above components are included in the calculation of qualifying capital for regulatory purposes. A distinction is made here by type of capital.

Tier 1 capital can consist of core Tier 1 capital and additional Tier 1 capital. The core Tier 1 capital is classified as the strongest, consisting as it does mainly of equity and retained earnings. The following overview shows the total qualifying capital for the past two years.

The tables have been slightly adjusted in order to give a better picture of the transition from Basel II to Basel III. The figures for fiscal year 2013 are the same, but where necessary are broken down further in order to clarify the whole.

Table 8: Composition of qualifying capital at year-end

Composition of qualifying capital	31/12/2013	31/12/2014
Tier 1 capital	1,277,842,335	1,391,404,904
Tier 2 capital – additional components	289,276,590	74,161,762
- First part additional components	12,572,987	0
- Subordinated loans	276,703,603	74,161,762
Total qualifying capital	1,567,118,925	1,465,566,666

As of 31 December the qualifying capital consisted of a core Tier 1 capital of EUR 1,391,404,904 and a limited amount of Tier 2 subordinated loans of EUR 74,161,762.

Table 9: Composition of Tier 1 capital at year-end

Composition of Tier 1 capital	31/12/2013	31/12/2014
- Paid-in capital	514,401,664	579,077,650
- Reserves	558,865,948	673,416,410
- Profits from the current financial year	174,974,622	173,058,525
- Minority interests	79,518	0
- Limited innovative instruments	69,300,000	0
Own capital risk (DVA) deduction		-2,586,358
'Conservative valuation' deduction		-131,860
Deduction of negative latent values of non-government securities (20%)		-1,637,006
Deduction of intangible assets	-39,779,417	-29,792,457
Total Tier 1 capital	1,277,842,335	1,391,404,904

The amounts of the paid-up capital and reserves at the end of 2014 have been taken over from the Company's consolidated balance sheet.

Financial institutions are allowed – upon application to and approval by the regulator – to include the profit for the year 'after deducting all estimated costs and dividends' in the qualifying capital.

The item 'income from the current financial year' contains at 31 December 2014 the entire profit for the year as no additional dividend payment was made through the appropriation of results for 2014.

It was decided to not take the limited amount of minority interests into the calculation.

In addition, the Company still had a Tier 1 loan outstanding of EUR 68.8 million at the end of 2014 (EUR 69.3 million at end-2013). With the application of the principles of the new CRR legislation (Basel III) and by decision of the regulator, this amount could not be included in the qualifying capital.

With the coming into force of the new regulations at 1 January 2014, additional deductions have emerged that need to be applied:

- a deduction of the positive impact of own credit risk in calculating of the market values of derivative instruments (EUR 2,586,358)
- a specific requirement under the 'prudent valuation' of the financial instruments held at fair value in the IFRS balance sheet (EUR 131,860)
- a 20% deduction of the negative latent values existing on non-government securities in the 'available-for-sale assets' (EUR 1,637,006).

The deduction of intangible assets already existed. The new CRR legislation provides that this item may be reduced by the deferred taxes that would be recorded if the amounts were to be taken all at once through the income statement as costs.

Basel III disclosure – increased Tier 1 capital requirements

In 2013, EUR 43,478,691 of subordinated securities were placed with private investors. In 2014, a further EUR 12,841,249 of securities were placed.

As a result, the total amount of issued and still outstanding subordinated loans amounted as of 31 December 2013 to EUR 432,762,113. At the end of 2014, the portfolio amounted to EUR 437,596,878.

Under the new banking directives, stricter requirements are placed on capital instruments for them to count as Tier 2 qualifying capital. The Tier 2 subordinated securities issued since 2012 do not meet all the conditions under the new CRR for recognition as Tier 2 capital. As a result from 1 January 2014 they have not been unavailable in their totality.

In addition, the qualifying capital of the subordinated securities (those issued before 2012) are, in addition to the normal running off, also to be gradually phased out by 10% per year. This meant that by end- 2014 only EUR 74,161,762 could serve as Tier 2 capital.



3.3. Reconciliation of accounting equity and qualifying capital

The starting point for quantifying qualifying capital at the consolidated level is the IFRS equity as reported in the IFRS balance sheet.

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

Table 10: Reconciliation of IFRS equity and qualifying capital

Composition of qualifying capital	31/12/2013	31/12/2014
- Equity attributable to shareholders	1,388,027,229	1,549,675,409
- Minority interests	79,518	74,294
Total equity	1,388,106,747	1,549,749,703
Prudential filters		
- Intangible assets	-39,779,417	-29,792,457
- Revaluation gains	-132,452,018	-137,852,251
- Cash flow hedging	6,636,671	13,729,427
'Conservative valuation' deduction		-131,860
Own credit risk (DVA) deduction		-2,586,358
Deduction of negative latent values on non-government securities (20%)		-1,637,006
Non-inclusion of minority interest s		-74,294
Adding of Tier 1 loan	69,300,000	0
Displacement to Tier 2 capital	-13,969,648	0
Total qualifying capital	1,277,842,335	1,391,404,904

Starting from equity attributable to the shareholders of EUR 1,549,749,703 and minority interests of EUR 74,294, we arrive at a total qualifying Tier 1 capital of EUR 1,391,404,904 at the end of 2014.

The prudential filters applied to the IFRS equity consist of the deduction of intangible assets (EUR 29,792,457), removing the latent gains and losses on available-for-sale assets (EUR 137,852,251) and removing the impact of the cash flow hedging (EUR 13,729,427). The other deductions have already been discussed in the previous chapter.



4. Testing of Capital Adequacy

This chapter sets out the minimum capital requirements of the Company based on the risks mentioned in pillar 1 (viz. the credit, market, CVA and operational risks).

The Company applied the standard approach for these calculations up to and including 30 June 2009. As from 30 September 2009, it received conditional approval to apply the (F)IRB method for its retail mortgage portfolios. As from 30 June 2012, it has also applied the (F)IRB method for the 'exposures to corporates, institutions and covered bonds'.

As a result of the transitional provisions, the Basel I calculations remain, however the basis for the calculation of the ratios for the Company (80% floor on the required equity calculated according to Basel I norms).

The table below shows the total risk weighted assets (RWA) and the capital requirements as at year-end.

Table 11: Total risk-weighted assets and capital requirements

	2013		2014	
	Basel III RWA	EV requirement	Basel III RWA	EV requirement
Credit risk - STA				
Central governments and central banks	62,700,175	5,016,014	14,374,233	1,149,939
Regional and local governments	26,058,788	2,084,703	39,785,769	3,182,862
Public law entities	0	0	10,353,010	828,241
Institutions	144,616,187	11,569,295	34,503,781	2,760,302
Corporates	30,157,350	2,412,588	35,257,927	2,820,634
Retail	125,743,275	10,059,462	91,651,718	7,332,137
Secured by real estate	131,686,800	10,534,944	159,731,446	12,778,516
Past due items	5,312,500	425,000	8,024,801	641,984
Covered bonds	0	0	0	0
Collective investment undertakings	0	0	0	0
Equities	0	0	28,198	2,256
Others	225,613,162	18,049,053	159,457,760	12,756,621
Securitization positions	0	0	0	0
	751,888,237	60,151,059	553,168,643	44,253,491
Credit risk - IRB				
Institutions	445,322,918	35,625,833	1,078,564,104	86,285,128
Corporates	221,398,894	17,711,912	458,238,575	36,659,086
Covered bonds	19,665,036	1,573,203	14,435,971	1,154,878
Secured by real estate	2,125,206,354	170,016,508	2,477,426,112	198,194,089
Securitization positions	329,053,077	26,324,246	192,438,612	15,395,089
	3,140,646,279	251,251,702	4,221,103,374	337,688,270



	2013		2014	
5% add-on for Belgian mortgage loans	432,264,873	34,581,190	446,501,784	35,720,143
Market risk	0	0	0	0
CVA risk	0	0	119,843,562	9,587,485
Operating risk	473,781,287	37,902,503	588,442,188	47,075,375
Total	4,798,580,676	383,886,454	5,929,059,551	474,324,764

The RWA have increased from EUR 4,798,580,676 to EUR 5,929,059,551 at end 2014. Through the implementation of Basel III, there are two additional elements which – beyond the normal changes – impact the total amount of RWA, viz. (a) the calculation of a CVA risk and (b) the introduction and the application of a LFE (Large Financial Entity) coefficient for calculating the RWA of the institutions.

4.1. Capital requirements for credit risk

The capital requirements for credit risk are calculated as follows:

$$\text{risk weighted assets (RWA – Risk Weighted Assets) * 8\%}$$

$$\text{where risk weighted assets = (Exposure At Default - EAD) * weighting percentages}$$

The risk weighted assets for credit risk amounted to EUR 4,774,272,017 as of 31 December 2014, giving a capital requirement of EUR 381,941,761.

As a result of the 80% floor, this RWA will, however, be raised (see 4.6: Capital ratios).

5% add-on for Belgian mortgage loans

The Belgian regulator has requested an add-on of 5% from all Belgian financial institutions for Belgian mortgage loans.

Based on an EAD of EUR 8,930,035,680, an RWA of EUR 446,501,784 was obtained, on which a capital requirement of EUR 35,720,143 was calculated.

This additional capital requirement was included in the IRB/STA calculation as at 31 December 2014.

Comparison of calculation of requirements for Dutch mortgage loans

As part of the roll-out of the model for the Dutch loans, the regulator has requested that a comparison be made systematically between the calculation of the own capital requirements under the standardized approach (STA) and an 'internal rating based' (IRB) approach. The higher of the two calculations should be taken as the requirement.

The end of 2014 was the first time the calculation by the STA method came out higher than the one by the IRB method so that an additional RWA of EUR 30,349,921 was recognized in the IRB classification 'secured by real estate'.

4.2. Capital requirements for equity positions

The Company has a very limited equity exposure of EUR 28,198 which is processed according to the standard approach.

These are a small number of shares of a small number of entities that are considered as financial fixed assets and already been held for a long time.

4.3. Capital requirements for market risk

The Company does not make capital calculations for market risk, since the Company has not had, and continues not to have, any *trading book* or hold any foreign currency instruments.

The derivative transactions shown in the Company's balance sheet under assets and liabilities held for trading purposes were all concluded in the context of (a) hedging the interest rate risk of the banking book or (b) as part of a securitization transaction.

In calculating the credit risk these derivative instruments are accounted for using a method based on 'mark to market' valuation (see section 6.2).

4.4. Capital requirements for CVA risk

Since the implementation of Basel III, a capital requirement also has to be calculated for the CVA (Credit Valuation Adjustment) risk. The importance of counterparty risk in derivatives transactions has increased dramatically in recent years. Measuring and managing credit risk has traditionally been a well-known field for financial institutions. Until 2007, this was focused mainly on lending.

Compared with, for example the credit risk of an ordinary bond loan, derivatives have two specific characteristics in terms of counterparty risk:

1. The expected risk is uncertain in terms of size; future cash flows are dependent on future market movements of underlying securities (e.g. interest).
2. A derivative may have, at one time, a positive value and at a later time, a negative value. In this way the derivative changes from asset to liability.

These characteristics make it difficult to determine the potential risk. The adjustment to the fair value resulting from the application of credit risk to the counterparty is called Credit Valuation Adjustment (CVA).

Less self-evident is the opposite of the CVA, that is quantifying the own credit risk. This is called the Debit Valuation Adjustment or DVA. The DVA calculated following IFRS standards amounted to EUR 2,586,358 and was deducted from the qualifying capital.

For prudential reasons, a separate calculation is made to calculate an exposure to CVA risk, to which a capital requirement is applied. As of 31 December 2014, an exposure of EUR 119,843,562 was obtained, on which a capital requirement of EUR 9,587,485 was calculated.



4.5. Capital requirements for operational risk

Up to and including 30 June 2008, the Company calculated the capital requirements for operational risk using the Basis Indicator Approach (BIA). The capital requirement here is equal to 15% of the arithmetic average of the operational result of the three latest financial years.

After fulfilling the formal requirements (including submitting an information file to the supervisory authority and further development of the operational framework for operational risk management), the Company has, since 1 July 2008, used the standard method for calculating the capital requirement for operational risk.

Under this standard approach the activities and therefore also the operational result must be assigned to several business lines. The capital requirements differ from one business line to another, and these are obtained by multiplying the operational result by 12%, 15% or 18%.

At the Company, the operational result was assigned to the business lines retail broker services, retail bank services and wealth management (which all need to be multiplied by 12 %). The capital requirement amounted to EUR 47,075,375 as of 31 December 2014.

4.6. Overview of capital ratios

As a result of the transitional provisions, the Company is still required in 2014 to include a floor in the calculation of its capital requirements.

This floor amounts, as in previous years, to 80% and is applied to the qualifying capital as calculated according to the Basel I standards. In this way, the Basel I RWA calculations still form the basis for the ultimate capital requirements and ratios.

The following overview shows the estimation of the main requirements, calculated according to the applicable Basel Pillar 1 rules.



Table 12: Capital requirements at year end

	31/12/2013	31/12/2014
Core Tier 1 capital	1,208,542,335	1,391,404,904
Tier 1 capital	1,277,842,335	1,391,404,904
Total qualifying capital	1,567,118,925	1,534,366,667
Calculation by IRB/STA method	311,402,761	381,941,761
Credit risks add-on	34,581,190	35,720,143
CVA risk	0	9,587,485
Operational risk requirement	37,902,504	47,075,375
Total capital requirement per IRB/STA	383,886,455	474,324,764
Calculations using Basel I principles	723,130,458	792,322,721
Application of floor IRB transitional period	80% rule	80% rule
Total requirement after application of floor to Basel I	578,504,366	633,858,176
Core Tier 1-ratio	16.71%	17.56%
Tier 1-ratio	17.67%	17.56%
Solvency ratio	21.64%	19.37%
Core Tier 1 ratio (based on STA/IRB method)		23.47%



The capital requirement for credit risk, calculated according to the IRB/STA method, amounted to EUR 381,941,761. Adding to this the add-on of EUR 35,720,143, the CVA requirement of EUR 9,587,485 and the operational risk requirement of EUR 37,902,504, we arrive at a total capital requirement of EUR 474,324,764.

The capital requirement under Basel I amounted at 31 December 2014 to EUR 792,322,721. Applying to this the current 80% floor, we obtain an equity requirement of EUR 633,858,176. Given that this floor is higher than the requirement calculated according to the IRB approach, EUR 633,858,176 is taken as the minimum amount of capital to be maintained.

This capital requirement corresponds to a risk-weighted volume of EUR 7,923,227,200 compared with EUR 5,929,059,550 when following the IRB approach. Were this Basel I floor not to apply, the core Tier 1 ratio would be 23.47% instead of 17.56%.

The core Tier 1 ratio (CET – *Common Equity* Tier 1) has now become the most important ratio. This calculation uses this core Tier 1 equity instead of total own funds.

With total regulated qualifying capital at 31 December 2014 exceeding the applicable requirements, the Company fully complied with all capital requirements.

Disclosure on Basel III - increased capital requirement and counter-cyclical capital buffer

The package of reforms includes among other things a gradual increase in the minimum core equity requirement (core Tier 1) from 2% to 4.5%. The Company already more than complies with this requirement.

On top of this 4.5% will come a countercyclical buffer (capital conservation buffer). In economic boom periods, this will amount to a maximum of 2.5%. The starting point is to reserve additional capital in times of financial prosperity. In times of financial stress, the institution is able to eat into this capital. The precondition for this is that the institution may not pay dividends to shareholders.

All these standards are already fulfilled with a core Tier 1 ratio of 17.56% at 31 December 2014.

Disclosure on equity requirement on BVg consolidated CRR level

BVg is required, from 1 January 2014, to report more extensively than before. As part of the new regulations, there is a CRR scope for BVg consolidated, covering the Bank Pool plus BVg unconsolidated (for which the necessary reports have to be produced and submitted). At the same time the Danish Compromise (DC) can be applied at BVg level.

Here, the participation value of the insurance subsidiaries (EUR 176 million) is accounted for as equity at the BVg consolidation level, with this amount simultaneously weighted under the IRB method as exposure at 370%.

The difference in the ratios between the Aspa consolidated and the BVg consolidated CRR scopes is limited and is mainly due to the fact that BVg unconsolidated has additional equity capital which – on its balance sheet – is not offset with additional assets with weightings.

Table 13: Comparison of Aspa and BVg capital requirements

Data per 31/12/2014	Argenta Spaarbank	BVg conso CRR scope
Core Tier 1 capital	1,391,404,904	1,529,911,977
Tier 1 capital	1,391,404,904	1,529,911,977
Total capital	1,534,366,667	1,604,073,739
Weighted by STA method	44,253,491	44,484,059
Weighted by IRB method	337,688,270	337,688,270
IRB participation value insurer (s)	0	52,229,871
Credit risks add-on	35,720,143	35,720,143
CVA risk	9,587,485	9,587,485
Operational risk requirement	47,075,375	47,403,349
Total requirement according to IRB/STA	474,324,764	527,113,177
Calculations to Basel I principles	792,322,721	806,508,781
Application of floor IRB transition period	80 % rule	80 % rule
Total requirement after application of floor to Basel I	633,858,176	645,207,025
Core Tier 1 ratio	17.56%	18.97%
Tier 1 ratio	17.56%	18.97%
Solvency ratio	19.37%	19.89%
Core Tier 1-ratio (op basis van de STA/IRB methode)	23.47%	23.22%

The amount of EUR 52,229,871 in the above table above relates to the 370% weighting of the participation value of the insurance subsidiaries and explains the rise in the requirement. There is only a limited surplus in the STA calculation and in the operational risk requirement.

The Core Tier 1 ratio of BVg consolidated CRR scope (80% floor) amounts to 18.97%, while the the Core Tier 1 ratio following the IRB/STA method would amount to 23.22%. This latter ratio can then be compared with the 24.3% that was announced on 26 October 2014 in the ECB assessment.

5. Credit risk

The management of credit risk has already been described in Chapter 2 'Risk management'. The present chapter provides further information on the concepts 'past due' and 'doubtful', on impairments, on classification and assignment to the Basel II categories, additional information on 'exposure categories' and an additional disclosure concerning doubtful loans.

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

Table 14: Overall exposure to credit risk

Total exposure to credit risk	31/12/2013	31/12/2014
Total on-balance sheet	31,303,978,267	32,521,923,372
Total off-balance sheet	886,965,728	1,324,532,303
Total derivatives	211,726,830	123,956,316
	32,402,670,825	33,970,411,991



The exposure of on-balance sheet credit risk is mainly determined by the asset side of the IFRS balance sheet. The table below reconciles the balance sheet asset total with the total on-balance sheet credit risk.



Table 15: Reconciliation of IFRS balance sheet total and total on-balance sheet exposure

	31/12/2013	31/12/2014
IFRS balance sheet total – assets side	32,146,953,508	33,524,075,038
Asset components not included in the exposure		
- delta market value of changes in hedged positions	-275,393,059	-398,422,686
- latent gains of the 'available-for-sale' securities portfolio	-243,792,515	-320,865,445
Adjustments owing to liabilities components		
- unreleased portion of credits	-241,491,592	-245,291,802
- reconstitution fund for mortgage loans and other items	-42,370,076	7,561,516
Already deducted from equity, i.e. intangible assets	-39,927,999	-45,133,249
Total on-balance sheet credit exposure	31,303,978,267	32,521,923,372

5.1. Definitions of 'past due' and 'in default'

A loan is considered as 'past due' in the equity reporting if the borrower is more than one month and more than EUR 25 in arrears with payments.

In the equity reporting, a loan is considered as 'in default' when one of the following events has occurred:

either the payment arrears are greater than the sum of three monthly instalments or, where another repayment frequency applies, when the payment arrears amount to more than three months, both in capital and in interest. This includes any outstanding claim greater than EUR 25 at loan maturity date.

or other indicators show that the claim is possibly completely or partially uncollectible ('unlikely to pay').

Loans deemed in default are consequently reviewed (including taking the security received into account), to see whether an impairment should be recognized.

5.2. Approaches and methods for determining impairments

Impairments losses can be recognized on an individual basis for credit losses, when a loan is considered as in default, meaning that there are objective indications that the Company will not be able to collect all amounts due according to the contractual terms. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount.

For loans deemed to be default, an assessment is made (taking into account also the collateral obtained) as to whether an impairment loss should be recognized.



Setting up of collective impairments

In addition to the impairment losses recognized on an individual basis, collective (= portfolio-based) impairments are also recognized. These collective impairments are created only for the 'loans and receivables' portfolio.

For the retail mortgage portfolio, these take the form of an IBNR (incurred but not reported) provision. An 'incurred but not reported' impairment on loans is recognized for receivables that are not yet considered as in default and are therefore not tested for individual impairment losses.

Collective IBNR impairments are calculated and recognized for all retail loan portfolios for which credit risk models have been developed in Basel II.

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

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

Based on the PD (probability of default), the portfolios are divided into risk categories. For each risk category, the probability is then examined of a credit in this class going into default within a certain period.

The 'loss confirmation period' is continuously evaluated. In 2013, it was adjusted from 3 to 6 months, and in 2014 further extended from 6 to 12 months based on an internal validation of this period and after further benchmarking with market practices.

In addition, starting in 2013, account is taken of the current losses instead of historical average losses in calculating the impairment (point in time PD instead of average PD). In this way the economic situation is directly reflected in the collective impairment recognized.

Finally, in addition to the IBNR provision, an impairment is also recognized for collectively assessed financial assets. This portfolio-based impairment is recorded solely for an MBS portfolio classified under loans and receivables.

5.3. Credit risk mitigation

Credit risk mitigation (CRM) is a technique used by an institution for limiting the credit risk linked to one or more exposures that the institution holds.

The table below shows the exposures before and after the credit risk mitigation movements as a result of unfunded and funded credit protections (see column 'Exposure after CRM' in table 16).

'Unfunded credit protection' is a credit risk mitigation technique whereby the credit risk of an institution's exposure is limited by means of a third party guarantee to pay a certain amount in the event of borrower default or other specified events.

'Funded credit protection' is a credit risk mitigation technique whereby the credit risk of the institution's exposure is limited due to the right of the institution, in the event of counterparty default or other specified credit events associated with the counterparty, to liquidate or take over certain assets or items, or acquire or retain ownership of them, or reduce or replace the exposure by the difference between the exposure itself and a claim on the institution.



Table 16 : Exposure per category as at 31 December 2014

Data as of 31/12/2014	Exposure	Unfunded credit protection - guarantees	Funded credit protection - collateral	Total inflow	Adjusted exposure
Central governments or central banks	3,887,028,142	0	0	496,356,592	4,383,384,734
Regional and local governments	678,607,775	0	0	100,503,213	779,110,988
Public entities	15,353,010	5,000,000	0	0	10,353,010
Institutions	236,280,427	151,369,895	0	0	84,910,532
Corporates	142,405,629	105,565,410	0	10,062,197	46,902,416
Retail	552,573,437	0	0	0	552,573,437
Secured by real estate	796,647,723	344,986,697			451,661,026
Past due items	5,468,189	0	0	0	5,468,189
Covered bonds	0	0	0	0	0
Undertakings for collective investment	0	0	0	0	0
Equities	28,198	0	0	0	28,198
Others	241,138,632	0	0	0	241,138,632
Securitization positions	0	0	0	0	0
Total exposure (STA)	6,555,531,162	606,922,002	0	606,922,002	6,555,531,162
Institutions	2,307,101,079	0	0	0	2,307,101,079
Corporates	1,195,716,692	0	0	0	1,195,716,692
Covered bonds	155,406,624	0	0	0	155,406,624
Secured by real estate	22,758,786,287	0	0	0	22,758,786,287
Securitization positions	997,870,147	0	0	0	997,870,147
Total exposure (IRB)	27,414,880,829	0	0	0	27,414,880,829
Total exposure	33,970,411,991	606,922,002	0	606,922,002	33,970,411,991

The total of the amounts under 'unfunded credit protection – guarantees' and funded 'credit protection – collateral' (i.e. the outflow) match the total of the 'inflow' column.

Per 31 December 2014, no fully-funded credit protection was recognized. The unfunded credit protection of the Company can be divided into two groups. This involve a shifted of exposure as a result of government guarantees and guarantees from financial institutions. Added to this is also the Dutch Mortgage Guarantee (NHG).

The following tables break down the EUR 151,369,895 of credit protection in the 'Institutions' category and EUR 105,565,410 of credit protection in the 'enterprises' category.

Table 17 : Government guarantees under ‘institutions’

Counterparty	Exposure 2013	Guarantee amount 2013	Exposure 2014	Guarantee amount 2014
French government	0	0	30,219,784	29,985,845
Irish government	4,730,560	4,606,579	23,188,793	22,457,036
Luxembourg government	82,440,001	80,448,453	0	0
Dutch government	70,164,778	70,001,736	35,114,138	34,939,570
Austrian government	100,253,583	100,000,000	0	0
Spanish government	0	0	10,294,954	10,000,434
Czech government	4,099,895	3,984,293	54,305,593	53,987,009
Swedish government	50,024,175	50,009,700	0	0
Total unfunded credit protection – guarantees		309,050,761		151,369,895

Table 18 : Guarantees from institutions at end-2014

Counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	14	106,098,884	95,503,213
Other Polish corporate	1	10,130,382	10,062,197
Total unfunded credit protection – guarantees in corporates category			105,565,410

In addition, there is the NHG (Nederlandse Hypotheek Garantie) guarantee that exists for most mortgage loans made in the Netherlands. The NHG is provided by the ‘Waarborgfonds Eigen Woningen’ (Homeownership Guarantee Fund – WEW) foundation. It is the name of the guarantee which a borrower can obtain for a loan for purchasing or building a house. The WEW guarantees the repayment of the mortgage amount to the credit institution.

The WEW was created on 11 November 1993 by the Ministry of Housing, Regional Planning and the Environment (abbreviated to VROM in Dutch) and the Association of Netherlands Municipalities (abbreviated to VNG in Dutch). The background to this was the desire of the central government and the municipalities in the Netherlands to give independent form to the instrument of municipal guarantee with government participation. As of 1 January 1995, this independence became a fact with the introduction of the NHG.

The aim of the WEW is to promote home ownership. It is responsible for the policy and the implementation of the NHG. Every year, it sets rules for granting NHG guarantees. These ‘conditions and standards’ must be approved by the Minister of the Interior and Kingdom Relations. The NHG guarantees are administered by the credit institutions. Credit files are checked whenever a loss claim is submitted. The WEW supports the credit institutions in administering the NHG guarantees and manages the NHG guarantee fund.

The WEW is a private institution which has agreements with the government and municipalities. This means that the WEW can always meet its payment obligations. As a result, the Dutch Central Bank (abbreviated DNB in Dutch) considers the NHG as a government guarantee. Consequently, loans covered by the NHG generally require less solvency. This advantage for lenders is ‘returned’ to consumers by lower mortgage interest on NHG-backed loans.

Eligibility for a NHG guarantee depends among other things on the borrower’s income, the purchase value of the house and possible renovation costs. The conditions (including primary main residence, architect’s report, tax report) for obtaining an NHG guarantee are explained in detail on the internet site www.nhg.nl.

This unfunded (NHG) guarantee can be found in the STA Basel II category 'secured by real estate'. The annuitized decrease of this NHG guarantee is factored into all calculations (this decrease is included, among others, in the LGD parameter).

Mortgage registration and mortgage mandate

The main guarantee for mortgage loans is the property for which the loans are given and on which a mortgage can be registered. When assessing a loan, the collateral value is always taken into account.

The value of a property can change, impacting the assessment of the remaining credit risk. The evolution of property values is therefore systematically monitored and properties are systematically revalued.

The LTV (loan to value) parameter is an important indicator, first for assessing the initial risk of new loans (relationship of the loan amount to the initially estimated property value) and later for estimating the remaining risk.

The shift in focus from bullet loans to monthly capital repayments in the Netherlands following the legislative changes in 2013 has produced a positive evolution of the loan/collateral value relationship during the life of the loans. With a bullet loan, the total amount is repaid in full only on the final maturity date. Over the life of the loan, this capital is indeed built up through life insurance or investment accounts.



5.4. Additional information on the exposure categories

The following table provides an overview of exposures by counterparty classification, and divided into on-balance sheet items, off-balance sheet items and derivatives.

Table 19: Breakdown (pre CRM) by exposure class as of 31 December 2014

Data as of 31/12/2014	On-balance	Off-balance	Derivatives	Total exposure
Central governments or central banks	3,887,028,142	0	0	3,887,028,142
Regional and local governments	678,607,775	0	0	678,607,775
Public entities	15,353,010	0	0	15,353,010
Institutions - STA	223,419,711	12,860,716	0	236,280,427
Corporates - STA	132,525,497	3,847,225	6,032,907	142,405,629
Retail - STA	119,157,834	433,415,603	0	552,573,437
Secured by real estate - STA	207,615,463	589,032,260	0	796,647,723
Past due items	5,468,189	0	0	5,468,189
Undertakings for collective investment	0	0	0	0
Equities (participations)	28,198	0	0	28,198
Other	241,138,632	0	0	241,138,632
Securitization positions - STA	0	0	0	0
	5,510,342,451	1,039,155,804	6,032,907	6,555,531,162
Institutions - IRB	2,209,634,129	0	97,466,951	2,307,101,080
Corporate - IRB	1,175,260,233	0	20,456,458	1,195,716,691
Covered bonds - IRB	155,406,624	0	0	155,406,624
Secured by real estate - IRB	22,473,409,787	285,376,500	0	22,758,786,287
Securitization positions - IRB	997,870,147	0	0	997,870,147
	27,011,580,920	285,376,500	117,923,409	27,414,880,829
Total exposure	32,521,923,371	1,324,532,304	123,956,316	33,970,411,991

The main geographical countries in which the Company is active are Belgium and the Netherlands. This explains the large risk exposures in these countries in the table below.

The geographical breakdown of the investment portfolio in this and the following tables is based on the country of the issuer.

Table 20: Geographic breakdown of exposures as of 31 December 2014

Country code	Country	Exposure	Percentage	Required capital
AT	Austria	78,635,245	0.23%	572,175
AU	Australia	263,322,096	0.78%	5,630,419
BE	Belgium	14,302,603,325	42.10%	99,162,184
BG	Bulgaria	7,243,051	0.02%	23
CA	Canada	182,296,571	0.54%	5,063,048
CH	Switzerland	37,927,667	0.11%	1,370,353
CZ	Czech Republic	74,360,411	0.22%	1,574,828
DE	Germany	181,171,471	0.53%	7,026,388
DK	Denmark	125,319,052	0.37%	3,998,997
ES	Spain	214,473,784	0.63%	13,148,494
FI	Finland	42,203,373	0.12%	784,666
FR	France	506,316,494	1.49%	14,051,528
GB	United Kingdom	524,690,146	1.54%	21,747,283
IE	Ireland	370,221,786	1.09%	2,893,648
IS	Iceland	20,202,524	0.06%	0
IT	Italy	193,966,349	0.57%	2,198,287
LU	Luxembourg	54,622,647	0.16%	1,487,826
MX	Mexico	30,903,266	0.09%	1,559,530
NL	Netherlands	15,778,448,907	46.45%	171,901,339
NO	Norway	93,354,859	0.27%	1,773,322
NZ	New Zealand	48,880,543	0.14%	449,301
PL	Poland	44,696,962	0.13%	406,616
SE	Sweden	184,728,843	0.54%	6,227,531
SI	Slovenia	79,759,850	0.23%	0
SK	Slovakia	197,890,320	0.58%	0
US	United States	324,707,539	0.96%	15,223,676
Other	Exposure per country < 3 million	7,464,908	0.02%	68,611
Total exposures		33,970,411,991	100.00%	378,320,074

The tables below show the geographical breakdown of the 4 largest exposure categories.

Table 21: Geographic distribution of the 'exposures covered by real estate'

	Country	2013	2014
Exposures covered by real estate	BE	8,646,497,188	9,330,745,512
Exposures covered by real estate	NL	13,450,579,091	14,195,482,569
Exposures covered by real estate	Other	28,623,382	29,205,929
		22,125,699,661	23,555,434,010

The above table is based on the creditor's geographic location, with an 'other' heading for creditors having (transferred) their legal residence to 'outside Belgium or the Netherlands'.

Table 22: Geographical breakdown of exposures to central governments and central banks by exposure category as of 31 December

	Country	Exposure 2013	Exposure 2014
Central governments or central banks	AT	62,150,709	61,384,833
Central governments or central banks	BE	3,510,473,948	3,037,946,242
Central governments or central banks	BG	15,554,004	7,227,011
Central governments or central banks	CZ	127,894,322	0
Central governments or central banks	ES	0	33,365,305
Central governments or central banks	FI	100,054,222	0
Central governments or central banks	FR	102,537,115	0
Central governments or central banks	IE	54,108,927	254,195,063
Central governments or central banks	IS	0	20,202,524
Central governments or central banks	IT	137,090,896	135,190,132
Central governments or central banks	MX	0	7,153,661
Central governments or central banks	LU	5,153,379	0
Central governments or central banks	NL	14,740,000	18,330,000
Central governments or central banks	PL	131,220,853	34,383,202
Central governments or central banks	PT	30,842,412	0
Central governments or central banks	SI	26,687,253	79,759,850
Central governments or central banks	SK	208,583,693	197,890,320
Total central governments or central banks		4,527,091,733	3,887,028,142



Table 23: Geographic distribution of (financial) institutions as of 31 December

	Country	Exposure 2013	Exposure 2014
Institutions	AT	116,692,339	16,448,089
Institutions	AU	178,023,912	254,814,747
Institutions	BE	214,556,125	157,386,960
Institutions	CA	19,478,573	182,153,941
Institutions	CH	0	35,008,276
Institutions	CZ	4,099,895	54,305,593
Institutions	DE	32,326,588	73,103,187
Institutions	DK	66,265,239	125,130,715
Institutions	ES	120,507,714	10,294,954
Institutions	FI	67,088,791	27,159,085
Institutions	FR	258,364,772	297,432,179
Institutions	GB	395,862,766	400,447,781
Institutions	IE	50,565,662	23,188,793
Institutions	IT	45,252,003	5,151,802
Institutions	LU	0	30,046,209
Institutions	NL	443,494,686	394,977,274
Institutions	NO	55,922,133	57,075,609
Institutions	NZ	0	17,985,313
Institutions	SE	241,453,360	156,160,804
Institutions	SI	51,666,832	0
Institutions	US	63,078,143	225,110,194
Institutions	Other	242,698	0
Total Institutions		2,424,942,231	2,543,381,506

Table 24: Geographic distribution of corporates as of 31 December

		2013	2014
Corporates	BE	293,290,663	437,892,131
Corporates	CZ	0	20,008,141
Corporates	DE	0	56,593,279
Corporates	ES	25,239,659	68,860,011
Corporates	FI	10,036,222	15,000,249
Corporates	FR	141,939,352	126,436,870
Corporates	GB	120,041,831	80,331,403
Corporates	IE	5,527,425	79,119,762
Corporates	IT	41,706,471	23,097,910
Corporates	LU	20,894,229	20,721,518
Corporates	MX	10,015,510	23,749,582
Corporates	NL	70,202,433	228,345,907
Corporates	NO	36,514,095	36,279,250
Corporates	PL	0	10,130,382
Corporates	SE	0	28,281,576
Corporates	US	129,239,209	83,274,350
Total Corporates		904,647,099	1,338,122,321

The remaining lives by IFRS category can be found in the IFRS financial statements published on the Company's website. The table below indicates the weighted average remaining lives of the main Basel categories. In the case of institutions, these are the remaining lives of financial instruments with terms of at least one day. Current deposits with other financial institutions (including the NBB) and cash collateral are not included in the calculation of the remaining life for these institutions.

Table 25: Remaining (average weighted) life as of 31 December 2014

	Remaining life in years, 2014
Central governments and central banks	2.98
Regional and local governments	4.06
Public entities	9.17
Institutions	2.78
Corporates	3.13
Retail customers	0.56
Secured by real estate	17.31
Securitization positions – ABS (total average maturity)	6.50
Securitization positions- MBS (total average maturity)	34.48

In the ABS and MBS classification this is the average remaining period to final maturity (i.e. not based on the call date).

5.5. Disclosure on doubtful exposures

Past due positions (more than 1 month and more than EUR 25) occur only in the exposure categories 'retail' and 'secured by real estate'.

The positions listed below are classified in 'exposures in default' in the equity calculation. These credits are geographically almost entirely located in the core countries of Belgium and the Netherlands.

Table 26: Geographic breakdown of exposures in default at year end

Country	Exposure 2013	Exposure 2014
BE	153,316,354	128,016,242
NL	100,197,270	97,283,557
Other countries	2,572,353	1,777,350
Total exposures in default	256,085,977	227,077,149

These figures sum exposures arrived at using both the standard and the IRB methods.

The individually determined impairments amount to EUR 39,025,677 as of 31 December 2013. And EUR 40,958,579 as of 31 December 2014. The table below shows the evolution and breakdown into assets classes of the above-mentioned impairments.

Table 27: Evolution of individually determined impairments

	Opening balance 31/12/2013	Increase via P&L	Reversal via P&L	Closing balance 31/12/2014
Loans and receivables				
Consumer credit	4,039,789	1,056,957	-1,627,755	3,468,991
Mortgage loans	29,996,128	27,128,340	-23,677,508	33,446,959
Term loans	663,598	600,910	-196,358	1,068,149
Demand deposits / advances	4,096,967	327,442	-1,555,345	2,869,065
Other lending receivables	229,195	267,744	-391,524	105,415
Total loans and receivables	39,025,677	29,381,392	-27,448,490	40,958,579



The table below gives the IBNR provision as internally calculated by the Company per specific mortgage portfolio on an Exposure at Default (EAD) basis.

Table 28: IBNR provision

Portfolio	31/12/2013		31/12/2014	
	EAD	IBNR	EAD	IBNR
Aspa Belgium	7,337,406,251	2,317,029	8,091,991,693	567,756
Aspa Netherlands	10,586,639,242	6,259,266	12,487,023,626	4,985,238
Green Apple	2,473,279,951	1,364,212	1,220,982,339	450,144
CBHK	568,828,458	988,853	486,988,812	616,047
Total		10,929,360		6,619,185

At 31 December 2014, there was still a collective impairment of EUR 259,458 for a limited MBS portfolio (EUR 1,865,801 at end-2013). This portfolio-based impairment is recognized for a limited RMBS (Residential Mortgage Backed Securities) portfolio classified under loans and receivables.

Finally, in 2014 a provision of EUR 2.5 million was set up as a best estimate of the additional impairments needed to be recorded on loans following:

- further fine tuning of the internal processes for determining impairments to ensure full compliance with the EBA regulations in this respect and
- an increase in the 'haircut' applied to the guarantee values obtained on the Dutch credits for determining impairments

Ultimately this gives, in addition to the collective impairment of EUR 259,458, an IBNR of EUR 6,619,184 and a collective provision of EUR 2.5 million.

The table below shows the changes in the impairments determined on an individual basis and the overall impact on the income statement (see 'total impact' impact) column for 2014. This impact amounted to EUR 2,071,157 in 2014.

Table 29: Impact of impairments on the income statement

	Opening balance 31/12/2013	Increase via P&L	Reversal via P&L	Closing balance 31/12/2014	Recoveries via P&L	Direct derecognition	Collective provision	Total P&L impact
Consumer credit	4,039,789	1,056,957	-1,627,755	3,468,991	-194,578	439,147	0	-326,229
Mortgage loans	29,996,128	27,128,340	-23,677,508	33,446,959	-203,523	2,225,135	-1,810,175	3,662,268
Term loans	663,598	600,910	-196,358	1,068,149	0	39,155	0	443,707
Demand deposits/advances	4,096,968	327,442	-1,555,345	2,869,065	-467,709	1,601,592	0	-94,020
Other lending receivables	229,195	267,744	-391,524	105,415	-30,196	145,751	-1,606,343	-1,614,569
Total loans and receivables	39,025,678	29,381,393	-27,448,490	40,958,579	-896,006	4,450,780	-3,416,518	2,071,157

5.6. Unencumbered assets

Via its circular 2015/03, the Belgian regulator brought into effect, in the Belgian prudential framework, the guidelines of the European Banking Authority (EBA) of 27 June 2014 on the disclosure of encumbered and unencumbered assets.

The institutions are required, on an advancing basis, to disclose basic information about the previous twelve months based on median values of at least quarterly data. With respect, however, to the disclosure of information about the first reporting period, the institutions may choose to use the data as at 31 December 2014. This last option was – with the consent of the regulator – also taken for this first reporting.

We give below an overview of the encumbered assets at the Company as reported as of 31 December 2014.

- collateral for swaps and caps in a nominal amount of EUR 489,285,000, and having a fair value of EUR 583,343,619;
- collateral for swaps and caps in a nominal amount of EUR 367, and having a fair value of EUR 410,538,477;
- a separate account with the National Bank as security for BankCardCompany (on which a security with a nominal value of EUR 31 million was blocked).
- the Company has a line of credit with the NBB of EUR 250 million, for which securities are set aside (should the credit line be used).

In this way, a nominal EUR 856,285,000 are encumbered in the context of derivatives and repos and a nominal EUR 31 million in connection with the use of credit cards by customers of the Company.



The securities given as collateral are all classified under the 'assets available for sale' in the IFRS balance sheet.



The Company has not issued covered bonds and the loans that were securitized are, as a result of the consolidation of SPV Green Apple, now back in the Company's balance sheet.

EUR 21,850,884 was paid in cash in the context of the collateral management in respect of derivatives. Another EUR 5,272,000 of cash was received in the context of the executed repo transactions.

Apart from the above collateral, no other assets of the Company were encumbered. The remaining assets on the balance sheet can therefore be seen as **unencumbered**.

5.7. Other credit risk-related risks

Counterparty Risk

The assumptions and limits with regard to counterparties are summarized in the 'financial risk policy' in the chapter 'Credit and concentration risk'. This sets limits (for investments) per asset class, and also with respect to concentration risk by counterparty. The assumptions and limits with regard to counterparties are summarized in the 'credit risk policy' section of the chapter 'Concentration risk and concentration limits'.

Collateral

The Company receives collateral as part of its lending activity. This takes the form mainly of the registration of mortgages on property and financial assets pledged as collateral for retail credit lending.

The Company has also given collateral security against certain of its own assets in the exercise of its activities.

Wrong-way risk

General wrong-way risk is risk that arises when the likelihood of counterparty default correlates positively with general market risk factors. The general policy on credit risk and concentration risk is set out in the 'financial risk' and 'credit risk' policies.

By means of this policy, the Company seeks to limit these risks, with the impact of possible positive correlation with general market risk factors being limited by a general spread of risk over, for example, several asset classes and several counterparties.



6. Use of the standard approach

In 2014, the Company performed calculations using both the standard method and the 'internal rating based' (IRB) methods. For this reason, both methods are explained.

6.1. Use of rating agency ratings

The Company uses the ratings of the following three 'Approved Credit Rating Agencies' (ACRA) in determining the weighting percentages: Standard & Pours (S&P), Moody's and Fitch.

These externally obtained ratings are used with the following Basel II categories.

The Company uses the published 'standard classifications' to obtain the risk weighted assets on the basis of the ratings of the securities concerned.

Table 30: Basel II STA categories for which ratings are used at year-end

Exposure (STA)	Exposure 31/12/2013	Exposure 31/12/2014
Central governments or central banks	4,527,091,733	3,887,028,142
Regional and local governments	795,176,160	678,607,775
Public entities	9,969,046	15,353,010
Institutions	599,576,760	236,280,427
Corporates	97,392,464	142,405,629

Securitization positions are all weighted using the IRB method.



6.2. Derivatives

The Company uses the 'mark-to-market' valuation approach for calculating capital requirements for its derivatives.

As of 31 December 2014, there was an exposure of EUR 123,956,316 for the derivatives (swaps and caps) shown on the balance sheet. This exposure (potential replacement value) was calculated in accordance with the above-mentioned mark-to-market valuation method.

The exposure here is equal to the sum of the following elements:

- a. the current replacement cost based on the market value of transactions with a positive value; and
- b. the potential future credit risk, i.e. the product obtained by multiplying the notional principal amount (or underlying value) with a respective percentage.

The percentage is determined as follows based on the remaining life:

- | | |
|------------------------|------|
| • One year or less | 0% |
| • One to five years | 0.5% |
| • More than five years | 1.5% |

The current replacement cost based on the market value amounted to EUR 23,866,446 at 31 December 2014 and the amount of the potential future credit risk to EUR 100,089,870.

The exposures on derivatives, in each case with a financial institution counterparty, can be found under the 'institutions' category.

Until further notice, no netting is used in the calculation of the capital requirements for derivative instruments. In this way, the amount of EUR 23,866,446 is fully reflected on the asset side of the Company's IFRS balance sheet.

The nominal amounts and other disclosures concerning all derivatives can be found in the Company's IFRS financial statements, which are on the Argenta website.

Collateral management of derivatives

A well-developed collateral management system exists for derivatives concluded by the Company. A Credit Support Annex (CSA) of the International Swaps and Derivatives Association (ISDA) is concluded with each counterparty. These CSA's are concluded primarily to minimize counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (in the form of securities or cash).

As of 31 December 2014, a (nominal) EUR 489,285,000 of securities were pledged as collateral for swaps and caps, and EUR 21,850,884 was paid as cash collateral for the aforementioned derivatives.



7. Use of the (F)IRB method

7.1. Credit risk - (F)IRB approval

Since the 30 September 2009 report, the IRB method has been used for the mortgage portfolios. The Company applies here a 10% LGD floor for its mortgage loans including Dutch NHG mortgage loans. From 2012, the (F)IRB approach may also be used for portfolio companies, institutions and covered bonds. The 80% floor set in the Basel transitional provisions (on the Basel I-based calculations) continues to apply until further notice.

The latest IRB model for the Dutch mortgage loans portfolio was accepted with the requirement that a comparison be made systematically between the calculations using the standard method and those using the IRB method. Where the results of the standard method calculations are higher than those using the IRB approach, then the former form the basis for reporting and apply as the ultimate requirement.

The implementation of the so-called Basel requirements is a constantly evolving process within the Company. During the past few years worked has continued on meeting all regulatory and internal requirements.

The following steps were taken within the governance framework and further FIRB rollout. Internal ratings were further assigned last year to government bodies (mainly local and regional). These are relevant in the acceptance context and are also used for monitoring and management purposes and in the context of Pillar II capital calculations. For regulatory capital calculations, the Company continues to apply the standardized approach to governments. For bank and corporate counterparties it uses the FIRB approach.

Also within the stated FIRB governance framework, the FIRB models for banks and corporates were again reviewed in 2014. This review revealed the strength of the model. The Company took this last year a leaner approach to the review activities. The internal rating models are subjected to critical analysis on an annual basis. In this way, an update of the scoring model for corporate counterparts was prepared in 2014.

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

The Company calculates its exposures to retail customers (mortgage loans), securitization positions (ABS and MBS) and exposures to corporates, institutions and covered bonds by the (F)IRB method.

For obtaining approval to apply this (F)IRB method, internal rating systems were developed to estimate the credit risk of the mortgage portfolios. These systems include models developed to assess and evaluate the Basel PD and LGD parameters.

The PD model assigns a score to each loan file. This scoring is based on variables with associated modalities relating to both product and borrower criteria. Based on these scores, risk classes are formed. Each risk class is coupled to a long-term PD, which is the historic average default rate, corrected in certain cases for conservatism or to be 'forward looking'.

The link between the rating and the PD is determined during the calibration process (as part of the model development) and is revised and adjusted during the annual review.



LGD models were developed for estimating the size of the loss. This LGD pooling is also based on several variables. Each LGD pool is assigned an average LGD rate. In this way, each outstanding loan in the portfolio is placed in a specific LGD pool and is assigned the average LGD rate for the pool. This estimate takes into account aspects such as property values and the NHG guarantee (as credit risk mitigation elements). The historic averages are corrected to reflect any economic downturn.

The EAD is the amount owed to the Company by the customer at the time of default. This includes the outstanding capital at the time of default, past due capital repayments and interest (from the past due date to the date of default), delayed payment interest and the reinvestment fee.

No models have been developed for calculating a 'Credit Conversion Factor' (CCF) for unused credit lines and offers in the pipeline, as it was decided to use a CCF factor of 100% until further notice. CCF models estimate the proportion of off-balance sheet liabilities to be included as soon as a customer goes in default.

For the MBS portfolio, the (F)IRB method is applied via an External Ratings Based Approach including tracking a number of Key Performance Indicators (KPIs).

For exposures to corporates, institutions and covered bonds, an internal rating system is implemented to assess and evaluate the Basel II PD parameters. The rating model assigns a score or rating to each counterparty based on qualitative and quantitative variables. The link between the rating and the PD is re-determined during a calibration process, and reviewed annually, based on historical bonds. For LGD, the regulatory loss percentages are used as IRB input.

7.2.2. Integration of the Basel parameters

The embedding of the (F)IRB approach to Basel credit risk was realized by integrating it into the respective policies, the credit acceptance process, decision-making, risk management, investment policy and internal capital allocation. The credit risk models used by the Company play an essential role in this process.

The implementation and integration of the options regarding Basel credit risk in the broad sense in the operating credit departments are monitored by means of the 'use test'. This aspect involves, among other things, the implementation of the models in the operational business and risk management environment (credit application and the Basel II scoring, measurement and calculation software).

The Credit Risk Management department monitors the performance of the models, gathering the necessary monitoring information and report on it internally. The tasks of this Credit Risk Management department and of all other parties involved in the lending process are described in a 'credit risk management' policy.

The operational loans departments are tasked with granting and managing loans in accordance with the authorization and acceptance frameworks and the loan approval and management procedures applicable to each product and/or jurisdiction. They operate in a fully Basel-compliant manner, they actively use the PD, LGD and EAD models and in their processes and procedures and devote the necessary time and attention to the effective embedding of all relevant Basel II standards and rules.

This includes also the necessary efforts both to reflect and react on the feedback from the credit risk management department and to provide feedback themselves on the use of the models in the daily lending processes.

The Credit Risk Management division periodically analyses the frequency, reasons and types of differences ('outliers') between the model outcomes and the viewpoints of the loan approval officers. Based on these models, they then investigate whether new risk factors need to be incorporated into the models.

The CRA (Credit Risk Analysis) department of the Treasury 1 ALM division provides an analogous monitoring process for the performance of the models for exposures to corporates, institutions and covered bonds.



This process and the underlying tasks and responsibilities were also established in a comprehensive 'review of internal credit risk models' policy. This policy aims to verify that the internal credit risk models indicate correctly the risk levels of the credits to which they relate, via:

- analysis of the model and the environment in which the model operates,
- level of coverage,
- checking the performance of the model by testing the model outcomes against limits and flashing flights, and
- analysis of the effective implementation and application of the model (usage) and the role it plays in the decision process and in risk management (use test).

7.2.3. Organization of the (F)IRB process

The Credit Risk Management division is, beside the operational aspects of managing loan defaults, responsible for the first-line control in the area of credit risk management. The credit risk management division is responsible, among other things, for the further development of the models, and for the maintenance and control of internal ratings.

For the models for exposures to corporates, institutions and covered bonds, the first-line function is exercised by the CRA department of the Treasury and ALM division.

Within the governance framework for managing credit risk models, and within the project systems designed for this purpose, the cross-company Risk division provides assistance in the (further) development of the internal models.

In this process, the Risk division provides support to Credit Risk Management in the form of project management activities. In addition, the Risk division exercises a second-line control, consisting of a critical evaluation of the first-line reports, and carrying out (independent) risk checks on the same reports.

7.2.4. Control mechanisms for the (F)IRB model process

The validation of the models is undertaken by the internal validator (validation unit) that reports hierarchically to the CRO. The validator (validation unit) is independent here of both the business and the developers/modellers.

Conceptual validation is intended to determine whether the proposed model fits with Argenta's vision of risk policy (risk assessment, risk mitigants, controls), whether the model is methodologically correct and consistent with Argenta's policy, and finally, whether the design is regulation-compliant.

After approval, the models are implemented in the systems. Implementation validation is intended to investigate whether the implemented model is the same as the one that was initially developed and approved. Implementation validation relates both to the implementation within the organization as well as to the technical implementation in the institution's own IT environment, with particular attention to the use test aspects.

Once the model is in use, it is important to know whether it is continuing to work satisfactorily. Monitoring the performance of the risk model includes, among other things, comparing model predictions with actual performance. The Company determines, by means of internal standards, whether the differences between model predictions and actual performance are acceptable.

Credit Risk Management and Treasury & ALM analyse the frequency, reasons and sorts of appeals against model outcomes and the way these are handled. They also draw up the (generally) annual review report on the models. The review report proposes targeted actions for optimizing the performance of models such as the addition of supplementary variables. In this way, models are adjusted or recalibrated.



Internal audit

Internal audit has, over the past few years, continuously undertaken audits in respect of Basel pillar 1 credit risk. The Internal Audit department is responsible for determining whether a bank wishing to qualify for the advanced approach to credit risk under Basel meets all the minimum requirements. For this, the department draws on the services of independent in-house and outside experts as well as using the results of the validator, once the validation activities have been audited.

The validator plays the role of a party who is independent of the model development and of the business which the credit risk models validate. The validator's task is clearly defined and described in detail in a model management governance framework.

Stress tests

Besides implementing and reporting on the back testing of the internal measurement systems used to determine PD, LGD and EAD, Credit Risk Management and Treasury and ALM undertake stress tests in collaboration with Risk. Stress testing consists of measuring the effects of serious but realistic economic conditions on the institution's own portfolio. The results of the stress tests provide insight into the effects of potential unfavourable economic developments on the Company's risk profile.

The stress tests are conducted on the credit risk in the mortgage portfolios with the following aims:

- a. to determine the effects on capital adequacy, its own rating and the amount of potential losses;
- b. to determine how far a buffer needs to be formed to absorb stress scenarios;
- c. to gain insight into the relationship between macroeconomic variables and the parameters that determine credit risk; and
- d. to meet the requirements imposed by the supervisory authority.

The stress tests on the mortgage portfolios are conducted in order to assess the consequences of shocks to the mortgage market. In this regard, the Company is sensitive to a fall in house prices, a rise in unemployment, a decline in purchasing power and a rise in interest rates.



7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

The Company has developed three global models for mortgage loans (residential mortgages). One of these was designed for the portfolio of mortgage loans initiated by the Company's own branch network. This global model has a PD model with ten model variables and one LGD model based on historical averages.

A second global model was developed for the so-called CBHK portfolio, which is the portfolio constituted in the past via the CBHK brokers' channel. The PD model was developed in this case with six variables and the LGD model is based on historical averages.

A third and last global model was developed for mortgage loans granted in the Netherlands, consisting of a PD model based on two variables, one of which is based on 12 items of information available at the beginning of the life of a loan and the other on an LGD model. For managing and administering the mortgage portfolio in the Netherlands, the Company uses external service providers.

An important distinguishing feature in calculating the LGD of the Dutch mortgage loan portfolio is the already-mentioned NHG guarantee. NHG is the guarantee a person in the Netherlands can obtain on taking out a mortgage loan to buy or convert a house. The NHG means that the WEW guarantees the mortgage loan. For this, the borrower pays a one-time premium.

For the Dutch portfolio, new internal models were developed in 2013. The new PD model has eight variables and the LGD model is based on historical averages. These new models were run in parallel during 2013, allowing them to be used in 2014. As mentioned, the supervisor has set as condition that there is a systematic comparison between the calculations according to the sta and irb method.



Pooling – allocation to risk classes

The individual exposures are each assigned to a PD risk class (10 PD classes for the Aspa credits, 8 for CBHK credits and 10 for the Dutch sub-portfolio). Defaulted loans are classified into the default class. Each class or pool in the portfolio in question consists of loans with a similar risk profile. The best risks are those in class 1, the worst in the lowest class (the default class).

The intention, in determining the number of risk classes, was to divide loans into a maximum number of risk classes that are significantly different from each other.

7.3.2. Internal credit risk models for exposure within the investment portfolio

As part of an appropriate and prudent risk management, all banking and corporate counterparties were subjected to primary analysis over a one-year time period. This also fits into the governance narrative linked to Argenta's FIRB status.

These analyses are all subject to a systematic risk check as part of an annually recurring process. Before inclusion in the portfolio, every bank and corporate is assigned an internal rating, in accordance with the FIRB framework that has been ratified and implemented in Argenta, and which is reviewed at least annually. In this way, some 200 counterparties have been assigned an internal rating. The results of these rating reviews are discussed in the monthly Rating Consultation.

The underlying rating models for the low default portfolio were developed by S&P, with some twenty variables taken into account for each debtor.

Internal ratings are always based on two pillars: in addition to using statistically-based expert judgement models, fundamental risk analyses are undertaken for each debtor and subjected to independent second-line controls. The calibration of the PD values associated with the internal ratings is undertaken on the basis of historical data.

7.4. Exposures – (F)IRB method

The table below shows the exposure, average PD, average LGD, RWA and average risk weight as of 31 December 2014.

Table 31: Exposures by the (F)IRB method as of 31 December 2014

Data as of 31/12/2014	Exposures	Av. PD %	Av. LGD %	RWA	Av RW %
Total exposures	27,414,880,828			4,190,753,452	
IRBA Balance sheet items	22,508,393,438	1.90%	12.00%	2,432,751,786	10.81%
Off-balance sheet items	285,376,500	0.42%	10.00%	14,324,405	5.02%
Provisions	-34,983,651				
IRBF Balance sheet items	4,538,171,132	0.12%	44.00%	1,662,910,574	36.64%
Derivatives	117,923,409	0.12%	45.00%	80,766,687	68.49%

The above table contains the effective LGD percentages. In the RWA calculation of the mortgage loans, however, the required LGD floor of 10% is used instead of the effective LGD.

For the off-balance sheet items (consisting of unused credit lines and binding offers – the 'pipeline'), a standard CCF factor of 100% is used.

The following table gives the calculated expected loss (EL) for each mortgage sub-portfolio, based on both the actual LGD and the 10% LGD floor.

Table 32: EL calculated for each sub-portfolio as of 31 December 2014

Data as of 31/12/2014	ASPA	CBHK	Netherlands	Total
Total provisions included	7,422,610	7,166,608	20,394,432	34,983,651
EL _{eff} lgd	9,085,585	9,039,055	32,065,175	50,189,814
> non-defaults	1,662,975	1,872,447	17,989,854	21,525,275
> defaults	7,422,610	7,166,608	14,075,321	28,664,539
EL _{lgd floor}	11,593,554	9,399,609	32,523,230	53,516,392
> non-defaults	4,170,944	2,233,000	18,447,909	24,851,853
> defaults	7,422,610	7,166,608	14,075,321	28,664,539

As of 31 December 2014, the total EL (with the effective LGD) for both defaults and non-defaults was EUR 50,189,814. Applying the LGD floor of 10% gives an EL of EUR 53,516,392.

For the individual credits in the lowest PD class (the default class), individual provisions of EUR 34,983,651 were set up. Since 2008, a collective IBNR provision has also been set up for those mortgage portfolios for which IRB models were developed. This IBNR provision amounted to EUR 6,619,185 as of 31 December 2014.

By applying the 80% floor, the risk weighted assets (RWA) and capital requirements calculated under Basel II are in fact 'overruled' by the capital requirements calculated by the Basel I principles. This leads to a capital requirement of EUR 633,858,176 for the Company.

Table 33: Total capital requirement as of year end

	31/12/2013	31/12/2014
Credit risk – STA	60,151,059	44,253,491
Credit risk – IRB	224,927,456	322,293,181
Securitization – IRB	26,324,246	15,395,089
Operational risk	37,902,504	47,075,375
CVA risk	0	9,587,485
Other country-related capital requirement	34,581,190	35,720,143
Total capital requirement	383,886,454	474,324,764
Capital requirement according to Basel I principles	723,130,458	792,322,720
Application of the 80% floor	578,504,366	633,858,176
Effective capital requirement	578,504,366	633,858,176



8. Off-balance sheet items

The off-balance sheet items can be classified into two groups according to the RWA calculation of the credit risk:

- off-balance sheet items, the most important categories being: guarantees provided, loan commitments and unused portions of credit lines;
- derivatives: the Company has only derivatives concluded within the framework of ALM management (hedging).

There are several methods for calculating the weighted risk assets for the above-mentioned items. For derivatives, the Company uses the mark-to-market method. This calculation approach was already presented in Chapter 6.2. 'Derivatives'.

Outside the swaps entered into in the context of the securitization operations (Chapter 11. 'Disclosures concerning securitization'), the only other derivatives (swaps and caps) are those entered into to hedge the interest risk. For the other off-balance sheet items, Basel II provides for the use of conversion factors (CCF). This conversion factor amounts to 50% or 100% for the guarantees (depending on type). This has the effect of reducing the exposure from that shown on the balance sheet.

Loan commitments and the unused portion of confirmed credit lines are the parts of loans not yet used. The conversion factor used can be 0%, 20%, 50%, 75% or 100% (depending among other things on the approach and product type).

In addition to the exposure of EUR 123,956,316 for 'derivatives', there was an exposure of EUR 1,324,532,303 as of 31 December 2014 for 'other off-balance sheet items'.

The unconditionally cancellable credit card commitments are not included in the table since they carry a 0% credit risk rating.

Table 34: Off-balance sheet amounts as of 31 December 2014

Non-credit-replacing guarantees	3,847,225
Credit commitments and unused credit lines	881,233,783
Exposure to counterparties on derivatives and repos	12,860,716
Subtotal	897,941,725
Unconditionally cancellable credit cards commitments	426,590,579
Total	1,324,532,303

Table 35: Exposures, weighted risk assets and capital requirements for off-balance sheet items by conversion factor as of 31 December 2014

	IRB	20%	50%	100%	Total
Exposure	285,376,500	173,561,675	5,817,634	433,185,916	897,941,725
Risk weighted assets	14,324,405	26,226,612	2,181,613	34,129,121	76,861,751
Capital requirement	1,145,952	2,098,129	174,529	2,730,330	6,148,940

9. Management of interest risk

This section gives further information on the assumptions used by the Company in monitoring interest rate risk in the banking book (IRRBB).

Interest risk is defined as the current and future exposure of the profitability and the equity of an institution in the event of unfavourable interest rate movements.

The 'banking book' consists of all interest-bearing components of the institution's balance sheet not belonging to the trading portfolio. Non-interest-bearing assets (including non-interest-bearing elements of the required regulatory equity of the institution) are not included in the banking book. The interest-bearing assets of the Company belong exclusively to the banking book.

All choices and assumptions for measuring interest risk in the model are in principle based on economic variables and expectations. When measuring interest risk, it is important to be able to report both from an income perspective (via the interest earnings) and from an economic value perspective.

The 'economic value of the banking book' can be defined as 'the algebraic total of the expected cash flows of the assets in the banking book, discounted at prevailing market interest rates over their interest-bearing life'.

'Interest earnings' (the 'net interest income' item in the published income statement) is the difference between interest income and interest charges.' At consolidated level, this figure factors in the change in the market value of derivatives which are recognized through the income statement. As from 1 October 2008, hedge accounting has been applied for a portion of the derivatives (generally fair value cover for a portfolio hedge of interest risk).

Equity sensitivity is the exposure of the economic value of the enterprise to unfavourable interest rate movements and income sensitivity is the exposure of the (interest) income of the institution to the same unfavourable interest rate movements.

Variations in economic value in an interest-sensitive enterprise are strongly dependent on the duration gap, which is the difference between the duration (average interest duration of an interest-bearing instrument, taking into account both the capital repayment date(s) and the periodicity of coupons of all assets and the duration of all liabilities, also known as 'mismatch'). The greater the mismatch, the greater the interest sensitivity. Given its simplicity, the duration gap is used alongside economic value and interest earnings.

All material sources of interest risk are included. This implies that the internal systems are able to capture all interest-sensitive assets and liabilities as well as interest-sensitive off-balance sheet items.

The Company uses the spot 'forward rate' swap-curve as a basis for calculating future cash flows and discounting interest rates. This choice is justified as reflecting a 'market consensus' as to the future development of interest rates. The Company assumes that these market data develop in an efficient market and that they are the best predictor of the future.

However, Alco can always decide to deviate from this approach. In this case, the decision is clearly explained in the meeting of the executive committee, which will ratify the decision, and report it to the Board of Directors.

The spot swap-curve of the reporting date is used for the calculation of economic value. No margin is applied to swap rates, neither for assets, nor liabilities. In this way, changes in the credit risk remain clearly distinguished from changes in interest risk resulting from mismatching.



The interest risk management system serves to calculate the impact of well-defined (stress) scenarios. These scenarios all depart from the same conservative hypothesis of zero balance sheet growth (thereby assuming that the current balance sheet mix is maintained).

Assumptions concerning the behaviour of deposits with no fixed maturity

For liabilities which in principle are callable daily, but which customer behaviour shows to remain (on average) for considerable lengths of time on the accounts in question, notwithstanding relatively major movements in market interest rates, the following durations are applied for the economic value calculation:

- a) regulated savings accounts: 2 years;
- b) current accounts: 5 years;
- c) savings accounts in the Netherlands: 2 years.

For the same products, the following tariff adjustments are applied with respect to interest income, for a given movement in market interest rates:

- a) regulated savings accounts: 70% of the change in market interest rates when interest rates rise and 70% when interest rates fall, in each case with a lag of six months in respect of the interest rate change;
- b) current accounts: not sensitive to market interest rate fluctuations for 5 years;
- c) savings accounts in the Netherlands: 70% of the change in market interest rates when interest rates rise and 70% when interest rates fall, in each case with a lag of six months in respect of the interest rate change.



Assumptions concerning 'embedded options' (yield bonds, mortgage loans)

In the context of interest risk management, the Company recognizes three 'embedded options'.

The first option for the customer lies in the yield bonds, where the customer has the choice to either cashing the coupons, or capitalizing them. For future behaviour, the model is based on the current portfolio distribution between the two types of behaviour.

A second option concerns the possibility of customers prepaying their mortgage loans for only a low penalty. This option is factored into the model as follows:

- a) for mortgages in Belgium an internally developed prepayment model is used;
- b) for mortgages in the Netherlands prepayment behaviour is defined separately.

The third and last implicit option relates to the one whereby Belgian mortgage rates can be capped at interest revision dates by means of contractual maximum increase levels. The implications of this on both the economic value and the interest earnings are factored in as a matter of course in determining the interest risk.

Explicit options are treated by preference on the basis of economic reality. This means marking to market and recognition of the real cash flows in the income statement.

Treatment of 'pipeline risk'

In the period between the approval of a mortgage loan and execution of the legal documents, market interest rate fluctuations can influence the interest rate at which the mortgage loan is eventually completed. In the case of rising interest rates, the customer is still able to enjoy the tariff which was valid when the mortgage loan was applied for. On the other hand, in the case of decreasing market interest rates, the customer can opt for the tariff which applies immediately before the legal documents are executed.

In this period, in which loans have been confirmed for which the rate is not yet established, pipeline risk arises. Where the pipeline amount is significant, refinements need to be done outside the standard modelling in order to set the global interest risk into sharper focus.

The Company's ALM department reports monthly on interest risk at the corporate level and quarterly at the consolidated level. In the absence of non-euro investments, reporting is limited to euro reporting.



10. Capital Management

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

In addition to describing methods for calculating the regulatory capital requirements (quantitative requirements), the Basel agreements place increased stress on risk management and integrated group-wide management (qualitative requirements). The Company is obliged to implement adequate procedures and systems aimed at guaranteeing its long-term capital adequacy, taking into account all material risks.

These procedures are known internationally as the ICAAP (internal capital adequacy assessment process). The goal of the Argenta Group's risk management is to have the best possible capital structure and risk control, equal to that of the major market players, and with which at the same time it continues to meet the statutory capital requirements.

Executing the business plan, with sufficient capital at all times to pursue the planned growth, is a key factor here.

The Company has always pursued a policy of self-financing. To retain a level of capital that provides sufficient scope to support growth and meet the financial and operational risks, the Company seeks to satisfy its potential capital requirements with (a) retained earnings, (b) possible capital increases, and (c) subordinated alternative Tier 1 and Tier 2 loans. In addition, it may also be decided to lighten the balance sheet by securitizing part of the retail loan portfolio.

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

The risks to which the Company is exposed require a risk buffer in the form of equity. The ongoing development of its business as a conventional savings bank, and hence as a bank involved in transformation (a bank whose activity is to convert (transform) funds deposited short-term into longer-term investments), means that this required equity must be permanently monitored, and supplemented when necessary.

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

- the correct identification and measurement of the risks to which it is exposed;
- the maintenance of adequate internal capital in line with the bank's risk profile;
- the use and further development of risk management systems.

This means, in other words, that in all circumstances (stress scenarios) the capital requirements of the Company and all its different sections are satisfied with an adequate degree of certainty. This is expressed by the economic capital, in which the various risks are factored in.



Stress tests and stress scenarios

The Company conducts periodic stress tests. In 2014, a comprehensive stress test was included in the ECB assessment. The purpose of a stress test is to express the risks of external events in terms of financial damage, i.e. to measure resilience in the event of a severe economic downturn.

The probability and impact of this in relation to the risk appetite leads to a consideration of accepted risks and risk-mitigation measures or the decision to hold more capital. The financial impact resulting from stress tests is defined as the direct negative impact on the core equity.

A stress test is a single test on a single event and thus a change in one parameter. A stress scenario is a set of stress tests that together form a scenario. In the ECB stress scenarios, the Company maintained more than the required capital.

The calculations according to the Basel rules (pillar 1) for capital management are reported to the supervisory authority and used in-house. For the credit risk, the so-called 80% floor for the required regulatory capital will continue to be the statutory basis also after 2014. In its ICAAP under pillar 2, the Company calculates the required economic capital on the basis of Basel IRB risk parameters. These are globally lower than the minimum 80% floor.

In addition, all material risk factors are also modelled in ICAAP so that the total ICAAP provides a more comprehensive picture of capital requirements. This results in a direct link between the ICAAP calculations and the economic capital adequacy ratio (99.90%) from the RAF. Regarding the available economic capital versus the required economic capital a minimum limit of 100% is provided, but the aim is a ratio of more than 130% so that the Company always has a comfortable capital situation. In addition that RAF includes limits for value stability (95%) and income stability (80%) which are derived directly from the ICAAP report.

Calculation of the required economic capital is followed by the Supervisory Review and Evaluation Process (SREP), whereby the supervisory authority reviews the effect of the ICAAP process. In practice, the SREP consists of the control and evaluation of the Company's ICAAP, the result of an independent test of the risk profile and, if necessary, preventive measures and other actions by the supervisory body.

In 2014, systematic consultations were held with the supervisory authority in the framework of the SREP.



11. Securitization

11.1. Objectives of the Company

The Company has undertaken two securitization transactions since 2007. The operational framework and the policy for carrying out such transactions were developed mid-2007, resulting in a first successful securitization transaction in September 2007. A second securitization transaction was finalised in December 2008.

Both securitization transactions related to the securitization of a portfolio of Dutch residential mortgage loans with NHG guarantees via the Green Apple SPV.

The initial objective of the first securitization was to attract new funding (tapping into a new source of funding) with a view to improving the liquidity position.

The objective of the second securitization was to convert mortgage loans into ECB-lendable assets. This was also clearly reflected in the fact that the Company itself purchased all the securities (issued by the Green Apple SPV).

At a consolidated level, these securities issued by Green Apple do not appear because they are eliminated in the consolidation of the Company, with the Green Apple SPV included in the consolidation scope.

At the end of 2013, the call on the tranche issued in 2008 was exercised, and on 23 January 2014, the notes were repaid. The Company has taken back the remaining loans and receivables directly into its balance sheet.

Principal characteristics of the still outstanding securitization transaction SPV Green Apple 2007-I NHG:

- securitization of initially EUR 1.5 billion of Dutch residential NHG mortgage loans;
- issuing by Green Apple of three classes of bonds (GAPPL 2007-1 A XS0322161026, GAPPL 2007-1 B XS0322161299 and GAPPL 2007-1 C XS0322161299);
- amortizing front and back swap of nominal EUR 1.41 billion with RBS as counterparty;
- initial purchase of tranches B (EUR 10.5 million) and C (EUR 3 million) by the Company itself. In 2013, all A notes were purchased by the Company;
- The outstanding amount of the entire issue as of 31 December 2014 was EUR 1,221,994,770.

The possibility to call the issue already in October 2014 was not exercised. The Company has all notes in its own possession and can these use notes – as part of its liquidity reporting – as ECB-eligible assets.

11.2. Role as originator of securitization transactions

The company plays several roles in securitization operations. As initiator (originator) of securitization operations, the Company (seller) sells the loans for securitization to the issuer.

In the case of the two securitization operations initiated by the Company, the issuer was a SPV, set up under Dutch legislation, named Green Apple BV. This company purchased the loans credits and issued bonds with which to pay for this purchase.

For the securitization operations of SPV Green Apple, Fitch Ratings Ltd. (www.fitchratings.com) was in each case appointed as credit rating agency. The still outstanding notes are listed on the Luxembourg stock exchange, where the ratings can be consulted on the basis of the ISIN codes.



In 2012, a rating was obtained from a second rating agency, Moody's Investors Service (www.moodyratings.com). In this way, the securities in question can serve permanently as ECB-eligible financial instruments.

The Green Apple SPV is administered by Intertrust Services, an independent Dutch company specializing in securitization operations and trust management.

For both securitization transactions, the Company initially granted Green Apple a subordinated loan (subordinated loan provider): EUR 2 million with the first securitization transaction, and EUR 1 million with the second securitization transaction, under a Subordinated Loan Agreement. These loans were being systematically repaid as sufficient cash became available.

In the first securitization transaction (Green Apple 2007-I), the Company itself purchased the B and C notes in an amount of EUR 13,500,000 (investor junior notes). In July and December 2013, the A notes too were purchased by the Company.

The portfolio servicing for the securitization transactions is performed by the Company. This competence has, however, been delegated to Stater Nederland BV and Quion Hypotheekbegeleiding BV (which were already responsible, prior to the securitization, for the servicing of the related Dutch NHG mortgage loans).

For these operations, SPV Green Apple entered into an interest rate swap with a counterparty, which will receive quarterly the (fixed) interest on the loans (minus specific costs) from the SPV and in exchange will pay the variable interest on the issued notes. The external counterparties concerned have systematically concluded a back-to-back (BtB) swap with the Company.

A more detailed description of all tasks in the securitization transactions can be found in the Structured Finance documentation created by rating bureau Fitch Ratings Ltd. The notes are also listed on the Luxembourg stock exchange, so that further information on them can be found based on the ISIN codes.

The company is in addition involved in securitization operations in its role as investor.

11.3. Basel approaches applied

The company applies the 'rating-based approach' for calculating the capital requirements for the (purchased) securitization securities.

Under IFRS, the SPV Green Apple is fully consolidated. In this way, the underlying Dutch mortgage loans with NHG guarantee return to the consolidating entity's balance sheet. For this reason, a capital requirement is calculated for the underlying loans instead of the issued notes.

Under the Basel regulations, the Company holds capital on both unconsolidated and consolidated levels for the portion of the loans not guaranteed by the NHG as a result of the annuity decrease of the NHG.

Selling the portfolio has not caused a free fall in necessary capital since the loans sold to Green Apple are also included in the Company's unconsolidated exposure.



11.4. Accounting policies

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

The financial assets involved in a securitization are no longer (fully or partially) accounted for in those cases where the Company transfers virtually all risk and income from the assets or parts of the assets.

11.5. Portfolio of securitization positions

Besides the securitization transactions performed by Argenta itself and described above, the Company holds, as part of its investment policy, a number of asset-backed and mortgage-backed securities.

These positions are accounted for by the IRB method under the exposure category 'securitization positions'. Based on the ratings of the securities involved, a RWA percentage is assigned.

The table below gives a geographical overview of purchased (as investments) securitization positions. This geographical distribution is based (as for the entire portfolio) on the country code of the issuer.

Table 36: Geographical classification of the securitization positions

Exposure category	Country	Exposure 2013	Exposure 2014
MBS	BE	8,640,074	0
MBS	ES	51,588,210	42,864,464
MBS	FR	0	19,649,357
MBS	IE	13,496,712	13,549,763
MBS	NL	690,181,394	880,870,458
ABS	ES	25,443,674	25,471,348
ABS	US	18,309,190	15,464,759
Total securitization positions		807,659,254	997,870,147

The following table gives an overview of the securitization positions involved, with their external ratings (indicating the credit quality of the securities), their EAD and the total capital requirements by the IRB method.



Table 37: EADs and capital requirements of securitization positions as of 31 December 2014

Rating 1	Rating 2	Rating 3		ABS	MBS	Total	
A	A1	-	Sum of EAD		1,780,257	1,780,257	
			Sum of CAPITAL		15,097	15,097	
		AA+		Sum of EAD		3,240,846	3,240,846
				Sum of CAPITAL		27,482	27,482
	-	BBB-		Sum of EAD		2,580,387	2,580,387
				Sum of CAPITAL		218,817	218,817
	A3	AA-		Sum of EAD		3,958,773	3,958,773
				Sum of CAPITAL		67,141	67,141
	Aa2	AAA		Sum of EAD		17,156,336	17,156,336
				Sum of CAPITAL		116,389	116,389
	Aaa	AAA		Sum of EAD		196,472,228	196,472,228
				Sum of CAPITAL		1,166,259	1,166,259
	Baa1	A		Sum of EAD		7,206,984	7,206,984
				Sum of CAPITAL		213,903	213,903
A	Baa3	BBB	Sum of EAD		3,884,807	3,884,807	
			Sum of CAPITAL		329,432	329,432	
A-	Aa3	-	Sum of EAD		1,910,730	1,910,730	
			Sum of CAPITAL		32,406	32,406	
A+	Aaa	AAA	Sum of EAD		26,253,712	26,253,712	
			Sum of CAPITAL		155,842	155,842	
AA	-	AAA	Sum of EAD		11,639,033	11,639,033	
			Sum of CAPITAL		78,959	78,959	
	A1	-		Sum of EAD		3,204,176	3,204,176
				Sum of CAPITAL		27,171	27,171
	A2	-		Sum of EAD		673,537	673,537
				Sum of CAPITAL		6,854	6,854
	A3	-		Sum of EAD		2,423,331	2,423,331
				Sum of CAPITAL		41,100	41,100
AA-	A2	-	Sum of EAD		1,003,203	1,003,203	
			Sum of CAPITAL		10,209	10,209	
AA+	Aaa	-	Sum of EAD	15,464,759		15,464,759	
			Sum of CAPITAL	262,282		262,282	
AAA	-	AAA	Sum of EAD		198,691,978	198,691,978	
			Sum of CAPITAL		1,179,436	1,179,436	
	Aaa	-		Sum of EAD		366,369,616	366,369,616
				Sum of CAPITAL		2,174,770	2,174,770
		AAA		Sum of EAD		95,575,943	95,575,943
				Sum of CAPITAL		567,339	567,339
B+	B2	-	Sum of EAD		2,670,438	2,670,438	
			Sum of CAPITAL		2,670,438	2,670,438	
BB	Baa1	BB+	Sum of EAD	25,471,348		25,471,348	
			Sum of CAPITAL	5,399,926		5,399,926	
BBB	A3	-	Sum of EAD		6,908,042	6,908,042	
			Sum of CAPITAL		351,481	351,481	
BBB	Baa3	-	Sum of EAD		3,329,683	3,329,683	
			Sum of CAPITAL		282,357	282,357	
Total EAD				40,936,106	956,934,041	997,870,147	
Total capital requirement				5,662,208	9,732,881	15,395,089	



The portfolio of securitized positions has increased from an exposure of EUR 807,659,254 as of 31 December 2013 to EUR 997,870,147 as of 31 December 2014.

Applying the weighting percentages and the 8% requirement, a capital requirement of EUR 15,395,089 was arrived at for these purchased securitization positions.

Securitization positions are systematically screened as part of credit risk management. Based on this examination, based among other things on the periodic reports of the issued securities, a collective impairment of EUR 359,458 remained as of 31 December 2014.

12. Concluding disclosures

The Company currently uses both the standard approach and the (F)IRB method for calculating the capital requirements. As a result of the application of the transitional provisions during a transition from the standard method to the IRB method, the calculations as per Basel I remain of essential importance.

The Company does not use the Advanced Measurement Approach for operational risk, so no additional disclosures are included on this subject.

The credit risk mitigation risks techniques used (funded and not fully funded) are explained in Chapter 5.3. 'Credit risk mitigation'.

Disclosures on the governance arrangements are incorporated in the filed annual reports and the umbrella BVG annual report (also published on the website).

The remuneration policy and the compensation culture were also explained in the reports published on the website and in the financial statements. The Company continues to employ no person receiving more than EUR 1 million and no shares are awarded.

Certain disclosures are still not mandatory (e.g on the leverage ratio) and will be included in the next Pillar 3 disclosures. The Company did not qualify as globally systemically important institution, and therefore does not have to provide disclosures on this.

The above (not externally audited) disclosures are given in the context of Basel II pillar 3 and are published in Dutch and English on the Company website (www.argenta.be) with the intention of fulfilling the disclosure requirements of part 8 of the CRR.

The Dutch version is the original; the English version is a translation. The Company warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Queries related to the distribution of these reports can be addressed to:

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