Pillar 3 disclosures 2015

Capital adequacy and risk report

ARGENTA

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1. Introduction

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

1.1. Argenta Spaarbank

Argenta Spaarbank PLC, abbreviated 'Aspa' (hereinafter 'the Company'), was founded in Belgium under Belgian law and has the legal form of a limited liability company that has made a public call for savings. The Company was established for an unlimited duration and its registered office is situated 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.

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 equity position.

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

Within the European Union, these regulations are implemented through the above-mentioned CRR. This is European legislation that comes into force directly at the national level. This CRR transcends national legislation and also requires publication of the risk exposure and equity. CRD IV, on the other hand, contains guidelines that have to be translated into national laws.

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.

Table 1: Entities included in the year-end consolidation

	Percentage holding	31 December 2014	31 December 2015
Argenta Spaarbank nv		consolidating entity	consolidating entity
Argenta Asset Management (AAM)	99.71%	full consolidation	full consolidation
Argenta Nederland nv (Arne)	100%	full consolidation	full consolidation
Green Apple bv (SPV)	0%	full consolidation	full consolidation

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.

The Arne entity was dissolved on 27 October 2015, but the liquidation balance sheet was still included in the end-2015 consolidation.

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.

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

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

The Company has no other subsidiaries included in the consolidation scope.

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

Note on the scope of Bank-en Verzekeringsgroep (BVg)

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

The Company and BVg are subject to the Basel legislation and the insurer to the Solvency (II) legislation. 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 here 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 activities other than providing services to the subsidiary entities, there is only a very small difference between the equity requirements of the Company and those of BVg according to the CRR scope.

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

In this compromise the participation value in the insurers can be included as equity. 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).

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

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

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

1.3. Implementation of Basel III in Europe

1.3.1. Structure of the guidelines

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

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

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

This pillar includes additional risks over and above those taken into account in Pillar 1, as described in the chapters below.

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

1.3.2. Evolution towards Basel III

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

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

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

Throughout this document we discuss the impact of certain of these new developments on the Company. In the course of 2015 the competent institutions provided greater clarity on the concrete implementation of certain of the requirements. Other proposed requirements were implemented by means of monitoring - known as Quantitative Impact Study (QIS) exercises - following which further guidelines were drawn up.

1.4. Role of the EBA

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

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

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

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

2. Risk management

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

The risk management framework is constantly being updated and adapted to reflect 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 Board 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.

Risk management at the Company

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

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.

In 2015 the Company continued to develop its cautious and transparent risk management. The Treasury and ALM policy was revised in 2015 and approved by the Board of Directors. This policy frames the interest rate risk, liquidity management, investment management and capital management. This frame has more than proven its added value.

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 (forward-looking) and, finally, risk assessment.

A direct relationship exists between the RAF risk indicators and i) the ICAAP for the Bank Pool and ii) the policy documents, via the further translation into operational risk limits and flashing lights. This has resulted in the daily embedding of risk awareness in first line management and in better and leaner risk management processes.

Risk management has evolved from risk management 'by design' (policies) and risk management 'in practice' (embedding) to 'cost effective' risk management.

As well as optimizing risk governance, the risk metrics were also greatly improved. In this process, the RAF risk parameters were refined and expanded with the addition of a number of quantitative and qualitative RAF indicators.

The following quantitative Risk Appetite Framework indicators were added (after discussion in the Risk Committee of the Board of Directors):

- Common Equity Tier 1 (CET1 ratio replaces Tier 1 ratio)
- Total Capital ratio ('TCR')
- Average Portfolio Rating for Local & Regional Government loans ('APR LRG')
- Net Interest Income sensitivity / 100 bp up or down
- Large Exposures
- Asset Encumbrance Ratio strict (broad 'AER' becomes a flashing light)

The following RAF qualitative indicators were added:

- Net Promoter Score ('NPS') staff
- Operational Risk Management (ORM) Key Risk Indicator

The Net Promoter Score (NPS) is a simple but powerful tool for measuring customer satisfaction, in this case staff satisfaction. The ORM indicator was developed as part of the monitoring and integration of operational risk across all lines of the organization.

In 2015 the limits of the following RAF indicators were recalibrated: Leverage Ratio, APR bonds (excl. LRG), APR LRG, Risk Score mortgages, Liquidity Coverage Ratio, NPS customers and NPS branch managers.

In 2015 regular consultations took place with the ECB's Joint Supervisory Teams. Topics discussed include:

• ICAAP / SREP (Supervisory Review and Evaluation Process)

The results of the ICAAP, being the internal assessment of the risks and required capital, were compared with the SREP, which is the assessment of the risk and capital requirement by the ECB according to its own internal methodology.

• Recovery Plan

The obligation for banks to draw up recovery plans is part of the structural reforms initiated by the G-20 after the banking crisis.

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

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

In 2015 the Company submitted an updated recovery plan to regulators. This recovery plan gives an accurate picture of the robustness and resilience of the Argenta Group's financial position in a financial crisis.

The new recovery plan provides a number of new and additional insights compared with the previous recovery plan:

- insight into the (limited) changes in the Argenta Group's risk profile by comparing the impact of a crisis on its financial ratios between the two recovery plans (2014 versus 2015) in unchanged crisis scenarios;
- insight into the dynamics of a crisis scenario at both Company and at Argenta Group level, by also taking account of the Argenta Group in the updated recovery plan;
- insight into a number of new ratios added to the analysis, such as the Leverage Ratio and Asset Encumbrance Ratio.

In the updated recovery plan, the Argenta Group continues to demonstrate a very strong capital and liquidity position, enabling it to withstand severe crises. The recovery thresholds were reached and activated only in very extreme scenarios.

Moreover the Company has a wide range of effective capital and liquidity options available to it for regaining its capital and liquidity position in the event of a crisis. Analysis shows that the Company is well able to restore its financial position by activating one or more options. The foundations of this financial resilience are to be found in the Argenta Group's banking-insurance model, the geographical distribution of the core activities across Belgium and the Netherlands, and the construction of a liquid and well-diversified investment portfolio. Also examined here was the interaction at group level with the sister entity Argenta Assuranties.

The recovery plan also emphasizes the importance of an effective monitoring framework so that any deterioration in the financial condition is quickly picked up and addressed in a timely fashion. A timely reaction not only increases the success and effectiveness of the recovery options but also broadens the range of possible options, including proactive options. Major attention is also paid in choosing the recovery options to the impact on structural profitability.

• Single Supervisory Mechanism (SSM)

The ECB has since the end of November 2014 taken over the prudential supervision of the Argenta Group from the NBB. With the setting up a SSM, whereby supervision of financial institutions is transferred to the ECB, a step has been taken towards establishing a fully-fledged banking union in Europe. The intention is for the SSM to help ensure financial stability within the Eurozone and facilitate cross-border banking.

Since the beginning of 2015 this monitoring is effectively carried out by the ECB's so-called Joint Supervisory Team (JST), which also includes members of the NBB and the DNB (Dutch National Bank). This supervision is exercised by means of inspections, workshops, interviews, and the requesting of various reports.

• Single Resulotion Board (SRB)

In late 2015, the necessary preparations were initiated via the NBB's National Resolution Unit establish a transitional resolution plan.

Governance risk management

Group risk management takes place, in addition to the independent Internal Audit and Compliance control functions, mainly at Argenta Group level. In the Company-wide Risk Management Charter, the risk management function is defined as the second line function that controls general risk management within Argenta.

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

First-line risk management is organised and handled autonomously within each entity, and hence comes under the auspices of the various group companies' management bodies.

In 2015 the independent Credit Risk Policy (CRP) department, the knowledge centre for modelling and analysis of retail credit risk, was further expanded. The vision was also defined, with CRP to evolve from a product and regulatory focus to a customer and Argenta model. This knowledge centre plays a fundamental role in the Argenta Group's risk management by providing specifically retail credit portfolio-focused information and advice, among other things via the Retail Credit Risk Committee (Kreco).

At the end of 2015 a new 'Operational Management & ECB Office' was set up, in order to place greater focus on non-financial risks and on coordinating the interaction with the ECB.

Significant efforts were made to define and distinguish roles and responsibilities in these specialist fields.

The Risk & Validation Department:

- provides the independent second-line control.
- has as its basic principle: 'identify, measure, report and mitigate' for all material risk factors, which are then integrated into the ICAAP for the Bank Pool. In this way the department also controls the (economic) capital management;
- has a 'radar' function of pro-active identification of not yet fully identified risks;
- plays an important role in risk modelling policy and validation;
- undertakes the necessary formal risk checks, and in this capacity plays an active role in, among others, the Group Risk Committee and Assets & Liabilities Committee;
- provides the Executive Committees, Board of Directors and Risk Committees with independent advice on the risk management process at Argenta Group.

Risk management is not just a second-line, but an organization-wide activity (enterprise risk management or ERM). It needs to be aligned with the business strategy and to be effective.

The monthly umbrella Group Risk Committee (GRC) has an alternating agenda consisting of, in month one ICAAP (Argenta Spaarbank)/Own Risk and Solvency Assessment of 'ORSA' (Argenta Assuranties) topics, i.e. concerning economic capital, in month two credit risk topics (Kreco - Credit Risk Committee), and then operational risk (Orco – Operational Risk Committee).

Another core activity of the Risk & Validation department, alongside second line control, is validating risk models. The regulator requires financial institutions to have the risk models they develop confirmed by an independent validator.

The activities of the Validation Unit included, in 2015:

- validation (conceptual, numerical and implementation) of the update of the corporate model;
- validation (conceptual and numerical) of the new PD (Probability of Default) and LGD (Loss Given Default) models for the Dutch mortgage portfolio;
- validation of the review, backtesting and recalibration of the credit risk models of the mortgage portfolios of Argenta Spaarbank, CBHK and the Netherlands;
- validation of the review, backtesting and recalibration of the models for investment portfolio credit risk (more specifically exposure to financial institutions, corporates, covered bonds, and central, regional and local governments);
- validation of the sensitivity analysis of the PD model of the Argenta Spaarbank mortgage portfolio;
- validation of the fair value calculations on the sales of mortgages from the Company to Argenta Assurances;
- contributing to the control (Risk Check) of post factum Asset Quality Review (AQR) projects.

Additionally, preparations were made to extend the validations to validating opinions on the interest rate risk of the banking book models such as the prepayment models and the replicating model.

The Company's risk profile

This annual report discusses the activities of the Bank Pool. As required by Article 119.5 of the Belgian Companies Code, a summary is provided below of the objectives and the policy governing the management of the banking risks.

The Company's risk management policy and attendant organizational structuring are designed to ensure that the known risks are always properly identified, analysed, measured, monitored and managed.

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

A failure to maintain control over these risks can negatively affect the Argenta Group's financial performance and reputation.

These risks are managed uniformly across the Argenta Group, using the Risk Appetite Framework (RAF), the policies and the established procedures.

2.1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market prices. Within this market risk, the following 4 risks are relevant: interest rate risk, spread-widening risk, equities risk and real estate risk.

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

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

2.1.1. Interest rate risk

The single largest market risk to which the activities of the Bank Pool and thus particularly Argenta Spaarbank are exposed is interest rate risk. This results primarily from changing market prices, unexpected changes in investment returns and changes in the correlation of interest rates between different financial instruments.

As a financial services group headed by a mixed financial holding, both the earnings and the capital position of the Argenta Group are subject to fluctuations caused by market risks. Given Argenta Spaarbank's specific strategic positioning as a savings bank, the professional management of these market risks is geared primarily towards the judicious management of the interest rate risk as the principal component of market risk.

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

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

This market value sensitivity is therefore one of the main instruments used by the Company to steer - based on its views as to future interest rate developments - its operating results, and also to take into account the potential impact of changing market value on the gross value of the company as a guide to defining its required capital position.

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

(i) the first-mentioned way of modifying interest rate sensitivity uses standard and liquid financial instruments that are available on the capital markets, such as interest rate swaps and caps. These exogenous instruments are used, among other things, for managing the interest rate risk. They are subject to a strict policy on counterparty risks.

(ii) the second series of measures relates to endogenous adjustments whereby, based on the pricing policy for deposits and term accounts, the margins applied and the acceptance policy for loans in various maturity segments, the interest rate sensitivity of the portfolio can be structurally adjusted. This type of adjustment is obviously focused on the fundamental strategic positioning of the Company, while the aforementioned exogenous measures are more tactical in nature and serve to supplement the permanent aim of an endogenous management of the balance sheet.

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

In its risk measurement and management, ALCO takes into account the various components of the interest rate risk contained in the balance sheet of the Argenta Group. These include the repricing risk (risk from interest rate mismatch between assets and liabilities), the yield curve risk (risk from non-parallel movement of the interest rate curve), the option risk (risk from the implicit and explicit options on the balance sheet) and the basic risk.

The latter risk arises, inter alia, from the use of various reference indices as a basis for repricing asset and liabilities products, for example Belgian mortgages on the basis of the OLO reference index. In the ALM these risks are monitored and managed using scenario analysis.

As with any other risk, the interest rate risk requires a risk buffer in the form of equity. Although neither European nor Belgian legislators nor regulatory authorities have to date laid down precise equity requirements for the interest rate within Pillar 1, the Company specifies a certain volume of required equity in its ICAAP (Internal Capital Adequacy Assessment Process).

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

For strategic reasons, the Argenta Group wishes to reduce its interest rate risk and be less dependent on interest income and interest rate developments. For this reason, greater emphasis is being placed on fee business, particularly the sale of off-balance sheet products, the financial risk of which is borne rather by the customer. This fee business (or Investments) pillar, alongside the Savings and Payments, Loans and Insurance pillars, is intended to diversify the Company's income and improve its earnings quality.

The Company's earnings quality remained very high in 2015 thanks to an efficient ALM policy and well-devised commercial policy. The current European interest rate environment, the refinancing of a portion of the mortgage portfolio and the sharp fall in bond yields are exercising negative pressure on the interest margin.

The combination of endogenous and supplementary exogenous ALM hedging ensures that the Argenta Group's commercial strategy (including long-term customer relationships, the growth of its mortgage business, sustainable and profitable deposit growth, and the extension of the four pillars) remains fully within the scope of the approved RAF.

In order to keep market sensitivity within the risk appetite approved by the Company's Board of Directors (RAF limits on market value sensitivity and income sensitivity) and not to exceed the NBB's warning light levels, additional interest rate swaps and caps were concluded in 2015. These instruments complement the portfolio of derivative instruments (caps and swaps) that were used in the past to hedge interest rate risk. This exogenous hedging serves to supplement the permanent aim of a maximally endogenous management of the balance sheet.

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

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

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

Sensitivity analysis – interest rate risk in the banking book

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

The following table shows, as of 31 December 2015, the interest rate sensitivity of the results over the following 12 months and the equity of the Company in the event of a parallel interest rate shock of 100 bp, comparing this with a similar simulation as at the end of 2014. The interest rate shock is assumed to take place in four steps of 25bp: immediately, after 3 months, after 6 months, and after 9 months.

Table 2: Sensitivity analysis of interest rate risk

Impact on result over 12 months	delta 2015	delta in %	delta 2014	delta in %
Interest rate rises by 100 bp	16,732,927	3.35%	19,623,294	3.89%
Interest rate falls by 100 bp	34,786,161	6.96%	42,852,548	8.50%

Impact on equity	delta 2015	delta in %	delta 2014	delta in %
Interest rate rises by 100 bp	109,469,718	-7.30%	25,418,162	1.24%
Interest rate falls by 100 bp	155,218,044	10.35%	10,164,982	0.50%

The calculations are done by the ALM department with a risk check by the Risk department. The calculations are performed using the standard hypothesis based on a static balance sheet, i.e. with the outstanding positions and balance sheet mix as of 31 December remaining constant.

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

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

The interest rate sensitivity of the 12 months results to an interest rate movement of 100bp lies, in both absolute and relative terms, at a similar level as last year.

The interest rate sensitivity of equity to an interest rate increase of 100bp rose in 2015 owing to:

- higher mortgage production with longer, fixed-rate maturities
- the steepened yield curve, whereby the modelled and expected prepayment behaviour reduced and the embedded cap risk increased in the Belgian variable mortgage portfolio.

These risks were mitigated, however, by additional hedges (caps and payer swaps), keeping interest rate sensitivity within the green zone of the RAF limits.

Despite low interest rates and spreads the Company succeeded in 2015 in steadily growing its interest margin, while remaining within its allocated risk limits.

That is the outcome of i) a healthy risk-return mix of housing loan production and re-investments in the investment portfolio, ii) of a balanced liabilities pricing policy and iii) a well devised hedging policy.

Both income and the value volatility were kept under control within the contours of the limit framework. Even so, persistent uncertainty about future macroeconomic developments and the low interest rate environment call for very close monitoring of interest rate and spread movements.

2.1.2. Spread widening risk

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

These market risk factors induce spread widening risk. Alongside the pure interest rate, they are the main driver of asset returns and the economic value of the investment portfolio. In addition, the market value of the investment portfolio is included in the calculation of the bank's prudential capital base (CRD IV). For the latter there exist a phasing-in period and a certain amount of national discretion in determining the extent to which unrealized gains and losses on the AFS portfolio affect the capital base.

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

The conduct of a sound investment policy is guided by a strict investment framework that determines, based on the creditworthiness of the issuer, the permissible investment level and maximum maturity. This investment policy is shaped by a thorough analysis of the credit sectors and investment files and an active screening of market opportunities. The tactical adjustment of the portfolio allocation between the various credit sectors respects at all time the rules defined in the Strategic Asset Allocation.

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

2.1.3. Equities risk

The Bank Pool decided in 2015 to build up a limited exposure to real estate and PPP (Public Private Partnership)-related equities with a view to developing a wider diversification of the investment portfolio, and to complement the existing bond portfolio.

From a strategic allocation perspective, equities complement the existing bond and loan portfolios and are intended to optimize the risk return profile of the portfolio. Within a limited investment framework (real estate and PPP sectors) and subject to compliance with strict investment criteria, the Company has the possibility to take equity positions into its investment portfolio.

2.1.4. Property risk

The evolution of real estate prices has an influence on lending to individuals and also influences the credit risk through the giving of property as collateral. The Company has here a concentration in lending to private individuals in Belgium and the Netherlands, more particularly in the form of retail mortgage lending. This makes the company dependent on developments in the housing market.

The possibility has existed in the Company since 2015 to develop a limited portfolio of indirect real estate investments. These are permitted only under strict conditions, both with regard to the type of investments and in terms of the concentration risks.

The Company has here a limited investment space, which can include (indirect) real estate investment under strict conditions, in terms of both investment type and concentration risks. Within these limits, a number of loans were made to real estate counterparties.

2.2. Liquidity risk

Liquidity risk is the risk of insufficient liquidity being available to honour its financial obligations when they fall due. This may be the result of:

- an unexpected prolongation of the outstanding receivables, e.g. a loan default;
- the risk, in the Bank Pool, of a greater portion of credit lines being drawn down or more savings deposits being withdrawn;
- the risk that the necessary financing transactions cannot be undertaken (or can be undertaken only at disadvantageous conditions);
- the risk that assets can be liquidated only at a severe mark-down, owing to a shortage of interested counterparties on the market.

The inability of a financial institution to anticipate and take into account unforeseen falls or changes in its sources of financing can affect its ability to honour its obligations when they fall due.

The Asset and Liability Committee monitors the liquidity ratios on a permanent basis. The management framework is clearly defined and detailed in the Treasury & ALM policy.

In order to measure, monitor, check and report on the liquidity risk, the Company has a specially adapted management information system (MIS), including a contingency plan in order to be able to adequately manage its liquidity in both normal and exceptional circumstances.

Since the outbreak of the liquidity and credit crisis, liquidity management has been central to global bank management and bank supervision. The integration of specific liquidity standards within the new capital regulations endorses the importance of robust liquidity management in the banking sector. The Bank Pool therefore takes liquidity policy very seriously.

The liquidity risk appetite is managed in the Bank Pool's RAF via "flashing light" limits on three risk indicators, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Asset Encumbrance Ratio (AER).

- The LCR tests the liquidity buffer against a pre-defined outflow collected funds that are callable within 30 days.
- The NSFR tests available liquidity against the liquidity required over a period of one year.
- The AER compares the amount of unencumbered assets with the volume of protected deposits.

The RAF sets a minimum LCR limit of 100%, but in practice a ratio of at least 125% is sought so as to ensure that the Argenta Group maintains a comfortable liquidity situation at all times. For the NSFR a minimum limit of 100% also applies, but a ratio of at least 120% is aimed at.

In 2015, the NBB established minimum thresholds, the height of which is a function of the importance of protected deposits within a bank's overall funding structure. As a category 3 bank, the Company is required to respect a minimum threshold of 80% (recovery plan) and 85% (flashing light) within the strict application of the AER. In practice, it targets a ratio of above 100%.

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

Funding reports are distributed daily to a broad target group, including all members of the Executive Committee. In other words, senior management is involved in liquidity management on a continuous basis.

For the JST, a dossier is compiled on the Internal Liquidity Assessment Process (ILAAP). This dossier has both a qualitative and a quantitative section and is part of the Supervisory Review and Evaluation Process (SREP).

The qualitative section consists essentially, in the first place, of a self-assessment template in which activities are required to be scored on the basis of the 13 'sound principles of liquidity risk management' as published by the BCBS. This has also to be supported by a variety of back-up documentation (including policies, contingency plans, business plans, RAF) which give the SSM an insight into the liquidity risk (management).

The quantitative section is aimed primarily at quantifying the liquidity situation and risks. This is achieved by adding all sorts of attachments to this dossier, for example the liquidity stress tests and results of other measures.

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

- a substantial base of customer deposits;
- total funding independence from the interbank market;
- a low loan-to-deposit ratio;
- a liquid securities portfolio.

In this way the Company does not have to tap interbank and professional funding sources. It has, however, developed the capabilities to do this, if either i) yield considerations make it appropriate to do so, or ii) new legal requirements are imposed in the future to have certain types of debts on the balance sheet. Repurchase agreements are concluded from time to time as part of liquidity management or to take advantage of investment opportunities in the financial market.

Sources of funding

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

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

The decline in the volume of retail savings certificates is because the Company no longer offers such certificates. These have the same characteristics as term deposits, for which reason the Company currently promotes only term deposits instead of retail savings certificates. These term deposits (with different fixed maturities) are included under the customer deposits heading. The table below shows the liquidity ratios and liquid financial assets of the Bank Pool as reported to the supervisory authority.

Table 3: Liquidity Ratios

	31/12/2014	31/12/2015
LCR (Liquidity Coverage Ratio)	182%	180%
NSFR (Net Stable Funding Ratio)	145%	143%
AER (Asset Encumbrance Ratio) strict	107%	106%

2.3. Credit risk

Credit risk is defined as the risk of a counterparty being unable to meet its payment obligations. This can be the result of the insolvency of a customer or counterparty. This risk arises in both the traditional loan portfolio and in the investment portfolio.

The risks associated with changes in credit quality and the recoverability of loans and amounts due from counterparties are an indissoluble part of much of the Argenta Group's activity.

A weakening of the credit quality of the Company's borrowers and counterparties, a general deterioration of Belgian, Dutch or global economic conditions, or a decrease in credit quality caused by systemic risks can affect the recoverability of outstanding loans and the value of the Company's assets, requiring an increase of the provision for non-performing and doubtful loans, as well as other provisions.

The management of credit risk is governed by means of appropriate and regularly updated policies (the Retail Lending Credit Risk Policy and Treasury and ALM policies).

All entities and departments have adequate measuring instruments, guidelines and procedures with which to manage credit risk. These include a fully independent loan approval process with set limits for creditworthiness, monitoring procedures, and overall indicators of the quality of the retail loan portfolio, the investment portfolio and the local and regional government lending portfolio.

Governance is also supported by a number of (consultation) committees like the Rating Consultation, the Investment Consultation, the Credit Risk Committee, the Group Risk Committee and the Asset and Liability Committee.

Concentration of credit risk

Credit risk increases where concentrations occur in the lending business. The Argenta Group's sector and geographical concentration exposes it to an increased credit risk.

The Company has a concentration in lending to private individuals in Belgium and the Netherlands, more particularly in the form of housing loans. This makes it highly dependent on developments in the housing market and the repayment capacity of private borrowers in Belgium and the Netherlands.

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

In addition, the Argenta Group has a diversified and high quality investment portfolio with a concentration in debt instruments of the Belgian government. It is also building up a portfolio of loans to local and regional authorities.

The framework for managing credit risk is clearly defined and detailed in the Treasury & ALM policy.

Evolutions in credit risk management in 2015

For the Argenta Group there are essentially three sub-areas of importance for credit risk: the market for mortgage lending to individuals (in both Belgium and the Netherlands), the investment portfolio, and the portfolio of loans to local and regional authorities. Credit risk management therefore focuses on these three segments.

Argenta was highly successful in 2015 with its acceptance and (pre-)legal recovery policy for retail loans and in further diversifying its investment portfolio while maintaining high asset quality. In 2015, attention was again paid to expanding lending to and investments in local and regional authorities.

In 2015, a revised policy on internal credit models was approved by the Board of Directors. This policy includes criteria for the application of the coverage level and performance of the internal models.

The risk appetite level applied appears in the RAF for monitoring credit risk in both the retail credit and investment portfolios the RAF contains indicators linked to portfolio quality and concentration risk.

With respect to the investment portfolio, the RAF was expanded in 2015 with an indicator for monitoring loans to public entities. In 2015, prudent investment policy was again a permanent focus. Such an approach is still considered to be the most efficient first line of defence *par excellence*.

In the past year, the Treasury and ALM policy was updated to include the possibility of diversifying into well-defined indirect property investments.

The investment framework remains focused on strong counterparty quality. As in 2014, so too in the course of 2015, and in part as a reaction to the low interest rate environment, the Company further diversified selectively into investments in corporates, as well as, since last year, into indirect real estate investments. Investing in securities of or loans to local authorities was extended.

The application and practical implementation of the investment policy are also supported by the Investment Consultation, in which representatives of the Executive Committee, Treasury and Investment Management (TIM) and Financial Management (Credit Risk Analysis department), and Risk discuss and decide on investment issues.

As part of an appropriate and prudent risk management, all banking and corporate counterparties were subjected during 2015 to primary analysis over a one-year time span.

This fits into the governance narrative linked to the Bank Pool's FIRB status. These analyses are all subject to a systematic risk check as part of an annually recurring process. Before inclusion in the portfolio, every bank and corporate is assigned an internal rating, in accordance with the FIFB framework that has been ratified and implemented in the Argenta Group, and is reviewed at least annually.

The results of these rating reviews are discussed in the monthly Rating Consultation, that reports to ALCO. This consultation ratifies proposed ratings or decides on the assignment of internal ratings, following a well-defined governance framework and with two separate decision levels.

Internal ratings or rating indications are also assigned to counterparties catalogued as local and regional authorities. These are relevant in the acceptance context and are also used for monitoring and management purposes and in the context of Pillar II capital calculations.

For regulatory capital calculations, the Bank Pool continues, as agreed with the regulatory authority, to apply the standardized approach to governments. For bank and corporate counterparties it uses the FIRB approach.

Within the selected FIRB governance framework, the FIRB models for banks and corporates were in 2015 again subjected to annual reviews. The internal rating models are subjected to appropriate critical analysis on an annual basis. As part of a continuous optimization of the internal scoring process, the scoring model for corporate counterparties was updated in 2015.

Further attention was paid to the development and progress of the economic capital calculations for credit risk. In 2015, the Company focused on refining the health check on the obtained Pillar II results and on the monitoring the breakdown between migration risk and the spread widening risk.

In each quarter of 2015, the investment portfolios were subjected to the customary thorough analysis, including a risk assessment, with specific attention to the further portfolio diversification that took place in 2015.

This analysis forms the basis of regular reporting to, and discussion within, ALCO, the Executive Committee and the Board of Directors. Retail credit portfolios are discussed monthly in the Retail Credit Risk Committee (based on analysis of the Credit Risk Policy (KRB)). The internal credit models that have been developed play an essential role here. The IRB (internal rating-based) models are used for the Bank Pool for regulatory capital calculations. As such they are subject to annual review and recalibration. The Dutch IRB models - with conditional approval and implementation of the Basel II standard weighting as floor - are the subject of further development.

Forbearance

At the end of 2014, based on the EBA definition of forbearance, the necessary policy documents were completed, with adjustments made to the internal credit systems for better recording of the files concerned. The adjustments relate, among other things, to refinancing and extensions as a result of payments arrears. The table below gives the figures reported to the regulator. These are snapshots of the situations at 31 December 2014 and at 31 December 2015.

Table 4: Files for which forbearance measures have been taken

	31/12/2014	31/12/2015
Total exposures with forbearance measures	4,096,225	15,981,879
Performing exposures with forbearance measures	1,722,095	9,060,992
Non-performing exposures with forbearance measures	2,374,130	6,920,887
Cumulative impairments and provisions for these exposures	-337,210	-677,922
Security received for exposures with forbearance measures	6,200,684	14,121,224

The increase is mainly due to the more accurate record of forbearance in the credit systems. As can be deduced from impairments and write-offs, the credit risk actually reduced in 2015.

Forbearance files designated as non-performing are always subject to 'individual assessment'.

Management of credit risk concentration

This concentration may - as already explained - consist of various elements including a concentration in lending to an individual counterparty or group of inter-related counterparties (single name concentration or counterparty concentration). A concentration of lending can also come about as a result of an uneven distribution of lending between sectors or countries / regions (sector concentration). The latter risk may arise due to significant exposure to groups of counterparties where the probability of default is driven by common underlying factors.

The Credit Risk policy includes limits for concentration risk. These limits are systematically monitored and reported on. One of these limits relates to the maximum exposure per counterparty in retail lending. It stipulates that this maximum exposure to a single retail counterparty may never exceed EUR 1 million.

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

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

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

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

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

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

2.4. Operational risk

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

The Company's activities depend on the ability to process a very large number of transactions efficiently, accurately and in accordance with internal policies and external legislation and regulations. Operational risks and losses result from inadequate or failed internal processes (such as processes not aligned with the legal requirements), human actions (including fraud and employee errors) and systems (such as system failure) or due to external events (such as natural disasters or malfunctions of external systems, including those of the Company's suppliers or counterparties). The impact may consist of financial or reputational loss. This risk also includes legal and compliance risk.

The fairly limited number of the Company's products and services allows the operational risks to be kept limited. Although the Company has taken measures to control the risks and limit any losses, as well as earmarking substantial funds for the development of efficient procedures and staff training, it is impossible to implement procedures that allow Argenta to exclude these operational risks in a completely effective manner. However, within the overall risk appetite framework, these risks too are managed in a structured way.

The Operational Risk Committee (Orco) meets quarterly as a part of the Group Risk Committee (GRC), focusing on the key risk indicators, the Risk & Control Self-Assessment (RCSA) and operational losses (loss data).

Each year, an extensive internal audit annual report is drawn up and presented to the Audit Committee, the Board of Directors and the NBB/ECB. This report assesses the adequacy and effectiveness of the existing control measures according to the COSO methodology.

It is generally assumed that operational risks in enterprises are gradually increasing, as is regulators' attention to this type of risk. Reasons for this include the rapidly changing technological environment, the expanding corpus of regulations, the increasing complexity and proliferation of products and also the general trend towards outsourcing non-core activities.

The Argenta Group is of course aware of this trend and took decisions in 2015 to strengthen its focus on operational risk within the Argenta Group. This has taken the form, among other things, of:

- increased structural attention by Argenta's Audit and Risk Committee to operational risks;
- the creation of a specific department (Operational Risk & ECB Office) with specific focus on operational risks;
- continuous improvement in 2015 of operational risk management, including training and sensitization of first line management to the specific tasks incumbent on them in the framework of Operational Risk Management (ORM), and an increased number of Risk Control Self Assessments (RCSAs);
- the Business Impact Analyses (BIA) process was optimized in 2015. Following this, a BIA took place in each department, facilitated by the ORM team, in which all critical processes, applications, functions and interactions were redefined;
- the further concrete definition of the Group's risk appetite, adapting the specific sub-limits for the scenarios depending on the perspective (99.9%, 95% and 80%).

Operational risk policy in 2015

In 2015, a thorough analysis of the Argenta Group's Operational Risk Management (ORM) framework was performed by an external party.

Its observations and proposals were processed into a short and long term action plan. A new ORM-specific department was set up (ORM & ECB Office), with both a director and an ORM manager added to the ORM team. ORM also undertook a major awareness campaign, visiting each department to provide guidance and intensive support in its ORM tasks.

In addition to daily monitoring and support functions (e.g. facilitating RCSAs, putting together the annual internal control report, monitoring Business Continuity Plans and disaster recovery tests), work was also done on knowledge management (by establishing procedures and manuals, providing individual and group training), on developing a new RCSA methodology, on completing the loss data, on reassessing the sub-limits of the ORM risk appetite, on redeveloping the Annual Internal Control Report process, the further development of the Key Risk Indicators (KRI) dashboard and the inclusion of an umbrella KRI within the qualitative RAF.

In the area of Business Continuity Management (BCM), the full cycle of Business Impact Analysis (BIA), Business Continuity Plan (BCP) and disaster recovery testing were gone through. In addition, crisis simulation was organized outside business hours with the Crisis Management Team (CMT), while the ORM team took part in an industry-wide crisis simulation (2015 'Market Wide Exercise' led by the NBB). Also, in cooperation with the Availability and Continuity manager, a presentation of the BCM material was given at the ICT personnel meeting.

In the context of data security, certain annexes to the Data Security Code of Behaviour were updated. Risk scoring in the audit universe is done on parameters, including the maturity of the internal controls and the presence or absence of RSCAs.

2.5. Other risks

With no attempt to be exhaustive, this section mentions certain other risks. In 2015, Argenta invested further in a revised group-wide risk assessment of all identifiable risks and in the ICAAP economic capital models, particularly in developing an integrated risk cartography and stress, scenario and forward-looking tests.

Along with the economic capital calculations (supplemented with capital allocations) based on simulation models, these offer the Argenta Group a complete picture of all material risks. The results play an important role in the income and value control models.

2.5.1. Strategic risk

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

Argenta Group makes resources available for achieving the strategic objectives as defined in the business strategy. These resources include communication channels, systems, human resources, networks, and management time and skills. The strategic goals are defined by the Executive Committee, approved by the Board of Directors, and monitored on a regular basis.

The ultimate fulfilment of the business strategy depends on the adequacy of the resources made available and on the way these resources are used.

2.5.2. Business Risk

The business risk is the risk that current and future earnings and capital levels will be affected by changes in business volumes, or by changes in margins and costs, both caused by changing external market conditions and the organization's inability to respond adequately to them. This risk also refers to a poor diversification of earnings or the inability to maintain a sufficient and reasonable level of profitability. The income sensitivity indicator in the RAF already incorporates the business risk on the non-maturity deposits by means of an additional risk premium.

In order to best cushion the business risk to which it is exposed, the Argenta Group has, in addition to its traditional activities, taken the strategic option of selling products that generate fee income. Alongside the Insurance, Lending, and Savings & Payments pillars, this fourth business line - Investments - should produce greater diversification of earnings generation. Another important factor here is cross-selling, in order to attract as many customers as possible to several pillars concurrently.

In order to determine the profit contribution of each product, funds transfer pricing on an economic basis is applied when pricing Bank Pool products.

2.5.3. Reputational risk

The Argenta Group runs the permanent risk of damage (loss) through a deterioration of its reputation or standing caused by a negative perception of the organization's image by its customers, counterparties, shareholders and/or regulatory bodies.

This is a 'second-order risk'; i.e. a risk that derives from another risk but which has its own impact. The Argenta Group considers this as a vertical risk, in the sense that it is a risk that interlinks with all other risks. By monitoring and managing the other risks, reputational risk is also kept under control.

2.5.4. External service providers

The Company is exposed to the risk of termination of contracts with key external service providers. Such termination can lead to discontinuation of or delays in important business processes, a risk the Argenta Group safeguards itself against as far as possible through an appropriate business continuity policy and through transitional provisions in the contracts in question.

In 2015, the Group continued to improve its business continuity policy, as can be seen, inter alia, from the updated sourcing policy (drawn up by the Legal and Procurement department). The policy sets out the vision, the rules and the framework for outsourcing. It also details and names the responsibilities of and relationships with existing (critical) suppliers. This improves the monitoring of all external service providers.

2.5.5. Regulatory risk

Regulatory risk refers to risks associated with legislative and regulatory changes. Wherever it operates, the Company is subject to the laws, regulations, administrative measures and policy regulations governing the provision of financial services.

Changes in the supervisory framework and regulations may affect the activities, products and services that the Argenta Group offers or the value of its assets. Although the Argenta Group collaborates closely with the supervisory authorities and keeps constant watch on the situation and future changes in regulations, fiscal policy and other policy areas can be unpredictable and are beyond the Group's control.

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

With regard to taxation, the Argenta Group's structure ensures that that deposits (including the branch office in the Netherlands) fall entirely under the Belgian deposit guarantee scheme, with a resultant sensitivity to changes in bank levies.

When it comes to the rules of conduct governing investment products, these are defined in the first instance at European level and then transposed by the different countries into their own legislation. Argenta markets investment products in Belgium. For the practical implementation of the legislation in Belgium by the FSMA, Argenta relies on the interpretations of Febelfin and Assuralia. In the Netherlands, attention is paid to the broad-based 'customer interest first' focus promoted by the AFM (Financial Markets Authority).

National and international rules on tax topics continue to change periodically as a consequence of local or international economic factors. In Belgium an amendment has been approved to the notional interest deduction system for financial institutions, effective from fiscal year 2015. Right now, consultations are still under way for a tax ruling with the Netherlands in the field of corporation tax.

The capital requirements for credit institutions, the so-called Capital Requirements Regulation and the Capital Requirements Directive (together 'CRD IV - package') are currently the subject of legislative developments, and impact the Company. The implementation of new IFRSs, and of the IFRS 9 in particular, will also have a significant (operational) impact.

3. Equity

The consolidation scope for the Company's financial reporting is determined by the IFRS, while the consolidation scope for the prudential reporting is defined by the CRR. Both reports impose the same consolidate scope for the Company and use the same consolidation method.

3.1. Reconciliation of accounting equity and prudential equity

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 5: Equity reconciliation

Components	31/12/2014	31/12/2015
Issued and paid-up capital	579,077,650	616,252,150
Revaluation reserve for AFS financial assets	137,852,251	93,963,258
Reserves (including retained earnings)	673,416,410	783,954,182
Current year's profit	173,058,525	192,866,907
Cash flow hedge	-13,729,427	-14,278,863
Total equity attributable to shareholders	1,549,675,409	1,672,757,634
Minority interests	74,294	59,101
Total equity and minority interests	**1,549,749,703**	**1,672,816,735**
Adjustments		
(-) Inapplicable portion of interim or year-end results	0	0
Applicable profits	173,058,525	192,866,907
Minority interests	-74,294	-59,101
Tier 1 core capital for application of prudential filters	**1,549,675,409**	**1,672,757,634**
Fully paid-in capital instruments	579,077,650	616,252,150
Retained earnings	846,474,935	976,821,089
Cumulative unrealized results	124,122,824	79,684,395
Tier 1 core capital for application of prudential filters	**1,549,675,409**	**1,672,757,634**
Prudential filters		
Reserve for cash flow hedges	13,729,427	14,278,863
Profits and losses (at fair value) deriving from institution's own credit risk in respect of derivatives	-2,586,358	-4,127,637
(-) Value adjustments due to requirements for prudential valuation	-131,860	-1,749,789
(-) Other intangible assets	-29,792,457	-33,052,784
(-) For IRB, negative difference between credit risk adjustments and expected loss items	-17,815,210	-14,248,677
Tier 1 core capital prior to transitional measures (fully phased in definition)	**1,513,078,951**	**1,633,857,610**
Other transitional adjustments to Tier 1 core capital	-139,489,257	-87,119,465
Tier 1 core capital after transitional measures (transitional definition)	**1,373,589,694**	**1,546,738,145**

3.1.1. Information on equity and minority interest components

The issued and paid-up share capital, represented by 168,975 shares (without par value), amounts to EUR 616,252,150 (EUR 479,077,650 at 31 December 2014). The increase is the result of a capital increase of EUR 37,174,500, which took place on 21 December 2015. This capital increase took place without the issue of new shares and was subscribed by existing shareholders.

Available-for-sale financial assets are measured at fair value, with all fair value changes being recognised on a separate line in equity until the assets are sold or until they are impaired. The reported fluctuations in fair value are reflected in equity in the 'revaluation reserve for available-for-sale financial assets'. This reserve evolved from EUR 137,852,251 at 31 December 2014 to EUR 93,963,258 at 31 December 2015.

Table 6: Breakdown of the revaluation reserve

Breakdown of revaluation reserve	31/12/2014	31/12/2015
Total latent capital gains and losses – fixed-income securities	320,864,966	236,941,126
Latent value included in the context of micro hedges	-102,391,411	-86,873,644
Total latent taxes on fixed-income securities	-74,259,161	-51,007,938
Latent capital gains and losses – non-fixed-income securities	479	-625
Latent capital loss on reclassified assets	-9,638,876	-7,719,530
Latent tax on reclassified assets	3,276,254	2,623,868
Total revaluation reserve	137,852,251	93,963,258

The heading 'reserves (including retained earnings)' includes the Company's statutory reserves and retained earnings from previous years. The 'profit from the current year' line records the earnings of the current financial year.

The 'cash flow hedge' component refers to a single notional EUR 100 million swap which under IFRS hedge accounting principles is processed as a cash flow hedge. As of 31 December 2015, the swap in question had a negative market value of EUR 19,038,484 (EUR 18,305,903 as of 31 December 2014). After offsetting a latent tax claim of EUR 4,759,621, an amount of EUR 14,278,863 was recorded on the 'cash flow hedge' line in equity.

The 'minority interests' item relates to one share of its subsidiary AAM that isn't held by the Company. This share is held directly by BVg . The item also includes the entire capital (EUR 18,000) of the Green Apple SPV. Although there is no capital link with the Company, this company was consolidated in order to comply with IFRS rules (SIC 12).

3.1.2. Tier-1 core capital for the application of prudential filters

Tier I capital can consist of core (or common) Tier 1 capital (CET) and Additional Tier 1 capital. The core tier 1 capital is viewed as the strongest, consisting as it does principally of equity and retained earnings. The Company has not issued any capital instruments that can be considered under the CRR as Additional Tier 1 capital.

Financial institutions are allowed - upon application and approval by the regulator - to include the profit for the year in the qualifying equity 'after deducting all expected costs and dividends'. The Company has received permission for this. In this way the entire profit for the financial year could be included, given that no additional dividend payment is planned via the appropriation of results for 2015.

It was also decided to not take the limited amount of minority interests into the calculation of prudential equity at this level.

3.1.3. Tier-1 core capital before transitional measures (explanation of prudential filters)

The CRR specifies a number of prudential filters which lead to an adjustment of Tier 1 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 2015, an amount of EUR 14,278,863 was included in this way in equity. However, in accordance with the CRR, this amount may not be included in determining the prudential equity;
- 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 4,127,637 at the end of 2015;
- 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 fair value in the IFRS balance sheet (this calculated adjustment amounted to EUR 1,749,789);
- other intangible assets: the deduction of other intangible assets (mainly software licenses) used to exist previously, but the CRR regulations allow this item to be reduced by deferred tax liabilities. As of end 2015, the net book value amounted to EUR 33,052,784;
- in the IRB application: negative difference between exposure 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 difference from the prudential Tier 1 core capital. At the end of 2015, the difference between the expected losses (EL) and impairments amounted to EUR 14,248,677.

3.1.4. Tier-1 core capital after transitional measures

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

For exposures other than to central governments placed in the 'available-for-sale' category, at end- 2015, 40% of the unrealized gains and losses are taken into account in determining Tier 1 core capital.

For exposures to central governments, net unrealized losses are not included in the determination of Tier 1 core capital where these losses are less than 5% of the book value. The portion above 5% is recorded at 40%.

In this way, at end-2015, the Company included EUR 6,743,793 of the latent values of EUR 93,963,258 as part of Tier 1 core capital (after transitional measures).

Of the EUR 93,963,258, EUR 17,109,483 related to unrealized losses on non-government paper. At end-2015, 40% of this value (viz. EUR 6,743,793) could be included in equity (60% or EUR 10,265,690 still being rejected).

3.2. Prudential equity

As at 31 December 2015 the qualifying equity consisted of a Tier 1 core equity of EUR 1,546,738,145 (IRB approach) and EUR 1,560,986,822 (Basel I 80% floor approach) .

Table 7: Composition of prudential equity at year-end

Composition of qualifying equity	31/12/2014	31/12/2015
- Equity attributable to shareholders	1,549,675,409	1,672,757,634
- Minority interests	74,294	59,101
Total equity	1,549,749,703	1,672,816,735
Prudential filters		
- Intangible assets	-29,792,457	-33,052,784
- Revaluation reserves	-137,852,251	-93,963,258
- Cash flow hedge	13,729,427	14,278,863
'Conservative valuation' deduction	-131,860	-4,127,637
Own credit risk (DVA) deduction	-2,586,358	-1,749,789
Latent values non-government securities (40%)	-1,637,006	6,843,793
Non-inclusion of minority interests	-74,294	-59,101
Total qualifying equity sensu stricto	1,391,404,904	1,560,986,822

At the end of 2015 the Company still had a Tier 1 loan outstanding of EUR 68.8 million. With the application of the principles of the new CRR legislation (Basel III) and by decision of the regulator, this amount could not be included in the Tier I capital.

Under the new guidelines, more stringent requirements are imposed for capital instruments to count as Tier 2 qualifying equity. The subordinate securities issued since 2012 as Tier 2 capital do not meet all the conditions for recognition as Tier 2 capital under the new CRR. Thus, from 1 January 2014 it has not been possible to use these in their totality. In addition, the qualifying capital of the subordinated securities (those issued before 2012) is also, in addition to the normal run-off, to be gradually phased out by 10% per year. The total amount of issued and still outstanding subordinated securities amounted to EUR 326,878,286 at 31 December 2015. Of this, EUR 24,713,388 qualified at end-2015 as Tier 2 equity.

4. Capital requirements

4.1. Equity requirements

In addition to the CRR minimum equity requirements, the Company must also also provide the various buffers that can be imposed under CRD IV. The following table shows the specific sources of equity requirements as of end-2015.

Table 8: Summary of equity requirements by source as of 31 December 2015

		Capital buffers			
Capital	**Minimum capital requirements**	Capital conservation buffer	Institution-specific countercyclical buffer	Other system-relevant institutions	**TOTAL**
Tier 1 core capital (CET 1)	4.50%	0.00%	0.00%	0.00%	4.50%
Tier 1 capital	6%	0.00%	0.00%	0.00%	6.00%
Equity	8%	0.00%	0.00%	0.00%	8.00%

CRD IV provides for a capital conservation buffer. In economic boom periods, this 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. This is conditional on the institution not paying dividends to shareholders. This buffer is not applicable to the Company in 2015.

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 comes into force from 2016. Both the Belgian and the Dutch regulators have currently set the rate at 0%, but subject to quarterly review.

The Belgian regulator has designated the Argenta Group as 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. This means that an additional 0.25% capital requirement is being imposed on the company in 2016 which will be incremented by 0.25% in each of 2017 and 2018.

As will be seen in subsequent chapters, the Company comfortably meets all requirements.

4.2. Capital ratios

In this chapter, the Company's capital requirements are set out, based on the risks specified in Pillar 1 (i.e. the credit, market risk, CVA and operational risks). 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 9: Equity requirements and capital ratios at year end

	31/12/2014	31/12/2015
Total qualifying equity	1,447,751,457	1,571,451,533
Total CET 1 equity	1,373,589,694	1,546,738,145
Equity adjustment (IRB shortfall)	17,815,210	14,248,677
Total CET 1 equity (with Basel I floor applied)	1,391,404,904	1,560,986,822
Risk-weighted items (without Basel I floor)	5,929,059,549	6,073,886,390
Risk-weighted items (with Basel I floor applied)	7,923,227,200	8,375,464,288
CET1 capital ratio	23.17%	25.47%
Tier 1 capital ratio	23.17%	25.47%
Total capital ratio	24.42%	25.87%
CET1 capital ratio with the Basel I floor	17.56%	18.64%

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 equity 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 equity instead of total equity.

With total regulated qualifying equity at 31 December 2015 exceeding the applicable requirements, the Company fully complied with all equity requirements.

Had the countercyclical capital and O SII buffer applied at the end of 2015, the Company would have had a Tier 1 core capital ratio of 18.64% (Basel I floor) and 25.47% (without Basel I floor), as always very well above the minimum equity requirement.

4.3. Risk-weighted items

The equity requirements for credit risk are calculated are calculated as follows:

Risk-weighted assets (RWA) * 8%
where RWA = (Exposure At Default - EAD) * weighting percentages

As reflected in the following table, total RWA have increased from EUR 5,929,059,551 to EUR 6,073,886,390 at end-2015.

The risk-weighted assets for the credit risk, calculated according to the IRB/STA method, amounted to EUR 4,718,818,913 as of 31 December 2015. This resulted in an equity requirement of EUR 377,505,513. The total equity requirement for all risks (i.e. including the requirement for CVA, and the 5% add-on for Belgian mortgage loans and operational risks) amounted to EUR 485,910,911.

With the application of the 80% floor, the RWA and equity 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 equity requirements and ratios. The 80% floor had the effect of increasing the Company's risk-weighted volume, leading to an equity requirement of EUR 670,037,143 for the Company.

Table 10: Total risk-weighted assets and equity requirements

	Basel III RWA	31/12/2014 Equity requirement	Basel III RWA	31/12/2015 Equity requirement
Credit risk - STA				
Central governments and central banks	14,374,233	1,149,939	14,480,667	1,158,453
Regional and local governments	39,785,769	3,182,862	61,117,102	4,889,368
Public law entities	10,353,010	828,241	49,367,766	3,949,421
Institutions	34,503,781	2,760,302	3,568,536	285,483
Corporates	35,257,927	2,820,634	35,584,561	2,846,765
Retail	91,651,718	7,332,137	78,109,680	6,248,774
Secured by real estate	159,731,446	12,778,516	137,998,156	11,039,852
Past due items	8,024,801	641,984	542,612	43,409
Equities	28,198	2,256	261,527	20,922
Others	159,457,760	12,756,621	195,602,628	15,648,210
Securitization positions	0	0	21,746,047	1,739,684
	553,168,643	44,253,491	598,379,282	47,870,343
Credit risk - IRB				
Institutions	1,078,564,104	86,285,128	794,302,249	63,544,180
Corporates	458,238,575	36,659,086	754,320,150	60,345,612
Covered bonds	14,435,971	1,154,878	17,995,740	1,439,659
Secured by real estate	2,477,426,112	198,194,089	2,420,932,973	193,674,638
Securitization positions	192,438,612	15,395,089	132,888,520	10,631,082
	4,221,103,374	337,688,270	4,120,439,632	329,635,171
Total exposure without add-on	4,774,272,017	381,941,761	4,718,818,913	377,505,513
5% add-on for Belgian mortgage loans	446,501,784	35,720,143	471,691,811	37,735,345
Market risk	0	0	0	0
CVA risk	119,843,562	9,587,485	153,269,726	12,261,578
Operating risk	588,442,188	47,075,375	730,105,939	58,408,475
Total	5,929,059,551	474,324,764	6,073,886,390	485,910,911

Note on equity 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 which - on its balance sheet - is not offset with additional assets with weightings.

Table 11: Comparison of Aspa and BVg equity requirements

Data per 31/12/2015	Argenta Spaarbank	BVg conso CRR scope
Core Tier 1 equity	1,560,986,822	1,694,648,148
Tier 1 equity	1,560,986,822	1,694,648,148
Total equity	1,585,700,210	1,714,079,274
Weighted by STA method	47,870,343	47,872,581
Weighted by IRB method	329,635,171	329,635,171
IRB participation value insurer(s)	0	52,227,870
Credit risks add-on	37,735,345	37,735,345
CVA risk	12,261,578	12,261,578
Operational risk requirement	58,408,475	59,404,619
Total requirement according to IRB/STA	485,910,911	539,137,164
Core Tier 1 ratio (STA/IRB method)	22.95%	24.93%
Calculations to Basel I principles	837,546,429	851,670,624
Application of floor IRB transitional period	80% rule	80% rule
Total requirement after application of floor to Basel I	670,037,143	681,336,499
Core Tier 1-ratio (based on Basel I floor)	18.64%	19.90%
Tier 1-ratio	18.64%	19.90%

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 requirement. There is only a limited change in the STA calculation and in the operational risk requirement.

The Core Tier 1 ratio of BVg consolidated CRR scope (80% floor) amounts to 19.90%, while the Core Tier 1 ratio following the IRB/STA method is 24.93%.

5. Exposure to counterparty risk

5.1. Composition of counterparty risk

The total exposure to credit risk comprises the carrying value of financial assets (most of the assets site - inner balance sheet, 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 equity legislation (Basel). The following table shows the composition of the exposure to credit risk. In total EUR 33.76 billion was recorded as **balance-sheet exposure.**

Table 12: Composition of credit risk exposure as of 31 December 2015

	Recognized as derivatives	Taken into the balance sheet	Other elements	Total balance sheet (assets)
Cash and current accounts with (central) banks	0	512,327,845	0	512,327,845
Financial assets held for trading purposes	26,650,780	2,141,843	0	28,792,623
AFS financial assets	0	8,004,524,288	0	8,004,524,288
Loans and advances	0	24,323,502,971	0	24,323,502,971
Assets held till maturity	0	404,466,119	0	404,466,119
Derivatives used for hedging	6,078,917	0	0	6,078,917
Cumulative value fluctuations of the hedged positions	0	304,086,209	0	304,086,209
Property, plant and equipment	0	37,032,746	0	37,032,746
Goodwill and other intangible assets	0	0	50,011,324	50,011,324
Tax receivables	0	4,917,451	0	4,917,451
Other assets	0	171,584,777	14,721,355	186,306,132
Total assets	32,729,697	33,764,584,249	64,732,679	33,862,046,625
Add-on to nominal amounts (derivatives)	134,801,273			
Total exposure derivatives	167,530,970			

For **derivatives**, there was an exposure of EUR 167,530,970. There was an exposure of EUR 32,729,697 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, which are on the Argenta website. 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 equity requirements for derivative instruments. In this way the full amount as stated can be found the asset side of the Company's IFRS balance sheet. In total there is an exposure of EUR 167,530,970 (add-on to the nominal amount of EUR 134,801,273 and a positive market value of EUR 32,729,697).

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 2015

	IRB	STA 0%	STA 20%	STA 50%	STA 100%	Total
Exposures	265,099,351	617,484,650	301,180,834	4,600,738	883,526,627	2,071,892,200
Weighted risk volume	11,905,820	0	45,389,720	1,725,277	34,293,738	93,314,555
Equity requirement	952,466	0	3,631,178	138,022	2,743,499	7,465,164

The 'unconditionally cancellable credit card commitments' (EUR 617,484,650) are included in the total exposure but carry a 0% credit risk weighting.

5.2. Additional information on the Basel exposure categories

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

Table 14: Breakdown of exposures (for CRM) by category as of 31 December 2015

Data per 31/12/2015	Balance sheet item	Off-balance sheet	Derivatives	Total
Central governments or central banks	3,613,886,086	0	0	3,613,886,086
Regional and local governments	741,750,782	58,801,056	0	800,551,838
Public entities	94,240,535	0	0	94,240,535
Institutions	128,230,207	5,612,937	0	133,843,145
Corporates	80,047,868	11,963,541	6,876,501	98,887,911
Retail	101,608,672	623,465,479	0	725,074,151
Secured by real estate	395,374,232	1,106,949,837	0	1,502,324,068
Past due exposures	418,985	0	0	418,985
Equities (participating interests)	261,527	0	0	261,527
Other items	339,082,242	0	0	339,082,242
Securitization positions (STA)	108,730,234	0	0	108,730,234
Totals (STA)	5,603,631,370	1,806,792,850	6,876,501	7,417,300,721
Institutions	1,638,081,131	0	126,917,846	1,764,998,977
Corporates	1,545,123,421	0	33,736,621	1,578,860,043
Covered bonds	189,523,982	0	0	189,523,982
Secured by real estate	23,846,152,677	265,099,351	0	24,111,252,028
Securitization positions (IRB)	942,071,667	0	0	942,071,667
Totals (IRB)	28,160,952,878	265,099,351	160,654,468	28,586,706,697
Total exposures	33,764,584,248	2,071,892,201	167,530,969	36,004,007,418

The main countries where the Company operates are Belgium and Netherlands (hence the high exposure to these countries in the table below). The main component in addition to retail lending is the exposure towards the Belgian government. The geographical breakdown of the investment portfolio in this and the following tables is by country of the issuer.

Table 15: Geographic breakdown of all exposures at 31 December 2015

Country code	Country	Exposure	Share	Required capital
AT	Austria	118,820,537	0.33%	387,956
AU	Australia	123,496,904	0.34%	2,153,317
BE	Belgium	14,955,208,124	41.54%	113,912,482
BG	Bulgaria	7,671,741	0.02%	112
CA	Canada	193,785,283	0.54%	5,124,539
CH	Switzerland	3,079,890	0.01%	12,935
CZ	Czech Republic	137,842,734	0.38%	1,416,471
DE	Germany	191,863,185	0.53%	6,976,958
DK	Denmark	54,522,054	0.15%	2,654,491
ES	Spain	315,538,515	0.88%	8,035,151
FI	Finland	42,042,827	0.12%	775,544
FR	France	469,231,774	1.30%	13,088,428
GB	United Kingdom	450,234,368	1.25%	19,946,838
IE	Ireland	358,330,257	1.00%	889,879
IS	Iceland	52,647,686	0.15%	0
IT	Italy	209,149,445	0.58%	3,034,681
LT	Lithuania	70,513,562	0.20%	0
LU	Luxembourg	133,588,575	0.37%	3,966,328
LV	Latvia	85,740,120	0.24%	0
MX	Mexico	22,706,222	0.06%	943,148
NL	Netherlands	17,157,024,925	47.65%	160,424,154
NO	Norway	51,745,567	0.14%	1,341,404
NZ	New Zealand	31,364,727	0.09%	59,232
PL	Poland	153,612,136	0.43%	402,758
RO	Romania	11,592,292	0.03%	22
SE	Sweden	152,724,323	0.42%	4,112,212
SI	Slovenia	94,206,169	0.26%	4,295
SK	Slovakia	107,581,261	0.30%	347,299
US	United States	241,729,645	0.67%	10,764,981
Other	Exposure per country < 3 million	6,790,101	0.02%	59,905
Total exposures		36,004,384,949	100.00%	360,835,521

Table 16: Geographical distribution of the 'exposures covered by real estate'

Country code	31/12/2014	31/12/2015
BE	9,330,745,512	10,116,964,428
NL	14,195,482,569	15,467,832,645
Other	29,205,929	28,360,411
	23,555,434,010	25,613,157,485

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'.

Table 17: Geographical distribution of exposures to central governments and central banks, (financial) institutions and corporates

Country code	Institutions	Corporates	Central governments and banks
AT	16,754,372	0	101,530,547
AU	114,849,148	0	0
BE	149,527,906	671,942,246	2,135,436,411
BG	0	0	7,569,247
CA	173,878,121	19,809,093	0
CZ	55,053,515	19,663,847	63,125,273
DE	59,237,880	80,024,959	0
DK	54,415,097	0	0
ES	7,233,273	55,404,790	156,668,403
FI	27,003,997	15,003,261	0
FR	203,282,703	159,634,593	0
GB	328,638,960	68,899,045	0
IE	0	12,059,003	308,746,057
IS	0	0	52,647,686
IT	19,916,395	20,758,864	136,150,679
LT	0	0	70,513,562
LU	30,219,122	49,165,524	0
LV	0	0	85,740,120
MX	0	15,340,816	7,365,407
NL	343,387,639	368,290,683	121,145,191
NO	29,814,141	21,931,426	0
PL	0	10,049,899	143,331,423
RO	0	0	11,591,926
SE	98,906,096	28,389,384	25,029,777
SI	6,090,793	0	88,115,376
SK	0	8,402,259	99,179,001
US	180,632,964	47,416,066	0
Totals	1,898,842,122	1,672,185,756	3,613,886,086

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 18: Remaining (weighted average) life as of 31 December 2015

Data per 31/12/2015	Remaining life in years
Central governments and central banks	11.70
Regional and local governments	14.44
Public entities	6.28
Institutions	5.67
Corporates	4.61
Retail customers	2.37
Secured by real estate	17.11
Past due exposures	4.08
Covered bonds	1.62
Securitization positions - ABS	7.86
Securitization positions - MBS	38.67

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

5.3. Credit risk mitigation

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

The table below shows the exposures before and after the movements resulting from unfunded and funded credit protections (see column 'Exposure after CRM' in table 19).

'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 19: Exposure per category as of 31 December 2015

Data per 31/12/2015	Exposure	Unfunded credit protection - guarantees	Funded credit protection – collateral	Total inflow	Exposure after CRM
Central governments and central banks	3,613,886,086	0	0	893,690,560	4,507,576,645
Regional and local governments	800,551,838	300,000	0	75,393,945	875,645,783
Public law entities	94,240,535	24,000,000	0	0	70,240,535
Institutions	133,843,145	124,916,116	0	0	8,927,029
Corporates	98,887,911	61,142,600	0	10,048,656	47,793,966
Retail	725,074,152	0	0	0	725,074,152
Secured by real estate	1,502,324,068	768,774,444			733,549,624
Past due items	418,985	0	0	0	418,985
Covered bonds	0	0	0	0	0
Collective investment undertakings	0	0	0	0	0
Equities (participating interests)	261,527	0	0	0	261,527
Others	339,082,242	0	0	0	339,082,242
Securitization positions	108,730,234	0	0	0	108,730,234
Total exposure (STA)	7,417,300,722	979,133,160	0	979,133,160	7,417,300,722
Institutions	1,764,998,977	0	0	0	1,764,998,977
Corporates	1,578,860,043	0	0	0	1,578,860,043
Covered bonds	189,523,982	0	0	0	189,523,982
Secured by real estate	24,111,252,028	0	0	0	24,111,252,028
Securitization positions	942,071,667	0	0	0	942,071,667
Total exposure (IRB)	28,586,706,697	0	0	0	28,586,706,697
Total exposures	36,004,007,419	979,133,160	0	979,133,160	36,004,007,419

The total of the amounts 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 2015 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 124,916,116 of credit protection in the 'Institutions' category and the EUR 61,142,600 of credit protection in the 'corporates' category.

Table 20: Government guarantees under 'institutions' as of year-end

Counterparty	Exposure 2014	Guarantee amount 2014	Exposure 2015	Guarantee amount 2015
French government	30,219,784	29,985,845	31,442,385	29,988,971
Irish government	23,188,793	22,457,036	0	0
Dutch government	35,114,138	34,939,570	35,930,037	34,953,913
Spanish government	10,294,954	10,000,434	6,113,840	5,983,414
Czech government	54,305,593	53,987,009	54,644,181	53,989,817
Total unfunded credit protection – guarantees		151,369,895		124,916,116

Table 21: Guarantees in the 'corporates' category at end-2015

Counterparty	No. of securities	Exposure	Guarantee amount
Belgian government	18	51,780,356	51,093,945
Other Polish corporate	1	10,049,899	10,048,656
Total unfunded credit protection			61,142,600
– guarantees in 'corporates' category			

In addition, there is the NHG (Nederlandse Hypotheek Garantie) guarantee that exists for most mortgage loans made in the Netherlands. The NHG is provided by the 'Waarborgfonds Eigen Woningen' (Homeownership Guarantee Fund – WEW) foundation. It is the name of the guarantee which a borrower can obtain for a loan for purchasing or 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 relevant Minister. The 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 executing 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 require less solvency. 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).

Mortgage registration and mortgage mandate

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

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

The 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.

5.4. Counterparty risk

The assumptions and limits regarding counterparties are listed in the 'Credit and concentration risk' section of the financial risk 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 credit risk policy.

5.5. Collateral

Collateral received

Security in the form of personal guarantees or material collateral is always required when granting mortgage loans. The lower a borrower's creditworthiness, the 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 (see the definition of default in the above description of impairments). 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 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). Chapter 9 gives more information on effectively granted collateral.

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 'Financial Risk' and 'Credit Risk' policies.

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

5.7. Capital requirement for CVA risk

Since the implementation the CRR, an equity requirement has also to be calculated 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.

Less self-evident is the opposite of the CVA, that is quantifying the own credit risk. This is called the Debit Valuation Adjustment (DVA). The DVA calculated following IFRS standards amounted to EUR 4,127,637, and was deducted from the qualifying equity.

For prudential reasons, a separate calculation is made to calculate an exposure for CVA risk to which an equity requirement is applied. As of 31 December 2015 an exposure of EUR 153,269,726 was obtained, on which an equity requirement of EUR 12,261,578 was calculated.

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 all Belgian financial institutions for Belgian mortgage loans. An RWA of EUR 471,691,811 was obtained, on which a capital requirement of EUR 37,735,345 was calculated. This additional capital requirement was included in the IRB/STA calculation as of 31 December 2015.

6. Use of the standard approach

6.1. Non-derivative products

The Company uses the standardized approach for determining the credit risk for the categories below.

Table 22: Exposures applying STA approach at year-end

	Exposure 31/12/2014	Exposure 31/12/2015
Standardized approach (SA)	553,168,642	598,379,282
SA exposure categories excluding securitisation positions	553,168,642	576,633,235
Central governments or central banks	14,374,233	14,480,667
Regional governments or local authorities	39,785,769	61,117,102
Public sector entities	10,353,010	49,367,766
Institutions	34,503,781	3,568,536
Corporates	35,257,927	35,584,561
Retail	91,651,718	78,109,680
Secured by mortgages on immovable property	159,731,446	137,998,156
Exposures in default	8,024,801	542,612
Equity (participating interests)	28,198	261,527
Other items	159,457,760	195,602,628
Securitisation positions SA	0	21,746,047

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 equity 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 208,374,903 of RWA was therefore included in the IRB classification 'secured by real estate'.

6.2. Derivatives

The Company uses the 'mark-to-market' valuation approach for calculating equity 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; and
b. the potential future credit risk, i.e. the product obtained by multiplying the notional principal amount (or underlying value) with a respective percentage.

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

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

7. Use of the (F)IRB method

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

Table 23: Exposures applying IRB approach at year-end

	Exposure 31/12/2014	Exposure 31/12/2015
Internal ratings-based approach (IRB)	4,221,103,374	4,120,439,632
IRB approaches when neither own estimates of LGD nor Conversion Factors are used	1,551,238,650	1,566,618,138
Institutions	1,093,000,075	812,297,988
Corporates - other	458,238,575	754,320,150
IRB approaches when own estimates of LGD and/or Conversion Factors are used	2,477,426,112	2,420,932,973
Retail - secured by real estate non-SME	2,477,426,112	2,420,932,973
Securitisation positions IRB	192,438,612	132,888,520

7.1. Credit - (F)IRB approval

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

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

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

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

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

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

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

The PD model assigns a score to each loan file. This scoring is based on variables with associated modalities relating to both product and borrower criteria. Based on these scores, risk 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, as it was decided to use a CCF factor of 100% until further notice. CCF models estimate the proportion of off-balance sheet liabilities to be 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 to Basel credit risk was implemented by integrating it into the respective policies, the credit acceptance process, decision-making, risk management, investment policy and internal capital allocation. The credit risk models used by the Company play an essential role in this process.

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

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

The operational credit departments are tasked with granting and managing loans in accordance with the authorization and acceptance frameworks and the loan approval and management procedures applicable to each product and/or jurisdiction. They operate in a fully Basel-compliant manner, 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.

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

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

The CRA (Credit Risk Analysis) department of the 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 'review of internal credit risk models' policy. This policy aims to verify that the internal credit risk models indicate correctly the risk levels of the credits to which they relate, via:

- analysis of the model and 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; and
- analysis of the effective implementation and application of the model (usage) and the role it plays in the decision process and in risk management (use test).

7.2.3. Organization of the (F)IRB process

The Credit Risk Control unit of the Operations departments (NK 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-developing function is exercised by the CRA unit of the Financial Management division.

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 initially developed and approved. Implementation validation relates both to the implementation within the organization as well as to the technical implementation in the institution's own IT environment, with particular attention to the use test aspects.

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

Credit Risk Management and 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; and
d. to meet the requirements imposed by the supervisory authority.

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

7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

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

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

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

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

For the Dutch portfolio, new internal models were developed in 2013. The new PD model has eight variables and the LGD model is based on historical averages. In 2013, the models were run in parallel, enabling a parallel run was done, allowing a switch-over to take place in 2014. As mentioned, the regulator has made this conditional on systematic comparisons being made between the STA-based and the IRB-based calculations.

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 credits and 10 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.

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 FIRB 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 FIFB framework that has been ratified and implemented in Argenta, and which is reviewed at least annually. In this way, some 200 counterparties have been assigned an internal rating. The results of these rating reviews are discussed in the monthly Rating Consultation.

The underlying rating models for the low default portfolio were developed by S&P with 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 2015.

Table 24: Exposures by the (F)IRB method as of 31 December 2015

Data per 31/12/2015	Exposures	Gem PD %	Gem LGD %	RWA	Gem RW %
Total exposures	27,644,635,030			3,779,176,210	
IRBA					
Balance sheet	23,876,723,033	1.40%	12.00%	2,200,652,251	9.22%
Off balance sheet	265,099,351	0.26%	11.00%	11,905,820	4.49%
Provisions	-30,570,356				
IRBF					
Balance sheet	3,372,728,534	0.16%	44.00%	1,426,140,429	42.28%
Derivatives	160,654,468	0.10%	45.00%	140,477,710	87.44%

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 percentages include defaults.

The following table shows the calculated expected loss (EL) per mortgage sub-portfolio, taking into account the effective LGD and the applied 10% LGD floor.

Table 25: EL per mortgage sub-portfolio as of 31 December 2015

Data per 31/12/2015	ASPA	CBHK	Netherlands	Total
Total provisions recognized	6,371,242	5,292,374	18,906,739	30,570,356
EL-eff LGD	8,726,522	6,432,801	25,570,273	40,729,595
> non-defaults	2,355,279	1,140,427	13,539,233	17,034,940
> defaults	6,371,242	5,292,374	12,031,040	23,694,656
EL-LGD floor	9,977,430	6,740,834	25,782,088	42,500,351
> non-defaults	3,606,187	1,448,459	13,751,049	18,805,696
> defaults	6,371,242	5,292,374	12,031,040	23,694,656

As of 31 December 2015 the total EL (with the effective LGD) for both defaults and non-defaults was EUR 40,729,595. Applying the LGD floor of 10% gives an EL of EUR 42,500,351.

For the individual credits in the lowest PD class (the default class), individual provisions of EUR 30,570,356 were set up. Since 2008, a collective IBNR provision has also been set up for those mortgage portfolios for which IRB models were developed. This IBNR provision amounted to EUR 6,875,700 as of 31 December 2015.

The following table gives the grouping by pool grade when using the IRB approach for exposures to corporates, institutions, and covered bonds and loans secured by real estate.

Table 26: Exposures using the IRB approach

Pool/Grade	PD %	Corporates	Institutions / covered bonds	Covered by real estate
5	0.03%	0	24,508,694	0
6	0.03%	0	1,713,838	0
7	0.03%	50,388,243	20,895,492	0
8	0.04%	130,993,548	458,239,284	0
9	0.04%	0	0	2,718,373,154
10	0.05%	384,036,346	154,443,037	0
12	0.09%	0	0	2,371,768,084
13	0.10%	158,212,607	592,346,678	0
15	0.14%	173,892,785	326,939,336	0
17	0.14%	162,142,256	231,123,045	0
19	0.16%	0	0	1,583,808,710
20	0.17%	0	0	3,260,234,047
21	0.22%	188,427,956	123,363,666	0
23	0.30%	0	0	3,623,397,410
24	0.31%	0	0	977,353,434
25	0.37%	0	0	54,278,991
26	0.49%	0	0	5,301,355,879
27	0.51%	241,212,341	0	0
29	0.51%	32,105,848	10,642,168	0
31	0.55%	0	0	538,394,747
33	0.73%	0	0	1,998,941,253
34	0.80%	0	0	114,984,840
35	0.81%	32,155,530	0	0
37	0.88%	0	0	317,104,524
39	1.40%	0	0	125,238,975
40	1.50%	25,292,583	10,307,721	0
42	1.50%	0	0	149,178,189
45	2.80%	0	0	135,589,218
46	3.80%	0	0	213,100,978
47	4.20%	0	0	26,598,665
49	6.00%	0	0	78,153,147
52	7.10%	0	0	80,012,378
54	7.90%	0	0	23,066,943
57	13.00%	0	0	81,764,018
59	17.00%	0	0	14,282,752
60	17.00%	0	0	63,321,992
63	25.00%	0	0	80,898,355
65	31.00%	0	0	6,258,865
66	32.00%	0	0	9,712,981
70	58.00%	0	0	5,558,242
99	100.00%	0	0	158,521,259
		1,578,860,043	1,954,522,959	24,111,252,028

8. Exposure adjustments

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

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

In the equity reporting 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) to see whether an impairment should be recognized.

8.2. Approaches and methods for determining impairments

Recognizing of individual impairments

Impairments can be recognized on an individual basis for credit losses, when a loan is deemed to be in default, meaning that objective indications exist that the Company will be unable to collect all amounts due under the contract terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount.

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

Setting up of collective impairments

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

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

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

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

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

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

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

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

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

8.3. 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 equity calculation. Geographically the loans and advances are located almost entirely in the core countries of Belgium and the Netherlands.

Table 27: Geographical breakdown of past due risk exposures

Country	Past due exposure 2014	Past due exposure 2015
BE	127,571,111	110,298,381
NL	92,261,285	70,937,864
Other	1,776,564	1,398,654
Total past-due exposures	221,608,960	182,634,900

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

The individually determined impairments amount to EUR 40,958,579 as of 31 December 2014 and to EUR 29,161,957 as of 31 December 2015. The table below shows the evolution of these impairments and their distribution by asset categories.

Table 28: Evolution of individually determined impairments

	Opening balance 31/12/2014	Increase via P&L	Reversal via P&L	Closing balance 31/12/2015
Consumer credit	3,468,991	717,161	-1,572,927	2,613,225
Mortgage loans	33,446,959	20,999,048	-29,515,269	24,930,738
Term loans	1,068,149	89,081	-817,269	339,961
Demand deposits / advances	2,869,065	-1,462,432	-129,500	1,277,133
Other credit receivables	105,415	0	-104,515	900
Total loans and advances	40,958,579	20,342,858	-32,139,480	29,161,957

The table below gives the internally calculated IBNR provision for ach specific mortgage portfolio on an Exposure at Default (EAD) basis.

Table 29: IBNR provision

Portfolio	31/12/2014		31/12/2015	
	EAD	IBNR	EAD	IBNR
Aspa Belgium	8,091,991,693	567,756	8,714,321,534	1,258,535
Netherlands	12,487,023,626	4,985,238	13,380,730,800	4,875,207
Green Apple	1,220,982,339	450,144	1,113,369,721	346,487
CBHK	486,988,812	616,047	367,349,714	395,471
Total		6,619,185		6,875,700

As of 31 December 2015 there was no longer any collective impairment. At the end of 2014 this stood at EUR 259,458. This portfolio-based impairment was recognized for a limited RMBS (Residential Mortgage Backed Securities) portfolio classified under loans and advances.

Finally, in 2015 a provision of EUR 860,000 was set up as a best estimate of the additional impairments needing to be recorded on loans following:

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

Ultimately this gives, in addition to the IBNR provision of EUR 6,875,700, a collective provision of EUR 860,000.

The table below shows the changes in individually determined impairments to credits and the overall impact on the income statement (see 'total impact' impact) column for 2015. This impact amounted to EUR -1,542,951 in 2015.

Table 30: Impact of impairments (credit) on the income statement

	Opening balance 31/12/2014	Increase via P&L	Reversal via P&L	Closing balance 31/12/2015	Recoveries via P&L	Direct derecogni-tion	Collective provision	Total P&L impact
Consumer credit	3,468,991	717,161	-1,572,927	2,613,225	-188,035	683,540	0	-360,261
Mortgage loans	33,446,959	20,999,048	-29,515,269	24,930,738	-207,716	10,155,498	-1,383,484	48,077
Term loans	1,068,149	89,081	-817,269	339,961	-3,571	99,953	0	-631,806
Demand deposits / advances	2,869,065	-1,462,432	-129,500	1,277,133	-510,371	1,707,898	0	-394,405
Other lending receivables	105,415	0	-104,515	900	-10,101	169,518	-259,458	-204,556
Total loans and advances	40,958,579	20,342,858	-32,139,480	29,161,957	-919,794	12,816,407	-1,642,942	-1,542,951

In the AFS (available for sale) portfolio, a EUR 1,935,920 impairment was set up for the Petrobras bonds that the Company holds in its portfolio.

9. 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. For the first reporting period (2014 financial year), institutions could opt to use the data as of 31 December 2014.

We give below an overview of the encumbered assets at the Company as reported as of 31 December 2014 and the average for 2015.

Table 31: Encumbered assets

	31/12/2014	31/12/2014	31/12/2015	31/12/2015	Average 2015	Average 2015
	Nominal value	Market value	Nominal value	Market value	Average nominal	Average market
Collateral for derivatives	489,285,000	583,343,619	419,032,000	485,653,196	438,850,250	517,264,729
Collateral for repo transactions	367,000,000	410,538,477	85,594,000	99,876,707	92,020,000	100,957,997
Collateral for Bank Card Company	31,000,000	31,403,792	35,000,000	35,123,886	34,000,000	34,215,713
Total given collateral	887,285,000	1,025,285,888	539,626,000	620,653,789	564,870,250	652,438,439
Cash paid (derivatives)	0	21,850,884	0	15,350,000	0	12,192,500
Cash received (repo transactions)	0	5,272,000	0	0	0	0
Collateral NBB credit line	250,000,000	278,370,256	250,000,000	272,322,206	250,000,000	272,801,898

At end-2014 a nominal EUR 856,285,000 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 21,850,884 was paid in cash in the context of the collateral management in respect of derivatives. Another EUR 5,272,000 of cash was received in the context of the executed repo transactions.

In 2015, an average nominal EUR 534,870,250 of assets were encumbered in the context of derivatives and repos and a nominal EUR 34 million in connection with the use of credit cards by Company customers. In addition, an average of EUR 12,192,500 of cash was paid in the context of collateral management.

The Company has no issued covered bonds and the securitized loans are, as already explained, now back in the Bank Pool balance sheet. The Company has a EUR 250 million credit line with the NBB, for which securities will be encumbered if and when this credit line is used.

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**. There was no received collateral at the end of 2015.

Table 32: Total assets (encumbered and unencumbered)

	Encumbered assets	Unencumbered assets	Totals
Loans and advances	0	24,296,477,937	24,296,477,937
Shares	0	261,528	261,528
Debt certificates	620,653,789	7,817,240,967	8,437,894,756
Other assets	15,350,000	1,112,061,405	1,127,411,405
Totals	636,003,789	33,226,041,837	33,862,045,626

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) when determining the weighting percentages: Standard & Poors (S&P), Moody's and Fitch.

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

Table 33: Basel STA categories for which ratings are used at year-end

Exposure (STA)	Exposure 31/12/2014	Exposure 31/12/2015
Central governments or central banks	3,887,028,142	3,613,886,086
Regional and local governments	678,607,775	800,551,838
Public entities	15,353,010	94,240,535
Institutions	236,280,427	133,843,145
Corporates	142,405,629	98,887,911
Equities (participating interests)	0	261,527
Securitization positions	0	108,730,234

11. Exposure to market risk

The Company does not make equity calculations for market risk, since the Company has not had, and continues not to have, any 'trading book' nor hold any foreign currency instruments.

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

In calculating the credit risk these derivative instruments are valued 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 equity requirements for operational risk.

Under this standard approach the activities and hence also the operational result must be assigned to several business lines. The equity 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 bank (retail) 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 equity requirements for operational risk, the Company was required to hold EUR 58,408,475 of equity at 31 December 2015.

13. Exposure to shares

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

With respect to strategic investments, the company had only a very limited position of EUR 28,198 in 2014, which had risen to EUR 62,498 by the end of 2015. 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, a very limited exposure to shares acquired from an investment perspective. These shares are all processed using to the standard approach.

Table 34: Shares (STA approach) as at 31 December 2015

	Carrying value		Market value
Strategic participating interest	62,498	+537	63,035
Investments			
listed	199,655	-1,163	198,492
private equity	0		0
other	0		0
Total	262,153	-626	261,527

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

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%.

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).

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 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.

When measuring interest risk, it is important to be able to report both from an income perspective (via the interest earnings) and from an economic value perspective.

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

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

Variations 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 taken together and the duration of all liabilities taken together. The greater the mismatch, the greater the interest rate sensitivity. Given its simplicity, the duration gap is used alongside economic value and interest earnings in reporting the interest rate risk.

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

The Company uses the spot swap-curve as a basis for calculating future cash flows and discounting interest rates. This 'market consensus' can be be viewed as a good predictor of future forward rates.

Alco remains free, however, to deviate from this approach. In this case, the decision is clearly explained in the Executive Committee, which will ratify the decision, and report it to the Board of Directors.

The spot swap-curve of the reporting date is used for calculating economic value. No margin or commercial margin is applied to the swap interest rates in discounting the cash flows. In this way, interest rate risk is kept clearly separate from other risk sources 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 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 customer behaviour shows to remain (on average) for considerable lengths of time on the accounts in question, notwithstanding relatively major movements in market interest rates, the following durations are applied for the economic value calculation:

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

For such non-maturing deposits, the following reactions to a given movement in market interest rates are assumed for the purpose of regulatory interest rate reporting:

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

In internal simulations the assumptions on reactions to tariff changes are determined by the internally developed replicating model, which derives a reinvestment policy that best matches the historic repricing profile of these deposits.

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 capitalize them. For future behaviour, the model is based on the current portfolio distribution between the two types of behaviour.

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

a) for mortgages in Belgium an internally developed prepayment model is used;
b) for mortgages in the Netherlands an internally developed house-price driven prepayment model is used.

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

Valuation differences on explicit options are recognized in the income statement.

Treatment of 'pipeline risk'

In the period between the approval of a mortgage loan and execution of the legal documents, market interest rate fluctuations can influence the interest rate at which the mortgage loan is eventually completed. In the 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, pipeline risk arises. Both the Belgian and the Dutch pipelines are 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. Exposure to securitization positions

15.1. Objectives of the company

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

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

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

At 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.

Role as originator in securitization transactions

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

In the case of the two securitization operations initiated by the Company, the issuer was 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 securitization operations and trust management. The Company is of course also involved in securitization operations through its role as investor.

CRR approaches applied

The company applies the 'rating-based approach' for calculating the equity requirements for the (purchased) securitization securities. Under IFRS, the SPV Green Apple is fully consolidated. In this way the underlying Dutch mortgage loans with NHG guarantee come back onto the consolidating entity's balance sheet. For this reason a capital requirement is calculated for the underlying loans instead of the issued notes.

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

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 securitization are no longer (fully or partially) accounted in the financial statements whenever the Company transfers virtually all the risks and income from the assets (or parts thereof).

15.2. Portfolio of securitization positions

Besides the securitization 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 mortgage-backed securities (MBSs). With limited exceptions, these positions are accounted for by the IRB method under the exposure category 'securitization positions'. Based on the ratings of the securities involved, a RWA percentage is assigned.

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

Table 35: Geographic distribution of securitization positions as of 31 December 2015

	Country	Exposure
MBS	BE	29,049,148
MBS	ES	33,327,856
MBS	FR	44,142,593
MBS	GB	7,515,418
MBS	IE	19,702,910
MBS	NL	768,260,625
ABS	ES	27,915,601
ABS	FR	19,536,020
ABS	IE	17,481,318
ABS	LU	51,431,041
ABS	NL	20,281,856
ABS	US	12,157,516
Total securitization positions		**1,050,801,901**

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

Table 36: EADs and capital requirements of securitization positions as of 31 December 2015

Rating A	Rating B	Rating C		ABS	MBS	Total
	A1	A	EAD	0	6,247,087	6,247,087
				0	63,570	63,570
		AA-	EAD	0	3,409,063	3,409,063
				0	28,909	28,909
	Aa2	AA+	EAD	0	2,644,164	2,644,164
				0	17,938	17,938
		AAA	EAD	0	15,297,050	15,297,050
				0	103,775	103,775
		BBB-	EAD	0	838,823	838,823
				0	71,132	71,132
	Aaa	-	EAD	19,602,213	27,557,972	47,160,185
				313,635	163,584	477,220
		A	EAD	0	2,204,421	2,204,421
				0	22,432	22,432
		AAA	EAD	14,226,277	300,061,160	314,287,437
				227,620	1,781,163	2,008,783
A	A2	BBB	EAD	0	3,388,475	3,388,475
			Required equity	0	34,481	34,481
	Aa2	-	EAD	0	6,155,903	6,155,903
			Required equity	0	62,642	62,642
A+	A1	-	EAD	0	1,416,708	1,416,708
			Required equity	0	12,014	12,014
	Aaa	AAA	EAD	0	3,383,158	3,383,158
			Required equity	0	20,082	20,082
AA		AAA	EAD	0	11,631,277	11,631,277
			Required equity	0	78,907	78,907
	A1	-	EAD	0	2,111,700	2,111,700
			Required equity	0	17,907	17,907
AA+	Aa2	-	EAD	0	3,234,295	3,234,295
			Required equity	0	21,941	21,941
	Aaa	AAA	EAD	12,157,516	0	12,157,516
			Required equity	206,191	0	206,191
AAA	-	-	EAD	16,057,384	6,654,925	22,712,310
			Required equity	256,918	39,504	296,422
	-	AAA	EAD	20,044,605	164,889,513	184,934,119
			Required equity	320,714	978,784	1,299,498
	Aaa	-	EAD	38,799,754	196,360,113	235,159,867
			Required equity	620,796	1,165,594	1,786,390
	-	AAA	EAD	0	139,214,396	139,214,396
			Required equity	0	826,377	826,377
BBB	Baa2	-	EAD	0	2,898,933	2,898,933
			Required equity	0	147,498	147,498
BBB	A1	BBB	EAD	27,915,601	0	27,915,601
			Required equity	2,367,243	0	2,367,243
B-	B2	-	EAD	0	2,399,412	2,399,412
			Required equity	0	2,399,412	2,399,412
Total EAD				148,803,352	901,998,549	1,050,801,901
Total equity requirement				4,313,118	8,057,647	12,370,765

The portfolio of securitization positions has increased from an exposure of EUR 997,870,147 as of 31 December 2014 to EUR 1,050,801,901 as of 31 December 2015. Applying the weighting percentages and the 8% requirement, an equity requirement of EUR 12,370,765 was obtained for these purchased securitization positions.

16. Remuneration policy

This section gives the disclosures on remuneration policy as requested in the CRR (both substantive elements as the decision-making process followed to arrive at this policy). The major part of these disclosures are also included in the BVg annual report that can also be found on the www.argenta.be website.

Explanation of the decision-making process

For all functions within the Argenta working companies, the O&T department proposes a draft Pay Policy, which can include changes based on internal and external conditions.

A draft revised policy was developed during various executive committee meetings in the course of 2015. The final proposal was submitted to the Remuneration Committee on 25 January 2016.

The Argenta Board of Directors then establishes the further general principles of the remuneration policy for employees, and monitors its implementation.

In the course of 2016, the revised remuneration policy will be submitted to the company governing bodies for approval.

Explanation of the pay policy

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. Argenta 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.

In addition to the standard remuneration (monthly salary, single and double holiday pay, 13th month), all Argenta staff members receive 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.

At Argenta there is no variable compensation for either management or employees. The only exceptions are the 16 regional directors (out of a total of 843 internal employees) who, under certain conditions, enjoy a limited variable remuneration (maximum one monthly wage).

This system sets out to honour regional directors who achieve certain results - results that directly impact the strategic dimensions of the organization - with a bonus. The sum of the variable remuneration for the regional directors in Argenta's marketing department amounted in 2015 to EUR 78,757.50. The fixed remuneration of the same persons totalled EUR 1,200,447.99, giving a variable pay/fixed pay ratio of 6.56%.

In 2015, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,505,684. In 2015, the basic salary of John Heller (CEO of the Argenta Group and chairman of the Executive Committees of the Company, Argenta Spaarbank and Argenta Assuranties) amounted to EUR 449,200, including a leased car. The contribution to the supplementary pension and disability group policies in respect of John Heller was EUR 71,904. Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 241,532.

Executive directors are contractually entitled to a severance payment which, except for withdrawal of the mandate due to serious misconduct, is equal to 18 months' remuneration. The amount of this remuneration is based on the annual gross remuneration, calculated over the 24 months prior to the decision to terminate the contract, or calculated over the entire period of the mandate if less than 24 months.

The 18-month period is reduced to (i) 12 months if the termination occurs after the director reaches age 58, but before age 61; (ii) 9 months if the termination occurs after the director reaches age 61, but before age 63, and (iii) six months if the termination occurs after the director reaches age 63, but before reaching age 65.

Note on Identified Staff

The Remuneration Committee has also proposed to the Board that a number of employees be identified as Identified Staff. The decisive factor in whether an employee qualifies as Identified Staff is the fact of exercising a significant influence on the risk profile of the financial institution. This is assessed based on qualitative and quantitative criteria in accordance with delegated regulation (EU) No. 604/2014 of 4 March 2014.

At Argenta, 5 executive directors, 9 non-executive directors and 40 employees (independent control functions, directors and managers of substantive business units) were designated as Identified Staff. This is 2.22% of the total Argenta employee count (incl. department heads, employees, branch managers and their staffs). For Identified Staff, the same remuneration principles apply as for other functions at Argenta. The individual targets at Argenta are formulated in a way that this doesn't hinder the independent operations.

17. Leverage financing

The company closely tracks the leverage financing. In the RAF, the leverage ratio is one of the indicators that are systematically included in the periodic reports to management and to the Risk Committee of the Board of Directors. The limit framework provides for a minimum of 3% and a target of > 4%.

The leverage ratio has systematically improved in recent years. This reflects the realization of fee business (and hence the intended switch from on-balance sheet to off-balance sheet products for customers) and also the increasing equity base, given the Argenta group's only very limited pay-out ratio. Through this policy of the family shareholder, almost all profits are placed back into the available reserves.

As the table below shows, the total leverage ratio exposure according to the transitional definition amounted as of 31 December 2015 to EUR 35,147,866,025. The corresponding leverage ratio is 4.40%. The total leverage ratio exposure according to the fully loaded definition is EUR 35,234,985,490. The corresponding leverage ratio is 4.64%.

Table 37: Leverage ratio (transitional - fully loaded) as of 31 December 2015

	31/12/2015
Total leverage ratio exposures (transitional)	35,147,866,025
Total leverage ratio exposures (fully loaded)	35,234,985,490
Leverage ratio (transitional)	4.40%
Leverage ratio (fully loaded)	4.64%

The following table breaks down the total leverage ratio exposures as of 31 December 2015, under both the fully loaded and the transitional definitions.

Table 38: Total leverage ratio exposures (transitional - fully loaded) as of 31 December 2015

Leverage exposures	31/12/2015
Derivatives – market value	32,729,697
Derivates - add on	134,801,273
Off-balance sheet items - CCF 10%	61,748,465
Off-balance sheet items - CCF 20%	60,236,167
Off-balance sheet items - CCF 50%	2,300,369
Off-balance sheet items - CCF 100%	1,148,625,979
Other assets	33,829,315,928
Tier 1 core capital transitional measures - fully phased in definition	-38,900,024
The institution's own derivatives (DVA) credit risk	-4,127,637
Tier 1 core capital transitional measures - transitional definition	-126,019,489
The total exposure is calculated based on the above elements	
Total leverage ratio exposures - transitional	35,147,866,025
Total leverage ratio exposures - fully loaded	35,234,985,490

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 equity requirements.

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

The Company has always pursued a policy of self-financing. To retain a level of capital that provides sufficient 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 securitizing 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 equity. 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 equity, 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 equity 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 equity 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 2014 a comprehensive assessment (stress test) was included as part of the ECB assessment. The purpose of a stress test is to express the risks of external events in terms of financial damage, i.e. to measure resilience in the event of a severe economic downturn.

The probability and impact of this in relation to the risk appetite leads to a weighing 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 equity.

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

The calculations according to the Basel rules (pillar 1) for capital management are reported to the supervisory authority and used in-house. For the credit risk, the so-called 80% floor for the required regulatory capital will remain 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%) and income stability (80%) which are derived directly from the ICAAP report.

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

In 2015, systematic consultations were held with the supervisory authority in the framework of the SREP. At the time a Capital Policy steering group was set up in preparation for meeting the MREL (Minimum Requirement of Eligible Liabilities) requirements.

19. Concluding disclosures

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

The Company does not use the Advanced Measurement Approach for operational risk, so no additional disclosures are included on this subject. The credit risk mitigation techniques used (funded and not fully funded) are also explained.

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

The remuneration policy and the remuneration culture are also explained there. The Company employs no person receiving more than EUR 1 million and no shares are awarded.

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

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

The Dutch version of this report is the original text; the English version is a translation. The Company warrants that every reasonable effort has been made to avoid any discrepancies between the two language versions. Should such discrepancies exist, the Dutch version will take precedence. Questions related to the distribution of these reports should be directed to:

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