

ARGENTA SPAARBANK

Pillar 3 Disclosure 2008



www.argenta.be

1. Introduction

Within the framework of the so-called Basel II agreement (applicable to Belgian credit institutions as a result of circular PPB-2007-1-CBP, issue XIV published by the Belgian supervisor: the CBFA) every financial institution, subject to the equity regulations must make public certain explanations with regards to its risks and equity position.

In the following document the required explanations concerning the consolidated financial position of Argenta Spaarbank nv, with registered office at, 49-53 Belgiëlei, 2018 Antwerp (hereafter the Company) are made public. The document will be comprehensively published on the Argenta Group website (www.argenta.be).

The explanations in this document are related to the company and its subsidiary companies (hereafter the Bank Pool). The consolidation entity is stipulated according to the 'International Financial Reporting Standards (IFRS)'.

Table 1: IFRS and Basel II consolidation

Entities	Participation	31/12/2007	31/12/2008
Argenta Spaarbank (Aspa)		consolidation entity	consolidation entity
Argentabank Luxembourg (ABL)	99,71%	full consolidation	full consolidation
Argenta Fondsenbeheer (Arfo)	100%	full consolidation	settled in 2008
CBHK nv (credit provider)	99,95%	full consolidation	full consolidation
Green Apple (SPV)	0%	full consolidation	full consolidation

Although there is no capital link with the Company, the board of directors has (on the basis of IFRS rule SIC-12 Consolidation – special purpose entities/vehicles) judged that Green Apple as an SPV has to be consolidated. Because of this the transferred mortgage loans remain on the Bank Pool balance sheet (further information concerning this SPV Green Apple can be found in chapter 10. Securitisation disclosures).

The company has no subsidiary companies which were not incorporated into the consolidated entity.

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

2. Risk management

Advanced and complete risk management is an essential prerequisite for achieving sustainable profitable growth. The risk management strategy and policy of the entire Argenta Group including the internal governance structure of the subsidiary financial institutions, are determined by the bodies (executive committee and board of directors, in accordance with the division of tasks and responsibilities as specified in the Articles of Association) of Argenta Bank- en Verzekeringsgroep nv (hereafter referred to as **BVg**).

The main subsidiaries – in particular the Company (**Aspa**) and Argenta Assuranties (**Aras**) – are responsible for the operational management within the guidelines specified by BVg. The demarcation of the types of risks and the levels of acceptable risks are determined at BVg level and are reflected in the relevant policy lines. The Company and Aras translate these limits and standards into more detail for their operational management. The independent risk management control function is managed at Argenta Group level and also organised there. In addition, both Aspa and Aras take full responsibility for organising and supporting the ‘risk management’.

The policy and the organisational structure of the Company concerning risk management are designed such that these risks are always properly identified, analysed, measured, followed up and controlled. The risk management for the Company distinguishes between the following categories of risks: financial risk (market risk, and liquidity risk), credit risk (including concentration risk) and operating risk.

2.1. Financial risk

The management of the financial risk is described in a line of policy for financial risk management (financial risk section), and includes the risks below.

2.1.1. 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. Market risk consists of three types of risk: interest rate risk, currency risk and other price risks.

Interest rate risk

The most important market risk, to which the activities of the Bank Pool are exposed, is interest rate risk, which results in the first place from changes in market prices, unexpected changes in investment yields and changes in interdependence of interest rates between various financial instruments.

The Bank Pool uses a number of instruments to enable management of the balance sheet, including the active management of the investment portfolio, measures to accelerate or slow down the growth of specific portfolios, securitisation of loan portfolios, and the use of derivatives, such as caps and swaps as hedging instruments for interest rate risk.

In order to control and manage the risk exposures, the Bank Pool uses various risk indicators that are available, such as net interest income, duration gap (sensitivity of the market value), interest rate margin, and market value of the equity.

Strategies for reducing risks

With the control of the interest rate risk, the Bank Pool aims to keep the interest rate risk within set limits. This is achieved through hedging or corrections of the interest risk, which can be both endogenous and exogenous.

For the endogenous hedging, the whole pallet of adjustment on on-balance products is available, both in the field of price, commercial stimuli, new products, and adjustment of product characteristics. Endogenous actions can have an important impact, which will only manifest itself relatively slowly and gradually. As a result, the time horizon is relatively low and thus forms the fundamental basis for a flexible balance and management.

To realise exogenous hedging, financial derivatives are taken into consideration, mainly interest swaps, *FRA*'s and interest options (*caps*). The impact of exogenous hedging on the market value sensitivity is shown immediately after signing the contract. As a result, they are perfect to be used as a corrective instrument.

With interest swaps, the linear risk profile is changed. That profile is mainly a combination of long-term assets and long-term obligations. Interest options can be used amongst others to reduce the non-linear risk, which is mainly caused by options that are included in customer contracts, such as interest rate ceiling or advance payment options.

When a position is being covered, the economic effect of changes in the net cash value of that position, as a result of changes in the interest graph that is used as a *benchmark*, is reduced by compensating changes in the net cash value of the financial derivative that is used as cover instrument.

Under IFRS, strict financial regulations are applicable to the financial processing of hedging, and not every economic hedging that is used to hedge the interest risk is regarded as *hedge* under IFRS.

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in the exchange rate.

The Bank Pool only operates in the Benelux and makes no other investments than in Euros, as a result of which it is not exposed to exchange rate risk.

Other price risks

The risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices other than changes that ensue from interest rate risk or currency risk.

This is irrespective of whether these changes are caused either by factors that specifically apply to the individual financial instruments or the emission of them or due to factors that affect all similar financial instruments traded on the market.

Equities risk

The Bank Pool does not invest in individual equities. On 31 December 2008, the limited number of investment funds (in the legal form of beveks or sicavs) are only recognised (temporarily) on the balance at the start of new compartments.

2.1.2 Liquidity risk

Liquidity risk management

Liquidity risk concerns a situation in which a Bank Pool company would not be able to meet the liquidity requirements of deposit or other contract holders, without suffering unacceptable losses as a result of freeing up assets that should be used to pay the financial liabilities in normal and difficult circumstances.

This is therefore the risk that a company has insufficient financial means to meet liabilities when these must be paid on expiry date, or that assets can only be secured or sold at exceptionally high costs.

The increased attention to the liquidity risk originates from the globalisation of the financial markets, the greater volatility of the funding, the strong growth of new products and structured transactions such as securitisations. Although these elements mainly affect global players, the Bank Pool also needs to focus more attention on the liquidity issue.

The strategy of the Bank Pool concerning liquidity management comprises using an adapted Management Information System (MIS) to measure, monitor, check, report and to manage the liquidity positions of the individual companies in accordance with the group's standards, and to do this both under normal and exceptional circumstances.

The daily liquidity management, the definition of “*early warning indicators*” (EWI's) and the organisation of stress test are described in a “*Liquidity Contingency Plan*” (LCP).

Every day, reports on funding are distributed amongst a broad target audience, including all members of the board of directors. In addition, the discussion of the warning indicators is a fixed item on the (at least) two-weekly Asset & Liability committee (ALCO). In other words, the higher management is continuously involved in the liquidity management.

Liquidity sources

The funding policy focuses on the private client via the issue of on-demand, savings, and term-deposit accounts, and securities. Customers' deposits constitute the most important part of the main funding sources of the Bank Pool's banking activities.

These deposits can be considered as both sources of liquidity and sources of liquidity risks. Private individuals' current account and savings account credit balances are always available on demand or at short notice, but nevertheless provide an important contribution to the stability of the long-term basis of the funding. This stability therefore depends on the retention of the accountholders' confidence in the Company's solvency and proper liquidity management.

The group’s financing structure is managed in such a way that a substantial diversification is maintained, that financing concentrations are minimised, and that the level of dependency on wholesale financing (with or without repos) remains limited.

The Company has the following basic instruments available as a possible source of liquidity: cash, securitisation of (a part of) the mortgage portfolio, the expansion or reduction of the number of financial instruments that can be loaned at the ECB, credit lines at the NBB given that there are guarantees, and the sale of (a part of) the securities portfolio that cannot be loaned at the ECB.

When a possible liquidity need occurs, the cheapest sources will be used first. In the first place, this relates to the available cash (cash on accounts at other financial institutions and the central bank).

In December 2007 and December 2008, within the framework of the liquidity management securitisation transactions were performed. More information concerning these transactions can be found in chapter 10. Securitisation disclosures.

The important efforts that were made in 2008 in the framework of the liquidity management will be continued in 2009 by expanding the current scope to the implementation of respective checks of the liquidity management according to the recently published 17 “*principles for sound liquidity risk management and supervision*”.

The table below shows the liquid financial assets as quarterly reported to the Belgian regulator. The securities included in the table are at fair value (including the pro rata interest).

Table 2: Liquid financial assets Bank Pool

Breakdown of liquid financial assets	30/06/2008	31/12/2008
Cash en cash equivalents by central banks	18.146.203	27.413.368
ECB eligible securities	3.575.003.109	7.848.696.871
Securities and loans eligible in repo transactions	0	0
Securities made liquid through sale	2.033.641.876	1.985.565.588
Potential reusable securities received as collateral	0	0
Total liquid financial assets	5.626.791.188	9.861.675.827

2.2. Credit risk

Credit risk management

The management of credit risks within the Bank Pool is regulated through the policy line on credit risk management. This credit policy contains basic principles for identifying, measuring, approving and reporting credit risks.

The credit risk arises when a customer or counterparty is no longer able to meet its contractual obligations. This can be the result of insolvency of a customer or counterparty. This risk arises both with traditional lending and with investment activities.

The Bank Pool is exposed to credit risk as a result of supplying home loans in Belgium and the Netherlands, consumer loans and investment loans in Belgium and the Netherlands, investing in bonds and short-dated debt instruments, expenditure by governments in the euro zone, asset/mortgage-backed securities or bonds and short-dated debt instruments issued by companies, and finally interbank loans in Euros with a bank from the OECD area as counterparty.

All segments of the Bank Pool have proper measurement instruments, guidelines and procedures available to manage the credit risk, including a fully independent credit approval process with set limits for creditworthiness, and supervision procedures.

The Bank Pool endeavours usually to maintain a low risk profile in its lending. This strategic option is confirmed in, among other things, the credit acceptance conditions and procedures of the Company and subsidiary CBHK, of which collateral requirements (mainly mortgage registrations on buildings) is one of the basic terms and conditions, together with the strategic focus on lending to retail clients.

Credit risk and the Basel II Capital Accord

The Bank Pool has many years' experience in granting and managing mortgage loans and advances, which is actually proven by its history of low credit losses.

Because of this experience and in accordance with the Basel II requirements, the Bank Pool has therefore opted to perform its retail lending on the basis of internal ratings, subject to exceptions that are not material. This means that each lending counterparty will be assigned a rating, which can be either an internal or external rating. The Company has therefore, as far as applicable, developed one or more models for this purpose itself.

A distinction is made between models for PD (probability of default risk) and LGD (loss given default). An internal rating system (IRB) has been selected for the retail portfolios, for which both a PD model and a LGD model have been developed.

In the PD model, credit files are divided into various credit rating classes, depending on the risk of insolvency calculated using the model. The credit rating classes are divided on the basis of variables with associated terms and conditions, which include both product criteria and criteria related to the borrower. Each credit rating class has lower and upper limits for the risk of insolvency and is assigned an average insolvency rate. The insolvent files are placed in a separate rating class.

The LGD pooling also takes place on the basis of several variables. Each LGD pool is assigned an average LGD rate. In this way, each outstanding loan in a portfolio is placed in a specific LGD pool and that loan is assigned an average LGD rate.

Every month, the total retail loan portfolio is linked to the PD and LGD models in order to calculate the capital requirement for unforeseen losses.

Collateral

The granting of mortgage loans always includes requests for personal or commercial collateral.

For these collaterals, in this case the premises on which a mortgage or power of attorney is registered, revaluation estimates only took place if the files to which the collaterals were attached were considered as failed. See the definition of failed in chapter 5.1. Definition of past due and failed.

Partly as a result of the introduction of the new Basel II Capital Accord, measures were implemented in 2008 to regularly reassess all collateral securities using a statistical method.

Foreclosure policy

If all other means of financially settling a failing loan have been exhausted, the Company will proceed with a public sale, where a building is involved. In 2007, in the context of this foreclosure policy, one building was bought by the Company itself. In 2008, two buildings were bought.

The conservative credit policy and the strict limits strategy, as well as the favourable economic conditions, had resulted in the credit losses within the Company's various fields of activity being exceptionally low during recent years.

Concentration of credit risk

Concentration risk can consist of several elements: concentration in lending to an individual counterparty or a group of mutually related counterparties (single name concentration or counterparty concentration); concentration in lending by means of an uneven division across sectors or countries/regions (sector concentration); this latter risk can arise because of significant exposures on groups of counterparties with which the risk of default is driven by common underlying factors.

Possible concentration risks that result from the presence in just 2 mortgage markets are reduced by a limitation of the credit risk per individual dossier, as well as a strict monitoring of the evolution on the Dutch and Belgian mortgage and residential real estate markets.

In addition, a distribution of the risk is also assured by allowing a large number of loans for a limited amount, spread across Belgium and the Netherlands (also regional). By spreading the credit provision in time (credit is granted every week/month), the risks are reduced (after all, credit is granted in both high and low economic times).

Finally, securitisation can also be used in addition to a funding and liquidity tool to manage the risk volume of the credits and thus the level of concentration (the two implemented securitisation transactions both related to the Dutch mortgage credits).

Concentration risk is systematically monitored and reported to the management. The basis for the quantitative assessment is the analysis of the portfolio composition's balance in economic sectors (governments – public administrations, credit institutions, other loans including commercial bonds, mortgage lending and other retail lending) and countries.

A policy line on financial risk states that investment in business bonds is only allowed if these bonds rate AA or higher, and if these are free for trade. The particular ratings are monitored systematically. If (after the sale) the rating of a bond drops below this AA rating, the particular bond will be discussed again individually and followed up in the Alco.

2.3. Operational risk

Operational risk policy

All companies, regardless of the nature of their activities, are exposed to operational risks due to the inherent uncertainty of operational activities. This operational risk is caused by external factors or uncontrolled internal factors. Within operational risk, a distinction is made between event risk and business risk.

Event risk concerns the risk of losses due to a one-off event, such as a system error, a mistake, fraud, an indictable offence, a court case, or damage to buildings or equipment. Business risk concerns the risk of losses as a result of events that can produce a loss for a line of business, or due to the commercial circumstances, such as changes in the competitive conditions, or legal or tax changes.

The systematically elaborated policy concerning the operational risks lays down a structure and an organisation (including roles and responsibilities) at Argenta Group level. It also defines the reporting lines of the various subsidiaries. However, these subsidiaries remain accountable for the management of their own operational risk.

The risk department of Argenta Group ensures that each subsidiary manages the operational risk in a similar manner, and that each subsidiary manages every risk that could have an impact on the business or on other subsidiaries within the Argenta Group.

Each subsidiary has its employees, who must report each event concerning the operational risk to the risk department of Argenta Group. The recording of losses and incidents in a common database must lead to corrective action where that is necessary, and to proper following up of these actions.

Business continuity management

The direction and management of the business continuity measures (BCM) are geared to the relevant law and regulations.

The responsibilities for the interpretation and maintenance of the continuity plans are defined in the BCM organisation specification, which also defines the activation and the roles of the various teams in the case of a crisis.

Information Security

Information can exist in many forms. It can be printed or written on paper, be stored electronically, sent through the post or via electronic media, be shown in films or take the form of the spoken word. Whatever form the information takes, or whichever way it is shared or distributed, each form should always be suitably protected.

Information security is achieved by implementing an appropriate collection of security measures, e.g. policy, codes of conduct, procedures, organisational structures, and hardware and software configurations.

The Argenta Group has established a structured approach to information security. The information security policy contains not only the framework and organisation, and the responsibilities for the implementation of the policy, but also the mandatory security guidelines.

3. Regulatory capital requirements

3.1. Components and characteristics of capital

In this paragraph the equity position and its components of the Bank Pool are explained. These equity positions form the basis for the calculation of available equity under the Basel II regulations.

Table 3: Positions in equity and its components

Components	31/12/2007	31/12/2008
Paid up capital	303,255,000	303,255,000
Revaluation reserve for Available For Sale financial assets	-4,428,564	4,037,285
Reserves (including retained earnings)	270,666,398	345,810,352
Income from the current year	86,143,954	82,657,105
Equity attributable to the shareholders	655,636,788	735,759,742
Minority interests	158,282	180,819
Total equity and minority interest	655,795,070	735,940,561

Component “paid up capital”

The paid capital amounted to EUR 103,255,000 on 31/12/2006. On 27 April 2007 a capital increase took place at the company with the conversion of EUR 200 million available reserves to paid-up capital.

Component “revaluation reserve for available for sale financial assets”

The available for sale (AFS) financial assets, are valued against the fair value whereby all variations of the fair value are noted on a separate line in the equity to realisation of the financial assets or until the moment that a particular impairment occurs.

By end of 2008 there were, excluding minority interests, EUR 6,608,755 unrealized gains. After deduction of deferred taxes of EUR 2,571,470 this amounts to EUR 4,037,285 on 31 December 2008. Inclusive of the amount of unrealised gains from minority interests the overall unrealised gains amounts to EUR 6,619,157.

Component “reserves (including retained earnings)”

Amongst other things the statutory reserves of the Company are to be retrieved under this item, as well as the retained earnings of previous years.

The amount of EUR 345,810,352 is made up from pure reserves (including retained earnings) to the amount of EUR 333,462,676 and an item of EUR 12,347,676 with regards to a BGAAP based revaluation reserves for Company’s buildings.

Component “income from the current year”

Under this item the results of the current financial year is processed.

Component “minority interests”

Under this item the ‘reserve from revaluation and valuation differences’ and ‘remaining equity components’ from the minority interests are processed. The minority interests at the Company are related to the shares of its subsidiary companies ABL and the “Centraal Bureau voor Hypothecair Krediet” nv (CBHK) that are not in the possession of the company.

Furthermore, the minority interests of the complete capital (EUR 18,000) of the SPV Green Apple may be retrieved. Although there is no capital link with the Company, this company however is in accordance with the IFRS rules (SIC 12) consolidated.

3.2. Composition of regulatory capital

The regulatory useful equity consists of parts of the above mentioned components. The below mentioned overview reflects this useful equity for 31 December 2007 and 31 December 2008. For comparison reasons the useful equity of 31 December 2007 was adapted (Basel II simulation).

Table 4: Composition useful equity

Composition useful equity	Basel I	Basel II simulation	Basel II
	31/12/2007	31/12/2007	31/12/2008
Equity sensu stricto	708,903,255	708,903,255	776,695,206
Total additional components	369,488,785	369,488,785	359,149,848
- first part additional components	15,037,157	15,037,157	14,573,396
- subordinated loans	354,451,628	354,451,628	344,576,452
Total items to be deducted	-18,536,028	-18,536,028	0
Total useful equity	1,059,856,012	1,059,856,012	1,135,845,054
adaptation of recording first loss in the RWA		18,536,028	0
Total useful equity		1,078,392,040	1,135,845,054

Under the Basel I rules three tranches of a prior synthetic credit default swap (CDS) were deducted from the equity. It concerned a D tranche with a Baa3 rating for EUR 4,835,546, an E tranche with Ba3 rating for EUR 5,641,340 and an F tranche without a rating for EUR 8,059,142.

With the simulation of the equity requirements according to Basel II (standard approach) these tranches were incorporated into the weighted risk volume (Risk Weighted Assets, RWA). The tranche with the lowest rating was taken at 1250%.

Consequently, the amount of EUR 18,536,028 no longer had to be deducted with the simulation of the 31 December 2007. There was also an ‘early termination option’ in the CDS which was exercised by the Company and as a result of which the CDS was stopped February 2008.

The equity is made up from two groups of components: the equity sensu stricto and the additional equity components.

With the below mentioned explanation one must take into account the fact that the Company applied the standard methods for all its calculations for the equity requirements.

Table 5: Equity sensu stricto

Equity sensu stricto	31/12/2007	31/12/2008
- paid capital	299,410,014	299,410,014
- reserves	245,410,445	332,337,503
- profits (result) from the current Financial year	75,143,954	62,657,105
- minority interests	160,417	170,417
- reserve from the revaluations AFS equity instruments	0	-1,537,673
- limited innovative instruments	100,000,000	100,000,000
- intangible assets	-11,221,575	-16,342,160
Total equity sensu stricto	708,903,255	776,695,206

The item 'paid capital' of EUR 299,410,014 is obtained by deducting an amount of EUR 3,844,986 from the paid capital of EUR 303,255,000. It concerns a not-depreciable portion of an in the BGAAP engineered revaluation reserves for tangible assets. This amount is in accordance with the former equity regulations always deducted from the paid capital.

The item 'reserves' of EUR 332,337,503 is obtained by reducing the already mentioned part of EUR 333,462,676, from the reserves (see 3.1) by EUR 1,125,173 (being the positive impact after taxes from the derived products in these reserves).

For the calculation of equity on a consolidated basis, institutions which apply the international accounting standards, can take the net profit of the previous financial year (after the deduction of all foreseen costs and dividends). The item 'profits' (result) is thus obtained from the current financial year on 31 December 2008 by reducing the profit of the financial year with the planned dividend benefit of EUR 20 million.

The item 'minority interests' of EUR 170,417 is obtained by reducing the complete amount of the minority interests of EUR 180,819 with the revaluation reserve of 'available for sale financial assets' of EUR 10,402 which are contained in this total amount.

The item 'reserve from the revaluations AFS equity instruments' concerns the unrealised losses on the present portfolio of equity instruments. These should be deducted from the equity sensu stricto.

The item 'limited innovative instruments' is made up from the complete capital of a Tier 1 loan of EUR 100 million issued in 2006 (Argenta Spaarbank nv Deeply Subordinated Perpetual Callable EUR Fixed to Floating Rate Note).

This Tier 1 loan is noted on the Luxembourg stock exchange (ISIN code BE09321174444) and has the following characteristics:

Nominal amount:	EUR 100.000.000
Issue date	31 October 2006
First call date	31 October 2016
Call option	the issuer has the right to repay the security on 31 November 2016, and on each following coupon date
Coupon	fixed interest from 5.855% up to 31 October 2016 and afterwards variable interest of 3 months Euribor + 275 bp

The item ‘intangible assets’ of EUR 16,342,160 is deducted from the equity sensu stricto and is made up from the category ‘intangible assets’ and is located on the asset side of the consolidated balance sheet.

Table 6: Additional components

Additional components	31/12/2007	31/12/2008
- additional core equity	15,037,157	14,573,396
- reserve from the revaluations AFS instruments	63,617	0
- revaluation reserve tangible assets	14,973,539	14,573,396
- further additional equity	354,451,628	344,576,452
Total additional equity	369,488,785	359,149,848

The amount of EUR 14,573,396 is obtained by firstly raising (formerly set out in BGAAP) the revaluation reserves for buildings of EUR 12,347,676 (see 3.1) with the performed adjustment of paid capital (see 3.2, being EUR 3,844,986). Afterwards, this total of EUR 16,192,662 (12,347,676 + 3,844,986) is multiplied by 90% to reach the amount of EUR 14,573,396.

The further additional equity amounts to EUR 344,576,452 on 31 December 2008 and consists entirely of subordinated loans.

Subordinated loan capital may be used for up to 50% of the equity sensu stricto (subject to compliance with the equity regulation conditions) as further additional equity. In 2008, no action was taken to issue new subordinated loan capital. The Company sold only at the beginning of 2008 subordinated certificates to private investors for a value of EUR 18,600.

4. Regulatory capital requirements

In this chapter the minimum capital requirements of the Company are given based on the risks mentioned in Basel II pillar 1 (being credit, market and operational risk).

The Company applies the Basel II standard approach for these calculations. The table below shows the weighted risk volume (Risk Weighted Assets - RWA) and equity requirements by risk and by category.

Table 7: Total of risk weighted assets and capital requirements, 31 December 2008

Exposure Basel II – (standard approach)	Basel II RWA	Capital requirement
Credit risk		
Central governments and central banks	2.186.602	174.928
Multilateral Development Banks	0	0
Institutions	1.665.948.844	133.275.908
Corporates	36.532.930	2.922.634
Retail	83.886.562	6.710.925
Secured by real estate property	4.772.455.771	381.796.462
Past due items	177.234.536	14.178.763
Collective investment undertakings (CIU)	9.181.699	734.536
Others	106.542.419	8.523.394
Securitization positions	116.322.308	9.305.785
Total credit risk	6.970.291.671	557.623.335
Market risk	0	0
Operational risk	389.459.463	31.156.757
Total RWA and capital requirement	7.359.751.134	588.780.092

4.1. Capital requirements for credit risk

Calculations are performed and are reported according to the standard approach. For internal purposes however, calculations are also carried out according to the IRB method.

The equity requirements for credit risk are calculated according to following method:

weighted risk volume (Risk Weighted Assets or RWA) * 8%

where weighted risk volume = EAD (exposure at default) * weighting percentages

The weighted risk volume amounted to EUR 6,970,291,671 on 31 December 2008 which resulted in equity requirements of EUR 557,623,335.

4.2. Capital requirements for market risk

The Company currently does not perform any equity calculations for market risk, since these calculations are only necessary for the trading book and the Company does not have such a trading book.

4.3. Capital requirements for operational risk

The Company calculated the requirements for operational risk up to and including 30/06/2008 by means of the Basis Indicator Approach (BIA). The equity requirement is hereby equal to 15% of the arithmetic average of the operational result of the three recent financial years and amounts to EUR 38,945,946.

After fulfilling the formal requirements (among other things submitting an information file to the Belgian supervisor and further development of the operational framework for operational risk management) the Company uses, as of 1 July 2008, the standard approach for calculating the requirement for operational risk.

With this standard approach the activities and therefore also the operational result must be assigned to the following eight company lines: venture financing, trade and sale, retail broker services, retail bank services, commercial bank services, payment and settlement, intermediation services and portfolio management. The equity requirements differ from company line to company line and this is obtained by multiplying the operational result (as under previous paragraph calculated) by 12%, 15% or 18%.

The operational result at the Company was assigned to the company lines retail broker services, retail bank services and portfolio management (which all must be multiplied by 12%). The equity requirement amounted to EUR 31,156,757 on 31 December 2008.

5. Credit risk

The management of the credit risk is already described in chapter 2. Risk management. In this chapter further information is provided on the terms 'past due' and 'failed', rules about impairments, the classification and assignment to the Basel II categories, additional information on the "exposure categories" and finally an additional explanation of the failed credits.

5.1. Definition of past due and failed

A credit is considered as "past due" in the equity reporting if the borrower is more than one month and more than EUR 25 behind with his payments.

In the equity reporting, a loan is considered as having failed (doubtful) when one of the following events has occurred:

- the Company considers it unlikely that the debtor will be able to fully meet its loan commitments without the Company having to resort to actions such as foreclosing;
- the debtor is more than 90 days in arrears with meeting a material loan commitment.

For credits which are considered as failed, it is consequently examined if (taking into account the securities obtained) particular impairments need to be set up.

5.2. Approaches and methods for determining value adjustments

An impairment is recognised for an asset when its carrying amount exceeds its recoverable amount. The Company tests all its assets at each balance sheet date for indications of impairment.

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

If, in a subsequent period, the amount of the impairment on assets other than goodwill or available-for-sale equity instruments is reduced due to an event occurring after the write-down, the reduced amount is reversed by adjusting the impairment and recognising it in the income statement.

Financial assets

A financial asset, or a group of financial assets is considered to be impaired if (1) there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and (2) that loss event or events had an impact on the estimated future cash flows from the financial asset, or group of financial assets, which can be reliably estimated.

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

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

Impairments to available-for-sale equity instruments cannot be reversed through the income statement in subsequent periods.

Besides the impairments that are determined on an individual basis, also collective – portfolio-based – impairments are created in the form of IBNR (*incurred but not reported*) provisions.

“Incurred but not reported” provisions are justified for assets for which no special impairments are created on an individual basis.

This collective evaluation of impairments includes the implementation of a ‘*loss confirmation period*’ with regards to the probability of non-payment.

The ‘*loss confirmation period*’ is a concept that takes into account the fact that there is a period between the moment that indicators for impairments occur and the moment at which these are included in the credit risk systems of the Company.

The implementation of the ‘*loss confirmation period*’ thus assures that the impairments, which have already occurred but have not been identified as such, are sufficiently included in the created impairments.

The IBNR is calculated and created for all credit portfolios for which credit risk models were developed in Basel II. Based on the *probability of default* (hereafter referred to as **PD**), the portfolios are divided into risk classes.

For each risk class, the chance of a credit in this class becoming default within three months is calculated. To obtain a more stable (smoothed for season) result, an advancing average PD for the last 4 periods is used.

Specific rules of ‘available-for-sale financial assets’

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

The amount of the accumulated loss that is transferred from equity to the income statement is equal to the difference between the acquisition price (after deducting any redemptions on the principal amount and amortisation) and the current fair value, less any write-down losses on the asset previously recognised in the income statement.

- Investments in equity instruments

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

This situation will be assessed individually each reporting date, but if there are no additional assessment elements available, the Company considers a duration of six months as long term, and a decrease of at least 10% as considerable.

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

- Investments in other non-equity instruments

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

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

5.3. Credit risk mitigation

Credit risk mitigation (CRM) is a technique used by an institution for the limitation of credit risk linked to one or more risk positions that the institution has.

In the table below an overview is given of the risk positions before and after the credit risk mitigation movements as a result of unfunded and funded credit protections (see column adapted risk position in table 8).

The “unfunded credit protection” is a technique of credit risk mitigation where credit risk that is linked to the risk position of an institution, is limited thanks to the guarantee of a third party to pay a certain amount in the event of a default or other specific events.

The “funded credit protection” is a technique of credit risk mitigation where credit risk that is linked to the risk position of an institution, is limited thanks to the right of the institution, in the event of a default or other specific credit events concerning the counterparty, to liquidate certain assets or items, take over, acquire or preserve property, or reduce the risk position value or replace this by the difference between the risk position and the demands on the institution.

Table 8: Risk positions per category, 31 December 2008

	exposure	unfunded	funded credit	total	exposure
	pre CRM	credit protection	protection	inflow	after CRM
		guarantees	collateral		
Central governments or central banks	2.901.010.578	0	0	7.273.222.292	10.174.232.870
Multilateral Developments Banks	90.149.792	0	0	0	90.149.792
Institutions	7.075.879.007	754.080.301		24.905.000	6.346.703.706
Corporates	167.326.146	35.838.011	0	0	131.488.135
Retail	125.323.336	0	1.049.379	1.049.379	125.323.336
Secured by real estate property	18.796.161.468	6.508.208.979	37.051.843	37.051.843	12.287.952.489
Past due items	196.431.956	18.767.003	242.305	19.009.307	196.431.955
Collective investments undertakings	9.181.699	0	0	0	9.181.699
Others	207.272.606	0	0	0	207.272.606
Total exposure	29.568.736.588	7.316.894.294	38.343.527	7.355.237.821	29.568.736.588
Securitisation positions	564.767.581	0	0	0	564.767.581
Total exposure	30.133.504.169	7.316.894.294	38.343.527	7.355.237.821	30.133.504.169

The total amounts with the “unfunded credit protection – guarantees” and funded “credit protection – collateral” (being the outflow) correspond to the total of the column inflow.

The unfunded credit protection of the company can be divided in two groups. In the first place it concerns a shift as a result of government guarantees and guarantees of financial institutions (see explanation below of the EUR 754,080,301 in the category financial institutions).

Table 9: Government guarantees of the category institutions, 31 December 2008

Counterparty name	Number of securities	Exposure	Guarantee amount
German government	2	96,526,508.35	94,929,331
English government	2	165,817,679.09	164,912,028
Irish government	2	145,322,163.72	144,867,797
Dutch government	2	100,053,890.34	99,892,247
Spanish government	1	99,538,610.89	99,538,611
Swedish government	1	150,387,204.85	149,940,287
Total unfunded credit protection - guarantees at the category institutions			754,080,301

Moreover, there is also the NHG (national mortgage guarantee) that is present in most mortgage loans permitted in the Netherlands. The paragraphs below can be found on the internet site of the NHG (www.nhg.nl) and gives more information about this guarantee.

The national mortgage guarantee (NHG) is provided by the foundation ‘*Waarborgfonds Eigen Woningen*’. It is the name of the guarantee which a borrower can get for a loan for purchasing or building a house. The ‘foundation’ acts as guarantor for the repayment of the mortgage amount to the credit institution.

The Homeownership Guarantee Fund (abbreviated to WEW in Dutch) was created on 11 November 1993 by and under the supervision of the Ministry of Housing, Spatial Planning and the Environment (VROM) and the VNG (the Association of Netherlands Municipalities).

The background to this was the desire of the central government and the municipalities in the Netherlands to become independent from the instrument of municipal guarantee with government participation. By 1 January 1995 this independence was a fact with the introduction of the national mortgage guarantee (NHG).

The aim of the WEW is to promote home ownership and they are responsible for the policy and the implementation of the NHG. It annually establishes rules for supplying NHG. The conditions and standards must be approved by the minister of housing and the Association of Netherlands Municipalities. The implementation of the NHG takes place at the credit institution. Inspection of credit files takes place when a claim is submitted. The WEW supports the credit institutions in the implementation of the NHG and manages the fund equity with regards to the risk of the NHG.

The WEW is a private institution with fallback agreements with the government and municipalities. This means that the WEW can always meet its payment obligations. As a result, The Dutch Central Bank considers the NHG as a government guarantee. Consequently, loans covered by the NHG are excluded from solvency requirements for the lender. This advantage for lenders is returned to consumers by the lower mortgage interest on a mortgage loan with NHG.

Whether someone qualifies for NHG, depends among other things on his income, the purchase amount of the house and possible cost for quality improvement. The loan, nor the total amount of the costs, may, as from 1 January 2009 be more than EUR 265,000. The conditions (among other things main residence, architectural report, tax report) to obtain a NHG guarantee are explained in detail on the internet site www.nhg.nl.

In September 2008, the foundation Waarborgfonds Eigen Woningen (WEW), responsible for the national mortgage guarantee (NHG) received an Aaa-rating of the ratings office Moody's Investors Service. According to Moody's the Aaa-rating was due to the strong contractually defined relation between the WEW and the government.

In this respect, Moody's points out the government's role as guarantor, which means that the WEW can always meet its financial obligations. Additionally, Moody's points to the supervision by the government of the functioning of the guarantee system, including the regulation of the national mortgage guarantee. It's a responsible system for the financing of house ownership in the Netherlands.

The unfunded (NHG) guarantees can be found in the Basel II categories "secured by real estate property" and "past due items".

The funded credit protection (of EUR 38,343,527) can also be divided in two groups. In addition to a limited amount in guarantee financial instruments given, there are especially the saving deposits with bullet loans that determine the largest part of the amount.

88.49% of the initial at the calculation modules offered amounts consists of saving deposits. In bullet loans the capital is not relayed directly but the amounts are "saved" at an insurance

company. The saved amounts can of course be taken into account by the determination of the risk positions.

The amount of EUR 7,273,222,292 (as inflow in the category “central governments and central banks”) is the total of EUR 754,080,301 (outflow at the category institutions), EUR 10,933,011 (part of the outflow of the category corporates) and EUR 6,508,208,979 (NHG outflow of the category secured by real estate property).

5.4. Additional information concerning the exposure categories

In this chapter additional information is provided regarding the exposure types, the adapted risk positions by risk weighting percentage, the overall geographical classification of all risk positions, the geographical division of the risk positions to risk position category and finally an indication of the weighted average remaining duration of some categories.

Table 10: Exposure classes (pre CRM) split by exposure type, 31 December 2008

Exposure classes	On-balance	Off-balance	Derivatives	Total exposure
Central governments or central banks	2.901.010.578			2.901.010.578
Multilateral Developments Banks	90.149.792			90.149.792
Institutions	6.606.151.012	305.102.995	164.625.000	7.075.879.007
Corporates	167.326.146			167.326.146
Retail	102.860.637	22.462.699		125.323.336
Secured by real estate property	18.489.372.233	306.789.235		18.796.161.468
Past due items	196.431.956			196.431.956
Collective investments undertakings	9.181.699			9.181.699
Others	207.272.606			207.272.606
Securitisation positions	564.767.581			564.767.581
Total	29.334.524.240	634.354.929	164.625.000	30.133.504.169

Table 11: Exposure classes (after CRM) split by risk weights, 31 December 2008

Table – part 1	0%	20%	35%	50%
Central governments or central banks	10.163.299.859	10.933.011	0	0
Multilateral Developments Banks	90.149.792	0	0	0
Institutions	0	5.068.542.936	0	1.251.841.026
Corporates	0	118.393.068	0	499.502
Retail	1.049.379	0	0	0
Secured by real estate property	29.510.338	0	10.844.608.458	9.793.486
Past due items	19.009.307	0	0	15.483.422
Collective investments undertakings	0	0	0	0
Others	99.656.931	1.395.476	0	0
Securitisation positions	0	553.538.275	0	11.229.306
Total exposure	10.402.675.606	5.752.802.766	10.844.608.458	1.288.846.742

Table – part 2	75%	100%	150%	Total exposure
Central governments or central banks	0	0	0	10.174.232.870
Multilateral Developments Banks	0	0	0	90.149.792
Institutions	0	26.319.744	0	6.346.703.706
Corporates	0	12.577.565	18.000	131.488.135
Retail	124.273.957	0	0	125.323.336
Secured by real estate property	1.399.797.037	4.243.170	0	12.287.952.489
Past due items	0	146.832.032	15.107.194	196.431.955
Collective investments undertakings	0	9.181.699	0	9.181.699
Others	0	106.133.952	86.247	207.272.606
Securitisation positions	0	0	0	564.767.581
Total exposure	1.524.070.994	305.288.162	15.211.441	30.133.504.169

The totals in the column of the above table can be seen in table 8 and are the adapted risk positions i.e. the risk positions after shifts as a result of the credit protection.

Table 12: Exposure split by geography classes

Country code	Country	Exposure	%	Capital
AU	Australia	144.299.668	0,48%	2.310.976
BE	Belgium	10.375.951.858	34,43%	266.791.998
CA	Canada	303.051.835	1,01%	4.243.168
DK	Denmark	51.431.950	0,17%	822.911
DE	Germany	928.154.485	3,08%	12.282.073
FI	Finland	51.326.593	0,17%	821.780
FR	France	836.533.075	2,78%	15.200.845
IE	Ireland	494.401.696	1,64%	11.191.533
IT	Italy	280.062.839	0,93%	1.363.887
LU	Luxemburg	512.496.487	1,70%	5.111.611
NL	Netherlands	13.501.209.084	44,80%	195.395.797
NO	Norwegian	69.594.914	0,23%	1.113.519
AT	Austria	30.515.899	0,10%	491.610
PT	Portugal	50.057.529	0,17%	804.236
ES	Spain	940.560.073	3,12%	14.870.790
GB	United Kingdom	958.959.515	3,18%	14.239.194
US	United States	190.199.836	0,63%	5.627.277
SE	Sweden	331.509.307	1,10%	2.917.236
CH	Switzerland	78.921.223	0,26%	1.896.757
Other	exposure < 1 million	4.266.302	0,01%	126.137
Total		30.133.504.169	100,00%	557.623.335

The geographical breakdown of the risk exposure categories is reflected in table below. The geographical breakdown of the securitisation positions can be found in the disclosure of the securitisation positions.

Table 13: Geographical breakdown of the exposures to risk exposure category

Exposure category	Country	Exposure
Institutions	AT	10.068.496
Institutions	AU	144.109.263
Institutions	BE	816.600.215
Institutions	CA	265.031.447
Institutions	CH	78.167.682
Institutions	DE	681.575.829
Institutions	DK	51.431.950
Institutions	ES	718.164.244
Institutions	FI	51.280.458
Institutions	FR	816.999.344
Institutions	GB	851.138.147
Institutions	IE	294.374.442
Institutions	IR	174.163.954
Institutions	IT	49.317.447
Institutions	LU	258.996.374
Institutions	NL	1.200.116.886
Institutions	NO	69.594.914
Institutions	PT	49.977.427
Institutions	SE	330.997.870
Institutions	US	163.772.620
Total institutions		7.075.879.007
Central governments or central banks	BE	2.245.303.808
Central governments or central banks	CA	37.925.218
Central governments or central banks	DE	222.975.851
Central governments or central banks	ES	14.677.101
Central governments or central banks	IT	195.503.324
Central governments or central banks	LU	147.421.289
Central governments or central banks	NL	37.203.986
Total central governments or central banks		2.901.010.578
Secured by real estate property	AE	842.349
Secured by real estate property	BE	6.767.365.520
Secured by real estate property	CH	751.234
Secured by real estate property	CN	785.823
Secured by real estate property	DE	2.965.487
Secured by real estate property	ES	1.927.395
Secured by real estate property	FR	9.015.061
Secured by real estate property	GB	2.349.102
Secured by real estate property	IT	691.463
Secured by real estate property	LU	2.786.717
Secured by real estate property	NL	12.002.057.937
Secured by real estate property	US	1.384.632
Secured by real estate property	Other	3.238.749
Total secured by real estate property		18.796.161.468
Retail	BE	123.903.241
Retail	LU	607.709
Retail	Other	812.385
Total retail		125.323.336

Disclosures about the remaining duration with a breakdown by IFRS categories can be found in the IFRS financial statements. The table below provides a disclosure of the remaining (average weighted) duration of some Basel II categories. At the category institutions, it concerns the remaining duration of financial instruments with a minimum duration of at least 1 day. Current accounts at other financial institutions (including the NBB) and cash collateral were not included in the calculation.

Table 14: Remaining (average weighted) duration on 31 December 2008

	Maturity in Years
Multilateral Developments Banks	5,42
Institutions	1,50
Corporates	7,93
Retail	4,24
Secured by real estate property	23,33
Securitisation positions - ABS	12,97
Securitisation positions - MBS	27,57
Past due items	18,12

5.5. Disclosure concerning the doubtful risk positions

There are overdue positions (more than 1 month and more than EUR 25) in the risk positions - categories “retail” and “secured by real estate property”. As soon as these overdue positions are noted as failed (in default) they are catalogued under the category “past due items”. These failed credits are geographically almost complete situated in the key countries Belgium and the Netherlands.

Table 15: Geographic breakdown of the past due items

Exposure category	Country	Exposure
Past due items	BE	161.984.690
Past due items	NL	33.648.323
Past due items	Other	798.943
Total past due items		196.431.956

The individually determined impairments amount to EUR 45,697,169 on 31 December 2008. The table below reflects the evolution and breakdown into assets classes of the mentioned impairments.

Table 16: Evolution of the individually determined impairments

IFRS category	opening balance	increase	reversal	closing balance
Loans and receivables	31 Dec. 2007	through P&L	through P&L	31 Dec. 2008
Consumer credit	4,288,994	1,223,948	-1,397,009	4,115,933
Mortgage loans	22,098,852	19,792,854	-15,252,758	26,638,948
Term loans	95,687	499,530	-38,110	557,107
Demand deposits / advances	15,372,055	6,177,185	-8,054,154	13,495,086
Other lending receivables	999,299	102,939	-212,143	890,095
Total loans and receivables	42,854,887	27,796,456	-24,954,174	45,697,169

A collective impairment, in the form of incurred but not reported IBNR provision, was booked for the first time. This impairment amounted to EUR 2,017,853 on 31/12/2008 (the calculation method is already explained in 5.2. Approaches and methods for determining value adjustments).

The table below reflects the IBNR provision as internally calculated by the Company per specific mortgage portfolio (based on the EAD - Exposure At Default).

Table 17: IBNR provision

Portfolio	30/09/2008		31/12/2008	
	EAD	IBNR	EAD	IBNR
Aspa Belgium	5.046.169.257	247.214	5.074.524.611	218.989
Netherlands	10.568.883.331	509.043	8.509.674.688	424.606
Green Apple	1.481.015.140	20.510	3.439.399.445	66.228
CBHK	1.361.327.304	1.206.193	1.323.877.883	1.308.030
Total		1.982.960		2.017.853

The total impairments and provisions amount to EUR 47,715,022 on 31 December 2008, made up of EUR 45,697,169 on individual based determined impairments and a collective provision of EUR 2,017,853.

The table below reflects the changes of the individually determined impairments and the impact on the consolidated income statement of these impairments (see column total impact).

Table 18: Impact impairments on the income statement

IFRS Category	Increase	Reversal	Recoveries	Direct	Total impact
Loans and receivables	through result	through result	through result	derecognition	on result
Consumer credit	1,223,948	-1,397,009	-145.888	606.372	287.423
Mortgage loans	19,792,854	-15,252,758	-220.584	608.267	4.927.779
Term loans	499,530	-38,110	0	0	461.420
Demand deposits/advances	6,177,185	-8,054,154	-644.345	3.559.596	1.038.282
Other lending receivables	102,939	-212,143	0	15.802	-93.402
Total	27,796,456	-24.954.174	-1.010.817	4.790.037	6.621.503

There is in total an impact of EUR 8,639,356 on the income statement. EUR 6,621,503 comes from the individual managed credit files (impairments, direct derecognition and direct recoveries) and the previously mentioned EUR 2,017,853 from the collective IBNR provision.

6. Additional disclosures when using the standard approach

For the financial institutions which calculate the requirements for credit risk according to the standard approach, amongst others, the specific disclosures mentioned below must be provided in accordance with the circular PPB-2007-CBP, title XIV, art.7.

6.1. Ratings “rating agencies”

The company uses the ratings of the following three rating agencies (EKBI) when determining the weight percentages: S&P (Standard & Poors), Moody’s and Fitch.

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

Table 19: Exposure categories where ratings are used

Exposure category	exposure 31/12/2007	exposure 31/12/2008
Central governments or central banks	2.299.173.907	2.901.010.578
Multilateral Developments Banks	24.093.984	90.149.792
Institutions	7.648.206.980	7.075.879.007
Corporates	164.552.076	167.326.146
Securitisation positions	690.379.515	564.767.581

The Company uses the published “standard classifications” to obtain the risk weighted assets (RWA) on the basis of the rating of the securities concerned.

6.2. Derivatives

Since 01/01/2008, the Company has used the “approach based on valuation against market value” for the calculation of equity requirements for its derivatives. The Company used the original exposure method, under Basel I, for its derivatives until 31 December 2007.

There was an exposure of EUR 164,625,000 on 31 December 2008 for the swaps on the balance sheet. This exposure (potential replacement value) was calculated in accordance with the method based on the valuation against market value.

The exposure position is hereby equal to the sum of the following elements: (a) the current replacement value based on the market value of the transactions with a positive market 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 duration:

- one year or less	0 %
- one to five years	0.5 %
- longer than five years	1.5 %

The exposure of the derivatives (one cap and 13 swaps) with always a financial institution as counterparty can be found under the category institutions. The risk weighted exposure amount (RWA) amounted to EUR 40,275,000 which led to an equity requirement of EUR 3,222,000.

Collateral management

There is a developed collateral management for the concluded or purchased derivatives by the Company. A Credit Support Annex (CSA) from the International Swaps and Derivatives Association (ISDA) is concluded with each counterparty. These CSA's are especially concluded to minimise the 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 2008 there were (nominally) EUR 190,439,000 Belgian government bonds given as collateral, EUR 96,490,000 cash was transferred as collateral and EUR 47,480,000 cash was received as cash collateral for the 13 previously mentioned swaps.

6.3. Disclosure other 'credit risk linked' risks

Counterparty Risk

The principles and limits with regards to the counterparties are summarised in the 'financial risk guidelines' in the chapter "credit and concentration risk". It concerns limits (for investments) per asset class, and also with respect to the concentration risk by the counterparty. The principles and limits with regards to the counterparties are also summarised in the 'credit risk guidelines' in chapter "concentration risk and concentration limits".

Collateral

The Company receives collateral within the framework of its credit lending. It concerns mainly mortgage registrations and financial assets given as collateral for retail credit lending. The Company has also provided collateral on her own assets within the framework of the exercising of its activities. In 2008, collateral was provided for repo transactions and within the framework of the derivatives.

Wrong-way risk

The general wrong-way risk is risk that arises when the chance of default of the counterparties shows a positive correlation with general market risk factors. As previously mentioned in this document the general policy regarding credit risk and concentration risk appear in the "financial risk" and "credit risk" guidelines.

By using this policy the Company tries to limit these risks whereby the impact of possible positive correlation with the general market risk factors is limited by a general risk spreading with regards to e.g. several asset classes and several counterparties.

Equities risk

The Company does not invest in individual shares. As of 31 December 2008 a limited number of investment funds and some (historically purchased) shares (in total amounting to EUR 46,304) have been noted as "financial assets". These financial assets were classified under the category 'other items' and were weighed at 150%.

The other limited number of investment funds was classified under the category "collective investments undertakings - CIU". These shares appear on the balance sheet with the issue of

new compartments. In June 2007 appeared the last new compartment on the balance sheet and afterwards the category CIU was only modified with the sale of investment funds.

The amount of these investment funds (EUR 9,181,699) is weighted at 100%.

7. Disclosure of off-balance items

The off-balance sheet items can be classified in two groups in accordance with the calculation of the risk weight volume of credit risk:

- off-balance sheet items with as most important categories the provided guarantees, credit commitments and unused portions of credit lines;
- derivatives: the (non-embedded) derivatives (one cap and 13 swaps on 31/12/2008) are always concluded within the framework of hedge relations.

There are several methods to calculate the weighted risk volume for the items mentioned. For the derivatives the Company uses the approach based on valuation against market value. This calculation approach has already been commented in chapter 6.2. Derivatives.

Outside the swaps concluded within the framework of the securitisation operations (see chapter 10. Securitisation disclosures) there are only derivatives that are concluded within the framework of the hedging of the interest rate risk. After the development of the IFRS hedge framework the Company applies hedge accounting as of 01 November 2008.

For the other off-balance sheet items Basel II provides the use of conversion factors (CCF or Credit Conversion factor). This conversion factor amounts to 50% or 100% for the guarantees (dependent on the type of guarantee). With this CCF the risk position is reduced to a lower risk volume than what appears on the balance sheet.

‘Credit commitments and the unused portion of given credit lines’ are the not yet exercised parts of credits. The conversion factor can amount to 0%, 20%, 50%, 75% or 100% (among other things depending on the method of approach and product type).

In addition to the risk position of EUR 164,625,000 of the ‘derivatives’, there was a risk position of EUR 634,354,929 for other off-balance sheet items on 31 December 2008. These consisted of guarantees at a value of EUR 2,442,155 (non-credit replacing guarantees) and EUR 305,102,995 (credit replacing guarantees). In addition, there were EUR 326,809,779 credit commitments and unused portions of given credit lines.

Table 20: breakdown of the risk positions, weighed risk volume and equity requirements of the off-balance sheet items (excluding derivatives) by credit conversion factor (CFF)

Credit conversion factor	20%	50%	100%	total
Risk positions	71,868,233	257,383,701	305,102,995	634,354,929
Weighted risk volume	2,276,196	64,345,925	152,551,498	219,173,619
Equity requirements	182,096	5,147,674	12,204,120	17,533,890

8. The interest rate risk – an additional disclosure

Additional information about the interest risk was already provided in chapter 2. Risk management (see financial risk – market risk). More information (in figures) can also be found in the IFRS financial statements of 2008.

In this chapter further information is given for the assumptions used by the Company for the follow up and management of the interest rate risk. Moreover the Company calculates and reports quarterly the non-trading activities linked interest risk according to the directives of the supervisory authority CBFA (table 90.30 in accordance with circular PPB-2006-17-CPB).

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

The ‘banking book’ consists of the entire interest-bearing components of the balance sheet of the institution which do not belong to the trade portfolio. Non-rated assets (thereby included are the non-rated elements of 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 the measuring of the interest rate risk in the model are in principle based on economic variables and expectations. When measuring interest rate risk both on an income perspective (by means of the interest result) and on an economic value perspective must be reported.

The “economic value of the *banking book*” can be defined as “the algebraic total of the applicable market interest rates and their interest duration discounted expected cash flow of the assets in the *banking book*”.

“The interest result is the difference between interest income and interest charges”. At consolidated level market value variations of derivatives which are processed using the income statement are taken into account. As from 1 October 2008 hedge accounting (fair value hedge for a portfolio of interest rate risk) is applied for swaps concluded within the framework of interest risk management.

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

Variations in the economic value are in an interest sensitive enterprise strongly dependent on the duration gap, that being the difference between the duration (average duration of an interest rate product where, in addition to the maturity day of the capital, the duration of the coupons is also taken into account) of all assets and the duration of all liabilities, also called “mismatch”. The greater the mismatch, the greater the interest sensitivity can be. Because of its simplicity the duration gap is used in the reporting of interest risk in addition to the economic value and the interest result.

All material sources of interest risk are handled. This involves internal systems capturing all interest sensitive assets and liabilities as well as interest sensitive of the off-balance sheet items.

The Company uses the “forward rate” swap-curve as a basis for the calculation of future cash flow. This choice is justified as a reflection of a “market consensus” for the future development of the interest rates. The Company assumes that this market data will develop in an efficient market and that they are the best predictors of the future.

However, it can always be decided to deviate from this in the Alco. In the case of that happening, it will be clearly explained in the management board, which will ratify the decision, and report it to the board of directors.

The swap-curve of the reporting date is used for the economic calculation. A margin is not applied to swap interests; neither for the assets, nor for the liabilities.

The interest risk management system must calculate the impact of particular (stress) scenarios. These scenarios depart from the same customer behaviour, a “normal” increase in the total balance, spread over the products as incorporated in the business plan and the most current forecast for the current year.

Assumptions concerning the behaviour of deposits without fixed duration

For liabilities which are in principle demandable daily but for which it is clear from customer behaviour that they (on average) continue to remain for a considerable amount of time on the accounts concerned, despite relatively important modifications of market interest, the following durations were determined within the framework of economic value calculation:

- a) Regulated savings account: 2 years;
- b) Current account: 5 years;
- c) Savings accounts in the Netherlands: 3 months.

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

- a) Regulated savings account: 70% of the market interest fluctuations with a delay of 6 months with respect to that market interest fluctuation;
- b) Current account: not sensitive to market interest rate fluctuations for 5 years;
- c) Savings accounts in the Netherlands: immediately applicable.

Assumptions concerning ‘embedded options’ (yield return coupon, mortgage loans)

Within the framework of interest rate risk management Aspa recognises two “*embedded options*”.

The first option for the customer is covered in the yield return coupons, where the customer has the choice to either cut the coupons, or to capitalise them. For future behaviour the model is based on the real behaviour over the last 12 months.

A second option concerns the possibility of the customers to repay their mortgage loan early against a restricted penalty. In the defined model the following is taken into account with this option:

- a) for mortgages in Belgium an internally developed model is used;
- b) for mortgages in the Netherlands (until further notice) fixed *prepayment* behaviour of 10% is assumed.

Explicit options are preferably based on the economic reality. This means valuation according to market value and recognition of the real cash flow on the income statement.

Treatment of ‘pipeline risk’

In the period between the approval of a mortgage loan and execution of the notary file, market interest rate fluctuations can influence the interest rate at which the mortgage loan eventually is 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 requested. On the other hand in the case of decreasing market interest rates, the customer is able to choose to take the tariff which is valid for executing the file.

In this period, in which loans have been promised but for which the tariff is not yet certain, pipe line risk arises. In the model, the pipe line risk is taken into account for new production, by always using the lowest tariff for the last three months and the current month.

The financial department of the Company reports interest risk weekly and monthly at corporate level and quarterly at consolidated level. As no other investments than in EUR are done, the reporting is limited to a EUR reporting.

9. Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with Basel II pillar 2 the Company developed an “Internal Capital Adequacy Assessment Process” (ICAAP-process) in 2008.

In addition to the own management choices, the Company’s financial risk policy must take into account prudential “*Internal Capital Adequacy Assessment Policy*” (ICAAP).

The ICAAP is a process that, within the Company’s *internal governance*, has to assure that the directors and the management:

- correctly identify and measure the risks of the group;
- keep sufficient capital in comparison with the risks;
- make use of professional risk management systems and develop these further.

This includes that for circumstances (stress scenarios) and with a sufficient degree of certainty, the own capital requirements of the Bank Pool, and all its parts, must be respected. This is expressed by the economic capital, whereby the various risks are taken into account. This economic capital will be one of the most important pillars of the future policy.

In the course of 2008, a detailed policy line “ICAAP” (in accordance with the requirements as outlined in the CBFA circular PPB-2007-15-CPB-CPA) was composed. Hereby, the general risk appetite of the shareholders was translated into targets regarding the level of capital, the

desired composition of the capital, and the distribution of the capital within the Bank Pool. The paragraphs below reflect the most important elements of the mentioned policy line.

The dynamic growth of the financial markets and the increased use of more complex bank products have brought about major changes in the Company's business environment. These challenges require competent people and adequate processes and systems for the limitation and the target-oriented control of the Company's risk position.

Apart from the description of methods for the calculation of the regulatory capital requirements (quantitative requirements), the Basel II agreement puts 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 the long-term reach of its capital, whereby taking into account all material risks.

The ICAAP guidelines are the absolute premise and base philosophy for the implementation of the Company's policy. The specific interpretation, in other words the selection and adequacy of the methods, is completely done in line with the complexity (or rather simplicity) and scale of the Company. The complexity or rather simplicity of the Company is an important point, which will be covered in detail in a chapter on proportionality principles.

The aim of this ICAAP policy line is, on the one hand, to have an internal and very transparent policy line regarding capital management, and on the other hand, to develop a mutual understanding between the Company's management and the supervisor(s) with regards to the practical ICAAP implementation.

10. Securitisation disclosures

10.1 Securitisation policy

The Company has implemented two securitisation transactions since 2007. The operational framework and the policy to be able to do securitisation transactions were developed mid 2007, resulting in a first successful securitisation in September 2007. In December 2008, a second securitisation transaction was finalised.

Both securitisation transactions related to the securitisation of a portfolio of Dutch residential mortgage loans with NHG (Dutch Mortgage Guarantee) guarantee via a Dutch *Special Purpose Vehicle* (SPV) Green Apple.

The goal of the first securitisation was to attract new financing (tap into a new source of funding) aimed at improving the liquidity position.

The goal of the second securitisation was to turn mortgage credits into ECB eligible assets. This also became clear in the fact that the Company itself bought all the bonds (issued by SPV Green Apple). On a consolidated level, these bonds issued in 2008 by Green Apple cannot be found because they were eliminated during the consolidation of the SPV Green Apple.

At a consolidated level the second securitisation transactions issued by Green Apple can no longer be found on the balance sheet as they are eliminated at the consolidated level of the company.

The two securitisation operations performed were carried out for funding as well as for liquidity reasons (liquid assets). There has not yet been a securitisation transaction with the intention of being able to obtain lower equity requirements.

Main characteristics of the securitisation transaction SPV Green Apple 2007-I NHG

- securitisation of 1.5 billion Dutch residential NHG mortgage loans;
- issuing by SPV Green Apple of three classes of bonds (GAPPL 2007-1 A XS0322161026, GAPPL 2007-1 B XS0322161299 en GAPPL 2007-1 C XS0322161299);
- front- and BtB swap of nominal EUR 1.5 billion with ABN AMRO as counterparty;
- revolving period of 7 years: possibility to restore funding to purchase;
- purchasing of parts B and C by the Company itself.

Main characteristics of the securitisation transaction SPV Green Apple 2008-I NHG

- securitisation of 1.975 billion Dutch residential NHG mortgage loans;
- issuing by SPV Green Apple of three classes of bonds (GAPPL 2008-1 A XS0406581495, GAPPL 2008-1 B XS0406581735 en GAPPL 2008-1 C XS0406582030);
- amortising front- and BtB swap of nominal EUR 1.975 billion with RBS as counterparty;
- no revolving period: early repayments of loans resulting in the sequential repayment of bonds issued
- purchasing of parts A, B and C by the Company itself.

10.2. Role in securitisation transactions

The company is active in several roles with respect to securitisation operations. As initiator (originator) of securitisation operations the Company (seller) sells the loans to the issuer.

In the case of the two securitisation operations initiated by the Company, the issuer was a Special Purpose Vehicle (SPV), set up under Dutch legislation, called Green Apple BV. This company bought credits and issued obligations to be able to pay for this purchase.

For the securitisation operations of Green Apple SPV, Fitch Ratings Ltd was (www.fitchratings.com) appointed as the rating agency (EKBI).

The administration of the SPV Green Apple is performed by ATC management services, an independent Dutch company specialised in securitisation operations and trust management.

With both securitisation transactions the Company granted Green Apple a subordinated loan (subordinated loan provider); EUR two million with the first securitisation transaction, and EUR one million with the second securitisation transaction, under the conditions set out in the Subordinated Loan incorporated agreement.

The company purchased the junior notes at an amount of EUR 13,500,000 with the first securitisation transaction Green Apple 2007-I (investor junior notes). With the second securitisation transaction of the SPV Green Apple all notes issued were bought by the Company itself.

The servicing of the portfolios is performed with both securitisation transactions by the Company, which delegated however this competence to Stater Nederland BV and Quion BV (which were also already responsible for the securitisation for the servicing of the related Dutch NHG mortgage loans).

SPV Green Apple closed an interest rate swap in both operations with a counterparty, which will receive on a quarterly basis the (fixed) interest on the credits (minus specific costs) from the SPV and in exchange they have to pay a variable interest on the issued notes. The external counterparts concerned concluded a back-to-back (BtB) swap with the Company.

More detailed description of all tasks within the two securitisation transactions is described in the Structured Finance documentation by Fitch, the rating office concerned. The notes are also noted on the Luxembourg stock exchange (so more information can be found based on the ISIN codes).

The company is additional also involved in securitisation operations through its role as an investor.

10.3. Applied Basel II approaches

The company applies the standard approach for calculating the equity requirements for the (purchased) securitisation securities. SPV Green Apple is consolidated entirely under IFRS, so that the underlying Dutch mortgage loans with NHG guarantee return on the balance sheet.

Under the Basel II regulations (with 0% weight percentages for the NHG guarantee) the Company retains no capital for this mortgage portfolio on a solo level and it has thus through the sale of the portfolio no capital free fall at the solo level of the Company. At consolidated level, the mortgage loans can be found on the balance sheet, but the NHG guarantee is once again applicable.

10.4. Accounting policies

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

The financial assets involved in a securitisation are no longer fully or partially accounted for if the Company transfers virtually all risk and income from the assets or parts of the assets.

10.5. Securitisation (as part of the investment portfolio)

Besides the securitisation transactions performed by the Company itself and described above, within the framework of its investment policy, the Company has a number of asset backed securities. As of 31/03/2008 (Basel II) they are processed according to the standard approach under the risk position category securitisation positions. Based on the rating of the involved securities, they are assigned a weighted risk percentage according to the “long term mapping: standardised approach” for securitisation.

The overview below gives a geographical overview of (as investment) purchased securitisation positions.

Table 21: Geographical classification of the securitisation positions

Exposure category	Country	Exposure
MBS	BE	75.442.992
MBS	DE	20.294.320
MBS	ES	121.383.857
MBS	FR	10.224.867
MBS	GB	105.337.292
MBS	IE	25.782.750
MBS	IT	5.275.708
MBS	NL	160.775.791
ABS	ES	121.937
ABS	IT	3.856.273
ABS	LU	11.229.306
ABS	US	25.042.488
Total securitisation positions		564.767.581

The following table gives an overview of the involved securitisation positions with an indication of the ratings, their “exposure at default” (EAD) and the total equity requirements for these securitisation positions.

The rating of the rating agencies S&P (Standard & Poors), Moody’s and Fitch were obtained on Bloomberg and were supplied to a internal developed risk engine which, based on publicized calculation methods, calculated the required equity.

The securitisation portfolio on 31/12/2008 is made up of ABS (Asset Backed Securities) for a total amount of EUR 40,250,004 and MBS (Mortgage Backed Securities) for a total amount of EUR 524,517,577.

Table 22: Overview ratings, EAD and equity requirements of securitisation positions

Rating S&P	Rating MDY	Rating FIT		ABS	MBS	Total
A	(blank)	A	sum of EAD	11.229.306		11.229.306
			sum of capital	449.172		449.172
AAA	Aa1	(blank)	sum of EAD		14.961.477	14.961.477
			sum of capital		239.384	239.384
	Aaa	AAA	sum of EAD	25.042.488	76.695.628	101.738.116
			sum of capital	400.680	1.227.130	1.627.810
(blank)	(blank)	(blank)	sum of EAD		61.268.079	61.268.079
			sum of capital		980.289	980.289
(blank)	Aa1	AAA	sum of EAD		20.294.320	20.294.320
			sum of capital		324.709	324.709
	Aa2	AA-	sum of EAD	3.856.273		3.856.273
			sum of capital	61.700		61.700
	Aaa	AAA	sum of EAD	121.937	187.688.806	187.810.743
			sum of capital	1.951	3.003.021	3.004.972
(blank)	(blank)	(blank)	sum of EAD		58.911.911	58.911.911
			sum of capital		942.591	942.591
(blank)	(blank)	AA-	sum of EAD	104.697.357	104.697.357	
			sum of capital	1.675.158	1.675.158	
Total EAD (exposure at default)				40.250.004	524.517.577	564.767.581
Total capital requirement				913.503	8.392.281	9.305.785

After application of the weighting percentages on the EUR 564,767,581 securitisation positions bought and application of the required 8%, an equity requirement of EUR 9,305,785 was obtained for these bought securitisation positions.

Within the framework of the IFRS impairment tests on the 31/12/2008, the securitisation positions were screened. On the basis of this research (based on the periodic reports of the issued impact) it was concluded there that no impairment had to be booked.

In 2008, two additional securitisation positions were bought for an amount of EUR 75 million.

11. Additional disclosure

The Company currently uses the standard approach and not the IRB method and the AMA method (operational risk), so that no additional disclosures were described concerning these subjects (title XIV, chapter 2, art. XIV 8 § 1, § 2 and § 3 of the circular PPB-2007-CPB of the Belgian supervisor CBFA).

The used funded and unfunded credit risk mitigation techniques were explained in chapter 5.3. Credit risk mitigation.

The above (not externally audited) disclosures were given within the framework of Basel II pillar 3 and were published in Dutch and English on the Company website www.argenta.be.

The Dutch version is the original; the English version is an unofficial 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.

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