



Pillar 3 disclosures 2016

Capital adequacy and risk report



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1. Introduction

This report is published annually under the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD) of the European Union. It contains all information that is relevant for assessing the risk profile and capital adequacy of Argenta Spaarbank. The report is prepared annually, following a pre-defined method, and validated by management.

It sets out aspects like the size and composition of capital and its relationship to credit, market, settlement and operational risk, expressed in risk-weighted items.

The Pillar 3 report contains information on all subjects included in the directives, insofar as they apply to Argenta Spaarbank. Only relevant fields and fields with values are shown in the tables, the standard structures of which are taken from the EBA Guidelines for Pillar 3 Disclosures (EBA/GL/2016/11).

The information in these Pillar 3 disclosures is consistent with, and partially overlaps, that given in the IFRS annual report. Consequently, these disclosures should be viewed in conjunction with, inter alia, the 'Risk Management' chapter of the IFRS annual report.

1.1. Argenta Spaarbank



Argenta Spaarbank nv, abbreviated 'Aspa' (hereinafter 'the Company'), was founded in Belgium under Belgian law. It has the legal form of a limited liability company making a public call for savings. The Company was established for an unlimited duration and its registered office is at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a Belgian credit institution. The Company's core activities consist of raising funds, offering housing loans to individuals and providing means of payment.

Argenta Bank- en Verzekeringsgroep (BVG) is the management holding company - mixed financial holding - above the Company. BVG also holds a participation in the insurer Argenta Assuranties.

The Company and BVG are subject to the Basel legislation and the insurer to the Solvency (II) legislation. Given the dissimilarities between these two sets of 'capital' legislation, a so-called CRR consolidation is required for reporting at the consolidated BVG level.

What we have in the present document is a consolidation without the insurer (i.e. a consolidation of the bank pool with BVG on an unconsolidated basis). Since BVG is a mixed financial holding company with no other activities than providing services to the subsidiary entities, there is only a very small difference between the capital 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). This is a compromise that - subject to approval by the regulator - can be applied by mixed financial holding companies.

In this compromise the participation value in the insurers can be included as capital. The accumulated reserves and profits of the insurers may not, however, be included. The participation value needs to be weighted here - as added exposure - at 370% (weighting according to the IRB (internal rating-based) approach).

Consequently these Pillar 3 disclosures need to include disclosures on BVG in accordance with the CRR scope. In this way, the limited difference between Aspa conso and BVG CRR scope is also immediately apparent.

1.2. Application framework

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

The present document publishes the required disclosures on the Company's consolidated financial position. 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 (hereafter together 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. There are therefore no differences between the accounting and regulatory consolidation scopes.

Table 1: Entities included in the 2016 year-end consolidation

Template EU L / 3: Outline of the differences in the scopes of consolidation (entity by entity)

| Name of the organization | IFRS consolidation method | CRR consolidation method | | | Description of the entity |
|--------------------------------|---------------------------|--------------------------|----------------------------|------------------|---------------------------|
| | | full consolidation | proportional consolidation | not consolidated | |
| Argenta Spaarbank nv | full | x | | | Credit institution |
| Argenta Asset Management (AAM) | full | x | | | Fund manager |
| Green Apple bv (SPV) | full | x | | | Securitisation vehicle |

The Luxembourg company ABL was converted at the start of 2015 into Argenta Asset Management (AAM). Since 1 January 2015 it has acted exclusively as a fund manager and administrative agent of Argenta funds. This has had the effect of changing ABL's status from that of financial institution to that of funds administrator.

Despite the absence of any 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. Further information on this Green Apple SPV can be found in Chapter 11 Exposure to securitisation positions.

In November 2015 the call was exercised on the more recent securitisation transaction (called GApple 2007 transaction). This transaction therefore matured on 25 January 2016, leaving the SPV Green Apple with no more outstanding transactions.

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 capital or repayment of obligations between the Company and its subsidiary companies.

The Company therefore has no subsidiaries not included in the consolidation scope.

At the level of the overarching BVg CRR scope, BVg is the consolidating company above the Bank Pool and the participation in the insurance entities is not included in the consolidation.

1.3. Approach applied and Pillar 1 Key Figures

Guidelines exist for calculating the the Pillar 1 capital that a (credit) institution is required by the regulators to maintain for, inter alia, credit, market, settlement and operational risks. These requirements can be calculated using different approaches.

The Argenta Group applies the internal rating approach for determining exposure to credit risk on institutions, corporates, 'retail secured by real estate' and securitisation positions. For all other exposures to credit risk and other risks, it applies the standard approach.

The table below (with the standard KM1 template as the basic layout) gives an overview of the relevant figures and ratios for the Company at year-end.

Table 2: Relevant figures and ratios

| | | 2015 | 2016 |
|---|--|----------------|----------------|
| Available capital | | | |
| 1 | Tier 1 core capital (CET1 - Common Equity Tier 1) | 1,546,738,145 | 1,726,723,619 |
| 2 | Tier 1 capital (TI) | 1,546,738,145 | 1,726,723,619 |
| 3 | Total capital (TC) | 1,571,451,533 | 2,222,835,022 |
| Risk-weighted items | | | |
| 4 | Total risk-weighted items | 6,073,886,390 | 6,718,845,411 |
| Risk-based capital ratios as a percentage of RWA (risk- weighted assets) | | | |
| 5 | Tier 1 core capital ratio | 25.47% | 25.70% |
| 6 | Tier 1 capital ratio | 25.47% | 25.70% |
| 7 | Total Capital Ratio (TCR) | 25.87% | 33.08% |
| Additional CET1 buffer requirements as a percentage of RWA | | | |
| 8 | Capital Conservation Buffer requirements | 0.00% | 0.625% |
| 9 | Anti-cyclical capital buffer requirements | 0.00% | 0.000% |
| 11 | Total CET1 specific buffer requirements | 0.00% | 0.625% |
| 12 | % CET1 available to meet buffers after meeting minimum capital requirements (after 4.5% basic requirement) | 20.97% | 21.20% |
| Leverage ratio | | | |
| 13 | Baseline total exposure figure for calculating the leverage ratio | 35,234,985,491 | 37,103,571,381 |
| 14 | Leverage ratio (transitional) | 4.40% | 4.66% |
| | Leverage ratio (fully loaded) | 4.64% | 4.84% |
| Liquidity Coverage Ratio (LCR) | | | |
| 15 | Total high-quality liquid assets (HQLA) | 4,437,521,028 | 4,612,472,425 |
| 16 | Total net cash outflow | 2,482,593,338 | 2,561,542,847 |
| 17 | LCR Liquidity Coverage Ratio. | 180% | 178% |
| Net Stable Funding Ratio (NSFR) | | | |
| 18 | Total available stable funding | 30,471,582,784 | 32,676,945,534 |
| 19 | Total required stable funding | 20,827,186,931 | 22,600,303,423 |
| 20 | Net Stable Funding Ratio. | 146% | 145% |



1.4. Detailed index with Pillar 3 references

The Pillar 3 disclosures are described in part eight of the CRR. The table below gives an overview of the disclosure requirements and states where the information can be found in the (IFRS) reports and/or the Pillar 3 disclosures.

Table 3: CRR-related articles and their location in the annual reports

| CRR article | Pillar 3 disclosure requirements | Location in the annual reports and/or the Pillar 3 report |
|-------------|--|---|
| 435 | Risk management objectives and policies | 5: Risk management (IFRS annual reports) |
| | Statement on adequacy of risk management arrangements | 2. Risk management |
| | Governance, directors' mandates, wage policy el. al. (Art. 435 2) | 11: Corporate Governance (BVg Integrated Activities and Sustainability Report 2016) and 16. Remuneration Policy |
| 436 | Application framework | 1.2. Application framework |
| 437 | Equity | 3. Equity |
| 438 | Capital requirements | 4. Capital Requirements and 18. Capital management |
| 439 | Exposure to counterparty credit risk | 5. Exposure to counterparty credit risk |
| 440 | Capital buffers | 4. Capital Requirements and 18. Capital Management |
| 441 | Indicators of global systemic importance | Not listed because the Argenta Group is not considered as an institution with global systemic importance. |
| 442 | Credit risk adjustments | 5.2 Disclosure on Basel exposure categories and 8. Exposure adjustments |
| 443 | Unencumbered assets | 9. Encumbered and unencumbered assets |
| 444 | Use of ECAIs | 10. Use of ratings from external credit assessment institutions (ECAI) |
| 445 | Exposure to market risk | 11. Exposure to market risk |
| 446 | Operational risk | 12. Operational risk |
| 447 | Exposures in equities not included in the trading book | 13. Exposure to equities risk |
| 448 | Exposure to interest rate risk on positions not included in the trading book | 14. Exposure to interest rate risk |
| 449 | Exposure to securitisation positions | 15. Exposures related to securitisation positions |
| 450 | Remuneration policy | 16. Remuneration policy |
| 451 | Leverage | 17. Leverage |
| 452 | Use of the IRB Approach to credit risk | 7. Use of the (F)IRB method |
| 453 | Application of credit risk mitigation techniques | 5.3 Credit risk mitigation |
| 454 | Use of the Advanced Measurement Approaches to operational risk | 12. Operational risk |
| 455 | Use of Internal Market Risk Models | 11. Exposure to market risk |



2. Risk management

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

The risk management framework is constantly being updated and adapted in response to new regulations, daily experience and changes in the Argenta Group'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 are 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 responsible for operational management within their own areas of competence as established in the Memorandum of Internal Governance.

The Executive Committees of the Company, Argenta Assuranties and BVg are integrated, with a number of members in common: the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO). The Chief Operating Officer (COO), Chief Commercial Officer (CCO) and Chief Information Officer (CIO) work for both Argenta Spaarbank and Argenta Assuranties, but not for BVg.

This 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 Risk Appetite Framework (RAF) is 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 the RAF risk indicators and the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) for the Bank Pool and also between the RAF risk indicators 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. The Argenta Group continued in 2016 to develop its cautious and transparent risk management with the aforementioned RAF, policies and procedures.



Declaration on the adequacy of risk management arrangements (pursuant to Article 435 CRR)

The Risk Management chapter (to be found in the IFRS annual reports on the Argenta website www.argenta.be) gives a detailed description of the risks at Argenta Group and of the risk management framework (risk management objectives and policies).

The Company's risk management policy and attendant organizational structuring are designed in such a way that, in our opinion, the known risks are sufficiently identified, analysed, measured, monitored and managed.

The risk management for the Company distinguishes here, among other things, between the following risk categories: market risk, liquidity risk, credit risk, operational risk, other risks and, at BVg level, insurance risks.

The risk management framework and control systems are based on a risk identification process (the aforementioned RAF) that is combined with prevention and control measures. This provides a reasonable degree of certainty that the financial reporting does not contain material misstatements and that the internal risk management and control systems worked well in the 2016 financial year.

However, the internal risk management framework and control systems cannot offer absolute certainty. In the nature of the business, cost/benefit considerations are taken into account when accepting risks and taking control measures. The Executive Committee is continuously striving to further improve and optimise the Company's risk management.

The risk function has prepared an activity report for the Risk Committee of the Board of Directors. This comes to the conclusion that, with respect to the risk profile, the financial result was achieved within Argenta's budgeted risk appetite for 2016 and within the legal requirements imposed on the risk function.

As required in Article 435 of the CRR, we declare that we have, in our view, taken the risk management measures that are necessary and appropriate for the Company's profile and strategy.

For the Executive Committee.

Geert Ameloot (CFO)

Gert Wauters (CRO)



3. Equity

3.1. Accounting equity and calculation of prudential capital

Equity as reported in the consolidated annual report of the Company is determined on the basis of IFRS. The table below reconciles the IFRS accounting equity with the prudential Tier 1 core capital.

Table 4: Reconciliation of accounting equity and Tier 1 capital

| Components | 31/12/2015 | 31/12/2016 |
|---|----------------------|----------------------|
| Paid-in capital | 616,252,150 | 661,875,400 |
| Revaluation reserve for available-for-sale financial assets | 93,963,258 | 88,993,468 |
| Reserves (including retained earnings) | 783,954,182 | 914,300,338 |
| Profit from the current year | 192,866,907 | 190,010,420 |
| Cash flow hedging | -14,278,863 | -13,979,775 |
| Total equity attributable to shareholders of the company | 1,672,757,634 | 1,841,199,851 |
| Non-controlling interests | 59,101 | 60,527 |
| Total equity and non-controlling interest - IFRS annual report | 1,672,816,735 | 1,841,260,378 |
| Adjustments | | |
| (-) Inapplicable part of interim or year-end results | 0 | 0 |
| PM Applicable profits (earnings from the current financial year) | 192,866,907 | 190,010,420 |
| Non-controlling interests | -59,101 | -60,527 |
| Tier 1 core capital before application of prudential filters | 1,672,757,634 | 1,841,199,851 |
| Fully paid-in capital instruments | 616,252,150 | 661,875,400 |
| Retained earnings | 976,821,089 | 1,104,310,758 |
| Cumulative unrealised results | 79,684,395 | 75,013,693 |
| Tier 1 core capital before application of prudential filters | 1,672,757,634 | 1,841,199,851 |
| Prudential filters | | |
| Reserve for cash flow hedges | 14,278,863 | 13,979,775 |
| Profits and losses (at fair value) deriving from institution's own credit risk in respect of derivative instruments | -4,127,637 | -10,016,279 |
| (-) Value adjustments due to requirements for prudential valuation | -1,749,789 | -2,671,859 |
| (-) Other intangible assets | -33,052,784 | -37,510,847 |
| (-) For IRB, negative difference between credit risk adjustments and expected loss items | -14,248,677 | -7,690,409 |
| Tier 1 core capital before transitional measures (fully phased-in definition) | 1,633,857,610 | 1,797,290,232 |
| Other transitional adjustments to Tier 1 core capital | -87,119,465 | -70,566,615 |
| Tier-1 core capital after transitional measures (transitional definition) | 1,546,738,145 | 1,726,723,617 |

It was opted - given their non-material nature - not to include the non-controlling interests as prudential capital at Company and at BVg level.

3.1.1. Note on prudential filters

The CRR specifies a number of prudential filters which lead to an adjustment of Tier 1 core capital. The following filters apply to the Company:

- Cash flow hedge reserve: IAS 39 provides for the effective portion of the changes in the fair value of a cash flow hedging instrument to be included in equity. At the end of 2016, EUR 13,979,775 was included in this way in equity. However, in accordance with the CRR, this amount may not be included in determining the prudential capital;
- Gains and losses measured at fair value arising from the institution's own exposure in connection with derivative liabilities: deducted here is the positive impact of own exposure in calculating the market values of derivative instruments. This amounted to EUR 10,016,279 at the end of 2016;
- Value adjustments as a result of the requirements for prudential valuation: this is a specific CRR requirement in the context of a prudent valuation of financial instruments measured at market value in the IFRS balance sheet (this valuation adjustment amounted to EUR 2,671,859 as of end-2016);

This 'prudent valuation' adjustment is calculated based on the financial instruments that are carried on the balance sheet at market values and which can impact the result and/or equity. This adjustment (of 0.1%) is calculated and deducted from the qualifying capital;

- Other intangible assets: the deduction of other intangible fixed assets (mainly software licenses) already existed. In the CRR regulations this item may be reduced by deferred tax liabilities. As of end 2016, the net impact amounted to EUR 37,510,847;
- In the IRB application: negative difference between credit risk adjustments and expected losses: the expected credit losses calculated according to CRR principles were higher than the impairments recorded under IAS 39. Fully in line with the prudential guidelines, the Company deducted the shortfall from prudential Tier 1 core capital. At the end of 2016, the shortfall between the expected losses (EL) and impairments amounted to EUR 7,690,409.

3.1.2. Note on transitional measures

With the introduction of the CRR, transitional measures are provided in order gradually to include unrealised gains and losses measured at fair value in determining the Tier 1 core capital.

As of 31/12/2016, EUR 70,566,615 of the latent value of available-for-sale assets were not included as qualifying capital. However, 60% of the latent value of the 'non-government securities' (i.e. EUR 18,426,855) was included in the calculation of qualifying capital.

The latent values of government securities (which were positive) were not included as of 31 December 2016. This is more conservative than what is permitted under the 22 November 2016 endorsement of the IFRS 9 (with EU effective date of 1 January 2018).

With the final implementation of IFRS 9 as of 1/1/2018 - where there will be another classification and measurement depending on the BM (business models) and SPPI tests - the latent value of the portfolios that will be valued at FV OCI (fair value through OCI - Other Comprehensive Income) will also be different.



3.2. Composition of prudential capital and capital ratios

The following table shows in detail the equity and the relevant capital ratios.

Table 5: Composition of capital and capital ratios

| Common Equity Tier 1 capital: instruments and reserves | | 2015 | 2016 | (B) Regulation (EU) no. 575/2013 Article reference |
|---|---|---------------|---------------|---|
| Tier 1 - core capital (CET1): instruments and reserves | | | | |
| 1 | Capital instruments and the related premium reserves | 616,252,150 | 661,875,400 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| | of which: ordinary shares issued by a public limited company | 616,252,150 | 661,875,400 | |
| 2 | Retained earnings | 783,954,182 | 914,300,338 | 26 (1) (c) |
| 3 | Cumulative unrealised results (and other reserves) | 79,684,395 | 75,013,693 | 26 (1) |
| 5 | Non-controlling interests | 59,101 | 60,527 | 84, 479, 480 |
| 5a | Independently-tested interim results after deduction of charges and provisions | 192,866,907 | 190,010,420 | 26 (2) |
| 6 | Tier 1 - core capital (CET1) before regulatory adjustments | 1,672,816,735 | 1,841,260,378 | |
| 7 | Additional value adjustments (Negative Amount) | -1,749,789 | -2,671,859 | 34, 105 |
| 8 | Intangible assets (after deduction of related tax liabilities) | -33,052,784 | -37,510,847 | 36 (1) (b), 37, 472 (4) |
| 9 | Non-use of non-controlling interests (own choice) | -59,101 | -60,527 | |
| 11 | Reserve for cash flow hedges | 14,278,863 | 13,979,775 | 33 (a) |
| 12 | Negative amount of IRB shortfall (comparison of expected loss versus provisions set up) | -14,248,677 | -7,690,409 | 36 (1) (d), 40, 159, 472 (6) |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | -4,127,637 | -10,016,279 | 33 (b) |
| 26a | Adjustments for latent positive or negative values | | | |
| | of which: filter for the latent value of the securities | -87,119,465 | -70,566,615 | 468 |
| 28 | Total regulatory adjustments to Tier 1 core capital (CET1) | -126,078,590 | -114,536,761 | |
| 29 | Tier 1 - core capital (CET1) | 1,546,738,145 | 1,726,723,617 | |
| 44 | Additional Tier 1 capital (AT1) | 0 | 0 | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 1,546,738,145 | 1,726,723,617 | |
| 46 | Capital instruments and related premium reserves | 0 | 496,111,404 | 62, 63 |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | 24,713,388 | 0 | 486 (4) |
| 51 | Tier 2 (T2) capital before regulatory adjustments | 24,713,388 | 496,111,404 | |
| 57 | Total regulatory adjustments to Tier 2 (T2) capital | 0 | 0 | |
| 58 | Tier 2 capital | 24,713,388 | 496,111,404 | |
| 59 | Total capital (TC = T1 + T2) | 1,571,451,533 | 2,222,835,021 | |
| 60 | Total risk-weighted assets | 6,073,886,390 | 6,718,845,411 | |
| Capital ratios and buffers | | | | |
| 61 | Tier 1 - core capital (as percentage of the total risk exposure amount) | 25.47% | 25.70% | 92 (2) (a), 465 |
| 62 | Tier 1 (as a percentage of the total of risk exposure amount) | 25.47% | 25.70% | 92 (2) (b), 465 |



| | | | | |
|-----|---|--------|--------|-------------------|
| 63 | Total capital (as a percentage of the total risk exposure amount) | 25.87% | 33.08% | 92 (2) (c) |
| 64 | Institution-specific buffer requirement (CET 1 - requirement pursuant to Article 92, 1. (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus buffer for systemically important institutions expressed as a percentage of risk exposure amount) | 2.50% | 1.75% | CRD 128, 129, 130 |
| 65 | of which: capital conservation buffer requirement | 2.50% | 1.25% | |
| 66 | of which: countercyclical buffer requirement | 0.00% | 0.00% | |
| 67 | of which: systemic risk buffer requirement | 0.00% | 0.00% | |
| 67a | of which: globally systemically important institution buffer or other systemically important institution buffer | 0.00% | 0.50% | CRD 131 |
| 68 | Tier 1 - core capital available to meet buffers (as percentage of risk exposure - after deduction of basic 4.5% requirement) | 20.97% | 21.20% | CRD 128 |

3.3. Main features of capital instruments

The following table describes the key features of the capital instruments issued by the Company. This description was included in the standard format of the relevant table (Capital Instruments main features template).

It gives a further disclosure of lines 1 and 46 'capital instruments and the related premium reserves' from the table in the above paragraph.

Table 6: Main features of capital instruments

| Main features of capital instruments | | | |
|---|--|--|---|
| 1 | Issuer | Argenta Spaarbank | Argenta Spaarbank |
| 2 | Unique identifier | BE0404453574 | BE6282030194 |
| 3 | Governing law(s) of the instrument | Belgian law | Belgian law / English law |
| Treatment prescribed by the regulation | | | |
| 4 | CRR rules during the transition period | Tier 1 core capital | Tier 2 capital |
| 5 | CRR rules after the transition period | Tier 1 core capital | Tier 2 capital |
| 6 | Eligible on solo / (sub)consolidated / solo & (sub) consolidated basis | solo & consolidated | solo & consolidated |
| 7 | Type of instrument | Ordinary shares issued by a public limited company | Tier 2 instruments as listed in Article 63 of Regulation (EU) No 575/2013 |
| 8 | Amount included in the review capital as of 31 December 2016 | 661,875,400 | 496,111,404 |
| 9 | Nominal amount of the instrument | There are 168,975 no par shares. | 500,000,000 |
| 9a | Issue Price | Results of past capital increases | 99.59% |
| 9b | Redemption price | n.a. | 100.00% |
| 10 | Accounting breakdown | Equity | Liabilities (debt) |
| 11 | Original date of issue | Founded on 18 April 1956 | 24 May 2016 |
| 12 | Unlimited or limited duration | limited | limited duration |
| 13 | Original maturity date | no maturity date | 24 May 2026 |

| Main features of capital instruments | | | |
|--------------------------------------|---|---------------------------|--|
| 1 | Issuer | Argenta Spaarbank | Argenta Spaarbank |
| 2 | Unique identifier | BE0404453574 | BE6282030194 |
| 14 | Early redemption by the issuer is possible subject to prior approval by the regulator | no | yes |
| 15 | Optional early redemption date, conditional early redemption dates and redemption amount | n.a. | 24 May 2021 at 100% |
| 16 | Any subsequent early redemption dates | n.a. | n.a. |
| | Coupons / dividends | dividends | coupons |
| 17 | Fixed or variable dividends / coupons | variable | coupons |
| 18 | Coupon rate and any related index | n.a. | 3.875% to call date, after that 5 year mid swap interest rate + initial margin + 395 bps |
| 19 | Existence of a dividend stopper | no | no |
| 20a | Fully optional, partially optional or mandatory (as regards timing aspect) | fully optional | mandatory |
| 20b | Fully optional, partially optional or mandatory (as regards amount) | fully optional | mandatory |
| 21 | Does the instrument have an increasing coupon rate or there is another incentive to redeem? | no | n.a. |
| 22 | Non-cumulative or cumulative | non-cumulative | cumulative |
| 23 | Convertible or non-convertible | non-convertible | non-convertible |
| 24 | If convertible, conversion trigger(s) | n.a. | n.a. |
| 25 | If convertible, wholly or partially | n.a. | n.a. |
| 26 | If convertible, conversion price | n.a. | n.a. |
| 27 | If convertible, mandatory or optional conversion | n.a. | n.a. |
| 28 | If convertible, indicate which type of instrument the capital instrument is convertible into | n.a. | n.a. |
| 29 | If convertible, specify the issuer of the instrument into which it is converted | n.a. | n.a. |
| 30 | Write-down features | n.a. | n.a. |
| 31 | If write-down, write-down trigger(s) | n.a. | n.a. |
| 32 | If write-down, wholly or partially | n.a. | n.a. |
| 33 | If write-down, permanent or temporary | n.a. | n.a. |
| 34 | If temporary write-down, description of the write-back mechanism | n.a. | n.a. |
| 35 | Position in subordination hierarchy in the event of liquidation (specify which debt instrument type ranks immediately higher than the capital instrument) | Most subordinate position | Subordinated loan in accordance with Article 63 CRR |
| 36 | Non-compliant transferred features | no | no |
| 37 | If so, specify non-compliant features | n.a. | n.a. |

The Company has always pursued a policy of self-financing. To retain a level of capital that provides sufficient scope for growth and to be able to carry the financial and operational risks, the Company aims to meet the potential capital requirements by (a) retained earnings, (b) capital increases and (c) subordinated loans.

Through the way its dividend policy operates - for example, in 2016, an interim dividend in December of EUR 62,520,750 (EUR 370 per share), followed by a capital increase of EUR 45,623,250 subscribed by shareholders BVg and Investar - the value of the ordinary shares rises systematically.

On 24 May 2016, a Tier 2 issue was successfully completed. The nominal value of the issue amounted to EUR 500 million with a maturity of 10 years and a prepayment option after 5 years. The transaction enables Argenta to contribute to the expected regulatory bail in-requirements (MREL) and enhances its A- rating from Standard & Poor's. It also increases Argenta's total capital ratio (TCR) and adds a new source of funding on top of Argenta's strong retail financing model.

4. Capital requirements

4.1. Capital requirements

The minimum solvency ratio requirements are 4.5% of the common equity tier 1 (CET1) capital, 6% of total tier 1 capital, and 8% of total capital (these are the Pillar 1 requirements). To top of these a number of additional buffers were introduced. The CRD provided for three additional capital buffers including a capital conservation buffer (CCB).

In economic boom periods, this buffer can amount to a maximum of 2.5%. The starting point is the setting aside of additional capital in times of financial prosperity. In times of financial stress, the institution is able to eat into this capital, subject to not paying dividends to shareholders. For 2016, the phase-in is 0.625% and from the 2016 SREP, a CCB requirement of 1.25% is imposed (which applies as the phase-in for 2017).

The Company may also be required to set up a countercyclical capital buffer, effectively an additional Tier 1 core capital requirement. This buffer is designed to protect the Company against risks arising from the financial cycle and can rise to 2.5%, and possibly higher. This requirement came into force in 2016. Both the Belgian and the Dutch regulators have set the rate at 0%, but subject to quarterly review.

The Belgian regulator has designated the Argenta Group as an O-SII or 'other systemically important institution'. As a result the Company will be subject to an additional tier 1 core capital requirement (O-SII buffer) of 0.75%. This buffer will be phased in between 1 January 2016 and 1 January 2018. In this way an additional 0.25% capital requirement was imposed on the Company in 2016 which will be incremented by 0.25% in each of 2017 and 2018.

The 3 buffers must be met with CET1 capital (the strong form of capital).

As part of the SREP (Supervisory Review and Evaluation Process) the competent supervisory authority can require higher minimum ratios (Pillar 2 requirements) because, for example, not all risks are fully reflected in the Pillar 1 calculations. Based on the 2015 SREP process, an initial CET1 ratio of 10.25% was proposed. This consisted of the basic requirement of 4.5%, a Pillar 2 requirement of 3.25% and a capital conservation buffer of 2.5%.

For 2016, the SREP process resulted in a capital requirement of 8.25%. This consists of a basic requirement of 4.5%, the CCB of 1.25%, an O-SII buffer of 0.50% and the P2R (Pillar 2 requirement) of 2%. Since the Company has no additional Tier 1 (AT1), the CET 1 requirement is de facto 9.75% (8.25% + 1.5% AT1).

For the TCR (total capital ratio) this gives 11.75% (being 9.75% and 2% Tier 2 requirement). These calculations take into account the phasing. Fully loaded there is a Tier 1 (de facto CET1) requirement of 11.25% and a TCR requirement of 13.25%, according to IRB calculations.

The Company met all these requirements in 2016 with a CET1 (IRB) of 25.70% and a TCR (IRB) of 33.0% (IRB).



4.2. Minimum capital requirements per risk-weighted category

This chapter sets out the Company's risk-weighted items and capital requirements, based on the risks specified in Pillar 1 and currently applicable (i.e. the credit, CVA (counterparty), market and operational risks).

Table 7: Risk-weighted items by risk type (EU OV1)

| | | RWAs | RWAs | Capital requirement |
|----|---|---------------|---------------|---------------------|
| | | 2015 | 2016 | 2016 |
| 1 | Credit risk (*) | 5,035,876,158 | 5,520,396,522 | 441,631,722 |
| 2 | of which standard approach | 576,633,235 | 580,517,170 | 46,441,374 |
| 3 | of which (F)IRB approach | 1,566,618,138 | 1,647,091,087 | 131,767,287 |
| 4 | of which (A)IRB approach | 2,892,624,785 | 3,292,788,264 | 263,423,061 |
| 6 | Counterparty credit risk | 153,269,726 | 83,532,635 | 6,682,611 |
| 7 | of which CVA | 153,269,726 | 83,532,635 | 6,682,611 |
| 14 | Securitisation positions in the banking book | 154,634,567 | 135,885,806 | 10,870,864 |
| 15 | of which calculated using IRB approach | 132,888,520 | 107,223,309 | 8,577,865 |
| 19 | Market risk | 0 | 0 | 0 |
| 23 | Operational risk | 730,105,939 | 979,030,448 | 78,322,436 |
| 25 | of which calculated using standard approach | 730,105,939 | 979,030,448 | 78,322,436 |
| 28 | Floor adjustment (80% Basel I) | 2,301,577,898 | 2,434,689,277 | 194,775,142 |
| 29 | Total RWAs and Capital Requirement (STA/IRB Approach) | 8,375,464,288 | 9,153,534,688 | 732,282,775 |
| 30 | Total RWAs (STA/IRB without Basel I 80% floor) | 6,073,886,390 | 6,718,845,411 | 537,507,633 |

(*) In the above presentation form, the securitisation positions in the banking book were presented separately (line 14), while in the following tables, they are catalogued under credit risk but then broken down according to the approach used in processing them.

In the following detail tables, the explanations will be based mainly on risk-weighted items without the 80% floor unless explicitly stated. The totals in line 30 therefore form the basis for the more detailed explanations.

The increase in risk-weighted items is mainly due to (a) the increased mortgage lending portfolio, (b) more investments in corporate bonds and less in government bonds and (c) the increase in the requirement for operational risk as a result of the increase in results of the last three financial years.



4.3. Capital Ratios

The table below shows the Company's various capital ratios, showing both the impact of the Basel I floor and the ratios without applying the Basel I floor.

Table 8: Capital requirements and capital ratios at year end

| Argenta Spaarbank | 31/12/2015 | Fully loaded 31/12/2015 | 31/12/2016 | Fully loaded 31/12/2016 |
|---|---------------|----------------------------|---------------|----------------------------|
| Total qualifying capital | 1,571,451,533 | 1,627,559,057 | 2,222,835,021 | 2,288,384,693 |
| Total CET capital | 1,546,738,145 | 1,627,559,057 | 1,726,723,617 | 1,792,273,290 |
| Capital adjustment (IRB shortfall) | 14,248,677 | 14,248,677 | 7,690,409 | 7,690,409 |
| Total CET 1 capital (with Basel I floor) | 1,560,986,822 | 1,641,807,734 | 1,734,414,026 | 1,799,963,699 |
| Risk-weighted items (without Basel I floor) | 6,073,886,390 | 6,073,886,390 | 6,718,845,411 | 6,718,845,411 |
| Risk-weighted items (with Basel I floor) | 8,375,464,288 | 8,382,563,303 | 9,153,534,688 | 9,153,534,688 |
| CET1 capital ratio | 25.47% | 26.80% | 25.70% | 26.68% |
| Tier 1 capital ratio | 25.47% | 26.80% | 25.70% | 26.68% |
| Total capital ratio (TCR) | 25.87% | 26.80% | 33.08% | 34.06% |
| CET1 capital ratio (with Basel I floor) | 18.64% | 19.59% | 18.95% | 19.66% |

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

The Tier 1 core capital ratio (CET 1) has now become the most important ratio. This calculation uses this core Tier 1 capital instead of total capital.

With total regulated qualifying capital at 31 December and during 2016 constantly exceeding the applicable prudential requirements, the Company fully complied with all capital requirements.

4.4. Risk-weighted items

The capital requirements for credit risk are calculated as follows:

$$\text{Risk weighed assets (RWA)} * 8\%$$

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

As reflected in the following table, total RWA have increased from EUR 6,073,886,390 at end-2015 to EUR 6,718,845,411 at end-2016. In this way the total capital requirement rose from EUR 485,910,911 to EUR 537,507,633.



Table 9: Total risk-weighted assets by category and capital requirements

| | 31/12/2015 | | 31/12/2016 | |
|--------------------------------------|----------------------|---------------------|----------------------|---------------------|
| | RWA | Capital requirement | RWA | Capital requirement |
| Credit risk - STA | | | | |
| Central governments or central banks | 14,480,667 | 1,158,453 | 14,486,003 | 1,158,880 |
| Regional and local governments | 61,117,102 | 4,889,368 | 68,453,671 | 5,476,294 |
| Public entities | 49,367,766 | 3,949,421 | 18,078,978 | 1,446,318 |
| Institutions | 3,568,536 | 285,483 | 2,595,582 | 207,647 |
| Corporates | 35,584,561 | 2,846,765 | 59,281,120 | 4,742,490 |
| Retail clients | 78,109,680 | 6,248,774 | 77,593,513 | 6,207,481 |
| Covered by real estate | 137,998,156 | 11,039,852 | 174,156,043 | 13,932,483 |
| Overdue exposures | 542,612 | 43,409 | 260,388 | 20,831 |
| Covered bonds | 0 | 0 | 0 | 0 |
| Collective Investment Undertakings | 0 | 0 | 0 | 0 |
| Shares (participations) | 261,527 | 20,922 | 2,159,696 | 172,776 |
| Other items | 195,602,628 | 15,648,210 | 163,452,176 | 13,076,174 |
| Securitisation positions | 21,746,047 | 1,739,684 | 28,662,497 | 2,293,000 |
| | 598,379,282 | 47,870,343 | 609,179,667 | 48,734,373 |
| Credit risk - IRB | | | | |
| Institutions | 794,302,249 | 63,544,180 | 772,899,875 | 61,831,990 |
| Corporates | 754,320,150 | 60,345,612 | 862,086,919 | 68,966,954 |
| Covered bonds | 17,995,740 | 1,439,659 | 12,104,293 | 968,343 |
| Covered by real estate | 2,420,932,973 | 193,674,638 | 2,761,328,876 | 220,906,310 |
| Securitisation positions | 132,888,520 | 10,631,082 | 107,223,309 | 8,577,865 |
| | 4,120,439,632 | 329,635,171 | 4,515,643,272 | 361,251,462 |
| Total credit risk | 4,718,818,913 | 377,505,513 | 5,124,822,939 | 409,985,835 |
| 5% add-on for Belgian mortgage loans | 471,691,811 | 37,735,345 | 531,459,388 | 42,516,751 |
| Market risk | 0 | 0 | 0 | 0 |
| CVA risk | 153,269,726 | 12,261,578 | 83,532,635 | 6,682,611 |
| Operational risk | 730,105,939 | 58,408,475 | 979,030,448 | 78,322,436 |
| Total | 6,073,886,390 | 485,910,911 | 6,718,845,411 | 537,507,633 |

The risk-weighted volume for credit risk (excluding the 5% add-on) calculated according to the IRB/STA method was EUR 4,718,818,913 as of 31 December 2015 and evolved to EUR 5,124,822,939 as of 31 December 2016. This resulted in a capital requirement of EUR 409,985,835 (compared with EUR 377,505,513 as of 31 December 2015).

This increase is due mainly to (a) the increased mortgage lending portfolio and (b) more investments in corporate bonds and less in government bonds.

The total capital requirement for all risks (i.e. including the requirement for CVA, the 5% add-on for Belgian credits (being a part of the credit risk) and the operational risk requirement) amounted to EUR 537,507,633.

With the application of the 80% floor, the RWA and capital requirements calculated in accordance with the Basel II principles are in effect overruled by the requirements calculated in accordance with Basel I principles.

Thus the Basel I RWA calculations continue to form the basis for the final own funds requirements and ratios. The 80% floor had the effect of increasing the Company's risk-weighted volume, leading to a capital requirement of EUR 732,282,775 at end-2016 (vs. EUR 670,037,143 at end-2015).

Note on capital requirement at BVg consolidated CRR level

The holding company BVg is required, from 1 January 2014, to report more fully on its capital adequacy. As part of the new regulations, there is a CRR scope for BVg consolidated, covering the Bank Pool plus BVg unconsolidated. At the same time the Danish Compromise (DC) can be applied at BVg level. With the DC, 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 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 10: Comparison of Aspa and BVg capital requirements

| Data as of 31/12/2016 | Argenta Spaarbank | BVg conso CRR scope |
|---|-------------------|---------------------|
| | | Danish Compromise |
| Total CET 1 capital (with Basel I floor) | 1,734,414,028 | 1,865,881,837 |
| Tier 2 capital | 496,111,403 | 308,623,563 |
| Total capital | 2,230,525,431 | 2,174,505,400 |
| Capital requirement of exposures | | |
| weighted using the STA method | 48,734,373 | 48,751,113 |
| weighted using the IRB method | 361,251,462 | 361,251,462 |
| IRB participation value insurer(s) | 0 | 52,227,870 |
| Add-on credit risks | 42,516,751 | 42,516,751 |
| CVA (Credit Valuation Adjustment) risk | 6,682,611 | 6,682,611 |
| Operational risk requirement | 78,322,436 | 79,754,424 |
| Total requirement per IRB/STA | 537,507,633 | 591,184,231 |
| Calculations using Basel I principles | | |
| Calculations using Basel I principles | 915,353,469 | 929,319,333 |
| Application of IRB floor, transitional period | 80 % regel | 80 % regel |
| Total requirement after Basel I floor | 732,282,775 | 743,455,466 |
| Core Tier 1 ratio (80% floor) | | |
| Core Tier 1 ratio (80% floor) | 18.95% | 20.08% |
| Tier 1 ratio (80% floor) | | |
| Tier 1 ratio (80% floor) | 18.95% | 20.08% |
| Total capital ratio (TCR - 80% floor) | | |
| Total capital ratio (TCR - 80% floor) | 24.37% | 23.40% |

The amount of EUR 52,227,870 in the above table relates to the 370% weighting of the participation value of the insurance subsidiaries and explains the rise in the total requirement. There is only a limited change in the STA calculation and in the operational risk requirement.

The increase in qualifying capital is greater than the increase in the capital requirement, which makes the (CE) T1 ratios in the BVg CRR scope better than at Aspa consolidated level. The CET Tier 1 ratio of BVg conso CRR scope (80% floor) amounts to 20.08 %, while the the CET Tier 1 ratio using the IRB/STA method is 25.15%.

The evolution is also positive for the TCR, but given that, at BVg level, with the Tier 2 issue, 'non-controlling interests' arise owing to the assimilation with capital, this BVg ratio is lower than the TCR of the Company.



The same capital requirements apply to the BVg CRR scope level as for the Company, so that all of these requirements were met well.

Capital requirement at Aspa and BVg conso CRR level

The table below gives the TCR, CET1 ratio and leverage ratios of both Argenta Spaarbank and BVg (CRR scope).

The CET1 ratios (IRB/ STA Transitional) of 25.70% for Argenta Spaarbank (conso) and 25.15% for BVg Conso are the ratios with which comparisons are made with other financial institutions.

Table 11: Aspa and BVg ratios (transitional and fully loaded)

| | Total Capital Ratio | | CET1 ratio | | Leverage ratio | |
|--------------|---------------------|--------------|--------------|--------------|----------------|--------------|
| | Transitional | Fully loaded | Transitional | Fully loaded | Transitional | Fully loaded |
| Aspa (floor) | 24.37% | 25.08% | 18.95% | 19.66% | 4.66% | 4.84% |
| Aspa (IRB) | 33.08% | 34.06% | 25.70% | 26.68% | | |
| BVg (floor) | 23.40% | 24.10% | 20.08% | 20.78% | 4.99% | 5.17% |
| BVg (IRB) | 29.32% | 30.20% | 25.15% | 26.03% | | |

For the sake of completeness, the above table also includes the calculated full-loaded ratios. In Chapter 17 of these Pillar 3 disclosures, we explain in greater detail the calculation of the leverage ratio.



5. Exposure to counterparty credit risk

5.1. Composition of credit risk

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

The following table (starting with layout EU L11) shows the composition of the exposure to credit risk. In total EUR 35.99 billion was recorded as balance-sheet exposure.

Table 12: Composition of credit risk exposure as of 31 December 2016

| | (a) = (b) IFRS Annual financial statements | (c) + (d) + (e) On-balance sheet | (g) Capital deduction | (g) Summation balance sheet |
|--|---|--|-----------------------------|-----------------------------------|
| Cash, cash balances at (central) banks | 905,821,915 | 905,821,915 | | 905,821,915 |
| Financial assets held for trading | 9,322,870 | 9,322,870 | | 9,322,870 |
| Available-for-sale financial assets | 7,679,040,215 | 7,679,040,215 | | 7,679,040,215 |
| Loans and receivables | 26,521,606,556 | 26,521,606,556 | | 26,521,606,556 |
| Financial assets held to maturity | 425,641,792 | 425,641,792 | | 425,641,792 |
| Derivatives used for hedging | 49,455,484 | 49,455,484 | | 49,455,484 |
| Cumulative value fluctuations of the covered positions in hedging the interest rate risk | 310,184,988 | 310,184,988 | | 310,184,988 |
| Tangible assets | 13,927,138 | 13,927,138 | | 13,927,138 |
| Goodwill and other intangible assets | 56,790,960 | | 56,790,960 | 56,790,960 |
| Tax assets | 5,982,552 | 5,982,552 | | 5,982,552 |
| Other assets | 160,845,281 | 160,845,281 | | 160,845,281 |
| Available-for-sale assets | 17,709,200 | 17,709,200 | | 17,709,200 |
| Total assets | 36,156,328,951 | 36,099,537,991 | 56,790,960 | 36,156,328,951 |
| Liabilities items (mortgage-linked deposits) | | -103,011,598 | | |
| Total on-balance sheet | | 35,996,526,393 | | |
| Total market values of derivatives on the balance sheet | | | 58,778,354 | |
| Add-on to the nominal amounts (derivatives) | | | 126,833,529 | |
| Total derivatives (market value and add-on) | | | 185,611,883 | |
| Total off-balance sheet | | | 1,787,783,451 | |



For derivatives, there was an exposure of EUR 185,611,883. There was an exposure of EUR 58,778,354 positive market value on the assets side of the balance sheet (swaps and caps).

The nominal amounts and other disclosures concerning all derivatives can be found in the Company's IFRS financial statements. This exposure was calculated according to the potential replacement cost on a mark-to-market basis. Until further notice, no netting is applied in calculating the capital requirements for derivative instruments. In this way the full amount as stated can be found on the asset side of the Company's IFRS balance sheet. In total there is an exposure of EUR 185,611,883 (add-on to the nominal amounts of EUR 126,833,529 and a positive market value of EUR 58,778,354.)

The off-balance sheet items include guarantees given - sureties, credit commitments and unused portions of credit lines. The CRR uses Credit Conversion Factors (CCF) to capture the capital requirement for credit risk.

This conversion factor for the guarantees is 50% or 100%, depending on type. This has the effect of reducing the exposure from that shown on the balance sheet. Credit commitments and unused portions of credit lines are the parts of loans not yet used. The conversion factor can be 0%, 20%, 50%, 75% or 100% (depending among other things on the approach and product type).

Table 13: Off-balance sheet items as of 31 December 2016

| Related COREP tables | CCF percentages | Exposure 31/12/2015 | Exposure 31/12/2016 |
|----------------------------|----------------------------------|---------------------|---------------------|
| Table C07 (STD) | 0% | 617,484,651 | 642,952,651 |
| | 20% | 301,180,834 | 428,197,880 |
| | 50% | 4,600,738 | 4,498,481 |
| | 100% | 883,526,627 | 286,297,114 |
| | Total STD approach | 1,806,792,850 | 1,361,946,125 |
| Table C08 (IRB) | 100% | 265,099,351 | 425,837,325 |
| | Total off-balance sheet exposure | 2,071,892,201 | 1,787,783,451 |
| Total weighted risk volume | | 93,314,555 | 145,299,832 |

The 'unconditionally cancellable credit card commitments' (EUR 617,484,651 as of 31/12/2015 and EUR 642,952,651 as of 31/12/2016) are included in the total exposure but carry a 0% credit risk weighting.



5.2. Information on the Basel exposure categories

In some standard templates the securitisation positions are recognized separately. However, in the chapter on credit risk, the securitisation positions are included as they are also processed in this way in the prudential reporting. 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 14: Breakdown of exposures (for CRM) by type of category as of 31 December 2016 (EU CRB-B Total net amount of exposures)

| | Balance Sheet | Off-balance sheet | Derivatives | Total exposure after value adjustments at the end of the reporting period | Average exposure after value adjustments during the reporting period |
|---|----------------|-------------------|-------------|---|--|
| 2 Institutions | 1,559,037,356 | 0 | 152,457,809 | 1,711,495,165 | 1,807,735,364 |
| 3 Corporates | 1,797,880,047 | 0 | 33,154,074 | 1,831,034,121 | 1,759,548,599 |
| 3 Covered bonds | 104,005,432 | 0 | 0 | 104,005,432 | 104,005,432 |
| 6 Covered by real estate | 25,982,715,357 | 425,837,325 | 0 | 26,408,552,682 | 25,693,756,471 |
| Securitisation positions | 878,709,441 | 0 | 0 | 878,709,441 | 911,853,017 |
| 15 Total IRB approach | 30,322,347,633 | 425,837,325 | 185,611,883 | 30,933,796,842 | 30,276,898,883 |
| 16 Central governments or central banks | 3,683,375,978 | 0 | 0 | 3,683,375,978 | 3,545,845,300 |
| 17 Regional and local governments | 699,823,642 | 49,280,402 | 0 | 749,104,044 | 813,273,566 |
| 18 Public entities | 142,392,381 | 0 | 0 | 142,392,381 | 142,860,569 |
| 21 Institutions | 112,060,568 | 9,072,174 | 0 | 121,132,742 | 131,690,992 |
| 22 Corporates | 73,072,202 | 25,325,620 | 0 | 98,397,821 | 83,509,900 |
| 24 Retail clients | 101,206,279 | 647,990,333 | 0 | 749,196,612 | 741,184,895 |
| 26 Covered by real estate | 422,623,775 | 630,277,597 | 0 | 1,052,901,372 | 1,316,660,588 |
| 28 Overdue exposures | 222,129 | 0 | 0 | 222,129 | 569,173 |
| 33 Shares (participations) | 2,159,696 | 0 | 0 | 2,159,696 | 1,609,739 |
| 34 Other items | 293,929,627 | 0 | 0 | 293,929,627 | 305,141,330 |
| Securitisation positions | 143,312,483 | 0 | 0 | 143,312,483 | 116,576,420 |
| 35 Total STA Approach | 5,674,178,760 | 1,361,946,125 | 0 | 7,036,124,885 | 7,198,922,471 |
| 36 Total exposures | 35,996,526,393 | 1,787,783,451 | 185,611,883 | 37,969,921,727 | 37,475,821,354 |

Real estate-covered exposures are mainly processed by the IRB approach, with a limited position (including certain off-balance sheet items) still processed by the STA approach.

The following table gives a separate global geographic overview for this important Basel category (total of 'exposures covered by real estate' according to the STA and IRB approaches). The important geographical countries in which the Company is active are Belgium and the Netherlands.

Table 15: Geographical distribution of the ‘exposures covered by real estate’

| Country | 31/12/2015 | 31/12/2016 |
|---------|----------------|----------------|
| BE | 10,116,964,428 | 11,499,886,347 |
| NL | 15,467,832,645 | 15,931,257,529 |
| Other | 28,360,411 | 30,310,178 |
| | 25,613,157,485 | 27,461,454,054 |

The total of EUR 27,461,454,054 is the sum of the total in line 6 of Table 14 (total exposure as of 31/12/2016 of EUR 26,408,552,682) and the total in line 26 of this table (total exposure as of 31/12/2016 of EUR 1,052,901,372).

The above table is based on the borrower's geographical location, with an 'other' category for borrowers having (having transferred) their legal residence 'outside Belgium or the Netherlands'.

In addition to private lending in Belgium and the Netherlands, there is also in Belgium a major risk exposure to the Belgian government. The geographical breakdown of the investment portfolio included in the following global overview is based on the issuer's country.

Table 16: Geographic breakdown of all exposures at 31 December 2016

The breakdown by significant counterparties is included in the table above, since the COREP categories list the main counterparties and the category 'retail covered by real estate' consists - in line with the Company's mission - almost exclusively of lending to families and individuals.





| | Belgium | Netherlands | Germany | France | Ireland | Spain | Other EU countries | Total European Union (EU) | U.S.A. | Canada | Total North America | Other geographic areas | Total |
|--|-----------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|----------------------|---------------------------|--------------------|--------------------|---------------------|------------------------|-----------------------|
| Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions (including covered bonds) | 121,352,327 | 343,428,853 | 48,857,809 | 179,555,880 | 0 | 7,250,156 | 6,327,733,355 | 1,333,178,379 | 272,256,421 | 196,470,363 | 468,726,784 | 13,595,434 | 1,815,500,597 |
| Corporates | 775,315,088 | 299,032,442 | 86,925,529 | 203,079,526 | 11,920,986 | 44,469,277 | 319,648,602 | 1,740,391,450 | 52,160,526 | 19,990,000 | 72,150,526 | 18,492,145 | 1,831,034,121 |
| Retail (covered by real estate) | 10,575,228,255 | 15,803,429,344 | 2,192,964 | 6,353,881 | 273,757 | 1,534,770 | 6,968,050 | 26,395,981,021 | 1,216,633 | 379,833 | 1,596,466 | 10,975,196 | 26,408,552,682 |
| Securitisation positions | 26,599,692 | 711,773,598 | 0 | 43,123,402 | 17,925,571 | 54,971,032 | 14,795,160 | 869,188,385 | 9,521,057 | 0 | 9,521,057 | 0 | 878,709,441 |
| Shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total IRB approach | 11,498,495,292 | 17,157,664,236 | 137,976,302 | 432,112,688 | 30,120,314 | 108,225,235 | 974,145,167 | 30,338,739,235 | 335,154,637 | 216,840,195 | 551,994,832 | 43,062,775 | 30,933,796,841 |
| Central governments or central banks | 2,404,228,764 | 158,042,038 | 0 | 0 | 310,081,843 | 174,998,130 | 628,650,296 | 3,676,001,070 | 0 | 0 | 0 | 7,374,908 | 3,683,375,978 |
| Regional or local governments | 654,154,619 | 0 | 50,200,024 | 11,500,447 | 0 | 33,248,954 | 0 | 749,104,044 | 0 | 0 | 0 | 0 | 749,104,044 |
| Public law entities | 142,392,382 | 0 | 0 | 0 | 0 | 0 | 0 | 142,392,382 | 0 | 0 | 0 | 0 | 142,392,382 |
| Financial companies and financial institutions | 314,101 | 8,837,079 | 0 | 5,134,877 | 0 | 0 | 60,639,685 | 121,132,741 | 0 | 0 | 0 | 0 | 121,132,741 |
| Corporations | 51,334,330 | 20,974,224 | 0 | 2,645,418 | 0 | 0 | 23,443,848 | 98,397,821 | 0 | 0 | 0 | 0 | 98,397,821 |
| Retail | 741,820,934 | 1,094,718 | 398,965 | 1,567,681 | 73,642 | 739,970 | 1,310,080 | 747,005,990 | 313,591 | 83,755 | 397,346 | 1,793,276 | 749,196,612 |
| Covered by mortgages on real estate | 924,658,092 | 127,828,185 | 0 | 165,095 | 0 | 0 | 0 | 1,052,651,372 | 250,000 | 0 | 250,000 | 0 | 1,052,901,372 |
| Exposures in default | 122,597 | 99,532 | 0 | 0 | 0 | 0 | 0 | 222,129 | 0 | 0 | 0 | 0 | 222,129 |
| Shares | 1,649,598 | 0 | 510,098 | 0 | 0 | 0 | 0 | 2,159,696 | 0 | 0 | 0 | 0 | 2,159,696 |
| Securitisation positions | 0 | 24,256,347 | 18,449,202 | 22,142,983 | 18,881,806 | 0 | 59,582,144 | 143,312,483 | 0 | 0 | 0 | 0 | 143,312,483 |
| Other exposures | 291,568,476 | 2,351,672 | 0 | 0 | 0 | 0 | 9,479 | 293,929,627 | 0 | 0 | 0 | 0 | 293,929,627 |
| Total standard approach | 5,212,243,893 | 343,483,796 | 69,558,288 | 89,363,501 | 329,037,291 | 208,987,054 | 773,635,533 | 7,026,309,355 | 563,591 | 83,755 | 647,346 | 9,168,184 | 7,036,124,885 |
| Total | 16,710,739,185 | 17,501,148,032 | 207,534,590 | 521,476,189 | 359,157,604 | 317,215,289 | 1,747,780,700 | 37,365,048,590 | 335,718,228 | 216,923,951 | 552,642,178 | 52,230,958 | 37,969,921,726 |

The remaining lives per 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 17: Remaining (weighted average) life as of 31 December 2015

| | 2015 | 2016 |
|--------------------------------------|-------|-------|
| Central governments or central banks | 11.70 | 8.42 |
| Regional and local governments | 14.44 | 9.50 |
| Public entities | 6.28 | 6.38 |
| Institutions | 5.67 | 5.42 |
| Corporates | 4.61 | 3.49 |
| Retail clients | 2.37 | 0.73 |
| Covered by real estate | 17.11 | 17.24 |
| Overdue exposures | 4.08 | 0.10 |
| Covered bonds | 1.62 | 2.10 |
| Securitisation positions - ABS | 7.86 | 7.51 |
| Securitisation positions - MBS | 38.67 | 40.31 |



In the ABS and MBS category this is the remaining period to final maturity (i.e. not based on the call date nor the average life).

5.3. Credit risk mitigation

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

The most important guarantee for mortgage loans granted by the Company is the property for which the loans are given and on which a mortgage can be registered. For this reason, when assessing a loan, the collateral value is always taken into account.

The table below shows the exposures before and after the movements resulting from unfunded and funded credit protections.

'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 18: Exposure per category as of 31 December 2016

| | Exposure | Unfunded credit protection guarantees | Funded credit protection collateral | Total inflow | Adjusted exposure |
|--------------------------------------|-----------------------|---------------------------------------|-------------------------------------|--------------------|-----------------------|
| Central governments or central banks | 3,683,375,978 | 0 | 0 | 241,374,125 | 3,924,750,103 |
| Regional and local governments | 749,104,044 | 240,680 | 0 | 78,244,959 | 827,108,323 |
| Public entities | 142,392,381 | 51,997,491 | 0 | 0 | 90,394,891 |
| Institutions | 121,132,742 | 109,972,802 | 0 | 0 | 11,159,940 |
| Corporates | 98,397,821 | 56,595,237 | 0 | 30,588,448 | 72,391,033 |
| Retail clients | 749,196,612 | 0 | 0 | 0 | 749,196,612 |
| Covered by real estate | 1,052,901,372 | 131,401,323 | 0 | 0 | 921,500,050 |
| Overdue exposures | 222,129 | 0 | 0 | 0 | 222,129 |
| Covered bonds | 0 | 0 | 0 | 0 | 0 |
| Collective Investment Undertakings | 0 | 0 | 0 | 0 | 0 |
| Shares (participations) | 2,159,696 | 0 | 0 | 0 | 2,159,696 |
| Other items | 293,929,627 | 0 | 0 | 0 | 293,929,627 |
| Securitisation positions | 143,312,483 | 0 | 0 | 0 | 143,312,483 |
| Total exposure (STA) | 7,036,124,885 | 350,207,532 | 0 | 350,207,532 | 7,036,124,886 |
| Institutions | 1,711,495,165 | 0 | 0 | 0 | 1,711,495,165 |
| Corporates | 1,831,034,121 | 0 | 0 | 0 | 1,831,034,121 |
| Covered bonds | 104,005,432 | 0 | 0 | 0 | 104,005,432 |
| Covered by real estate | 26,408,552,682 | 0 | 0 | 0 | 26,408,552,682 |
| Securitisation positions | 878,709,441 | 0 | 0 | 0 | 878,709,441 |
| Total exposure (IRB) | 30,933,796,841 | 0 | 0 | 0 | 30,933,796,841 |
| Total exposures | 37,969,921,727 | 350,207,532 | 0 | 350,207,532 | 37,969,921,727 |

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

As of 31 December 2016 no fully-funded credit protection was recognized. The unfunded credit protection at the Company can be divided into two groups. This reflects a shift in exposure resulting from government guarantees and guarantees by financial institutions or other companies. Added to this is also the Dutch Mortgage Guarantee (NHG).



The following tables break down the EUR 109,972,802 of credit protection in the 'Institutions' category and the EUR 56,595,237 of credit protection in the 'corporates' category.

Table 19: Government guarantees in the 'institutions' category as of year-end

| Counterparty | Number of securities | Exposure | Guarantee amount |
|--|----------------------|------------|------------------|
| French government | 2 | 51,160,921 | 49,990,309 |
| Slovenian government | 1 | 6,081,330 | 5,989,745 |
| Czech government | 2 | 54,730,225 | 53,992,748 |
| Total unfunded credit protection - Guarantees in the 'Institutions' category | | | 109,972,802 |

Table 20: Guarantees in the 'corporates' category

| Counterparty | Number of securities | Exposure | Guarantee amount |
|--|----------------------|------------|------------------|
| Belgian government | 3 | 26,008,711 | 26,006,788 |
| Other Polish corporate | 1 | 10,213,485 | 10,034,910 |
| Other German corporate | 2 | 5,950,680 | 5,788,740 |
| Other Czech corporate | 2 | 15,023,544 | 14,764,798 |
| Total unfunded credit protection - guarantees in 'corporates' category | | | 56,595,237 |

The main guarantee for mortgage loans are the properties for which the loans are given and on which mortgages 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 residual credit risk. The evolution of property values is therefore systematically monitored and properties are systematically revalued.

The loan to value (LTV) 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 built up through life insurance or investment accounts.

In addition, for the Dutch mortgages 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 renovating a home. 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, Spatial 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 WEW sets out 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. Administration of the NHG guarantees is undertaken by the credit institutions. Credit files are controlled 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 the municipalities. In this way the WEW is able to meet its payment obligations at all times. As a result, the Dutch Central Bank (DNB) views



the NHG as a government guarantee. Consequently, loans covered by the NHG generally carry lower capital requirements. This advantage for lenders is 'returned' to consumers in the form of 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 (and included, among others, in the LGD parameter).

5.4. Counterparty risk

The assumptions and limits regarding counterparties are listed in the 'Credit and concentration risk' section of the internal financial policy. This sets limits (for investments) per asset category, but also with respect to concentration risk by counterparty.

The assumptions and limits regarding counterparties are also listed in the 'Concentration risk and concentration risk' section of the internal credit risk policy.

5.5. Collateral

Collateral received

Personal guarantees or collateral are always required when granting mortgage loans. The lower a customer's creditworthiness, the more security he will be 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. All material collateral is periodically reassessed using a statistical method.

Collateral given

The Company also gives collateral on its own assets as part of the exercise of its activities.

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 CSAs are concluded primarily to minimize counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (securities or cash). Chapter 9 gives more information on effectively granted collateral.

There are no explicit rating triggers (except the standard ones included in the basic contracts) provided for the current contracts concluded with the derivatives counterparties.



5.6. 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 internal 'Credit Risk' policy.

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.

5.7. Capital requirement for CVA risk

Since the coming into effect of the CRR, an own funds requirement has to be calculated also for the CVA (Credit Valuation Adjustment) risk. The importance of counterparty risk in derivatives transactions has increased dramatically in recent years. Financial institutions have been measuring and managing credit risk for centuries. Until 2007, however, 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). The CVA has the effect of putting a figure on the counterparty risk in a transaction.

For prudential reasons, a separate calculation is made to calculate an exposure for CVA risk to which a capital requirement is applied.

As of 31.12.2016 an exposure of EUR 83,532,635 was obtained, on which a capital requirement of EUR 6,682,611 was calculated.

The opposite of the CVA measures its own credit risk. This is called the Debit Valuation Adjustment (DVA). The DVA calculated following IFRS standards amounted to EUR 10,016,279 and was deducted from the qualifying capital.



5.8. 5% add-on for Belgian mortgage loans

The Belgian regulator has decided, for macro-prudential reasons, to impose a 5% add-on on RWA for all Belgian financial institutions for Belgian mortgage loans.

An RWA of EUR 531,459,388 was obtained, on which a capital requirement of EUR 42,516,751 was calculated. This additional capital requirement was included in the calculation as of 31 December 2016.

5.9. Derivatives

At the end of 2016, the Company had on its balance sheet only derivative instruments (in the form of caps and swaps) concluded in the context of interest rate management. It has no credit derivatives.

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

Until further notice, no netting is applied in calculating the own funds requirements for derivative instruments.

The current replacement cost based on the market value of the transactions with a positive value was EUR 58,778,354 and the potential future credit risk was EUR 126,833,529.

The EUR 58,778,354 can be found on the IFRS balance sheet under the heading 'Financial assets held for trading' (EUR 9,322,870) and 'Derivatives used for hedging' (EUR 49,455,484).



6. Use of the standard approach

The Company uses the standardized approach for determining the credit risk for several categories. These categories were explained in Table 9 'Total weighted risk volume per category and capital requirements at year-end' and Table 14 'Breakdown of exposures (for CRM) by type of category'.

As can be seen in the table below, a limited number of securitisation positions are also processed according to the standard method.

Table 21: Exposures applying STA approach at year-end

| | RWA 31/12/2015 | RWA 31/12/2016 |
|---|----------------|----------------|
| Exposure - standard approach | 598,379,282 | 609,179,667 |
| Exposure - standard approach without securitisation positions | 576,633,235 | 580,517,170 |

Chapter 15 provides a more detailed explanation of securitisation and the securitisation positions.

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. At the end of 2015, the amount calculated by the STA method was higher than the one calculated by the IRB method. An additional EUR 750,486,562 of RWA was therefore included in the IRB classification 'secured by real estate'.



7. Use of the (F)IRB method

The Company applies the (F)IRB method to the exposures to institutions and covered bonds, corporates, retail and securitisation positions.

Table 22: Exposures applying IRB approach at year-end

| | RWA 31/12/2015 | RWA 31/12/2016 |
|--|----------------|----------------|
| Internal ratings-based approach (IRB) | 4,120,439,632 | 4,515,643,272 |
| IRB approach where neither self-estimated LGD parameters nor conversion factors are used | 1,566,618,138 | 1,647,091,088 |
| Institutions | 812,297,989 | 785,004,169 |
| Corporates | 754,320,150 | 862,086,919 |
| IRB approach using own LGD calculations and/or own conversion factors | 2,420,932,973 | 2,761,328,876 |
| Retail - covered by real estate | 2,420,932,973 | 2,761,328,876 |
| Securitisation positions | 132,888,520 | 107,223,309 |

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 the corporates, institutions and covered bonds portfolios. The 80 % floor set in the Basel II transitional provisions (on the Basel I-based calculations) continues to apply until further notice.

The existing 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.

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

The Company calculates its exposures to retail customers (mortgage loans), securitisation positions (ABS and MBS), corporates, institutions (with the exception of exposures to insurance companies) 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 categories are formed. A long-term PD is attached to each risk category. This is the historic average default rate, corrected in certain cases for reasons of conservatism or in order 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 (Exposure at Default) 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), late payment interest and the reinvestment fee.

No models have been developed for calculating a CCF for unused credit lines and offers in the pipeline, and a CCF factor of 100 % is used until further notice. CCF models estimate the proportion of off-balance sheet liabilities to be recognized 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 PD parameter. 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, for the regulatory loss percentages are used as IRB input.



7.2.2. Integration of the Basel parameters

The embedding of the (F)IRB approach in the Basel credit risk was implemented by integrating it into the internal 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 for the mortgage portfolios, gathering the information required for the monitoring process and reporting on it internally. The tasks of the Credit Risk Policy department are described in the internal 'Retail credit risk policy'.

The operational credit departments are tasked with granting and managing loans in accordance with the internal 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, actively using the PD, LGD and EAD models in their processes and procedures and devote the necessary time and attention to the effective embedding of all relevant Basel II standards and rules (risk-based acceptance).

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 department 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 Financial Management department 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 'internal credit risk models' internal 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 of 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;
- 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 Control sub unit of the Credit Operations departments (NL and BE) is responsible, beside the operational aspects of managing loan defaults, for the first-line control. The Credit Risk Management department is responsible for developing the models for retail lending. For the models for exposures to corporates, institutions and covered bonds, this model-development function is exercised by the CRA sub-department of the Financial Management department.

Within the governance framework for managing credit risk models, and the project systems designed for this purpose, the Risk department participates in the (further) development of the internal models.

In addition, the Risk & Validation department exercises a second-line control, consisting; for the Risk department, of critical evaluation of and (independent) risk checks on the same reports.

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

Validation of the models is undertaken by the internal validator (validation unit) within the Risk & Validation department that reports hierarchically to the CRO. The validator (validation unit) is independent here of both the business and the developers/modellers. The validator's is clearly and concretely defined in a model management governance framework (MMGF).

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 the approval, the models are implemented in the systems. Implementation validation is intended to investigate whether the implemented model is the same as the one developed and approved. Implementation validation relates to both the organizational and 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 Financial Management 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.

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 Financial Management carry out stress tests in collaboration with Risk. Stress testing consists of measuring the effects of serious but plausible 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;
 - 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). A PD and LGD model was designed for the portfolio of mortgage loans initiated by the Company's own branch network.

A second PD and LGD model was developed for the so-called CBHK/OCCH portfolio, which is the portfolio constituted in the past via the 'CBHK/OCCH brokers' channel.

Finally, a third PD and LGD model was developed for mortgage loans granted in the Netherlands. For managing and administering the mortgage portfolio in the Netherlands, the Company uses an external service provider (Quion). The regulator has made this conditional on systematic comparisons being made between the STA-based and the IRB-based calculations.

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

The regulator has made the application of the existing model for the Dutch portfolio conditional on systematic comparisons being made between the STA-based and the IRB-based calculations. In the course of 2016, both a model file and a process-related dossier for the internal model developed for Dutch mortgages were filed with the supervisors. At this stage this was a partial application. At the beginning of 2017 the full application file was filed.

Pooling - allocation to risk categories

The individual exposures are each assigned to a PD risk categories (10 PD categories for Aspa credits, 8 for CBHK/OCCH credits and 9 for the Dutch sub-portfolio). Defaulted loans are classified into the default category. Each category 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 categories, was to divide loans into a maximum number of risk categories that are significantly different from each other.

The results of these models and all relevant analyses are discussed in the Credit Risk Committee for retail portfolios.

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 span. This also fits with the governance narrative linked to Argenta's (F)IRB status.

These analyses are all subjected 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 (F) IRB framework that has been ratified and implemented in Argenta, and which is reviewed at least annually. The results of these rating reviews are discussed in the monthly Rating Consultation, and finally in the ALCO (Asset & Liability Committee).



The underlying rating models for the non-retail default portfolio were developed by S&P with around twenty variables taken into account for each debtor.

Internal ratings are always based on two pillars: in addition to using statistics-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 by the (F)IRB method

The table below shows the exposure, average PD, average LGD, RWA and average risk weight as of 31 December 2016 (of the categories institutions, corporates, covered bonds and 'covered by real estate').

Table 23: Exposures by the (F)IRB method as of 31 December 2016

| Data as of 31/12/2016 | Exposure | Average PD % | Average LGD % | RWA | Average RW% |
|-----------------------|----------------|--------------|---------------|---------------|-------------|
| Total exposures | 30,055,087,400 | | | 4,408,419,964 | |
| IRBA | | | | | |
| Balance Sheet | 26,014,464,712 | 1.24% | 11.44% | 2,743,947,348 | 10.55% |
| Off-balance sheet | 425,837,325 | 0.20% | 12.09% | 17,381,528 | 4.08% |
| Provisions: | -31,749,356 | | | | |
| IRBF | | | | | |
| Balance Sheet | 3,460,922,835 | 0.16% | 44.68% | 1,545,157,206 | 44.65% |
| Derivatives | 185,611,883 | 0.10% | 45.00% | 101,933,881 | 54.92% |

The above table shows the effective LGD percentages. In the RWA calculation of the mortgage loans, however, the required LGD floor of 10% is used in place of the effective LGD. For the off-balance sheet items (consisting of unused credit lines and binding offers - the 'pipeline') a standard CCF of 100% is used. The PD % includes the defaults (for the definition see Note 8.1).

The following table shows the calculated expected loss (EL) per mortgage sub-portfolio – processed according to the IRB approach - taking into account the effective LGD and the applied 10% LGD floor.



Table 24: EL per mortgage sub-portfolio as of 31 December 2016

| | ASPA | CBHK/OCCH | Netherlands | Total |
|-----------------------------|------------|-----------|-------------|------------|
| Total provisions recognized | 7,910,125 | 3,966,542 | 9,875,605 | 21,752,272 |
| EL-eff LGD | 10,723,826 | 4,927,283 | 19,060,880 | 34,711,989 |
| > non-defaults | 2,813,701 | 960,741 | 9,185,275 | 12,959,717 |
| > defaults | 7,910,125 | 3,966,542 | 9,875,605 | 21,752,272 |
| EL lgd floor | 12,197,417 | 5,116,457 | 19,643,463 | 36,957,337 |
| > non-defaults | 4,287,292 | 1,149,915 | 9,767,858 | 15,205,065 |
| > defaults | 7,910,125 | 3,966,542 | 9,875,605 | 21,752,272 |

The EUR 21,752,272 are the individual provisions recognized on the default group (100% PD) in the 'covered by real estate' category in the COREP IRB table (see also the total provisions in Table 25 below).

As of 31 December 2016 the total EL (with the effective LGD) for both defaults and non-defaults was EUR 34,711,989. Applying the LGD floor of 10% gives an EL of EUR 36,957,337.

For the individual (mortgage) credits processed according to the IRB approach, a total of EUR 31,749,356 of provisions were set up. These include both the individual provisions (EUR 21,752,272 for the default group) and the calculated IBNR provisions.

Since 2008, a collective IBNR provision has also been set up for those mortgage portfolios for which IRB models have been developed.

The table below groups the exposures per PD grade for the main exposure category, viz. 'covered by real estate' as of 31/12/2016. These exposures are processed according to the IRB(A) method. The layout of the table is based on a standard EU CR6 template.





Table 25: IRB approach - credit risk exposures by exposure class and PD range

| Portfolio | PD scale | Original on-balance sheet gross exposure | Off-balance sheet exposures pre CCF | Average CCF | EAD post CRRM and post-CCF | Average PD | Number of obligors | Average LGD | Average Maturity | RWA | RWA density | EL | Provisions |
|-----------|-------------------|--|-------------------------------------|-------------|----------------------------|--------------|--------------------|---------------|------------------|----------------------|---------------|-------------------|-------------------|
| | 0.00 to < 0.15 | 10,128,114,621 | 304,565,835 | 100% | 10,432,680,456 | 0.08% | 96,431 | 11.21% | 6.863 | 331,017,707 | 3.17% | 965,021 | 0 |
| | 0.15 to < 0.25 | 1,791,079,653 | 34,670,195 | 100% | 1,825,749,849 | 0.16% | 16,408 | 10.00% | 6.902 | 65,720,972 | 3.60% | 292,120 | 0 |
| | 0.25 to < 0.50 | 10,007,691,454 | 69,969,494 | 100% | 10,077,660,947 | 0.37% | 62,387 | 12.13% | 8.294 | 1,198,064,391 | 11.89% | 4,453,226 | 0 |
| | 0.50 to < 0.75 | 2,187,251,973 | 2,962,589 | 100% | 2,190,214,562 | 0.58% | 14,187 | 10.99% | 8.650 | 337,719,752 | 15.42% | 1,407,454 | 0 |
| | 0.75 to < 2.50 | 942,667,198 | 10,962,049 | 100% | 953,629,247 | 1.10% | 8,210 | 10.10% | 6.726 | 135,002,804 | 14.16% | 1,063,290 | 0 |
| | 2.50 to < 10.0 | 576,237,675 | 2,157,283 | 100% | 578,394,957 | 4.58% | 4,438 | 11.22% | 7.287 | 267,438,885 | 46.24% | 2,959,941 | 0 |
| | 10.00 to < 100.00 | 191,108,320 | 536,021 | 100% | 191,644,341 | 18.71% | 1,210 | 11.23% | 7.523 | 159,636,250 | 83.30% | 4,064,014 | 0 |
| | 100.00 (Default) | 190,313,819 | 13,859 | 100% | 190,327,678 | 100.00% | 1,359 | 15.31% | 6.971 | 266,728,115 | 140.14% | 21,752,272 | 21,752,272 |
| | Sub-total | 26,014,464,712 | 425,837,325 | 100% | 26,440,302,037 | 1.23% | 204,630 | 11.45% | 7.569 | 2,761,328,876 | 10.44% | 36,957,337 | 21,752,272 |

Retail - Residential mortgage exposures

The average PD was for this category was 1.23% and the average LGD 11.45%. In total, there was an EL (expected loss) of EUR 36,957,337 with provisions for the PD 100% category of EUR 21,752,272.

Backtesting

To check whether LGD percentages are sufficiently conservative, the predicted (downturn) LGD values from the last but one LGD backtest are compared to the realised LGD values from the last backtest.

The comparison involves all files already in default at the end of the previous backtesting period and which became uncollectible during the most recent backtesting period.

Credits Aspa Belgium (review date most recent Backtest: 31/06/2016)

The deviation between the predicted LGD and realised LGD has a median and average of 2.08% and -2.80% respectively. At least 50% of the observations have a positive deviation (conservative LGD estimate).

Additionally, on the basis of a Wilcoxon Rank Test, the zero hypothesis (no difference in average between predicted and observed LGD) is not rejected ($p = 0.83$). It is decided that the estimated LGD generally corresponds to the realised LGD.

The Wilcoxon Rank Test is a distribution-free test for the median of a continuous distribution. It is a test for 'one sample'.

Credits Netherlands (review date most recent backtest: 31/12/2015)

The deviation between the predicted LGD and realised LGD has an average of 9.93% and a median of 7.61%. At least 75% of the observations have a positive deviation (conservative LGD estimate).

Based on the Wilcoxon Rank Test, the predicted LGD (seen on average) also appears to be significantly different from the realised LGD ($p < 0.0001$). One can decide that the predicted LGD is sufficiently conservative.

Breakdown into pool/grades

The table below breaks down the exposures to institutions (including covered bonds) and corporates by pool/grade with the corresponding PD%.



Table 26: Breakdown of corporates/institutions exposures by pool/grade as of year end

| Pool/grade | PD% | Corporates 2015 | Institutions 2015 | Pool/ Grade | PD% | Corporates 2016 | Institutions 2016 |
|---------------------|-------|--------------------|----------------------|------------------------|-------|--------------------|----------------------|
| 5 | 0.03% | 0 | 24,508,694 | 5 | 0.03% | 0 | 24,506,798 |
| 6 | 0.03% | 0 | 1,713,838 | 6 | 0.03% | 0 | 223,651 |
| 7 | 0.03% | 50,388,243 | 20,895,492 | 7 | 0.03% | 0 | 73,154 |
| 8 | 0.04% | 130,993,548 | 458,239,284 | 9 | 0.04% | 64,549,875 | 262,496,495 |
| 10 | 0.05% | 384,036,346 | 154,443,037 | 10 | 0.05% | 476,078,202 | 274,767,859 |
| 13 | 0.10% | 158,212,607 | 592,346,678 | 13 | 0.09% | 151,485,713 | 520,338,764 |
| 15 | 0.14% | 173,892,785 | 326,939,336 | 16 | 0.13% | 162,023,002 | 274,738,178 |
| 17 | 0.14% | 162,142,256 | 231,123,045 | 18 | 0.13% | 293,027,375 | 297,959,366 |
| 21 | 0.22% | 188,427,956 | 123,363,666 | 21 | 0.21% | 298,493,044 | 114,983,438 |
| 27 | 0.51% | 241,212,341 | 0 | 27 | 0.49% | 277,922,410 | 35,077,955 |
| 29 | 0.51% | 32,105,848 | 10,642,168 | 29 | 0.49% | 32,450,038 | 10,334,938 |
| 35 | 0.81% | 32,155,530 | 0 | 34 | 0.78% | 43,351,160 | 0 |
| 40 | 1.50% | 25,292,583 | 10,307,721 | 39 | 1.42% | 29,586,332 | 0 |
| | | | | 42 | 2.60% | 2,066,971 | 0 |
| Total exposure | | 1,578,860,043 | 1,954,522,959 | Total exposure | | 1,831,034,121 | 1,815,500,597 |
| RWA's | | 754,320,150 | 812,297,988 | RWA's | | 862,086,919 | 785,004,168 |
| Capital requirement | | 60,345,612 | 64,983,839 | Capital requirement | | 68,966,954 | 62,800,333 |



8. Exposure adjustments

For a more detailed explanation of the credit risk (management) and the applicable valuation rules, the reader is referred to Chapter 5.3 'Credit Risk' and 2.2. 'Accounting policies - valuation rules - impairment losses' in the IFRS annual report of Argenta Spaarbank (which can be found on www.argenta.be).

8.1. Definition 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 and in the bookkeeping, a credit is recorded 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 to be default are consequently reviewed (taking into account also the security received) too see whether an impairment should be recognized.



8.2. Doubtful exposures

Past due positions (more than 1 month and more than EUR 25) occur only in the exposure categories 'retail customers' and 'secured by real estate'. The positions listed below are classified in 'credits in default' in the capital calculation. Geographically the loans and receivables are located almost entirely in the core countries of Belgium and the Netherlands.

Table 27: Geographical breakdown of past due (IRB) risk exposures

| Country | Past due exposure 2015 | Past due exposure 2016 |
|--------------------------|------------------------|------------------------|
| BE | 110,298,381 | 97,488,533 |
| NL | 70,937,864 | 91,358,870 |
| Other | 1,398,654 | 1,702,404 |
| Total past due exposures | 182,634,900 | 190,549,807 |

These are the total exposures arrived at by the IRB method.

As of 31/12/2016, individual provisions of EUR 25,751,562 were set up in the balance sheet (compared to EUR 29,161,957 as of 31/12/2015) for individually measured credits. On top of these came an IBNR provision of EUR 9,997,083 (compared with EUR 6,875,700 as of 31/12/2015).

The table below shows the changes in individually determined impairments to credits and the overall impact on the income statement (see 'total impact') column for 2016. As at 31/12/2016 there was a negative impact of EUR 5,030,062 (compared to a positive impact of EUR 1,542,951 in 2015).

Table 28: Impact of impairments (credit) on the income statement

Changes in the stock of general and specific credit risk adjustments

| | Opening balance 31/12/2015 | Increase through P&L | Reversal through P&L | Closing balance 31/12/2016 | Recoveries through P&L | Direct write-offs | Collective provision | Total P&L impact |
|-----------------------------|----------------------------------|----------------------------|----------------------------|----------------------------------|------------------------------|----------------------|-------------------------|---------------------|
| Consumer loans | 2,613,225 | 235,689 | -829,664 | 2,019,250 | -207,428 | 344,045 | 0 | -457,358 |
| Mortgage loans | 24,930,738 | 18,509,713 | -21,045,689 | 22,394,762 | -1,086,104 | 6,569,803 | 3,186,358 | 6,134,081 |
| Instalment loans | 339,961 | 344,556 | -285,918 | 398,599 | -228,546 | 178,815 | 0 | 8,907 |
| Advances/overdrafts | 1,277,133 | -1,178,726 | 840,544 | 938,951 | -775,743 | 462,537 | 0 | -651,388 |
| Other loan receivables | 900 | 0 | -900 | 0 | -4,179 | 899 | 0 | -4,180 |
| Total loans and advances | 29,161,957 | 17,911,232 | -21,321,627 | 25,751,562 | -2,302,000 | 7,556,099 | 3,186,358 | 5,030,062 |

As shown in the table above, the individual provisions on the balance sheet have evolved from EUR 29,161,957 to EUR 25,751,562. These figures are explained in greater detail in the IFRS annual accounts of Argenta Spaarbank.



9. Encumbered and unencumbered assets

Financial institutions are required, on an advancing basis, to disclose information on encumbered and unencumbered assets for the previous twelve months, based on median values of at least quarterly data.

Table 29: Encumbered assets

| | 31/12/2015 | | 31/12/2016 | | Average 2016 | |
|---|---------------|--------------|---------------|--------------|---------------|--------------|
| | Nominal value | Market value | Nominal value | Market value | Nominal value | Market value |
| Collateral for derivatives (caps and swaps) | 419,032,000 | 485,653,196 | 559,469,000 | 635,725,745 | 541,443,167 | 607,061,611 |
| Collateral for repo transactions | 85,594,000 | 99,876,707 | 0 | 0 | 23,267,471 | 24,996,340 |
| Collateral for Bank Card Company | 35,000,000 | 35,123,886 | 31,000,000 | 33,118,285 | 31,000,000 | 33,683,674 |
| Total given collateral | 539,626,000 | 620,653,789 | 590,469,000 | 668,844,030 | 595,710,637 | 665,741,625 |
| Cash paid (derivatives) | | 15,350,000 | | 28,900,000 | | 47,040,000 |
| Cash received (derivatives) | | 0 | | 29,573,769 | | 6,842,310 |
| Collateral NBB credit line | 250,000,000 | 272,322,206 | 250,000,000 | 261,525,000 | 250,000,000 | 263,776,250 |

At end-2016 a nominal EUR 559,469,000 of assets were encumbered in the context of derivatives and repos and a nominal EUR 31 million in connection with the use of credit cards by Company customers. EUR 28,900,000 was paid in cash in the context of the collateral management in respect of derivatives. Another EUR 29,573,769 of cash was received in the context of the executed repo transactions.

The sources of encumbered assets are:

- Collateral in the context of collateral management of derivatives (the Company concludes derivatives solely for managing its own interest rate risk);

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

- Collateral for periodic repurchase agreements. The global framework for using repos has been elaborated but it is not an active part of the funding policy;
- Collateral for the Bank Card Company company in connection with the issuance and payment flows of payment cards. The amount of collateral given is stable and is periodically reviewed;
- Possible collateral at the NBB under the Company's credit line with it. Given that the credit line is not used, the potential amount of collateral remains constant.

The Company has a EUR 250 million credit line with the NBB, for which securities will be encumbered as and when this credit line is used.



The Company has until further order issued no covered bonds and there were no loans still securitised as of 31/12/2016.

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. The table below (template A-Assets) provides an overview of the encumbered and unencumbered assets.

Table 30: Total assets (encumbered and unencumbered)

| | | Outstanding amounts of encumbered assets | Market value of encumbered assets | Outstanding amounts of unencumbered assets | Market value of unencumbered assets |
|-----|---|--|-----------------------------------|--|-------------------------------------|
| | | 010 | 040 | 060 | 090 |
| 010 | Assets of the reporting institution | 697,744,030 | | 35,458,584,921 | |
| 030 | Shares | 0 | 0 | 2,159,696 | 2,159,696 |
| 040 | Debt certificates (AFS and HTM) portfolio | 668,844,030 | 668,844,030 | 7,433,678,281 | 7,452,543,877 |
| 120 | Other assets | 28,900,000 | | 28,022,746,944 | |

At the end of 2016 no other collateral was received than the EUR 29,573,769 already mentioned. This collateral was included in the balance sheet so that template B on 'collateral received' does not need to be included (zero table).

The table below shows the link between encumbered assets, collateral received and related liabilities.

Table 31: Encumbered assets, collateral received and related liabilities

| | | Related liabilities | Related assets and collateral received |
|-----|---------------------------|---------------------|--|
| 010 | Total outstanding amounts | 568,752,119 | 697,744,030 |
| 020 | Derivatives | 537,752,119 | 664,625,745 |
| 030 | of which OTC derivatives | 537,752,119 | 664,625,745 |
| 040 | Deposits (BCC collateral) | 31,000,000 | 33,118,285 |

As can be deduced from the description, it is primarily the collateral management of derivatives that gives rise to the encumbering of assets. These instruments are concluded in the framework of the Company's own interest rate risk management. The related derivatives and given and received collateral are systematically reported to the ALCO.

Owing, inter alia, to the European Market Infrastructure Regulation (EMIR), collateral management has evolved in recent years. EMIR is intended to make trading in Over The Counter (OTC) derivatives more transparent and safer.

EMIR contains rules for the settlement of derivatives by a central counterparty (CCP), a licensing requirement for these CCPs, and requirements as to the collateral and transferability of positions, including where the OTC derivatives contracts are not settled through a CCP.

The coming into force of EMIR has brought with it mandatory central settlement and the reporting of OTC transactions to Trade Repositories. In addition, all new transactions are settled through a central counterparty. Whereas in the past, it was essentially securities that were given as collateral, with the operation of the CCP more cash is exchanged.

10. Use of ratings from external credit assessment institutions (ECAI)

The Company uses the ratings of the following three rating agencies (Approved Credit Assessment Institutions) in determining the weighting percentages: Standard & Poors (S&P), Moody's and Fitch.

The ratings of all listed securities are systematically monitored by the CRA sub-department as part of the tracking of credit risk. The financial guidelines and the RAF set minimum limits for the ratings that the various asset classes are required to meet. If the ratings fall below the intended limits, this is systematically reported and, where necessary, a decision is taken whether or not to continue to hold the security.

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

For this the ratings of the three rating agencies are used. These ratings are publicly available at the time of issue, and rating changes are always published.



Table 32: Basel STA categories for which ratings are used at year-end

| Exposure (STA) | Exposure 31/12/2015 | Exposure 31/12/2016 |
|--------------------------------------|---------------------|---------------------|
| Central governments or central banks | 3,613,886,086 | 3,683,375,978 |
| Regional and local governments | 800,551,838 | 749,104,044 |
| Public entities | 94,240,535 | 142,392,381 |
| Institutions | 133,843,145 | 121,132,742 |
| Corporates | 98,887,911 | 98,397,821 |
| Equities (participating interests) | 261,527 | 2,159,696 |
| Securitisation positions | 108,730,234 | 143,312,483 |

Note 15 gives more detailed explanation on the use of ratings for securitisation positions.

As explained in the 'Risk Management' section of the IFRS financial statements (credit risk part), the CRA sub-department also determines internal ratings.

11. Exposure to 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 the securitisation transactions.

In calculating the credit risk these derivative instruments are processed using a 'mark-to-market' valuation-based method.

12. Operational risk



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

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

At the Company, the operational result was assigned to the business lines i) broker services (retail), ii) retail banking and iii) wealth management (which all need to be multiplied by a beta factor of 12 %).

Based on the three-year average of the sum of annual own funds requirements for operational risk, the Company was required to hold EUR 78,322,436 of capital at 31 December 2016.

This further increase over previous years is due to the higher operating results of recent years. The years with lower operating results are falling out of the calculation, and the more recent ones with higher operating results are being added.

13. Exposure to shares

In addition to a very limited number of strategic equity investments, the Bank Pool also holds a limited number of positions in individual shares from an investment perspective.

The Company's strategic investments, amounted to just EUR 62,498. This position contains shares of a small number of entities that, under Belgian bank accounting rules, are considered as financial fixed assets and have already been held by the Company for a long time.

In addition, the Company also built up, in the course of 2015 and 2016, a very limited exposure to shares acquired from an investment perspective and coupled to real estate companies.

These shares are all processed using the standard approach.

Table 33: Shares (STA approach) as of 31 December 2016

| | Carrying value | Market value | Unrealised gain/loss | Realized gain/loss |
|--------------------------|----------------|--------------|----------------------|--------------------|
| Strategic participations | 62,498 | 63,138 | 641 | 0 |
| Investments | | | | |
| Listed | 1,784,817 | 2,096,558 | 311,741 | 0 |
| Private equity | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Total | 1,847,314 | 2,159,696 | 312,382 | 0 |

Shares traded on active markets are accounted for at market value. For the very limited portfolio of strategic shares, the carrying value serves as market value.

Processing the insurance participation on BVg CRR scope level

At BVg level the shareholding in the insurance pool is - as already explained - treated as an exposure using the Danish Compromise (DC) and weighted under the IRB approach at 370%.

The participation in question is therefore not deducted from capital (non-deducted participations in insurance undertakings).

The participation value amounts to EUR 176,445,506 multiplied by 370% to obtain a weighted risk volume of EUR 652,848,373 and an capital requirement of EUR 52,227,870.



14. Exposure to interest rate risk

This section gives further information of the assumptions used by the Company in monitoring the interest rate risk in the banking book (IRRBB). A detailed description can be found in Chapter 5.1.1 of the IFRS annual report.

Interest rate risk is defined as the current and future exposure of an institution's profitability and equity in the event of adverse interest rate movements. The 'banking book' consists here 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 institution's required regulatory equity) are not included in the banking book. The Company's interest-bearing assets belong exclusively to the banking book.

Interest rate risk is reported both from an income perspective 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 or presumed future market interest rates (other than the commercial margins) over their 'interest-bearing lives'.

The income perspective essentially examines the volatility of the interest result, the difference between interest income and interest expenses. At consolidated level, this figure factors in the changes in the market value of the interest rate derivatives recognized through the income statement. Since 1 October 2008 hedge accounting has been applied to a portion of the interest rate derivatives when they have a demonstrable interest rate-reducing character.

Fluctuations in economic value in an interest-sensitive enterprise are strongly dependent on the duration gap, which is the mismatch 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 of all liabilities.

The greater the mismatch, the greater the interest rate sensitivity. Because of its simplicity, the duration gap is reported as a benchmark of interest rate risk in addition to the measured sensitivity of economic value and the interest result, which are measured in a full revaluation method with all relevant cash flows included in the calculations.

In the ALM systems, all interest-bearing assets, liabilities and off-balance sheet positions are included in the calculations and modelled according to their respective natures. In this way, all material sources of interest rate risk are taken into consideration.

For projecting of cash flows and discount rates, the Company takes as a basis the spot swap vs euribor 3M curve.

ALCO remains free to deviate from this approach at any time. In this case, the decision is clearly explained in the Executive Committee, whose task it is to ratify the decision, and report it to the Board of Directors.

For calculating economic value, the spot swap vs euribor 3M curve at reporting date is used. No margin is applied to the the discount rates, nor are the commercial margins included in the cash flows discounted. In this way, interest rate risk is kept strictly separate from other risk types such as credit risk and business risk.

The ALM interest rate risk management system examines the impact of a large pre-determined set of interest rate scenarios. Conservatively, for income analyses, a flat-balance hypothesis (i.e. unchanged balance sheet size and balance sheet mix) is applied.



Assumptions as to the behaviour of deposits with no fixed maturity

For liabilities which in principle are callable daily, but which experience shows to remain (on average) for considerable lengths of time on the accounts in question, the following durations are applied for the economic value simulations:

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

For the regulatory interest rate simulations, the following behaviour is assumed for such non-maturing deposits, in the event of a certain market shock:

- a) Regulated savings accounts in Belgium: 70 % of the change in market interest rates when interest rates rise and 70 % when interest rates fall, with a lag of six months from the start of the market rate shock;
- b) Savings accounts in the Netherlands: 70 % of the change in market interest rates when interest rates rise and 70 % when interest rates fall, a lag of six months from the start of the interest rate shock;
- c) Current accounts in Belgium: insensitive to market shocks.

In internal simulations the assumed tariff behaviour for savings accounts is determined by the internally developed replicating model, which derives a risk-optimal reinvestment policy from the historic repricing profile of these deposits. This model is subject, however, to the aforementioned (regulatory) duration limitation of 2 years.

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

In the context of interest rate risk management, Aspa distinguishes three types of 'embedded options'.

The first option for the customer lies in the yield bonds, where the customer has the choice to either cash the coupons, or capitalise them. For future behaviour, the model is based on the current portfolio distribution between the two types of behaviour. Given the reducing nature of this portfolio, the impact is not material.

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

- a) For the mortgages in Belgium, an internally developed market interest rate-driven prepayment model is used;
- b) For mortgages in the Netherlands an internally developed house-price driven prepayment model is used.

The third implicit option is the one whereby Belgian mortgage rates are automatically capped / floored at interest revision dates by means of contractual maximum increase / reduction levels. The impact of this is always calculated into the measurement of interest rate risk, in simulations of both economic value and interest result.



Treatment of 'pipeline risk'

Market interest rate fluctuations between the approval of a mortgage loan and execution of the legal documents can influence the interest rate at which the mortgage loan is eventually completed. In the situation 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, where market interest rates are moving downwards, 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, the Company is exposed to pipeline risk. From the economic value perspective, pipeline risk in both Belgium and the Netherlands is always included in the interest rate exposure calculation.

The Company's ALM department reports monthly on interest risk at the corporate level and quarterly at the consolidated level.



15. Exposures related to securitisation positions

15.1. Own securitisations

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

Both transactions involved the securitisation of a portfolio of Dutch residential mortgage loans with NHG guarantees via the Green Apple SPV. The initial objective of the first securitisation was to attract new funding (tapping a new funding source) with a view to improving the liquidity position.

The objective of the second securitisation 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 the end of 2013, the call on the tranche issued in 2008 was exercised, and on 23 January 2014 the notes were repaid. At the end of 2015 the call on the 2007 Green Apple transaction was exercised, maturing in January 2016.

By the end of 2016, the Company therefore has no outstanding self-originated securitisation transactions.

Role as originator in securitisation transactions

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

In the case of the two securitisation operations initiated by the Company, the issuer was an SPV, set up under Dutch legislation, named Green Apple BV. This company bought the loans and issued bonds to pay for this purchase. The Green Apple SPV is administered by Intertrust Services, an independent Dutch company specializing in securitisation operations and trust management. The Company is of course also involved in securitisation operations through its role as investor.

CRR approaches applied

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

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

Under the CRR regulations, the Company holds capital at 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 guarantee. Selling the portfolio did not cause a free fall in necessary capital since the loans sold to Green Apple were also included in the Company's unconsolidated exposure.



Accounting policies

Securitization can take the form of a sale of the assets involved to a 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 securitisation are no longer (fully or partially) included in the balance sheet of the issuing financial institution whenever the Company involved transfers virtually all the risks and income from the assets (or parts thereof).

15.2. Portfolio of securitisation positions

Besides the securitisation transaction described above and performed by the Argenta itself, the Company holds, as part of its investment policy, a number of asset-backed securities (ABSs) and residential mortgage-backed securities (RMBSs).

With a few limited exceptions, these positions are accounted for by the IRB method under the exposure category 'securitisation positions'.

Both approaches (both IRB and STA) are thus used. The RMBS with underlying mortgages are processed according to IRB RBA (look through and same approach as the own mortgages processed under IRB).

The ABS (the car loan securitisations in which Argenta invests) are processed using the STA approach (no application of look through).

Based on the external ratings of the securities involved, a RWA percentage is assigned. In line with the imposed principles, the the 'second best' available rating is always used in the calculations. When, for example, just only two ratings are available, it is the second that will be used.

The Company has no trading portfolio. All purchased securitisation positions are included in the institution's investment portfolio.

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

Table 34: Geographic distribution of securitisation exposures

| Type of securitisation | Country | Exposure 2015 | Exposure 2016 |
|--------------------------------|---------|---------------|---------------|
| MBS | BE | 29,049,148 | 26,599,622 |
| MBS | ES | 33,327,856 | 27,842,590 |
| MBS | FR | 44,142,593 | 43,123,402 |
| MBS | GB | 7,515,418 | 14,795,160 |
| MBS | IE | 19,702,910 | 17,925,571 |
| MBS | NL | 768,260,625 | 711,773,598 |
| ABS | DE | 0 | 18,449,202 |
| ABS | ES | 27,915,601 | 27,128,442 |
| ABS | FR | 19,536,020 | 22,142,983 |
| ABS | IE | 17,481,318 | 18,881,806 |
| ABS | LU | 51,431,041 | 59,582,144 |
| ABS | NL | 20,281,856 | 24,256,347 |
| ABS | US | 12,157,516 | 9,521,057 |
| Total securitisation positions | | 1,050,801,901 | 1,022,021,924 |

The following table gives an overview of the securitisation positions involved, with their external ratings (indicating the credit quality of the securities), their EAD and the total own funds requirement by the IRB method. The ratings given by the relevant rating agencies to the transactions are used for the weightings and capital calculations.

Table 35: EADs and capital requirements of securitisation positions as of 31 December 2016

| S&P rating | MDY rating | Fitch rating | | ABS | MBS | Total |
|---------------------------|------------|--------------|---------------------|-------------|-------------|---------------|
| | | | EAD | 0 | 5,481,658 | 5,481,658 |
| | A1 | A | Capital requirement | 0 | 55,781 | 55,781 |
| | | AA- | EAD | 0 | 2,644,750 | 2,644,750 |
| | | | Capital requirement | 0 | 17,942 | 17,942 |
| | Aa2 | AA+ | EAD | 0 | 2,192,549 | 2,192,549 |
| | | | Capital requirement | 0 | 14,874 | 14,874 |
| | | AAA | EAD | 0 | 13,266,322 | 13,266,322 |
| | | | Capital requirement | 0 | 112,498 | 112,498 |
| | | | EAD | 46,588,250 | 32,917,203 | 79,505,453 |
| | | | Capital requirement | 745,412 | 195,397 | 940,809 |
| | Aaa | A | EAD | 0 | 1,810,787 | 1,810,787 |
| | | | Capital requirement | 0 | 15,355 | 15,355 |
| | | AAA | EAD | 24,762,245 | 281,085,093 | 305,847,339 |
| | | | Capital requirement | 396,196 | 1,668,521 | 2,064,717 |
| A | A2 | BBB- | EAD | 0 | 3,003,734 | 3,003,734 |
| | | | Capital requirement | 0 | 30,566 | 30,566 |
| | Aa2 | | EAD | 0 | 5,480,538 | 5,480,538 |
| | | | Capital requirement | 0 | 55,770 | 55,770 |
| A+ | Aaa | AAA | EAD | 0 | 2,967,862 | 2,967,862 |
| | | | Capital requirement | 0 | 17,617 | 17,617 |
| | | AAA | EAD | 0 | 11,622,227 | 11,622,227 |
| | | | Capital requirement | 0 | 78,845 | 78,845 |
| AA | A1 | | EAD | 0 | 1,793,193 | 1,793,193 |
| | | | Capital requirement | 0 | 12,165 | 12,165 |
| | Aa2 | | EAD | 0 | 2,628,759 | 2,628,759 |
| | | | Capital requirement | 0 | 17,833 | 17,833 |
| AA+ | Aaa | AAA | EAD | 25,575,236 | 0 | 25,575,236 |
| | | | Capital requirement | 458,713 | 0 | 458,713 |
| | | | EAD | 9,008,034 | 6,303,343 | 15,311,377 |
| | | | Capital requirement | 144,129 | 37,417 | 181,545 |
| | | AAA | EAD | 10,238,295 | 146,568,243 | 156,806,538 |
| | | | Capital requirement | 163,813 | 870,029 | 1,033,842 |
| AAA | Aaa | | EAD | 28,722,746 | 133,810,155 | 162,532,901 |
| | | | Capital requirement | 459,564 | 794,297 | 1,253,861 |
| | Aaa | AAA | EAD | 7,938,734 | 183,866,115 | 191,804,850 |
| | | | Capital requirement | 127,020 | 1,091,429 | 1,218,449 |
| BBB | Baa2 | | EAD | 0 | 2,520,727 | 2,520,727 |
| | | | Capital requirement | 0 | 42,752 | 42,752 |
| BBB- | A1 | BBB- | EAD | 27,128,442 | 0 | 27,128,442 |
| | | | Capital requirement | 1,150,246 | 0 | 1,150,246 |
| B- | B2 | | EAD | 0 | 2,096,683 | 2,096,683 |
| | | | Capital requirement | 0 | 2,096,683 | 2,096,683 |
| Total EAD | | | | 172,023,247 | 842,059,943 | 1,022,021,924 |
| Total capital requirement | | | | 3,518,072 | 7,225,772 | 10,870,865 |



The portfolio of securitisation positions has fallen very slightly from an exposure of EUR 1,050,801,901 as of 31 December 2015 to EUR 1,022,021,924 as of 31 December 2016.

Applying the weighting percentages and the 8% requirement, a capital requirement of EUR 10,870,865 (31/12/2015: EUR 12,370,765) was obtained for these purchased securitisation positions.

At the end of 2106, a limited provision was set up for two securities.

15.3. Tracking of securitisation positions

The CRA (Credit Risk Analysis) sub-department is responsible for tracking the positions of the investment portfolio and, more specifically, of the securitisation positions.

The purchased positions are monitored systematically. Every three months a comprehensive analysis report is prepared on them and discussed in the ALCO. Based on the evolution of the credit risk of the underlying assets of the securitisation positions, proposals are made to set up provisions.

The Company buys only the top tranches of the issued securitisation positions. In this way it has not so far suffered any effective loss on these positions.

Based on the external ratings, the total capital requirement of the securitisation positions has also effectively decreased globally. The Company has only mortgage backed securities (MBS) and some other ABSs in its portfolio and has no re-securitisations in its portfolio.



16. Remuneration policy

This section gives disclosures on remuneration policy (both substantive elements and the decision-making process for arriving at this policy). The large part of these disclosures are also included in the combined BVG annual report that can also be found on the www.argenta.be website.

Note on the Remuneration Committee

The Remuneration Committee is tasked with preparing the decisions on Argenta's employee remuneration policy to be determined by the Board of Directors, including decisions in respect to persons responsible for the independent control functions and every change in remuneration policy. The committee is also responsible for monitoring the remuneration policy to ensure that:

- It is consistent with and conducive to healthy and effective risk management, and does not induce excessive risk-taking;
- This is in line with Argenta's strategy, its values and its long-term goals;
- This policy protects the interests of customers and investors, promotes sustainable and long-term value creation for shareholders and includes measures to avoid conflicts of interest.



The committee is composed so as to be able to give a sound and independent assessment of remuneration policies and compensation practices and the incentives created by these for risk management and the liquidity position. The committee is composed of at least three board members, all non-executive, and at least one independent. The committee chair is an independent board member and not the chairman of the board.

The Remuneration Committee consists of: W. Van Pottelberge (chair), D. Van Rompuy, J. Cerfontaine, guest representing the Risk Committee.

This committee is an advisory committee supporting the Board of Directors. It reports and makes recommendations to the Board but has no decision-making power.

It meets as often as the chair of the committee considers desirable, and at least twice a year. In 2016, the committee met 4 times.

Note on the Appointments Committee

The Appointments Nomination Committee is responsible for:

- Designating and recommending candidates for filling in vacancies in the statutory governing body for approval by the General Meeting or by the statutory governing body;
- Examining the distribution of knowledge, skills, diversity and experience in the governing body;
- Compiling a description of the tasks and skill requirements of particular appointments;
- Assessing how the time requirements of the particular function;
- Establishing a target for the representation of the under-represented gender in the statutory governing body;
- Formulating a policy for increasing the number of representatives of this gender in the statutory governing body so as to achieve the target;
- Evaluating the the structure, size, composition, and performance of the statutory governing body periodically and at least annually;
- Formulating recommendations for possible changes to the statutory governing body;
- Assessing the knowledge, skills, experience and degree of involvement and, in particular, the regular presence, of individual members of the governing body and of the statutory governing body as a whole;
- Reporting on this to the governing body;
- Periodically reviewing the statutory governing body's policy for the selection and appointment of its executive members and the formulation of recommendations to the statutory body;
- Supervising key directors or a small group of directors.

The committee is composed in such a way that it can issue a sound and independent opinion about:

- The composition and functioning of the institution's governing and policy bodies;
- The individual and collective expertise of their members, their integrity, reputation, independence of mind and availability.

The committee is composed of at least three board members, all non-executive, and at least one independent. The chair is chosen from the independent directors, this function being incompatible with the function of chairman of the Board of Directors.

The Appointments Committee consists of: W. Van Pottelberge (chair) and J. Cerfontaine, B. Van Rompuy, D. Van Rompuy, members.

This committee is an advisory committee supporting the Board of Directors. It reports and makes recommendations to the Board but has no decision-making power.

It meets as often as the chair of the committee considers desirable, and at least twice a year.



Disclosure of the decision-making process

The O&T (Organization & Talent) department proposes a draft remuneration policy for all functions in all Argenta operating companies. This draft is coordinated with and submitted for approval to the Executive Committee. After approval by the Executive Committee, the draft is submitted to the Remuneration Committee that advises the Board of Directors in this regard. The Board of Directors takes the final decision on the general principles of remuneration policy for employees.

On 28 June 2016, the Board approved the new pay policy for Argenta employees. The main new aspects of this policy are:

- The compensation benchmarks: benchmarks established by the Board of Directors for all function types at Argenta;
- An Argenta 'function house' (a set of job classifications covering all functions in the Company), with linked to it a company-specific 'pay house' (with sector-defined minimum pay scales and benchmark-driven, experience-based gross reference salaries);
- A company-wide system for pay increases, taking into account performance evaluation and pay benchmarking;
- A cafeteria plan as a means of offering flexibility in the wage package and increasing net purchasing power;
- Flat-rate expense allowances (employer's expenses) for the higher functions.



In December 2016, Argenta signed here a collective agreement covering this new pay policy for all of its Belgian employees. All functions are described transparently in a 'function house', with remuneration per function type matched to the reference market. In the first months of 2017 this pay policy was explained to all employees.

Note on remuneration policy for Argenta employees

The pay policy determines which pay scales apply to which functions, taking into account the degree of difficulty, responsibility, level of required training / experience and necessary specialization of a particular function. The Argenta Group strives to remunerate its employees in line with market conditions. The salaries of Argenta employees, administrative staff, management and senior executives consist solely of a fixed amount.

An important principle is that there is no variable salaries at Argenta, either for management or for other employees. In other words the variable pay / fixed pay ratio is 0%. Until 2015, there was a limited variable salary for regional directors; since 2016 this exception no longer applies.

Another important principle is that Argenta does not assign shares or share options as a reward for performance. Argenta also does not use deferred pay and does not make any sign-on payments. Severance pay is granted under the individual employment agreement of the employee concerned.

In 2016, severance indemnities were granted to 5 Identified Staff and to a number of other employees under the terms of their individual employment contracts.

In addition to the standard remuneration (monthly salary), all Argenta staff members receive single and double holiday pay, 13th month, hospitalisation insurance, group insurance and luncheon vouchers. The hospital insurance can be extended to the entire family. Company cars may be allocated for specific positions.

Note on remuneration policy for Executive Committee members

The remuneration of Executive Committee members is explained in Chapter 7 'Remuneration of Directors' in the IFRS Annual Report of Argenta Spaarbank.

The CEO's remuneration is EUR 600,000 a year and that of the other Executive Committee members is EUR 318,000 a year.

This means that at Argenta, there are no employees, either in the Executive Committee or elsewhere, who receive more than EUR 1 million.

Executive Committee members too receive no variable remuneration, shares, stock options, sign-on payments or deferred remuneration.

A breakdown of remuneration by business area is not relevant for the Company as there is only one basic activity (offering financial services to families and individuals to enable them to live financially healthy lives).

In 2016, 18 months' remuneration (EUR 656,130) was awarded to Johan Heller, chairman of the Executive Committee until 30 April 2016, in accordance with the terms of his director's agreement. This was the highest (severance) remuneration granted in 2016.

Evolution and selection process in the Executive Committee in 2016 and 2017

The Executive Committee underwent a major recasting in 2016. On 29 April 2016, Johan Heller resigned as CEO of Argenta after eight successful years. Since 1 September 2016, Marc Lauwers has been in charge of Argenta as CEO. On 1 November 2016 Ann Brands started as new COO (Chief Operations Officer), responsible for directing the operational departments and customer support.

With Ann Brands' appointment as COO, the Argenta Executive Committee now consists of two women and four men. This change has occurred without the existence of any explicit diversity policy. As reflected in the BVg Combined Annual Report, a healthy diversity exists.

On 23 January 2017 Dirk Van Dessel resigned as CIO, a position he had held since 2008. At the start of February 2017 the Board of Directors presented Geert Van Hove as Chief Information Officer. In this position he will be responsible for the group's IT infrastructure, architecture and applications, as well as their functioning and security.

The selection process for Executive Committee members takes place as follows: a first selection of candidates is made with the help of external executive search bureaux. After a first selection round, the Appointments Committee and the Remuneration Committee come in as advisers to the Board of Directors. The Board appoints a candidate, who is then presented to the regulator. The final appointment takes place once the regulator has pronounced the proposed candidate to be 'fit and proper'.



Note on Identified Staff

The remuneration policy needs to provide the right incentives to encourage careful behaviour among employees whose occupational activities materially affect the risk profile of an institution.

The Remuneration Committee presents the Board of Directors with a list of employees who qualify as Identified Staff. This assessed is based on qualitative and quantitative criteria pursuant to Delegated Regulation (EU) No 604/2014 of 4 March 2014.

At Argenta, 5 executive directors (Executive Committee members), 9 non-executive directors and 40 employees (independent control functions, directors and managers of substantive business units) have been designated as Identified Staff.

This is 5.7% of the 979 employees at the Antwerp, Breda and Luxembourg headquarters or 2.22% of the total number of Argenta employees (including directors, employees, branch managers and their staffs).

The remuneration principles for 'Identified Staff' are the same as for other functions at Argenta. For them too there are no variable salary, no shares or stock options, no deferred salary and no entry bonus.

Individual objectives at Argenta are formulated in such a way that they cannot interfere with the independent operation and cannot materially affect the institution's risk profile.



17. Leverage

The CRR/CRD regulations require financial institutions to calculate, report and track their leverage ratio.

The leverage ratio serves as a non-risk-based rule to rein in leveraged financing, by placing a limited on financial institutions' ability to leverage their capital bases. It is calculated as the ratio (expressed as a percentage) of Tier 1 capital to total on- and off-balance sheet exposures (non-weighted).

Process for tracking and managing the risk of an excessive leverage ratio.

The Company closely tracks its leveraging. In the RAF, the leverage ratio is one of the indicators systematically included in the periodic reports to management and to the Board's Risk Committee.

The RAF limit framework provides for a minimum of 3.25% and a target of > 4%.

The Financial Management department also reports on this ratio and includes it in all internal reports.

The table below (LRCom) gives the leverage ratio of the Company.

Table 36: Global explanation leverage ratio

| | | Aspa conso 31/12/2015 | Aspa conso 31/12/2016 |
|---|---|--------------------------|--------------------------|
| On-balance sheet exposures (excluding derivatives and SFTs) | | | |
| 1 | Balance sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral) | 33,829,315,928 | 36,097,550,596 |
| 2 | (Asset components deducted in determining Tier 1 capital) | -34,772,387 | -43,909,619 |
| 3 | Total balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) | 33,794,543,541 | 36,053,640,977 |
| Derivatives exposures | | | |
| 4 | Replacement value related to derivatives transactions (after deduction of allowable variation margin received in contracts) | 32,729,697 | 58,778,355 |
| 5 | Add on for the potential future credit risk of derivatives | 134,801,273 | 126,833,528 |
| 11 | Total derivatives exposure | 167,530,969 | 185,611,883 |
| Other off-balance sheet exposures | | | |
| 17 | Gross notional amount of off-balance sheet exposures | 2,071,892,201 | 1,787,783,451 |
| 18 | (Adjustments for conversion into equivalent credit amounts) | -798,981,221 | -923,464,930 |
| 18 | Total other off-balance sheet exposures | 1,272,910,980 | 864,318,521 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital (fully loaded) | 1,633,857,610 | 1,797,290,234 |
| 21 | Total exposure for the calculation of the leverage ratio | 35,234,985,491 | 37,103,571,381 |
| Leverage ratio | | | |
| 22a | Leverage ratio (transitional): | 4.40% | 4.66% |
| 22b | Leverage ratio (fully loaded) | 4.64% | 4.84% |

Description of the factors that impacted the leverage ratio

As shown in the above table, the total leverage ratio exposure as of 31/12/2016 according to the transitional definition is EUR 37,103,571,381 (compared to EUR 35,234,985,491 as of 31/12/2015). The corresponding leverage ratio is 4.84% (compared with 4.64% at the end of 2015).

The Company's leverage ratio has systematically improved in recent years. This reflects the realisation of fee business (and hence an intended switch from on-balance sheet to off-balance sheet products for customers) and also the increasing liquid base, given the Argenta group's only very limited pay-out ratio. Through this policy of the family shareholder, the profits of the year are to a large extent included in the available reserves.

In addition, as of 31/12/2016 there was also a limited off-balance sheet exposure. These are mainly mortgage loans in the pipeline.

Reconciliation of total assets in the financial statements and the leverage ratio exposures

The connection (table LRSum) between the total assets shown in the annual financial statements and the total exposure for calculating the leverage ratio can be found in the table below.

Table 37: Reconciliation of accounting assets and leverage ratio exposures

| | | Aspa conso | |
|---|---|----------------|----------------|
| | | 31/12/2015 | 31/12/2016 |
| 1 | Total assets according to the published financial statements | 33,862,045,625 | 36,156,328,951 |
| 4 | Adjustment for derivative financial instruments | 134,801,273 | 126,833,528 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion of off-balance sheet exposures into equivalent credit amounts). | 1,272,910,980 | 864,318,520 |
| 7 | Other adjustments | -34,772,387 | -43,909,619 |
| 8 | Total exposure for the calculation of the leverage ratio | 35,234,985,490 | 37,103,571,381 |

Based on a fully loaded Tier 1 capital of 1,797,290,234, a fully loaded leverage ratio of 4.84% was obtained.



18. Capital management

The dynamic growth of the financial markets and the increasing use of more complex bank products have produced 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 risk 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 pursues a policy of self-financing. To retain a level of capital that provides sufficient room 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 securitising part of the retail loan portfolio.

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

The risks to which the Company is exposed require a risk buffer in the form of capital. The ongoing development of its activity as a conventional savings bank and hence, among other things, as a 'transformation bank' (a bank that converts (transforms) funds deposited short-term into long-term investments), calls for continuous monitoring of the required capital, and supplementing it when necessary.

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

- The proper identification and assessment 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 that in all circumstances (stress scenarios) the capital requirements of the Company and all its different parts 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 addition, in the first half of 2016, Argenta, along with a large group of European banks, calculated the stress test of the European Central Bank. The stress test was intended, on the one hand, to evaluate the shock resistance of the European banking system and, on the one hand, to assess the financial health, risk profile and sustainability of the business model under negative market developments. The results of the stress test are one of the factors on the basis of which Argenta's minimum capital requirement is determined, expressed in terms of a P2 (Pillar 2) Requirement and a P2Guidance.

The possibility and impact of the stress scenarios in relation to the risk appetite is intended to lead to a weighing up of accepted risks and to 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 capital.

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 EU stress calculations, Argenta was able to present outstanding results that endorse Argenta's capital position and business strategy under both normal and negative market conditions.

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 remains 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.



All material risk factors are also modelled in ICAAP. In this way 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.

For available economic capital versus required economic capital a minimum limit of 120% is provided, but the aim is a ratio of more than 130 % so that the Company always has a comfortable capital situation. In addition the RAF includes limits for value stability (95% or 1 year in 20) and income stability (80% or 1 year in 5) which are derived directly from the ICAAP report.

In the 95% value stability scenario, the red RAF limit is 30%, so that after this level of stress, an RBC (Risk Bearing Capacity) ratio of at least 100% remains.

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.

The SREP (Supervisory Review and Evaluation Process, annual global evaluation) by the ECB resulted in 2016 in a capital decision imposing a P2R (Pillar 2 capital requirement) of 2%: this means that Argenta needs under the IRB (internal rating based) method to meet a CET1 (common equity Tier 1) of 8.25 % (9.75% including alternative Tier 1 substitution) and TCR (total capital ratio) of 11.75%, also taking into account the phasing in of the combined capital buffers. In the SREP, the JST also pays attention to the internal monitoring of liquidity as well as ICT risk control / operational risk management.

19. Supplementary disclosure

The Company 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.

Disclosures on the governance arrangements are incorporated in the filed annual financial statements, the IFRS annual reports and the overarching BVg combined annual report (also published on the website) www.argenta.be.

Certain disclosures are still not mandatory and will be included in the next Pillar 3 disclosures. The intention is to systematically adjust these disclosures in line with those made by other financial institutions.

The Company did not qualify as globally systemically important bank (G-SIB) and therefore does not have to provide the disclosures required of such institutions. More specifically, in the future the Company will not be required to provide disclosures about TLAC (Total Loss Absorbing Capacity) as this does not apply to it.

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 of this report is the original text; the English version is a translation. Should any discrepancies exist, the Dutch version will take precedence. Questions related to the distribution of these reports should be directed to:

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