Argenta Spaarbank nv

2012

PILLAR 3 DISCLOSURES

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INTRODUCTION

1. Introduction

1.1 Profile of Argenta Spaarbank

Argenta Spaarbank PLC (hereinafter the Company, abbreviated to Aspa) is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company that has made a public appeal to the savings system. The company has an unlimited term and the registered office is at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a Belgian credit institution. The Company's core activities are attracting retail savings funds, offering mortgages tot retail clients and providing payment services.

1.2 Application framework

In the Basel II framework, deriving from the Capital Requirements Directive (CRD) in the form of Directives 2006/48/EC and 2006/49/EC of the European Union (EU) and applicable to Belgian credit institutions under Circular PPB -2007-1-CBP, section XIV, every financial institution that is subject to the equity rules is required to disclose certain specified information on its risk and equity position.

The following document contains the required disclosures on the consolidated financial position of the Company. The document is published in full each year on the Argenta Group website (www.argenta.be).

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

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

	Percentage holding	31 December 2011	31 December 2012
Argenta Spaarbank nv	-	consolidating entity	consolidating entity
Argentabank Luxembourg SA (ABL)	99.71 %	full consolidation	full consolidation
Green Apple bv (SPV)	0 %	full consolidation	full consolidation

Although there is no capital link with the Company, the Supervisory Board has (on the basis of IFRS rule SIC-12 Consolidation – Special Purpose Entities) judged that Green Apple as a Special Purpose Vehicle (SPV) needs to be consolidated.

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

The Company has no subsidiary companies which were not included in the consolidation scope.

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

1.3 Basel II and evolution towards Basel III

The European banking directive - known as Basel II - includes capital requirements for financial institutions. Basel II provides rules for determining how much capital these institutions must hold in order to absorb unexpected losses deriving from their financial and operational risks.

The Basel II framework consists of three pillars. Pillar 1 includes rules for calculating the minimum capital requirement to cover credit, market and operational risks.

Pillar 2 provides additional rules that assess the solvency of an institution based on specific scenarios. The starting point is the calculation of the capital that the institution itself must hold as a minimum in order to cover all its risks. This pillar includes additional risks over and above those taken into account in Pillar 1 (more information regarding these risks is included in Chapter 10 'Internal Capital Adequacy Assessment Process (ICAAP)').

The present document is designed to meet the Pillar 3 requirements. These are rules for reporting to the outside world on the risks to which the institution is exposed and the capital that it has available to cover unexpected losses deriving from these risks.

Recent developments

The Basel Committee on Banking Supervision (BCBS below) is developing a new Banking Directive (Basel III) with the aim of making financial institutions more resilient in times of financial stress. On 12 September 2010, an expert group published the BCBS proposals that incorporate a substantial increase in capital requirements. These reforms, together with the introduction of a global liquidity standard, form the core of a global financial reform agenda.

Basel III imposes stricter rules on solvency, liquidity and leverage, to be implemented gradually. Certain of these developments are discussed in the course of the present document. On 20 July 2011, a new CRD directive was published based on the new Basel III rules. Until further notice, this Directive is to take effect on 1 January 2014.

The BCBS will in the coming months further clarify the concrete implementation of the new capital and liquidity requirements and the calculations of the corresponding ratios. These will then be described in the subsequent Basel disclosures.

RISK MANAGEMENT

2. Risk management

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

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

The strategy and long-term policy of all entities within the Argenta Group is determined by the Executive Committee (hereinafter EC) and the Supervisory Board (hereinafter SB) of BVg. The two main subsidiaries, the Company and its sister entity Argenta Assuranties (hereinafter Aras), are each responsible for operational management within their own areas of competence as established in the Memorandum of Internal Governance.

Risk management at the Company

The Executive Committees of the Company, Aras and BVg were integrated in 2010, with a number of members in common: the CEO (Chief Executive Officer), CFO (Chief Financial Officer) and CRO (Chief Risk Officer).

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

The Argenta Group continued to develop its conservative and transparent risk management in 2012. Risk management and risk appetite were further clarified as follows:

- translation of the risk appetite limits into concrete limits, clearly linked in to the business plan, and with periodic monitoring and reporting;
- coupled with these limits, monitoring the consistent reduction of positions that could present potential risks owing to the continuing crisis;
- new or revised policies, with strengthened and consistent input from Risk in each of the core activities;
- further expansion of ICAAP for the Company;
- rollout plan for the (Foundation) Internal Rating Based (hereinafter (F)IRB) models for banks and enterprises, which was submitted and approved by the National Bank of Belgium (hereinafter NBB);
- further integration of the Validation Unit within the Risk and Validation Department (with no loss of autonomy);
- the more extensive external (financial) audits and stress tests were an opportunity to have the internal risk and control management tested by outside agents;
- active role in the risk committees, namely the Asset and Liability Committee (ALCO) and the Group Risk Committee (GRC) and through the signalling function to the Executive Committee and the Supervisory Board.

The importance of rigorous risk management, both now and in the future, is underpinned by the following risk governance tools:

- The Risk Assessment Framework (RAF) is a transparent indicator system, in which the risk management for each risk category is monitored based on three indicators (green, yellow and red light flashing lights).
- The Company's conservative risk appetite is managed from five major approaches[1]: capital adequacy, asset quality, earnings and value stability, liquidity and concentration;
- Argenta Group's risk management also benefits from considerable synergies between banking and insurance risk expertise.

1 Several risk type (or risk category) can be included in each approach.

RISK MANAGEMENT

Besides the independent Internal Audit and Compliance control functions, group risk management is organized at Argenta Group level. In the Company-Wide Risk Management Charter, the risk management function is defined as the second line function that controls general risk management within Argenta.

- The risk management function supervises and controls the first line on risk management and provides supporting risk advice. The risk management function is performed by the Risk Management and Validation division and is under the hierarchical responsibility and supervision of the CRO.
- The first-line risk management is organized and handled autonomously within each entity, and hence comes under the responsibility of the various group companies' management bodies.

The first-line risk management is organized and handled autonomously within each entity, and hence comes under the responsibility of the various group companies' management bodies.

In 2012, further significant efforts were made to define and distinguish roles and responsibilities in these specialist fields.

The Risk & Validation division:

- undertakes here the independent second-line control;
- has as its basic principle: 'identify, report, monitor and mitigate' for all material risk factors (including interest rate and business risk), which are then integrated into the ICAAP;
- in this way, it has a 'radar' function of pro-active identification of not-yet-identified risks;
- helps control (economic) capital management;
- plays an important policy definition and validation role in risk modelling;
- undertakes the necessary formal risk checks, and in its overall capacity plays an active role in, among others, the Group Risk Committee (GRC) and ALCO;
- advises the Executive Committees and Boards of Directors in an independent manner on the risk management process within Argenta.

The monthly umbrella GRC has an alternating agenda consisting of (for the Bank Pool) one month ICAAP topics, and the following month credit risk subjects and after that operational risk (Orco).

Along with second-line risk control, validation of the risk models is an essential core activity of financial institutions. Basel II requires financial institutions to have the risk models they develop confirmed by an independent validator.

The activities of the Validation unit included in 2012:

- validation of the review and recalibration of the credit risk models of the mortgage portfolios of the Company in Belgium and the Netherlands;
- validation of the update of the Probability of Default (PD) model in use at the Company;
- validation of the new PD model and Loss Given Default (LGD) model in use in the Netherlands;
- validation of the review, the recalibration and stress testing of the investment portfolio (more particularly of exposure to financial institutions, corporations and covered bonds).

In addition, models were developed, in the context of the F(IRB) approach for the credit risk of the Company's investment portfolio. This relates more specifically to the exposure to financial institutions, corporations and covered bonds. In 2010, an internal measurement system was introduced for this and subsequently validated. As of 30 June 2012, (conditional) approval was obtained from the NBB to use the (F)IRB method for financial institutions, corporations and covered bonds.

The Company's risk profile

This annual report discusses the activities of the Bank Pool and, pursuant to Article 119.5 of the Belgian Companies Code, a summary is provided below of the objectives and the policy concerning the management of the banking risks.

The Company's policy and organizational structure with regard to risk management are designed in order for the known risks to be properly identified, analysed, measured, monitored and managed at all times.

The nature of the Company's activities exposes it to various risks. The Company's risk management distinguishes, among others, between the following categories of risk: financial risk (primarily interest risk), liquidity risk, credit risk (including concentration and sovereign risk), operational risk and other risks.

These risks are managed uniformly across the Argenta Group, using above-mentioned RAF, the policies 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. Within this market risk we distinguish, among others, three types of risk: interest risk, currency risk and other price risks.

Interest risk

The interest 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.

The structural interest risk of the balance sheet is monitored through various risk management tools including risk benchmarks based on income sensitivity and value sensitivity.

The norm for income sensitivity is set on the basis of the maximum acceptable loss of Net Interest Income (hereinafter NII) in the event of a 1 % (100 basis points) change in interest rates.

The norm for value sensitivity is set on the basis of the maximum acceptable loss in economic value against the calculated market value of capital in the event of a 1 % (100 basis points) change in interest rates.

The business of the Argenta Group and the Company is focused mainly on uncomplicated investments, such as government bonds, bank and non-bank bonds and mortgage loans. In this way, the 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. Exposure to such risks is permanently calculated using professional developed software programs. In this way, all material sources of interest risk are identified.

When assessing the interest risk, reporting is undertaken both from an income perspective (earnings at risk perspective, NII) and from an economic value perspective (economic value, assessment as a function of the value of equity).

In its risk management procedures, the Company pays much attention to having a consistent internal structure, enabling it to perform these activities judiciously, objectively and efficiently and to provide the various competent management bodies with timely, comprehensive reports.

This is embodied first and foremost in ALCO, a management body that directly supervises the active interest risk positioning, with specific responsibilities for monitoring the day-to-day management of the financial positions and reporting to the Executive Committee. ALCO has a permanent remit to optimize net interest income (and its sensitivity) and to maintain the market-value sensitivity of equity within set limits. In addition, reports containing the data in question are submitted to the Argenta Group every month.

Sensitivity analysis – interest 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 until now only a banking book, these figures reflect the entire Bank Pool.

Table 2: Sensitivity analysis interest rate risk

Income sensitivity	delta 2011	delta in %	delta 2012	delta in %
Interest rate increase by 100 basis points	40,843,847	15.13 %	27,098,558	7.11 %
Interest rate decrease by 100 basis points	-18,378,018	-6.81 %	19,804,113	5.20 %

Economic value	delta 2011	delta in %	delta 2012	delta in %
Interest rate increase by 100 basis points	-97,225,783	-4.00 %	-80,587,402	-2.67 %
Interest rate decrease by 100 basis points	-70,167,901	-2.89 %	-14,684,444	-0.49 %

A 100 basis point increase in interest rates would cause net interest income to rise by EUR 27,09 million (+7.11 %). A 100 basis point fall in interest rates would cause the same item to rise by EUR 19,80 million (+5.20 %).

The reason why the income sensitivity is positive in both directions is related to the effect of the caps purchased on the IFRS result.

A 100 basis point increase in interest rates would have a negative impact of EUR 80,58 million (-2.67 %) on the economic value of the banking book. A 100 basis point decrease in interest rates would have a negative impact of EUR 14,68 million (-0.49 %).

The reason why the income sensitivity is negative in both directions is related, inter alia, to the prepayment risk on Belgian mortgages.

The economic value of the banking book is calculated, for the purposes of internal monitoring, based on discounting the contractual cash flows at the IRS flat curve.

In making the calculations, the outstanding positions are always held constant as of 31 December (static balance sheet).

Risk reduction strategies

In order to keep market sensitivity within the risk appetite guidelines approved by the Company's Supervisory Board and not to exceed the National Bank of Belgium's (NBB) flashing light levels, additional interest rate caps were purchased and interest rate swaps concluded in 2012. This exogenous hedging serves to supplement the maximally endogenous management of the balance sheet that is permanently striven for.

For endogenous hedging, the whole range of adjustments to on-balance-sheet products is available, including price changes, new products and adjustment of product characteristics. Endogenous actions can have a significant impact, but one which manifests itself only relatively slowly and systematically.

The size of the exogenous hedge is determined from a liabilities and assets perspective. Firstly, the repricing-sensitive amounts on the liabilities side (less the amount of repricing-sensitive assets) must be able to follow rising interest rates.

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

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

Under IFRS, strict regulations are applicable to the accounting processing of hedging, and not every economic hedge that is used to hedge the interest 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, and more especially the interest risk, so as to achieve an adequate level of income and value stability.

Currency risk

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

Operating as it does only in the Benelux, and not making any non-euro investments, the Bank Pool is not exposed to any currency risk.

Other price risks

This 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 other than changes that ensue from interest 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. The limited number of equity funds (in the legal form of beveks or sicavs) on the books at year end came historically into the balance sheet through the Company issuing new sub-funds in existing equity funds.

The equity funds item is limited in size. No purchases were made in 2011 and 2012. A gradual sell-down of the existing positions was initiated in 2012.

2.2 Liquidity risk

The liquidity risk is that of the Company being unable to honour its financial commitments at a reasonable cost on due date. It needs therefore to be able to satisfy the liquidity requirements of depositors or other contract holders, without suffering unacceptable losses in releasing existing assets to meet its financial obligations in both normal and stressed circumstances.

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

In order to measure, monitor, check and report on the liquidity risk, the Argenta Group has a specially adapted Management Information System (hereinafter MIS), including a plan for being able to adequately manage its liquidity in both normal and exceptional circumstances.

The liquidity risk is monitored using two risk indicators, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR tests the liquidity buffer against a defined outflow of collected funds over a one-month period, and the NSFR tests the available liquidity against the required liquidity over one year. The RAF provides is a minimum limit of 100 %, with a target ratio of at least 120 %. In this way, the company has at all times a comfortable liquidity situation.

It has also been stipulated that (as part of liquidity management) at least 66 % of the investment portfolio should be comprised of European Central Bank (ECB)-eligible bonds.

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

Funding reports are distributed daily to a broad target audience. Additionally, discussion of the liquidity indicators is a fixed agenda item of the fortnightly ALCO meeting. In other words, senior management is continuously involved in liquidity management.

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

- A substantial base of customer deposits.
- Total independence of interbank financing: the Company does not have to go onto the interbank market for funding - its low loan-to-deposit ratio reflects the fact that, to a large extent, the amount of loans made is lower than the total amount of customer deposits;
- Securities portfolios that are easily tradable and readily converted to cash (usable as collateral with the European Central Bank (ECB) or saleable).

From the summary of funding sources it can be deduced that the Company also from time to time holds deposits from credit institutions. This takes the form of secured funding transactions entered into either for liquidity management purposes, or to take advantage of investment opportunities on the financial market.

Liquidity sources

Funding policy is directed at obtaining funding from individual customers through current and savings accounts and term deposits and securities. Customer deposits constitute the most important primary source of funding 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 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 made in recent years in the area of liquidity management were continued in 2012.

The Company easily met all statutory and internal liquidity standards in 2011 and 2012. As of 31 December 2012, the Bank Pool reported an LCR of 263 % and an NSFR of 136 %.

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.

Essentially two sub-areas are of importance for the Company in terms of credit risk: the market of mortgage lending to individuals 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 policies (retail lending) and the 'Treasury and ALM Policy' (other interest-bearing assets). The policies set out the basic principles, rules, instructions and procedures for identifying, measuring, approving and reporting credit risk.

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

Retail lending

The Company has a concentration in retail lending 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 the provision of security (mainly mortgage registrations on buildings) is one of the basic conditions, together with the strategic focus on lending to retail customers.

Investment portfolio

A precise rating allocation that has been refined in-house plays a major role in monitoring the quality of Argenta's securities portfolio. Thus the asset quality of the various portfolio components is closely monitored using the average rating concept based on internal ratings and the agreed rating factors. This involves the calculation of an Average Portfolio rating (APR) on the basis of the internal ratings (or externally derived ones if no internal ones are available) and a Probability of Default (PD) as a function of the rating.

The management framework is clearly described and detailed a revised Treasury and ALM policy based, among other things, on the following principles:

- A country limit is applied which measures, besides the sovereign risk, the risk of all counterparties/borrowers for each country.
- A separate internal limit is used for repos, derivatives and covered bonds, in addition to the bond limit.
- Counterparty limits are based not only on ratings, but also on term.
- Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) are allowed only under very strict conditions: 5 % retention by the issuer/initiator; permanent monitoring of the underlying exposures for arrears, default, known underlying assets and clear view of the structure: no RMBS on RMBS/ABS on ABS but in each case direct underlying collateral.

Within this policy framework, attention is also paid to developing and applying the framework of limits, in which country concentration and asset quality ratios also play an important role.

Credit risk and the Basel II Capital Accord

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

Retail customers are defined as private individuals and self-employed professionals having their customary place of residence in Belgium (the Belgian activities) or the Netherlands (the Dutch activities) and that use the Company for their normal non-professional credit needs.

On the basis of this policy option and its above-mentioned long experience, the Bank Pool has therefore opted to perform its mortgage lending under the Basel II Capital Accord on the basis of internal ratings and to calculate the capital requirements according to the F(IRB) method, subject to exceptions that are not material. This means that a rating is assigned to each loan when granted. To this end, the Company has, where applicable, developed one or more of its own models.

A distinction is made between PD (probability of default) and LGD (loss given default) models. For retail portfolios, for which the Company has opted for an internal rating system, both PD and LGD models have been developed, each updated on a regular basis.

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

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 that pool.

Every month, the total mortgage 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 IRB method has resulted, among other things, in changes to the operational credit risk management, the authorization procedure, price setting, internal monitoring and reporting and the responsibilities of the Executive Committees and Supervisory Boards.

Since the 30 September 2009 reporting, the capital requirement for the retail mortgage portfolios has been 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 capital requirements.

More intensive use was made of the rating tool for the investment portfolio during 2012. This is the tool Argenta uses to determine the internal ratings of the counterparties within the Company's securities portfolio. In this way, already in 2011, all borrowers in the Bank Pool's banking and corporate portfolio were assigned an internal rating. In this way, around one hundred counterparties were thoroughly screened internally 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 internal ratings were also ratified or decided by a rating committee. This approach is in line with the further deployment of the F(IRB) approach under the Basel framework. In 2012, internal ratings were assigned to the new counterparties in the banks and corporates portfolio, and the Company also proceeded to re-rate (on a planned annual basis) all previously assigned internal ratings.

In 2012, in the context of the further deployment of the (F)IRB approach, the Company also continued preparing the dossier for the government (and regional and local authorities), for which Argenta will submit an application dossier to the NBB in late 2013. The intention is, after a use test period during 2014 and with the approval of the NBB, to use (F) IRB for the formal reporting of these counterparties from 2015 onwards.

In the meantime, the investment portfolio remains the main topic of regular reporting to, and discussion within, ALCO, the Executive Committee and the Supervisory Board.

Impairments

Certain impairments for loan losses can be recognized on an individual basis when a loan is considered as being in default, i.e. there are objective indications that the Company will 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 one of the following events has 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 sale of collateral;
- The debtor is more than 90 days in arrears in meeting a material loan commitment.

Loans deemed to be in default are consequently reviewed (including taking into account the security received), to see whether an impairment should be recognized.

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

For the retail mortgage portfolio, this takes the form of an 'incurred but not reported' (IBNR) provision. 'IBNR' provisions are justified for receivables for which no special impairments have been recognized on an individual basis.

Collateral

Security in the form of personal guarantees or material collateral is always requested when granting mortgage loans. The lower a borrower's creditworthiness, the more security the customer is required to provide. Under the foreclosure policy, it may occasionally occur that certain collateral is acquired and recognized on the balance sheet.

For such collateral (here, the properties on which a mortgage or mortgage mandate is registered), new individual estimates are made whenever loans to which the collateral is attached are deemed in default (see the definition of default in the above description of impairments). All material collateral is 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, when property is available, proceed to a public sale.

In 2012, there were 49 public sales (42 in 2011), including sales relating to loans with an NHG guarantee in the Netherlands, but excluding sales at Green Apple, where the sale proceeds did not cover the full amount receivable. The total shortfall here was EUR 1,734,857 (compared with EUR 2,179,970 in 2011).

In the context of this policy, three properties were bought in 2011 for EUR 314,130. In 2012, one property was bought in for EUR 53,229. These bought in (and not yet resold) properties are to be found under 'real estate investments' in the IFRS balance sheet

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

The European Securities and Markets Authority (ESMA) has requested financial institutions to provide information for financial year 2012 on loan refinancings and maturity extensions. This relates to refinancings and extensions in the context of arrears situations. Until further notice, these are permitted by the Company only to a very limited extent, so that the impact is negligible.

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 policy includes limits for concentration risk. These limits are systematically monitored and reported on.

One of these limits relates to the maximum exposure per counterparty in retail lending. It stipulates that this maximum exposure to a single retail counterparty may never exceed EUR 1 million (other than by explicit decision of the Credit Committee and the Executive Committee).

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

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

Finally, securitization can also be used, not only as a funding and liquidity tool, but also to manage the risk volume of loans and thus the level of concentration. Both of the two securitization operations involved Dutch mortgage loans.

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

The 'Treasury and ALM' policy referred to above establishes which bonds and which ratings are eligible 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 by ALCO and the Rating Committee (RC).

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

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 occur 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 governed by the Operational Risk Management policy, approved by the Executive Committee and the Supervisory Board at the end of 2010. The policy establishes the principles, rules, guidelines 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 risks.

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. The second line responsibility for information security and business continuity (BCM) is also included in the Risk department.

All (operational) risks identified by persons having first-line, second-line or third-line responsibility, and all incidents 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 in the exercise of their second or third-line control function and the resultant actions are monitored via 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 to operational risk enables the Argenta Group to steer and adjust the management measures more efficiently, in line with the focus on the 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 of internal control. Viewing internal control as a whole, we consider that Argenta's maturity in this area has increased to the desired level 3 (defined) following the COSO[2] methodology.

Every two years, each division is required to identify and assess its operational risks and where necessary take action to reduce them.

Initiating and supervising these risk & control self-assessments represent a large part of the Risk division's annual workload.

To involve the first line more in the management of operational risks, a contact person was appointed in each division in 2012. This person acts as a point of contact and a specialist in the operational risk management of his or her division. These contact persons are a first step in the realization of the recommendations made in the wake of the 2012 audit of operational risk management.

In terms of information security and BCM, work continues on updating the framework and policies.

Operational risk and the Basel II Capital Accord

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

2.5. Other risks

With no attempt to be exhaustive, this section mentions certain other risks.

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).

The ultimate realization of the business strategy depends on the adequacy of the resources made available and the way in which these resources are used. This is assessed on an ongoing basis.

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 caused by changing market conditions or the organization's inability to take advantage of such changes. This risk also refers to 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, Lending, Savings and payments, this fourth business line should produce a greater diversification of earnings. Another important factor here is cross-selling, in order to attract as many customers as possible to several business lines concurrently.

Reputational risk

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

2. COSO is a management model developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) with guidelines on internal control.

This is a second-order risk; in other words, a risk that derives 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, reputational risk is also kept under control.

External service providers

The Company is exposed to the risk of termination of major contracts with external service providers. Termination of one of these contracts could result in an interruption of business or delays in key 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.

Risks associated with changes in legislation and regulations

In all places where the Company operates, it is subject to the laws, regulations, administrative measures and regulations on financial services policy. Changes in the area of supervision and regulation can affect the activities, products and services and the value of the assets of the Company.

Although the Company works closely with the supervisory authorities and constantly monitors the situation and future legislative changes, fiscal policy and other policies are at times unpredictable and are outside its control. Right now, for example, discussions are under way to reach a new bilateral tax ruling with Belgium and the Netherlands on corporate taxation.

DISCLOSURES CONCERNING EQUITY

3. Disclosures concerning equity

3.1. Components and characteristics of equity

This paragraph provides information on the various equity items of the Bank Pool. These form the basis for the calculation of qualifying capital under the Basel II regulations.

Table 3: Equity and its components

Components	31 December 2011	31 December 2012
Paid-in capital	421,255,000	459,105,400
Revaluation reserve for available-for-sale financial assets	-126,000,194	215,849,450
Reserves (including retained earnings)	547,548,306	545,814,654
Income from current year	70,225,611	82,317,207
Cash flow hedge	-3,379,589	-8,002,062
Total equity attributable to shareholders	909,649,134	1,295,084,649
Minority interests	93,422	79,260
Total equity and minority interests	**909,742,556**	**1,295,163,909**

'Paid-in capital'

On 18 December 2012, a capital increase took place in the company, in an amount of EUR 37,850,400, increasing the paid-in capital as of 31 December 2012 to EUR 459,105,400. This capital increase took place without issuing new shares and was subscribed by the existing shareholders (after receiving on 12 December 2012 a dividend of EUR 57,541,500 from the Company).

'Revaluation reserve for available-for-sale financial assets'

Available-for-sale (AFS) financial assets are measured at fair value, with all fluctuations in fair value recognized on a separate line in equity until the assets are sold or until an impairment occurs.

At the end of 2012, the unrealized capital losses on fixed-income securities amounted to EUR 433,685,971 before tax and including minority interests, and the unrealized gains on non-fixed income securities to EUR 503,066.

After accounting for the deferred tax liability (EUR 117,550,787) on the fixed-income AFS portfolio, the transfer of the market value of the fixed-income securities recognized in micro-hedges as hedged positions (EUR 87,832,873), the shift of the minority interests (EUR 241) and a frozen AFS reserve of reclassified assets (EUR 12,955,686), we arrive at a net positive amount of EUR 215,849,450 on the separate line 'revaluation reserve for available-for-sale financial assets'.

'Reserves (including retained earnings)'

This item includes the statutory reserves of the Company, along with the retained earnings from previous years.

'Profit from the current year'

This line records the earnings of the current financial year.

'Cash flow hedge'

In 2012, an interest rate swap of EUR 100 million (notional) was contracted. Under IFRS hedge accounting principles, this was accounted for as a cash flow hedge.

As of 31 December 2012, the swap in question had a negative market value of EUR 10,669,416. After deducting an unrealized tax claim of EUR 2,667,354, an amount of EUR 8,002,062 was recorded on the 'cash flow hedge' line in equity.

'Minority interests'

Accounted for under this item are the 'reserve for revaluation and valuation differences' and 'remaining equity components' of minority interests. The minority interests in 2012 relate to the shares in the subsidiary Argentabank Luxembourg SA (ABL) that are not held by the Company.

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

3.2. Composition of qualifying capital for regulatory purposes

The above components are included in the calculation of qualifying capital for regulatory purposes. Qualifying capital can consist here of Tier I, Tier II or Tier III capital. The Tier I capital is classified here as the strongest, consisting as it does mainly of equity and retained earnings. The following overview shows this qualifying capital at 31 December 2011 and 31 December 2012.

Table 4: Composition of qualifying capital

Composition of qualifying capital	31 December 2011	31 December 2012
Equity sensu stricto	1,064,481,267	1,106,745,985
Total additional components	334,723,528	330,160,818
Additional components	13,468,652	13,425,585
Subordinated loans	321,254,876	316,735,233
Total qualifying capital	**1,399,204,795**	**1,436,906,803**

Qualifying capital consists of two groups of components: equity sensu stricto and the additional equity components.

Table 5: Equity sensu stricto

Equity sensu stricto	31 December 2011	31 December 2012
Paid-in capital	417,410,014	455,260,414
Reserves	536,534,437	535,245,389
Profits from the current financial year (less planned dividends)	55,725,611	82,317,207
Minority interests	92,832	79,018
Limited innovative instruments	100,000,000	70,000,000
Intangible assets	-29,607,916	-36,156,043
Deduction item: potential and foreseeable losses and costs	-15,673,711	0
Total equity sensu stricto	**1,064,481,267**	**1,106,745,985**

As of 31 December 2012, 'paid-in capital' is calculated here EUR 455,260,414, after deducting an amount of EUR 3,844,986.

This amount relates to a non-depreciable portion of a revaluation reserve for tangible assets created in the past under BGAAP. Under the earlier equity regulations, this amount is always deducted from the paid-in capital.

As of 31 December 2012, the 'reserves' item amounted to EUR 535,245,389 (Chapter 3.1. 'Components of reserves').

For the calculation of equity, institutions can take the net profit from the financial year 'after deduction of all foreseen costs and dividends'. The 'profit (earnings) from the current financial year' as of 31 December 2012 contains purely the profit from the financial year, as no additional dividend payment is planned in respect of 2012.

As of 31 December 2012, the 'minority interests' item amounted to EUR 79,018. This amount is obtained by reducing the full amount of the minority interests of EUR 79,259 by the revaluation reserve for 'available-for-sale financial assets' of EUR 241 of the subsidiary ABL.

The 'limited innovative instruments' items consists of the remaining outstanding capital amount of the EUR 100 million Tier I loan issued in 2006 (Argenta Savings Bank NV Deeply Subordinated Perpetual Callable EUR Fixed to Floating Rate Notes).

At the end of September 2012, with the consent of the supervisory authorities, EUR 30 million of this loan was repurchased and destroyed, leaving an nominal outstanding Tier I loan of EUR 70 million as of 31 December 2012.

This Tier 1 loan is listed on the Luxembourg stock exchange (ISIN code BE09321174444), with the following characteristics:

Nominal amount:	EUR 70,000,000
Issue date	31 October 2006
First call date	31 October 2016
Call option	the issuer is entitled to repay the security at nominal value on 31 October 2016 and at each subsequent coupon date
Coupon	fixed interest of 5.855 % to 31 October 2016 and thereafter variable interest of 3 month Euribor + 275 bp

The 'intangible assets' item of EUR 36,156,043 is also deducted from the equity sensu stricto. This consists of the 'intangible assets' as on the asset side of the consolidated balance sheet.

Finally, at the end of 2011, a further EUR 15,673,711 was deducted from qualifying capital. This amount related to the residual negative market value of 2 payer and 2 receiver swaps. This amount went to zero at the maturity of these swaps (i.e. at year end 2012). As a result, there is no further amount in this item.

Basel III disclosure - increased Tier I capital requirements

Under the new banking directive, stricter requirements are placed on capital instruments for counting as Tier I qualifying capital. The above-mentioned Tier I loan (EUR 70 million still outstanding at 31 December 2012) does not meet all the Basel III conditions for recognition as Tier I capital. For this reason the remaining outstanding capital amount will be gradually phased out, once Basel III comes into force, by 10 % a year until the call date.

Table 6: Additional equity

Additional components	31 December 2011	31 December 2012
Additional core equity	13,468,652	13,425,585
- Revaluation reserve AFS instruments	95,684	452,759
- Revaluation reserve tangible assets	13,372,969	12,972,826
Further additional equity	321,254,876	316,735,233
Total additional equity	**334,723,528**	**330,160,818**

DISCLOSURES CONCERNING EQUITY

The 'revaluation reserve AFS equity instruments' relates to 90 % of the unrealized gains on the current portfolio of equity instruments (90 % of EUR 503,066). This amount may be included under additional equity.

The amount of EUR 12,972,826 of the 'revaluation reserve tangible assets' is obtained by firstly increasing the revaluation reserves for buildings (created formerly under BGAAP) of EUR 10,569,265 (see 3.1) by the adjustment made to paid-up capital (see 3.2, viz. EUR 3,844,986). The total of EUR 14,414,251 arrived at this way (EUR 10,569,265 plus EUR 3,844,986) then needs to be multiplied by 90 %.

The further additional equity amounted to EUR 316,735,233 as of 31 December 2012 and consists entirely of subordinated loans. Subordinated loans may be used as further additional equity for up to an amount of 50 % of equity sensu stricto (subject to compliance with the conditions defined in the equity regulations).

In 2012, a further EUR 94,068,799 of subordinated loans were purchased by private investors. As a result, the total amount of issued and still outstanding subordinated loans amounted as of 31 December 2012 to EUR 449,064,297.

Basel III disclosure - increased Tier II capital requirements

Under the new banking directive, stricter requirements are placed on capital instruments for them to count as Tier II qualifying capital. The Tier II subordinated loans issued in 2012 do not meet all the conditions for recognition as Basel III Tier II capital and therefore will be unavailable in their totality as from the start of Basel III.

The usable capital of the subordinated loans (issued in 2012) will be gradually phased out over 10 years from the start of Basel III.

REGULATORY CAPITAL REQUIREMENTS

4. Regulatory capital requirements

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

The Company applied the Basel II standard approach for these calculations up to and including 30 June 2009. As from 30 September 2009, it received conditional approval to apply the (F)IRB method for its retail mortgage portfolios.

As from 30 June 2012, it also applies the (F)IRB method for the 'exposures to corporates, institutions and covered bonds'.

The table below shows the total risk weighted assets (RWA) and the capital requirements as of 31 December 2012 according to Basel II.

Table 7: Total risk weighted assets and capital requirements as of 31 December 2012

	Basel II-RWA	Capital requirement
Credit risk standard method (STA)		
Central governments and central banks	79,700,783	6,376,063
Institutions	98,408,922	7,872,714
Corporates	92,248,938	7,379,915
Retail	148,028,170	11,842,254
Secured by real estate	194,508,419	15,560,674
Past due items	15,187,791	1,215,023
Collective investment undertakings	5,485,850	438,868
Others	255,903,694	20,472,296
Securitization positions	47,775	3,822
	889,520,342	71,161,627
Credit risk (F)IRB method		
Institutions	832,235,691	66,578,855
Corporates	223,757,514	17,900,601
Covered bonds	33,358,852	2,668,708
Secured by real estate	1,856,278,114	148,502,249
Securitization positions	304,118,286	24,329,463
Total credit risk	3,249,748,457	259,979,877
Market risk	0	0
Operational risk	420,136,672	33,610,934
Total risk weighted assets	**4,559,405,471**	**364,752,438**

Under the Basel II rules governing the transition from the use of the standard approach to the use of the IRB approach, the Company is required in 2012 to apply a floor in calculating its capital requirements.

For 2012, this floor is 80 % and is applied to the qualifying capital calculated according to the Basel I standards. In this way, the Basel I RWA calculations form the basis of the capital requirements.

The summary below shows the most important requirements, calculated, in each case, according to the applicable Based II pillar 1 regulations.

REGULATORY CAPITAL REQUIREMENTS

Table 8: Capital requirements

	31 December 2011	31 December 2012
Total of the qualifying capital for covering the capital requirements	1,399,204,795	1,436,906,803
Required on the basis of the fixed assets	35,001,122	34,653,431
General solvency coefficient	655,941,223	651,364,460
Adjustment Floor IRB transition period	80 % rule	80 % rule
Total required after adjusting Floor to Basel I	526,227,092	540,507,993
Core Tier 1 ratio	14.66 %	15.34 %
Tier 1-ratio	16.18 %	16.38 %
Cooke ratio	21.27 %	21.27 %

The calculations take into account the specific Basel II rules for the calculation of risk weighted assets for which the Company had received approval at the date in question.

For the calculations as of 31 December 2012, the Company uses the (F)IRB method for the retail mortgage portfolios, MBS portfolio, ABS portfolio, corporates, institutions and covered bonds, and the standard STA method for the other exposures.

Under the Basel II rules applicable to the transition from the STA to the IRB method, qualifying capital should be at least 80 % of the required capital calculated according to the Basel I principles. The required capital as at 31 December 2012 is therefore EUR 540,507,993 (80 % of EUR 675,634,991).

The Cooke ratio of 21.27 % as of 31 December 2012 is obtained by dividing the qualifying capital (EUR 1,436,906,803 as of 31 December 2012) by the risk weighted assets (EUR 6,756,349,913 as of 31 December 2012).

The total qualifying capital for regulatory purposes as of 31 December 2012 was greater than each of the three above-mentioned requirements, so that the Company fully complied with all capital requirements.

Basel III disclosure - increased capital requirements and anticyclical capital buffer

The reform package includes a gradual increase in the minimum core capital requirement from 2 % to 4.5 %. The Company already meets this requirement.

In addition, a countercyclical buffer (capital conservation buffer) will come on top of the 4.5 % norm. In the strong phase of the economic cycle, this should amount to no more than 2.5 %. The basic concept is to set aside additional capital in times of financial prosperity.

The institution can then eat into this capital in times of financial stress, subject to paying no dividends to shareholders. This new standard is already met.

4.1. Capital requirements for credit risk

Up to and including 30 June 2009, the calculations were made and reported according to the Basel II standard approach. As of 30 September 2009, the Company received conditional approval to apply the (F)IRB method for its retail loan portfolios and from 30 June 2012 conditional approval to apply (F)IRB for banks and corporates.

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 as follows:

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

The risk weighted assets for credit risk amounted to EUR 4,139,268,799 as of 31 December 2012, giving a capital requirement of EUR 331,141,504.

As a result of the 80 % floor, this RWA will, however, be raised (see 4.4: Application of 80 % floor (transition phase STA to IRB)).

4.2. Capital requirements for market risk

The Company currently does not perform any equity calculations for market risk, since these calculations are required only for the trading book and the Company did not have such a trading book as of 31 December 2011.

4.3. Capital requirements for operational risk

Up to and including 30 June 2008, the Company calculated the requirements for operational risk using the Basis Indicator Approach (BIA). The capital requirement here is equal to 15 % of the arithmetic average of the operational result of the three latest financial years.

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

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

At the Company, the operational result was assigned to the business lines retail broker services, retail bank services and wealth management (which all need to be multiplied by 12 %). The capital requirement amounted to EUR 33,610,934 as of 31 December 2012 (compared with EUR 33,082,062 as of 31 December 2011).

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 331,141,504. Adding the operational risk requirement of EUR 33,082,062, one arrives at a total capital requirement of EUR 366,234,477.

The capital requirement under Basel I amounted to EUR 675 634 991 at 31 December 2012. Applying here the applicable (for 2012) 80 % floor, we obtain a capital requirement EUR 540,507,993.

Given that this floor is higher than the capital requirement calculated according to the IRB method, it is the EUR 540,507,993 figure that applies as the minimum capital. This capital requirement corresponds to a risk weighted assets of EUR 6,756,349,913 (compared with EUR 4,559,405,471 following the IRB approach). If this Basel I floor were not applied, the Tier 1 ratio would be 24.27 % instead of 16.38 %.

CREDIT RISK

5. Credit risk

The management of credit risk has already been described in Chapter 2 'Risk management'. The present chapter provides further information on the concepts 'past due' and 'doubtful', on impairments, on classification and assignment to the Basel II categories, additional information on 'exposure categories' and finally an additional disclosure concerning doubtful loans.

5.1. Definitions 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 in arrears with payments.

In the equity reporting, a loan is considered as 'doubtful' (or in default) when one of the following events has occurred:

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

Loans deemed in default are consequently reviewed (including taking the security received into account), to see whether an impairment should be recognized.

5.2. Approaches and methods for determining impairments

An impairment is recognized 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 an impairment.

The carrying amount of an impaired asset is reduced to its estimated recoverable amount, and the amount of the change during the current reporting period is recognized 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 reduction is reversed through the income statement.

Financial assets

For an asset (or a group of financial assets), an impairment loss is recognized whenever
- objective evidence exists as a result of one or more events that have occurred after the initial recognition of the asset and
- this loss event (or events) has (have) an impact that can be reliably estimated on the estimated future cash flows from the financial asset.

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

Firstly, there is the collective – portfolio-based – impairment in the form of an IBNR provision.

'Incurred but not reported' value adjustments are justified for receivables for which no special impairments have been recognized on an individual basis.

This collective evaluation of impairments includes the application of a 'loss confirmation period' with regards to the probability of default. The 'loss confirmation period' is a concept that reflects the existence of a certain period between the time when indicators for impairments occur and the time when these are included in the entity's credit risk systems.

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

The IBNR is calculated and created for all retail loan portfolios for which credit risk models have been 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 limit the impact of seasonal fluctuations, a long term PD is used.

A portfolio-based impairment also exists for a specific Mortgage Backed Securities portfolio.

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

Where a fall in the fair value of an available-for-sale financial asset has been recognized 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 to 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 amortization) and the current fair value, less any write-down losses on the asset previously recognized in the income statement.

Following the further downgrading of the creditworthiness of Cyprus, a provision of EUR 4,3 million was created for the EUR 30 million sovereign exposure to this country as of 31 December 2012. Meanwhile, this position was closed out in early 2013 with no additional negative earnings impact.

Investments in equity instruments

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

This situation is assessed each time on an individual basis, but in the absence of additional assessment criteria, the Company considers a period of 24 months as long-term, and a decrease of at least 20 % as considerable.

Impairments recognized in the income statement on investments in equity instruments classified as available-for-sale cannot be reversed through the income statement.

Investments in other non-equity instruments

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

Where 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 recognized in the income statement, the impairment must be reversed through the income statement.

5.3. Credit risk mitigation

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

The table below shows the exposures before and after the credit risk mitigation movements as a result of unfunded and funded credit protections (see column 'Exposure after CRM' in table 9).

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

'Funded credit protection' is a credit risk mitigation technique whereby the credit risk of the institution's exposure is limited due to the right of the institution, in the event of counterparty default or other specified credit events associated with the counterparty, to liquidate or take over certain assets or items, or acquire or retain ownership of them, or reduce or replace the exposure by the difference between the exposure itself and a claim on the institution.

Table 9: Exposure per category

	Exposure pre CRM	Unfunded credit protection - guarantees	Funded credit Protection - collateral	Total inflow	Exposure after CRM
Central governments or central banks	6,402,506,649	0	0	617,791,639	7,020,298,288
Regional and local governments	883,721,107	0	0	30,297,075	914,018,182
Public entities	0	0	0	0	0
Institutions	815,930,860	617,791,639	0		198,139,221
Corporates	151,421,859	30,297,075	0		121,124,784
Retail	209,471,267	0	0	0	209,471,267
Secured by real estate	995,280,017	63,716,832			931,563,185
Past due items	7,844,422				7,844,422
Covered bonds	0	0	0	0	0
Undertakings for collective investment	5,485,850	0	0	0	5,485,850
Others	633,089,319	0	0	63,716,832	696,806,151
Securitization positions	47,775	0	0	0	47,775
Total exposure (STA)	**10,104,799,125**	**711,805,546**	**0**	**711,805,546**	**10,104,799,125**
Institutions	2,859,748,323	0	0	0	2,859,748,323
Corporates	917,385,478	0	0	0	917,385,478
Covered bonds	236,654,474	0	0	0	236,654,474
Secured by real estate	19,382,807,812	0	0	0	19,382,807,812
Securitization positions	866,549,852	0	0	0	866,549,852
Total exposure (IRB)	**24,263,145,939**	**0**	**0**	**0**	**24,263,145,939**
Total exposure	**34,367,945,064**	**711,805,546**	**0**	**711,805,546**	**34,367,945,064**

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

The unfunded credit protection of the Company can be divided into two groups. In the first, the exposure is shifted as a result of government guarantees and guarantees from financial institutions (see the explanation below of the EUR 617,791,639 under 'institutions').

Table 10: Government guarantees under 'institutions'

Counterparty	Exposure 2011	Guarantee amount 2011	Exposure 2012	Guarantee amount 2012
Belgian government	80,784,366	78,792,818	0	0
German government	96,846,419	95,079,523	0	0
French government	127,981,468	127,735,228	0	0
Irish government	0	0	5,753,114	5,585,521
Luxembourg government	99,999,422	99,985,222	211,037,905	208,979,346
Dutch government	220,530,432	220,014,975	170,179,474	170,008,337
Austrian government	221,385,363	218,303,055	100,248,733	100,000,000
Portuguese government	134,563,177	130,013,040	0	0
Slovenian government	115,061,912	112,910,259	80,882,861	79,212,724
Spanish government	371,992,001	367,115,644	0	0
Czech government	0	0	4,097,276	3,981,673
Swedish government	0	0	50,036,825	50,024,038
Total unfunded credit protection – guarantees institutions		**1,449,949,764**		**617,791,639**

In addition, there is the NHG guarantee that exists for most mortgage loans made in the Netherlands.

The NHG is provided by the 'Waarborgfonds Eigen Woningen' (Homeownership Guarantee Fund – WEW) foundation. It is the name of the guarantee which a borrower can obtain for a loan for purchasing or building a house. The foundation guarantees the repayment of the mortgage amount to the credit institution.

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

The aim of the WEW is to promote home ownership. It is responsible for the policy and the implementation of the NHG. Ever year, it sets rules for granting NHG guarantees. These 'conditions and standards' must be approved by the VROM and the VNG. The NHG guarantees are administered by the credit institutions. Credit files are checked whenever a loss claim is submitted. The WEW supports the credit institutions in administering the NHG guarantees and manages the NHG guarantee fund.

The WEW is a private institution with fall-back 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 the lender's solvency requirements. This advantage for lenders is 'returned' to consumers by lower mortgage interest on NHG-backed loans.

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

This unfunded (NHG) guarantee can be found in the Basel II category 'secured by real estate'. The annuitized decrease of this NHG guarantee is factored into all calculations (this decrease is included, among others, in the LGD parameter).

5.4. Additional information on the exposure categories

The present sub-chapter gives information in table form on the breakdown by exposure class, the adjusted exposures by risk weighting percentage, the overall geographical breakdown of all exposures, the geographical division of exposures by exposure category and finally an indication of the weighted average remaining life of certain categories.

Table 11: Breakdown (pre CRM) by exposure class as of 31 December 2012

	On-balance	Off-balance	Derivatives	Total exposure
Central governments or central banks	6,399,518,483	2,988,166	0	6,402,506,649
Regional and local governments	883,721,107	0	0	883,721,107
Public entities	0	0	0	0
Institutions	815,928,034	2,826	0	815,930,860
Corporates	151,318,489	103,370	0	151,421,859
Retail	188,517,972	20,953,295	0	209,471,267
Secured by real estate	114,616,605	880,663,412	0	995,280,017
Past due items	7,844,422	0	0	7,844,422
Undertakings for collective investment	5,485,850	0	0	5,485,850
Other	633,089,319	0	0	633,089,319
Securitization positions (STA)	47,775	0	0	47,775
	9,200,088,056	904,711,069	0	10,104,799,125
Institutions	2,610,073,401	0	249,674,922	2,859,748,323
Corporate	917,385,478	0	0	917,385,478
Covered bonds	236,654,474	0	0	236,654,474
Secured by real estate (IRB)	19,185,473,419	197,334,393	0	19,382,807,812
Securitization positions (IRB)	866,549,852	0	0	866,549,852
	23,816,136,624	197,334,393	249,674,922	24,263,145,939
Total exposure	**33,016,224,680**	**1,102,045,462**	**249,674,922**	**34,367,945,064**

Table 12: Geographic breakdown of exposures (material positions) as of 31 December 2012

The main geographical countries here are Belgium and the Netherlands (in the case of Belgium this includes, besides retail lending, mainly the exposures to the Belgian government). The geographical breakdown of the investment portfolio in this and the following tables is based on the country of the issuer.

Country code	Country	Exposure	Percentage	Capital
AT	Austria	300,301,235	0.87 %	4,819,936
AU	Australia	363,393,951	1.06 %	5,617,649
BE	Belgium	14,584,870,740	42.44 %	106,297,540
BG	Bulgaria	15,684,587	0.05 %	624,909
CA	Canada	58,160,436	0.17 %	345,448
CH	Switzerland	23,545,983	0.07 %	696,382
CN	China	1,125,963	0.00 %	1,071
CY	Cyprus	26,520,081	0.08 %	1,574
CZ	Czech Republic	134,798,156	0.39 %	2,095,845
DE	Germany	140,207,535	0.41 %	1,631,814
DK	Denmark	63,529,179	0.18 %	1,933,762
ES	Spain	368,866,009	1.07 %	15,983,685
FI	Finland	178,251,258	0.52 %	1,173,012
FR	France	779,556,661	2.27 %	8,446,927
GB	United Kingdom	640,269,649	1.86 %	13,964,769
IE	Ireland	105,821,556	0.31 %	15,251,124
IT	Italy	350,474,976	1.02 %	6,173,053
KY	Cayman Islands	10,361,677	0.03 %	603,140
LU	Luxembourg	47,656,550	0.14 %	533,101
NL	Netherlands	14,612,908,877	42.52 %	123,077,876
NO	Norway	165,860,487	0.48 %	3,437,508
NZ	New Zealand	30,637,202	0.09 %	194,486
PL	Poland	135,835,673	0.40 %	2,169,820
PT	Portugal	133,969,727	0.39 %	3,557,559
SE	Sweden	288,954,436	0.84 %	3,211,089
SI	Slovenia	170,340,162	0.50 %	1,334,209
SK	Slovakia	239,607,652	0.70 %	0
US	United States	391,843,788	1.14 %	7,889,706
Other	Exposure < 1 million	4,590,876	0.01 %	74,512
Total exposure		**34,367,945,064**	**100.00 %**	**331,141,504**

The table below gives the geographical breakdown of the major exposure categories. The geographical breakdown of the securitization positions can be found in the disclosure on the securitization positions.

Table 13: Geographical breakdown of exposures by category as of 31 December 2012

Exposure category	Country	Exposure
Institutions	AT	151,752,839
Institutions	AU	354,755,180
Institutions	BE	108,903,290
Institutions	CA	19,836,333
Institutions	CH	21,830,598
Institutions	CZ	4,097,276
Institutions	DE	66,068,232
Institutions	DK	63,447,460
Institutions	ES	196,516,450
Institutions	FI	68,041,291
Institutions	FR	426,503,227
Institutions	GB	530,231,482
Institutions	IE	74,825,372
Institutions	IT	128,885,409
Institutions	KY	10,361,677
Institutions	NL	696,919,527
Institutions	NO	129,119,441
Institutions	PT	61,055,185
Institutions	SE	288,370,537
Institutions	SI	80,882,861
Institutions	US	193,210,664
Institutions	Other	64,851
Total Institutions		**3,675,679,183**
Undertakings for collective investment	BE	5,485,850
Total undertakings for collective investment		**5,485,850**
Corporates	AT	20,222,203
Corporates	BE	221,700,234
Corporates	DE	26,009,888
Corporates	ES	25,203,940
Corporates	FI	10,036,222
Corporates	FR	180,776,286
Corporates	GB	47,702,027
Corporates	IE	5,737,096
Corporates	IT	53,078,334
Corporates	LU	21,061,400
Corporates	NL	244,156,729
Corporates	NO	36,741,043
Corporates	US	176,381,936
Total Corporates		**1,068,807,337**

Exposure category	Country	Exposure
Covered bonds	AU	8,140,735
Covered bonds	AT	25,459,878
Covered bonds	DE	10,424,180
Covered bonds	ES	10,305,152
Covered bonds	FR	61,829,976
Covered bonds	GB	60,918,198
Covered bonds	IT	29,053,470
Covered bonds	NZ	30,522,883
Total covered bonds		**236,654,473**
Central governments and central banks	AT	62,900,242
Central governments and central banks	BE	5,244,386,182
Central governments and central banks	BG	15,619,660
Central governments and central banks	CY	26,504,342
Central governments and central banks	CZ	130,700,725
Central governments and central banks	FI	100,049,175
Central governments and central banks	FR	104,717,070
Central governments and central banks	IE	10,050,507
Central governments and central banks	IT	138,931,401
Central governments and central banks	LU	9,158,244
Central governments and central banks	NL	22,084,864
Central governments and central banks	PL	135,577,516
Central governments and central banks	PT	72,761,768
Central governments and central banks	SI	89,457,301
Central governments and central banks	SK	239,607,652
Total central governments and central banks		**6,402,506,648**
Regional and local governments	BE	773,626,244
Regional and local governments	CA	38,052,251
Regional and local governments	DE	35,370,593
Regional and local governments	ES	36,672,019
Total regional and local governments		**883,721,107**
Secured by real estate	BE	7,442,561,295
Secured by real estate	CH	1,693,174
Secured by real estate	CN	1,125,860
Secured by real estate	DE	1,969,969
Secured by real estate	ES	1,804,644
Secured by real estate	FR	5,631,246
Secured by real estate	GB	1,381,644
Secured by real estate	LU	3,634,825
Secured by real estate	NL	12,909,324,176
Secured by real estate	US	1,105,755
Secured by real estate	Other	7,855,241
Total secured by real estate		**20,378,087,830**

Information on remaining lives by IFRS category can be found in the IFRS financial statements. The table below gives the remaining (average weighted) lives of certain Basel II categories. In the 'institutions' category, the remaining life is of financial instruments with a minimum term 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 as of 31 December 2012

	Remaining life in years
Central governments and central banks	2.34
Regional and local governments	2.44
Institutions	1.90
Corporates	1.53
Retail customers	0.87
Secured by real estate	17.61
Past due amounts	0.36
Covered bonds	2.60
Securitization positions - ABS	1.23
Securitization positions- MBS	4.72

5.5. Disclosure on doubtful risk positions

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

Table 15: Geographic breakdown of past due exposures at year end

Country	Past due exposure 2011	Past due exposure 2012
BE	186,837,070	171,773,308
NL	42,968,748	61,423,986
Other	1,730,906	1,729,541
Total past due exposure	**231,536,724**	**234,926,835**

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

The individually determined impairments amount to € 44,921,924 as of 31 December 2012. The table below shows the evolution and breakdown into assets classes of the above-mentioned impairments.

Table 16: Evolution of individually determined impairments

	Opening balance 31 December 2011	Increase via P&L	Reversal via P&L	Closing balance 31 December 2012
Consumer credit				
Mortgage loans	27,988,081	28,600,610	-24,448,148	32,140,543
Term loans	795,309	654,327	-651,074	798,562
Demand deposits / advances	8,594,814	2,954,637	-3,178,753	8,370,698
Other lending receivables	381,342	314,643	-240,121	455,864
Total	**40,688,716**	**33,798,724**	**-29,565,516**	**44,921,924**

In 2008, a general impairment, in the form of an IBNR provision, was created for the first time. This amounted to EUR 2,339,256 as of 31 December 2011 (the calculation method has already been explained in 5.2. 'Approaches and methods for determining impairments' and has evolved to EUR 3,007,049 as of 31 December 2012.

The table below shows the IBNR provision as internally calculated by the Company per specific mortgage portfolio on an Exposure at Default (EAD) basis.

Table 17: IBNR provision

Portfolio	31 December 2011		31 December 2012	
	EAD	IBNR	EAD	IBNR
Belgium	5,257,249,989	312,505	6,079,707,836	410,497
Netherlands	8,018,499,065	861,381	9,524,119,711	1,710,520
Green Apple	2,918,156,809	260,021	2,692,278,611	368,329
CBHK (Belgium)	809,459,665	905,348	662,369,940	517,703
Total		**2,339,256**		**3,007,049**

Total impairments and provisions in respect of lending amounted as of 31 December 2012 to EUR 47,928,973, made up of EUR 44,921,924 of individually determined impairments and a general provision of EUR 3,007,049.

The table shows the changes in individually determined impairments and their impact on the income statement (see 'total impact' column) for 2012.

Table 18: Impact of impairments on the income statement

	Opening balance 31 December 2011	Increase via P&L	Reversal via P&L	Closing balance 31 December 2012	Recoveries via P&L	Direct derecogni-tion	Collective provision	Total P&L impact
Consumer credit								
Mortgage loans	27,988,081	28,600,610	-24,448,148	32,140,543	-276,720	2,885,033	667,794	7,428,569
Term loans	795,309	654,327	-651,074	798,562	0	87179	0	90,432
Demand deposits / advances	8,594,814	2,954,637	-3,178,753	8,370,698	-467,683	1,169,362	0	477,563
Other lending receivables	381,342	314,643	-240,121	455,864	0	12,728	124,914	212,164
Total loans and receivables	**40,688,716**	**33,798,724**	**-29,565,516**	**44,921,924**	**-858,347**	**4,436,326**	**792,708**	**8,603,895**

Overall there is a negative impact of EUR 8,603,895 on the IFRS income statement (compared with a negative impact of EUR 4,423,968 as of 31 December 2011).

DISCLOSURES CONCERNING THE USE OF THE STANDARD APPROACH

6. Disclosures concerning the use of the standard approach

Those financial institutions which also use the standard approach in calculating their capital requirements to cover credit risk are required to provide, among other things, the following specific disclosures (circular PPB-2007-CBP, title XIV, art. XIV.7)

In 2012, the Company performed calculations using both the standard approach and the IRB approach, and for this reason the results of both approaches will be disclosed.

However, as of the end of 2012, the result of these calculations will, under the transitional (F)IRB rules, be replaced by a capital requirement calculated according to Basel I principles.

6.1. Use of rating agency ratings

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

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

Table 19: Basel II categories for which ratings are used at year-end

Exposure category	31 December 2012
Central governments and central banks	6,402,506,649
Regional and local governments	883,721,107
Public entities	0
Institutions	3,675,679,183
Corporates	1,068,807,337
Covered bonds	0
Securitization positions	866,597,627

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

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

As of 31 December 2012, there was an exposure of EUR 249,674,922 for the derivatives (swaps and caps) shown on its balance sheet. This exposure (potential replacement value) was calculated in accordance with the above-mentioned mark-to-market valuation method.

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

This percentage is determined as follows, based on the remaining life:

- one year or less 0 %
- one to five years 0.5 %
- more than five years 1.5 %

The exposure on derivatives, in each case with a financial institution counterparty, can be found under the 'institutions' category. The RWA amounted to EUR 93,250,488, giving a capital requirement of EUR 7,460,039 for these derivatives.

Collateral management

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

As of 31 December 2012, a (nominal) EUR 561,965,000 of securities were pledged as collateral, EUR 4,040,000 of cash was transferred as collateral and EUR 48,670,000 of cash was received as cash collateral for the above-mentioned derivatives.

6.3. Other credit risk-related risks

Counterparty Risk

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

Collateral

The Company receives collateral as part of its lending activity. This takes the form mainly of the registration of mortgages on property and financial assets pledged as collateral for retail credit lending. The Company has also given collateral security against certain assets in the exercise of its activities. In 2012, collateral was provided for repo transactions and in the context of derivatives.

Wrong-way risk

General wrong-way risk is risk that arises when the likelihood of counterparty default correlates positively with general market risk factors. As previously mentioned in this document, the general policy on credit risk and concentration risk is set out in the 'financial risk' and 'credit risk' policies. By means of this policy, the Company seeks to limit these risks, with the impact of possible positive correlation with general market risk factors being limited by a general spread of risk over, for example, several asset classes and several counterparties.

Equities risk

The Company does not invest in individual equities. As of 31 December 2012, a limited number of investment fund units and some (historically purchased) equities were recorded as 'financial assets'. These financial assets were classified under 'other items' and were weighted at 150 %.

The other investment fund units were classified under 'undertakings for collective investments' (UCI). These units (in investment funds which the Company actively promotes) appeared on the balance sheet with the issue of new sub-funds. The most recent new sub-fund appeared on the balance sheet in June 2007, and since then, the only changes in the UCI item have been from the sale of fund units. UCIs are weighted at 100 %.

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

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

7.1. Credit risk - (F)IRB approval

The application to use the (F)IRB method for calculating the capital requirement for the mortgage portfolios was discussed at the Belgian supervisory authority's executive committee meeting of 22 September 2009.

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

In 2012, further conditional approval (NBB letter of 4 July 2012) was received for using the (F)IRB approach for calculating the capital requirements for the credit risk of corporates, institutions and covered bonds portfolios.

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

Basel II is a constantly evolving process within the Company. As in previous years, systematic efforts were made to meet all regulatory and internal requirements and to optimize the existing applications.

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

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

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

The PD model assigns a score to each loan file. This scoring is based on variables with associated modalities relating to both product and borrower criteria. Based on these scores, risk classes are formed. Each risk class is coupled to a long-term PD, which is the historic average default rate, corrected in certain cases 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 development) and is revised and adjusted during the annual review.

LGD models were developed for estimating the size of the loss. This LGD pooling is also based on several variables. Each LGD pool is assigned an average LGD rate. In this way, each outstanding loan in the portfolio is placed in a specific LGD pool and is assigned the average LGD rate for the pool. This estimate takes into account aspects such as property values and the NHG guarantee (as credit risk mitigation elements). The historic averages are corrected to reflect any economic downturn.

The EAD is the amount owed to Argenta by the customer at the time of default. This includes the outstanding capital at the time of default, past due capital repayments and interest from the past due date to the date of default, delayed payment interest and the reinvestment fee.

No models have been developed for calculating a 'Credit Conversion Factor' (CCF) for unused credit lines and offers in the pipeline, as it was decided to use a CCF factor of 100 % until further notice. CCF models estimate the proportion of off-balance sheet liabilities to be included as soon as a customer goes in default.

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

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

For exposures to corporates, institutions and covered bonds, an internal rating system is implemented to assess and evaluate the Basel II PD parameters. The rating model assigns a score or rating to each counterparty based on qualitative and quantitative variables. The link between the rating and the PD is re-determined during a calibration process, and reviewed annually, based on historical bonds.

7.2.2. Integration of the Basel II parameters

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

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

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

The operational loans departments are tasked with granting and managing loans in accordance with the authorization and acceptance frameworks and the loan approval and management procedures applicable to each product and/or jurisdiction. They operate in a fully Basel II-compliant manner, that is, they actively use the PD, LGD and EAD models and in their processes and procedures and devote the necessary time and attention to the effective embedding of all relevant Basel II standards and rules.

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

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

The CRA department of the Treasury and ALM division provides an analogous monitoring process regarding the performance of the models for exposures to corporates, institutions and covered bonds.

This process and the underlying tasks and responsibilities were also established in a comprehensive 'review of internal credit risk models' policy. This policy aims to verify that the internal credit risk models indicate correctly the risk levels of the credits to which they relate, via:

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

7.2.3. Organization of the (F)IRB implementation process

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

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

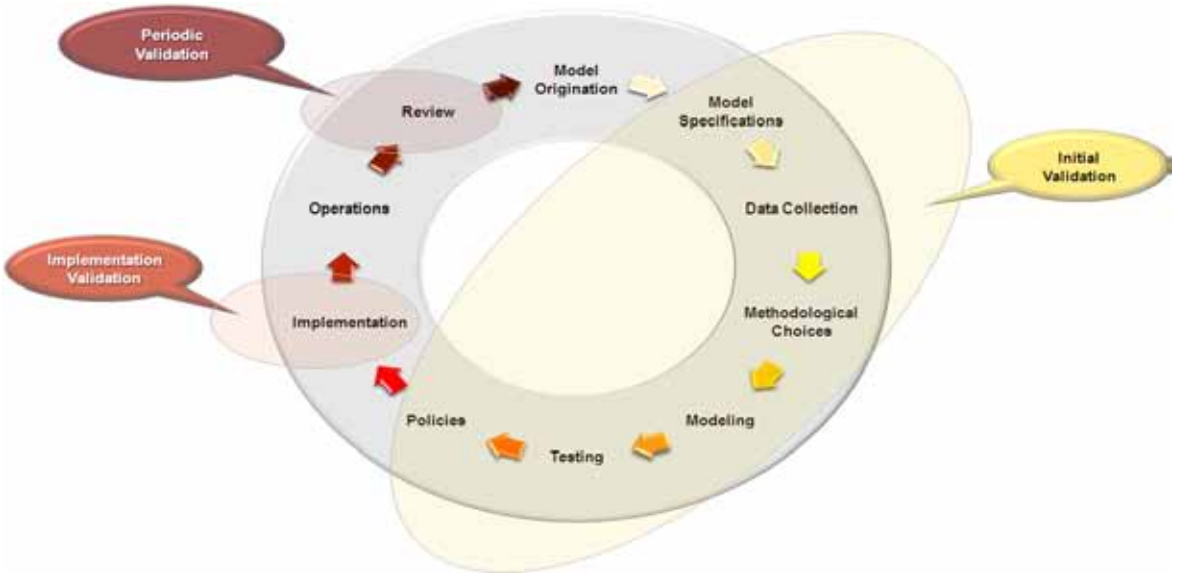
For the models for exposures to corporates, institutions and covered bonds, the first-line function is exercised by the CRA department of the Treasury and ALM division.

Within the governance framework for managing credit risk models, and within the project systems designed for this purpose, the cross-company Risk division provides assistance in the (further) development of the internal models. In this process, the Risk division provides support to Credit Risk Management in the form of project management activities. In addition, the Risk division exercises a second-line control, consisting of a critical evaluation of the first-line reports, and carrying out (independent) risk checks on the same reports.

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

The validation of the models is undertaken by the internal validator (validation unit) that reports hierarchically to the CRO. The validator (validation unit) is independent here of both the business and the developers/modellers.

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



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

After approval, the models are implemented in the systems. Implementation validation is intended to investigate whether the implemented model is the same as the one that was initially developed and approved. Implementation validation relates both to the implementation within the organization as well as to the technical implementation in the institution's own IT environment, with particular attention to the use test aspects.

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

Credit Risk Management and Treasury & ALM analyse (as already noted) the frequency, reasons and sorts of appeals against model outcomes and the way these are handled. They also draw up the (generally) annual review report on the models. The review report proposes targeted actions for optimizing the performance of models such as the addition of supplementary variables. In this way, models are adjusted or recalibrated.

Internal audit

Internal audit has, over the past few years, continuously undertaken audits in respect of Basel 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), covering all the minimum requirements which an internal ratings-based approach must meet.

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

The validator plays the role of a party who is independent of the model development and of the business which the credit risk models validate. The validator's task is clearly defined and described in detail in a model management governance framework.

Stress tests

Besides implementing and reporting on the back testing of the internal measurement systems used to determine PD, LGD and EAD, Credit Risk Management and Treasury and ALM undertake stress tests in collaboration with Risk.

Stress testing consists of measuring 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 the credit risk in the mortgage portfolios with the following aims:
- to determine the effects on capital adequacy, its own rating and the amount of potential losses;
- to determine how far a buffer needs to be formed to absorb stress scenarios;
- to gain insight into the relationship between macroeconomic variables and the parameters that determine credit risk, and
- to meet the requirements imposed by the supervisory authority.

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

7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

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

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

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

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

For the Dutch portfolio, new internal models were developed. The new PD model has eight variables and the LGD model is based on historical averages. Use testing will take place during 2013, after which effective deployment is scheduled to start from 1 January 2014.

Pooling – allocation to risk classes

The individual exposures are each assigned to a PD risk class (10 PD classes for the Aspa credits, 8 for CBHK credits and 10 for the Dutch sub-portfolio). Defaulted loans are classified into the default class. Each class or pool in the portfolio in question consists of loans with a similar risk profile. The best risks are those in class 1, the worst in the lowest class (the default class).

The intention, in determining the number of risk classes, was to divide loans into a maximum number of risk classes that are significantly different from each other.

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

The deployment plan for extending the (F)IRB approach to the Bank Pool's investment portfolio was further pursued in 2012.

As mentioned in Chapter 2.3 'Credit risk', the use of the rating tool was further intensified. All debtors in the portfolios of exposures to corporates, institutions and covered bonds are now assigned an internal rating pursuant to the internal governance procedure. These internal ratings were also ratified or decided by a rating committee.

The underlying rating models for the low default portfolio were developed by S&P, with some twenty variables taken into account for each debtor.

Internal ratings are always based on two pillars: in addition using statistically-based expert judgement models, fundamental risk analyses are undertaken for each debtor and subjected to independent second-line controls. The calibration of the PD values associated with the internal ratings is undertaken on the basis of historical data.

After several parallel runs, the (F)IRB approach came into effective use for calculating the capital requirement for the credit risk of exposures to corporates, institutions and covered bonds.

Along with further developing all the set conditions, the follow-up stage also involves working out an 'internal rating approach' for exposures to central, regional and local governments.

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

7.4. Exposures – (F)IRB method

The table below shows the exposure, average PD, average LGD, RWA and average risk weight of the mortgage portfolios as of 31 December 2012.

Table 20: Mortgage exposures by the (F)IRB method

	Exposures	Av. PD %	Av. LGD %	RWA	Av RW %
Total exposure	**23,396,596,087**	**1.74 %**	**14.05 %**	**2,945,630,171**	
Balance sheet items	22,972,006,494	1.77 %	13.79 %	2,841,602,689	12.37 %
Provisions	-22,419,722				
Off-balance sheet items	197,334,393	0.46 %	5.19 %	10,776,994	5.46 %
Derivatives	249,674,922	0.13 %	45.00 %	93,250,488	37.35 %

This table contains the effective LGD percentages. In the RWA calculation of the mortgage loans, however, the required LGD floor of 10 % is used instead of the actual one.

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

The following table gives the calculated expected loss (EL) for each mortgage sub-portfolio, based on both the actual LGD and the 10 % LGD floor

Table 21: EL calculated for each sub-portfolio

	ASPA	CBHK	Netherlands	Total
Total provisions included	4,853,521	9,391,545	8,174,656	22,419,722
ELeff lgd	7,076,204	11,547,431	16,857,740	35,481,375
> non-defaults	2,222,683	2,155,885	8,683,084	13,061,653
> defaults	4,853,521	9,391,545	8,174,656	22,419,722
$EL_{lgd\ floor}$	10,085,095	11,783,511	18,345,438	40,214,044
> non-defaults	5,231,575	2,391,965	10,170,782	17,794,322
> defaults	4,853,521	9,391,545	8,174,656	22,419,722

As of 31 December 2012, the total EL (with the effective LGD) for both defaults and non-defaults was EUR 35,481,375. Applying the LGD floor of 10 % gives an EL of EUR 40,214,044 (as included in equity table 90.04).

For the individual credits in the lowest PD class (the default class), individual provisions of EUR 22,419,722 were set up. Since 2008, a collective IBNR provision has also been set up for those mortgage portfolios for which IRB models were developed. This IBNR provision amounted to EUR 3,007,049 as of 31 December 2012.

By applying the 80 % floor, the risk weighted assets (RWA) and capital requirements calculated under Basel II are in fact 'overruled' by the capital requirements calculated by the Basel I principles.

Table 22: Total capital requirements as at year end

	31 December 2011	31 December 2012
Credit risk – standard method	191,909,377	71,157,805
Credit risk – IRB method	125,560,073	235,650,413
Securitization – standard method	5,498,430	3,822
Securitization – IRB method	10,184,535	24,329,463
Operational risk	33,082,062	33,610,934
Total capital requirements	366,234,477	364,752,437
Capital requirements according to Basel I principles	657,783,865	675,634,991
Application of the 80 % floor	532,915,705	540,507,993
Effective capital requirements	532,915,705	540,507,993

DISCLOSURE CONCERNING OFF-BALANCE SHEET ITEMS

8. Disclosure concerning off-balance sheet items

The off-balance sheet items can be classified into two groups according to the RWA calculation of the credit risk:

- off-balance sheet items, the most important categories being: guarantees provided, loan commitments and unused portions of credit lines;
- derivatives: the Company has only derivatives concluded within the framework of ALM management (hedging).

There are several methods for calculating the weighted risk assets for the above-mentioned items. For derivatives, the Company uses the mark-to-market method. This calculation approach was already presented in Chapter 6.2. 'Derivatives'.

Outside the swaps entered into in the context of the securitization operations (Chapter 11. 'Disclosure concerning securitization'), the only other derivatives (swaps and caps) are those entered into to hedge the interest risk.

For the other off-balance sheet items, Basel II provides for the use of conversion factors (CCF). This conversion factor amounts to 50 % or 100 % for the guarantees (depending on type). This has the effect of reducing the exposure from that shown on the balance sheet.

Loan commitments and the unused portion of confirmed 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 exposure of EUR 249,674,922 for 'derivatives', there was an exposure of EUR 1,102,045,460 as of 31 December 2012 for 'other off-balance sheet items'.

These consisted of guarantees in an amount of EUR 3,509,008 (non-loan replacing guarantees) and EUR 2,826 (loan replacing guarantees). In addition, there were EUR 1,000,952,601 of loan commitments and unused portions of confirmed credit lines and EUR 3,091,536 of off-balance-sheet security portfolio transactions.

Table 23: Exposures, weighted risk assets and capital requirements for off-balance sheet items (excluding derivatives) by credit conversion factor (CCF) as of 31 December 2012.

	IRB	20 %	50 %	100 %	Total
Exposure	197,334,393	875,440,542	26,176,163	3,094,362	1,102,045,460
Risk weighted assets	10,776,994	120,189,506	8,511,835	104,783	139,583,118
Capital requirement	862,160	9,615,160	680,947	8,383	11,166,649

DISCLOSURES CONCERNING INTEREST RISK

9. Disclosures concerning interest risk

Information on interest risk was already provided in Chapter 2 'Risk management' (under 'financial risk').

In this chapter, further information is given on the assumptions made by the Company in the monitoring and management of interest risk. The Company calculates and reports on a quarterly basis the interest risk linked to non-trading activities, according to the directives of the prudential supervisory authority NBB (table 90.30 as per circular PPB-2006-17-CPB).

Interest 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 institution's balance sheet not belonging 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 risk in the model are in principle based on economic variables and expectations. When measuring interest risk, it is important to be able to report both from an income perspective (via the interest earnings) and from an economic value perspective.

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

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

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 duration of an interest-bearing instrument, taking into account both the capital repayment date(s) and the periodicity of coupons of all assets and the duration of all liabilities, also known as 'mismatch'. The greater the mismatch, the greater the interest sensitivity. Given its simplicity, the duration gap is used alongside economic value and interest earnings.

All material sources of interest risk are included. This implies that the 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 interest rates. This choice is justified as reflecting a 'market consensus' as to the future development of interest rates. The Company assumes that these market data develop in an efficient market and that are the best predictor of the future.

However, ALCO can always decide to deviate from this approach. In this case, the decision is clearly explained in the meeting of the executive committee, which will ratify the decision, and report it to the supervisory board.

The spot swap-curve of the reporting date is used for the calculation of economic value. No margin is applied to swap rates, neither for assets, nor liabilities. In this way, changes in the credit risk remain clearly distinguished from changes in interest risk resulting from mismatching.

The interest risk management system serves to calculate the impact of well-defined (stress) scenarios. These scenarios all depart from the same conservative hypothesis of zero balance sheet growth (thereby assuming that the current balance sheet mix is maintained).

DISCLOSURES CONCERNING INTEREST RISK

Assumptions concerning the behaviour of deposits with no fixed maturity

For liabilities which in principle are callable daily, but which customer behaviour shows to remain (on average) for considerable lengths of time on the accounts in question, notwithstanding relatively major movements in market interest rates, the following durations are applied for the economic value calculation:

- Regulated savings accounts: 2 years;
- Current accounts: 5 years;
- Savings accounts in the Netherlands: 2 years.

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

- Regulated savings accounts: 70 % of the change in market interest rates when interest rates rise and 100 % when interest rates fall, in each case with a lag of six months in respect of the interest rate change;
- Current accounts: not sensitive to market interest rate fluctuations for 5 years;
- Savings accounts in the Netherlands: 70 % of the change in market interest rates when interest rates rise and 100 % when interest rates fall, in each case with a lag of six months in respect of the interest rate change.

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

In the context of interest risk management, the Company recognizes three 'embedded options'.

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

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

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

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

Explicit options are treated by preference on the basis of economic reality. This means marking to market and recognition of the real cash flows 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 applied for. On the other hand, in the case of decreasing market interest rates, the customer can opt for the tariff which applies immediately before the legal documents are executed.

In this period, in which loans have been confirmed for which the rate is not yet established, pipeline risk arises. Where the pipeline amount is significant, refinements need to be done outside the standard modelling in order to fine-tune the global interest risk.

The Company's ALM department reports monthly on interest risk at the corporate level and quarterly at the consolidated level. In the absence of non-euro investments, reporting is limited to euro reporting.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

10. Internal Capital Adequacy Assessment Process (ICAAP)

The dynamic growth of the financial markets and the increasing 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 for the limiting and targeted control of the Company's exposure.

In addition to describing methods for calculating the regulatory capital requirements (quantitative requirements), the Basel II agreement places increased stress on risk management and integrated group-wide management (qualitative requirements). The Company is obliged to implement adequate procedures and systems aimed at guaranteeing its long-term capital adequacy, taking into account all material risks.

These procedures are known internationally as the ICAAP (internal capital adequacy assessment process). The goal of the Argenta Group's risk management is to have the best possible capital structure and risk control, equal to that of the major market players, and with which at the same time it continues to meet the statutory capital requirements.

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

The Company has always pursued a policy of self-financing. To retain a level of capital that provides sufficient scope to support growth and meet the financial and operational risks, the Company seeks to satisfy its potential capital requirements with (a) retained earnings, (b) possible capital increases, and (c) subordinated alternative Tier I and Tier II loans.

In addition, it may also be decided to lighten the balance sheet by securitizing part of the retail loan portfolio.

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

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 correct identification and measurement of the risks to which it is exposed;
- the maintenance of adequate internal capital in line with the bank's risk profile;
- the use and further development of risk management systems.

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

In 2012, the Company continued to invest in the economic capital models, and in particular to move towards the allocation of economic capital (to entities and products) and prospective capital planning. This allocation is intended to permit further product evaluation by including the economic cost of capital, based on the real risk. In the prospective capital planning, the business plan is subjected to a risk test and different simulations are made to investigate the impact on the business plan and the capital situation and to achieve improved control.

The calculations according to the Basel II rules (pillar 1) for capital management are reported 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 also after 2012. 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, including a timetable, in respect of the Basel III rules. Basel III imposes stricter rules on capital adequacy, liquidity and leverage, which will be gradually apply. The Basel III rules are not yet effective as of the end of 2012 but are already part of the RAF.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

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

This results in a direct link between the ICAAP calculations and the economic capital adequacy ratio (99.90 %) from the RAF. Regarding the available economic capital versus the required economic capital a minimum limit of 100 % is provided, but the aim is a ratio of at least 130 % so that the Company always has a comfortable capital situation.

Calculation of the required economic capital is followed by the Supervisory Review and Evaluation Process (SREP), whereby the supervisory authority reviews the effect of the ICAAP process.

In practice, the SREP consists of the control and evaluation of the Company's ICAAP, the result of an independent test of the risk profile and, if necessary, preventive measures and other actions by the supervisory body.

In 2012, systematic consultations were held with the supervisory authority in the framework of the SREP.

DISCLOSURES CONCERNING SECURITIZATION

11. Disclosures concerning securitization

11.1 Objectives of the Company

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

Both securitization transactions related to the securitization of a portfolio of Dutch residential mortgage loans with NHG guarantees via the Green Apple SPV.

The objective of the first securitization was to attract new funding (tapping into a new source of funding) with a view to improving the liquidity position.

The objective of the second securitization was to convert mortgage loans into ECB-lendable assets. This was also clearly reflected in the fact that the Company itself purchased all the securities (issued by the Green Apple SPV). At a consolidated level, these securities issued by Green Apple do not appear because they are eliminated in the consolidation of the Green Apple SPV.

Principal characteristics of the securitization transaction SPV Green Apple 2007-I NHG

- securitization of EUR 1.5 billion of Dutch residential NHG mortgage loans;
- issuing by Green Apple of three classes of bonds (GAPPL 2007-1 A XS0322161026, GAPPL 2007-1 B XS0322161299 and GAPPL 2007-1 C XS0322161299);
- amortizing front and back swap of nominal EUR 1.41 billion with RBS as counterparty;
- purchasing of tranches B (EUR 10.5 million) and C (EUR 3 million) by the Company itself.

Principal characteristics of the securitization transaction SPV Green Apple 2008-I NHG

- securitization of EUR 1.975 billion of Dutch residential NHG mortgage loans;
- issuing by SPV Green Apple of three classes of bonds (GAPPL 2008-1 A XS0406581495, GAPPL 2008-1 B XS0406581735 and GAPPL 2008-1 C XS0406582030);
- amortizing front and back swap of nominal EUR 1.32 billion with RBS as counterparty;
- purchase of tranches A, B and C by the Company itself.

11.2. Role in securitization transactions

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

In the case of the two securitization operations initiated by the Company, the issuer was a SPV, set up under Dutch legislation, named Green Apple BV. This company purchased the loans credits and issued bonds with which to pay for this purchase.

For the securitization operations of Green Apple SPV, Fitch Ratings Ltd. (Www.fitchratings.com) was in each case appointed as credit rating agency. The notes are listed on the Luxembourg stock exchange, where the ratings can be consulted on the basis of the ISIN codes.

In 2012, a rating was obtained for both operations from a second rating agency, Moody's Investors Service (www.moodysratings.com). In this way, the securities in question can serve permanently as ECB-eligible financial instruments.

The Green Apple SPV is administered by ATC Management Services, an independent Dutch company specializing in securitization operations and trust management.

For both securitization transactions, the Company initially granted Green Apple a subordinated loan (subordinated loan provider): EUR 2 million with the first securitization transaction, and EUR 1 million with the second securitization

transaction, under a Subordinated Loan Agreement. These loans are being systematically repaid as the necessary cash becomes available.

In the first securitization transaction (Green Apple 2007-I), the Company itself purchased the B and C notes in an amount of EUR 13,500,000 (investor junior notes). With the second SPV Green Apple securitization transaction, all notes issued were purchased by the Company itself.

The portfolio servicing for both securitization transactions is performed by the Company. This competence has, however, been delegated to Stater Nederland BV and Quion Hypotheekbegeleiding BV (which were already responsible, prior to the securitization, for the servicing of the related Dutch NHG mortgage loans).

For both operations, SPV Green Apple entered into an interest rate swap with a counterparty, which will receive 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 have systematically concluded a back-to-back (BtB) swap with the Company.

A more detailed description of all tasks in the two securitization transactions can be found in the Structured Finance documentation created by rating bureau Fitch Ratings Ltd. The notes are also listed on the Luxembourg stock exchange, so that further information on them can be found based on the ISIN codes.

The company is in addition involved to a limited extent in securitization operations in its role as investor.

11.3. Basel II approaches applied

The company applies the rating-based approach for calculating the capital requirements for the (purchased) securitization securities. The Green Apple SPV is fully consolidated under IFRS. In this way the underlying Dutch mortgage loans with NHG guarantee return to the balance sheet.

Under the Basel I and II regulations, the Company holds capital (on both unconsolidated and consolidated levels) for the portion of the loans not guaranteed by the NHG. Selling the portfolio has not caused a free fall in necessary capital since the loans sold to Green Apple are also included in the Company's unconsolidated exposure.

11.4. Accounting policies

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

The financial assets involved in a securitization are no longer (fully or partially) accounted for in those cases where the Company transfers virtually all risk and income from the assets or parts of the assets.

11.5. Securitization exposure (as part of the investment portfolio)

Besides the securitization transactions performed by Argenta itself and described above, the Company holds, as part of its investment policy, a number of asset-backed and mortgage-backed securities. As from 30 June 2012, these positions (except for the guaranteed positions) are accounted for by the IRB method under the exposure category 'securitization positions'. Based on the ratings of the securities involved, they are assigned a RWA percentage.

As already explained, these calculations are, however, 'overruled' by the 80 % floor on the capital requirement calculations in accordance with the Basel I principles during the IRB transitional period.

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

Table 24: Geographical classification of the securitization positions

Exposure category	Country	Exposure
MBS	BE	78,680,139
MBS	ES	62,611,977
MBS	IE	14,935,362
MBS	NL	653,455,238
ABS	ES	35,731,095
ABS	IT	47,775
ABS	US	21,136,041
Total securitization positions		**866,597,627**

The following table gives an overview of the securitization positions involved, with their ratings, their EAD and the total capital requirements.

The securitization portfolio as of 31 December 2012 consisted of ABSs in a total amount of EUR 56,914,910 and MBSs in a total of EUR 809,682,717.

DISCLOSURES CONCERNING SECURITIZATION

Table 25: Ratings, EADs and capital requirements of securitization positions as of 31 December 2012

Rating 1	Rating 2	Rating 3		ABS	MBS	Total
AAA	Aaa	AAA	EAD	21,136,041	90,123,029	111,259,070
			Capital	358,467	534,970	893,438
		-	EAD		268,582,263	268,582,263
			Capital		1,594,304	1,594,304
	-	AAA	EAD		18,473,962	18,473,962
			Capital		109,661	109,661
AA-	Aaa	AAA	EAD		37,540,433	37,540,433
			Capital		222,840	222,840
	A3	-	EAD		5,442,184	5,442,184
			Capital		92,299	92,299
		BBB	EAD	10,313,933		10,313,933
			Capital	306,118		306,118
	Baa2	A	EAD		4,953,886	4,953,886
			Capital		50,411	50,411
	Baa1	-	EAD		4,576,653	4,576,653
			Capital		135,835	135,835
A+	Aaa	AAA	EAD		6,128,692	6,128,692
			Capital		36,380	36,380
A	Aa3	-	EAD		1,750,328	1,750,328
			Capital		17,811	17,811
	A3	-	EAD		8,535,521	8,535,521
			Capital		144,762	144,762
	B1	-	EAD		3,215,936	3,215,936
			Capital		3,215,935	3,215,935
A-	Baa3	-	EAD		3,044,215	3,044,215
			Capital		258,149	258,149
BBB-	Baa1	BBB	EAD	25,417,162		25,417,162
			Capital	1,616,531		1,616,531
BB+	Baa1	-	EAD		4,179,868	4,179,868
			Capital		886,132	886,132
B	Ba1	-	EAD		11,891,148	11,891,148
			Capital		11,891,145	11,891,145
-	Aa1	AAA	EAD		368,721	368,721
			Capital		2,501	2,501
	Aaa	AAA	EAD		309,167,948	309,167,948
			Capital		1,835,221	1,835,221
	A3	AA-	EAD		4,845,760	4,845,760
			Capital		82,184	82,184
		-	EAD		3,627,094	3,627,094
			Capital		61,516	61,516
	Baa2	A	EAD		8,805,251	8,805,251
			Capital		448,011	448,011
		A-	EAD	47,775		47,775
			Capital	3,822		3,822
	Baa1	AA-	EAD		14,429,825	14,429,825
			Capital		428,277	428,277
Total EAD				**56,914,910**	**809,682,717**	**866,597,627**
Total capital requirement				**2,284,938**	**22,048,347**	**24,333,285**

The portfolio of securitized positions decreased (net) from an exposure of EUR 930,987,580 as of 31 December 2011 to EUR 866,597,627 as of 31 December 2012.

Applying the weighting percentages to the EUR 866,597,627 of securitization positions, and then the 8 % requirement, a capital requirement of EUR 24,333,285 was arrived at for these purchased securitization positions.

Securitization positions are systematically screened as part of credit risk management. Based on this examination, based among other things on the periodic reports of the issued securities, a collective impairment of EUR 1.46 million was applied as of 31 December 2012.

CONCLUDING DISCLOSURE

12. Concluding disclosure

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

The Company does not use the Advanced Measurement Approach for operational risk, so no additional disclosures are included on this subject (as described in Section XIV, Chapter 2, Art. XIV 8 § 1, § 2 and § 3 of circular PPB-2007-CPB of the Belgian supervisory authority).

The credit risk mitigation risks 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 a 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.

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