Argenta Bank- en Verzekeringsgroep nv*

Pillar 3 disclosures

Capital adequacy & risk report

2019

argenta.be

* BVg conso CRR scope

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1. Introduction

Pursuant to the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD) of the European Union (EU), this report is disclosed on an annual basis. It contains all the information that is relevant for assessing the risk profile and capital adequacy of Argenta Bank- en Verzekeringsgroep nv, in abbreviated form BVg (hereafter the 'Company'). The report is prepared annually, following a pre-defined method, and validated by management.

It provides insight into aspects like 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 and implementing regulations, insofar as they apply to BVg.

- Part eight of CRR (Disclosure by institutions – better known as Pillar 3 disclosures, see section 1.3 for detailed index);
- Disclosure of the leverage ratio (EBA/ITS/2014/04);
- Disclosure of own funds requirements (EU No 1423/2013);
- Disclosure of encumbered and unencumbered assets (EBA/RTS/2017/03);
- Disclosure of remuneration policy (EBA/GL/2015/22);
- Disclosure of countercyclical capital buffer (EBA/RTS/2014/07);
- EBA guidelines for pillar 3 disclosures (EBA/GL/2016/11);
- Disclosure of liquidity coverage ratio (LCR) (EBA/GL/2017/01);
- Disclosure of transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01);
- Disclosure of non-performing and forborne exposures (EBA/GL/ 2018/10).

Argenta Group has decided not to use the transitional arrangements to limit the impact of the introduction of IFRS 9 on own funds. Therefore, the full impact of IFRS 9 is reflected in own funds, capital and leverage ratios from 1 January 2018. In the context of the crisis caused by the 'COVID-19' pandemic, supervisory authorities and governments are investigating the possibility of allowing credit institutions to make renewed use of the transitional measures in 2020 for the impact of this crisis on the expected credit losses, to limit the impact on the own funds. More information relating to this event after the balance sheet date is included in chapter 19. Supplementary disclosure of this report.

Only relevant fields and fields with values are shown in these disclosures, as well as in the tables appended to this report. Taking into account the fact that the European Banking Authority encourages the financial institutions to publish the tables and templates in an editable format, Argenta Group has opted to publish the relevant tables and templates in a separate Excel appendix to these Pillar 3 disclosures.

These Pillar 3 disclosures only include disclosures concerning BVg consolidated in accordance with the CRR scope. In previous years, the Pillar 3 disclosures were disclosed at the consolidated level of Argenta Spaarbank. As a result, the figures in the current report as of 31 December 2018 are not always comparable to the figures disclosed in the Pillar 3 disclosures as of 31 December 2018.

The information in these Pillar 3 disclosures is consistent with, and partially overlaps, information provided in the IFRS annual reports (BVg and its subsidiary Argenta Spaarbank). Consequently, these disclosures should be viewed in conjunction with, inter alia, the 'risk management' chapter of the IFRS annual reports.

1.1. Argenta Bank- en Verzekeringsgroep - Profile

The Company is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company. The Company has been established for an unlimited duration and its registered office is situated at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a mixed financial holding company, a parent company which is not a regulated company and which is at the head of a financial conglomerate pursuant to Art. 3, 39 of the Banking Act. The Company consolidates and is responsible for the joint control of the subsidiaries Argenta Spaarbank (Aspa) and Argenta Assuranties (Aras). Aspa, together with its branch office in the Netherlands and the management subsidiaries Argenta Asset Management (AAM) and Arvestar Asset Management, forms the bankpool. The insurance pool consists of Aras with a branch office in the Netherlands. The bankpool, insurance pool and BVg are collectively referred to as the Argenta Group.

The Company is the holding company of the Argenta Group. Its operations consists of Internal Audit, Compliance, Risk & Validation, Non-Financial Risk Management & Supervisory Office, Legal Affairs, Organisation & Talent and Procurement & Facilities. These activities are organised and managed centrally for all Argenta Group companies.

Aspa has the status of a Belgian credit institution and the legal form of a public limited company that has made a public call for savings. Aspa's core activities consist of attracting funds, providing means of payment, offering investment funds, managing its own investment portfolio, offering housing loans to individuals and, to a lesser extent, loans to local authorities, public-private partnerships and counterparties active in the development and/or exploitation of real estate.

The Company and Aspa are subject to the CRR and CRD legislation and the insurer Aras to the Solvency legislation. Given the dissimilarities between these two sets of 'capital' legislations, a so-called CRR consolidation is required for reporting at the consolidated BVg level. This concerns a consolidation without the insurer (i.e. a consolidation of the bankpool with BVg on an unconsolidated basis).

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

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

As a financial conglomerate with significant banking and insurance activities, the Company must, in addition to CRR and CRD legislation, also comply with the FICOD regulations (Financial Conglomerate Directive, directive 2002/87/EC). This directive implies that the Company has additional reporting requirements regarding capital adequacy with respect to the consolidated position of the bank and insurance pool.

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 disclosed in full each year on the Argenta Group website (www.argenta.be).

The disclosures in the present document relate to the Company and its subsidiaries. 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) differ. The differences between the accounting and regulatory consolidation scope can be extracted from tables **LI1** and **LI2** (in the Excel appendix) and are explained mainly by the fact that the subsidiary Aras is not included in the CRR consolidation scope. A detailed reconciliation between the accounting equity according to the CRR scope compared to the IFRS scope is included in table 3a (see section 3.1).

For an overview of the entities included in the consolidation, we refer to table **LI3** in the appendix.

The Luxembourg company AAM and the Belgian company Arvestar act as fund managers and administrative agent of the funds of Argenta. Therefore, the companies have the status of fund manager.

Although there is no capital link with the Company, the SPV Green Apple entities are consolidated in accordance with the IFRS consolidation principles for structured undertakings. Consequently, the loans transferred are reflected in the balance sheet of the bankpool.

Further information on these Green Apple SPVs can be found in chapter 15. Exposure to securitisation positions. Argenta Spaarbank carried out securitisations in October 2017, June 2018 and June 2019.

The Argenta Group also has a 29.39% share in European Investment Company (EPICo), a Benelux infrastructure fund.

In November 2019, Jofico was established, a joint venture between Argenta Spaarbank, Axa Bank, Crelan, VDK bank and Bpost. Jofico will manage all ATMs of these institutions. This collaboration enables the participating companies to optimise the operation of the ATMs and continue to offer high-quality services.

EPICo and Jofico are valued according to the equity method.

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

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

1.3. Applied approach and key figures Pillar 1

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 covered by real estate', and on financial institutions, corporates, and securitisation positions. From 30 June 2018 onwards, after approval by the ECB, the standard approach has been applied to the CBHK retail portfolio. For all other exposures to credit risk and other risks, it applies the standard approach.

Table **KM1**, also included in the appendix, gives an overview of the relevant figures and ratios for the Company at year-end.

Table 1: Key metrics

		RAF standard	31/12/2018	31/12/2019
Available capital				
1	Common Equity Tier 1 (CET1)		2,081,652,232	2,281,816,364
2	Tier 1 capital		2,081,652,232	2,281,816,364
3	Total capital		2,310,843,313	2,496,740,235
Risk-weighted items				
4	Total risk-weighted assets (RWA)		9,048,817,115	9,003,675,544
Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	15%	23.00%	25.34%
6	Tier 1 capital ratio (%)		23.00%	25.34%
7	Total capital ratio (%)	17%	25.54%	27.73%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirements (%)		1.88%	2.50%
9	Countercyclical capital buffer requirement (%)		0.04%	0.05%
10	O-SII (Other Systemically Important Institution) capital buffer requirements (%)		0.75%	0.75%
11	Total CET1 specific buffer requirements (%)		2.66%	3.30%
12	% CET1 available to meet buffers after meeting minimum capital requirements (after 4.5% basic requirement)		18.50%	20.84%
Leverage ratio				
13	Baseline total exposure figure for calculating the leverage ratio		41,296,409,729	44,904,880,904
14	Leverage ratio (%) (row 2 / row 13)	4%	5.04%	5.08%
Liquidity Coverage Ratio (LCR)				
15	Total high-quality liquid assets (HQLA)		4,654,335,242	5,500,529,349
16	Total net cash outflow		2,718,542,703	3,174,164,593
17	LCR ratio (%)	125%	171.21%	173.29%
Net Stable Funding Ratio (NSFR)				
18	Total available stable funding		36,344,395,047	38,875,972,349
19	Total required stable funding		25,818,527,934	28,604,300,456
20	NSFR ratio (%)	120%	140.77%	135.91%

The bankpool's liquidity risk appetite is also monitored on the basis of the LCR and NSFR provided in the overview above. The LCR compares the liquidity buffer against a pre-defined outflow of financial liabilities over a 30-day period. The NSFR compares available liquidity against the liquidity required over a period of at least one year. A detailed description of the liquidity risk can be found in chapter 18. Capital and liquidity management. Table **LIQ1** relating to the disclosure of the liquidity coverage ratio is included in the appendix.

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

1.4. Detailed index with Pillar 3 references

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

Table 2: Overview CRR 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 el. al. (Art. 435 2)	Part 7. Corporate Governance (Integrated Activities and Sustainability Report 2019) and chapter 16. Remuneration policy, diversity and integrity
	435.2 (e) data flow risks to management entitities	Reference is made 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 is made 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 disclosed capital ratios are based on the CRR principles
438	Capital requirements	4. Capital requirements and 18. Capital and liqidity management
439	Exposure to counterparty credit risk	5. Exposure to counterparty credit risk
440	Capital buffers	4. Capital requirements and 18. Capital and liquidity 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 and other risks
447	Exposures to equities not included in the trading book	13. Exposure to equity
448	Exposure to interest rate risk on positions not included in the trading book	14. Exposure to interest rate risk
449	Exposure to securitisation positions	15. Exposures related to securitisation positions
450	Remuneration policy	16. Remuneration policy, diversity and integrity
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 and other risks
455	Use of Internal Market Risk Models	11. Exposure to market risk

2. Risk management

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

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

The strategy and long-term policy of all entities within the Argenta Group are determined by the Executive Committee and Board of the Company. The two main subsidiaries, Aspa and 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, Aspa and Aras are integrated, with a number of members in common: the CEO, the CFO and the CRO. The COO, the CCO and the CIO work for both Aspa and Aras, 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.

In order to strengthen the effectiveness of the supervision and control of the activities, operation and the risk profile of the Argenta Group by the Board of Directors, four specialised committees have been set up within the Board of Directors, namely:

- Audit Committee (at Aspa and Aras level);
- Risk Committee (at Aspa and Aras level);
- Remuneration Committee (at BVg level);
- Appointments Committee (at BVg level).

For each committee, the Board of Directors has established a charter, setting out in detail its roles and tasks, composition and operation.

In summary, the specialised committees have the following responsibilities:

- Audit Committee:
  - Supervision of the financial reporting process, the internal audit (including the internal control and risk management systems) and the statutory audit of the (consolidated) annual accounts (including follow-up of recommendations and questions received from the statutory auditor);
  - Assessment and monitoring of the independence of the statutory auditor, more specifically with respect to the performance of additional services to Argenta Group or to a person with which it has a close relationship;
  - Assessment and monitoring of the compliance function.
- Risk Committee:
  - Monitoring the independence, professionalism and experience of employees within the risk management function (governance);
  - Monitoring the identification of material business risks and the adequacy of the methods used by the risk management function to mitigate these risks;
  - Advising the Board on setting tolerance limits for identified business risks, reflecting an acceptable level of risk for the execution of the activities;
  - Monitoring that risk management continues to achieve the required level of tolerance in changing operating conditions;
  - Monitoring that the commercialisation and pricing of products offered to customers is in line with the established business model and the business risk strategy;
  - Determining the nature, scope, form and frequency of the desired information in relation to risks;
  - Monitoring the adequacy of the remuneration system, with reference to risk management, own funds requirements, liquidity position and the probability and spread over time of the profit.

- Remuneration Committee and Appointments Committee:
  - For the tasks and responsibilities of both committees, we refer to chapter 16. Remuneration policy, diversity and integrity.

The Company has formalised its risk appetite in the risk appetite framework ("RAF"). All significant risks to which the Company is exposed are included in the risk mapping and tested against the risk appetite.

The RAF has evolved as an important part of management and provides a connection between the business strategies (commercial and financial) and risk appetite. The RAF is embedded as an active steering tool in the organisation and:

- forms the core of the risk monitoring and the escalation framework;
- translates the risk appetite into measurable criteria and objectives (indicators);
- provides senior management and Board members/the Risk Committee with a practical tool for communicating, measuring and monitoring the risk targets;
- is embedded in the multi-year business cycle; and
- is further translated into operational policies that include a broad set of operational limits/flashing lights.

The risk profile of the bankpool and the insurance pool is mapped out at every quarter/year-end. The risk profile is determined by assigning a colour to each risk indicator and by calculating an average risk score. A limitative number of RAF limits are linked to these risk parameters.

In addition, a pro-active (in preparation for the business plan) and a budgeted RAF (for evaluating the business plan) are drawn up. In this way the RAF is reported from 3 perspectives and is strongly embedded within the business plan.

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 bankpool (and Own Risk & Solvency Assessment (ORSA) for the insurance pool) and, on the other hand, policy documents in which a further translation into operational risk limits is included.

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 2019 to develop its cautious and transparent risk management with the above-mentioned RAF, policies and procedures.

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

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

The chapter 'risk management' (which is included in the IFRS annual reports published 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 designed to ensure that the known risks are always properly identified, analysed, measured, monitored and managed.

The risk management of the Company distinguishes here, among other things, between the following financial and non-financial risk categories: market risk, liquidity risk, credit risk, non-financial risks and also the insurance risks (for the insurance pool).

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 financial year 2019.

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

The risk management function has prepared an activity report (including action plan) 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 2019 and within the legal requirements imposed on the risk management function. They also pointed to the increasing attention being paid to non-financial risks, with a focus on cyber, outsourcing and compliance 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 the IFRS standards. Table 3a below provides the reconciliation of equity between IFRS and CRR scope. Table 3b reconciles the IFRS accounting equity with the prudential Tier 1 core capital.

Table 3a: Reconciliation of equity between IFRS scope and CRR scope

Components	CRR scope	IFRS scope	Difference
Paid-in capital	687,413,600	687,413,600	0
Share premium	356,795,403	356,795,403	0
Fair value changes of equity instruments	0	37,106,453	-37,106,453
Revaluation reserve for available-for-sale financial assets	33,683,082	70,689,151	-37,006,069
Revaluation pension arrangement	-1,440,781	-1,427,331	-13,450
Reserves (including retained earnings)	1,224,700,220	1,543,017,138	-318,316,918
Profit from the current year	141,597,628	173,989,604	-32,391,976
Cash flow hedging	-4,701,135	-4,701,135	0
Total equity attributable to shareholders of the company	2,438,048,017	2,862,883,093	-424,835,076
Non-controlling interests	137,866	138,836	-970
Total equity and non-controlling interest	**2,438,185,883**	**2,863,021,929**	**-424,836,046**

The difference between the CRR scope and IFRS scope can be explained by the elimination of the items related to the subsidiary Aras. The decrease in profit from the current year in the CRR scope compared to the IFRS scope is explained by the elimination of the profit of Aras for the financial year 2019 (EUR 58.5 million), which is partly offset by the dividend that Aras has paid to BVg (EUR 26.1 million which is eliminated in the IFRS scope).

Table 3b: Reconciliation of accounting equity versus Tier 1 equity

Components	31/12/2018	31/12/2019
Paid-in capital	679,071,000	687,413,600
Share premium	336,140,794	356,795,403
Revaluation reserve for available-for-sale financial assets	14,196,114	33,683,082
Revaluation pension arrangement	75,434	-1,440,781
Reserves (including retained earnings)	1,154,065,387	1,224,700,220
Profit from the current year	148,194,633	141,597,628
Cash flow hedging	-8,150,457	-4,701,135
Total equity attributable to shareholders of the company	2.323,592,935	2,438,048,017
Non-controlling interests	55,343	137,866
Total equity and non-controlling interest - IFRS (CRR scope)	**2,323,648,278**	**2,438,185,883**
Adjustments		
(-) Inapplicable part of interim or year-end results	-79,722,936	0
Non-controlling interests	-55,343	-137,866
Tier 1 core capital before application of prudential filters	**2,243,869,999**	**2,438,048,017**
Fully paid-in capital instruments	679,071,000	687,413,600
Share premium	336,140,794	356,795,403
Retained earnings	1,222,537,084	1,366,297,849
Cumulative unrealised results	6,121,121	27,541,165
Tier 1 core capital before application of prudential filters	**2,243,869,999**	**2,438,048,017**
Prudential filters		
Reserve for cash flow hedges	8,150,457	4,701,135
Profits and losses (at fair value) deriving from institution's own credit risk in respect of derivative instruments	-10,820,578	-5,472,916
(-) Value adjustments due to requirements for prudential valuation	-4,071,067	-3,759,937
(-) For IRB, negative difference between credit risk adjustments and expected loss items	-4,116,471	-4,336,113
(-) Other intangible assets	-144,927,112	-141,371,401
(-) Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-6,432,996	-5,992,420
Tier 1 core capital	**2,081,652,232**	**2,281,816,364**

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

Note on prudential filters

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

- cash flow hedge reserve: 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 own funds. At end-2019, EUR 4,701,135 was included in this way in own funds. However, in accordance with the CRR, this amount may not be included in determining the prudential capital;
- gains and losses measured at fair value arising from the institution's own exposure in connection with derivative liabilities: deducted here is the positive impact of own exposure in calculating the market values of derivative instruments. This amounted to EUR 5,472,916 at end-2019;

- 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 3,759,937 at end-2019).
  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 own funds. This adjustment (of 0.1%) is calculated and deducted from the qualifying own funds;
- other intangible assets (including goodwill): the deduction of the other intangible assets (mainly software) less deferred tax liabilities as provided for in the CRR regulations. At end-2019, the net impact amounted to EUR 141,371,401;
- deferred tax assets that rely on future profitability (excluding those arising from temporary differences). At end-2019, these deferred tax assets amounted to EUR 5,992,420;
- 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 deducted the shortfall from the prudential Tier 1 core capital. At end-2019, the difference between the expected losses (EL) and impairments amounted to EUR 4,336,113.

3.2. Composition of prudential equity and capital ratios

The table **EU 1423-2013 (ii)**, appended to this report, shows the detailed composition of equity and the relevant capital ratios.

3.3. Main features of capital instruments

The main features of the capital instruments issued by the Company are described in the appendix. This description has been included in the standard format of the relevant table ("main features of capital instruments", see template **EU 1423-2013 (i)** in the appendix).

This gives a further disclosure of lines 1 and 46 "capital instruments and the related premium reserves" in the EU 1423-2013 (ii) table in the appendix. Given that the Tier 2 bond was issued by Aspa, it is considered as qualifying own funds instruments issued by subsidiaries and held by third parties that are included in the consolidated Tier 2 capital (line 48 EU 1423-2013 (ii)). Consequently, it is not included in template EU 1423-2013 (i). At BVg level, the Tier 2 issue has to be calculated with "minority interests" the amount recorded in the regulatory capital is equal to EUR 214.9 million at the end of December 2019.

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.

In 2016, a Tier 2 bond was issued by subsidiary Aspa. The nominal value of the issue amounted to EUR 500 million with a maturity of 10 years with a prepayment option after 5 years. In 2019, Aspa also issued a EUR 500 million bond as part of a newly launched EMTN programme. This also added a new source of financing to Argenta's retail financing model. The prospectus and investor presentation of both issues can be found on the www.argenta.eu website (under the heading "debt issuance").

These transactions enable Argenta to contribute to the regulatory bail in-requirements (MREL) and enhances its A- rating from Standard & Poor's. With regard to MREL, Aspa is considered as the single point of entry and, based on a SRB decision, a MREL requirement of 4.85% applies compared to the total of debts and own funds.

4. Capital requirements

4.1. Capital requirements

A minimum solvency ratio is required of 4.5% of the Common Equity Tier 1 (CET1), 6% for the total Tier 1 ratio and 8% for the total capital ratio (these are the pillar 1 requirements). Furthermore, a number of additional buffers were introduced. The CRD provides for three additional capital buffers including a capital conservation buffer (CCB).

This buffer can be up to 2.50%. The CCB was phased in and amounts to 2.50% from 2019 (1.875% in 2018).

The Company may also be required to set up a countercyclical capital buffer, effectively an additional Tier 1 core capital requirement. This buffer has been introduced 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 this requirement is subject to quarterly review. Tables **CCyB1** and **CCyB2**, appended to this report, provide further details on the institution-specific countercyclical capital buffer. Based on these tables, the institution-specific countercyclical capital buffer amounts to 0.05% at 31 December 2019.

The Belgian regulator has designated the Argenta Group as O-SII or 'other systemically important institution'. As a result the Company is be subject to an additional Tier 1 core capital requirement (O-SII buffer) of 0.75%.

The 3 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 disclosed of indicators of global systemic relevance (CRR Article 441).

In the SREP framework, the competent supervisory authority can require higher minimum ratios (pillar 2 requirements) because, for example, not all risks are fully reflected in the pillar 1 calculations. Based on the SREP process, a capital requirement of 9.50% was applicable for 2019. This consisted of a basic requirement of 4.5%, the CCB of 2.50%, an O-SII buffer of 0.75%, the P2R (pillar 2 requirement) of 1.75% . Furthermore, the countercyclical capital buffer of 0.05% needs to be taken into account. Since the Company has no additional Tier 1 (AT1), the CET1 requirement is de facto 11.05% (9.55% + 1.5% AT1).

This results in a Total Capital Ratio (TCR) of 13.05% (being 11.05% and 2% Tier 2 requirement).

The Company amply met all these requirements in 2019 with a CET1 (IRB) of 25.34% and a TCR (IRB) of 27.73%.

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 which are currently applicable i.e. the credit, CVA (counterparty), market and operational risks.

Table **OV1**, included in the appendix, contains an overview of the risk-weighted assets and minimum capital requirements at the end of the year.

In the OV1 table presentation form, the securitisation positions in the banking book are presented separately (line 14), while in the following tables, they are classified under credit risk but then broken down according to the applied approach.

The totals in line 29 of the table OV1 therefore form the basis for the more detailed disclosures.

The limited decrease in risk-weighted items is mainly the result of (a) no longer applying the haircut on mortgage registration under the standard approach for mortgages in conformity with the CRR principles and market practice (b) a decrease in RWA relating to operational risk, (c) a decrease in RWA related to CVA (for non-centrally-cleared positions, see section 5.7) due to the run-off of the portfolio (fewer contracts and shorter durations), (d) the reduction in the duration of the securitisation portfolio and (e) the decreasing securitisation portfolio and an additional switch in the last quarter of 2019 to cash placed with the ECB. In order to support the transmission of monetary policy via the banks, a two-tier system for the reimbursement of reserves system was introduced by the ECB in the autumn. As from November, part of the excess liquidity held by the banks was exempted from negative interest on the deposit facility. As a result, the Company placed part of its excess liquidity with the ECB, which leaded to a growth of the monetary reserve to EUR 2,425 million at end-December 2019 (compared to EUR 966 million at end-December 2018).

The above-mentioned decreases were partly offset by an increase in the add-on for mortgage loans in Belgium.

4.3. Capital Ratios

The table below shows the various capital ratios of the Company.

Table 4: Capital requirements and capital ratios at year-end

Components	31/12/2018	31/12/2019
Total qualifying capital	2,310,843,313	2,496,740,235
Total CET1 capital	2,081,652,232	2,281,816,364
Risk-weighted items	9,048,817,115	9,003,675,544
CET1 capital ratio	23.00%	25.34%
Tier 1 capital ratio	23.00%	25.34%
Total capital ratio (TCR)	25.54%	27.73%

The Common Equity Tier 1 capital ratio (CET 1) has now become the most important ratio. This calculation uses this core Tier 1 equity instead of total equity. The RAF standard for the IRB CET1 ratio is 15%.

The total regulated qualifying capital at 31 December and throughout 2019 was exceeding the applicable prudential and internal requirements, and therefore the Company fully complied with all capital requirements.

4.4. Risk-weighted items

The capital requirements for credit risk 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 decreased from EUR 9,048,817,115 at end-2018 to EUR 9,003,675,544 at end-2019. In this way the total capital requirement has fallen from EUR 723,905,369 to EUR 720,294,044.

Table 5: Total risk-weighted assets and capital requirements per category

	31/12/2018		31/12/2019	
	Basel III RWA	Capital requirement	Basel III RWA	Capital requirement
Credit risk - STA				
Central governments or central banks	16,960,517	1,356,841	45,581,384	3,646,511
Regional and local governments	99,583,158	7,966,653	100,922,124	8,073,770
Public sector entities	97,784,790	7,822,783	28,854,751	2,308,380
Institutions	11,494,222	919,538	9,350,466	748,037
Corporates	192,584,351	15,406,748	113,337,148	9,066,972
Retail clients	126,855,312	10,148,425	179,156,775	14,332,542
Covered by real estate	347,824,341	27,825,947	325,855,848	26,068,468
Exposures in default	17,716,480	1,417,318	10,935,697	874,856
Equity	15,469,378	1,237,550	17,647,438	1,411,795
Other items	135,821,676	10,865,734	270,951,273	21,676,102
Securitisation positions	42,460,078	3,396,806	31,769,426	2,541,554
Total credit risk STA	**1,104,554,303**	**88,364,344**	**1.134,362,330**	**90,748,986**
Credit risk - IRB				
Institutions	564,663,196	45,173,056	666,080,201	53,286,416
Corporates	1,302,038,165	104,163,053	1,173,892,347	93,911,388
Covered by real estate	3,396,270,504	271,701,640	3,337,601,284	267,008,103
Equity	652,848,373	52,227,870	652,848,373	52,227,870
Securitisation positions	76,576,274	6,126,102	40,809,445	3,264,756
Total credit risk IRB	**5,992,396,512**	**479,391,721**	**5,871,231,650**	**469,698,532**
Securitisation positions SEC-ERBA (new securitisation framework)			9,214.207	737,137
Total credit risk	**7,096,950,815**	**567,756,065**	**7,014,808,188**	**561,184,655**
Add-on for Belgian mortgage loans	783,658,995	62,692,720	869,733,488	69,578,679
Market risk	0	0	0	0
CVA risk	125,458,874	10,036,710	84,561,799	6,764,944
Operational risk	1,042,748,431	83,419,874	1,034,572,070	82,765,766
Total capital requirement	**9,048,817,115**	**723,905,369**	**9,003,675,544**	**720,294,044**

The risk-weighted volume for credit risk (excluding the add-ons) calculated by the IRB/STA method was EUR 7,096,950,815 as of 31 December 2018, evolving to EUR 7,014,808,188 as of 31 December 2019. This resulted in a capital requirement of EUR 561,184,655 (compared to EUR 567,756,065 as of 31 December 2018).

The total capital requirement for all risks (i.e. including the requirement for CVA, the 5% add-on on EAD and 33% add-on on RWA for Belgian loans and the operational risks requirement) amounted to EUR 720,294,044.

5. Exposure to counterparty credit risk

5.1. Composition of credit risk

Tables **LI1** and **LI2**, included in the appendix, provide an overview of the differences in consolidation scope, as well as the definition and classification of the exposures. Additional information is included on items to be deducted from capital and factors that causes a difference in exposure value between the accounting and regulatory framework.

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 the 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 6: Overview of off-balance sheet items at year-end

Related COREP tables	CCF percentages	Exposure 31/12/2018	Exposure 31/12/2019
Tabel C.07 (STD)	0%	636,515,402	660,897,150
	20%	377,524,556	231,883,450
	50%	5,154,898	24,271,177
	100%	782,487,435	490,972,102
	Total STD approach	1,801,682,291	1,408,023,879
Tabel C.08 (IRB)	100%	495,244,747	960,901,845
	Total	**2,296,927,037**	**2,368,925,725**
Total weighted risk volume		**243,225,518**	**249,204,262**

The 'unconditionally cancellable credit card commitments' (EUR 636,515,402 as of 31/12/2018 and EUR 660,897,150 as of 31/12/2019) 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, the securitisation positions are included as they are also processed in this way in the prudential reporting. Table **CRB-B**, appended to this report, provides an overview of exposures by counterparty classification, divided into on-balance sheet items, off-balance sheet items and derivatives.

The exposures covered by immovable property are mainly processed by the IRB approach, with a limited position (including certain off-balance sheet items and the CBHK portfolio) still processed by the STA approach.

The following table provides a separate global geographic overview for the Basel category 'exposures covered by immovable property' (STA and IRB approaches summed together). The most important geographical markets in which the Company is is active are Belgium and the Netherlands.

Table 7: Geographical distribution of the 'exposures covered by immovable property'

Country	31/12/2018	31/12/2019
BE	13,124,336,317	14,540,334,570
NL	17,246,551,271	17,250,913,003
Other	35,245,936	38,154,923
Total	**30,406,133,524**	**31,829,402,496**

The total of EUR 31,829,402,496 is the summation of the total in line 7 of table CRB-B appended to this report (total exposure per 31/12/2019 of EUR 30,646,596,018) and the total in line 26 of this table (total exposure per 31/12/2019 of EUR 1,182,806,478).

The table above is based on the borrower's geographic location, with an 'other' category for borrowers having (or 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 geographic breakdown of the investment portfolio, also included in table **CRB-C** appended to this report, is based on the country of the issuer.

The breakdown by significant counterparties is included in table CRB-C, 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. Table **CRB-E**, appended to this report, indicates the remaining durations of the exposures in the main Basel categories.

5.3. Credit risk mitigation

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

The main guarantee for the mortgage loans granted by the Company is the property for which the loans are given and for which a mortgage registration or a mortgage mandate can be taken. For mortgage loans in Belgium, a combination of mortgage registration and mortgage mandate is also possible. The use of mortgage mandates is, however, not possible for loans granted in the Netherlands. In the assessment of a loan, the collateral value is always taken into account. This implies that a valuation must be performed at the time of the mortgage registration/mortgage mandate

On the one hand, the Company uses the valuation report of an independent external expert for this valuation of the real estate collateral. However, this valuation report may not be more than one year old.

On the other hand, there is also the possibility of using notarial sales deeds (both preliminary sales contract and final deed). As soon as the value of the property is known, the property is revalued annually based on statistics and evolutions on the real estate market.

The evolution of real estate prices has an influence on lending to individuals and also influences the credit risk through the use of immovable property as collateral. The evolution of the property values is therefore systematically monitored and periodical revaluations are executed. The Company has a concentration in lending to private individuals in Belgium and the Netherlands, more particularly in the form of retail mortgages. This makes the company dependent on developments in the housing market.

The loan to value (LTV) parameter is, alongside repayment capacity, an important indicator for assessing the initial risk of new loans (ratio 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 duration of the loans. With a bullet loan the total amount is repaid in full only on the final maturity date. During the duration of the loan this capital is built up through life insurance or investment accounts.

In addition, for Dutch mortgages there is still the NHG ('Nederlandse Hypotheek Garantie') guarantee that exists for more than 60 percent of the mortgage loans made in the Netherlands by Argenta. The NHG is provided by the 'Waarborgfonds Eigen Woningen' (Homeownership Guarantee Fund – WEW) foundation. This 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 established on 10 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 goal of the WEW is to promote home ownership. It is responsible for the policy and the implementation of the NHG. Every year, it sets rules for granting NHG guarantees. These 'conditions and standards' must be approved by the Minister of the Interior and Kingdom Relations. Administration of the NHG guarantees is undertaken by the credit institutions. Credit files are analysed and reviewed 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) considers the NHG as a government guarantee. Consequently, loans covered by the NHG generally require less capital from the funds provider. This advantage for lenders is 'returned' to consumers in the form of lower mortgage interest on NHG-backed loans.

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

This unfunded (NHG) guarantee can be found in the STA Basel II category 'secured by real estate'. Account is taken in all calculations of the decrease of this NHG guarantee in line with the annuities, as well as the 10% deductible applicable to any loss on NHG loans from 2014 onwards (this decrease is included in the LGD parameter).

Additional details on the valuation of immovable property is included in the IFRS valuation rules and in chapter 5 of the Company's IFRS annual report.

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 relating to 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 relating to an institution's exposure is limited by means of a right that the institution has acquired. In the event of counterparty default or other specified credit events associated with the counterparty, certain assets or items can be liquidated or taken over, or ownership of assets or items can be acquired or retained, or else the exposure can be reduced or replaced by the difference between the exposure itself and a claim on the institution.

Table 8: Overview of exposures per category

	Risk exposure	Unfunded credit protection	Funded credit protection	Total inflow	Adjusted exposure
Central governments or central banks	3,785,045,100	0	0	457,639,960	4,242,685,060
Regional goverment or local authorities	595,736,982	-4,772,118	0	97,581,546	688,546,411
Public sector entities	205,538,668	-61,264,911	0	0	144,273,757
Institutions	132,883,091	-96,974,543	0	0	35,908,548
Corporates	169,313,783	-31,544,518	0	5,138,251	142,907,516
Retail	902,567,997	0	0	0	902,567,997
Covered by real estate	1,182,806,478	-360,665,417	0	0	822,141,061
Exposures in default	10,778,933	0	0	0	10,778,933
Equity	22,785,689	-5,138,251	0	0	17,647,438
Other items	940,463,109	0	0	0	940,463,109
Securitisation positions	158,847,130	0	0	0	158,847,130
Total exposures (STA)	**8,106,766,960**	**-560,359,758**	**0**	**560,359,758**	**8,106,766,960**
Institutions	2,826,428,524	0	0	0	2,826,428,524
Corporates	3,082,763,161	0	0	0	3,082,763,161
Covered by real estate	30,646,596,018	0	0	0	30,646,596,018
Equity	176,445,506	0	0	0	176,445,506
Securitisation positions	541,095,081	0	0	0	541,095,081
Total exposures (IRB)	**37,273,328,290**	**0**	**0**	**0**	**37,273,328,290**
Securitisation positions SEC-ERBA	92,142,075	0	0	0	92,142,075
Total exposures	**45,380,095,250**	**-560,359,758**	**0**	**560,359,758**	**45,380,095,250**

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

One form of credit protection is also the accumulated savings amounts for some mortgage types in the Netherlands. These savings amounts are taken into account when determining the exposures.

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. Furthermore, the Dutch Mortgage Guarantee (NHG) also exists for Dutch mortgage loans.

The following tables break down the EUR 96,974,543 of credit protection in the 'institutions' category, EUR 61,264,911 of credit protection in the 'public sector entities' category, and EUR 31,544,518 of credit protection in the 'corporates' category.

Table 9: Government guarantees in the 'institutions' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	1	34,947,917	34,940,577
Spanish government	1	12,000,430	11,996,709
Czech government	1	50,047,775	50,037,257
Total unfunded credit protection - guarantees in the 'institutions' category			**96,974,543**

Table 10: Government guarantees in the 'public sector entities' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	12	61,279,245	61,264,911
Total unfunded credit protection - guarantees in the 'public sector entities' category			**61,264,911**

Table 11: Government guarantees in the 'corporates' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	7	31,562,591	31,544,518
Total unfunded credit protection - guarantees in the 'corporates' category			**31,544,518**

Template **CR7** 'IRB effect on the risk-weighted assets of credit derivatives' has not been included in the appendix, as no credit derivatives are used.

5.4. Counterparty risk

The RAF, approved by the Board of Directors, establishes the desired credit risk profile in the form of measurable indicators. Credit limits are part of this and those limits define the maximum credit risk position per type of investment and counterparty level (these are detailed in the internal financial policy (included in chapter 5.6 Credit risk limits). This position depends on the creditworthiness of the counterparty and is expressed as a percentage of the CET1 at consolidated level of Aspa. As a general rule, deviations from this framework as a result of an individual transaction are only possible with an approval of the Board of Directors.

In this way, the assumptions and limits regarding non-retail counterparties are set out in the 'Credit Risk Limits' section of the internal financial policy.

This sets limits (for investments) per asset category, but also with respect to concentration risk by counterparty. These limits are monitored systematically and reported internally. The financial policy is also updated periodically, with the involvement of all internal departments and managements concerned.

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. The internal policy 'Credit risk policy retail' imposes limits on the composition of the portfolio and on production of mortgages.

Counterparty risk derivatives

Argenta Group's derivatives portfolio is quite small and serves exclusively for ALM management. The portfolio consists primarily of plain vanilla instruments. All derivatives are covered by CSAs (Credit Support Annexes). However, an exposure could arise when market conditions change in between collateral calls.

Argenta Group capitalises this residual risk in pillar 2 ICAAP by means of a stress scenario. This scenario is based on the method used by Argenta Group to calculate the CVA and DVA for the fair value measurement of the derivative portfolio under IFRS. The scenario also takes into account the possible concentration in counterparties.

First, the possible exposure ('Expected Exposure') is calculated per individual transaction, based on fluctuations in market value resulting from a 1 basis point change in the interest rate ('basis point value' - 'BPV') and volatility. Second, the exposure per transaction is summed per counterparty. Finally, this scenario simulates the impact of the liquidation of the largest counterparty, with full loss of additional receivables (LGD of 100%).

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 collateral/guarantee 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. We refer to section 5.3. Credit risk mitigation for more information regarding this collateral.

Collateral given

The Company also gives collateral on its own assets as part of its activities and operations.

A well-developed collateral management system exists for derivatives concluded by the Company. A CSA of the International Swaps and Derivatives Association (ISDA) is concluded with each counterparty. These CSAs are concluded primarily to limit the counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (securities or cash). Chapter 9 provides more information on the 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 derivatives counterparties. For a downgrade of the Argenta Spaarbank S&P rating by 1 notch (BBB+) no additional collateral is required. The impact on collateral of a downgrade of the rating by 2 or 3 notches (BBB or BBB-) is an increase of 10%, while for a downgrade of 4 or 5 notches (BB+ or BB), a mandatory increase of 20% applies to the collateral.

5.6. Wrong-way risk

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

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 introduction of the CRR, a capital requirement is also applicable for the CVA (Credit Valuation Adjustment) risk. The importance of counterparty risk in derivatives transactions has increased significantly 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 calculating a price 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 December 2019 an exposure of EUR 84,561,799 was obtained, on which a capital requirement of EUR 6,764,944 was calculated. This amount can be found in table OV1, appended to this report, which lists the risk-weighted items by risk type.

The opposite of the CVA measures the own credit risk. This is called the Debit Valuation Adjustment (DVA). The DVA calculated according to the IFRS standards amounted to EUR 5,472,916 and was deducted from the qualifying capital.

5.8. Add-ons for Belgian mortgage loans

The Belgian regulator has decided, for macro-prudential reasons, to impose a 5% add-on to the RWA on all Belgian financial institutions for Belgian mortgage loans under the IRB approach. In 2018, an additional factor of 33% was imposed on the RWA calculated under IRB on top of this 5% add-on.

A RWA of EUR 869,733,488 was obtained, on which a capital requirement of EUR 69,578,679 was calculated. This additional capital requirement was included in the calculation as of 31 December 2019.

5.9. Derivatives

At the end of 2019, the Company had on its balance sheet only derivative instruments (in the form of caps, swaptions 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 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 duration:

- 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 6,477,692 and the potential future credit risk was EUR 183,472,633. We refer to **CCR1** for an overview of exposures to counterparty risk.

The EUR 6,477,692 is included in the IFRS balance sheet under "financial assets held for trading" (EUR 2,342,550) and "derivatives used for hedging" (EUR 4,135,142).

The Company uses a central clearing institution (CCP) for a large part of its derivative instruments. Table **CCR8**, appended to the report, shows the exposure to ABN Amro Clearing Bank (which acts as a clearing member towards LCH Clearnet and with which the Company has concluded indirect clearing arrangements).

The global exposure to ABN Amro Clearing Bank amounted to EUR 536.5 million, of which EUR 368.1 million related to the central clearing of derivatives and EUR 168.4 million related to initial margin collateral at the CCP.

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 5 "Total risk-weighted assets and capital requirements per category" and in table **CRB-B** "Total and average values of exposures by exposure category", appended to this report.

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

Table 12: Exposures applying STA approach at year-end

	RWA 31/12/2018	RWA 31/12/2019
Exposure - standard approach	1,104,554,303	1,134.362,330
Exposure - standard approach without securitisation positions	1,062,094,225	1,102,592,904

More detailed information on securitisation and securitisation positions is included in chapter 15.

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

The higher of the two calculations should be taken as the requirement. At the end of 2019, the amount calculated by the STA method was higher than the one calculated by the IRB method. An additional EUR 1,498,700,731 of RWA was therefore included in the IRB category 'secured by real estate'.

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. At the same time, the participation value of the insurer (in an amount of EUR 176 million) is weighted under the IRB method at 370%, corresponding to a RWA of EUR 652.8 million.

Table 13: Exposures applying IRB approach at year-end

	RWA 31/12/2018	RWA 31/12/2019
Internal ratings-based approach (IRB)	5,992,396,512	5,871,231,650
IRB approach where neither self-estimated LGD parameters nor conversion factors are used	1,866,701,361	1,839,972,548
Institutions	564,663,196	666,080,201
Corporates	1,302,038,165	1,173,892,347
IRB approach using own LGD calculations and/or own conversion factors	3,396.270,504	3,337,601,284
Retail - covered by real estate	3,396,270,504	3,337,601,284
Participation value insurer (equity)	652,848,373	652,848,373
Securitisation positions	76,576,274	40,809,445

7.1. Credit - (F)IRB approval

From the 30 September 2009 reporting date onwards, the IRB method has been used for the mortgage portfolios, with some non-material exceptions. For the so-called CBHK portfolio, specific approval has been obtained from the ECB to apply the standard approach as from 30 June 2018. The Company applies here a 10% LGD floor for its mortgage loans including the Dutch NHG mortgage loans.

From 2012, the (F)IRB approach has also been used for the corporates, institutions and covered bonds portfolios.

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

The existing IRB model for the mortgage loans portfolio in Belgium was accepted, subject to the application of a factor of 1.15 to the internal LGD values as from 2020. Given the aforementioned application of the 10% LGD floor, this will have a very limited effect on the volume of the risk-weighted assets.

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 (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.

Internal rating systems have been developed to estimate the credit risk of the mortgage portfolios. In these systems models were further developed to assess and evaluate the Basel parameters Probability of Default (PD) and Loss Given Default (LGD).

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 created. A long-term PD is allocated to each risk category. This is the historic average default percentage, corrected for ‘forward-looking’ elements or model uncertainty.

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

LGD models have been 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 that 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). The SEC-ERBA approach (as described in EBA/ITS/2019/01) is applied to the MBSs purchased during the financial year 2019. From 1 January 2020, the entire portfolio of securitisations will be calculated according to the SEC-ERBA approach, in accordance with the new framework.

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 figures. For LGD, the regulatory loss percentages are used as IRB input.

7.2.2. Integration of the Basel parameters in the pricing process in the Pricos

The embedding of the (F)IRB approach in the context of the Basel credit risk has been 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 embedding in the operational credit departments is followed up on the basis 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 scoring, measurement and calculation software).

The Credit Risk Management Support (CRMS) department monitors the performance of the models for the mortgage portfolios, gathering the necessary monitoring information and reporting on it internally. The tasks of this department are described in the internal policy 'Credit risk policy - retail loans'.

The operational credit departments are responsible for granting and managing loans in accordance with the prevailing 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 standards and rules (risk-based acceptance).

The Credit Risk Analysis (CRA) sub-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, is also described in a comprehensive internal policy 'internal credit risk models (retail and non-retail)'. This policy aims to verify that the internal credit risk models indicate correctly the credit risk levels of the to which they relate, via:

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

7.2.3. Organisation of the (F)IRB process

The Credit Risk Control department is responsible, beside the operational aspects of managing loan defaults, for first-line control. The Credit & Insurance Risk Management Support 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 performed 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 (further) development of the internal models. This consists, for the Risk sub-department, of critical evaluation of and independent risk checks on the prepared reports and, for the Validation sub-department, of running through the validation cycle.

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

The validation process 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 of both the business and the developers/modellers. The validator's task is clearly and concretely defined in a Model Risk Management Framework (MRMF).

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

After approval, the models are implemented in the operational 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 Company'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 still working 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.

The Credit & Insurance Risk Management Support department and the Financial Management department analyse the frequency, reasons and types of deviations from 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 needs the services of independent in-house and external 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, the Risk department carries out stress tests. 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 retail and non-retail portfolios with the following aims:

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

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

7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

The Company has developed two global models for mortgage loans (residential mortgages). The first 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 mortgage loans granted in the Netherlands. For managing and administering the mortgage portfolio in the Netherlands, the Company uses an external service provider (Quion).

In previous years there was also a PD and LGD model for the so-called CBHK portfolio, which was built up in the past via the CBHK broker channel. In view of its run-off status and decreasing size, this sub-portfolio is processed by the standard method from 30 June 2018 onwards after specific approval from the ECB.

An important distinguishing feature in calculating the LGD of the Dutch mortgage loan portfolio is the NHG. The NHG means that the WEW guarantees the mortgage loan. The borrower pays a single premium for this (see the more detailed explanation in section 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.

Pooling - allocation to risk categories

The individual exposures are each assigned to a PD risk category (11 PD categories for Aspa loans, 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. All model-technical matters are discussed in the Model Overview Committee (GRC-Moco).

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 Group, 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) for the non-retail portfolio. All model-technical matters are discussed in the Model Overview Committee (GRC-Moco).

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 performed 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

Table **CCR4**, appended to this report, provides an overview of the exposure, average PD, average LGD, RWA and average risk weighting as at 31 December 2019 (of the institutions and corporates categories).

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

In the RWA calculation of the mortgage loans, however, the required LGD floor of 10% is used instead of the effective LGD. For the off-balance sheet items (consisting of unused credit lines and binding offers - the 'pipeline') a standard CCF of 100% is used. The PD percentages include the defaults (for the definition see section 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 14: Overview of EL per mortgage sub-portfolio

	ASPA	The Netherlands	Total
Total provisions recognised	8,405,199	11,592,822	19,998,021
EL effective LGD	7,770,595	11,339,069	19,109,664
> non-defaults	2,412,756	7,332,632	9,745,388
> defaults	5,357,839	4,006,437	9,364,276
EL LGD floor	8,941,754	13,749,415	22,691,170
> non-defaults	3,583,915	9,742,979	13,326,894
> defaults	5,357,839	4,006,437	9,364,276

The EUR 9,364,276 are the individual provisions recorded on the default group (100% PD) in the "covered by real estate" category.

As of 31 December 2019 the total EL (with the effective LGD) for both defaults and non-defaults amounted to EUR 19,109,664. Applying the LGD floor of 10% results in an EL of EUR 22,691,170.

For the individual mortgage loans processed by the IRB approach, a total of EUR 19,998,021 of provisions were recognised. These contain both the individual stage 3 provisions and the stages 1 and 2 provisions.

Table **CR6** appended to this report groups the exposures per PD grade for the main exposure category, viz. 'covered by real estate' as of 31/12/2019. These exposures are processed according to the IRB(A) method.

The average PD (including defaults) for the exposure category 'covered by immovable property - non-SMEs' was 0.72% and the average LGD was 11.25% (including the regulatory 10% floor). The reported RWA in table CR6 excludes the regulatory add-ons (standardised floor for Dutch and add-ons (5% EAD plus 33% RWA) for Belgian mortgage loans). If these add-ons are taken into account, a total amount of EUR 4,207 million is obtained for the risk-weighted assets, leading to a density of the risk-weighted assets of 13.72%.

In the table below, a geographical overview of PD and LGD is included for the "covered by real estate" exposure category. The table below is composed in the same way as table CR6 appended to this report, i.e. without the applicable regulatory add-ons (see above for explanation).

Table 15: Overview LGD and PD per geographical location

Country	Original on-balance-sheet gross exposures	Off-balance-sheet exposures gross CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
European Union (Total)	**30,034,914,375**	**616,306,281**	**100%**	**30,651,220,656**	**0.72%**	**222,422**	**11.25%**	**7,570**	**1,838,442.042**	**6.00%**	**22,672,217**	
BE	13,462,321,439	390,518,574	100%	13,852,840,013	0.53%	121,798	10.01%	6,661	523,545,706	3.78%	8,687,420	
DE	2,104,094	-	100%	2,104,094	0.12%	20	10.00%	5,397	56,124	2.67%	258	
ES	1,836,173	-	100%	1,836,173	31.12%	21	10.00%	3,488	35,835	1.95%	239,168	
FR	6,207,574	482,268	100%	6,689,842	2.66%	72	10.00%	5,493	417,789	6.25%	1,062	
GB	2,884,605	-	100%	2,884,605	0.17%	26	10.00%	6,305	90,458	3.14%	478	
IE	24,098	-	100%	24,098	0.03%	1	10.00%	1,064	236	0.98%	1	
LU	4,616,452	52,500	100%	4,668,952	0.22%	36	10.00%	5,646	187,122	4.01%	1,014	
NL	16,550,456,154	225,206,881	100%	16,775,663,035	0.86%	100,411	12.28%	8,323	1,313,933,587	7.83%	13,741,667	
SE	945,155	-	100%	945,155	0.32%	10	10.00%	4,989	51,448	5.44%	305	
Other EU countries	3,518,631	46,058	100%	3,564,689	0.24%	27	10.00%	5,587	123,737	3.47%	845	
North-America (Total)	**3,216,231**	**431,790**	**100%**	**3,648,021**	**0.09%**	**29**	**10.01%**	**6,026**	**78,794**	**2.16%**	**323**	
CA	677,639	-	100%	677,639	0.15%	7	10.03%	5,958	21,346	3.15%	99	
US	2,538,592	431,790	100%	2,970,382	0.08%	22	10.00%	6,042	57,448	1.93%	224	
Other countries	**11,615,589**	**109,775**	**100%**	**11,725,363**	**0.32%**	**94**	**10.02%**	**5,022**	**379,717**	**3.24%**	**3,742**	
Total	**30,049,746,194**	**616,847,845**	**100%**	**30,666,594,040**	**0.72%**	**222,545**	**11.25%**	**7,569**	**1,838,900,553**	**6.00%**	**22,676,283**	**19,998,021**

Evolution of Loss Given Default (LGD)

The table below shows the evolution of the mortgage portfolio across the various LGD categories.

Table 16: Evolution of the mortgage sub-portfolio by LGD scale

Exposure category	LGD scale	Arithmetic average LGD per debtor	Number of obligors		Average annual LGD in the past	
			End of previous year	End of current year	2018	2019
Belgium	1	n.a.	80,045	80,883	3.01%	6.45%
Belgium	2	n.a.	52,172	53,328	6.65%	6.68%
Belgium	3	n.a.	-	-	-	-
Belgium	4	n.a.	1,134	1,034	4.79%	14.37%
Belgium	5	n.a.	24,083	27,154	2.15%	3.95%
Belgium	6	n.a.	29,306	34,254	6.77%	8.17%
The Netherlands	1	n.a.	6,959	8,153	3.66%	4.91%
The Netherlands	2	n.a.	11,303	14,873	7.62%	5.96%
The Netherlands	3	n.a.	53,840	45,508	7.05%	6.88%
The Netherlands	4	n.a.	20,135	22,344	9.08%	8.25%
The Netherlands	5	n.a.	5,946	6,232	13.89%	13.96%
The Netherlands	6	n.a.	8,069	8,300	24.21%	24.74%
The Netherlands	7	n.a.	25	32	24.87%	29.09%

For the Belgian loan portfolio, one observes an increase in the average annual loss given default, which can be attributed to two adjustments in the calculation method:

- Arithmetic average is used (instead of exposure-weighted average) to determine the average loss per rating category in line with paragraph 154 of EBA/GL/2017/16;
- Discount rate based on EURIBOR 3M, plus 5%, in line with paragraph 143 of EBA/GL/2017/16.

It should be noted that, in determining risk-weighted assets, a lower limit (floor) of 10% is imposed on the LGD figures, as a result of which the impact on the capital requirement is limited.

The same adjustments were made for the Dutch loan portfolio. In combination with the addition of more recent observations (recalibration), this leads to a decrease in the LGD figures for classes 2, 3 and 4, while an increase can be observed for the other classes.

Backtesting the probability of default (PD)

Based on the data provided in table **CR9** (see appendix), 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 modelling. Columns d and e contain the average PD figures as of 31 December 2019, weighted on the basis of exposure or unweighted respectively.

Subsequently, columns f and g indicate the number of borrowers on 31 December 2018 and on 31 December 2019. Columns h and i show the number of obligor defaults during the past year (for existing loans and for customers newly acquired during the past year respectively) and, lastly, column j indicates the historical average PD.

The growth of the total portfolio is mainly realised by the growth in the Belgian mortgage portfolio. In addition, the average PD (including defaults) for the Belgian mortgage portfolio decreased due to an improvement in PD classes and a decrease in the number of defaults. Due to the decrease in the average PD, the risk density (RWA) has also decreased for the Belgian mortgage portfolio.

The risk parameters (average PD and LGD) of the Dutch mortgage portfolio remained almost stable. The increase in total RWA is mainly driven by the rising trend of the average PD excluding defaults for the Dutch mortgage portfolio as a result of the annual recalibration of the PD values.

Overview of flows of risk-weighted assets

Table **CR8** appended to this report shows the evolution of the risk-weighted assets of the most important IRB category, viz. the "covered by real estate" category. For the Dutch mortgage portfolio, this table excludes the add-ons in case that the IRB method results in a lower RWA than the one calculated according to the standard method.

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.

Compared to financial year 2018, the RWA have increased again. The increase in RWA mainly reflects the increase in the share of non-NHG in the production, as a result of which the composition of the Dutch mortgage portfolio changes to more non-NHG, and the increase in the regulatory PD for the Dutch mortgage portfolio as a result of the annual recalibration of the PD values.

For the RWA of the Belgian mortgage portfolio, the impact of the recalibration on the regulatory PD has remained limited compared to last year. For the Belgian mortgage portfolio, the migration in PD classes has led to a further improvement in the quality of the assets. The impact of this quality improvement on the RWA of the Belgian mortgage portfolio was limited, due to the growth of the portfolio (production). Overall, the RWA of the Belgian mortgage portfolio has therefore remained rather stable.

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 17: Breakdown of corporates/institutions exposures per pool/grade

Pool/grade	PD %	Corporates 2018	Institutions 2018	Pool/grade	PD %	Corporates 2019	Institutions 2019
1	0.03%	0	24,507,935	1	-	0	0
2	-	0	0	2	0.03%	0	125,469,791
4	-	0	0	4	0.03%	125,272,464	0
6	0.03%	0	154,352,907	6	0.03%	0	83,085,994
8	0.03%	170,858,055	175,604,340	8	0.04%	30,009,828	282,807,289
11	0.04%	381,305,877	324,848,671	11	0.05%	447,336,950	1,161,425,201
13	-	0	0	13	0.08%	547,241,021	605,018,424
14	0.08%	291,921,918	784,621,188	14	-	0	0
16	0.12%	350,301,181	541,705,797	16	0.11%	350,021,710	443,928,283
18	0.12%	371,847,316	72,049,805	18	-	0	0
20	-	0	0	20	0.15%	371,941,827	101,497,933
22	0.20%	630,776,742	30,312,486	22	0.21%	786,720,717	23,605,524
26	-	0	0	26	0.30%	312,188,373	0
28	0.44%	408,691,350	0	28	-	0	0
30	0.44%	146,993,475	0	30	0.44%	71,275,433	0
36	-	0	0	36	0.67%	42,915,777	0
37	0.72%	64,862,882	0	37	-	0	0
Total		**2,817,558,796**	**2,108,003,128**	**Total**		**3,084,924,099**	**2,826,838,438**
RWAs		**1,302,038,165**	**564,663,196**	**RWAs**		**1,173,892,347**	**666,080,201**
Capital requirement		**104,163,053**	**45,173,056**	**Capital requirement**		**93,911,388**	**53,286,416**

8. Credit risk adjustments

For a more detailed explanation of credit risk (management) and the valuation rules in force, we refer to section 5.3. Credit risk and section 2. Accounting policies - valuation rules - impairments, in the Company's 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 prudential reporting if the borrower is more than one month and more than EUR 25 in arrears with payments. In the prudential reporting and accounting, a credit is recorded as 'in default' when:

- either the payment arrears are greater than or equal to 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, which are considered to be in default, are consequently reviewed (taking into account also the collateral received) to verify whether impairment losses need to be recognised.

For the change of its prudential definition of default, the Company has decided to use the two-step approach proposed by the ECB. Under this approach, in step one, permission was requested of the supervisor, via an application file to be submitted by the end of 2018, in order to change the definition of default. ECB approval was obtained on 15 January 2020. After approval, Argenta must apply the new definition from 9 March 2020 in its reporting and then, in step two, adjust its models according to the internal rating approach by June 2021. This change is being implemented in line with the 'Definition of default' internal policy.

8.2. Disclosures on the credit quality of the exposures

Past due positions occur only in the ‘retail clients' and ‘secured by real estate’ exposure categories. The positions listed below are classified in 'exposures in default' in the prudential calculation. Geographically these loans and receivables are located almost entirely in the core countries of Belgium and the Netherlands.

Table 18: Geographical breakdown of past due risk exposures (IRB) at year-end

Country	Past due exposures 2018	Past due exposures 2019
BE	38,505,962	38,426,703
NL	71,370,065	59,653,285
Other	785,130	736,821
Total past due exposures	**110,661,156**	**98,816,809**

These are the total exposures by applying the IRB method.

The credit quality of all positions - broken down by exposure category - can be found in table **CR1-A**, appended to this report.

An overview of the impairments recorded in the balance sheet is provided below. Further explanation can be found in chapter 5.3 of the BVg IFRS annual report.

Table 19: Overview of recorded impairments

	01/01/2019	Increase due to origination and acquisition	Decrease due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in allowances due to write-offs	Other changes	31/12/2019
Stage 1	**-3,022,237**	**-1,595,082**	**675,658**	**-390,747**	**1,890**		**-1,119,771**	**-5,450,289**
Fixed-income securities	-1,803,879	-539,504	292,556	-462,579	0		0	-2,513,406
Loans and advances	-1,218,358	-1,055,578	383,102	71,832	1,890		-1,119,771	-2,936,883
Stage 2	**-10,239,723**	**-921,778**	**2,043,360**	**4,890,613**	**-2.018**		**-5,239,954**	**-9,469,500**
Fixed-income securities	-486,039	0	748,505	-623,558	0		0	-361,092
Loans and advances	-9,753,684	-921,778	1,294,855	5,514,171	-2.018		-5,239,954	-9,108,408
Stage 3	**-12,561,926**	**-453,299**	**3,471,067**	**-6,121,769**	**257,707**	**3,135,163**	**0**	**-12,273,057**
Fixed-income securities	0	0	0	0	0	0	0	0
Loans and advances	-12,561,926	-453,299	3,471,067	-6,121,769	257,707	3,135,163	0	-12,273,057
Total	**-25,823,886**	**-2,970,159**	**6,190,085**	**-1,621,903**	**257,579**	**3,135,163**	**-6,359,725**	**-27,192,846**
Total provisions on commitments and financial guarantees given	**-1,136,810**	**-3,077,841**	**3,424,745**	**6,065**	**0**	**0**	**-138,094**	**-921,935**
Stage 1	-1,038,462	-2,995,199	3,084,803	162,403	0		-85,550	-872,005
Stage 2	-98,348	-82,642	339,942	-156,338	0		-52,544	-49,930
Stage 3	0	0	0	0	0	0	0	0

At 31/12/2018 the stage 3 provisions amounted to EUR 12,561,926 and the stage 1 and 2 provisions (including the provision for off-balance sheet commitments) amounted to EUR 13,261,960. At 31/12/2019 the stage 3 provisions amounted to EUR 12,273,057 and the stage 1 and 2 provisions to EUR 14,919,789.

The value adjustments had a net negative impact on the income statement, partly due to the adjustment of the forward-looking economic indicators as used in the internal budgeting process.

The Company has a gross NPL ratio of less than 5%, i.e. 0.32% as of 31 December 2019. As a result, the Company is not required to disclose the templates 2, 7, 8 and 10 included in the guidelines on non-performing and forborne exposures (cf. EBA/GL/2018/10). Table 9 does not apply to the Company as no collateral has been obtained by taking possession and execution processes. The other tables can be found in the separate Excel appendix.

9. Encumbered and unencumbered assets

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

Table 20: Overview of encumbered assets

	31/12/2018 Nominal value	31/12/2018 Market value	31/12/2019 Nominal value	31/12/2019 Market value	average 2019 Nominal value	average 2019 Market value
Collateral for derivatives (caps and swaps)	371,160,000	412.719.719	314.054.000	325.355.292	377.993.250	417.751.741
Collateral for repo transactions	0	0	0	0	0	0
Collateral for Bank Card Company	43,500,000	43,595,212	47,000,000	50,029,101	46,416,667	48,489,520
Collateral for TLTRO	-	-	47,480,000	48,527,377	3,956,667	4,043,948
Total given collateral	**414,660,000**	**456,314,931**	**408,534,000**	**450,911,770**	**428,366,583**	**470,285,209**
Cash paid (derivatives)		33,487,068		531,592,517		476,633,438
Cash received (derivatives)		3,842,727		1,268,727		1,379,310
Net cash (derivatives)		**29,644,341**		**530,323,790**		**475,254,128**
Collateral NBB credit line	**250,000,000**	**256,135,687**	**204,008,000**	**209,941,855**	**246,167,333**	**248,423,590**

At end-2019 a nominal EUR 314 million of assets were encumbered in the context of derivatives and repos and a nominal EUR 47 million in connection with the use of credit cards by the Company's clients. In addition, a nominal EUR 47.5 million was encumbered as part of the Company's participation the ECB's TLTRO-III operation. In the context of the collateral management EUR 531.6 million in cash was paid in respect of derivatives and another EUR 1.3 in cash was received.

The fair value of the derivatives portfolio fell during 2019, as a result of which additional collateral was paid in the form of securities and cash paid in an amount of EUR 411 million, of which EUR 168 million as initial margin collateral at the CCP. On 31 December 2019, the amount of overcollateral amounted to EUR 3,371,023, for which margin calls were received on 2 January 2020 for EUR 1,704,053.

The underlying mortgage receivables for the own securitisation are encumbered within the SPV structure. More information is included in section 15.1 Own securitisations.

In summary, the sources of encumbrance are:

- Collateral in the context of collateral management of derivatives (subsidiary Aspa concluding 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 limit the 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 (BCC) in connection with the issuance and payment flows of payment cards. The amount of collateral given is stable and is periodically reviewed.
- Collateral in the context of participation in the new TLTRO-III programme. The amount of collateral given is constant.
- Possible collateral at the NBB under Aspa'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.
- Encumbrance arising from the securitisation of mortgage receivables in the SPV structure.

Subsidiary Aspa has until further notice not issued covered bonds. There are securitised loans on 31/12/2019 but these are again included in the balance sheet at the consolidated level.

Apart from the collateral mentioned above, no other assets of the Company were encumbered. The remaining assets on the balance sheet can therefore be considered as unencumbered. The table **AE-Template A** appended to this report provides an overview of the encumbered and unencumbered assets.

At the end of 2019 no other collateral was received than the already mentioned cash collateral. This collateral was included in the balance sheet so that template B on 'collateral received' does not need to be explicitly included.

Table **AE – Template C** appended to this report shows the link between encumbered assets, collateral received and related liabilities.

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 collateral given and received are reported systematically to Alco.

As a result, inter alia, of 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 being exchanged.

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

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

In accordance with Article 138 and 139 of the CRR, Argenta uses the issue rating (from an ECAI) to perform credit assessments for the concerned exposure. If an issue rating is not available, the issuer rating will be used. In cases that both issue rating and issuer rating are not available, the exposures is considered as unrated.

Based on these external ratings of the securities involved, a RW percentage is assigned. In line with the imposed principles, the "second best" available rating is always used in the calculations. When, for example, just only two ratings are available, it is the second best that will be used. This method is also applied for the securitisation positions. The table below provides an overview of all exposure categories for which external ratings are used in the standard approach. In case that no external rating is available for a specific position, the risk weights included in the CRR are applied.

The ratings of all listed securities are systematically monitored by the CRA sub-department as part of the tracking of credit risk. The financial policy and the RAF set limits for the minimum ratings that the various asset categories 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 calculation 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 21: Overview of Basel STA categories for which ratings are used at year-end

Exposure (STA)	Exposure 31/12/2018	Exposure 31/12/2019
Central governments or central banks	2,990,410,623	3,785,045,100
Regional and local governments	715,381,369	595,736,982
Public sector entities	247,483,221	205,538,668
Institutions	158,751,139	132,883,091
Corporates	223,252,950	169,313,783
Equity (participating interests)	20,608,008	22,785,689
Securitisation positions	212,300,389	158,847,130

Chapter 15 provides detailed information on the use of ratings for securitisation positions.

As explained in the 'risk management' section of the IFRS annual report (credit risk part), the CRA sub-department also determines internal ratings.

11. Exposure to market risk

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

The derivative transactions shown in the Company's balance sheet under assets and liabilities held for trading purposes were all concluded in the context of (a) hedging the interest rate risk of the banking book or (b) as part of 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 supervisory authority and further development of an operational framework for operational risk management), the Company has, since 1 July 2008, used the standard method for calculating capital requirements for operational risk.

According to 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 (which all three 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 82,765,766 of capital at 31 December 2019.

This limited decrease compared to previous years is the result of the lower operating result in recent years. The years with higher operating results are being replaced by more recent years with lower 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 non-financial risk, increasing attention is being paid to cyber security, outsourcing and compliance: (i) the results of a cyber security assessment were translated into a roadmap in order to bring the maturity level closer to the desired target level, (ii) the TPRM (Third Party Risk Management) procedure was rolled out in respect of outsourcing and (iii) in the compliance area, there is a focus on the further roll-out of the anti-money laundering action plan.

For the other risks we refer to chapter 5.5 of the BVg IFRS annual report where the non-financial risks (NFR) are described in greater detail.

The overarching definition for non-financial risks is the chance of negative consequences (both financial and/or reputational damage) as a direct or indirect consequence of inadequate or failing internal processes, people or systems, or of external events.

13. Exposure to equity

In addition to a limited number of strategic equity investments, the bankpool 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 has, outside the insurance pool, built up, in recent years, a very limited exposure to shares acquired from an investment perspective and linked, inter alia, to real estate companies.

In 2019, no gain was realised on this limited portfolio.

These shares are all processed using the standard approach. In addition, a small number of subordinated loans and participations in affiliated companies were processed under this category.

Table 22: Overview of shares according to STA approach

	Carrying value	Market value	Unrealised gain/ loss	Realised gain/ loss
Strategic participations	62,498	62,498	0	0
Participations in affiliated companies	90,000	90,000	0	0
Investments				
Listed	0	0	0	0
Private equity	3,296,919	3,296,919	0	0
Other	0	0	0	0
Subordinated loans	18,643,672	19,348,594	704,922	0
Total	**22,093,089**	**22,798,011**	**704,922**	**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 participation in the insurance pool is - as already explained - treated as an exposure using the Danish Compromise (DC) and weighted under the IRB approach at 370%.

The participation involved is therefore not deducted from equity (non-deducted participations in insurance companies), see template **INS 1** appended to this report for an overview of non-deducted participations in insurance companies.

The participation value amounts to EUR 176,445,506.20, which is multiplied by 370% in order to obtain a risk-weighted volume of EUR 652,848,372.94 and a capital requirement of EUR 52,227,870.

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 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 durations'.

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 takes into account 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 entity 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 interest-bearing assets and all interest-bearing liabilities.

The greater the mismatch, the greater the interest rate sensitivity. The interest rate sensitivity is measured and reported in terms of the sensitivity of the economic value and the interest result to a change in the interest rate curve using different interest rate scenarios.

Within the ALM management 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 (consisting of gap risk, option risk and basis risk) are considered, in line with the latest EBA guidelines on the management of Interest Rate Risk in the Banking Book. In addition to interest rate risk, business risk, which is the impact in the event of non-modelled portfolio behaviour of products without contractual interest rate maturity dates, is measured and managed.

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

Alco or GRC-Moco can decide to adapt a methodology or behavioural model. In this case, the decision will be explained to the Executive Committee, which will confirm it.

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 and effective control measures can be taken.

The ALM management system examines the impact of a pre-defined 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 each time. However, in the context of business plans, the robustness of the business model is also monitored under various interest rate scenarios.

Assumptions concerning the behaviour of deposits with no contractual maturity

For internal risk monitoring and also 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 behaviour model from which a risk-optimal reinvestment strategy for these funds is derived on the basis of the historical and expected re-pricing behaviour and the circulation of these deposits. Therefore, the replicating model is not only calibrated on historical company data, but also factors in a 'forward look'.

Since the end of 2018, internally developed replicating models have also been used for savings accounts in the Netherlands and current accounts in Belgium. For the Dutch savings accounts this is conceptually the same model as for the Belgium savings accounts. For Belgian current accounts, the model is simpler, given that its object is a purely volume-sensitive portfolio, without price sensitivity.

Assumptions with regard to option risk

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

With the first option, the customer has the option to prepay his mortgage loan. This option is factored into ALM management system as follows:

a) For mortgages in Belgium, an internally developed prepayment dynamic model is applied that is driven by the interest rate incentive of the client and the age of the mortgage.
b) For the Dutch mortgages, prepayments are predicted on the basis of a short and long-term average based on internal observations.

These behavioural models are subject to the internal Model Risk Management Framework.

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.

Treatment of 'pipeline risk'

In the period between the approval of a mortgage loan and execution of the notarial deeds of sale, 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 lower rate 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 lower rate applying immediately before signing the notarial deeds.

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 sub-department reports to Alco concerning interest rate risk on a monthly basis at Company level and on a quarterly basis at consolidated level.

15. Exposure to securitisation positions

15.1. Own securitisations

In October 2017 and June 2018, securitisation transactions were carried out, each involving a portfolio of Dutch residential mortgage loans with NHG guarantees via the Green Apple 2017-I-NHG SPV and the Green Apple 2018-I-NHG SPV respectively. In June 2019, a new securitisation transaction was carried out, again involving the securitisation of a portfolio of Dutch residential mortgage loans with NHG guarantees, via the Green Apple 2019-I-NHG SPV.

The SPVs involved have a profit of EUR 2,025 or EUR 2,000 per entity (minimum tax basis). The interest received and paid and the other costs are reflected in the income statement at the level of Aspa. This processing is accounting and tax-neutral.

These are traditional securitisation transactions, undertaken with the objective of attracting new funding (tapping a new funding source) with a view to continuing to offer mortgage loans.

Aspa has itself purchased the B and C notes issued by the SPVs with an outstanding exposure of EUR 389,797,858. A notional EUR 1.2 billion (Green Apple 2017-I-NHG), a notional EUR 1.0 billion (Green Apple 2018-I-NHG) and a notional EUR 0.8 billion (Green Apple 2019-I-NHG) of notes were initially placed with institutional investors. There are no off-balance sheet exposures for these securitisations.

Further securitisations are planned as part of the general funding plan for the coming years (also taking into account the maturity dates of the current securitisations).

Under IFRS, the Green Apple SPVs - which have carried out the securitisation transactions - are fully consolidated. In this way the underlying Dutch mortgage loans come back onto the consolidated 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 due to the presence of a cap structure in the global transaction.

Detailed explanations of the Green Apple 2017-I-NHG issue, the Green Apple 2018-I-NHG, the Green Apple 2019-I-NHG issue and the global structure can be found on the website www.argenta.eu. The features of these issues, prospectus and investor presentation can be found under the "debt issuance" heading.

The table below contains a summary of the own securitisations for the current period. These securitisations relate to mortgage loans, and are therefore related to the exposure category "secured by real estate".

Table 23: Overview of exposures of own securitisations

Total exposure	Performing	Non-performing	Of which: past due	Accumulated impairments	Of which stage 1:	Of which stage 2:	Of which stage 3:
2,865,841,185	2,859,935,829	5,905,356	4,419,202	286,230	38,397	162,089	85,744

The impairments recorded on own securitisations (based on the loans from the three entities that are included as exposure in the calculation of the credit risk requirements) amount to EUR 286,230 in 2019, of which EUR 38,397 for stage 1, EUR 162,089 for stage 2 and finally EUR 85,744 for stage 3 loans.

Role as originator in securitisation transactions

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

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

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

Aspa is also involved in the transaction through the structure of a front and back cap, whereby the interest rate risk remains at Aspa.

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

CRR approaches applied

The own securitisation transactions do not envisage a release of capital, and the Company assesses that there is no significant transfer of credit risk and thus a capital requirement is calculated for all securitised loans at Aspa solo level. This replaces the calculation of a capital requirement for the (self-purchased) B and C notes. For this reason, a capital requirement is calculated for the underlying loans instead of the issued notes that were purchased by Aspa.

Under IFRS, the Green Apple SPVs have been fully consolidated. In this way the underlying Dutch mortgage loans with NHG guarantee come back onto the consolidating entity's balance sheet. At consolidated level, the capital calculations on the mortgage loans are retained (since the credits return onto the balance sheet) and the outstanding self-purchased 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.

A 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 for 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, Green Apple 2018-I-NHG and 2019-I-NHG issues are recognised at amortised cost at Aspa solo level, given the intention to retain these securities until call date. At consolidated level, these notes are eliminated and the loans come back onto Aspa's and the Company's balance sheets.

At consolidated level, no gains are realised on the sale of the loans. Owing to the DPP (deferred purchase price) method, the interest result from the loans comes into the profit and loss account on an unconsolidated basis.

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

Until now, the Company has only occasionally sold loans in the context of securitisation transactions. These were all securitisation transactions in which the relevant loans subsequently came back onto the Company's balance sheet via consolidation. The loans involved were therefore not included in the trading book. The Company has 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.

Periodically (and immediately after the granting of the loans) loans are also sold by Aspa to its sister entity Aras, independently of the implemented and aforementioned securitisations.

15.2. Portfolio of securitisation positions

In addition to the securitisation transactions described above and performed by Aspa, 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 following 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 portfolio.

With a few limited exceptions, these positions are accounted for by the IRB method under the exposure category ‘securitisation positions’. According to the introduction of the new framework for securitisations, some securitisation positions are already being processed using the SEC-ERBA method. As from 1 January 2020, all securitisation positions will be calculated using the SEC-ERBA method, after official approval from the regulator.

As of the end of 2019, therefore, three approaches (STA, IRB and SEC-ERBA) were used for securitisations.

The RMBSs with underlying mortgages are processed according to IRB RBA (Rating Based Approach) (look-through and the same approach as the own mortgages processed under IRB). The ABSs (the auto loan securitisations in which the Company invests) are processed using the STA approach (no application of look-through).

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 24: Geographic distribution of securitisation exposures at year-end

Type	Country	Exposure 2018	Exposure 2019
MBS	BE	17,678,755	12,133,799
MBS	ES	17,631,199	13,910,221
MBS	FR	25,340,006	15,316,480
MBS	GB	14,752,878	14,750,477
MBS	IE	29,788,052	13,128,305
MBS	NL	657,253,286	561,294,513
ABS	DE	48,639,180	41,839,397
ABS	FR	14,977,848	25,337,123
ABS	IE	18,821,212	6,488,253
ABS	LU	101,793,541	66,820,087
ABS	NL	28,072,080	18,375,096
ABS	US	4,730,557	2,703,361
Total securitisation positions		**979,478,592**	**792,097,112**

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

The ratings given by the relevant rating agencies to the transactions are used for the weightings and the calculation of capital requirements.

Table 25: Overview of EADs and capital requirements of securitisation positions

Rating S&P	Rating MDY	Rating FITCH		ABS	MBS	Total
	Aaa		EAD	25,475,601	12,477,647	37,953,248
			Capital requirement	407,578	74,067	481,646
		AAA	EAD	54,096,727	230,152,511	284,249,239
			Capital requirement	865,476	1,366,185	2,231,661
	Aa1	AAA	EAD		1,392,348	1,392,348
			Capital requirement		9,446	9,446
		A+	EAD		3,626,568	3,626,568
			Capital requirement		30,753	30,753
		AA	EAD		1,817,824	1,817,824
			Capital requirement		12,332	12,332
A+	Aaa	B	EAD		1,991,679	1,991,679
			Capital requirement		16,889	16,889
AA+	Aaa	AAA	EAD	2,703,361		2,703,361
			Capital requirement	45,849		45,849
AAA			EAD	32,498,153	4,238,526	36,736,679
			Capital requirement	519,928	25,160	545,088
		AAA	EAD	27,924,944	85,802,858	113,727,801
			Capital requirement	446,763	549,988	996,751
	Aaa		EAD		1,574,818	1,574,818
			Capital requirement		10,684	10,684
		AAA	EAD	18,281,042		18,281,042
			Capital requirement	292,474		292,474
	Aa1	A+	EAD	583,489	281,960,352	282,543,841
			Capital requirement	9,335	1,823,235	1,832,570
	Aa2		EAD		2,005,014	2,005,014
			Capital requirement		13,602	13,602
AA-	Aa1		EAD		3,493,650	3,493,650
			Capital requirement		23,701	23,701
Total EAD				**161,563,318**	**630,533,794**	**792,097,112**
Total capital requirement				**2,587,403**	**3,956,043**	**6,543,446**

The portfolio of securitisation positions has fallen from an exposure of EUR 979,478,592 as of 31 December 2018 to EUR 792,097,112 as of 31 December 2019.

After application of the weighting percentages and the 8% requirement, a capital requirement of EUR 6,543,446 (compared to EUR 9,522,908 on 31/12/2018) was obtained for these purchased securitisation positions.

The Company buys only tranches of the highest credit quality (see table above with the indication of ratings – therefore no one securitisation position is weighted at 1,250%) and does not have to deduct amounts from its eligible capital (Article 444 CRR (e)). Nor are any credit risk mitigations 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 the purchased securitisation positions. The purchased positions are monitored systematically. Every three months a comprehensive analysis report is prepared on these positions and is 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 (CR).

A CR measures the extent to which the existing Credit Enhancement (CE) of a 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 CRs 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, 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. The total capital requirement for securitisation positions has fallen (partly due to the decline in the portfolio). The Company does not have any re-securitisation or synthetic securitisation in its portfolio. These elements have been included in the table below.

Table 26: Overview of key data securitisation positions

Overview securitisation positions	Trading book	Investment portfolio
Total securitisation portfolio	0	792,097,112
Of which exposure type MBS (Mortgage Backed Securities)	0	630,533,794
Of which exposure type ABS (Asset Backed Securities)	0	161,563,318
Traditional securitisations	0	792,097,112
Synthetic securitisations	0	0
Resecuritisation positions	0	0
Data Green Apple 2017 SPV		
Outstanding amount as per end of 2019 of self-issued notes (ex self-purchased notes)	0	907,591,648
Outstanding amount as per end of 2019 of self-purhcased B and C notes	0	156,000,000
Securtised loans in October 2017	0	1,353,431,381
Data Green Apple 2018 SPV		
Outstanding amount as per end of 2019 of self-issued notes (ex self-purchased notes)	0	856,125,475
Outstanding amount as per end of 2019 of self-purhcased B and C notes	0	117,300,000
Securtisated loans in June 2018	0	1,117,243,343
Data Green Apple 2019 SPV		
Outstanding amount as per end of 2019 of self-issued notes (ex self-purchased notes)	0	803,024,027
Outstanding amount as per end of 2019 of self-purhcased B and C notes	0	116,497,858
Securtisated loans in June 2019	0	935,793,960
Assets already assigned to securitise	0	0
Capital requirement securitisation positions	0	6,543,446
Deducted from equity or 1,250% weighting	0	n.a.

Both at the standalone and consolidated level, the capital requirement is calculated for the underlying loans and not on the self-purchased Green Apple notes.

16. Remuneration policy, diversity and integrity

This section provides disclosures on remuneration policy (both substantive elements and the decision-making process for obtaining this policy). Most of these disclosures are also included in the Company's annual report which is published on the www.argenta.be website.

Argenta has 3 charters that describe the basic principles and values that Argenta focuses on: the 'Suitability of Key Officers' Charter, the 'Diversity' Charter and the 'Integrity' Charter. By their nature, these charters apply across the Argenta Group.

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 Group 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 Group employees to be determined by the Board of Directors, in particular decisions affecting the risks and risk management of Argenta Group including decisions related 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 starategy of Argenta Group, 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 chaired by an independent director and is composed 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, fixed asset requirements and the liquidity position. The committee is composed of at least two Board members, both non-executive, and at least one of them independent. The chairman of the Board of Directors does not chair the Remuneration Committee.

The Remuneration Committee consisted in 2019 of: M.C. Pletinckx (chairman), A. Leclercq and C. Henriksen.

Meetings are held as often as the chair of the committee considers desirable, and, if possible, at least twice a year. In 2019, the committee met three times.

Remuneration policy of the Argenta Group

The Argenta Group 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 complexity, responsibility, level of required competence/experience and required specialisation of a particular function. The Argenta Group strives to remunerate its employees in line with market conditions. The Organisation & Talent department communicates the remuneration policy in a transparent manner for all functions in all Argenta Group operating companies.

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

Argenta Group's pay policy was aligned primarily with the saving banks collective agreement (CAO - PC 308). With the transition of the savings banks to PC 310 (employer-employee committee) of the general banking industry in 2017, the wage policy was adjusted for all internal Argenta employees in Belgium, in accordance with the modalities set out 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, meal vouchers, a cafeteria plan and guaranteed income. 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 is disclosed in the IFRS annual reports (see www.argenta.be).

Furthermore, Argenta Group has, since 1 October 2018, also granted special employee conditions to its staff at headquarters and in the branch network. These take the form of attractive special conditions on Argenta's own banking and insurance products for head office and branch employees.

No variable pay

The remuneration 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 Group does not allocate shares or share options as a reward for performance. Argenta Group 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 Group. Their remuneration also 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 Group are formulated in such a way that they cannot interfere with the independent operation and cannot materially affect the institution's risk profile. This has been described in the 'Suitability of Key Officers' internal charter.

The Remuneration Committee proposes to the Board of Directors a list of employees who qualify as identified staff. This assessment is 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 32 employees (independent control functions, directors and managers of material business units) were designated as identified staff during 2019, resulting in a total of 48.

This is 4.33% of 1,106 employees of Argenta Group at the head offices in Antwerp, Breda and Luxembourg or 1.85% of the total number of Argenta Group employees (including directors, employees, branch managers and branch staff).

In 2019 the total Argenta salary bill for identified staff amounted to EUR 8,179,059 (EUR 7,864,153 in 2018). The table below breaks down the salary bill of these identified staff by business area.

Table 27: Breakdown of remuneration of identified staff per business area

Non-executive directors	914,927
Executive directors	2,267,400
Independent control functions	976,339
Retail banking	1,029,217
Asset management	978,715
Corporate functions	2,012,462
Total remuneration	**8,179,059**

In 2019, severance indemnities were granted to 4 employees belonging to the identified staff and to a number of other employees under the terms of their individual employment contracts. In addition, a termination fee was also paid to a member of the Executive Committee.

Employees in Argenta's branch offices in the Netherlands

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

Updated pay policy

In 2017, Argenta Group 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 a qualitative process in the area of planning, feedback and appreciation of employee performance. This assessment may or may not lead to a pay increase, via an annual wage round.

At Argenta in the Netherlands, pay policy also 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 the new policy, the introduction of a cafeteria plan for all staff members in Belgium, became a reality in 2017. The cafeteria plan responds to a current trend whereby employees can choose a part of their salary packages themselves. The employee's own individual needs and wishes are considered as key. 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.

With the updated 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 appropriate appreciation to employees who prefer careers as experts to management positions. This has has been established in the internal policy 'Wage policy with regard to non-directors'.

Note on remuneration policy for Executive Committee members

The remuneration of Executive Committee members is described 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.

In 2019, 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 642,000. This was an increase by 2.49% compared to 2018. On top of this a contribution to the supplementary pension and disability group policies was paid amounting to EUR 115,821 (EUR 113,087 in 2018).

Therefote, there are no employees at Argenta Group, even in the Executive Committee, who receive more than one million euros.

In 2019, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,625,400 (EUR 1,617,000 in 2018). Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 304,899 (EUR 278,518 in 2018).

Executive directors are entitled contractually 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. This compensation gradually decreases from the age of 58. In 2019 severance payments totalling of EUR 519,750 were made to Executive Committee members (EUR 491,100 in 2018).

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 profiles for the future directors;
- examining how 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 population (for example gender or age category) in the statutory administrative body, and, if necessary, formulating a policy to increase the number of representatives of this population in the statutory administrative 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 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:
  - their knowledge;
  - their skills;
  - their experience;
  - their degree of involvement, especially regular presence;
- reporting on these matters 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.

In summary, this committee 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 is composed of at least three Board members, all non-executive, and at least one of them independent. The chair is chosen from the independent directors, this function being incompatible with the function of chair of the Board of Directors. The Appointments Committee consisted in 2019 of: C. Henriksen (chair), R. Vanderstichele and B. Van Rompuy, members.

Meetings are held as often as the chair of the committee considers desirable. In 2019 the committee met five times.

The Executive Committee in 2019 - evolution and selection process

On 30 June 2019, Geert Van Hove resigned his mandate of CIDO ('Chief Information & Digital Officer').

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 supervisory authority. The final appointment is made after the supervisor has considered 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 Group.

That is why Argenta Group gives every employee equal opportunities, with the focus on talent regardless of gender, age, disability, belief, philosophy, marital status, birth, wealth, political opinion, trade union membership, language, health status, gender identity and expression, 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. This has also been described in the internal 'Diversity' charter.

Nonetheless, Argenta Group has target figures, only for gender and age. 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 11 Argenta directors are female (36.4%).

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, however, care will always be taken to ensure that there is at least one candidate of each gender in the last three candidates.

Executive Committee, effective 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).

Two of the five Executive Committee and/or "effective management" members are female (40%) and one of the five members is ≤ 50 years (20%).

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 committee in which they sit. 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 candidate of 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 Group 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 will occupy at Argenta Group. More information can be found in the respective subcategories of the Company's social balance sheet and its Activities and Sustainability Report.

Integrity at Argenta Group

Argenta Group is aware of the importance of promoting and safeguarding integrity in all areas. This is captured in the 'Integrity' internal charter. This charter sets out, on the one hand, Argenta Group's own key values, and also on the other hand ethical standards for ensuring the integrity of the banking and insurance sector.

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. This it does 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 tracks closely 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 limits framework provides for a minimum red zone of 3.375%, a green zone from 4% upwards and aims, as a self-imposed target, for a gradual evolution to 5%. The Financial Management department also reports on this ratio and includes it in all internal reports.

Table **LRCom** appended to this report gives the leverage ratio of the Company.

Description of the factors impacting the leverage ratio

As shown in the table appended to this report, the total leverage ratio exposure as of 31/12/2019 is EUR 44,904,880,904 (EUR 41,296,409,729 as of 31/12/2018). The corresponding leverage ratio is is 5.08% (compared to 5.04% at the end of 2018).

The Company's leverage ratio has increased slightly compared to previous year which can be mainly explained by the increase in capital, which is in relative terms larger than the increase in the on balance and off balance exposures. The increase in on balance exposures is the result of the growth of savings and the issuance of debt securities (securitisations and EMTN). The increase in off balance exposures is due to the higher volume of mortgage loans in the pipeline.

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

The reconciliation between the total assets recorded in the annual financial statements and the total exposure for calculating the leverage ratio can be found in table **LRSum** appended to this report.

Based on a Tier 1 capital of 2,281,816,364 a leverage ratio of 5.08% was obtained.

18. Capital and liquidity management

Capital management

The dynamic growth of the financial markets and the increasing use of more complex bank products have produced major changes in the Company's business environment. These challenges require appropriate personnel, processes and systems for 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, equal to that of the major market players, and with which at the same time it continues to meet the statutory capital requirements.

Executing the business plan, with sufficient capital at all times to pursue the planned growth, is a key factor here. The business plan becomes in this way an important anchoring point for the various (normative and economic) ICAAP calculations, with the ICAAP results also playing a decisive role in the approval process.

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. Furthermore, decisions may be taken to lighten the balance sheet by selling assets or by securitising part of the retail loan portfolios. In addition to managing the regulatory capital ratios, the capital requirements arising from the MREL (Minimum Requirement for own funds and Eligible Liabilities) and ALAC (Additional Loss-Absorbing Capacity) obligations (or minimum requirements) are also actively monitored, so that the Argenta Group has robust solvency.

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

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

- the proper identification and measuring 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.

In ICAAP, the Company's capital adequacy is assessed from an economic perspective and from a normative perspective. In the economic perspective, an internal definition of available or internal capital and required or economic capital is used. All material risk factors are modelled in the ICAAP. In this way the total economic capital provides an accurate picture of the capital requirement.

A direct link exists between the ICAAP calculations and a number of RAF indicators with their associated limits. Under the 99.9% scenario, the focus is on the ratio of available internal capital to required economic capital. For this a minimum limit of 120% is provided and the green zone starts at 130%, but the self-imposed goal is a ratio of 156% (including an additional 20% buffer), so that the Company always has a comfortable capital situation.

Under the 95% value stability scenario, the focus is on the ratio of the economic loss under a 95% scenario to available internal capital. Here a minimum limit of 30% is set and the green zone starts from less than 25%.

The 80% income stability scenario focuses on the ratio of income loss under an 80% scenario to the expected NIBT (net income before tax) under the base scenario. The red RAF limit is 100% and the green zone starts from less than 50%.

In the normative perspective, the impact of a number of internally defined company-wide stress scenarios on the statutory (pillar I) capital ratios is calculated. The objective of the normative ICAAP is to investigate capital adequacy under basic and stress scenarios over a 3-year horizon, while meeting minimum capital ratios as set by the ECB.

In addition to the internal stress tests, Argenta Group, like all other significant banks under direct ECB supervision, is subjected every two years to the EBA/ECB stress test. These stress tests took place in 2014 and 2016 and 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 in the event of negative market developments.

In intermediate years, the European banking sector is subjected to other specific stress tests, such as the IRRBB stress test in 2017. This stress test was intended to test the sensitivity of the market value and the interest income under 6 hypothetical interest scenarios. In 2019, this was the Liquidity Stress Test (LiST), with a thematic focus on liquidity. The regulator used this stress test to investigate banks' resilience to liquidity shocks. The individual results of this stress test were reflected in the SREP assessment.

The results of the stress tests are one of the factors on the basis of which Argenta's minimum capital requirement and capital guidance are determined, expressed in terms of a P2 (Pillar 2) Requirement and a P2 (Pillar 2) Guidance.

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 supervisory authority and used in-house.

The Supervisory Review and Evaluation Process (SREP, annual global evaluation) is the control process carried out by the regulator covering the evaluation of the capital and liquidity adequacy of the bank, the robustness of its business model and the adequacy of its risk governance framework. The result of the SREP is communicated to the Argenta Group on an annual basis. It consists - in addition to the minimum capital requirements and capital recommendations - of the regulator's assessment of the 4 SREP components on the basis of which Argenta Spaarbank and the Argenta Group (at BVg level) are evaluated. Where appropriate, actions and recommendations are prescribed in order to solve shortcomings.

The SREP, annual global evaluation by the ECB resulted in 2019 in a capital decision imposing a P2R (Pillar 2 capital requirement) of 1.75% for 2020. This means that Argenta Group needs, under the IRB (Internal Rating Based) method, to meet a CET1 (Common Equity Tier 1) ratio of 11.05% (including alternative Tier 1 substitution) and a TCR (Total Capital Ratio) of 13.05%, also taking into account the phasing in of the combined capital buffers. With regard to liquidity, the SREP decided not to impose additional liquidity buffers.

Liquidity management

Liquidity risk is the risk of loss, or of adverse change in the financial situation, as a direct or indirect consequence of insufficient liquidity being available to meet financial obligations. This may be the result of:

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

Liquidity sources of the bankpool

Argenta Group's liquidity model can be summarised as follows:

- a substantial base of customer deposits;
- a spread over the Belgian and Dutch markets;
- diversification towards wholesale funding;
- a liquid securities portfolio.

Funding policy is primarily focused on obtaining funding from individual customers through current and savings accounts and term deposits. Retail savings certificates and subordinated certificates are still part of funding, but are no longer offered to customers. Customer deposits constitute the largest and most important primary funding source of the Company's banking activities.

Subsidiary Argenta Spaarbank also goes to the interbank or professional market to fund itself in order to diversify its sources of financing (RMBS securitisation) and to meet new legal requirements or support the S&P rating (EMTN programme with the possibility to issue Tier-2, Senior Non Preferred (SNP) or Senior Preferred (SP) instruments). Repurchase agreements (repos) are concluded periodically in the context of liquidity management, and in, late 2019, Aspa also participated in the ECB's TLTRO-III operation.

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

Risk management in the bankpool

The Asset and Liability Committee (Alco) monitors the liquidity indicators on a permanent basis. First line responsibility for the measuring, monitoring, checking and reporting of the liquidity risk lies with the ALM department. The liquidity risk is monitored both from a market liquidity risk perspective (liquidation value of assets) and from a refinancing risk perspective (stability of funding). The second-line responsibility lies with the Risk department. Management of the liquidity position falls under the authority of the Treasury and Investment Management department.

The liquidity risk appetite is managed in the bankpool's RAF by flashing light levels on three risk indicators, namely:

- The LCR (Liquidity Coverage Ratio): this ratio tests the liquidity buffer against a pre-defined outflow of financial liabilities over a 30 day period;
- The NSFR (Net Stable Funding Ratio): this ratio compares available liquidity against required liquidity over an at least one-year period; and
- The AER (Asset Encumbrance Ratio) compares the amount of unencumbered assets with the volume of protected deposits.

In addition to the aforementioned RAF indicators, further EWIs, operational limits and flashing lights have been defined internally.

For measuring, monitoring, checking and reporting on the liquidity risk, the Company has a specially adapted management information system (MIS), including a contingency plan, in order to be able to adequately manage its liquidity in both normal and exceptional circumstances. In addition to the extensive regulatory reporting, extensive internal reporting has also been developed. In this way, management and stakeholders are fully aware of the evolving situation.

The daily liquidity management, the definition of additional Early Warning Indicators (EWIs), operational limits or flashing lights, and the organisation of stress tests are included in the Liquidity Contingency Plan. Daily funding reports are distributed to a broad target group within the Company.

With respect to the regulatory ratios, the company applies a minimum of 105% for the Liquidity Coverage Ratio (LCR) within the RAF, with a target ratio of 137.5% (green zone from 125%). For the NSFR (Net Stable Funding Ratio) the minimum is 100% and with a target of a ratio of 132% (green zone from 120%).

The LCR and the underlying components can be found in table **LIQ1** appended to this report.

The immediately available liquidity sources consist of high-quality assets. These are mainly central bank reserves, government bonds, securitisations and corporate bonds. These are diversified in terms of both counterparty type and individual counterparty. In addition to the liquid assets eligible for the LCR, Argenta Group also has a portfolio of ECB-eligible securities.

Given that all liabilities and assets are denominated in euros, there is no currency mismatch.

Argenta maintains a derivatives portfolio with a view to hedging the interest rate risk. The value of this portfolio is hedged with collateral. The assets used as collateral are excluded from the LCR liquid buffer. The LCR also takes into account potential collateral outflows due to fluctuations in the valuation of the portfolio and a negative rating evolution of Argenta Spaarbank. The evolution of the collateral is closely monitored.

19. Supplementary disclosure

19.1. Events after the balance sheet date

While this annual report was being written, the world was struck by a pandemic - COVID-19 - which also affects Belgium and Belgian business companies.

Coronavirus
In early 2020, China's Hubei province was hit by coronavirus (COVID-19), a highly aggressive virus that leads to potentially fatal pneumonia. With strict measures taken by the Chinese government, this virus appeared to have remained isolated within China and a small number of Asian countries. It was only in the last week of February that the reality of further dissemination became clearer when Europe was hit, primarily by an eruption in Northern Italy. The worldwide dissemination of the virus was by then a fact.

Since the last week of February, the coronavirus has caused hitherto unseen and acute uncertainty with a wide range of potential consequences. The contamination, both as a virus and as a bringer of chaos, has spread in economies and markets around the world.

Since the beginning of March, stringent measures have also been taken in Europe to curb the spread of the virus. These mainly consist of 'social abstinence', in its extreme form of a complete 'lock- down', in which only vital economic activity continues to function.

The financial markets in Europe have been particularly volatile since the last week of February, with stock market falls of 30-40% worldwide and a steady decline in interest rates. On 3 March, the US Federal Reserve dropped its benchmark interest rate by 50 basis points. After that, interest rates worldwide continued to slide with expectations that the ECB would follow suit on 12 March with a cut. The fact that this did not happen sparked European market interest rates to rise to levels that are higher today than in the first months of 2020.

Impact on Argenta Bank en Verzekeringen
On 18 March the Belgian government emphasized that the financial sector is necessary to protect the country's vital interests and the needs of the population. Argenta had already taken the necessary measures to guarantee its continued activity and to protect its clients and employees.

Argenta branch offices remain accessible by phone and continue to work by appointment. Daily banking can continue to be conducted through online banking and the Argenta app. Cash is available at the ATMs. Thanks to the existing technology, all Argenta head office employees can work from home, ensuring services for our customers and the continuity of our company.

From Argenta, we continue to monitor the situation in every area through daily internal consultation and consultation with government bodies, regulators, sectoral federations and others. Every possible step will be taken to limit this pandemic and the possible economic consequences.

At the date of preparation of this annual report, the immediately measurable financial impact of this crisis is limited. Liquidity and solvency have been affected to a limited extent and remain very strong. The current market interest rates are currently almost neutral for Argenta's balance sheet and result compared to the financial position as at 31 December 2019.

The negative stock market evolution (equity markets) does have a direct impact on the market valuation of the equity portfolio of Argenta Assuranties, but does not yet lead to the booking of potential losses compared to the original purchase values. The stock market evolution could have an indirect effect for the bank and the insurer in terms of the size of the management fees received on funds subscribed by customers. The potential impact of this is currently estimated at approximately 5% of group profit before tax. The above-mentioned securities will fluctuate with the evolution of share prices to which we are directly and indirectly exposed.

There is also currently no directly measurable impact on the credit risk to which Argenta is exposed. The impact on the projected credit risk in the future will depend on the ultimate economic impact in Belgium and the Netherlands and the associated repayment capacity of our customers. Given that the elements to support an additional credit provision for future losses in accordance with the IFRS 9 accounting standard were not available on 31 December 2019, and are still not today, Argenta has not recognized additional provisions at year-end in accordance with IFRS 9. With the further economic and social developments, we will take these new elements into account when determining expected credit losses. Today, based on the currently known factors, their impact is not considered to be directly material.

On Sunday 22 March 2020, the Belgian federal government and Febelfin concluded an agreement for additional support measures for non-financial companies, self-employed persons, and for mortgage borrowers with payment problems as a result of the coronavirus crisis. The most important element of this for Argenta is the deferral of payment until 30 September 2020 without charging costs. The practical implementation of this agreement has yet to be completed. These measures do not concern the home loans that Argenta has outstanding in the Netherlands.

Argenta will continue to closely monitor the financial impact of the coronavirus crisis and will, in due course, take the necessary operational measures and also take these into account in determining Argenta's financial position.

19.2. Other supplementary disclosures

Disclosures on the governance arrangements are incorporated in the disclosed annual financial statements and IFRS annual reports, which are also published on the www.argenta.be website.

The Company did not qualify as globally systemically important bank (G-SIB) and therefore does not have to provide disclosures on this.

The above (not externally audited) disclosures are given in the context of Basel II Pillar 3 and are published in Dutch and English on the Company website (www.argenta.be), with the intention of meeting 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. In the case any discrepancies should exist, the Dutch version will take precedence. Questions related to the distribution of these reports should be directed to:

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