Argenta Spaarbank nv

PILLAR 3 DISCLOSURES

Glossary

Glossary

INTRODUCTION

1. Introduction

Within the framework of the Basel II agreement (applicable to Belgian credit institutions as a result of circular PPB-2007-1-CBP, issue XIV) every financial institution subject to the equity regulations must disclose information on its risk and equity position.

The following document contains the required disclosures about the consolidated financial position of Argenta Spaarbank nv, registered office 49-53 Belgiëlei, 2018 Antwerp (the Company). The document is be published in full each year on the Argenta Group website (www.argenta.be).

The explanations in this document are related to the Company and its subsidiary companies (the Bank Pool). The consolidating entity is defined according to *'International Financial Reporting Standards"* (IFRS).

Although there is no equity interest in the Company, the board of directors has (on the basis of IFRS rule SIC-12 Consolidation – special purpose entities) deemed that Green Apple as a Special Purpose Vehicle (SPV) has to be consolidated. As a result, the mortgage loans transferred through this entity remain on the Bank Pool's balance sheet (further information about the Green Apple SPV can be found in chapter 11. Securitisation disclosures).

The Company has no subsidiaries that were not included into the consolidating entity.

There are, outside the provisions of the law, no other existing or expected material, practical or judicial impediments which prevent a transfer of equity or repayment of obligations between the Company and its subsidiary companies.

Table 1: IFRS (and Basel II) consolidation

Entities	Stake held	31/12/2010	31/12/2011
Argenta Spaarbank nv	-	consolidating entity	consolidating entity
Argentabank Luxembourg SA (ABL)	99,71 %	full consolidation	full consolidation
CBHK nv (credit provider)	-	merger with the company in 2010	
Green Apple BV (SPV)	0 %	full consolidation	full consolidation

RISK MANAGEMENT

2. Risk management

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

The risk management framework is therefore updated and fine-tuned based on everyday experiences in *risk management*. Demonstrating that adequate risk management procedures are in place is a key requirement to gain and retain the confidence of all stakeholders, i.e. customers, investors, agents, supervisory authorities and credit *rating agencies*.

The strategy and policy of the Argenta Group and its consolidated entities, including the *internal governance* framework of its subsidiary financial institutions, are set by Argenta Bank- en Verzekeringsgroep's (BVg) decision-making bodies (executive board and board of directors, in accordance with the tasks and responsibilities as specified in the Articles of Association). The main subsidiaries - in particular the Company and Argenta Assuranties (Aras) - are responsible for the operational management within the guidelines specified by BVg.

Risk management at the Company

The Executive boards of the Company, Aras and BVg were integrated in 2010, with single mandates for the CEO *(Chief Executive Officer)*, CFO *(Chief Financial Officer)* and CRO *(Chief Risk Officer)*.

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

The Argenta Group continued to develop its conservative and transparent risk management in 2011. This led to continued enhancements to risk management and risk appetite:

- the integration of the Risk Appetite Framework (RAF) and related limits into a policy linked to the business plan;
- the revision of the *Thesaurie en Asset Liability Management* (ALM) policy for the Company, with improved risk input for each of the core activities;
- the continued development of the *Internal Capital Adequacy Assessment Process* (ICAAP);
- the development of a standard policy framework for Argenta;
- the integration of the Validation activity within the Risk Department (without being detrimental to its independence).

The importance of strong risk management, now and in the future, is substantiated by the following risk governance tools.

- The RAF is a transparent risk indicator system, in which the daily risk management for each risk category is monitored and reported using traffic light indicators (green, yellow and red).
- The Company's conservative risk appetite is managed using five risk categories[1]: capital adequacy, asset quality, income and value stability, liquidity and concentration.
- Since 2010, Argenta Group's risk management has also benefited from considerable synergies between banking and insurance risk expertise. As a result, BVg adopted an ICAAP approach in the first quarter of 2011.

Group Risk management is positioned at group level, alongside the independent control bodies of Internal Audit and *Compliance*. The Risk and Validation department at BVg level is responsible for risk oversight and guidance (second-line of defense). The day to day risk management in accordance with risk policies, appetite and controls (first line of defence) is the responsibility of each entity, and hence of its senior management.

For this purpose, the Bank *Pool* will receive support from the group level, and group risk will assess whether the risks are aligned with the Group's RAF.

In addition, significant efforts are made to define and outline the roles and responsibilities in these expertise domains:

- The Risk and Validation department provides the independent second line of defence.
- The basic principle - 'identify, report, monitor and mitigate' - remains explicitly valid for all material risk factors (including interest rate and business risk), which are then translated into ICAAP.
- The Risk and Validation department therefore has a detection function, i.e. further proactive identification of risks that have not yet been fully identified. It is also responsible for participating in the (economic) capital management.
- The Risk and Validation department also has an important task in managing and testing (validating) any risk models (including *prepayment* hypotheses, *replicating portfolio* process).

[1] Within each category multiple types of risk (or risk categories) can occur.

- Risk will participate actively in the pricing committees (Prico's) by means of a correct transfer pricing and risk premium for retail assets and liabilities;
- Risk also executes the formal and required risk checks (including the interest rate risk statement) and, as part of her mandate, participates actively in the Group Risk Committee and Alco. The agenda of the monthly Group Risk Committee alternates among ICAAP topics, retail credit risk and operational risk.

Alongside the second line of defence, financial institutions need to have the validation of risk models as part of their core activities since Basel II regulations require financial institutions to have the risk models they develop confirmed by an independent validator.

During 2011, the Validation Unit continued to monitor and validate the development of requirements for operation under F-IRB approach *(Foundation - Internal Rating Based system).* In addition, models were developed for the credit risk assessment of the Company's investment portfolio under the F-IRB, in particular as it relates to the exposure to financial institutions, corporates and *covered bonds*. An internal assessment process was implemented for this purpose in 2010. Validation of this system and process began in late 2010 and continued in Q1 2011.

The Company's risk profile

This annual report reviews the activities of the Bank Pool and in line with the provisions of Article 119.5 of the Belgian Company Code, provides in what follows a summary of the objectives and the policy of banking risks.

The Company's policy and organisational structure related to risk management are designed to properly flag, analyse, measure, monitor and manage formerly identified risks.

In the course of its activities the Company is exposed to various risks. The Company's risk management distinguishes, inter alia, between the following risk categories: financial risk (primarily interest rate risk), liquidity risk, credit risk (including concentration and sovereign risk), operational risk and other risks.
These risks are managed in a uniform way for the entire Argenta Group, using the Risk Appetite Framework, the guidelines and the established procedures.

2.1. Financial risk

The financial risk (market risk) is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The market risk includes three types of risk: interest rate risk, currency risk and other price risks.

Interest rate risk

The interest rate risk is the main market risk to which the Bank *Pool's* banking activities are exposed. It comprises the financial risk resulting from the impact of a change in interest rates on the interest margin and on the fair value of interest-bearing instruments.

This risk is systematically monitored against a limit that is defined as the *duration gap*. This limit is based on the maximum acceptable income loss in the event of a 1% (100 basis points) change in interest rates.

The Argenta Group and the Company focus mainly on plain vanilla investments, such as government bonds, bank and non-bank bonds and mortgage loans, as a result of which market risk can be more easily managed.

The Company has implemented and applied risk management methods to reduce and control the market risks to which it is exposed. This is managed using professional software programs. As such, all material sources of interest rate risk are identified.

When assessing the interest rate risk, measurements are reported both from an income perspective *(earnings at risk perspective, net interest income)* and from an economic value perspective *(economic value, assessment according to the value of equity)*.

In its risk management procedures, the Company gives much attention to a coherent internal organisational structure, which enables it to perform these activities competently, objectively and efficiently and to timely provide comprehensive reports to the various responsible management bodies.

In the first place, this relates to the Asset and Liability Committee (Alco), which is a management committee that directly supervises the active interest rate risk management, with specific responsibilities in monitoring the day to day management of the financial positions and reporting to the Executive board. The Alco has a standing mandate to optimise net interest income (and its sensitivity) and to maintain the market-value sensitivity of equity within set limits. In addition, interest rate reports are reviewed with the Boards of Directors of the Argenta Group on a monthly basis.

RISK MANAGEMENT

Sensitivity analysis – interest rate risk in the banking book

The following analysis of the economic value and income sensitivity shows the impact of a parallel interest rate shock on the net interest income and on the other components of equity.

Since the Company has only a banking book, these figures reflect the entire Bank Pool. The calculation method was adjusted moderately in order to calculate the comparative numbers using this method.

A 100 basis point increase in interest rate would cause interest income to increase by EUR 40.84 million (+15.13 %). A 100 basis point fall in interest rate would cause income to decrease by EUR 18.37 million (-6.81 %).

A 100 basis point increase in interest rate would have a negative impact of EUR 97.22 million (-4%) on the economic value of the *banking book*. A 100 basis point decrease in interest rate would have a negative impact of EUR 70.16 million (-2.89 %).

The economic value of the banking book is calculated, for the purposes of internal monitoring, on the basis of discounted contractual cash flows using the IRS *flat* curve.

The outstanding positions in the calculations are always held constant as of 31 December (static balance sheet).

Strategies for reducing risks

Interest rate caps were acquired in 2011 in order to keep market sensitivity within the risk appetite guidelines approved by the Company's Board of Directors and not to exceed the supervisor's levels. This exogenous hedge serves to supplement the permanent aim of an optimal endogenous management of the balance sheet.

For the endogenous hedging, the whole range of adjustments to on-balance-sheet products is available, varying from price changes, new products and adjustment of product characteristics. Endogenous actions can have a significant impact, which will usually manifest itself relatively slowly and gradually.

The size of the exogenous hedge is determined from an assets and liabilities perspective. Firstly, the amount of liabilities sensitive to re-pricing (less the amount of assets sensitive to re-pricing) must be able to follow rising interest rates.

Table 2: Sensitivity analysis interest rate risk

Income sensitivity	delta 2010	delta in %	delta 2011	delta in %
Interest rate increase by 100 basis points	39.421.203	18,26%	40.843.847	15,13%
Interest rate decrease by 100 basis points	-22.876.353	-10,60%	-18.378.018	-6.81%

Economic value	delta 2010	delta in %	delta 2011	delta in %
Interest rate increase by 100 basis points	-94.473.531	-4,83%	-97.225.783	-4,00%
Interest rate decrease by 100 basis points	5.654.084	0,29%	-70.167.901	-2,89%

Thanks to a capped interest rate hedge, the price-setting for savings accounts can partially follow a potential future interest rate increase, whereas without a *hedge* this would be difficult to do because of the less frequent changes in the price of the assets.

On the other hand, it must be possible to make the long-term fixed-rate assets floating when interest rates are rising. An interest rate hedge helps to provide the projected long-term fixed-interest mortgage business a floating rate character in the event of any future rise in interest rates. This provides protection of both income and value.

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

Risk focuses on setting a framework for the financial risks, in particular the interest rate risk, in order to provide an adequate level of stability of income and value.

Currency risk

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

The Bank Pool is not exposed to any currency risk since it only operates in the Benelux countries and does not make investments in currencies other than the euro.

Other price risks

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

This is regardless of whether these changes are caused by factors that apply specifically to the individual financial instrument or the issuer or by factors that affect all similar financial instruments traded on the market.

Equities risk

The Bank *Pool* does not invest in individual equities. On 31 December 2011, the limited number of investment funds (in the legal form of beveks or sicavs - open-ended investment companies) were historically recognised on the balance sheet on the issue by the Company of new sub-funds in existing equity funds.

The equity fund item is limited and in 2010 and 2011 positions were only sold; consequently no additional equity funds were posted to the balance sheet.

2.2 Liquidity risk

The liquidity risk is the risk of the Company not being able to honour its financial commitments at a reasonable cost on the due date. It should therefore be able to satisfy the liquidity requirements of deposit or other contract holders, without suffering unacceptable losses as a result of freeing up assets that should be used to pay the financial liabilities in normal and difficult circumstances.

The increased attention to the liquidity risk originates from the globalisation of the financial markets, the greater volatility of *funding*, the strong growth of new products and structured transactions such as securitisation operations. Although these factors primarily affect multinational financial institutions, the Bank *Pool* also increased its focus on liquidity.

In order to measure, monitor, check and report on liquidity risk, the Argenta Group has a specially adapted management information system (MIS), including a contingency plan to be able to adequately carry out liquidity management under both normal and exceptional circumstances.

Liquidity risk is monitored using two risk indicators, i.e. the LCR *(Liquidity Coverage Ratio)* and the NSFR *(Net Stable Funding Ratio)*. The LCR tests the liquidity buffer against a defined outflow of the funds deposited over one month, and the NSFR tests the available liquidity against the required liquidity over one year. Both standards should be above a minimum of 100 %. In addition, the internal Risk Appetite Framework pursues an even higher level of > 120%.

Our regulator, the NBB, monitors liquidity through a 'observation ratio' which measures fundamentally the same as the LCR, but which has already been introduced in Belgium[2] as early as 01/01/2011.

In addition, it was determined that (as part of liquidity management) at least 66 % of the investment portfolio

[2] "Circulaire CBFA_2009_18 – 8 May 2009: The supervision of liquidity risk".

should be comprised of ECB *eligible* bonds.

The daily liquidity management, the definition of *early warning indicators* (EWIs) and the organisation of stress tests are described in a *Liquidity Contingency Plan* (LCP).

Daily reports on funding are distributed to a broad target audience. In addition, discussion of the warning indicators is a fixed item on the agenda of the bi-weekly Alco. Senior management is consequently continuously involved in liquidity management.

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

- a sizeable base of customer deposits (see liquidity sources below, with customer deposits (66.14 %) and bank savings certificates purchased by *retail* customers (17.43 %));
- total independence of interbank funding: the Company does not have to rely on the interbank market for funding - a low *loan to deposit* ratio, which reflects the fact that loans granted are significantly lower than the total amount of customer deposits;
- securities portfolios that are readily tradable and can readily be converted to cash (can be used as collateral with the European Central Bank (ECB) or saleable - see supplementary Note).

The Company also holds deposits from credit institutions. This entails *funding* by means of repo transactions that were not entered into for the purposes of liquidity management, but in the context of investment opportunities on the financial market.

Liquidity sources

The *funding* policy focuses on retail customers through the issue of current and savings accounts and term deposits and securities. Customer deposits constitute the most important primary funding source of the Bank *Pool's* banking activities.

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

The group's financing structure is managed in such a way that a substantial diversification is maintained and that the level of dependency on capital market funding remains very limited.

Reporting to the supervisory authority

The significant efforts which have been made in recent years in the area of liquidity management were continued in 2011.

The Company satisfied all statutory and internal liquidity standards in 2010 and 2011.

2.3. Credit risk

Generally speaking, credit risk arises when a customer or counterparty is no longer able to meet its contractual obligations. This can be the result of the insolvency of a customer or counterparty. This risk arises both with traditional lending and with investment activities (other interest-bearing assets). As regards the latter, widening spreads and rating downgrades are indicators of credit risk.

For the Company, there are essentially two sub-areas of importance regarding credit risk: the market for residential mortgage lending on the one hand, and the investment portfolio on the other.

Credit risk management

The management of credit risks within the Bank Pool is governed by the credit risk management guidelines (retail lending) and the treasury and ALM guideline (other interest-bearing assets). The guidelines set out the basic principles, rules, instructions and procedures for identifying, measuring, approving and reporting credit risks.

All the Bank Pool's entities and departments have adequate measurement instruments, guidelines and procedures available to manage the credit risk, including a fully independent credit approval process with set limits for creditworthiness and supervisory procedures.

Lending to individuals

The Company has a concentration in lending to private individuals in Belgium and the Netherlands, and more specifically residential mortgage loans to individuals. This makes the Company sensitive to developments in the housing market and to the repayment capacity of individual borrowers in Belgium and the Netherlands.

The Bank Pool generally endeavours to maintain a low risk profile in its lending. This strategic option is confirmed

in, among other things, the Company's credit acceptance conditions and procedures, of which security requirements (mainly mortgage registrations on buildings) is one of the basic terms and conditions, together with the strategic focus on lending to *retail* customers.

The ongoing financial crisis in Europe was the predominant feature in 2011. This had little, if any, impact on Argenta's mortgage portfolio, as evidenced by the stable delinquency rates and low *default rates*.

Investment portfolio

A strict *rating* allocation that has been refined in-house plays a major role in the process of monitoring the quality of Argenta's securities portfolio. For instance, the asset quality of the various portfolio components is closely monitored using the average *rating* concept based on 1) internal ratings and 2) agreed *rating* factors.

There is a clear management framework, documented in the revised Treasury and ALM guideline and based on the following main principles:

- A country limit has been introduced; besides the sovereign risk, this also measures the risk of all counterparties/borrowers for each country.
- A separate limit has been introduced for repos, derivatives and *covered bonds*, in addition to the bond limit.
- Counterparty limits are now based on the term as well as the *rating*.
- ABS and RMBS are only permitted under strict conditions: 5 % retention by the issuer/initiator; permanent *monitoring* of the underlying delinquency and default rates, known underlying and clear view of the structure: no RMBS on RMBS/ABS on ABS but direct underlying *collateral*.

Within this policy framework, there was a focus in 2011 on developing and applying the limit framework, in which the ratios on country concentration and *asset* quality also play an important role.

The Company has a widely diversified investment portfolio, with a concentration of a nominal value of EUR 5.8 billion in Belgian government paper. The Company's portfolio does not contain any Greek government securities.

On 31 December 2011, the portfolio included a nominal value of EUR 600 million exposure in government paper issued by Portugal, Italy, Spain and Ireland, of which EUR 419 million relates to Italy. The exposure to these countries has a short residual term, resulting in the outstanding amount to decrease to EUR 236 million by 31 December 2012.

The unrealised capital losses on this exposure amounted to EUR 38.7 million on 31 December 2011. These unrealised capital losses only have a minor potential impact on equity, which means the strength of the Company's equity is safeguarded. A simulation of the capital adequacy ratio shows that if these capital losses were realised (which is not likely at the moment), the Tier 1 ratio would fall from 16.18 % to 15.79 %, which is still well above the requirement under Basel II.

Credit risk and the Basel II Capital Accord

The Bank Pool has many years' experience in granting and managing mortgage loans to retail customers, which resulted in a history of low loan losses.

Retail customers include private individuals and self-employed professionals with their usual place of residence in Belgium (for the Belgian operations) or in the Netherlands (for the Dutch operations), who use the Company for their standard, non-professional credit requirements.

Because of this policy option and long experience, the Bank *Pool* has therefore opted to perform its retail lending under the Basel II Capital Accord on the basis of internal *ratings* and to calculate the capital adequacy requirements according to the IRB(F) method, subject to exceptions that are not material. This means that when a loan is granted, each counterparty is assigned a *rating*, which can be either an internal or external *rating*. To this end, the Company has, as appropriate, developed one or more models itself.

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

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

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

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

The decision to use this Internal Rating Based method resulted in changes to the operational credit risk management, the authorisation procedure, the valuation rules, price setting, internal monitoring and reporting and the responsibilities of the Executive Committees and Boards of Directors.

As of September 30th, 2009, the reported equity requirement for the retail mortgage portfolios is calculated using the IRB method. As a result of the transitional provisions of Basel II, the so-called 80% floor (equity calculated according to Basel I principles) determines the ultimate equity requirements.

More intensive use was made of the *rating tool* for the investment portfolio during 2011. This is the tool used by Argenta to determine the internal ratings of the counterparties within the Company's securities portfolio. For instance, in the past year all borrowers in the Bank Pool's banking and corporate portfolio were assigned a *rating*. In this way, around one hundred counterparties were thoroughly screened according to a specific method in accordance with the internal governance procedure. In addition to a thorough first-line analysis, this procedure also includes a second-line risk check and validation of this internal *rating*. All these proposed ratings are also ratified or decided by a *rating committee*. This approach is part of the continued roll-out of the Foundation Internal Rating Based approach under the Basel framework.

However, the investment portfolio remains a major topic of regular reporting to, and discussion within, the Alco, the Executive Committee and the Board of Directors.

Impairments

Impairments for loan losses that are determined on an individual basis are recognised when a loan is considered as being in default, which means that there are objective indications that the Company might not be able to collect all due and payable amounts in accordance with the contractual conditions. The amount of the impairment is the difference between the carrying value and the recoverable amount.

Specifically, a loan is considered as being in default when the following events have occurred:

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

Loans considered as being in default are consequently reviewed, including taking the collateral into account, to see whether impairment should be recognised.

Besides the impairments that are determined on an individual basis, collective - portfolio-based - impairments are also recognised. These collective impairments may only be recognised for 'loans and receivables'.

For the mortgage portfolio, this is in the form of an *incurred but not reported* (IBNR) provision. 'Incurred but not reported' provisions are justified for receivables for which no special impairments are recognised on an individual basis.

Collateral

The granting of mortgage loans always includes requests for personal or commercial collateral. The lower the creditworthiness of a borrower, the higher the guarantee required from the customer. Under the foreclosure policy, it may occasionally occur that certain collateral is acquired and recognised on the balance sheet.

For such collateral (in especially, the properties on which a mortgage or power of attorney to take a mortgage is registered), new individual estimates are made if the loans to which the collateral were attached were considered to be in default (see definition of this concept in the above description of impairments). The value of the commercial collateral is reviewed periodically using a statistical method.

Foreclosure policy

If all other means of obtaining financial settlement for a loan in default have been exhausted, the Company will proceed to a public sale when a property is involved.

There were 42 public sales in 2011 (compared with 52 in 2010), including sales relating to loans with an NHG guarantee in the Netherlands, but excluding sales at Green Apple, for which the sale proceeds did not cover the full amount receivable. The total residual liability was EUR 2,179,970 (compared to EUR 2,434,055 in 2010).

Also as a result of this policy, two properties were acquired for EUR 281,940 in 2010. In 2011, three properties were acquired for EUR 314,130; these are included in 'real estate investments'.

As a result of the conservative lending policy and the strict underwriting strategy, loan losses within the Company's various fields of activity were low in recent years.

Concentration of credit risk

Concentration may relate to various factors:

- concentration of lending to an individual counterparty or a group of inter-related counterparties (single name concentration or counterparty concentration);
- concentration of lending through an uneven distribution among sectors or countries/regions (sector concentration).

The latter may arise due to significant exposure to groups of counterparties where the probability of default is due to common underlying factors.

The credit risk management guideline includes limits for concentration risk. These limits are systematically monitored and reported. One of these limits relates to the maximum exposure per counterparty in retail lending, and sets that this maximum exposure to a single *retail* counterparty may never exceed EUR 1 million (other than in the event of an explicit decision by the Credit Committee and the Executive Committee).

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

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

Finally, securitisation can also be used in addition to a funding and liquidity tool to manage the risk volume of loans and thus to manage the level of concentration. Both of the two securitisation operations implemented involved Dutch mortgage loans.

The analysis of the portfolio composition into economic sectors (governments - public administrations, credit institutions, other loans including corporate bonds, mortgage lending and other retail lending) and countries, is the basis for the quantitative assessment.

The Treasury and ALM guideline referred to above establishes which bonds and which ratings may be considered for investment. The ratings of all fixed-income securities are then systematically monitored. If (after purchase) the rating of a bond drops below the set minimum rating requirement, the bonds concerned will be discussed again in the Alco and the Rating Committee (RC).

In this regard, the Alco, and therefore the Company' s Executive Committee, must also make an explicit judgement on whether or not to keep a position. Finally, reports on the exposures are also submitted to the Board of Directors.

2.4. Operational risk

Since risks are an inherent part of all operating activities and decisions, all enterprises, including financial institutions, are faced with operational risk.

Operational risks arise as a consequence of either inadequate or faulty internal processes, personnel and systems, or as a result of external events. The impact may consist of financial or reputational loss.

Operational risk policy

The management of operational risks within the Argenta Group is covered by the Operational Risk Management Guideline, which was approved by the Executive Committee and the Board of Directors at the end of 2010. The guideline establishes the principles, rules, instructions and procedures for identifying, monitoring, assessing and reporting on operational risks. It also defines the lines of reporting by the various subsidiaries, which remain accountable for the management of their own operational risk.

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

All (operational) risks that have been identified by first-line, second-line or third-line responsibility, and all incidents that have been noted, are registered in the risk database. The risks are scored by all parties using the same scorecard, thus ensuring that the scoring is uniform. The recommendations put forward by Audit, Compliance, Risk and Information Risk Management and Validation during the performance of their second or third line control function and the resulting actions, are monitored through this database and the status of the actions is assessed periodically and reported to the relevant control function.

Bringing all information together and agreeing on the approach for operational risk enables the Argenta Group to provide for more efficient steering of the management actions, which is a clear means of focusing on qualitative management of the operational risk.

This striving for quality is a core objective of everyone at the Argenta Group and will be reflected in, among other things, an increased maturity level of the internal control.

In order to align with the standard corporate policy in this regard and good practice in risk management, the responsibilities for information security and continuity policy (BCM) were split into first-line and second-line responsibilities in 2011. The second-line responsibilities were transferred from the Information Risk Management department to the Operational Risk division in the Risk and Validation department.

In 2011, the focus was on integrating information security and BCM in operational risk management. A lot of time was assigned to updating the BCM documentation and the performance of business impact analyses by all departments. The BCM and information security guidelines were approved by the Executive Committee and the Board of Directors in 2011.

Operational risk and the Basel II Capital Accord

The Company uses the standard method for calculating the requirements for operational risk.

2.5. Other risks

Without trying to be exhaustive, a few other risks are mentioned in this section.

Strategic risk

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

In order to achieve the strategic objectives, as defined in the *business* strategy, the Company makes resources available (including communication channels, systems, personnel, networks, managerial time and managerial capacities).

Execution of the business strategy ultimately depends on the adequacy of the resources made available and the way in which these resources are used and are permanently assessed.

Business risk

The *business* risk is the risk that current and future earnings and capital will be affected by changes in *business* volumes, or by changes in margins and costs; both are caused by changing market conditions or the organisation's inability to take advantage of such changes. This risk also refers a poor diversification of *earnings* or the inability to maintain a reasonable level of profitability.

In order to diversify the *business* risk to which the Company is exposed, the Argenta Group has made a strategic choice to sell products that generate fee income alongside its traditional activities. Alongside the other lines of insurance, loans, savings and payments, this fourth business line should give rise to greater diversification of earnings. Another important factor in this regard is the attention given to *cross-selling*, in order to attract as many customers as possible concurrently into several *business* lines.

Reputational risk

Reputational risk is the risk of damage (loss) through a deterioration of the reputation or standing caused by a negative perception of the image of the organisation by its customers, counterparties, shareholders and/or regulatory bodies.

This is a *second-order risk*; in other words, a risk that results from another risk but which has its own impact. The Company considers this risk as a vertical risk, i.e. a risk that runs through all other risks. By monitoring and managing the other risks, the reputational risk is also kept under control.

External service providers

The Company is exposed to the risk of termination of large contracts with external service providers. Termination of one of these contracts could result in an interruption of business or delays in important business processes, against which the Company covers itself as far as possible through an appropriate business continuity policy and transitional arrangements in the relevant contracts.

REGULATORY CAPITAL

3. Regulatory capital

3.1. Components and characteristics of capital

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

Component "paid-in capital"

In 2010, a capital increase amounting to EUR 118 million occurred, which increased the paid-in capital on 31/12/2010 to EUR 421,255,000. In 2011 there were no capital increases.

Component "revaluation reserve for available for sale financial assets"

The *available for sale* (AFS) financial assets are valued at fair value and all variations from that fair value are recorded on a separate line in the equity until the financial assets are sold or until the moment that a special impairment is applied.

At the end of 2011 the unrealized capital losses on fixed-income securities was EUR 88,327,954 before tax and including minority interests, and the unrealized gains on non-fixed income securities was EUR 106,315.

After including the deferred tax liability (EUR plus 56,953,888) on it, the transfer of the positive market value of the fixed-income securities, which were recognized in micro-hedges as covered positions (EUR 79,199,204), the shift in the minority interests (EUR 590) and a frozen AFS reserve of reclassified assets (EUR – 15,532,649), we end up with a value of EUR - 126,000,194 in the line "revaluation reserve for available for sale financial assets".

Component "reserves" (including retained earnings)

Among other things the statutory reserves of the Company are found under this item, as well as retained earnings from previous years.

As of 31/12/2011, the amount of EUR 547,548,306 consists of reserves for an amount of EUR 536,534,438 plus an item of EUR 11,013,868 relating to a BGAAP based revaluation reserve for buildings.

Component "income from current year"

The result of the current financial year is recorded under this item.

Component "cash flow hedge"

In 2011 a swap of EUR 100 million (notional) was contracted. The swap was processed as a cash flow hedge according to the IFRS hedge accounting principles.

As of 31 December 2011 the swap had a negative market value of EUR 5,119,814. After the recognition of a deferred tax asset of EUR 1,740,225 an amount of EUR 3,379,589 was mentioned on the line "cash flow hedge" in equity.

Component "minority interests"

Under this item the 'reserve for revaluation and valuation differences' and 'remaining equity components' from minority interests are recorded. The minority interests at the Company as of 2011 relate to the shares of its

Table 3: Equity and its components

Components	31/12/2010	31/12/2011
Paid-in capital	421.255.000	421.255.000
Revaluation reserve for Available For Sale financial assets	-21.642.099	-126.000.194
Reserves (including retained earnings)	475.588.505	547.548.306
Income from current year	81.959.802	70.225.611
Cash flow hedge	0	-3.379.589
Shareholders' equity	957.161.208	909.649.134
Minority interests	86.834	93.422
Total equity and minority interest	957.248.042	909.742.556

subsidiary company ABL that are not in the possession of the company.

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

3.2. Composition of regulatory capital

The qualifying equity for regulatory purposes consists of some of the above mentioned components. The overview mentioned below reflects this qualifying equity on 31 December 2010 and 31 December 2011.

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

As of 31/12/2011, the item "paid-in capital" of EUR 417,410,014 in this calculation is the result of deducting an amount of EUR 3,844,986 from the paid-in capital.

This amount relates to a non-depreciable portion of a reserve for tangible assets created under BGAAP. In accordance with former equity regulations, this amount is always deducted from the paid-in capital.

As of 31/12/2011, the item "reserves" showed EUR 536,534,437 (item 3.1 Component reserves)

For the calculation of equity, institutions can take the net profit from the financial year "after deduction of all expected expenses and dividends". The item "profits (result) for the current financial year" at 31/12/2011 is thus obtained by reducing the profit for the financial year by the planned dividend payment of EUR 14.5 million.

As of 31/12/2011, the item "minority interests" is EUR 92.832. This amount is obtained by reducing the full amount of the minority interests of EUR 93,422 by the revaluation reserve for "available for sale financial assets" of EUR 590 from the subsidiary company ABL.

The item 'revaluation reserve AFS equity instruments' shows the unrealised value on the current portfolio of equity instruments. This has to be deducted from the equity sensu stricto. However as of 31/12/2011 there were no unrealised negative values on equity instruments.

Table 4: Composition qualifying equity

Composition qualifying equity	31/12/2010	31/12/2011
Equity sensu stricto	981.340.558	1.064.481.267
Total additional compon	258.338.672	334.723.528
- First part additional components	13.872.229	13.468.652
- subordinated loans	244.466.443	321.254.876
Total qualifying equity	1.239.679.230	1.399.204.795

Table 5: Equity sensu stricto

Equity sensu stricto	31/12/2010	31/12/2011
- paid-in capital	417.410.014	417.410.014
- reserves	467.936.975	536.534.437
- profits (result) from the current financial year	71.959.802	55.725.611
- minority interests	85.475	92.832
- revaluation reserve AFS equity instruments	0	0
- limited innovative instruments	100.000.000	100.000.000
- intangible assets	-22.273.818	-29.607.916
- items to be deducted: potential and foreseeable losses and costs	-53.777.890	-15.673.711
Total equity sensu stricto	981.340.558	1.064.481.267

REGULATORY CAPITAL

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

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

Nominal amount:	EUR 100.000.000
Issue date	31 October 2006
First call date	31 October 2016
Call option	the issuer has the right to repay the security at nominal value on 31/10/2016, and on each following coupon date
coupon	fixed interest of 5.855% up to 31 October 2016 and afterwards variable interest of 3 month Euribor + 275 bp

The item 'intangible assets" of EUR 29,607,916 is deducted from the equity *sensu stricto* and consists of the category 'intangible assets' as found on the asset side of the consolidated balance sheet.

At the end of 2011, EUR 15,673,711 was deducted from qualifying equity. This amount relates to the residual negative market value of 2 payer and 2 receiver swaps. The amount that is deducted will reach zero at the final due date of these swaps (in financial year 2012).

The item "revaluation reserve AFS equity instruments" relates to 90% of the unrealized gains on the current portfolio of equity instruments (90% of EUR 106,315). This amount can actually be included as part of the additional components of the equity.

The amount of EUR 13,372,969 is obtained by firstly increasing the revaluation reserves for buildings (created formerly under BGAAP) of EUR 11,013,868 (see 3.1) by the adjustment made to paid-in capital (see 3.2, which is EUR 3,844,986). The calculated total of EUR 14,858,854 (EUR 11,013,868 plus EUR 3,844,986) is then multiplied by 90%.

The further supplementary equity amounted to EUR 321,254,876 on 31/12/2011 and consists entirely of subordinated loans. "Subordinated loans" may be used for up to 50% of equity *sensu stricto* (subject to compliance with the equity regulation conditions) as further supplementary equity.

In 2011, EUR 175,935,712 of subordinated loans were purchased by private investors. The total amount of issued, still current, subordinated loans as of 31/12/2011 was therefore EUR 494,337,485.

Table 6: Additional components

Additional components	31/12/2010	31/12/2011
- additional core equity	13.872.229	13.468.652
- revaluation reserve AFS instruments	99.199	95.684
- revaluation reserve tangible assets	13.773.110	13.372.969
- further additional equity	244.466.443	321.254.876
- Total additional equity	258.338.672	334.723.528

REGULATORY CAPITAL REQUIREMENTS

4. Regulatory capital requirements

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

The Company applied the Basel II standard approach for these calculations up to and including 30/06/2009. As of 30/09/2009 it received approval to apply the (F)IRB method for calculation of retail mortgage portfolios.

The table mentioned below shows the weighted risk volume *(Risk Weighted Assets – RWA)* as of 31/12/2010 and 31/12/2011.

Pursuant to the Basel II rules regarding transition from the use of the standard approach to the use of an IRB approach, the Company had to take into account a *floor* when calculating its capital requirements in 2011.

The *floor* for 2011 was 80% and was applied to the qualifying equity calculated in accordance with the Basel I standards. The Basel I calculations (which are systematically calculated to make comparisons) form the basis of the capital requirements.

The summary mentioned below shows the testing of the most important requirements, calculated according to the Basel regulations.

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

Weighted risk volume Basel II	Basel II RWA 31/12/2010	Basel II RWA 31/12/2011
Credit risk standard method (STA)		
Central governments and central banks	240.825.051	119.662.241
Regional and local governments	0	0
Public entities	0	0
Institutions	1.047.634.987	1.359.337.743
Corporates	400.051.838	404.650.816
Retail	80.844.418	145.491.342
Secured by real estate	49.682.645	103.580.759
Past due items	9.191.915	11.097.294
Covered bonds	34.279.394	65.655.768
Collective investment undertakings	6.223.847	6.243.885
Others	159.914.493	183.147.375
Securitisation positions	5.362.012	68.730.381
Credit risk (F)IRB method		
Secured by real estate	1.671.021.148	1.569.500.918
Securitisation positions	43.076.363	127.306.684
Total credit risk	3.748.108.111	4.164.405.206
Market risk	0	0
Operational risk	412.793.336	413.525.775
Total risk weighted assets	4.160.901.447	4.577.930.981

REGULATORY CAPITAL REQUIREMENTS

Table 8: Capital requirements as at 31 December

	31/12/2010	31/12/2011
Total of the useful shareholders' equity for the coverage of the equity requirements	1.239.679.230	1.399.204.795
Required on the basis of the fixed assets	34.030.907	35.001.122
General solvency coefficient	640.175.371	655.941.223
Adjustment Floor IRB transition period	80 % rule	80 % rule
Total required after adjusting Floor to Basel I	532.915.705	526.227.092
Core Tier 1 ratio	13,23%	14,66%
Tier 1-ratio	14,73 %	16,18%
Cooke ratio	18,61 %	21,27%

The calculations as of 31/12/2011 take into account the specific Basel II rules for the calculation of RWA for which the Company has been given approval. The Company uses the (F)IRB method for *retail* mortgage portfolios and the MBS portfolio, and the standard method STA for other exposures.

As a result of the Basel II rules applicable to the transition from the STA to the IRB method, core capital should be 80% of the required capital, calculated according to Basel I principles. The required capital as of 31 December 2011 is therefore EUR 526,227,092 (80 % of EUR 657,783,865).

The Cooke ratio of 21.27% as of 31 December 2011 is calculated by dividing the core capital (EUR 1,399,204,795 as of 31 December 2011) by the RWA (EUR 6,578,301,810 as of 31 December 2011). The Cooke ratio was 18,61%. .

In 2010 and 2011, the total regulatory core capital was always in excess of the three published requirements, so that the Company complied fully with all capital requirements.

4.1. Capital requirements for credit risk

Calculations are performed and reported up to and including 30/06/2009 according to the Basel II standard approach. As of 30/09/2009, the Company received permission to move to the (F)IRB model for its retail credit portfolios.

As a result of the transitional rules (floor of 80% on the capital requirement calculated according to Basel I), the Basel I calculations were again the most important for the Company.

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

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

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

The weighted risk volume for credit risk amounted to EUR 3,748,108,111 as of 31 December 2010 and EUR 4,164,405,213 as of 31 December 2011, which resulted in capital requirements of EUR 333,152,417.

As a result of the 80% *floor*, the weighted risk volume will, however, be increased (see 4.4).

4.2. Capital requirements for market risk

The Company currently does not perform any equity calculations for market risk, since these calculations are only necessary for the *trading book* and the Company does not had such a *trading book* as at 31 December 2011.

CREDIT RISK

4.3. Capital requirements for operational risk

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

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

With this standard approach the activities and therefore also the operational result must be assigned to the different business lines. The capital requirements differ from one business line to another, and this is obtained by multiplying the operational result (as calculated under the previous paragraph) by 12%, 15% or 18%.

The operational result at the Company was assigned to the business lines retail broker services, retail bank services and portfolio management (which all need to be multiplied by 12%). The capital requirement came to EUR 33,082,062 as of 31/12/2011 (EUR 33,023,467 as of 31/12/2010).

4.4. Application of the 80% floor (transitional phase from STA to IRB)

The capital requirement for the credit risk as calculated according to the IRB method amounted to EUR 333,152,415. The addition of the operational risk requirement of EUR 33,082,062 results in a total capital requirement of EUR 366,234,477.

The capital requirement according to Basel I was EUR 657,783,865 as of 31/12/2011. If we apply the relevant floor (for 2011) of 80% to this amount, we come to a capital requirement of EUR 526,227,092.

Given that this floor is higher than the capital requirement that would apply under the IRB method, the resulting amount of EUR 526,227,092 is treated as the minimum equity capital that must be held. This capital requirement corresponds with a weighted risk volume of EUR 6,578,301,810 (EUR 4,577,930,981 had the IRB method been used). According to the IRB method the Tier 1 ratio would be 23.25% as of 31/12/2011.

5. Credit risk

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

5.1. Definition of past due and doubtful

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

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

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

For loans which are considered as doubtful, there is then the consideration whether (taking into account the securities obtained) individual impairments need to be set up.

5.2. Approach and method for determining value adjustments

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

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

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

CREDIT RISK

Financial assets

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

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

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

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

Besides the impairments that are determined on an individual basis, also collective – portfolio-based – impairments are created.

Firstly there is the collective – portfolio-based – impairment in the form of an IBNR provision. IBNR provisions on loans are justified for assets for which no special impairments are created on an individual basis.

This collective evaluation of impairments includes the implementation of a *'loss confirmation period'* with regards to the probability of non-payment. The 'loss confirmation period' is a concept that takes into account the fact that there is a period between the moment that indicators for impairments occur and the moment at which these are included in the credit risk systems of the Company.

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

The IBNR is calculated and created for all loan portfolios for which credit risk models were developed in Basel II. Based on the PD, the portfolios are divided into *risk* classes. For each risk class, the chance of a loan in this class *defaulting* within three months is calculated. To obtain a more stable (seasonally adjusted) result, a rolling average PD for the last 4 periods is used.

In addition there is a – portfolio-based – impairment for a specific MBS portfolio.

Specific rules for 'available-for-sale financial assets'

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

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

- Investments in equity instruments

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

This situation will be assessed individually each reporting date, but if there are no additional assessment criteria available, the Company considers a duration of 12 months as long term, and a decrease of at least 20 % as considerable.

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

- Investments in other non-equity instrument

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

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

5.3. Credit risk mitigation

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

Table 9 shows an overview of the risk positions before and after the credit risk mitigation movements as a result of unfunded and funded credit protections (see column exposure after CRM in table 10).

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

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

The total of the amounts under "unfunded credit protection – guarantees" and funded "credit protection – collateral" (being the outflow) add up to the total of the column inflow.

The unfunded credit protection of the company can be divided in two groups. In the first place it concerns a shift as a result of government guarantees and guarantees of financial institutions (see explanation mentioned below of the EUR 1,449,949,764 in the category financial "institutions").

Table 9: Risk positions per category

	Exposure pre CRM	Unfunded credit protection guarantees	Funded credit protection collateral	Total inflow	Exposure after CRM
Central governments or central banks	7.472.185.106	0	0	2.146.182.085	9.618.367.191
Regional and local governments	908.350.440	0	0	0	908.350.440
Public entities	116.328.468	0	0	0	116.328.468
Institutions	4.839.059.359	1.449.949.764	0	24.905.000	3.414.014.595
Corporates	1.084.305.293	69.415.153	0	0	1.014.890.140
Retail	206.397.192	0	0	0	206.397.192
Secured by real estate	994.776.964	651.722.168	0	0	343.054.796
Past due items	7.816.550	0	0	0	7.816.550
Covered bonds	297.970.105	0	0	0	297.970.105
Collective investment undertakings	6.243.881	0	0	0	6.243.881
Others	388.827.623	0	0	0	388.827.623
Securitisation positions	29.997.328	0	0	0	29.997.328
Total exposure (STA)	**16.352.258.309**	**2.171.087.085**	**0**	**2.171.087.085**	**16.352.258.309**
Secured by real estate (IRB)	17.545.120.344	0	0	0	17.545.120.344
Securitisation positions (IRB)	900.990.252	0	0	0	900.990.252
Total risk positions	**34.798.368.905**	**2.171.087.085**	**0**	**2.171.087.085**	**34.798.368.905**

CREDIT RISK

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

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

The Homeownership Guarantee Fund (abbreviated to WEW in Dutch) was created on 11 November 1993 by and under the supervision of the Ministry of Housing, Spatial Planning and the Environment (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 create an independent instrument of municipal guarantee with government participation. By 1 January 1995 this independence was a fact with the introduction of the NHG.

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

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

Whether someone qualifies for NHG depends among other things on their income, the purchase value of the house and possible cost for renovations. The conditions

Table 10: Government guarantees under the category institutions

Counterparty name	Exposure 2010	Guarantee amount 2010	Exposure 2011	Guarantee amount 2011
Austrian government	338.817.908	333.215.031	221.385.363	218.303.055
Belgian government	128.030.204	127.946.973	80.784.366	78.792.818
Danish government	15.243.626	14.995.613	0	0
Dutch government	580.063.657	575.582.282	220.530.432	220.014.975
French government	50.646.132	50.564.625	127.981.468	127.735.228
German government	129.102.353	127.342.566	96.846.419	95.079.523
Irish government	149.256.668	148.324.430	0	0
Luxembourg government	0	0	99.999.422	99.985.222
Portuguese government	184.943.157	180.292.163	134.563.177	130.013.040
Slovenian government	75.318.170	73.995.690	115.061.912	112.910.259
Spanish government	353.883.331	349.005.268	371.992.001	367.115.644
Swedish government	150.407.761	149.975.741	0	0
Total credit protection guarantees	**2.131.240.382**		**1.449.949.764**	

(such as being main residence, architectural report, tax report) to obtain a NHG guarantee are explained in detail on the internet site www.nhg.nl.

The unfunded (NHG) guarantees can be found in the Basel II category "secured by real estate". The annuitized decrease of this NHG guarantee is taken into consideration in all calculations (this decrease is accounted for, among others, in the LGD parameter).

5.4. Additional information concerning the exposure classes

In this chapter additional information is provided regarding the breakout by exposure classes, the adjusted risk positions by risk weighting percentage, the overall geographical classification of all risk positions (based on the geographical code of the securities), the geographical division of the risk positions by risk position category and finally an indication of the weighted average remaining duration of some categories.

Table 11: Risk position (pre CRM) split by exposure class

31/12/2011	On-balance	Off-balance	Derivatives	Total exposure
Central governments or central banks	7.423.088.449	49.096.657	0	7.472.185.106
Regional and local governnments	908.350.440	0	0	908.350.440
Public entities	116.328.468	0	0	116.328.468
Institutions	4.486.463.477	2.826	352.593.056	4.839.059.359
Corporates	1.084.305.293	0	0	1.084.305.293
Retail	185.068.318	21.328.874	0	206.397.192
Secured by real estate	160.179.862	834.597.102	0	994.776.964
Past due items	7.816.550	0	0	7.816.550
Covered bonds	297.970.105	0	0	297.970.105
Collective investment undertakings	6.243.881	0	0	6.243.881
Other	388.827.623	0	0	388.827.623
Securitisation positions (STA)	29.997.328	0	0	29.997.328
Secured by real estate (IRB)	17.396.768.545	148.351.798	0	17.545.120.343
Securitisation positions (IRB)	900.990.252	0	0	900.990.252
Total	**33.392.398.591**	**1.053.377.257**	**352.593.056**	**34.798.368.904**

Table 12: Exposure split by geography classes (material classes)

Country code	Country	Exposure	Percentage	Capital
AT	Austria	367.673.663	1,06%	2.636.423
AU	Australia	390.157.865	1,12%	6.702.150
BE	Belgium	14.278.188.720	41,03%	102.164.321
CA	Canada	58.447.159	0,17%	323.868
CN	China	1.314.999	0,00%	2.991
CY	Cyprus	87.577.421	0,25%	1.575
CZ	Czech Republic	133.443.002	0,38%	2.135.089
DE	Germany	313.200.264	0,90%	5.136.825
DK	Denmark	113.529.491	0,33%	1.888.719
ES	Spain	835.602.041	2,40%	8.165.331
FI	Finland	186.473.324	0,54%	1.618.351
FR	France	946.421.476	2,72%	11.647.066
GB	United Kingdom	608.545.165	1,75%	20.272.341
IE	Ireland	182.123.136	0,52%	4.766.875
IT	Italy	658.996.411	1,89%	8.725.605
LU	Luxemburg	135.445.124	0,39%	10.552.840
NL	Netherlands	13.707.453.972	39,39%	107.151.045
NO	Norwegian	143.121.540	0,41%	6.361.295
NZ	New-Zeeland	30.632.311	0,09%	245.216
PL	Poland	139.837.422	0,40%	2.237.478
PT	Portugal	312.644.745	0,90%	13.702.903
SE	Zweden	318.247.424	0,91%	5.129.303
SI	Slovenië	205.162.866	0,59%	86.066
SK	Slowakije	209.623.387	0,60%	0
US	Verenigde Staten	430.450.710	1,24%	11.462.604
Other	Exposure < 1 million	4.055.266	0,01%	36.137
Total		**34.798.368.905**	**100,00%**	**333.152.416**

The geographical breakdown of the risk exposure classes is reflected in table 13. The geographical breakdown of the securitisation positions can be found in the disclosure of the securitisation positions.

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

Exposure category	Country	Exposure
Institutions	AT	257.739.171
Institutions	AU	370.802.867
Institutions	BE	192.359.548
Institutions	CA	20.181.674
Institutions	DE	231.196.689
Institutions	DK	47.212.403
Institutions	ES	577.454.522
Institutions	FI	75.997.026
Institutions	FR	597.933.643
Institutions	GB	500.437.936
Institutions	IE	119.055.838
Institutions	IT	146.020.488
Institutions	LU	4.487.831
Institutions	NL	788.836.555
Institutions	NO	106.164.120
Institutions	PT	235.380.268
Institutions	SE	267.758.455
Institutions	SI	115.061.912
Institutions	US	184.978.411
Total institutions		**4.839.059.358**
Collective investment undertakings	BE	6.243.881
Total collective investment undertakings		**6.243.881**
Corporates	AT	20.209.698
Corporates	AU	19.193.100
Corporates	BE	157.589.150
Corporates	DE	33.812.238
Corporates	ES	45.239.661
Corporates	FI	10.036.222
Corporates	FR	205.594.827
Corporates	GB	28.430.637
Corporates	IT	43.051.883
Corporates	LU	21.222.177
Corporates	NL	249.741.963
Corporates	NO	36.957.418
Corporates	US	213.226.319
Total corporates		**1.084.305.294**
Covered bonds	AT	25.440.479
Covered bonds	DE	10.430.860
Covered bonds	ES	83.731.983

CREDIT RISK

Exposure category	Country	Exposure
Covered bonds	FR	30.519.599
Covered bonds	GB	78.116.365
Covered bonds	IT	39.220.790
Covered bonds	NZ	30.510.030
Total covered bonds		**297.970.105**
Central governments and central banks	AT	63.632.044
Central governments and central banks	BE	5.985.596.765
Central governments and central banks	CY	87.561.670
Central governments and central banks	CZ	133.442.974
Central governments and central banks	FI	100.296.533
Central governments and central banks	FR	106.858.596
Central governments and central banks	IE	62.691.491
Central governments and central banks	IT	389.011.001
Central governments and central banks	LU	10.041.658
Central governments and central banks	NL	20.000.000
Central governments and central banks	PL	139.835.631
Central governments and central banks	PT	73.492.405
Central governments and central banks	SI	90.100.955
Central governments and central banks	SK	209.623.385
Total central govenments and central banks		**7.472.185.107**
Public entities	DK	66.231.585
Public entities	SE	50.096.883
Total public entities		**116.328.468**
Regional and local governments	BE	743.881.649
Regional and local governments	CA	38.017.016
Regional and local governments	DE	35.430.934
Regional and local governments	ES	51.046.005
Regional and local governments	IT	39.974.836
Total regional and local governments		**908.350.440**
Secured by real estate	BE	6.680.806.321
Secured by real estate	CN	1.314.998
Secured by real estate	DE	2.301.443
Secured by real estate	ES	1.788.041
Secured by real estate	FR	5.429.255
Secured by real estate	GB	1.528.123
Secured by real estate	LU	3.217.591
Secured by real estate	NL	11.834.935.096
Secured by real estate	US	1.260.946
Secured by real estate	Overige	7.315.494
Total secured by real estate		**18.539.897.308**

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

Table 14: Remaining (average weighted) life on 31 December 2010

	Maturity in years
Central governments and central banks	3,06
Regional and local governments	2,12
Public entities	1,31
Institutions	1,87
Corporates	1,96
Secured by real estate	17,64
Covered bonds	2,78
Securitisation positions - ABS	0,58
Securitisation positions - MBS	5,60

5.5. Disclosures concerning doubtful risk positions

There are overdue positions (more than 1 month and more than EUR 25) in the risk position - categories "retail" and "secured by real estate". The positions listed below are classified in the category "past due items" in the equity calculation. These overdue loans are geographically almost entirely located in the key countries of Belgium and the Netherlands.

These relate to the total risk positions that have been determined using both the standard method and the IRB method.

The individually determined impairments amount to EUR 40,688,716 on 31 December 2011. The table mentioned below reflects the evolution and breakdown into assets classes of the impairments listed.

In 2008 a general impairment, in the form of IBNR provision, was created for the first time. This impairment amounted to EUR 3,367,715 as of 31/12/2009 (the calculation method is explained in 5.2. Approach and method for determining value adjustments and the value changed to EUR 2,936,742 as of 31/12/2010 to EUR 2,339,256 as of 31/12/2011.

Table 15: Geographic breakdown of the past due items

Country	Exposure 2010	Exposure 2011
BE	200.279.112	186.837.070
NL	41.341.339	42.968.748
Other	1.715.865	1.730.906
Total past due items (standard method)	**243.336.316**	**231.536.724**

Table 16: Evolution of individually determined impairments

	Opening balance 31/12/2010	Increase via P&L	Reversal via P&L	Closing balance 31/12/2011
Consumer credit				
Mortgage loans	29.595.998	23.865.034	-25.472.951	27.988.081
Term loans	745.424	465.271	-415.386	795.309
Demand deposits / advances	10.065.762	3.605.754	-5.076.702	8.594.814
Other lending receivables	452.340	237.924	-308.922	381.342
Total	**43.763.243**	**29.219.580**	**-32.294.107**	**40.688.716**

CREDIT RISK

Table 17 reflects the IBNR provision as internally calculated by the Company by mortgage portfolio based on the EAD.

The total impairments and provisions amount to EUR 43,027,972 on 31 December 2011, made up of EUR 40,688,716 on individual impairments and a general provision of EUR 2,339,256.

Table 18 reflects the changes of the individually determined impairments and the impact on the consolidated income statement of these impairments for the financial year 2011 (see column total impact).

There is a negative impact of EUR 4,423,968 on the IFRS income statement (with regard to a negative impact of EUR 3,289,246 as of 31/12/2010).

EUR 3,681,454 stems from the individually managed loan files (individual impairments on the balance sheet, direct derecognition and direct recoveries)

Additionally EUR 742,514 is from collective impairments (EUR 597,486 concerning the withdrawal of a part of the earlier mentioned collective IBNR provision and EUR 1.34 million for a collective – portfolio based – impairment).

Table 17: IBNR provision

Portfolio	31/12/2010		31/12/2011	
	EAD	IBNR	EAD	IBNR
Aspa Belgium	5.175.962.383	270.861	5.257.249.989	312.505
Netherlands	7.748.567.887	760.593	8.018.499.065	861.381
Green Apple	3.069.016.559	276.550	2.918.156.809	260.021
CBHK	951.420.036	1.628.738	809.459.665	905.348
Total		**2.936.742**		**2.339.256**

Table 18: Impact impairments on the income statement

	Loans and receivables 31/12/2010	Increase through result	Reversal through result	Loans and receivables 31/12/2011	Recoveries through result	Direct derecogni-tion	Collective provision	Total impact on P&L
Consumer credit								
Mortgage loans	29.595.998	23.865.034	-25.472.951	27.988.081	-278.933	4.416.316	-597.486	1.931.980
Term loans	745.424	465.271	-415.386	795.309	0	196024	0	245.909
Demand deposits / advances	10.065.762	3.605.754	-5.076.702	8.594.814	-610.568	2.602.187	0	520.671
Other lending receivables	452.340	237.924	-308.922	381.342	-10182	275.648	1.340.000	1.534.468
				0				
Total	**43.763.243**	**29.219.580**	**-32.294.107**	**40.688.716**	**-1.048.551**	**7.804.532**	**742.514**	**4.423.968**

ADDITIONAL DISCLOSURES WHEN USING THE STANDARD APPROACH

6. Additional disclosures when using the standard approach

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

In 2011 the Company performed calculations according to both the standard approach and the IRB approach, and therefore both approaches are explained in the Pillar 3 disclosures.

The result of these calculations, however, as a result of the transitional (IRB) rules, is replaced by a capital requirement calculated according to Basel I principles.

6.1. Using *"rating agencies"* ratings

The company uses the *ratings* of the following three *rating* agencies (abbreviated EKBI in Dutch) when determining the weighting percentages: Standard & Poors (S&P), Moody's and Fitch.

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

The Company uses the published "standard classifications" to obtain the risk weighted assets (RWA) on the basis of the *ratings* of the securities concerned.

6.2. Derivatives

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

There was an exposure of EUR 352,593,055 on 31 December 2011 for the swaps and caps on the balance sheet. This exposure (potential replacement value) was calculated in accordance with the method based on the "mark to market" valuation.

The exposure position here is equal to the sum of the following elements: (a) the current replacement value based on the market value of the transactions with a positive market value and (b) the potential future credit risk, i.e. the product obtained by multiplying the notional principal amount (or underlying value) by a relevant 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 %

The exposure of the derivatives, each with a financial institution as counterparty, can be found under the category institutions. The risk weighted exposure amount (RWA) amounted to EUR 150,259,068 which led to a capital requirement of EUR 12,020,725 for these derivative products.

Table 19: Exposure categories where ratings are used

Exposure category	Exposure 31/12/2011
Central governments and central banks	16.420.516.543
Regional and local governments	908.350.440
Public entities	116.328.468
Institutions	3.374.937.383
Corporates	994.845.544
Covered bonds	297.970.105
Securitisation positions	930.987.580

ADDITIONAL DISCLOSURES WHEN USING THE STANDARD APPROACH

Collateral management

There is substantial collateral management for derivatives created or purchased by the Company. A *Credit Support Annex (CSA)* from the *International Swaps and Derivatives Association (ISDA)* is agreed with each counterparty. These CSA's are agreed specifically to minimise the counterparty risk. Changes in market value of the derivatives lead to the exchange of collateral (in the form of securities or cash).

As of 31 December 2011 there were (nominally) EUR 509,059,000 securities given as collateral, EUR 8,560,000 cash was transferred as *collateral* and EUR 66,830,000 cash was received as cash *collateral* for the derivatives.

6.3. Other 'credit risk linked' risks

Counterparty Risk

The assumptions and limits with regard to the counterparties are summarised in the 'financial risk guidelines' in the chapter "credit and concentration risk". This relates to limits (for investments) per asset class, and also, with respect to concentration risk, by counterparty. The assumptions and limits with regard to counterparties are also summarised in the 'credit risk guidelines' in the chapter "concentration risk and concentration limits".

Collateral

The Company receives collateral as part of its credit lending. It relates mainly to registration of mortgages on property and financial assets given as collateral for retail credit lending. The Company has also provided business collateral on its own assets as part of carrying out its normal activities. In 2011, collateral was provided for repo transactions and in the context of the derivatives.

Wrong-way risk

The general wrong-way risk is risk that arises when the chance of default of the counterparties shows a positive correlation with general market risk factors. As previously mentioned in this document the general policy regarding credit risk and concentration risk appear in the "financial risk" and "credit risk" guidelines. By applying this policy the Company tries to limit these risks where the impact of possible positive correlation with the general market risk factors is limited by general spread of risk over e.g. several asset classes and several counterparties.

Equities risk

The Company does not invest in individual shares. As of 31 December 2011 a limited number of investment fund units and some (historically purchased) shares have been noted as "financial assets". These financial assets were classified under the category 'other items' and were weighted at 150%.

The other units of investment funds were classified under the category "collective investment undertakings – (CIU)". These units (in investment funds which the company actively promotes) appeared on the balance sheet with the issue of new sub-funds. The last new sub-fund appeared on the balance sheet in June 2007 and afterwards the category CIU only moved thanks to the sale of investment funds. These investment funds are weighted at 100%.

ADDITIONAL DISCLOSURES FOR THE USE OF THE (F) IRB METHOD

7. Additional disclosures for the use of the (F) IRB method

7.1. Credit risk – (F)IRB approval

The request to use the (F)IRB method to calculate the capital requirement of the mortgage portfolios was discussed at the Belgian supervisor's management board meeting of 22 September 2009.

The request was thereby approved for the mortgage portfolios, so the Company has used the IRB method from reporting date 30 September 2009.

The 80% floor determined in the Basel II transitional provisions is applicable until further notice. The Company should also apply a 10% LGD floor to all its mortgage loans including Dutch NHG mortgage loans and further develop its IRB models and risk management environment (for both lending and operational risk).

Basel II is an ongoing process that is evolving further within the Company. As in previous years, systematic efforts were made to meet all regulatory and internal requirements and to optimise the existing applications.

7.2. Internal *rating* systems

7.2.1. Structure of the internal *rating* systems

The Company processes exposures on retail clients (mortgage loans) and mortgage backed securities (MBS) according to the IRB method.

In order to obtain approval to implement this IRB method, internal *rating* systems were developed to estimate the credit risk of the mortgage portfolios. These systems include models developed to assess and evaluate Basel II parameters PD and LGD.

The PD model allocates a score to each loan file. This scoring is based on variables with associated terms and conditions, which include both product criteria and criteria related to the borrower. Based on these scores, risk classes are formed. Each risk class is linked to a long-term PD, which is the historic average insolvency rate, possibly corrected for conservatism or to be *'forward looking'*.

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

In order to estimate the extent of the loss, LGD models were developed. The LGD pooling also takes place on the basis of several variables. An average LGD rate is assigned to each LGD pool. This means that each outstanding loan in a portfolio is placed in a specific LGD pool and is assigned the average LGD rate for that particular 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 take a *downturn* into account.

The EAD is the amount owed to Argenta by the client at the time of *default*. It includes the following components: the outstanding capital at the time of *default*; the overdue capital repayments and interest from the overdue date to the date of default; the interest on arrears and the reinvestment fee.

For unused credit lines and quotes in the pipeline, no models were developed to calculate a *"Credit Conversion Factor (CCF)"* as it was decided to use a CCF factor of 100% until further notice. CCF models estimate the proportion of off-balance liabilities to be included as soon as a client is in *default*.

For the MBS portfolio, IRB was, however, applied via an *External Ratings Based Approach* in combination with a number of *Key Performance Indicators (KPIs)*.

7.2.2. Integration of the Basel II parameters

The adoption of the (F)IRB approach in respect of Basel II credit risk was realised by integrating it into the corporate governance policy guidelines, the credit acceptance process, decision-making process, risk management and internal capital allocation. The credit risk models applied play an essential role in this process.

The implementation and integration into the operational credit departments of the options regarding Basel II – credit risk in the broad sense – is tracked by means of the use test. This aspect involves, among other things, implementing models in the operational business and risk management environment (credit application as well as the Basel II scoring, measurement and calculation software).

The "credit risk management" department monitors the *performance* of the models. They gather the information necessary for monitoring and report on it internally. The tasks of the credit risk management department and of all other parties involved in the loans process are described in a policy guideline entitled "credit risk management".

The operational loans departments are tasked with granting and managing loans in accordance with the authorisation and acceptance frameworks and the loan approval

ADDITIONAL DISCLOSURES FOR THE USE OF THE (F) IRB METHOD

and management procedures applicable to each product and/or jurisdiction. These processes and procedures are also fully Basel II-compliant, that is, they actively use the PD, LGD and EAD models and devote the necessary time and attention to an effective integration of all relevant Basel II standards and rules.

This also includes the necessary efforts to both take into account the feedback from the credit risk management department and to provide own feedback on the use of the models in the daily loans processes.

The credit risk management department periodically carries out an analysis of the frequency, reasons and sorts of differences *(outliers)* between the model outcomes and the points of view of those responsible for approving loans. On the basis of these models, they then investigate whether or not it is necessary to incorporate new risk factors into the models.

7.2.3. Organisation of the IRB implementation process

Initially, an inter-departmental project was launched in order to obtain the supervisory authorities' approval of the IRB approach. The division of tasks among the various parties was among others clearly outlined in the credit risk management's policy guidelines.

The Credit Risk Management department is , beside the operational aspects of managing loan defaults, responsible for tasks as described in Article VI.66 of the Circular of 17 October 2006 issued by the Belgian supervisory authority as well as, generally, for first-line control in the area of credit risk management. The credit risk management department is responsible, among other things, for the further development of the models, and for the maintenance and control of internal ratings.

Within the context of governance of credit *risk* models, and within the projects designed for this purpose, the cross-company Risk Management department provides assistance for (further) development of internal models. Support for this process is provided by the *Risk* Management Department to loan risk managers, among others, in the form of project management activities (model development, model implementation). In addition, *Risk* Management exercises a second-line control. This includes a critical evaluation of and implementation of (independent) risk checks of the first-line reports drawn up outside the Risk department.

7.2.4. Control mechanisms for the IRB model process

The validation process of the models is initially carried out by an external party, and thereafter taken over by the internal validator (validation unit) which reports directly to the chairman of Argenta Group's Management Committee. The validator (validation unit) is independent of both the business and the developers/modellers.

The initial validation had as its aim to determine whether the model design fits with Argenta's vision of risk policy (risk assessment, *risk mitigation*, controls), whether the model is methodologically correct and consistent with Argenta's policy, and finally, whether the design complies with the regulations.

After approval, the models were implemented in the systems. The implementation validation aims to investigate whether the implemented model is the same as the one that was initially developed and approved. The implementation validation concerns both the implementation within the organisation as well as the technical implementation in the institution's own IT environment, with particular attention to the *use test* aspects.

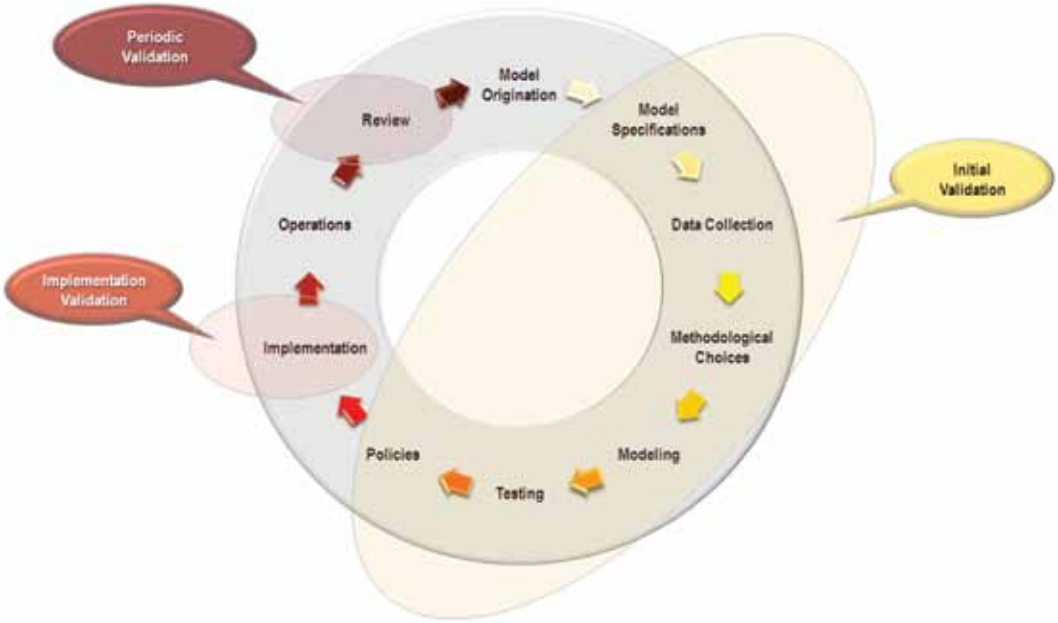
Once the model is in use, it is important to know whether the model continues to work satisfactorily. The monitoring of the *performance* of the risk model includes, among other things, a comparison of model predictions with actual performance. The Company determines, by means of internal standards,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

The credit risk management department analyses (as already noted) the frequency, reasons and sorts of appeals against the model outcomes and the way these are handled. It also draws up a (generally) annual *review* report on the models. The review report proposes plans for optimisation of model performance via targeted actions such as, for instance, the addition of additional variables. As a result, adjustments or recalibrations are applied to the models.

Internal audit

Internal audit has, in the course of the past few years, carried out continuous audits regarding Basel II – Pillar 1 – credit risk. The audits are carried out on the basis of a work programme set up by internal audit on the basis of Circular PPB-2007-1- CPB (Article VI.67), and covers all the minimum requirements which an internal ratings-based approach must meet.

The internal audit department is of course responsible for determining whether a bank that wishes to qualify for an advanced approach to credit risk under Basel II meets all the minimum requirements set out in Circular PPB-2007-1- CPB. To this end, the department draws on the services of independent in-house and outside experts as well as using the results of the validator, after having audited the validation processes.



The validator plays the role of a party who is independent of model development and of the business which the credit risk model validates. The task of the validator is clearly defined and described in detail in a model management governance context.

Stress tests

Besides implementing and reporting on the *back testing* of the internal measurement systems used to determine the PD, LGD and EAD, Credit Risk Management works in collaboration with the Risk Management to conduct a series of stress tests.

Stress testing is the measurement of the effects of serious but realistic 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 credit risk in the three mortgage portfolios with the following aims: (a) determining the effects on capital adequacy, the company's rating and the level of potential losses (b) determining the extent to which a buffer needs to be set up in order to cushion stress scenarios (c) gaining insight into the relationship between macro-economic variables that have a decisive impact on the credit risk and (d) fulfilling the requirements set by the supervisory authority.

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

7.3. Models developed – retail customers

The Company has developed three overall models for mortgage loans. One of these was designed for the portfolio of mortgage loans initiated by the branch network of Argenta Spaarbank (Aspa). This model has a PD model with seven model variables and one LGD model based on historical averages.

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

ADDITIONAL DISCLOSURES FOR THE USE OF THE (F) IRB METHOD

Finally, a third model was developed for mortgage loans granted in the Netherlands, consisting of a PD model that was made up of two variables, one of which is based on 12 items of information available at the beginning of the life of a loan and one LGD model. As far as the management and administration of the mortgage portfolio in the Netherlands is concerned, the Company uses two service providers, namely, Stater NV and Quion.

An important distinguishing feature in calculating the LGD of the Dutch mortgage loan portfolio is the NHG guarantee. The National Mortgage Guarantee is a guarantee that someone in the Netherlands can receive if he/she takes out a mortgage loan to buy or build a house. The NHG means that when concluding a mortgage loan, the WEW guarantees the loan. The borrower pays a one-time premium for this guarantee.

***Pooling* – allocation to risk classes**

The individual risk positions are allocated to 30 risk – PD – classes (11 PD classes for Aspa loans, 8 PD classes for CBHK loans and 10 PD classes for the Dutch sub-portfolio). Together with the last PD class – the default class – there are 30 PD classes in total.

Each class or pool consists of loans with a similar risk profile. The best risks are those in class 1, the worst in the lowest class (the default class).

In order to determine the number of risk classes, an iterative process is used that makes an initial breakdown into evenly spread various risk classes, and then divides the risk class with the most observations in two.

Further roll-out plans

The roll-out plan that was part of the further refinement of the models for mortgage loans as well as the extension of the F-IRB approach for the securities portfolio of the banking pool, was further pursued in the course of 2011. A file for (F)IRB for banks and corporate was submitted to the NBB on 31 march 2011.

As indicated in chapter 2.3 Credit risk, the use of the rating tool was further intensified.

Meanwhile an internal rating was granted according the internal governance procedure to all debtors within the banking and corporate portfolio. These internal ratings where ratified or decided at a rating committee as well.

7.4. Risk position on retail mortgage portfolio

The table mentioned below provides an overview of the exposure, average PD, average LGD, RWA and average risk weight of the mortgage portfolios as of 31/12/2011.

This table contains the actual LGD percentages. For the RWA calculation, however, the required LGD floor of 10% is considered instead of the actual one.

For the off-balance sheet items (which consist of unused credit lines and binding offers 'in the pipeline'), a standard CCF factor of 100% is used.

Table 21 provides the calculated expected loss (EL) for each sub-portfolio, taking into account the actual LGD and the LGD floor of 10%.

Table 20: Overview of (mortgage) exposure according to the (F)IRB method

31/12/2011	Exposure	Avg PD %	Avg LGD %	RWA	Avg RW %
Total exposure	17.545.120.343	2,08%	8,12%	1.569.500.918	
Balance sheet items	17.417.686.876	2,09%	8,14%	1.557.466.964	8,94%
Provisions	-20.918.331				
Off balance sheet items	148.351.798	1,53%	5,95%	12.033.954	8,11%

Table 21: Overview of EL calculated for each sub-portfolio

31/12/2011	ASPA	CBHK	Netherlands	Total
Total provisions included	4.752.713	10.176.609	5.979.759	20.909.080
ELeff lgd	6.363.806	13.777.085	11.799.996	31.940.887
> non-defaults	1.611.094	3.600.477	5.820.237	11.031.807
> defaults	4.752.713	10.176.609	5.979.759	20.909.080
ELlgd Floor	8.369.700	14.086.825	13.010.112	35.466.637
> non-defaults	3.616.987	3.910.217	7.030.353	14.557.557
> defaults	4.752.713	10.176.609	5.979.759	20.909.080

Table 22: Capital requirements as at year-end

	31/12/2010	31/12/2011
Credit risk – standard method	162.291.887	191.909.377
Credit risk – IRB method	133.681.692	125.560.073
Securitisation – standard method	428.961	5.498.430
Securitisation – IRB method	3.446.109	10.184.535
Operational risk	33.023.467	33.082.062
Total capital requirements	332.872.116	366.234.477
Capital requirements according to Basel I principles	666.144.631	657.783.865
Application of the 80% floor	532.915.705	526.227.092
Effective capital requirements	532.915.705	526.227.092

As of 31/12/2011, the total EL (using the effective LGD) for both default and non-default accounts was EUR 31,940,887. Taking into account the LGD floor of 10%, there was an EL of EUR 35,466,637 (as included in equity capital table 90.04).

For the individual credits included in the lowest PD class (the default class), individual provisions of EUR 20,909,080 were made. Since 2008, a collective IBNR provision has also been made for those portfolios for which IRB models were developed. This IBNR provision amounted to EUR 2,339,255 as of 31/12/2011.

By applying the 80% floor, the risk weighted assets (RWA) and capital requirements under Basel II were in fact "over-ruled" by the capital requirements calculated according to the Basel I principles.

DISCLOSURE ON OFF-BALANCE ITEMS

8. Disclosure on off-balance items

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

- off-balance sheet items with as most important categories guarantees provided, loan commitments and unused portions of credit lines;
- derivatives: the Company only has derivatives which are concluded within the framework of hedging positions as part of ALM management.

There are several methods to calculate the weighted risk volume. The Company uses the approach based on valuation at market value for the derivatives. This calculation approach was already presented in chapter 6.2. Derivatives.

Other than the swaps concluded in the context of securitisation operations (see chapter 11. Securitisation disclosures) there are only derivatives (swaps and caps) that are concluded for hedging interest rate risk.

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

Loan commitments and the unused portion of agreed credit lines are the parts of loans not yet used. The conversion factor used can be 0%, 20%, 50%, 75% or 100% (depending among other things on the approach and product type).

In addition to the risk position of EUR 352,593,055 for the 'derivatives', there was a risk position of EUR 1,053,377,258 for 'other off-balance sheet items' on 31 December 2011.

These consisted of guarantees of a value of EUR 3,325,174 (non-loan replacement guarantees) and EUR 2,826 (loan replacement guarantees). In addition, there were EUR 1,000,952,601 in loan commitments and unused portions of agreed credit lines and EUR 49,096,657 off-balance bookings concerning the AFS portfolio.

Table 23: Breakdown of exposure, weighted risk volume and capital requirements for off-balance sheet items (excluding derivatives) by credit conversion factor (CFF)

	IRB	20%	50%	100%	Total
Exposure	148.351.798	836.936.153	18.989.824	49.099.483	1.053.377.258
Weighted risk volume	12.033.954	26.898.847	6.493.879	1.413	45.428.093
Capital requirements	962.716	2.151.908	519.510	113	3.634.247

INTEREST RATE RISK – AN ADDITIONAL DISCLOSURE

9. Interest rate risk – an additional disclosure

Additional information about interest risk was already provided in chapter 2. *Risk management* (see financial risk). More information (in figures) can also be found in the IFRS financial statements for 2011.

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

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

The *'banking book'* consists of all interest-bearing components of the balance sheet of the institution which do not belong to the trading portfolio. Non-interest-bearing assets (including non-interest-bearing elements of the required regulatory equity of the institution) are not included in the *banking book*. The interest-bearing assets of the Company belong exclusively to the *banking book*.

All choices and assumptions for measuring interest rate risk in the model are in principle based on economic variables and expectations. When measuring interest rate risk both from an income perspective (by looking at the interest earned) and from an economic value perspective must be able to be reported.

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

"Interest earnings is the difference between interest income and interest charges". At consolidated level market value variations of derivatives which are presented in the P&L are taken into account. As from 1 October 2008 hedge accounting (fair value cover for a portfolio hedge of *interest rate risk*) has actually been applied for a part of the derivatives.

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

Variations in economic value in an interest sensitive enterprise are strongly dependent on the duration gap, which is the difference between the duration (average interest maturity of an interest-bearing instrument where, in addition the periodicity of coupons is also taken into account) of all assets and the *duration* of all liabilities, also known as *"mismatch"*. The greater the mismatch, the greater the interest sensitivity. Because of its simplicity, the duration gap is used when reporting interest risk alongside economic value and interest earnings.

All material sources of interest risk are included. This implies that internal systems are able to capture all interest sensitive assets and liabilities as well as interest sensitive off-balance sheet items.

The Company uses the spot *"forward rate"* swap-curve as a basis for calculating future cash flows and discounting interests. This choice is justified as reflecting a "market consensus" about the future trends of interest rates. The Company assumes that this market data develops in an efficient market and that it is the best predictor of the future.

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

The spot swap-curve of the reporting date is used for the calculation of economic value. A margin is not applied to swap rates; neither for assets, nor liabilities. Developments in credit risk thereby continue to distinguish themselves of the developments in interest risk because of *mismatching*.

The interest risk management system must be able to calculate the impact of well-defined (stress) scenarios. These scenarios all depart from the same customer behaviour and a conservative zero increase hypothesis of the total of the assessment (conservation of a current assessment mix is therefore assumed).

INTEREST RATE RISK – AN ADDITIONAL DISCLOSURE

Assumptions concerning the behaviour of deposits with no fixed maturity

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

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

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

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

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

For the purposes of interest rate risk management Aspa recognises three *"embedded options"*.

The first option for the customer is covered in the yield bonds, where the customer has the choice to either cut the coupons, or to capitalise them. For future behaviour the model is based on the current portfolio partitioning between both types of behaviour.

A second option concerns the possibility of customers repaying their mortgage loan early for a low penalty. In the defined model the option is taken into account as follows:

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

The third and last implicit option concerns these where Belgian mortgage tariffs can be capped at interest revisions because of contractual fixed maximum increases. Implications of this on the economical value and the income are standard features of the interest rate risk calculation.

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

Treatment of 'pipeline risk'

In the period between the approval of a mortgage loan and execution of the legal documents, market interest rate fluctuations can influence the interest rate at which the mortgage loan is eventually completed. In the case of rising interest rates, the customer is still able to enjoy the tariff which was valid when the mortgage loan was requested. On the other hand in the case of decreasing market interest rates, the customer can opt for the tariff which applies just before the legal documents are executed.

In this period, in which loans have been promised for which the rate is not yet certain, pipeline risk arises. In case of a significant pipeline amount, refinements outside the standard modelling must be done to fine-tune the global interest risk.

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

10. Internal Capital Adequacy Assessment Process (ICAAP)

The dynamic growth of the financial markets and the increased use of more complex banking products have brought about major changes in the Company's business environment. These challenges require appropriate personnel, processes and systems in order to limit and control the Company's risk position.

Beside the description of methods for the calculation of the regulatory capital requirements (quantitative requirements), the Basel II agreement puts increased stress on risk management and integrated group-wide management (qualitative requirements).

The Company is obliged to implement adequate procedures and systems aimed at guaranteeing its long-term capital adequacy, taking into account all material risks.

The goal of the Argenta Group's risk management is to have the best possible capital structure and risk control to match the major market players, and simultaneously continue
to meet the statutory capital requirements.

A key factor is to implement the business plan to ensure that sufficient capital is available to enable pursuit of the projected growth.

The Company has always pursued a policy of self-financing. The Company aims to satisfy the potential capital requirements with (a) retained earnings, (b) capital increases (similar to the capital increase in 2010) and (c) subordinated (Tier 2) loans to retain a level of capital that provides sufficient scope to support growth and makes it possible to meet the financial and operational risks,.

In addition, for example, it may be decided to shrink the balance sheet through securitisation of part of the retail lending portfolio.

In addition to management actions the Company's financial risk policy also takes into account prudential *'Internal Capital Adequacy Assessment Policy' (ICAAP).*

ICAAP and economic capital

The risks to which the Company is exposed require a risk buffer in the form of equity. The ongoing development of its business as a conventional savings bank, and hence as a bank involved in transformation (a bank whose activity is to convert (transform) funds deposited short-term into longer-term investments) means that this required equity must be permanently monitored (and supplemented when necessary).

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

- correctly identifying and measure the risks of the group;
- keep adequate capital in line with the bank's risk profile;
- use, and continuously develop risk management systems.

This means that in all circumstances (stress scenarios), the Bank Pool's equity requirements are satisfied with an adequate degree of certainty. This is expressed by the economic capital, whereby the various risks are taken into account.

In 2011, further investment was made in the economic capital models, particularly with regard to developing stress and scenario tests. In conjunction with the economic capital calculations based on simulation models, the Company obtains an overall picture of all material risks to which the group is exposed.

The assessment of the capital adequacy shows that the stress test and scenario analysis results are the essential elements for the required amount of capital. As a result, the Company aims for a minimum tier 1 ratio of 10 % for the banking business.

The calculations according to the Basel II rules (Pillar 1) for capital management were submitted to the supervisory authority and used in-house, but the so-called 80% floor for the required regulatory capital will continue to be the statutory basis after 2011. In its ICAAP under Pillar 2, Argenta calculates the required economic capital on the basis of Basel II IRB risk parameters. These are lower than the minimum 80 % floor.

In December 2010, the Bank for International Settlements (BIS) published details on banks' capital and liquidity, and the timetable, in respect of the Basel III rules. Basel III imposes stricter rules on capital adequacy, liquidity and leverage, which will be implemented gradually. The Basel III rules are part of the RAF.

In addition, all material risk factors are entered in models in ICAAP so that the total ICAAP provides a more comprehensive picture of capital requirements

The ICAAP reporting was extended in 2011: every six months, a systematic calculation of the internal economic capital is carried out.

Whenever ICAAP is referred to in the banking *pool*, then the available economic capital of the Company is compared with the required economic capital. Under pillar 2 for the Banking *pool*, there must be an ongoing internal check whether there is sufficient equity at all times on an

SECURITISATION DISCLOSURES

economic basis. For this a security level of 99.9% is used, which matches rating A- (S&P table).

The conclusion of the calculations is that in the 99.90% scenario there is a *risk bearing capacity* (available in relation to the core capital) which (even taking into account a security buffer, in this case 130% for the 99.90% scenario) remains within the risk appetite of the Company, and this both from earnings and value perspective. This applies also for the 95% and 80% scenarios.

After calculation of the required economic capital, there is the Supervisory Review and Evaluation Process (SREP): the supervisory authority's control process of the workings of the ICAAP process.

In practice the SREP deals with the control and evaluation of the Company's ICAAP, the result of an independent check of the risk profile and if necessary, preventative measures and other actions by the supervisory body.

In 2011 regular consultations were held with the supervisory authority as part of the *Supervisory Review and Evaluation Process* (SREP).

11. Securitisation disclosures

11.1. Securitisation policy

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

Both securitisation transactions related to the securitisation of a portfolio of Dutch residential mortgage loans covered by the NHG (Dutch mortgage guarantee scheme) via the Green Apple SPV.

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

The goal of the second securitisation was to convert mortgage loans into ECB eligible assets. This was also clearly reflected in the fact that the Company itself bought all the securities (issued by the Green Apple SPV). At a consolidated level, these securities issued by Green Apple are no longer included because they were eliminated during the consolidation of the Green Apple SPV.Main characteristics of the securitisation transaction Green Apple SPV 2007-I NHG

- securitisation of 1.5 billion Dutch residential NHG mortgage loans;
- issued by the Green Apple SPV of three classes of bonds (GAPPL 2007-1 A XS0322161026, GAPPL 2007-1 B XS0322161299 and GAPPL 2007-1 C XS0322161299);
- front and back swap of nominal EUR 1.5 billion with RBS as counterparty;
- no revolving period since March 2012: early repayments of loans resulting in the sequential repayment of bond issued;
- purchasing of tranches B and C by the Company itself.

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

- securitisation of 1.975 billion Dutch residential NHG mortgage loans;
- issue by Green Apple SPV of three classes of bonds (GAPPL 2008-1 A XS0406581495, GAPPL 2008-1 B XS0406581735 and GAPPL 2008-1 C XS0406582030);
- amortising front and back swap of nominal EUR 1.49 billion with RBS as counterparty;
- no revolving period: early repayments of loans resulting in the sequential repayment of bonds issued;

- purchase of tranches A, B and C by the Company itself.

11.2. Role in securitisation transactions

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

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

For the securitisation operations of Green Apple SPV, Fitch Ratings Ltd was (www.fitchratings.com) appointed as the rating agency. The notes are noted in Luxembourg and the ratings can be consulted on the basis of the ISIN codes.

The is an intention to request a second rating for the securitization operations . In this way the securitizations may become ECB eligible financial instruments.

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

For both securitisation transactions the Company initially granted Green Apple a subordinated loan *(subordinated loan provider)*; EUR two million with the first securitisation transaction, and EUR one million with the second *securitisation transaction*, under the conditions set out in the Subordinated Loan Agreement. These loans are systematically refunded when the necessary cash was present.

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

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

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

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

The company is also an small investor in securitisation operations.

11.3. Applied Basel II approaches

The company applies the internal *rating based* approach for calculating the capital requirements for the (purchased) securitisation securities. SPV Green Apple is consolidated entirely under IFRS, so the underlying Dutch mortgage loans with NHG guarantee are brought back on the balance sheet.

Under the Basel I and II regulations, the Company must hold capital (on both solo and consolidated levels) for the portion of loans not guaranteed, as a result of the annuitized payments of the NHG.

By selling the portfolio, it has not booked any capital reversals, since the loans sold to Green Apple were also included at solo level in the Company's risk position.

11.4. Accounting policies

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

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

SECURITISATION DISCLOSURES

11.5. Securitisation (as part of the investment portfolio)

The Company has invested in a number of asset-backed securities as part of its investment policy. Since 30/09/2009 (Basel II) they are accounted for in accordance with the IRB approach under the risk position category securitisation positions. Based on the rating of the related securities, they are assigned a weighted risk percentage according to the *"long term mapping*: standardised approach" for securitisation.

As explained earlier, these calculations were, however, "overruled" by the floor of 80% on the capital requirement calculations using Basel I principles during the IRB transitional period.

Table 24 provides a geographical overview of securitisation positions purchased (as investments). This geographical overview is based on the country code of the counterparty.

Table 25 provides an overview of the securitisation positions with an indication of their ratings, their EAD and the total capital requirements for these securitisation positions.

The rating of rating agencies S&P, Moody's and Fitch were obtained on Bloomberg and fed into an internally developed risk engine which calculated the required equity, based on published calculation methods.

The securitisation portfolio on 31/12/2011 is made up of ABS for a total amount of EUR 29,997,327 and MBS for a total amount of EUR 900,990,252.

After application of weighting percentages to EUR 930,987,580 , and application of the required 8%, a capital requirement of EUR 15,682,965 was derived for these purchased securitisation positions.

Securitisation positions were screened systematically in the context of credit risk management. On the basis of this screening (which is based among others on periodic reports of the issued securities) one individual impairment of EUR 3.5 million and one collective impairment (on "portfolio basis" based) of EUR 1.34 million was recognised. The 1,34 million was booked for a portfolio MBS which is recognised under the "loans and receivables" classification.

The portfolio of securitised positions grew from EUR 607,441,591 as of 31/12/2010 to EUR 930,987,580 as of 31/12/2011.

Table 24: Geographical classification of securitisation positions

Exposure category	Country	Exposure
MBS	BE	81.818.796
MBS	ES	76.322.635
MBS	IT	682.010
MBS	LU	12.900.213
MBS	NL	719.024.420
MBS	PT	3.663.324
MBS	US	6.578.853
ABS	IT	511.080
ABS	LU	5.087.609
ABS	US	24.398.639
Total securitisation positions		**930.987.580**

Table 25: Overview *ratings*, EAD and capital requirements of securitisation positions

Rating S&P	Rating MDY	Rating FITCH		ABS	MBS	Total
AAA	Aaa	AAA	EAD	24.398.639	99.178.169	123.576.809
			Capital	390.378	588.722	979.100
		-	EAD		276.318.398	276.318.398
			Capital		1.640.226	1.640.226
	-	AAA	EAD		14.485.340	14.485.340
			Capital		85.985	85.985
AA	Aa1	-	EAD		10.073.803	10.073.803
			Capital		68.341	68.341
	A3	-	EAD		4.625.569	4.625.569
			Capital		78.450	78.450
AA-	Aaa	AAA	EAD		46.750.753	46.750.753
			Capital		277.512	277.512
	Aa3	A	EAD		5.572.567	5.572.567
			Capital		37.804	37.804
	A3	-	EAD		3.663.324	3.663.324
			Capital		62.130	62.130
A	Aa3	-	EAD		2.551.056	2.551.056
			Capital		25.960	25.960
	A1	-	EAD		3.499.322	3.499.322
			Capital		35.609	35.609
BB	Baa2	-	EAD		12.900.213	12.900.213
			Capital		4.649.237	4.649.237
CC	-	CCC	EAD	5.087.609		5.087.609
			Capital	5.087.609		5.087.609
-	Aa1	AAA	EAD		10.757.559	10.757.559
			Capital		72.979	72.979
	Aaa	AAA	EAD		386.803.471	386.803.471
			Capital		2.296.065	2.296.065
		-	EAD		4.616.416	4.616.416
			Capital		27.403	27.403
	Aa3	A	EAD		10.030.720	10.030.720
			Capital		102.073	102.073
		AAA	EAD		4.585.852	4.585.852
			Capital		97.220	97.220
	A1	AAA	EAD		4.577.719	4.577.719
			Capital		38.819	38.819
	A2	A+	EAD	511.080		511.080
			Capital	20.443		20.443
Total EAD				**29.997.328**	**900.990.252**	**930.987.580**
Total capital requirements				**5.498.430**	**10.184.535**	**15.682.965**

FINAL DISCLOSURE

12. Final disclosure

The Company currently uses the standard approach as well as the (F)IRB method for calculating capital requirements. As a result of the transitional guidelines during transition from the standard method to the IRB method, calculations as per Basel I were again of considerable importance.

The Company did not make use of the AMA method (operational risk), so no additional disclosures are included concerning these subjects (title XIV, chapter 2, art. XIV 8 § 1, § 2 and § 3 of the circular PPB-2007-CPB of the Belgian supervisor).

The loan risk reduction techniques used (funded and not fully funded) are explained in Chapter 5.3. Credit risk mitigation.

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.

The Dutch version is the original; the English version is an unofficial translation. The Company warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist; the Dutch version will take precedence.

Queries related to the distribution of these reports can be addressed to:

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