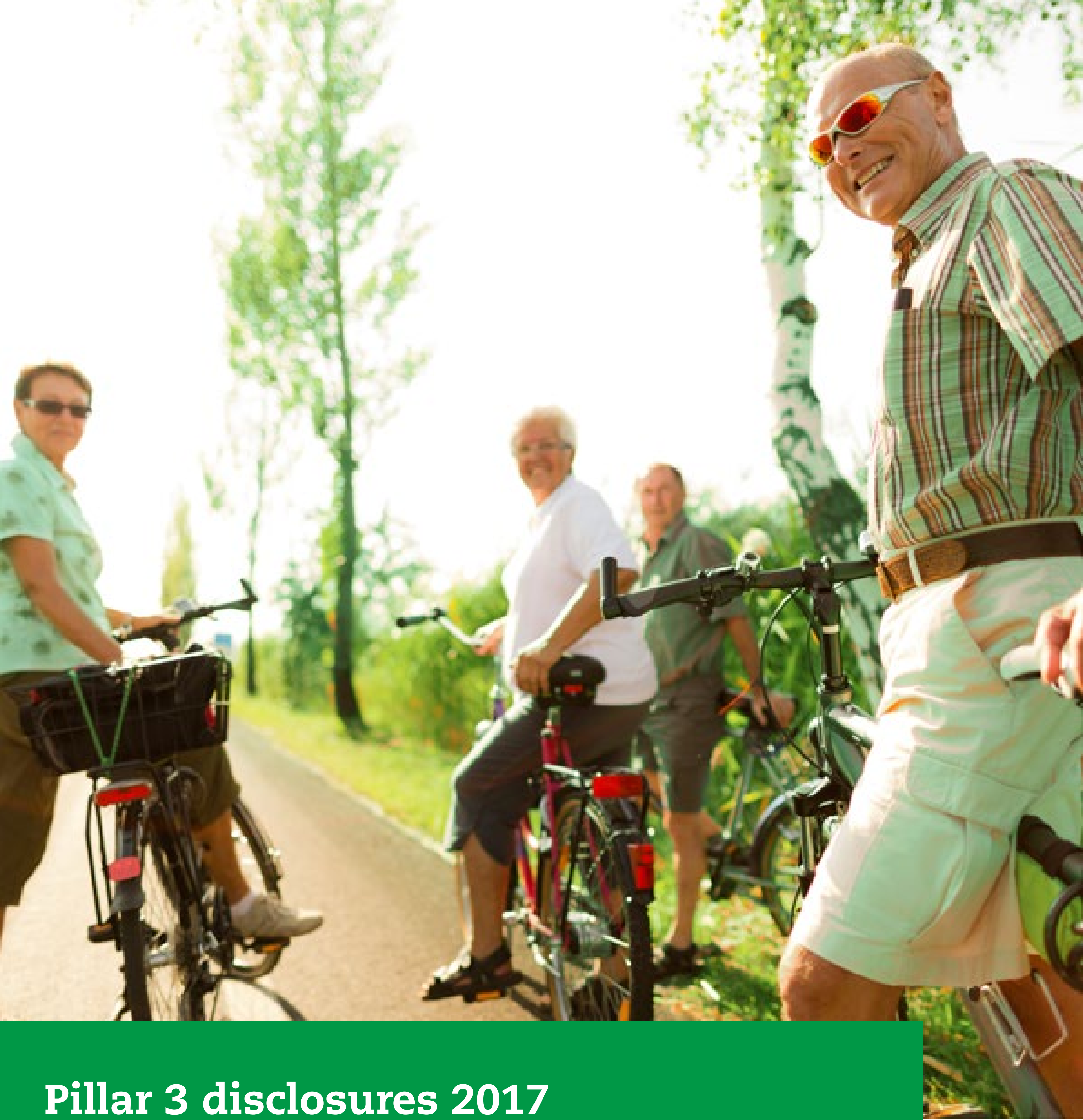

Pillar 3 disclosures 2017

Capital adequacy & 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 assessing the risk profile and capital adequacy of Argenta Spaarbank nv. The report is prepared annually, following a pre-defined method, and validated by management.

It provides insight into aspects such as the capital position, the size and composition of the capital and its relationship to ,inter alia, credit, market, settlement and operational risk, expressed in risk-weighted items.

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

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

1.1. Profile Argenta Spaarbank

Argenta Spaarbank nv, (hereinafter the 'Company', abbreviated to Aspa) is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company having 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 attracting funds, offering housing loans to individuals and providing means of payment.

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

The Company and BVg are subject to the CRR and CRD IV 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.

This CRR consolidation 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 small difference between the own funds requirements of the Company and those of BVg according to the CRR scope.

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

In this methodology the participation value in the insurers can be included as capital. The accumulated reserves and profits of the insurers may not, however, be included. The participation value needs to be weighted - as added exposure - at 370%.

These Pillar 3 disclosures therefore include disclosures on BVg conso in accordance with the CRR scope. In this way, the limited difference between Aspa conso and BVg conso CRR scope is also immediately apparent.

1.2. Application framework

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

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

The disclosures in the present document relate to the Company and its subsidiary companies (hereafter together the 'Bank Pool'). The consolidation scope is defined according to the International Financial Reporting Standards (IFRS).

At the Company, the IFRS consolidation scope and the CRR consolidation scope (scope according to the CRR guidelines) match. There are therefore no differences between the accounting and regulatory consolidation scopes.

Table 1: Entities included in the consolidation (EU LI3)

a	b	c	d	e	f	g
Name of the entity	Accounting consoli-dation method	Prudential consolidation method				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Argenta Spaarbank nv	full consolidation	x				Credit institution
Argenta Asset Management (AAM)	full consolidation	x				Fund manager
Green Apple bv (SPV)	full consolidation	x				Securitisation vehicle

The Luxembourg company Argenta Asset Management (AAM) acts as funds manager and administrative agent of Argenta funds. As such it has the status of a fund manager.

Despite the absence of any capital link with the Company, the Board of Directors has, on the basis of the relevant IFRS rules, including SIC-12 'Consolidation – Special Purpose Entities (SPV)', judged that Green Apple as an SPV needs to be consolidated. Further information on this Green Apple SPV can be found in Chapter 15 'Exposure to securitisation positions'.

After the last securitisation transaction matured end on January 25, 2016, there were no outstanding transactions. At the beginning of October 2017, Argenta Spaarbank, however, successfully carried out a new securitisation.

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.

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

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

1.3. Application framework and Pillar 1 key figures

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

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

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

Table 2: Relevant figures and ratios (KM1 - consolidated Argenta Spaarbank level)

		RAF standard	2016	2017
Available capital				
1	Tier 1 core capital (CET1)		1,726,723,617	1,895,235,880
2	Tier 1 capital (T1)		1,726,723,617	1,895,235,880
3	Total capital (TC)		2,222,835,021	2,392,184,698
Risk-weighted items				
4	Total risk-weighted items		6,718,845,411	7,382,269,776
Risk-based capital ratios as a percentage of RWA (risk-weighted assets)				
5	Tier 1 core capital ratio (IRB)	15%	25.70%	25.67%
6	Tier 1 capital ratio (IRB)		25.70%	25.67%
7	Total capital ratio (TCR - IRB)	17%	33.08%	32.40%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirements		0.625%	1.250%
9	Anti-cyclical capital buffer requirement		0.000%	0.064%
10	O-SII (Other Systemically Important Institution) capital buffer requirements		0.25%	0.50%
11	Total CET1 specific buffer requirements		0.875%	1.814%
12	% CET1 available to meet buffers after meeting minimum capital requirements (after 4.5% basic requirement)		21.20%	21.17%
Leverage ratio				
13	Baseline total exposure figure for calculating the leverage ratio		37,103,571,381	39,028,136,237
14	Leverage ratio	4%	4.84%	4.90%
Liquidity Coverage Ratio (LCR)				
15	Total high-quality liquid assets (HQLA)		4,612,472,425	4,263,345,504
16	Total net cash outflow		2,561,542,847	2,635,902,500
17	LCR ratio	125%	178%	162%
Net Stable Funding Ratio (NSFR)				
18	NSFR ratio	120%	144%	143%

The Bank Pool's liquidity risk appetite is also monitored on the basis of the LCR and NSFR ratios given above. The LCR compares the liquidity buffer against a defined outflow of previously incoming funds over a 30-day period. The NSFR compares available liquidity against the liquidity required over a period of at least one year.

The above table includes the internally established Risk Appetite Framework (RAF) targets that Company management has set for the ratios in question.

1.4. Detailed index with Pillar 3 references

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

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

CRR article	Pillar 3 disclosure requirements	Location in the annual reports and / or the pillar 3 report
435	Risk management objectives and policies	Part 5: Risk management (IFRS annual reports).
	Statement on adequacy of risk management arrangements	2. Risk management
	Governance, directors' mandates, pay policy et al. (Art. (435 2)	Part 8.Corporate Governance (Integrated activities and sustainability report 2017) and Chapter 16 Remuneration policy
	435.2 (e) information flow on risks to management bodies	Reference to the governance memorandum on the website (www.argenta.be - general - about Argenta)
436	Application framework	1.2. Application framework
437	Equity	3. Equity
	437 (c) conditions Tier 2 issue	Reference to the www.argenta.eu website (under debt issuance) for the prospectus of this issue
	437 (f) capital ratios based on the CRR guidelines	All published capital ratios are based on the CRR principles.
438	Capital requirements	4. Capital Requirements and 18. Capital management
439	Exposure to counterparty credit risk	5. Exposure to counterparty credit risk
440	Capital buffers	4. Capital Requirements and 18. Capital Management
441	Indicators of global systemic importance	Not listed because the Argenta Group is not considered as an institution with global systemic importance (see Chapter 4.1).
442	Credit risk adjustments	5.2 Disclosure on Basel exposure categories and 8 Credit risk adjustments
443	Unencumbered assets	9. Encumbered and unencumbered assets
444	Use of ECAIs	10. Use of ratings from external credit assessment institutions (ECAI)
445	Exposure to market risk	11. Exposure to market risk
446	Operational risk	12. Operational risk
447	Exposures to equities not included in the trading book	13. Exposure to equities risk
448	Exposure to interest rate risk on positions not included in the trading book	14. Exposure to interest rate risk
449	Exposure to securitisation positions	15. Exposure to securitisation positions.
450	Remuneration policy	16. Remuneration policy
451	Leverage	17. Leverage
452	Use of the IRB approach to credit risk	7. Use of the (F)IRB method
453	Application of credit risk mitigation techniques	5.3 Credit risk mitigation
454	Use of the Advanced Measurement Approaches to operational risk	12. Operational risk
455	Use of Internal Market Risk Models	11. Exposure to market risk

2. Risk management

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

The risk management framework is constantly being updated and adapted in response to new regulations, daily experience and changes in the Argenta Group's activities. Demonstrating that adequate risk management procedures are in place is a key condition for acquiring and retaining the trust of all stakeholders: customers, investors, branch managers, regulators, 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 Directors of the parent company BVg. The two main subsidiaries, the Company and its sister entity Aras, are responsible for operational management within their own areas of competence as established in the Memorandum of Internal Governance.

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

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

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

A direct link exists between the RAF risk indicators and, on the one hand, the International Capital Adequacy Assessment Process (ICAAP) and the International Liquidity Adequacy Assessment Process (ILAAP) for the Bank Pool and, on the other hand, the policy documents via the further translation into operational risk limits.

This results in the daily embedding of risk awareness in first line management and in better and more efficient risk management processes. The Argenta Group continued in 2017 to develop its cautious and transparent risk management with the above-mentioned RAF, policies and procedures.

The way in which the information on the risks is reported to the competent management bodies is described in detail in the Governance Memorandum. The most recent version of this document (in Dutch only) can always be found on the Argenta website (see www.argenta.be, under the heading 'algemeen', click on 'over argenta' and then on the Governance Memorandum).

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

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

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

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

The risk management framework and control systems are based on a risk identification process (the aforementioned RAF), in combination with prevention and control measures. This provides a reasonable degree of certainty that the financial reporting does not contain material misstatements and that the internal risk management and control systems worked well during the 2017 financial year.

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

The risk function has prepared an activity report and RAF reporting for the Risk Committee of the Board of Directors. These documents come to the conclusion that, with respect to the financial risks, the financial result was achieved within Argenta's budgeted risk appetite for 2017 and within the legal requirements imposed on the risk function They also pointed to the increasing attention being paid to non-financial risks.

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

For the Executive Committee.

Geert Ameloot (CFO)
Gert Wauters (CRO)

3. Equity

3.1. Accounting equity and calculation of prudential 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 4: Reconciliation of accounting equity and Tier 1 equity

Components	31/12/2016	31/12/2017
Paid-in capital	661,875,400	715,947,400
Revaluation reserve for available-for-sale financial assets	88,993,468	87,020,883
Revaluation, pension scheme	0	-1,291,058
Reserves (including retained earnings)	914,300,338	1,041,790,009
Profit of the current year	190,010,420	138,986,274
Cash flow hedging	-13,979,775	-10,941,067
Total equity attributable to shareholders of the company	1,841,199,851	1,971,512,441
Non-controlling interests	60,527	43,643
Total equity and non-controlling interest - IFRS annual report	**1,841,260,378**	**1,971,556,084**
Adjustments		
(-) Inapplicable part of interim or year-end results	0	0
PM Applicable profits (income from the current financial year)	190,010,420	138,986,274
Non-controlling interests	-60,527	-43,643
Tier 1 core capital before application of prudential filters	**1,841,199,851**	**1,971,512,441**
Fully paid-in capital instruments	661,875,400	715,947,400
Retained earnings	1,104,310,758	1,180,776,283
Cumulative unrealised results	75,013,693	74,788,758
Tier 1 core capital before application of prudential filters	**1,841,199,851**	**1,971,512,441**
Prudential filters		
Reserve for cash flow hedges	13,979,775	10,941,067
Profits and losses (at fair value) deriving from institution's own credit risk in respect of derivative instruments	-10,016,279	-6,595,614
(-) Value adjustments due to requirements for prudential valuation	-2,671,859	-6,330,361
(-) Other intangible assets	-37,510,847	-41,980,259
(-) For IRB, negative difference between credit risk adjustments and expected loss items	-7,690,409	-14,907,218
Tier 1 core capital before transitional measures (fully phased in definition)	**1,797,290,232**	**1,912,640,056**
Other transitional adjustments to Tier 1 core capital	-70,566,615	-17,404,177
Tier 1 core capital after transitional measures (transitional definition)	**1,726,723,617**	**1,895,235,879**

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

3.1.1. Note on prudential filters

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

- cash flow hedge reserve: the IRFS standards provide 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 2017, EUR 10,941,067 was included in this way in equity. However, in accordance with the CRR, this amount may not be included in determining the prudential capital;
- gains and losses measured at fair value arising from the institution's own exposure in respect of with derivative liabilities: deducted here is the positive impact of own exposure in calculating the market values of derivative instruments. This amounted to EUR 6,595,614 at the end of 2017;
- 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 valuation adjustment amounted to EUR 6,330,361 as of end-2017);

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

- other intangible assets: the deduction of other intangible assets already existed. In the CRR regulations this item may be reduced by deferred tax liabilities. As of end 2017, the net impact amounted to EUR 41,980,259;
- 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 IFRS standards. Fully in line with the prudential guidelines, the Company has deducted the shortfall from the prudential Tier 1 core capital. At the end of 2017, the difference between the expected losses (EL) and impairments amounted to EUR 14,907,218.

3.1.2. Note on transitional measures

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

As of 31/12/2017, EUR 17,404,177 of the latent value of the available-for-sale assets (20%) was not included in qualifying capital. The remaining 80% of the latent value (EUR 69,616,706) was included in the calculation of the qualifying capital.

3.2. Composition of prudential equity and capital ratios

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

Table 5: Composition of capital and capital ratios

	Common Equity Tier 1 capital: instruments and reserves	2016	2017	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Tier 1 core capital (CET1): instruments and reserves				
1	Capital instruments and related premium reserves	661,875,400	715,947,400	26 (1), 27, 28,29, EBA list 26 (3)
	of which: ordinary shares issued by a public limited company	661,875,400	715,947,400	
2	Retained earnings	914,300,338	1,041,790,009	26 (1) (c)
3	Cumulative unrealised results (and other reserves)	75,013,693	74,788,758	26 (1)
5	Non-controlling interests	60,527	43,643	84, 479, 480
5a	Independently tested interim results after deduction of charges and provisions	190,010,420	138,986,274	26 (2)
6	Tier 1 core capital (CET1) before regulatory adjustments	1,841,260,378	1,971,556,084	
Tier 1 core capital (CET1): regulatory adjustments				
7	Additional value adjustments (negative amount)	-2,671,859	-6,330,361	34, 105
8	Intangible assets (after deduction of related tax liabilities)	-37,510,847	-41,980,259	36 (1) (b), 37, 472 (4)
9	Non-use of non-controlling interests (own choice)	-60,527	-43,643	
11	Reserve for cash flow hedges	13,979,775	10,941,067	33 (a)
12	Negative amount of IRB shortfall (comparison of expected loss versus provisions set up)	-7,690,409	-14,907,218	36 (1) (d), 40, 159, 472 (6)
14	Fair value profits and losses deriving from institution's own credit risk in respect of derivative instruments	-10,016,279	-6,595,614	33 (b)
26a	Adjustments for latent positive or negative values			
	of which filter for the latent value of the securities	-70,566,615	-17,404,177	468
28	Total regulatory adjustments to for Tier 1 capital (CET1)	-114,536,761	-76,320,204	
29	Tier 1 core capital (CET1)	1,726,723,617	1,895,235,880	
44	Additional Tier 1 capital (AT1)	0	0	
45	Tier 1 capital (T1 = CET1 + AT1)	1,726,723,617	1,895,235,880	
46	Capital instruments and related premium reserves	496,111,404	496,948,818	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and related share premium accounts subject to phase out from T2	0	0	486 (4)
51	Tier 2 (T2) capital before regulatory adjustments	496,111,404	496,948,818	
57	Total regulatory adjustments to Tier 2 (T2) capital	0	0	
58	Tier 2 capital (T2)	496,111,404	496,948,818	
59	Total capital (TC = T1 + T2)	2,222,835,021	2,392,184,698	
60	Total risk-weighted assets	6,718,845,411	7,382,269,776	

Common Equity Tier 1 capital: instruments and reserves		2016	2017	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Capital ratios and buffers				
61	Tier 1 core capital (as a percentage of total risk exposure amount)	25.70%	25.67%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	25.70%	25.67%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	33.08%	32.40%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 - requirement pursuant to Article 92, 1. (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus buffer for systemically important institutions expressed as a percentage of risk exposure amount)	0.875%	1.814%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	0.625%	1.25%	
66	of which: countercyclical buffer requirement	0.00%	0.064%	
67	of which: systemic risk buffer requirement	0.25%	0.50%	
67a	of which: globally system-relevant institution buffer (MSI buffer) or other system-relevant institution buffer (ASI buffer)	0.00%	0.00%	CRD 131
68	Tier 1 core capital available to meet buffers (as percentage of risk exposure)	21.20%	21.17%	CRD 128

3.3. Main features of capital instruments

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

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

Table 6: Main features of capital instruments

	Main features of capital instruments		
1	Issuer	**Argenta Spaarbank**	**Argenta Spaarbank**
2	Unique identifier	BE0404453574	BE6282030194
3	Governing law(s) for the instrument	Belgian law	Belgian law
	Treatment prescribed by the regulation		
4	CRR rules during transition period	Tier 1 core capital	Tier 2 capital
5	CRR rules after transition period	Tier 1 core capital	Tier 2 capital
6	Eligible on solo / (sub)consolidated / solo & (sub)consolidated basis	Solo & consolidated	Solo & consolidated
7	Type of instrument	Ordinary shares issued by a public limited company	Tier 2 instruments as in Article 63 of Regulation (EU) No 575/2013
8	Amount included in the review capital as of 31 December 2017	715,947,400	496,948,818
9	Nominal amount of the instrument	There are 168,975 no par shares	500,000,000
9a	Issue Price	Results of past capital increases	99.59%
9b	Redemption price	n.a.	100.00%
10	Accounting breakdown	Equity	Liabilities (debt)
11	Original date of issue	Set up on 18/04/1956	24/05/2016
12	Unlimited or limited duration	Unlimited	Limited duration
13	Original maturity date	No maturity date	24/05/2026
14	Early redemption by the issuer possible subject to prior approval by the regulator	No	Yes
15	Optional early redemption date, conditional early redemption dates and redemption amount	n.a.	24/05/2021 at 100.00%
16	Any subsequent early redemption dates	n.a.	n.a.
	Coupons / dividends	Dividends	Coupons
17	Fixed or variable dividends / coupons	Variable	Coupons
18	Coupon interest and any related index	n.a.	3.875% up to call date, after that 5 years mid swap interest rate + initial margin
19	Existence of a dividend stopper	No	n.a.
20a	Fully optional, partially optional or mandatory (as regards timing aspect)	fully optional	mandatory
20b	Fully optional, partially optional or mandatory (as regards amount)	fully optional	mandatory
21	Does the instrument has an increasing coupon rate or there is another incentive to redeem?	No	n.a.
22	Non-cumulative or cumulative	non-cumulative	n.a.
23	Convertible or non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	n.a.	n.a.
25	If convertible, wholly or partially	n.a.	n.a.
26	If convertible, conversion price	n.a.	n.a.

27	If convertible, mandatory or optional conversion	n.a.	n.a.
28	If convertible, indicate which type of instrument the capital instrument is convertible into	n.a.	n.a.
29	If convertible, specify the issuer of the instrument into which it is converted	n.a.	n.a.
30	Write-down clauses	n.a.	n.a.
31	If write-down, write-down trigger(s)	n.a.	n.a.
32	If write-down, wholly or partially	n.a.	n.a.
33	If write-down, permanent or temporary	n.a.	n.a.
34	If temporary write-down, description of the write-back mechanism	n.a.	n.a.
35	Position in subordination hierarchy in the event of liquidation (specify which type of instrument is immediately higher in rank than the capital instrument)	Most subordinate position	Subordinated loan pursuant to Article 63 CRR
36	Non-compliant transferred features	No	No
37	If so, specify non-compliant features	n.a.	n.a.

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

Through the way its dividend policy operates - for example, in 2017, an interim dividend in December of EUR 62,520,750 (EUR 370 per share), followed by a capital increase of EUR 54,072,000 subscribed by shareholders BVg and Investar - the value of the ordinary shares rises systematically.

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

The prospectus and 'investor presentation' of this Tier 2 issue can be found on the www.argenta.eu website (under the heading 'debt issuance').

4. Capital requirements

4.1. Capital requirements

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

In economic boom periods, this buffer can amount to a maximum of 2.5%. The starting point is the setting aside of additional capital in times of financial prosperity. In times of financial stress, the institution is able to eat into this capital. This is conditional on the institution not paying dividends to shareholders. For 2017, the phase-in was 1.25% and from the 2017 Supervisory Review and Evaluation Process (SREP), a CCB requirement of 1.875% is imposed (which applies as the phase-in for 2018).

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%. This requirement came into force in 2016. Both the Belgian and the Dutch regulators have set the rate at 0%, but subject to quarterly review. For this reason, no geographic breakdown - as required by CRR Article 440 (a) - was included (as nothing needs to be calculated for the countercyclical capital buffer until further notice).

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 0.50% capital requirement was imposed on the company in 2017 which will be incremented by 0.25% in 2018 to 0.75%.

The three buffers must be met with CET1 capital (the strongest form of capital).

The Argenta Group institutions are not designated as globally system-important institutions (G-SIIs). Consequently, no disclosures need to be made of indicators of global systemic relevance (CRR Article 441).

In the SREP framework, the competent regulator can require higher minimum ratios (Pillar 2 requirements) because, for example, not all risks are fully reflected in the Pillar 1 calculations. Based on the SREP process, a capital requirement of 8.25% was arrived at for 2017. This consisted of a basic requirement of 4.5%, the CCB of 1.25%, an O-SII buffer of 0.50% and the P2R (Pillar 2 requirement) of 2%. Since the Company has no additional Tier 1 (AT1), the CET1 requirement is de facto 9.75% (8.25% + 1.5% AT1).

For the Total Capital Ratio (TCR) this gives 11.75% (being 9.75% and 2% Tier 2 requirement). These calculations take into account the phasing-in. Fully loaded there is a Tier 1 (de facto CET1) requirement of 10% and a TCR requirement of 12%, according to the Internal Rating Based (IRB) calculations.

The Company amply met all these requirements in 2017 with a CET1 (IRB) of 25.67% and a TCR (IRB) of 32.40%.

4.2. Minimum capital requirements per risk-weighted category

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

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

			RWA		Capital requirement
			T	T-1	T
	1	Credit risk (excluding CCR) (*)	5,523,104,878.33	5,376,323,327.35	441,848,390.27
Article 438, c) and d)	2	of which calculated using standard approach	729,959,306.87	825,587,867.77	58,396,744.55
Article 438, c) and d)	3	of which calculated using basic IRB approach (FIRB)	1,799,283,646.73	1,678,858,441.69	143,942,691.74
Article 438, c) and d)	4	of which calculated using advanced IRB approach (AIRB)	2,993,861,924.73	2,871,877,017.89	239,508,953.98
Article 107 Article 438, c) and d)	6	CCR	131,256,395.88	105,009,946.25	10,500,511.67
Article 438, c) and d)	12	of which CVA risk items	131,256,395.88	105,009,946.25	10,500,511.67
Article 449, o), punt i)	14	Securitisation positions in the investment portfolio (after application of the cap)	139,835,647.32	131,135,274.82	11,186,851.79
	15	of which calculated using IRB approach	106,696,860.85	101,767,309.37	8,535,748.87
	18	of which items calculated using standard approach	33,138,786.47	29,367,965.45	2,651,102.92
Article 438, f)	23	Operational risk	1,015,775,740.00	979,030,447.88	81,262,059.20
	24	of which calculated using basic indicator approach			
	25	of which calculated using standard approach	1,015,775,740.00	979,030,447.88	81,262,059.20
Article 500	28	Capital floor adjustment	572,297,114.23	560,827,768.07	45,783,769.14
	29	Total	7,382,269,775.76	7,152,326,784.37	590,581,582.06

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

In the following detail tables, the explanations will be based on risk-weighted items without the 80% floor unless explicitly stated. The totals in line 29 of the above table therefore form the basis for the more detailed explanations.

The increase in risk-weighted items is mainly due to (a) the increased mortgage lending portfolio (b) more investments in corporate and government bonds and less in bonds issued by institutions and (c) the increase in counterparty risk (CVA) and (d) the increase in the requirement for operational risk as a result of the increase in earnings of the recent financial years.

4.3. Capital Ratios

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

Table 8: Capital requirements and capital ratios at year end

	31/12/2016	31/12/2016 fully loaded	31/12/2017	31/12/2017 fully loaded
Total qualifying capital	2,222,835,022	2,288,384,693	2,392,184,698	2,408,008,766
Total CET capital	1,726,723,619	1,792,273,290	1,895,235,880	1,911,059,948
Capital adjustment (IRB shortfall)	7,690,409	7,690,409	14,907,218	14,907,218
Total CET1 capital (with Basel I floor application)	1,734,414,028	1,799,963,699	1,910,143,097	1,925,967,166
Risk-weighted items (without Basel I floor)	6,718,845,411	6,718,845,411	7,382,269,776	7,382,269,776
Risk-weighted items (with Basel I floor)	9,153,534,688	9,153,534,688	10,271,412,013	10,456,343,688
IRB CET1 capital ratio	25.70%	26.68%	25.67%	25.89%
IRB Tier 1 capital ratio	25.70%	26.68%	25.67%	25.89%
IRB Total capital ratio (TCR)	33.08%	34.06%	32.40%	32.62%
CET1 capital ratio (with Basel I floor)	18.95%	19.66%	18.27%	18.42%

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

The Tier 1 core capital ratio (CET1) has now become the most important ratio. This calculation uses this core Tier 1 capital instead of total capital. The RAF target for the CET1 ratio B(asel) 1 floor is 15% while this RAF standard is 18% for the CET1 ratio IRB.

With total regulated qualifying capital at 31 December and throughout 2017 exceeding the applicable prudential and internal requirements, the Company fully complied with all capital requirements.

4.4. Risk-weighted items

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

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

As reflected in the following table, total RWA have increased from EUR 6,718,845,411 at end-2016 to EUR 7,382,269,776 at end-2017. In this way the total capital requirement has risen from EUR 537,507,633 to EUR 590,581,582.

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

	31/12/2016		31/12/2017	
	Basel III RWA	Capital requirement	Basel III RWA	Capital requirement
Credit risk - STA				
Central governments or central banks	14,486,003	1,158,880	9,529,902	762,392
Regional and local authorities	68,453,671	5,476,294	107,935,740	8,634,859
Public entities	18,078,978	1,446,318	37,873,188	3,029,855
Institutions	2,595,582	207,647	34,264,003	2,741,120
Corporates	59,281,120	4,742,490	48,029,412	3,842,353
Retail clientele	77,593,513	6,207,481	88,758,865	7,100,709
Covered by real estate	174,156,043	13,932,483	183,289,043	14,663,123
Overdue risk positions	260,388	20,831	343,152	27,452
Shares (participations)	2,159,696	172,776	21,150,802	1,692,064
Other items	163,452,176	13,076,174	198,785,199	15,902,816
Securitisation positions	28,662,497	2,293,000	33,138,786	2,651,103
Total credit risk - STA	609,179,667	48,734,373	763,098,093	61,047,847
Credit risk - IRB				
Institutions	772,899,875	61,831,990	616,179,029	49,294,322
Corporates - specialised lending	0	0	13,643,459	1,091,477
Corporates - other	862,086,919	68,966,954	1,141,172,301	91,293,784
Covered bonds	12,104,293	968,343	28,288,857	2,263,109
Covered by real estate	2,761,328,876	220,906,310	2,993,861,925	239,508,954
Securitisation positions	107,223,309	8,577,865	106,696,861	8,535,749
Total credit risk - IRB	4,515,643,272	361,251,462	4,899,842,432	391,987,395
Total credit risk	**5,124,822,939**	**409,985,835**	**5,662,940,526**	**453,035,242**
5% add-on for Belgian mortgage loans	531,459,388	42,516,751	572,297,114	45,783,769
Market risk	0	0	0	0
CVA (Credit Valuation Adjustment) risk	83,532,635	6,682,611	131,256,396	10,500,512
Operational risk	979,030,448	78,322,436	1,015,775,740	81,262,059
Total capital requirement	**6,718,845,411**	**537,507,633**	**7,382,269,776**	**590,581,582**

The risk-weighted volume for credit risk (excluding the 5% add on) calculated according to the IRB/STA method was EUR 5,124,822,939 as of 31 December 2016 and evolved to EUR 5,662,940,526 as of 31 December 2017. This gave a capital requirement of EUR 453,035,242 (compared with EUR 409,985,835 as of 31 December 2016).

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

The total capital requirement for all risks (i.e. including the requirement for CVA, the 5% add-on for Belgian credits and the operational risks requirement) amounted to EUR 590,581,582.

With the application of the 80% floor, the RWA and capital requirements calculated in accordance with the Basel II principles are in effect overruled by the requirements calculated in accordance with Basel I principles. Thus the Basel I RWA calculations continue to form the basis for the final capital requirements and ratios. The 80% floor had the effect of increasing the Company's risk-weighted volume, leading to a capital requirement of EUR 821,712,961 at end-2017 (vs. EUR 732,282,775 at end-2016).

Note on capital requirement at BVg consolidated CRR level

The holding company BVg is required, from 1 January 2014, to report prudentially more fully on its capital adequacy. As part of the new regulations, there is a CRR scope for BVg consolidated, covering the Bank Pool plus BVg unconsolidated. At the same time the Danish Compromise (DC) can be applied at BVg level. With the DC, the participation value of the insurance subsidiaries (EUR 176 million) is accounted for as equity at the BVg consolidation level, with this amount simultaneously weighted under the IRB method as exposure at 370%.

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

Table 10: Comparison of Aspa and BVg own funds requirements

	Argenta Spaarbank	BVg conso CRR scope
		Danish Compromise
Core Tier 1 capital	1,910,143,097	2,040,697,650
Tier 2 capital	496,948,818	266,545,486
Total capital	2,407,091,915	2,307,243,136
Capital requirement of exposures		
Weighted according to the STA method	61,047,847	61,062,287
Weighted according to the IRB method	391,987,395	391,987,395
IRB participation value insurer(s)	0	52,227,870
Add-on credit risks	45,783,769	45,783,769
CVA (Credit Valuation Adjustment) risk	10,500,512	10,500,512
Operational risk requirement	81,262,059	82,283,064
Total requirement per IRB/STA	590,581,582	643,844,897
IRB Common Equity Tier 1 ratio (CET1)	25.67%	25.17%
IRB Tier 1 ratio	25.67%	25.17%
Total Capital Ratio (TCR)	32.40%	28.48%
Application of IRB floor, transitional period	80% regel	80% regel
Total requirement after Basel I floor	836,507,495	847,810,970
Converted weighted risk volume	10,456,343,688	10,597,637,125
Basel I 80% floor Common Equity Tier 1 ratio (CET1)	18.27%	19.26%
Basel I 80% floor Tier 1 ratio	18.27%	19.26%
Total Capital Ratio (TCR)	23.02%	21.77%

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

The CET1 qualifying capital at BVg conso CRR level is higher than at Aspa level, as a result of which the (CE) T1 ratios at BVg CRR scope level are slightly higher than at Aspa consolidated level.

The CET Tier 1 ratio of BVg conso CRR scope (80% floor) amounts to 19.26%, while the the CET Tier 1 ratio od BVg using the IRB/STA method is 25.17%.

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

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

Overview of equity requirement at Aspa and BVg conso CRR level

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

The CET1 ratio (IRB/ STA Transitional) of 25.67% for Argenta Spaarbank (conso) and 25.17% for BVg Conso are the ratios with which comparisons are made with financial institutions.

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

	Total Capital Ratio		CET1 ratio		Leverage ratio	
	Transitional	Fully-loaded	Transitional	Fully-loaded	Transitional	Fully-loaded
Aspa (floor)	23.02%	23.17%	18.27%	18.42%	4.86%	4.90%
Aspa (IRB)	32.40%	32.62%	25.67%	25.89%		
BVg (floor)	21.77%	21.92%	19.26%	19.41%	5.17%	5.21%
BVg (IRB)	28.48%	28.68%	25.17%	25.37%		

For the sake of completeness, the calculated full-loaded ratios are also included in the above table. Chapter 17 of these Pillar 3 disclosures gives further detail of the calculation of the leverage ratio.

5. Exposure to counterparty credit risk

5.1. Composition of credit risk

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

The following table shows the composition of the exposure to credit risk, with a comparison between the data of the financial reporting (column IFRS annual accounts) and the exposures in the capital calculation. The basis for this table is the EU LI1 template. This gives EUR 37.41 billion of on-balance sheet exposure.

Table 12: Composition of credit risk exposure

	IFRS Financial Statements	On balance sheet exposure	Other totals
Cash, cash balances at (central) banks	1,068,996,221	1,068,996,221	
Financial assets held for trading	11,472,666	11,472,666	
Available-for-sale financial assets	7,900,541,785	7,900,541,785	
Loans and receivables	27,659,725,318	27,659,725,318	
Financial assets held to maturity:	462,780,202	462,780,202	
Derivatives used for hedging	102,427,643	102,427,643	
Cumulative value fluctuations of the covered positions in hedging the interest rate risk	122,822,732	122,822,732	
Property, plant and equipment	13,712,694	13,712,694	
Goodwill and other intangible assets (deducted from equity)	63,464,300		63,464,300
Tax assets	5,040,583	5,040,583	
Other assets	215,175,794	215,175,794	
Available-for-sale assets	0	0	
Total assets	**37,626,159,938**	**37,562,695,638**	**63,464,300**
Liabilities items (mortgage-linked deposits)		-93,796,742	
Exposure already included in the derivatives		-57,447,316	
Total on-balance sheet		**37,411,451,580**	
Total derivatives on asset side of balance sheet			113,900,309
Add-on to the nominal amounts (derivatives)			173,156,150
Total derivatives (market value and add-on)			**287,056,459**
Total off-balance sheet	**2,224,458,672**		

For derivatives, there was an exposure of EUR 287,056,459. There was an exposure of EUR 113,900,309 positive market value on the assets side of the balance sheet (swaps and caps).

The nominal amounts and other disclosures concerning the derivatives can be found in the Company's IFRS financial statements. This exposure was calculated according to the potential replacement cost on a mark-to-market basis.

No netting is applied in the calculation of the capital requirement in respect of the derivative instruments, but the collateral received is taken into account.

This relates to an outflow and inflow of EUR 74,941,976 of cash collateral (which can be included in column d in template EU CCR5-A). In the absence of SFTs (securities financing transactions), the relevant CCR5-A template was not included.

In total there is an exposure of EUR 287,056,459 (add-on to the nominal amount of EUR 173,156,150 and a positive market value of EUR 113,900,309.)

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 year-end

Related COREP tables	CCF percentages	Exposure 31/12/2016	Exposure 31/12/2016
Table C.07 (STD)	0%	642,952,651	659,765,651
	20%	428,197,880	428,742,172
	50%	4,498,481	3,936,444
	100%	286,297,114	615,015,187
	Total STD approach	1,361,946,125	1,707,459,454
Table C.08 (STD)	100%	425,837,325	516,999,217
	Total	1,787,783,451	2,224,458,672
Total weighted risk volume		145,299,832	159,134,465

The 'unconditionally cancellable credit card commitments' (EUR 642,952,651 as of 31/12/2016 EUR 659,765,651 as of 31/12/2017) are included in the total exposure but carry a 0% credit risk weighting.

5.2. Additional information on the Basel exposure categories

In some standard templates the securitisation positions are recognised separately. However, in the chapter on credit risk exposure, the securitisation positions are included as they are also processed in this way in the prudential reporting. The following table provides an overview of exposures by counterparty classification, and divided into on-balance sheet items, off-balance sheet items and derivatives.

Table 14: Breakdown of risk positions (for CRM - Credit Risk Mitigation) by type of category (EU CRB-B: total net value of the exposures)

		Net value of exposures at the end of the reporting period	Average net value of the exposures during the reporting period
2	Institutions	1,835,924,939.21	1,687,677,887.94
3	Corporates	2,467,195,013.43	2,142,954,153.00
4	of which specialised lending	19,490,656.30	3,898,131.26
6	Individuals and small entities	27,374,009,967.22	26,868,935,386.21
7	Receivables covered by real estate	27,374,009,967.22	26,868,935,386.21
15	**Total following IRB approach**	**31,677,129,919.86**	**30,699,567,427.15**
16	Central governments or central banks	3,317,360,825.49	3,386,518,826.01
17	Regional and local authorities	911,923,980.59	816,439,708.89
18	Public bodies	214,365,938.23	174,675,111.75
21	Institutions	360,666,808.83	272,888,525.01
22	Corporates	88,651,404.82	140,933,796.45
24	Individuals and small entities	780,369,013.00	769,944,150.87
26	Covered by real estate mortgages	1,115,418,461.46	976,337,097.91
28	Overdue exposures	343,152.40	207,432.62
32	Collective Investment Undertakings	0	604,506.00
33	Positions in shares	21,150,801.95	8,221,700.39
34	Other items	342,345,571.11	320,460,207.51
35	**Total following standard approach**	**7,152,595,957.88**	**6,867,231,063.41**
36	**Total**	**38,829,725,877.74**	**37,566,798,490.56**

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

The 'specialised lending' in line 4 of the above table refers to a risk position falling under Article 153.5 of the CRR. Based on the established principles, this carries a risk weighting of 70%. This exposure is detailed in the standard table below.

Table 15: Overview of specialised lending (EU CR10 IRB)

Specialised lending							
Catego-ries	**Remaining term**	**Balance sheet amount**	**Off-balance sheet amount**	**Risk weighting**	**Position value**	**RWA**	**Expected loss items**
Category 1	At least 2.5 years	19,490,656.30		70%	19,490,656.30	13,643,459.41	77,962.63
Total	**At least 2.5 years**	**19,490,656.30**			**19,490,656.30**	**13,643,459.41**	**77,962.63**

The following table gives a separate global geographic overview for the Basel category 'exposures covered by real estate' (STA and IRB totals together). The important geographical markets in which the Company is active are Belgium and the Netherlands.

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

Country	31/12/2016	31/12/2017
BE	11,499,886,347	12,121,007,303
NL	15,931,257,529	16,335,134,897
Other	30,310,178	33,286,229
Total	**27,461,454,054**	**28,489,428,429**

The total of EUR 28,489,428,429 is the summation of the total in line 6 of table 14 (total exposure per 31/12/2017 of EUR 27,374,009,967) and the total in line 26 of the same table (total exposure per 31/12/2017 of EUR 1,115,418,461).

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

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

Table 17: Geographical breakdown of all exposures (EU CRB-C)

	Belgium	Netherlands	Germany	France	Spain	United Kingdom	Ireland	Luxem-bourg	Other EU countries	Sweden	Canada	USA	Other geo-graphical areas (Total)	Total
Institutions	150,875,185.51	322,615,454.44	42,460,938.45	155,694,475.28	13,215,954.42	225,833,757.55	0	30,121,832.50	270,223,202.81	157,481,513.30	223,841,234.08	240,236,368.82	3,325,022.05	1,835,924,939.21
Corporates	922,439,536.19	449,056,898.02	126,887,946.45	360,696,381.68	71,815,395.95	80,220,669.01	11,946,788.33	178,128,851.50	51,226,339.44	81,354,474.87	19,998,200.00	94,824,706.64	18,598,825.35	2,467,195,013.43
Individuals and small entities	11,388,797,078.79	15,952,812,659.11	2,085,112.24	6,414,721.28	1,974,157.47	1,833,156.14	247,440.75	2,610,461.53	2,485,068.73	396,021.93	620,338.57	1,701,640.38	12,032,110.29	27,374,009,967.22
Total following IRB approach	**12,462,111,800.49**	**16,724,485,011.57**	**171,433,997.14**	**522,805,578.24**	**87,005,507.84**	**307,887,582.70**	**12,194,229.08**	**210,861,145.53**	**323,934,610.98**	**239,232,010.10**	**244,459,772.65**	**336,762,715.84**	**33,955,957.69**	**31,677,129,919.86**
Central governments or central banks	2,098,673,120.86	42,902,101.48	0	0	239,947,984.28		332,527,133.58		559,007,653.10	25,243,027.40	0	0	19,059,804.79	3,317,360,825.49
Regional and local authorities	818,163,200.90	0	49,962,946.67	11,500,205.72	32,297,627.30	0	0	0	0	0	0	0	0	911,923,980.59
Public bodies	214,365,938.23	0	0	0	0	0	0	0	0	0	0	0	0	214,365,938.23
Institutions	1,500,623.08	140,314,522.87	0	86,601,081.98	12,045,251.51	57,670,388.00	0	0	60,629,833.69			1,905,107.70	0	360,666,808.83
Corporates	56,197,076.97	4,055,963.33	0	0	0	0	0	0	13,023,687.12	15,374,677.40	0	0	0	88,651,404.82
Individuals and small entities	772,420,349.66	1,180,812.33	436,706.49	1,637,375.86	838,627.11	332,983.61	68,903.64	308,945.27	722,260.38	52,715.58	101,341.20	340,472.26	1,927,519.61	780,369,013.00
Covered by real estate mortgages	732,210,224.01	382,322,237.45	0	390,000.00	0	215,000.00	0	0	75,000.00	0	0	0	206,000.00	1,115,418,461.46
Overdue exposures	342,676.44	0	0	0	475.96	0	0	0	0	0	0	0	0	343,152.40
Positions in shares	2,734,904.01	5,998,680.14	1,979,001.50	8,874,626.30	0	0	0	1,563,590.00	0	0	0	0	0	21,150,801.95
Other positions	258,317,959.75	84,027,611.36	0	0	0	0	0	0	0	0	0	0	0	342,345,571.11
Total following standard approach	**4,954,926,073.91**	**660,801,928.96**	**52,378,654.66**	**109,003,289.86**	**285,129,966.16**	**58,218,371.61**	**332,596,037.22**	**1,872,535.27**	**633,458,434.29**	**40,670,420.38**	**101,341.20**	**2,245,579.96**	**21,193,324.40**	**7,152,595,957.88**
Total	**17,417,037,874.40**	**17,385,286,940.53**	**223,812,651.80**	**631,808,868.10**	**372,135,474.00**	**366,105,954.31**	**344,790,266.30**	**212,733,680.80**	**957,393,045.27**	**279,902,430.48**	**244,561,113.85**	**339,008,295.80**	**55,149,282.09**	**38,829,725,877.74**

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

The remaining terms per IFRS category can be found in the IFRS financial statements published on the Company's website. The table below indicates the remaining term of the exposures in the main Basel categories.

Table 18: Remaining term of exposures (EU CRB-E)

	Net position value				
	Repayable on demand	<= 1 year	> 1 year <= 5 year	> 5 year	Total
Institutions	0	242,934,311.71	1,306,292,960.77	286,697,666.73	1,835,924,939.21
Corporates	0	422,938,873.42	1,480,370,798.04	563,885,341.97	2,467,195,013.43
Individuals and small entities	0	450,396,839.97	394,907,773.20	26,528,705,354.05	27,374,009,967.22
Total following IRB approach	**0**	**1,116,270,025.10**	**3,181,571,532.01**	**27,379,288,362.75**	**31,677,129,919.86**
Central governments or central banks	0	418,461,760.07	1,218,643,673.26	1,680,255,392.16	3,317,360,825.49
Regional and local authorities	0	307,471,359.40	195,593,409.63	408,859,211.56	911,923,980.59
Public sector entities	0	37,658,186.02	21,205,375.29	155,502,376.92	214,365,938.23
Institutions	0	11,468,547.49	123,186,896.19	226,011,365.15	360,666,808.83
Corporates	0	2,002,600.00	32,454,327.85	54,194,476.97	88,651,404.82
Individuals and small entities	659,765,651.00	5,483,759.07	72,720,059.07	42,399,543.86	780,369,013.00
Covered by real estate mortgages	0	852,800,976.43	100,320,632.42	162,296,852.61	1,115,418,461.46
Overdue exposures	0	156,216.56	418,127.16	-231,191.32	343,152.40
Positions in shares	0	0	2,749,756.44	18,401,045.51	21,150,801.95
Other positions	0	0	0	342,345,571.04	342,345,571.11
Total following standard approach	**659,765,651.00**	**1,635,503,405.11**	**1,767,292,257.31**	**3,090,034,644.46**	**7,152,595,957.88**
Total	**659,765,651.00**	**2,751,773,430.21**	**4,948,863,789.32**	**30,469,323,007.21**	**38,829,725,877.74**

5.3. Credit risk mitigation

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

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

Additional disclosures on the property values are given in the IFRS valuation rules and chapter 5.3. of the IFRS annual report of Argenta Spaarbank.

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

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

'Funded credit protection' is a credit risk mitigation technique whereby the credit risk of the institution's exposure is limited by 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

	Risk position	Unfunded credit protection guarantees	Funded credit protection collateral	Total inflow	Adjusted exposure
Central governments or central banks	3,317,360,825	0	0	531,796,953	3,849,157,779
Regional and local authorities	911,923,981	181,022	0	51,537,483	963,280,442
Public sector entities	214,365,938	25,000,000	0	0	189,365,938
Institutions	360,666,809	231,766,006	0	74,941,976	203,842,778
Corporates	88,651,405	41,433,492	0	15,077,030	62,294,943
Retail clientele	780,369,013	0	0	0	780,369,013
Covered by real estate	1,115,418,461	374,972,923			740,445,539
Overdue risk positions	343,152	0	0	0	343,152
Covered bonds	0	0	0	0	0
Collective Investment Undertakings	0	0	0	0	0
Shares (participations)	21,150,802	5,620,191	0	5,620,191	21,150,802
Other items	342,345,571	0	0	0	342,345,571
Securitisation positions	165,693,932	0	0	0	165,693,932
Total exposure - STA	**7,318,289,890**	**678,973,634**	**0**	**678,973,634**	**7,318,289,890**
Institutions	1,632,822,883	0	0	0	1,632,822,883
Corporates - specialised lending	19,490,656	0	0	0	19,490,656
Corporates - other	2,447,704,358	0	0	0	2,447,704,358
Covered bonds	203,102,056	0	0	0	203,102,056
Covered by real estate	27,374,009,967	0	0	0	27,374,009,967
Securitisation positions	927,546,899	0	0	0	927,546,899
Total exposure (IRB)	**32,604,676,820**	**0**	**0**	**0**	**32,604,676,820**
Total exposure	**39,922,966,710**	**678,973,634**	**0**	**678,973,634**	**39,922,966,710**

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

As of 31/1/2017 no fully-funded credit protection was recognised. 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 detail the EUR 156,824,031 (EUR 231,766,006 less EUR 74,941,976 inflow) of credit protection in the 'institutions' category and the EUR 41,433,492 of credit protection in the 'corporates' category.

Table 20: Government guarantees in the 'institutions' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	2	55,412,997	54,846,084
French government	1	30,821,638	29,995,351
Slovenian government	1	6,045,672	5,996,130
Spanish government	1	12,045,252	11,990,687
Czech government	2	54,584,162	53,995,778
Total unfunded credit protection - guarantees in the 'institutions' category	**156,824,031**		**156,824,031**

Table 21: Guarantees in the 'corporates' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government guarantee	3	26,356,627	26,356,462
Others - guarantee from a Swedish corporate	1	15,374,677	15,077,030
Total unfunded credit protection - guarantees in the 'institutions' category			**41,433,492**

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.

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

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

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

The WEW is a private institution which has agreements with the government and the municipalities. In this way the WEW is able to meet its payment obligations at all times. As a result, the Dutch Central Bank (DNB) views the NHG as a government guarantee. Consequently, loans covered by the NHG generally require the lender to maintain less capital. 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 any improvement 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 annuitised decrease of this NHG guarantee is factored into all calculations, along with the deductible of 10% in the event of loss for NHG loans from 2014 onwards (this decrease is included, inter alia, in the LGD parameter).

Template EU CR7: 'IRB impact on the risk-weighted assets of credit derivatives' is not included because no credit derivatives are used at the Company.

5.4. Counterparty risk

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

The basic assumptions and limits with regard to retail counterparties are listed in the internal acceptance framework for credit risk for Belgium and the Netherlands respectively.

5.5. Collateral

Collateral received

Personal guarantees or collateral are always required when granting mortgage loans. The lower a borrower's creditworthiness, the more the security he will be required to provide. Under the foreclosure policy, it may occasionally occur that certain collateral is acquired and recognised on the balance sheet.

For such collateral (here, the properties on which a mortgage or mortgage mandate is registered), new individual estimates are made whenever loans to which the collateral is attached are deemed in default. All material collateral is reviewed periodically 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 minimise counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (securities or cash). Chapter 9 gives more information on effectively granted collateral.

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

5.6. Wrong-way risk

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

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

5.7. Capital requirement for CVA risk

Since the coming into effect of the CRR, a capital requirement also has to be calculated for the CVA (Credit Valuation Adjustment) risk. The importance of counterparty risk in derivatives transactions has increased dramatically in recent years. Financial institutions have been measuring and managing credit risk for centuries. Until 2007, however, this was focused mainly on lending.

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

1. The expected risk is uncertain in terms of size; future cash flows are dependent on future market movements of underlying securities (e.g. interest).

2. A derivative may have, at one time, a positive value and at a later time, a negative value. In this way the derivative changes from asset to liability.

These characteristics make it difficult to determine the potential risk. The adjustment to the fair value resulting from the application of credit risk to the counterparty is called Credit Valuation Adjustment (CVA). The CVA has the effect of putting a figure on the counterparty risk in a transaction.

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

As of 31/12/2017 an exposure of EUR 131,256,396 was obtained, on which a capital requirement of EUR 10,500,512 was calculated. This amount can be found in table 7, which lists the risk weighted items by type of risk.

The opposite of the CVA measures the own credit risk. This is called the Debit Valuation Adjustment (DVA). The DVA calculated following IFRS standards amounted to EUR 6,595,614, and was deducted from the qualifying capital (as in Table 4).

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 the RWA on all Belgian financial institutions for Belgian mortgage loans under the IRB approach.

An RWA of EUR 572,297,114 was obtained, on which a capital requirement of EUR 45,783,769 was calculated. This additional capital requirement was included in the calculation as of 31 December 2017.

5.9. Derivatives

At the end of 2017, the Company had on its balance sheet only derivative instruments (in the form of caps and swaps) concluded in the context of interest rate risk management. It has no credit derivatives. The Company uses the 'mark-to-market' valuation approach for calculating capital requirements for its derivatives. The exposure here is equal to the sum of the following elements:

a) the current replacement cost based on the market value of transactions with a positive value; 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%

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

The current replacement cost based on the market value of the transactions with a positive value was EUR 113,900,309 and the potential future credit risk was EUR 173,156,150.

Table 22: Analysis of exposure to counterparty credit risk exposure (CCR) by approach (EU CCR1)

		Replacement value / current market value	Potential exposure to the future credit risk	EAD after credit risk mitigation	Risk-weighted assets
1	Valuation at market value	113,900,309	173,156,150	212,114,482.18	83,123,787.24
11	**Total**	**113,900,309**	**173,156,150**	**212,114,482.18**	**83,123,787.24**

The EUR 13,900,309 can be found on the IFRS balance sheet under the headings 'Financial assets held for trading' (EUR 11,472,666) and 'Derivatives used for hedging' (EUR 102,427,643).

The Company uses a central clearing institution (CCP) for a large part of its derivative instruments. The table below shows the exposure to ABN Amro (which also acts as a central clearing institution for the Company).

Table 23: Exposures to central counterparties (EU CCR8)

		EAD after credit risk mitigation	Risk-weighted assets
1	Exposures to QCCPs (total)	**134,400,270**	2,496,742
2	Exposures to transactions via CCPs (excluding initial margin and contributions to the default fund); of which	58,718,231	2,348,729
3	(i) OTC derivatives	58,718,231	2,348,729

The global exposure to ABN Amro totals EUR 134.4 million, of which EUR 58.7 million relates to the central clearing of derivative instruments.

6. Use of the standard approach

The Company uses the standard approach for determining the credit risk for several categories. These categories are detailed in Table 9 'Total weighted risk volume by category and own capital requirement at year-end ' and Table 14 'Breakdown of risk positions (for CRM) by category type'.

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

Table 24: Exposures applying STA approach at year-end

	RWA 31/12/2016	RWA 31/12/2017
Exposure standard approach	609,179,667	763,098,093
Exposure standard approach without securitisation positions	580,517,170	729,959,307

More detailed information on securitisation and securitisation positions can be found in chapter 15.

As part of the roll-out of the model for the Dutch loans, the regulator has requested that a comparison be made systematically, for the Dutch credit exposures, between the calculation of the own capital requirements under the standardised approach (STA) and and an 'internal rating based' (IRB) approach.

The higher of the two calculations should be taken as the requirement. At the end of 2017, the amount calculated by the STA method was higher than the one calculated by the IRB method. An additional EUR 715,434,014 of RWA was therefore included in the IRB classification 'secured by real estate'.

Table 25 below shows the exposure of the derivatives that are processed according to the standard approach under the institutions. The total amounts to EUR 167.9 million and is broken down in the table by risk weighting percentages.

Table 25: Standard approach - CCR exposures institutions (EU CCR3)

	Exposure categories	Risk weighting				Totaal
		0%	4%	20%	50%	
6	Institutions	74,941,975.50	58,718,231.21	4,847,160.79	29,399,084.26	167,906,451.76
11	**Total**	**74,941,975.50**	**58,718,231.21**	**4,847,160.79**	**29,399,084.26**	**167,906,451.76**

The total amount of risk-weighted assets of the derivatives processed according to the STA approach amounts to EUR 18,017,704. This amount is included in the RWA of EUR 34,264,003 in respect of institutions (see table 9).

7. Use of the (F)IRB method

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

Table 26: Exposures applying IRB approach at year-end

	RWA 31/12/2016	RWA 31/12/2017
Internal ratings-based approach (IRB)	4,515,643,272	4,899,842,432
IRB approach where neither self-estimated LGD parameters nor conversion factors are used	1,647,091,088	1,799,283,647
Institutions	785,004,169	644,467,886
Corporates	862,086,919	1,154,815,761
IRB approach using own LGD calculations and/or own conversion factors	2,761,328,876	2,993,861,925
Retail - covered by real estate	2,761,328,876	2,993,861,925
Securitisation positions	107,223,309	106,696,861

7.1. Credit risk – (F) IRB approval

Since the 30 September 2009 report, the IRB method has been used for the mortgage portfolios. The Company applies here a 10% LGD floor for its mortgage loans including the Dutch NHG mortgage loans.

From 2012, the (F)IRB approach may also be used for the corporates, institutions and covered bonds portfolios. The 80% floor set in the Basel II transitional provisions (on the Basel I-based calculations) continues to apply until further notice.

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

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

The Company calculates its exposures to retail customers (mortgage loans), securitisation positions (ABS and MBS) and exposures to corporates, institutions (with the exception of exposures to insurance companies and investment companies) and covered bonds by the (F)IRB method.

For obtaining approval to apply this (F)IRB method, internal rating systems were developed to estimate the credit risk of the mortgage portfolios. These systems include models developed to assess and evaluate the Probability of Default (PD) and Loss Given Default (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 precautionary reasons 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 (Credit Conversion Factor) for unused credit lines and offers in the pipeline and a CCF factor of 100% is being applied until further notice. CCF models estimate the proportion of off-balance sheet liabilities to be recognised as soon as a customer goes in default.

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

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

7.2.2. Integration of the Basel parameters

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

The implementation and integration in the operating credit departments of the options within the Basel credit risk in the broad sense 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 the Credit Risk Policy department are described in the internal ‘Credit risk policy retail credits’ policy.

The operational credit departments are tasked with granting and managing loans in accordance with the internal authorisation and acceptance frameworks and the 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 devoting the necessary time and attention to the effective embedding of all relevant Basel II standards and rules (risk-based acceptance).

This includes also the necessary efforts both to reflect and react on the feedback from the Credit Risk Management department and to provide feedback themselves on the use of the models in the daily lending processes. The Credit Risk Management department periodically analyses the frequency, reasons and types of differences (‘outliers’) between the model outcomes and the viewpoints of the authorised approval officers. Based on these models, they then investigate whether new risk factors need to be incorporated into the models.

The Credit Risk Analysis (CRA) 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, together with the underlying tasks and responsibilities, was also established in a comprehensive 'internal credit risk models (retail and non-retail)' 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. Organisation of the (F)IRB process

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

Within the governance framework for managing credit risk models and the project systems designed for this purpose, the Risk & Validation department has a specific second line role in the development and refinement of the internal models. Here the Risk & Validation department exercises a second-line control, consisting; for the Risk sub-department, of critical evaluation of and independent risk checks on the reports as prepared and, for the Validation sub-department, going through the validation cycle.

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 task 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 approval, the models are implemented in the systems. Implementation validation is intended to investigate whether the model as implemented is the same as the one initially developed and approved. Implementation validation relates both to the organisational and 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 optimising the performance of models such as the addition of supplementary variables. In this way, models are adjusted or recalibrated.

A 'significant changes to internal credit risk models' procedure is in place, with the appropriate governance.

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 as indicated by 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 regulator.

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

7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

The Company has developed three global models for mortgage loans (residential mortgages). A PD and LGD model was designed for the portfolio of mortgage loans initiated by the Company's own branch network.

A second PD and LGD model was developed for the so-called CBHK/OCCH portfolio, which is the portfolio constituted in the past via the CBHK/OCCH brokers' channel. In view of the run-off status and decreasing size of this portfolio, an application was submitted in 2017 to move to the STA method for this sub-portfolio.

Finally, a third PD and LGD model was developed for the mortgage loans granted in the Netherlands. For managing and administering the mortgage portfolio in the Netherlands, the Company uses an external service provider (Quion).

An important distinguishing feature in calculating the LGD of the Dutch mortgage loan portfolio is the NHG. NHG is the guarantee a person in the Netherlands can obtain, subject to meeting certain conditions, on taking out a mortgage loan to buy or reconvert a home. The NHG means that the WEW guarantees the mortgage loan. The borrower pays a single premium for this (see the more detailed explanation in 5.3.).

As mentioned, the regulator has made the application of the existing model to the Dutch portfolio conditional on systematic comparisons being made between the STA-based and the IRB-based calculations. In the course of 2016, both a model file and a process-related dossier for the internal model developed for Dutch mortgages were filed with the regulators. At this stage this was a partical application. In 2017 the complete application file was submitted.

Pooling - allocation to risk categories

The individual exposures are each assigned to a PD risk category (10 PD categories for Aspa credits, 8 for CBHK/OCCH credits and 9 for the Dutch sub-portfolio). Defaulted loans are classified into the default category. Each category or pool in the portfolio in question consists of loans with a similar risk profile. The best risks are those in category 1, the worst in the lowest category (the default category). The intention, in determining the number of risk categories, was to divide loans into a maximum number of risk categories that are significantly different from each other.

The results of these models and all relevant analyses are discussed on the Credit Risk Committee (Kreco) for retail portfolios.

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

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

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

The underlying rating models for the non-retail 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 gives an overview of the exposure, average PD, average LGD, RWA and average risk weighting as of 31 December 2017 (of the categories institutions, corporates, covered bonds and 'covered by real estate').

Table 27: Exposures by the (F)IRB method

		Exposures	Average PD %	Average LGD %	RWA	Average RWA %
Total exposures		31,677,135,283			4,077,724,820	
IRBA (advanced)	Balance sheet	26,880,368,010	1.13%	11.07%	2,962,344,625	8.36%
	Off-balance sheet	516,999,217	0.25%	13.48%	31,517,299	6.10%
	Provisions	-23,357,260				
IRBF (foundation)	Balance sheet	4,183,975,310	0.15%	43.97%	1,734,177,563	41.45%
	Derivatives	119,150,006	0.08%	45.00%	65,106,084	54.64%

In the IRBA (advanced) approach, models have been developed for PD and LGD. In the IRBF (foundation) approach, a model has been developed only for PD.

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%s include the defaults (for the definition see Note 8.1).

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

Table 28: EL per mortgage sub-portfolio

	ASPA	CBHK/OCCH	The Netherlands	Total
Total provisions recognised	8,152,712	3,806,592	11,397,956	23,357,260
ELeff lgd	9,687,311	4,180,874	17,165,637	31,033,822
> non-defaults	2,503,460	656,226	10,720,000	13,879,685
> defaults	7,183,851	3,524,648	6,445,637	17,154,137
EL lgd floor	11,432,260	4,309,060	19,619,989	35,361,309
> non-defaults	4,248,409	784,412	13,174,352	18,207,172
> defaults	7,183,851	3,524,648	6,445,637	17,154,137

The EUR 17.154.137 are the individual provisions recognised on the default group (100% PD) in the 'covered by real estate' category.

As of 31 December 2017 the total EL (with the effective LGD) for both defaults and non-defaults was EUR 31,033,822. Applying the LGD floor of 10% gives an EL of EUR 35,361,309.

For the individual mortgage loans processed according to the IRB approach, a total of EUR 23,357,260 of provisions were set up. These include both the individual commissions (EUR 17,154,137 for the default group) and the calculated IBNR provisions.

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

The table below groups the exposures (in EUR millions) per PD grade for the main exposure category, viz. 'covered by real estate' as of 31/12/2017. These exposures are processed according to the IRBA) method.

Table 29: Credit risk exposure by category and PD range (EU CR6 IRB)

	a	b	c	d	e
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposure pre CCF	Average CCF	EAD after CRMM and post-CCF	Average PD
0.00 to < 0.15	6,444.00	155.00	100.00%	6,598.00	0.06%
0.15 to < 0.25	6,369.00	273.00	100.00%	6,642.00	0.21%
0.25 to < 0.50	5,439.00	64.00	100.00%	5,504.00	0.37%
0.50 to < 0.75	5,364.00	17.00	100.00%	5,381.00	0.68%
0.75 to < 2.50	2,388.00	5.00	100.00%	2,393.00	0.97%
2.50 to < 10.00	550.00	3.00	100.00%	553.00	4.68%
10.00 to < 100.00	186.00	0	100.00%	187.00	21.43%
100.00 (Default)	141.00	0	100.00%	141.00	100.00%
Sub-total	26,880.00	517.00	100.00%	27,397.00	1.11%

	f	g	h	i	j	k
PD scale	**Number of obligors**	**Average LGD**	**Average maturity**	**RWA**	**RWA density**	**EL**
0.00 to < 0.15	68,562.00	10.00%	6,038.00	109.00	1.65%	0.40
0.15 to < 0.25	45,183.00	11.94%	7,762.00	475.00	7.15%	1.70
0.25 to < 0.50	38,263.00	11.65%	7,692.00	570.00	10.36%	2.40
0.50 to < 0.75	34,321.00	11.06%	8,254.00	843.00	15.67%	4.00
0.75 to < 2.50	16,825.00	10.71%	8,258.00	445.00	18.60%	2.50
2.50 to < 10.00	4,292.00	10.68%	7,182.00	229.00	41.48%	2.80
10.00 to < 100.00	1,168.00	10.82%	7,706.00	140.00	74.85%	4.40
100.00 (Default)	927.00	14.57%	6,826.00	182.00	129.67%	17.20
Sub-total	209,541.00	11.11%	7,457.00	2,994.00	10.93%	35.40

The average PD for the exposure category 'property-backed receivables - Non-SMEs' was 1.11% and the average LGD was 11.11%.

Backtesting of the Loss Given Default (LGD)

To check whether LGD percentages are sufficiently conservative, the predicted (downturn) LGD values from the last but one LGD backtest are compared to the actual LGD values from the last backtest. The comparison involves all files already in default at the end of the previous backtesting period and which were moved to uncollectible status during the most recent backtesting period.

Credits Aspa Belgium (review date most recent backtest: 30/06/2017)
The deviation between the predicted LGD and realised LGD has a median of 24.37% and average of 15.25%. At least 50% of the observations have a positive deviation (conservative LGD estimate).

On the basis of a Wilcoxon Rank Test, a distribution-free test for the median of a continuous distribution, the zero hypothesis (no difference in average between predicted and observed LGD) is rejected ($p = 0.023$). The assumptions of the test, where the distribution needs to be be symmetrical, are not convincingly satisfied.

Credits Netherlands (review date most recent backtest: 30/06/2017)
The deviation between the predicted LGD and realised LGD has an average of 3.94% and a median of 4.89%. At least 50% of the observations have a positive deviation (conservative LGD estimate).

On the basis of the Wilcoxon rankings test, it also appears that the predicted LGD (on average) is significantly different from the realised LGD ($p < 0.0001$). It can be concluded that the predicted LGD is sufficiently conservative.

Backtesting the probability of default (PD)

Based on the data in the table below, an insight can be obtained into the evolution of the 'probability of default' for various mortgage sub-portfolios.

Column a shows the various categories used in the IRB modeling. Columns c and d contain the average PD figures on 31 December 2017, weighted on the basis of exposure or unweighted respectively.

Subsequently, columns e and f indicate the number of borrowers on 31 December 2016 on the one hand and on 31 December 2017 on the other hand. Columns g and h show the number of borrower defaults during the past year (for existing loans and for customers newly acquired during the past year respectively) and, lastly, column i indicates the historical average PD.

Table 30: Back-testing of probability of default (EU CR9 IRB)

a	b	c	d	e	f		g	h	i
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD bu obligors	Number of obligors		Defaulted obligors in the year jaar	Of which new obligors	Average historical default rate
					End of previous year	End of the year			
Aspa	1	N.A.	0.00%	0.01%	31,538.00	34,804.00	2	0	0.01%
Aspa	2	N.A.	0.00%	0.01%	40,139.00	44,323.00	2	0	0.03%
Aspa	3	N.A.	0.03%	0.02%	26,644.00	28,596.00	6	0	0.07%
Aspa	4	N.A.	0.06%	0.05%	23,302.00	23,658.00	11	0	0.13%
Aspa	5	N.A.	0.16%	0.12%	15,277.00	15,011.00	18	0	0.22%
Aspa	6	N.A.	0.21%	0.23%	11,123.00	11,192.00	25	0	0.35%
Aspa	7	N.A.	0.27%	0.22%	9,295.00	9,054.00	20	0	0.59%
Aspa	8	N.A.	0.60%	0.48%	6,953.00	6,706.00	33	0	1.09%
Aspa	9	N.A.	1.29%	1.52%	4,859.00	4,338.00	74	0	2.47%
Aspa	10	N.A.	2.88%	2.54%	2,049.00	1,702.00	52	0	5.18%
Aspa	11	N.A.	4.97%	4.89%	1,656.00	1,286.00	81	2	10.26%
CBHK	1	N.A.	0.28%	0.23%	1,319.00	1,119.00	3	0	0.23%
CBHK	2	N.A.	0.44%	0.29%	1,708.00	1,519.00	5	0	0.55%
CBHK	3	N.A.	0.51%	0.53%	1,503.00	1,340.00	8	0	1.11%
CBHK	4	N.A.	1.42%	1.49%	335.00	302.00	5	0	3.43%
CBHK	5	N.A.	5.45%	5.41%	222.00	165.00	12	0	6.61%
CBHK	6	N.A.	11.14%	10.90%	156.00	124.00	17	0	14.15%
CBHK	7	N.A.	32.13%	29.82%	57.00	49.00	17	0	25.40%
CBHK	8	N.A.	25.24%	31.58%	57.00	37.00	18	0	48.75%
Netherlands	1	N.A.	0.06%	0.05%	29,463.00	33,491.00	15	0	0.09%
Netherlands	2	N.A.	0.16%	0.16%	23,752.00	24,651.00	38	0	0.18%
Netherlands	3	N.A.	0.21%	0.23%	32,244.00	29,994.00	74	0	0.36%
Netherlands	4	N.A.	0.40%	0.44%	14,468.00	13,501.00	64	0	0.48%
Netherlands	5	N.A.	4.70%	4.77%	1,090.00	758.00	52	0	2.86%
Netherlands	6	N.A.	6.77%	6.53%	505.00	393.00	33	0	5.01%
Netherlands	7	N.A.	20.17%	19.34%	212.00	202.00	41	0	11.56%
Netherlands	8	N.A.	22.68%	23.15%	337.00	323.00	78	0	17.98%
Netherlands	9	N.A.	20.77%	23.08%	52.00	47.00	12	0	21.40%

In general, it can be said that PD values have decreased over the past year for the three portfolios. One can also see both an increase in production and a decrease in the number of defaults. This can be attributed to the favourable economic climate.

For the Dutch loan portfolio, the unlikely-to-pay criterion has not yet been taken into account in the calculation of the average historical PD.

Breakdown into pool / grades

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

Table 31: Breakdown of corporates/institutions exposures by pool/grade

Pool/ grade	PD%	Corporates 2016	Institutions 2016	Pool/ grade	PD%	Corporates 2017	Institutions 2017
5	0.03%	0	24,506,798	5	0.03%	0	24,506,825
6	0.03%	0	223,651	6	-	0	0
7	0.03%	0	73,154	7	0.03%	0	69,142,935
8	-	0	0	8	0.03%	103,953,597	147,337,491
9	0.04%	64,549,875	262,496,495	9	0.04%	0	0
10	0.05%	476,078,202	274,767,859	10	0.05%	497,528,952	457,151,910
13	0.09%	151,485,713	520,338,764	13	0.09%	228,434,846	239,088,181
16	0.13%	162,023,002	274,738,178	16	0.12%	198,958,901	419,779,105
18	0.13%	293,027,375	297,959,366	18	0.13%	409,585,131	433,130,816
21	0.21%	298,493,044	114,983,438	21	0.20%	477,831,195	45,787,678
27	0.49%	277,922,410	35,077,955	27	-	0	0
28	-	0	0	28	0.46%	386,170,720	0
29	0.49%	32,450,038	10,334,938	29	-	0	0
30	-	0	0	30	0.46%	93,284,344	0
34	0.78%	43,351,160	0	34	-	0	0
36	-	0	0	36	0.74%	51,962,034	0
39	1.42%	29,586,332	0	39	-	0	0
42	2.60%	2,066,971	0	42	-	0	0
Total		1,831,034,121	1,815,500,597	Total		2,447,709,720	1,835,924,939
RWAs		862,086,919	785,004,168	RWAs		1,141,172,301	644,467,886
Caqpital require-ment		68,966,954	62,800,333	Capital require-ment		91,293,784	51,557,431

Flows of risk-weighted assets

The table below shows the evolution of the risk-weighted assets of the most important IRB category, viz. the 'covered by real estate' category.

This is an overview of the evolution as a result of full and partial capital repayments, changes in PD and/or LGD classes (including defaults), changes as a result of the annual calibration of the PD and LGD values and new production.

Table 32: Flows in category 'covered by real estate' category (EU CR8 IRB)

	a	b
IRB A	RWA amounts	Capital require-ments (8%)
Risk-weighted assets as of 31/12/2016	**2,761,328,876**	**220,906,310**
Asset size	-44,198,151	-3,535,852
Asset quality	-19,463,648	-1,557,092
Model updates	330,034,063	26,402,725
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	0	0
Other	-33,839,215	-2,707,137
Risk-weighted assets as of 31/12/2017	**2,993,861,926**	**239,508,954**

As already explained, the Company is required to make a comparison, for the Dutch loan portfolio, between the RWA calculated according to the standard method and that calculated according to the IRB method.

Where the IRB method gives a lower RWA, the higher RWA of the standard method should be retained. As of 31/12/2016 the add-on amounted to EUR 750,486,561.81, and at 31/12/2017 to EUR 715,434,014.19. The EUR 35 million decrease in the add on is included in the 'other' line in the table above.

8. Exposure adjustments

For a more detailed explanation of the credit risk (management) and the valuation rules in force, the reader is referred to Chapter 5.3. Credit risk and Chapter 2.2. Accounting policies – accounting rules, in the Argenta Spaarbank IFRS annual report (available on www.argenta.be and www.argenta.eu).

8.1. Definition of ‘past due’ and ‘in default’

A loan is considered as ‘past due’ in the equity reporting if the borrower is more than one month and more than EUR 25 in arrears with payments. In the equity reporting and in the bookkeeping, a credit is recorded as ‘in default’ when one of the following events has occurred:

- either the payment arrears are greater than the sum of three monthly instalments or, where another repayment frequency applies, when the payment arrears amount to more than three months, both in capital and in interest. This includes any outstanding claim greater than EUR 25 at loan maturity date;
- or other indicators show that the claim is possibly completely or partially uncollectible (‘unlikely to pay’).

Loans deemed to be default are consequently reviewed (taking into account also the security received) tosee whether an impairment should be recognised.

8.2. Note on the credit quality of the exposures

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

Table 33: Geographical breakdown of past due (IRB) risk exposures

Country	Past due exposure 2016	Past due exposure 2017
BE	97,488,533	68,930,553
NL	91,358,870	70,459,358
Other	1,702,404	1,158,806
Total past due exposures	190,549,807	140,548,717

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

The credit quality of all positions - broken down by category of exposure - can be found in the table below.

Table 34: Credit quality of positions broken down by category and instrument (EU CR1-A)

		a	B	c	g
		Gross carrying values of		Specific credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures		(a+b-c)
2	Institutions		1,835,924,939.21		1,835,924,939.21
3	Corporates		2,467,200,376.38	5,362.95	2,467,195,013.43
4	*of which: Specialised lending*		*19,490,656.30*		*19,490,656.30*
6	Individuals and small entities	140,548,717	27,256,818,510.14	23,357,259.93	27,374,009,967.22
7	*Secured by real estate property*	*140,548,717*	*27,256,818,510.14*	*23,357,259.93*	*27,374,009,967.22*
15	**Total IRB approach**	**140,548,717**	**31,559,943,825.73**	**23,362,622.88**	**31,677,129,919.86**
16	Central governments or central banks		3,317,360,825.49		3,317,360,825.49
17	Regional governments or local local authorities		911,923,980.59		911,923,980.59
18	Public sector entitites		214,365,938.23		214,365,938.23
21	Institutions		360,666,808.83		360,666,808.83
22	Corporates		88,651,404.82		88,651,404.82
24	Individuals and small entities		780,369,013.00		780,369,013.00
26	Secured by mortgages on immovable property		1,115,418,461.46		1,115,418,461.46
28	Exposures in default	3,557,849.19		3,214,696.79	343,152.40
33	Equity exposures		21,163,361.95	12,560.00	21,150,801.95
34	Other exposures		342,345,571.11		342,345,571.11
35	**Total standardised approach**	**3,557,849.19**	**7,152,265,365.48**	**3,227,256.79**	**7,152,595,957.88**
36	**Total**	**144,106,566.20**	**38,712,209,191.21**	**26,589,879.67**	**38,829,725,877.74**

The column 'specific credit risk adjustment' shows EUR 23,357,260 in line 6 and EUR 3,214,967 in line 28. The sum of these amounts (EUR 26,571,957) corresponds to the sum of the individual provisions (EUR 20,331,261) and the IBNR provision (EUR 6,240,696).

In this way, as of 31/12/2017, individual provisions of EUR 20,331,261 were recorded on the balance sheet (compared to EUR 25,751,562 as of 31/12/2016) and an IBNR provision of EUR 6,240,696 (compared to EUR 9,997,083 euros as of 31/12/2016).

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 2017. As of 31/12/2017 there was a positive impact of EUR 6,370,380 (compared to a negative impact of EUR 5,030,062 in 2016).

Table 35: Impact of impairments (retail credit) on the income statement

	Opening balance 31/12/2016	Increase through P&L	Reversal through P&L	Closing balance 31/12/2016	Recoveries through P&L	Direct write-offs	Collective provision	Total P&L impact
Consumer loans	2,019,249	71,155	-421,151	1,669,253	-120,243	245,201	0	-225,038
Mortgage loans	22,394,762	12,769,247	-17,796,763	17,367,245	-984,061	3,863,460	-3,756,388	-5,904,506
Instalment loans	398,600	3,306	-64,108	337,798	-7,513	0	0	-68,315
Advances/ overdrafts	938,951	474,198	-456,183	956,965	-406,667	216,131	0	-172,521
Other loan receivables	0	0	0	0	0	0	0	0
Total loans and advances	**25,751,562**	**13,317,906**	**-18,738,205**	**20,331,261**	**-1,518,484**	**4,324,792**	**-3,756,388**	**-6,370,380**

On balance, the value adjustments had a positive effect on the income statement, due in part to good economic growth in Belgium and the Netherlands, resulting in rising property values and lower unemployment.

In the table below, the global exposure, with indication of credit quality, is broken down by geographic area.

Table 36: Credit quality of exposures by geography area (EU CR1-C)

		Gross carrying values of		Specific credit risk adjustments ©	Net values
		Defaulted exposures in (a)	Non-defaulted exposures (b)		(a+b-c)
1	European Union (total)	143,677,117.65	38,073,801,637.41	26,471,569.06	38,191,007,186.00
2	Belgium	72,041,861.20	17,359,303,794.96	14,307,781.76	17,417,037,874.40
3	Germany	13,726.76	223,812,701.48	13,776.44	223,812,651.80
4	Spain	557,922.16	371,804,313.13	226,761.29	372,135,474.00
5	France	63,025.93	631,809,591.50	63,749.33	631,808,868.10
6	United Kingdom	6,111.60	366,106,038.20	6,195.49	366,105,954.31
7	Ireland	0	344,790,274.80	8.50	344,790,266.30
8	Luxembourg	113,873.25	212,619,990.11	182.56	212,733,680.80
9	Netherlands	70,880,596.75	17,326,259,326.28	11,852,982.50	17,385,286,940.53
10	Other EU countries	0	957,393,174.48	129.21	957,393,045.27
11	Sweden	0	279,902,432.47	1.99	279,902,430.48
12	North America (Total)	0	583,569,648.26	238.61	583,569,409.65
13	Canada	0	244,561,144.84	30.99	244,561,113.85
14	USA	0	339,008,503.42	207.62	339,008,295.80
15	Other geographical areas (Total)	429,448.55	54,837,905.54	118,072.00	55,149,282.09
16	Other geographical areas (Total)	429,448.55	54,837,905.54	118,072.00	55,149,282.09
17	**Total**	**144,106,566.20**	**38,712,209,191.21**	**26,589,879.67**	**38,829,725,877.74**

9. Encumbered and unencumbered assets

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

Table 37: Encumbered assets

	31/12/2016	31/12/2016	31/12/2017	31/12/2017	average 2017	average 2017
	nominal value	market value	nominal value	market value	nominal value	market value
Collateral for derivatives (caps and swaps)	559,469,000	635,725,745	466,630,300	515,786,689	503,705,458	555,193,494
Collateral for repo transactions	0	0	0	0	0	0
Collateral for Bank Card Company	31,000,000	33,118,285	31,750,000	32,424,413	31,750,000	33,035,079
Total given collateral	**590,469,000**	**668,844,030**	**498,380,300**	**548,211,102**	**535,455,458**	**588,228,573**
Cash paid (derivatives)		28,900,000		22,286,000	0	21,921,250
Cash received (derivatives)		29,573,769		74,941,976	0	72,378,794
Collateral NBB credit line	250,000,000	261,525,000	250,000,000	259,573,950	250,000,000	261,844,450

At end-2017 a nominal EUR 466,630,300 of assets were encumbered in the context of derivatives and repos and a nominal EUR 31.75 million in connection with the use of credit cards by Company customers. EUR 22,286,000 was paid in cash in the context of the collateral management in respect of derivatives. Another EUR 74,941,976 of cash was received in the context of the executed repo transactions.

The sources of encumbrance are:

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

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

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

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

The Company has until further order not issued covered bonds. There are securitised loans as of 31/12/2017 but these are again included in the balance sheet at the consolidated level.

Apart from the above collateral, no other assets of the Company were encumbered. The remaining assets on the balance sheet can therefore be seen as unencumbered. The table below (template A-Assets) provides an overview of the encumbered and unencumbered assets.

Table 38: Total assets (encumbered and unencumbered – template A-Assets)

		outstanding amounts of encumbered assets	market value of encumbered assets	outstanding amounts of unencumbered assets	market value of unencumbered assets
010	Assets of the reporting institution	570,497,102		37,055,662,836	
030	Shares	0	0	6,958,503	6,958,503
040	Debt certificates (AFS and HTM) portfolio	548,211,102	548,211,102	7,808,152,380	7,818,600,958
120	Other assets	22,286,000		29,240,551,953	

At the end of 2016 no other collateral was received than the EUR 74,941,976 already mentioned. This collateral was included in the balance sheet so that template B on 'collateral received' does not need to be explicitly included.

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

Table 39: Encumbered assets, collateral received and related liabilities (template C)

		Related liabilities	Related assets involved and collateral received
010	Total outstanding amounts	308,437,996	578,302,337
020	Derivatives	276,687,996	545,877,924
030	of which OTC derivatives	276,687,996	545,877,924
040	Deposits (BCC collateral)	31,750,000	32,424,413

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

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

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

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

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

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

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

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

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

Table 40: Basel STA categories for which ratings are used at year-end

Exposure (STA)	Exposure 31/12/2016	Exposure 31/12/2017
Central governments or central banks	3,683,375,978	3,317,360,825
Regional and local authorities	749,104,044	911,923,981
Public entities	142,392,381	214,365,938
Institutions	121,132,742	360,666,809
Corporates	98,397,821	88,651,405
Shares (participating interests)	2,159,696	21,150,802
Securitisation positions	143,312,483	165,693,932

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

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

11. Exposure to market risk

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

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

In calculating the credit risk, these derivatives are processed using a 'mark-to-market' valuation method.

12. Operational risk and other risks

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

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

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

Based on the three-year average of the sum of annual capital requirements for operational risk, the Company was required to hold EUR 81,262,059 of caqpital at 31 December 2017.

This further increase compared to previous years is the result of the higher operating result in recent years. The years with lower operating results are being replaced by more recent years with higher operating results.

In the approach to operational risk for ICAAP, an adjustment (supplement) is made if a maturity score on the internal control is lower than the desired level, and there is also a supplement for stress scenarios. Within operational risk, increasing attention is being paid to cyber security; the results of a cyber security maturity assessment are translated into a roadmap in order to bring the maturity level closer to the desired target level.

With regard to the other risks, particular attention is paid to reputational risk, with the NPS (net promoter scores) for customers, staff and branches (Belgium) / intermediary (the Netherlands). The NPS of customers remains at a high level, the NPS for personnel and especially the branch network reflect the uncertainties accompanying the change process within the entire financial sector.

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.

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

In addition, Company also built up, in recent years, a very limited exposure to shares acquired from an investment perspective and linked to real estate companies.

In 2017, a capital gain of EUR 176,935 was realised on this limited portfolio.

The shares are all processed using to the standard approach. In addition, a number of subordinated loans were also processed under this category.

Table 41: Shares (STA approach)

	Carrying value	Market value	Unrealised gain/ loss	Realised gain/loss value
Strategic participations	62,498	63,253	755	0
Investments				
listed	4,935,715	6,214,243	1,278,527	0
private equity	0	0	0	0
other	0	0	0	0
Subordinated loans	13,946,437	14,598,690	652,253	0
Total	**18,944,650**	**20,876,186**	**1,931,536**	**0**

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.

Processing the insurance participation at BVg CRR scope level

At BVg level the shareholding in the insurance pool is - as already explained - treated as an exposure using the Danish Compromise (DC) and weighted under the IRB approach at 370%. The participating interest in question is therefore not deducted from capital (non-deducted participations in insurance undertakings). The participation value amounts to EUR 176,445,506.20, which is multiplied by 370% in order to obtain a weighted risk volume of EUR 652,848,372.94 and a capital requirement of EUR 52,227,870.

Table 42: Non-deducted participations in insurance undertakings (EU INS1)

	Waarde
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	176,445,506
Total RWA	652,848,373

14. Exposure to interest rate risk

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

Interest rate risk is defined as the current and future exposure of an institution's profitability and equity in the event of adverse market 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.

The interest rate risk is reported both from an income perspective and from an economic value perspective.

The economic value of the banking book can be defined as the algebraic total of the expected cash flows, other than the commercial margins, of the components of the banking book, discounted at prevailing or assumed future market interest rates over their interest-bearing lives.

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

Fluctuations in economic value in an interest-sensitive enterprise are strongly dependent on the duration gap, which is the mismatch between the duration (average interest duration of an interest-bearing instrument, taking into account both the capital repayment date(s) and the periodicity of coupons) of all assets and all liabilities.

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

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

For discounting cash flows and projections, the Company takes as its basis the spot swap vs euribor 3M curve.

Alco can decide to apply a particular methodology. In this case, the decision is explained in the Executive Committee, which will ratify the decision, and report it to the Risk Committee.

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

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

Assumptions as to the behaviour of deposits with no fixed maturity

For deposits that are theoretically callable on a daily basis, but which experience shows to remain, on average, for considerable lengths of time on the accounts in question, the following average interest rate assumptions are assumed in prudential NBB reports (duration hypotheses) for economic value simulations:

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

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

a) savings accounts in Belgium: 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 from the time of the market rate shock;
b) savings accounts in the Netherlands: 70% of the change in market interest rates when interest rates rise and 70% when interest rates fall, in each case with a lag of six months from the time of the market rate shock;
c) current accounts Belgium: rate is insensitive to market interest rate shocks.

For internal simulations and for ECB prudential reporting, the assumed re-pricing behaviour for savings accounts in Belgium is modelled using an internally developed replicating model. This is an econometric model from which a (risk) optimal reinvestment strategy of these funds is derived on the basis of the historical and expected re-pricing behaviour and the circulation of these deposits. This model deviates from the prudential NBB 2 year duration hypothesis because it is more solidly founded from a business economics perspective. However, the replicating model has been calibrated not solely on historical business data, but also incorporates extra caution because a forward look is factored in.

For savings accounts in the Netherlands and current accounts in Belgium, the prudential NBB duration assumptions are also used for internal simulations (see above).

Assumptions concerning option risk

In the context of interest rate risk management, the company distinguishes three types of implicit options it can be confronted with.

With the first option, the customer has the option to prerepay his mortgage loan. This option is factored into the model as follows:

a) for the mortgages in Belgium an internally developed market interest-rate driven prepayment model is applied.
b) for the mortgages in the Netherlands an internally developed house price-driven prepayment model is applied.

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

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

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, there is an exposure to pipeline risk. From an economic value perspective, pipeline risk is always included in the interest rate exposure calculation.

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

15. Exposure to securitisation positions

15.1. Own securitisations

The operational framework and the policy for carrying out such transactions were developed in the past, resulting in a first successful securitisation transaction in September 2007. A second securitisation transaction was finalised in December 2008. Both securitisation transactions have since matured after exercise of the call.

In October 2017 a new securitisation transaction was carried out involving the securitisation of a portfolio of Dutch residential mortgage loans with NHG guarantees via the Green Apple SPV.

The objective of this securitisation was to attract new funding (tapping a new funding source) with a view to continuing to offer mortgage loans.

The Company purchased the issued B and C notes itself and a notional EUR 1.2 billion of notes were placed with institutional investors.

Under IFRS, the Green Apple SPV is fully consolidated. In this way the underlying Dutch mortgage loans come back onto the consolidating entity's balance sheet.

Both the liquidity risk and interest rate risk of the underlying loans (and consequently the notes held internally) are also managed by the Company in accordance with the standard reporting and governance of the Argenta Group. The interest rate risk remains with the Company owing to the presence of a cap structure in the global transaction.

A detailed explanation of the Green Apple 2017-I-NHG issue and the global structure can be found on the website www.argenta.eu. The particular features of this issue, the prospectus and 'investor presentation' can be found under the 'debt issuance' heading.

Role as originator in securitisation transactions

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

In the case of the operation initiated by the Company, the issuer is an SPV, set up under Dutch legislation, named Green Apple BV. This company buys the loans and issues bonds (notes) to pay for this purchase.

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

The Company is also involved in the transaction through the structure of a front and back cap, which means that the interest rate risk remains with the Company.

The Company is not involved as a sponsor in other securitisation transactions. The Company of course also involved in other securitisation operations through its role as an investor (see 15.2. Portfolio of securitisation positions).

CRR approaches applied

The company applies the 'rating-based approach' for calculating the capital requirements for the securitisation securities that it purchases as part of its investment policy.

Under IFRS, the Green Apple SPV was fully consolidated. In this way the underlying Dutch mortgage loans with NHG guarantee came back onto the consolidating entity's balance sheet.

The securitisation transaction does not envisage a release of capital and, at the level of Argenta Spaarbank solo, a capital requirement is calculated for all securitised loans. This replaces the calculation of a capital requirement for the (purchased) B and C notes. For this reason a capital requirement is calculated for the underlying loans instead of the issued and self-purchased notes.

At consolidation level, the capital calculations on the mortgage loans are retained (since the credits return onto the balance sheet) and the retained B and C notes are eliminated in the consolidation.

Accounting policies

Securitisation can take the form of a sale of the assets involved to a special purpose vehicle (SPV), or a transfer of the credit risk by means of credit derivatives.

An SPV issues tranches of securities to fund the purchase of the assets. The financial assets involved in a securitisation are no longer (fully or partially) accounted in the financial statements of the issuing institution whenever the Company in question transfers virtually all the risks and income from the assets (or parts thereof).

The B and C notes of the Green Apple 2017-I-NHG issue are recognised at amortised cost at unconsolidated level because the intention is to retain these securities until call date. At consolidated level, these notes are eliminated and the loans are come back onto the Company's balance sheet.

At consolidated level, no gains are realised on the sale of the loans. Owing to the workings of DPP (deferred purchase price) method, the interest result from the loans comes to the income statement on an unconsolidated basis.

All securitisation positions that the Company has acquired are listed. In this way, an external valuation of these effects is obtained. In the Company's IFRS annual report, a more detailed explanation of the fair value of financial instruments is given in chapter 24.

Until now, the Company has only occasionally sold loans in securitisation transactions. These were all securitisation transactions in which the relevant loans subsequently came back onto the Company's balance sheet on consolidation. The loans were therefore not included in the trading book. The Company has globally no trading book. For example, derivative instruments acquired are always entered into for the Company's own account in order to hedge its (interest rate) risks.

15.2. Portfolio of securitisation positions

In addition to the securitisation transaction described above and performed by the Company itself, the Company holds a number of asset-backed securities (ABS) and mortgage-backed securities (MBS) as part of its investment policy.

These securities form part of the Company's investment portfolio (the Company has no trading portfolio), with the risks monitored in line with the governance for the global investment portfolio.

The Company invests only in the A tranches of securitisation transactions and has no 'resecuritisation' positions in its possession.

With a few limited exceptions, these positions are accounted for by the IRB method under the exposure category 'securitisation positions'. Both approaches (both IRB and STA) are thus used.

The residential mortgage-backed securities (RMBS) with underlying mortgages are processed according to IRB RBA (look-through and the same approach as the own mortgages processed under IRB). The ABSs (the car loan securitisations in which Argenta invests) are processed using the STA approach (no application of look-through).

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

All purchased securitisation positions are included in the institution's investment portfolio.

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

Table 43: Geographic distribution of securitisation exposures as year-end

	Country	Exposure 2016	Exposure 2017
MBS	BE	26,599,622	23,431,633
MBS	ES	27,842,590	22,050,474
MBS	FR	43,123,402	39,091,729
MBS	GB	14,795,160	14,829,162
MBS	IE	17,925,571	32,416,706
MBS	NL	711,773,598	762,420,957
ABS	DE	18,449,202	20,680,302
ABS	ES	27,128,442	26,063,442
ABS	FR	22,142,983	25,623,978
ABS	IE	18,881,806	21,300,104
ABS	LU	59,582,144	74,926,547
ABS	NL	24,256,347	23,163,002
ABS	US	9,521,057	7,242,797
Total securitisation exposures		**1,022,021,924**	**1,093,240,831**

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

The ratings given by the relevant rating agencies to the transactions are used for the weightings and own funds calculation.

Table 44: EADs and capital requirements of securitisation positions

S&P rating	MDY rating	Fitch rating		ABS	MBS	Total
	Aa2	A	EAD	0	4,849,062	4,849,062
			Capital requirement	0	49,344	49,344
		AA+	EAD	0	4,122,537	4,122,537
			Capital requirement	0	27,967	27,967
	Aaa		EAD	38,254,772	28,484,356	66,739,128
			Capital requirement	612,076	169,083	781,159
		AAA	EAD	29,230,605	374,264,080	403,494,685
			Capital requirement	467,690	2,221,632	2,689,321
		A+	EAD	0	1,510,106	1,510,106
			Capital requirement	0	12,806	12,806
	Aa1	A+	EAD	0	10,973,976	10,973,976
			Capital requirement	0	93,059	93,059
A	Aa2		EAD	0	4,807,172	4,807,172
			Capital requirement	0	48,918	48,918
A+	Aaa	BB	EAD	0	2,569,337	2,569,337
			Capital requirement	0	21,788	21,788
AA		AAA	EAD	0	11,616,776	11,616,776
			Capital requirement	0	78,808	78,808
AA+	Aa2		EAD	0	1,513,790	1,513,790
			Capital requirement	0	10,270	10,270
		BBB-	EAD	0	2,647,582	2,647,582
			Capital requirement	0	17,961	17,961
	Aaa	AAA	EAD	7,242,797	0	7,242,797
			Capital requirement	122,838	0	122,838
AAA			EAD	24,862,789	5,218,761	30,081,551
			Capital requirement	397,805	30,979	428,783
		AAA	EAD	17,581,073	123,821,783	141,402,857
			Capital requirement	281,297	735,006	1,016,303
	Aaa		EAD	50,979,972	105,484,923	156,464,895
			Capital requirement	815,680	626,159	1,441,838
		AAA	EAD	4,784,721	208,246,087	213,030,808
			Capital requirement	76,556	1,236,149	1,312,704
AA-	A1		EAD	0	2,201,104	2,201,104
			Capital requirement	0	18,665	18,665
BBB+	A1	BBB	EAD	26,063,442	0	26,063,442
			Capital requirement	1,105,090	0	1,105,090
B-	B2		EAD	0	1,909,228	1,909,228
			Capital requirement	0	1,909,228	1,909,228
Total EAD				199,000,171	894,240,660	1,093,240,831
Total capital requirement				3.879.031	7,307,821	11,186,852

The portfolio of securitisation positions has risen very slightly from an exposure of EUR 1,022,021,924 as of 31 December 2016 to EUR 1,093,240,831 as of 31 December 2017.

Applying the weighting percentages and the 8% requirement, a capital requirement of EUR 11,186,852 (31/12/2016: EUR 10,870,865) was obtained for these purchased securitisation positions.

The Company buys only top tranches (see table above with the mention of ratings) and does not have to deduct amounts from its qualifying capital (article 444 CRR (e)). No credit risk mitigations are applied for these exposures in the capital calculations.

15.3. Tracking of securitisation positions

The Credit Risk Analysis (CRA) sub-department is responsible for tracking the positions of the investment portfolio and, more specifically, of the securitisation positions. The purchased positions are monitored systematically. Every three months a comprehensive analysis report is prepared on them and discussed in the Alco. Based on the evolution of the credit risk of the underlying assets of the securitisation positions, proposals are made to set up provisions.

The analysis report provides an overview of the performance of the Structured Credit Portfolio (SCP). The RMBS and ABS transactions are monitored on the basis of coverage ratios.

A Coverage Ratio measures the extent to which the existing Credit Enhancement (CE) of an RMBS can cover the Expected Losses (EL) on the underlying pool of loans, in the event of failure or default. The expected losses are determined on the basis of an estimate of the total Probability of Default (PD), and an estimate of the size of the Loss Given Default (LGD). The expected loss relates to the principal that remains unpaid after the sale of the guarantees.

The Coverage Ratios (CR) provide an overview of the performance of both the total portfolio and the individual transactions. The CRs are further calculated in a base case and severe case scenario. A CR> 1 indicates that the available credit enhancement can absorb the expected losses within the transaction and that no losses are expected on the tranche in the portfolio. Given that the great majority of the RMBS portfolio consists of Dutch RMBSs (see table 42), a benchmark is set for the comparison of performance.

The Company buys only the top tranches of the issued securitisation positions. In this way it has not so far suffered any effective loss on these positions. Based on the external ratings - and after a limited increase in the portfolio - the total capital requirement for the securitisation positions has increased slightly. The Company does not have any re-securitisations or synthetic securitisations in its portfolio. These elements were included in the table below.

Table 45: Overview of key data securitisation positions

Overview of securitisation positions	Trading book	Investment portfolio
Total securitisation portfolio	0	1,093,240,831
Of which exposure type (Mortgage Backed Securities - MBS)	0	894,240,660
Of which exposure type (Asset-Backed Securities - ABS)	0	199,000,171
Traditional securitisations	0	1,093,240,831
Synthetic securitisations	0	0
Resecuritisation positions	0	0
Outstanding amount at end- 2017 of the self-issued notes	0	1,349,586,435
Outstanding amount at end- 2017 of the self-purchased B and C notes	0	166,698,434
Securitised loans in October 2017	0	1,353,431,381
Assets already assigned to securitise	0	0
Capital requirement securitisation positions	0	11,186,852
Subtracted from equity or 1,250% weighting	0	0

Both at the single and the consolidated level, the capital requirement is calculated for the underlying credits and not for the self-purchased notes.

16. Remuneration policy

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

Remuneration Committee

The Remuneration Committee provides advice to the Board of Directors to ensure that the incentives created by the remuneration policy are not such as to encourage the taking of excessive risks in Argenta or behaviour directed at interests other than those of the Argenta Group and its stakeholders.

The Remuneration Committee has the following tasks:

- advising on the company's remuneration policy;
- preparing the decisions on the remuneration policy of Argenta employees to be determined by the Board of Directors, in particular decisions affecting the risks and risk management of Argenta, including decisions with respect to persons responsible for the independent control functions, and any changes to the remuneration policy and monitoring the remuneration policy to ensure that:
  - it is consistent with and conducive to healthy and effective risk management, and does not induce excessive risk-taking;
  - it is in line with Argenta's strategy, its values and its long-term goals;
  - it protects the interests of customers and investors, promotes sustainable and long-term value creation for shareholders, and includes measures to avoid conflicts of interest.

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

The Remuneration Committee is headed by an independent director and is composed so as to be able to give a sound and independent assessment of remuneration policies and compensation practices and the incentives created by these for risk management and the liquidity position. The committee is composed of at least two Board members, both non-executive, and at least one independent. The chairman of the Board of Directors does not chair the Remuneration Committee.

The Remuneration Committee consisted in 2017 of: W. Van Pottelberge (chair), D. Van Rompuy, J. Cerfontaine, as a guest representing the Risk Committee.

The meetings are held as often as the chair of the committee considers desirable, and at least twice a year. In 2017, the committee met three times.

Pay policy of the Argenta Group

The Argenta Board of Directors establishes the general principles of the remuneration policy for employees, with the advice of the Remuneration Committee, and monitors its implementation (hereinafter 'pay policy'). The pay policy determines which reference salaries apply to which functions, taking into account the degree of difficulty, responsibility, level of required competence/experience and necessary specialisation of a particular function. The Argenta Group strives to remunerate its employees in line with market conditions. The Organisation & Talent department communicates the pay policy in a transparent manner for all functions in all Argenta operating companies.

In determining the compensation benchmarks used in the wage policy for all employees, Argenta works together with the Korn Ferry Hay Group.

Argenta was aligned primarily with the saving banks collective agreement (CAO - PC 308). With the transition of the savings banks to PC (employer-employee committee) 310 of the general banking industry in 2017, the wage policy was adjusted for all internal Argenta employees in Belgium, in accordance with the modalities laid down in the collective labour agreement.

In addition to their monthly salary, all Argenta staff members in Belgium receive single and double holiday pay, 13th month, hospitalisation insurance, group insurance and meal and eco vouchers. The hospital insurance can be extended to the entire family. For certain functions, company cars and fixed expense allowances are granted. The total wage bill of the Argenta Group can be found in the IFRS annual reports (see www.argenta.be).

No variable pay

The pay of all Argenta staff, whether employees, administrative staff, management or senior executives, consists solely of a fixed amount. There is no variable remuneration at Argenta. In other words the variable pay/fixed pay ratio is 0%.

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

Identified staff

For Identified Staff (employees whose professional activities mean that they could materially influence the risk profile of an institution) the remuneration principles are the same as for other functions at Argenta. Their remuneration too consists solely of a fixed amount. In this way the remuneration policy ensures that there are no material conflicts of interest for employees in control positions and that no excessive risks are taken. Individual objectives at Argenta are formulated in such a way that they cannot interfere with the independent operation and cannot materially affect the institution's risk profile.

The Remuneration Committee proposes to the Board of Directors a list of employees who qualify as Identified staff. This is assessed based on qualitative and quantitative criteria in accordance with delegated regulation (EU) No. 604/2014 of 4 March 2014.

At Argenta, 6 executive directors (members of the Executive Committee), 10 non-executive directors and 39 employees (independent control functions, directors and managers of major business units) have been designated as Identified Staff.

This is 4.32% of Argenta's 1,042 employees at the head offices in Antwerp, Breda and Luxembourg or 1.74% of the total number of Argenta employees (including directors, employees, branch managers and branch staff).

The total Argenta salary bill for Identified Staff amounted in 2017 to EUR 7,501,599.

In 2017, severance indemnities were granted to one Identified Staff employee and to a number of other employees under the terms of their individual employment contracts. A termination fee was also paid to a member of the Executive Committee.

There were no payments granted upon entering the company bij Identified Staff.

Employees in Argenta's branch offices in the Netherlands

Argenta employees in the Netherlands receive their regular monthly salary, holiday pay, a 13th month, a contribution to travel expenses and gross amount in place of meal vouchers. There is also a (group insurance) pension scheme, and a group discount (for the entire family) on health insurance taken out with Dutch health insurer CZ. Company cars are given for specific positions.

Employees of Argenta Asset Management in Luxembourg

All Argenta staff members in Luxembourg receive, in addition to the standard remuneration (monthly salary), single and double holiday pay, 13th month, and meal vouchers. Employees in certain functions are entitled to group insurance, company cars, fixed expense allowances and hospitalisation insurance.

Revised pay policy in 2017

In 2017, Argenta introduced a revised pay policy, with a clear focus on sustainability, market conformity, purchasing power and transparency. In accordance with the provisions of the collective labour agreement concluded at the end of 2016, a thorough update of the job descriptions was implemented in 2017, resulting in a new function house. Employees who disagree with the classification of their position can appeal, after which the jointly composed advisory committee makes a decision about their admissibility of such appeal. If necessary, a reassessment of the function will then also follow.

The correct application of the pay policy requires quality planning, feedback and assessment of employee performance. This assessment may or may not lead to a pay increase, via an annual wage round.

For Argenta Nederland, too, pay policy underwent a thorough overhaul on the same basic principles as for Belgium. Job classification and wage categories are based on the Belgian situation, and are translated into transparent pay increase rules in accordance with Dutch legislation and the collective agreement for banks. These were communicated at the end of 2017 and applied for the first time. The insurance section of the remuneration package has been updated. The introduction of a cafeteria plan in the Netherlands was not an interesting option given the current local legislation.

An important part of new policy, the introduction of a cafeteria plan for all staff members in Belgium, became a reality in April 2017. The cafeteria plan responds to a current trend whereby employees can put together a part of their salary packages themselves. Individual needs and wishes are central here. From now on, employees can convert part of their thirteenth month - in a tax-friendly manner - into benefits of their choice and thus adjust their remuneration package flexibly and individually.

Argenta presented the cafeteria plan to the employees in a clear, well-organised presentation of the structure and modalities of the plan and the tax consequences. All participating suppliers presented their ‘benefits’, ranging from lease cars and bicycles to IT equipment and training. 40% of employees took part in the first edition of the cafeteria plan. At the beginning of February 2018, a new edition will start, and from then on, employees will be able to enter or leave the cafeteria plan at the start of each new calendar year.

With the revised salary policy, a new wage house was also introduced, with 10 pay categories for support, management and expert functions. Pay for experts can develop in the same way as for senior managers. This offers an appropriate appreciation to employees who prefer careers as experts to managerial positions.

Note on remuneration policy for Executive Committee members

The remuneration of Executive Committee members is set out in chapter 7 ‘Remuneration of Directors’ in the Company’s IFRS annual report. No variable remuneration, shares, stock options, entry bonus or deferred compensation are also granted to Executive Committee members either. A breakdown of remuneration by business area is not relevant for the Company, because there is only one basic activity (offering financial services to enable families and individuals to live financially sound lives).

In 2017, the basic salary of Marc Lauwers (CEO of Argenta and chairman of the Executive Committees of Argenta Bank- en Verzekeringsgroep, Argenta Spaarbank and Argenta Assuranties) amounted to EUR 613,200. This is an increase of 2.2% compared with 2016. CEO Marc Lauwers’ pay is 11.26 times the median pay at Argenta. Added to this was a contribution to the supplementary pension and disability group policies amounting to EUR 95,451.

In this way there are no employees, even in the Executive Committee, who receive more than one million euros.

In 2017, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,562,543. Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 252,973. The median base salary at Argenta Bank- en Verzekeringsgroep in 2017 amounted to EUR 54,410.70. The median salary increase compared to 2016 amounts to 1.73%.

Executive directors are 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. In 2017 severance payments totalling of EUR 476,625 were made to Executive Committee members (EUR 656,130 in 2016).

Appointments Committee

The Appointments Committee advises the Board of Directors by
- assessing the level of knowledge, involvement, availability and independence of mind of the directors;
- defining the desired profile for the future directors;
- examining the distribution of knowledge, skills, diversity and experience are distributed in the governing body;
- compiling a description of the tasks and skills requirements of particular appointments;
- assessing the time requirements of the particular function;
- setting a target figure for the representation of the under-represented gender in the statutory governing body, and, if necessary, formulating a policy to increase the number of representatives of this gender in the statutory governing body and remuneration policy; and the incentives that this implies for risk management, capital requirements and liquidity position;
- together with the statutory governing body, evaluating the the structure, size, composition, and performance of this body periodically and at least once a year;
- formulating recommendations for possible changes to the statutory governing body;
- assessing, periodically and at least annually, with respect to the individual members of the governing body and with respect to the statutory governing body as a whole:
  - the knowledge
  - the skills
  - the experience
  - the level of involvement, especially regular presence;
- reporting on this to the governing body;
- periodically reviewing the statutory governing body's policy for the selection and appointment of its executive members and the formulation of recommendations to the statutory body;
- supervising key directors or a small group of directors.

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

The Appointments Committee is chaired by an independent director and is composed in such a way as to form a competent opinion on the optimal composition of the boards of directors and to provide a thorough and independent opinion on the composition and functioning of the other governing bodies of the institution and of the individual and collective expertise of the members, their integrity, reputation, independence of mind and availability. The committee advises the Board of Directors on, among other things, pay policy and diversity policy at Argenta.

The committee is composed of at least three Board members, all non-executive, and at least one independent. The chair is chosen from the independent directors, this function being incompatible with the function of chairman of the Board of Directors. The Remuneration Committee consisted in 2017 of: W. Van Pottelberge (chair) and J. Cerfontaine, B. Van Rompuy, D. Van Rompuy, members.

The meetings are held as often as the chair of the committee considers it desirable. In 2017 the committee met three times.

The Executive Committee in 2017 - evolution and selection process

On 23 January 2017 Dirk Van Dessel resigned as CIO, a position he had held since 2008. At the start of February 2017 the Board of Directors presented Geert Van Hove as Chief Information Officer, responsible for the group's IT infrastructure, architecture and applications, as well as their functioning and security. Geert Van Hove took up this position on 1/04/2017.

The selection process for Executive Committee members is as follows: a first selection of candidates takes place in collaboration with external selection offices. After a first selection, the Appointments Committee and the Remuneration Committee assume their role as advisors to the Board of Directors. The Board of Directors appoints a candidate and presents this person to the regulator. The final appointment is made after the regulator has found the proposed candidate to be 'fit and proper'.

Diversity at Argenta Group

As a bank insurer, Argenta strives to be a reflection of society so that all customers and employees feel at home with Argenta.

That is why Argenta gives every employee equal opportunities and the focus is on talent regardless of gender, age, disability, belief, philosophy, marital status, birth, wealth, political opinion, trade union membership, language, health status, sexual orientation, physical or genetic characteristics, social, cultural or ethnic origin.

Argenta considers being able to handle diversity or 'being different' as an added value that allows new perspectives and interaction with 'other' individuals and communities.

Nonetheless, Argenta has target figures, for gender and age only. Certain personal details may not be kept (other than with the written consent of the data subject). In this way targeting and reporting with regard to these criteria is not possible.

Boards of Directors

For the Boards, Argenta applies a target male/female ratio of 30% (2020) and 33% (2025). Four of the 16 Argenta directors are female (25%).

New directors are selected in the first place on the basis of their specific knowledge, training and experience with a view to strengthening the functioning of the board in which they sit. When recruiting, care will be taken to ensure that the last three candidates include at least one candidate from each gender.

Executive Committee, executive management and Argenta management

For the above groups, Argenta applies a target male/female ratio of 30% (2020) and 33% (2025). For age, it applies a target figure for age (%> 50 years, ≤ 50 years) of 33% (2020).

Three out of 10 Executive Committee and/or 'effective management' members are female (30%) and four out of 10 members are ≤ 50 years (40%).

New members are selected in the first place on the basis of their specific knowledge, training and experience with a view to strengthening the functioning of the executive body of which they are part. When recruiting, care will always be taken to ensure that the last three candidates include at least one candidate of each gender and that at least one of the last three candidates is in the minority age group.

Argenta head office staff

Given of the healthy distribution between male and female employees and the good reflection of society in terms of age, Argenta does not apply specific gender or age targets. New employees are selected in the first place on the basis of their specific knowledge, training and experience with a view to strengthening the function that they occupy at Argenta. More information can be found in the respective sub-headings of the Company's social balance document and its Activities and Sustainability Report.

17. Leverage

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

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

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

The Company closely tracks its 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 Board's Risk Committee.

The RAF limit framework provides for a minimum of 3.25% and a target of > 4%. The Financial Management department also reports on this ratio and includes it in all internal reports.

The table below gives the Company's leverage ratio.

Table 46: Global disclosure of leverage ratio

		Aspa conso	Aspa conso
		31/12/2016	31/12/2017
Balance sheet exposures (excluding derivatives and SFTs)			
1	Balance sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	36,097,550,596	37,512,259,630
2	(Asset components deducted in determining Tier 1 capital)	-43,909,619	-56,887,477
3	Total balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	36,053,640,977	37,455,372,153
Derivatives exposures			
4	Replacement value related to derivatives transactions (after deduction of allowable variation margin received in contracts)	58,778,355	113,900,308
5	Add on for the potential future credit risk of derivatives	126,833,528	173,156,150
11	Total derivatives exposure	185,611,883	287,056,458
Other off- balance sheet exposures			
17	Gross notional amount of off-balance sheet exposures	1,787,783,451	2,224,458,672
18	(Adjustments for conversion into equivalent credit amounts)	-923,464,930	-938,751,046
19	Total other off- balance sheet exposures	864,318,521	1,285,707,626
Capital and total exposures			
20	Tier 1 capital	1,797,290,234	1,912,640,056
21	Total exposure for the calculation of the leverage ratio	37,103,571,381	39,028,136,237
Leverage ratio			
22	Leverage ratio	4.84%	4.90%

Description of the factors that impacted the leverage ratio

As shown in the above table, the total leverage ratio exposure as of 31/12/2017 under the transition definition is EUR 39,028,136,237 (compared to EUR 37,103,571,381 as of 31/12/2016). The corresponding leverage ratio is is 4.90% (compared with 4.84% at the end of 2016).

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

In addition, as of 31/12/2017 there was also a limited off-balance sheet exposure. This relates mainly to mortgage loans in the pipeline.

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

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

Table 47: Reconciliation of accounting assets and leverage ratio exposures at year-end

		Aspa conso	Aspa conso
		31/12/2016	31/12/2017
1	Total assets according to the published financial statements	36,156,328,951	37,626,159,938
4	Adjustment for derivative financial instruments	126,833,528	173,156,150
6	Adjustment for off-balance sheet items (i.e. conversion of off-balance sheet exposures into equivalent credit amounts).	864,318,521	1,285,707,626
7	Other adjustments	-43,909,619	-56,887,477
8	Total exposure for the calculation of the leverage ratio	37,103,571,381	39,028,136,237

Based on a fully loaded Tier 1 capital of 1,912,640,056, a fully loaded leverage ratio of 4.90% was obtained.

18. Capital and liquidity 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 directing the Company's risk position.

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 processes and systems aimed at guaranteeing its long-term capital adequacy, taking into account all material risks.

These processes are known internationally as the Internal Capital Adequacy Assessment Process (ICAAP). The goal of the Argenta Group's risk management is to have the best possible capital structure and risk control, on a par with that of the major market players, and with which at the same time it continues to meet the statutory capital requirements.

Executing the business plan, with sufficient capital at all times to pursue the planned growth, is a key factor here. Within this framework, a Forward looking assessment of the ICAAP is performed.

Attention is also paid to the adequacy of liquidity. In addition to the regulatory ratios, a wide range of internal analysis and stress testing is performed. With respect to the regulatory ratios, the company applies a minimum of 105% with a target of 125% for the short-term liquidity ratio Liquidity Coverage Ratio (LCR) and a minimum of 100% with a target of 120% for the long-term liquidity ratio Net Stable Funding Ratio (NSFR).

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

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

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

ICAAP incorporates all the bank's procedures and calculations used to ensure:
- the proper identification and assessment of the risks to which it is exposed;
- the maintenance of adequate internal capital in line with the bank's risk profile;
- the use and further development of risk management systems.

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

Stress tests and stress scenarios

The Company conducts periodic stress tests. Every two years, Argenta, like all other significant banks that are subject to direct supervision by the ECB, is subject to the EBA/ECB stress test. These stress tests took place in 2014 and 2016 and will be re-organised in 2018. The purpose of the stress test is, on the one hand, to evaluate the shock resistance of the European banking system and, on the other hand, to assess the financial health, risk profile and sustainability of the business model under negative market developments. In intermediate years, the European banking sector is subjected to specific stress tests, such as the IRRBB stress test in 2017. This stress test is intended to test the sensitivity of the market value and interest income in 6 hypothetical interest rate scenarios. The results of both stress test are one of the factors on the basis of which Argenta's minimum capital requirement is determined, expressed in terms of a P2 (Pillar 2) Requirement and a P2Guidance.

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

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

All material risk factors are also modelled in ICAAP. In this way the total ICAAP provides a more comprehensive picture of capital requirements. This results in a direct link between the ICAAP calculations and the economic capital adequacy ratio (99.90%) from the RAF.

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

In the 95% value stability scenario, the red RAF limit is 30%, so that after this level of stress, an RBC (Risk Bearing Capacity) ratio of at least 100% remains. The green zone starts from less than 25%.

In the 80% income stability scenario, the red RAF limit is 100% of the NIBT (net income before tax), so that negative results should never be published. The green zone starts from less than 50%.

After calculating the required economic capital comes the annual global Supervisory Review and Evaluation Process (SREP): this monitoring process by the regulator covers the evaluation of the capital and liquidity adequacy of the bank, the robustness of the business model and the adequacy of the risk governance framework. The result of the SREP is communicated annually to the bank. It consists - in addition to the minimum capital requirements and capital recommendations - the regulator's assessment of the 4 SREP components on the basis of which the bank is evaluated. Where appropriate, actions and recommendations are prescribed in order to solve shortcomings.

The SREP evaluation by the ECB resulted in 2017 in a capital decision imposing this time a P2R (Pillar 2 capital requirement) of 1.75% for 2018. This means that Argenta needs, under the IRB (internal rating based) method, to present a CET1 (common equity Tier 1) of 8.875% (10.375% including alternative Tier 1 substitution) and a TCR (total capital ratio) of 12.375%, also taking into account the phasing in of the combined capital buffers.

19. Supplementary disclosure

The Company uses both the standard approach and the (F)IRB method for calculating the capital requirements.

As a result of the application of the transitional provisions during a transition from the standard method to the IRB method, the calculations as per Basel I remain of essential importance.

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

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

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

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

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

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