



Pillar 3 disclosures 2013

Capital adequacy and risk report





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1. Introduction

1.1. Profile of Argenta Savings Bank

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 Belgïelei 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 2012	31 December 2013
Argenta Spaarbank nv	-	consolidating entity	consolidating entity
Argentabank Luxemburg SA (ABL)	99.71 %	full consolidation	full consolidation
Argenta Nederland nv (Arne)	100 %	-	full consolidation
Green Apple bv (SPV)	0 %	full consolidation	full consolidation

The company Argenta Nederland (ARNE) is a management company (beheermaatschappij) under Dutch law and has issued bonds in the past. Last year, the company was still a direct subsidiary of the management holding company Argenta Bank- en Verzekeringsgroep (hereinafter BVg), but in December 2013 came directly under the company.

Although there is no capital link with the Company, the Board of Directors 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 uses a three pillar concept. 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)').

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



Further developments



On 20 June 2013², the European Council adopted the new CRR / CRD IV, to come into effect on 1 January 2014. These rules (so-called 'Basel III') impose stricter rules on solvency, liquidity and leverage, to be implemented gradually. The focus here is on strengthening to capital buffers and improving their quality.

This legislation is just one step in a process of changes to the regulatory framework. CRD IV is expected to lead to changes in national laws and regulations, monitoring policies and the behaviour of the institutions, with the ultimate goal of a safer and more stable financial system.

Within the European Union, these regulations are implemented through the above-mentioned Capital Requirement Regulation (CRR). This is European legislation that directly enters into force at the national level. It transcends national law and does not need therefore to be transposed in order to come into force. The Capital Requirement Directive IV (CRD) contains guidelines that do have to be translated into national laws.

Throughout this document we discuss the impact of some of these developments on the Company. In the course of 2014, the competent institutions concerned will, however, systematically provide greater clarity on the concrete implementation of some of the requirements.

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's activities. Demonstrating that adequate risk management procedures are in place is a key condition for acquiring and retaining the trust of all stakeholders: customers, investors, branch managers, supervisory authorities, as well as directors, management and employees.

The strategy and long-term policy of all entities within the Argenta Group is determined by the Executive Committee and the Board of Directors 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 are integrated, 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 2013. This process has already more than proved its worth.

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

- ⇒ The RAF is a transparent 'flashing light' system in which the daily risk management for each risk category is monitored based on three indicators (green, yellow and red flashing lights);

There is a direct relationship here between the risk parameters of the RAF and the ICAAP (Internal Capital Adequacy Assessment Process). The RAF indicators are translated into operational risk limits in the policy documents. As a result, risk awareness in the first line in the company is embedded in everyday practice.

The following policy documents, among others, were approved in 2013:

- With regard to key functions: the Suitability of Key Executives Charter ('Fit & Proper' charter), the Compliance Charter, the Risk Management Function Charter.
- With regard to Operational Risk: the Information Safety policy and the Business Continuity Management policy.
- The Treasury and ALM policy was updated and shows that the embedding of the RAF has come up to speed with the policy expansion into new asset categories.

As well as optimizing risk governance, the risk metrics were also greatly improved. In this process, the RAF risk parameters were refined by assigning an overall risk score and by introducing a new internal control maturity matrix.



In 2013, regular consultations took place with the relevant supervisory authorities. These included the following topics:

• **SREP (Supervisory Review & Evaluation Process)**

The ICAAP results were compared with the SREP, that is the assessment of risks and capital requirement undertaken by the National Bank of Belgium (NBB) according to its own internal methodology. The exercise occasioned no fundamental observations about the ICAAP with respect to structure and risk measurement.

• **RRP (Recovery & Resolution Plan)**

In order to be better prepared to manage any crises, national supervisory authorities are asking all system-important banks to establish recovery plans. These plans need to pro-actively identify the various restoration options available to an institution in order to improve its financial condition if needed. Of course, the effectiveness and impact of these recovery options need to be assessed under various stress scenarios.

The preparation of recovery plans is part of the structural reforms initiated by the G20 following the banking crisis. One of the findings was that the government was not adequately prepared and equipped to deal in an effective way with (almost) failing financial institutions.

To a timetable set by the NBB, a risk map has been produced and relevant stress scenarios have been defined and calculated. Work has also started on identifying remedial measures and developing a calculation model.

• **ECB Comprehensive Assessment**

In November 2013, the European Central Bank (ECB) and the NBB started the Comprehensive Assessment process preparatory to the transfer of banking supervision of the largest European financial institutions to the ECB. Five Belgian financial institutions will in this way fall under the direct supervision of the ECB.

This process will continue into 2014 and will include a Risk Assessment, an Asset Quality Review (AQR) and stress tests.

During 2013, the Risk Department also worked on:

- the further development of ICAAP (including forward looking);
- the implementation of the NBB-approved internal rating models for banks and corporates;
- the further integration of the Validation Unit into company-wide projects;
- contributing extensively to the external (financial) controls undertaken by the NBB, the Dutch Central Bank (DNB), the International Monetary Fund (IMF) and stress tests.



Governance

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

The risk management function supervises and controls the first line in matters of risk management and provides supporting risk advice. It is performed by the Risk Management and Validation division and is under the hierarchical responsibility and supervision of the Chief Risk Officer.

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.

Significant efforts have been 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 for the Bank Pool. This it uses also to control the (economic) capital management;
- in this way, it has a 'radar' function of pro-active identification of not-yet-identified risks;
- plays an important policy definition and validation role in risk modelling;
- undertakes the necessary formal risk controls, and in its overall capacity plays an active role in, among others, the Group Risk Committee and the Asset-Liability committee;
- advises the Executive Committees and Boards of Directors in an independent manner on the risk management process within the Argenta Group.

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

Along with second-line risk control, validation of the risk models is an essential core activity of the Risk & Validation division. The supervisory authorities require financial institutions to have the risk models they develop confirmed by an independent validator.

The activities of the Validation unit included in 2013:

- validation of the review and recalibration of the credit risk models of the mortgage portfolios of the Company, CBHK and the Netherlands;
- validation of the review, the recalibration and stress tests of the investment portfolio (more particularly of exposure to financial institutions, corporations and covered bonds).
- validation of the updating of the internal rating model for bank counterparties;
- validation of the internal rating models for central, regional and local authorities;
- validation of the savings account pricing model.



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 the above-mentioned RAF, the policies and the established procedures.

2.1. Financial risk

The financial risk (market risk) is the risk that the market 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 professional management of these risks is – given the Company's specific strategic positioning as a savings bank – especially focused on the judicious management of the interest rate risk, which is the primary component of its market risk.

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

The earnings and the gross value of the business (the difference between the investments measured at market value and the cost of financing them) is affected by the fluctuations in the interest rate curve, the intensity of which is expressed in the 'duration gap'. This parameter serves as a benchmark for the weighted interest maturity mismatch, which is a major factor in determining interest rate sensitivity.

The measuring of interest rate sensitivity with its corresponding duration gap is therefore one of the main instruments used by the Company to steer – based on its views as to future interest rate developments – its operating results, also taking into account the potential impact of an interest rate risk arising in this way on the gross value of the company as a guide to its capital position.

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



- (i) the first-mentioned way of modifying interest rate sensitivity uses standard and liquid financial instruments that are available on the capital markets, such as interest rate swaps and caps. These exogenous instruments are used, among other things, for managing the interest rate risk. They are subject to a strict policy regarding counterparty risks.
- (ii) the second series of measures relates to endogenous adjustments whereby, based on the pricing policy for deposits and retail savings certificates, the margins applied and the acceptance policy for loans in various maturity segments, the interest rate sensitivity of the portfolio can be structurally adjusted. This type of adjustment is obviously focused on the fundamental strategic positioning of the Company, while the aforementioned exogenous measures are more tactical in nature and serve to supplement the more fundamental goal of managing the balance sheet by endogenous means.

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 the Asset-Liability Committee. This has specific responsibilities for monitoring the day-to-day management of the financial positions, reporting on this to the Executive Committee. It has a permanent remit to maintain the variability of the net interest income and the market-value sensitivity of equity within set limits.

The latent interest rate risk of the balance sheet is monitored using various income and value-based risk benchmarks. The norm is based on the maximum acceptable loss in the event of a 1 % (100 basis points) change in interest rates.

Sensitivity analysis – interest risk in the banking book

The following table shows, at 31 December 2013, the interest rate sensitivity of i) the P&L (earnings) over the following 12 months and ii) the equity of the Company, in the event of a parallel interest rate shock of 100 basis points, and compares the result with a similar simulation as at the end of 2012. The interest rate shock is assumed to take place in steps: 25bp immediately, 25bp after 3 months, 25bp after 6 months, and 25bp after 9 months.

Table 2: Sensitivity analysis interest rate risk

(in K euro)	31/12/2013		31/12/2012	
	+100 bp	-100 bp	+100 bp	-100 bp
Earnings impact over 12 months	71,469,775	-25,757,310	27,098,558	8,371,551
	14.81 %	-5.34 %	7.11 %	+2.20 %
Equity impact	-118,135,214	136,635,263	-80,587,402	-14,684,444
	-3.54 %	4.09 %	-2.67 %	-0.49 %

The interest rate sensitivity of earnings over a 12-month period and of the equity of the Company comes entirely from the banking book, in the absence of any trading book.

Within the income perspective, the standard calculations are based on a static balance sheet: i.e. the outstanding positions and the balance sheet mix at 31 December are held constant.

Within the value perspective, the interest rate sensitivity of equity is measured by discounting the contractual and behavioural cash flows of assets and liabilities at the Euribor futures swap rate curve. On savings accounts with no maturity date, a duration of 2 years is assumed. For current accounts, a duration of 5 years is assumed.

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

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

All this relates mainly to optionalities, which are a principal explanation of the asymmetries in the outcome of the simulations. Another reason for asymmetry is the level of the interest rate curve. Last year the interest rate curve at the longer end of the curve rose by approximately 50 basis points. In this way, a -100bp interest rate shock hits the 0 % floor less rapidly. For this reason the positive effect of a decline in interest rates on the latent market value was higher than the previous year.

The main source of interest rate sensitivity of earnings over 12 months is the impact of a change in interest rates on savings accounts. The assumption in this scenario is a 70 % elasticity - the extent to which the interest paid on savings accounts adjusts to the market rate change - with 6 months' delay, without applying caps or floors. Under the hypothesis used, the increased share of savings accounts in the balance sheet mix had the effect of increasing earnings sensitivity.

Last year, we still worked with the assumption of 100 % price elasticity. The measurement per 31 December 2012 was therefore brought in line with this adjustment in hypothesis as a result of the update of the financial policy. In this way, a uniform basis of comparison is obtained over two years.



Last year, on an average basis, lower Constant Prepayment Rates were used in the calculations than in 2012. This is due to the annual recalibration of the prepayment model. Another supposed behaviour brings about a trade-off between short-term effects (earnings over 12 months) and long-term (equity) effects. This is magnified by interest rate shocks. At +100 bp, compared with the year before, higher earnings were measured over the first 12 months (less premature loss of return) but with lower equity (term of mortgages extends, resulting in an increasing interest period mismatch).

The revaluation of interest rate derivatives that can be formally recognized as a hedge of interest rate risk has no impact on earnings and equity at an interest rate shock of +/- 100bp. In any event, the revaluation of the hedged items generates an identical but opposite impact.

Risk mitigation strategies

In order to keep market sensitivity within the risk appetite guidelines approved by the Company's Board of Directors 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 2013. This exogenous hedging serves to supplement the maximally endogenous management of the balance sheet that is permanently striven for.

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.

Further developments in risk management

Active management and monitoring of the market risk (principally interest rate risk) are essential in order to safeguard the solvency, profitability and strategic objectives. With this in mind, work started in 2013 on two strategic projects: the ALM Replicating Model and Strategic Asset Allocation. Both projects aim to optimize the management of the balance sheet.

The ALM Replicating Model project involves developing a balance sheet management model that can integrate savings accounts in an economically and financially more logical way into the Company's operational ALM management.

A correct reflection of savings accounts in the bank's interest risk balance seeks to achieve an accurate calculation of the interest rate risks and more effective management of the balance sheet. An important criterion here is the stability of the model output under different macroeconomic conditions.

Complementary to the development of an ALM Replicating Model that gives Argenta understanding for managing savings accounts, a pricing model has also been developed for savings accounts. The objective of the model is to obtain a deeper understanding of the dynamics of savings accounts and of the explanatory variables, to help with the strategic and tactical directing savings account pricing.

The need to diversify the assets side of the balance sheet, the constant search for risk-return optimization and the impact of prudential developments explain why Argenta in 2013 started up a Strategic Asset Allocation project.

The aim of the Strategic Asset Allocation is to provide Argenta with insight and knowledge about the various asset categories so that future investment decisions for the Company can be controlled in an informed manner and optimal asset allocation can be pursued.

In 2013, an impetus was given to the further diversification of the asset portfolio with the cautious development of knowledge about new asset categories. Several financing deals were successfully concluded for local and regional public entities and public-private partnerships (PPPs) launched.

The ALM investment and decision framework was adapted to the updated investment policy, and decision-making reformed to permit efficient credit decisions without disavowing the prudent investment policy.

Despite low interest rates and spreads, the Company succeeded in 2013 in steadily growing its interest margin within the set risk appetite framework. That is the outcome of a healthy risk-return mix of housing loan production and re-investments in the investment portfolio, of a balanced liabilities pricing policy and a well-conceived hedging policy.

Both the income and the value volatility remained controlled within the contours of the limit framework. Even so, persistent uncertainty about future macro-economic developments calls for very close monitoring of interest rate and spread movements.

Equity as a risk buffer

As with any other risk, the interest rate risk requires a risk buffer in the form of equity capital. Although neither European or Belgian legislators nor regulatory authorities have to date prescribed precise capital requirements for the interest rate risk under Pillar 1, the Company specifies a certain volume of required capital in its ICAAP.

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



Earnings quality at the Company was very much improved in 2013 by the ALM policy and by the macro-economic developments. It was influenced much less than in preceding years by the effect of exogenous interest rate hedging instruments.

The combination of endogenous and supplementary exogenous ALM hedging ensures that the Argenta Group's commercial strategy (including long-term relationships with households, growth in mortgage business, and the sustainable and profitable growth in deposits) fully complies with the approved RAF.

Currency risk

The currency risk 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. Nor is there any intention of taking positions in currencies other than the euro.

Other price risks

This is the risk that the market 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. Historically, a limited number of equity funds (in the legal form of beveks or sicavs) came onto the balance sheet at year end through the Company issuing new sub-funds in existing equity funds.

A gradual sell-down of the existing positions was initiated in 2012 and by spring 2013 all positions were sold.



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 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.

As of 31 December 2013, the LCR for the Bank Pool was 258 % and the NSFR was 150 %.

- 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 (see liquidity sources below with customer deposits and savings certificates purchased by retail customers);
- total independence of interbank financing: the Company does not have to go onto the interbank market for funding;
- a controlled 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 ECB or saleable).



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 Company'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 further consolidated in 2013. Additionally, further developments in the new liquidity reporting and the reporting of the LCR and NSFR were systematically monitored and reported to the Asset-Liability Committee.

In the framework of the existing liquidity standards, liquid financial assets and liquidity inflows and outflows are systematically reported to the supervisory authority.



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 for this reason is focused on these two segments.

Credit risk management

The management of credit risks within the Bank Pool is governed by the 'Credit risk policy – retail lending', covering retail lending, and the 'Treasury and ALM policy', covering 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.

The credit risk of the mortgage portfolios remains fairly stable. The portfolio outstandings are growing significantly as a result of increasing production. For Belgium, this translates into stable arrears rates and low default rates. For the Netherlands, we see a limited increase in default rates, but still at very low absolute levels.

The risk models for Dutch loans were revised. The open risk of the Dutch portfolio is calculated and studied on a quarterly basis. The recent reforms of Dutch lending legislation will in the long run have an additional beneficial effect on the credit quality of the Dutch mortgages.



Investment portfolio

A precise rating allocation that has been refined in-house plays a major role in monitoring the quality of the Company'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 internally 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) table as a function of the rating.

The risk framework has been fine-tuned by a selective update of the financial policies. The prudent investment policy remains an effective first line of defence.

The investment framework remains directed at strong counterparty quality. In 2013, the focus was on expanding the investment spectrum. All counterparties were thoroughly analysed and assessed as part of an annually recurring process using a first line analysis, supplemented by a risk check. Every bank and corporate included in the portfolio is assigned an internal rating in accordance with the FIRB (Foundation Internal Rating Based) approach that has been ratified and implemented in Argenta. In this way, 160 counterparties were assigned an internal rating. The structure and operation of the Rating Consultation was also optimized.

The investment framework is clearly described and detailed in the 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 or 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.

In the area of governance, the first line control of and reporting on portfolio transactions have been strengthened by close cooperation between the various first line departments and Risk.

As before, each quarter, the investment portfolio of the Bank Pool undergoes a thorough analysis, including a risk check. This analysis forms the basis of regular reporting to, and discussion within Alco, the Executive Committee and the Board of Directors.

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 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 Based (IRB) 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 Board of Directors.

Since the 30 September 2009 reporting, the equity 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.

Within the governance framework and further FIRB rollout, the reviews and stress tests on the investment portfolio were further elaborated and fine-tuned in 2013.

In the governments area, scoring models were implemented in the past year, with counterparty governments also assigned internal ratings that are relevant within the acceptance context and also serve for monitoring and management purposes. For regulatory capital calculations, the Company continues to apply the standardized approach to governments. For bank and corporate counterparties it uses the FIRB approach.

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.

Concretely, 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 to see whether an impairment should be recognized (including taking into account the security received).

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

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.

Impairments determined on a portfolio basis

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

This 'incurred but not reported' impairment on loans is recognized for mortgage receivables that are not in default and on which no impairment losses have been recorded on an individual basis ('performing loans').

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

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

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

The 'loss confirmation period' is continuously evaluated. In 2013, it was adjusted from 3 to 6 months. In addition, from now onwards, greater account is taken, in calculating the impairment, of current losses instead of historical average losses (point in time PD instead of average PD).

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

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 private or public sale.

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

Forbearance

The European Securities and Markets Authority (ESMA) has requested financial institutions to provide information on loan refinancings and maturity extensions. This relates to refinancings and extensions in the context of arrears situations.

Following the internal definition of 'forbearance' as a written adjustment of the terms and conditions of the loan contract, there is no forbearance by the Company.

Only very sporadically are adjustments made to the loan contracts. And if this occurs, these loans are normally always given default status so that the necessary provisions for these contracts are made on a systematic basis.

Concentration of credit risk

Concentration may consist of various elements, including concentration of lending to an individual counterparty or a group of inter-related counterparties (single name concentration or counterparty concentration). A concentration of lending can also come about as the result of 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.

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

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

In addition, the risk is diversified by granting a large number of loans of limited amounts, spread across Belgium and the Netherlands (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 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 Consultation (RC).

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

2.4. Operational risk

General discussion

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

The Company's activities depend on the ability to process a very large number of transactions efficiently, accurately and in accordance with its policies and with regulations. Potential operational risks include violation of the money laundering legislation, breach of confidentiality obligations and the execution of unauthorized transactions.

Operational risks and losses result from inadequate or failed internal processes (such as processes not aligned with the legal requirements), human actions (including fraud and employee errors) and systems (such as system failure), or are due to external events (such as natural disasters or malfunctions of external systems, including those of Argenta Group's suppliers or counterparties). The impact may consist of financial and/or reputational loss.

The Company has a fairly limited number of products and services. This allows the operational risks to be kept limited. In general, however, it is assumed that operational risks will gradually increase in the various businesses, owing, among other things, to the rapidly changing technological environment, the increasing complexity and growing range of products and the general trend towards outsourcing of non-core business activities.

Although the Company has taken measures to control the risks and limit any losses, as well as earmarking substantial funds for the development of efficient procedures and staff training, it is impossible to implement procedures that can exclude these operational risks in a completely effective manner.

Each year, a very extensive internal audit report is presented to the Board of Directors and the NBB. This report assesses the adequacy and effectiveness of the existing control measures.



Operational risk policy

The ORCo (Operational Risk Committee) is a permanent part of the GRC (Group Risk Committee). It is organized on a quarterly basis. In 2013, the risk appetite for operational risk was defined in greater detail.

Every two years, each division is required to identify and assess its operational risks and where necessary take action to reduce them. These RCSAs (risk and control self-assessments) make up a large part of the annual planning.

In 2013, the contact persons appointed by each division were further involved in the management of operational risks, acting as contact points in the field of operational risk management for their departments and training them in the various aspects of operational risk management.

In the area of 'Business Continuity Management', the BCM procedure has been completely revised and elaborated in flowcharts. In addition, the various contingency brochures documents were combined into a single comprehensive document.

In the context of information security, the section of the Code of Conduct concerning information security was totally revised and expanded and presented at the staff meeting. Finally, the new maturity matrix for internal control from operational risk management was initiated and implemented.

The risk scoring within the audit universe is done on parameters, including the maturity of the internal controls and the presence or absence of RCSAs.



Managing ICT risk



Given that the Company's business activities are highly dependent on ICT, a major portion of the operational risks consist of ICT risks. Shortcomings in the ICT field can result in a significant threat to the critical business processes and to services to customers and branch managers.

A number of control measures have been taken to reduce this threat, in the field of organization and policy, incident and problem management, and test and change management and control.

Operational risk and the Basel II Capital Accord

The Company uses the standard method for calculating the operational risk requirements. The ICAAP approach is complemented with scenarios.

2.5. Other risks

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

2.5.1. 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 applied. This is assessed on an ongoing basis.

2.5.2. 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 and Savings & Payments, this fourth business line should produce a greater diversification of earnings generation. Another important factor here is cross-selling, in order to attract as many customers as possible to several business lines concurrently.

As regards the profitability of the products of the Bank Pool, price setting must take account of funds transfer pricing, in order to determine the earnings contribution of each product.



2.5.3. 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.

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.

2.5.4. 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.

2.5.5. 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 Argenta Group.

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 tax ruling with the Netherlands on corporate taxation.

On 15 May 2012, the Antwerp Court of Appeal sentenced the Belgian State to refund to the stock exchange and delivery tax for the period 15 July 2002 - 15 July 2004. No appeal was made against this judgement, which thereby became final in 2013. Since uncertainty remains over the actual amount owed by the State, this has not yet been recognized in the Argenta Spaarbank balance sheet.

The legislation governing the own funds requirements for credit institutions and insurance companies is also currently under revision, in the form of the so-called Basel III standards, which will impact on the Company.

The large number and complexity of the reporting obligations to the market, to governments and to regulators are causing an increased 'financial reporting risk'. The necessary steps are being taken by reinforcing the respective departments and introducing other automation projects.



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(a): Equity and its components

Composition of IFRS equity	31/12/2012	31/12/2013
Paid-in share capital	459,105,400	518,246,650
Revaluation reserve for available-for-sale financial assets	215,849,450	132,452,018
Reserves (including retained earnings)	545,814,654	568,990,611
Result of the current year	82,317,207	174,974,622
Cash flow hedge	-8,002,062	-6,636,672
Total equity attributable to shareholders	1,295,084,649	1,388,027,229
Minority interests	79,260	79,518
	1,295,163,909	1,388,106,747



'Paid-in share capital'



The paid-in share capital, represented by 168,975 shares (without par value), amounts to EUR 518,246,650 (EUR 459,105,400 at 31 December 2012). The increase is the result of a capital increase of EUR 59,141,250, which took place on 17 December 2013. This capital increase took place without issuing new shares and was subscribed by the existing shareholders (after receiving on dividend in the same amount from the Company in December).

'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.

The reported fluctuations in fair value are reflected in shareholders' equity in the item 'revaluation reserve for available-for-sale financial assets'. This reserve evolved from EUR 215,849,450 at 31 December 2012 to EUR 132,452,018 at 31 December 2013.

Table 3 (b) Breakdown of revaluation reserve

Breakdown of revaluation reserve	31/12/2012	31/12/2013
Total latent capital gains and losses – fixed-income securities	433,685,971	260,153,385
Revaluation reserve concerning micro hedges concluded	-87,832,873	-43,141,251
Total latent taxes on fixed-income securities	-117,550,787	-73,760,421
Latent capital gains and losses – non-fixed-income securities	503,066	338
Minority interests	-241	0
Latent capital loss (after tax) on reclassified assets	-12,955,686	-10,800,033
Total revaluation reserve	215,849,450	132,452,018

At the end of 2013, the unrealized capital losses on fixed-income securities amounted to EUR 260,153,385 before tax and including minority interests, and the unrealized gains on non-fixed income securities to EUR 388.

After accounting for the deferred tax liability (EUR 73,670,421) 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 43,141,251) and a frozen AFS reserve of reclassified assets (EUR 10,800,033), we arrive at a net positive amount of EUR 132,452,018 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 2013, the swap in question had a negative market value of EUR 8,848,894. After deducting an unrealized tax claim of EUR 2,212,223, an amount of EUR 6,636,671 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 2013 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 2012 and 31 December 2013.

Table 4: Composition of qualifying capital

Composition of qualifying capital	31/12/2012	31/12/2013
Equity sensu stricto	1,106,745,985	1,277,842,335
Total additional equity	330,160,818	289,276,590
Other additional components	13,425,585	12,572,987
Subordinated loans	316,735,233	276,703,603
Total qualifying capital	1,436,906,803	1,567,118,925

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

Table 5: Equity sensu stricto

Equity sensu stricto	31 December 2012	31 December 2013
- Paid-in capital	455,260,414	514,401,664
- Reserves	535,245,389	558,865,948
- Profits from the current financial year	82,317,207	174,974,622
- Minority interests	79,018	79,518
- Limited innovative instruments	70,000,000	69,300,000
- Intangible assets	-36,156,043	-39,779,417
Total equity sensu stricto	1,106,745,985	1,277,842,335

As of 31 December 2013, 'paid-in capital' is calculated here as EUR 514,401,664, 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.

As of 31 December 2013, the 'reserves' item amounted to EUR 558,865,948.

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 2013 contains purely the profit from the financial year, as no additional dividend payment is planned in respect of 2013.

As of 31 December 2013, the 'minority interests' item amounted to EUR 79,518.

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. In 2013, another EUR 700,000 was repurchased, leaving a nominal outstanding Tier I loan of EUR 69.3 million as of 31 December 2013.

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

- remaining nominal amount of 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; and
- 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 39,779,417 is also deducted from the equity sensu stricto. This consists of the 'intangible assets' as on the asset side of the consolidated balance sheet.

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 issued by the Company 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 equity	31 December 2012	31 December 2013
Additional core equity	13,425,585	12,572,987
- Revaluation reserve AFS instruments	452,759	304
- Revaluation reserve tangible assets	12,972,826	12,572,683
Subordinated loans	316,735,233	276,703,603
Total additional equity	330,160,818	289,276,590

The 'revaluation reserve AFS equity instruments' relates to 90 % of the unrealized gains on the current portfolio of equity instruments. Given the very limited size of the portfolio of individual equities, the amount is also very small.

The amount of EUR 12,572,683 of the 'revaluation reserve tangible assets' is obtained by firstly increasing the revaluation reserves for buildings (created formerly under BGAAP) of EUR 10,124,662 by the adjustment made to paid-in capital (EUR 3,844,986). The total of EUR 13,969,648 arrived at this way (EUR 10,124,662 + EUR 3,844,986) then needs to be multiplied by 90 %.

The further additional equity amounted to EUR 276,703,603 as of 31 December 2013 and consists entirely of subordinated loans. In Basel II, '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 2013, a further EUR 43,478,691 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 2013 to EUR 432,762,113.

Basel III disclosure - increased Tier II capital requirements

Under the new banking directives, stricter requirements are placed on capital instruments for them to count as Tier II qualifying capital. The Tier II subordinated loans issued in 2012 and 2013 do not meet all the conditions for recognition as Basel III Tier II capital. This means that as from the start of Basel III, they will be unavailable in their totality.

The usable capital of the subordinated loans (issued in 2012) will be gradually phased out by 10% a year.

3.3. Reconciliation of IFRS equity and qualifying capital

The starting point for quantifying qualifying capital at the consolidated level is the IFRS equity as reported in the IFRS balance sheet.

The table below shows the reconciliation of the IFRS accounting equity with the qualifying Tier 1 equity sensu stricto.

Table 7: Reconciliation of IFRS equity and qualifying capital

Reconciliation of qualifying capital	31/12/2012	31/12/2013
- Equity attributable to shareholders	1,295,084,649	1,388,027,229
- Minority interests	79,260	79,518
Total equity	1,295,163,909	1,388,106,747
Prudential filters		
- Intangible assets	-36,156,043	-39,779,417
- Latent gains and losses on 'available-for-sale' assets	-215,849,450	-132,452,018
- Cash flow hedging	8,002,062	6,636,671
Adding of Tier 1 LOAN	70,000,000	69,300,000
Displacement to Tier 2 equity	-14,414,493	-13,969,648
Total qualifying capital sensu stricto	1,106,745,985	1,277,842,335

Starting from equity attributable to the shareholders of EUR 1,388,027,229 and minority interests of EUR 79,518, we arrive at a total qualifying capital sensu stricto of EUR 1,277,842,335 at the end of 2013.

The prudential filters applied to equity under IFRS standards consist of the deduction of intangible assets (EUR 39,779,417), removing the latent gains and losses on available-for-sale assets (EUR 132,452,018) and removing the impact of the cash flow hedging (EUR 6,636,671).

To the figure obtained in this way is added the qualifying portion of the issued perpetual loan, still at a nominal amount of EUR 69.3 million, with a displacement to Tier 2 equity of the already-discussed revaluation gains (EUR 13,969,648).



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 2013 according to Basel II.

Table 8 (a): Total risk weighted assets and capital requirements as of 31 December 2013

Data as of 31/12/2013	Basel II RWA	Capital requirement
Central governments and central banks	62,700,175	5,016,014
Regional and local governments	26,058,788	2,084,703
Public law entities	0	0
Institutions	144,616,187	11,569,295
Corporates	30,157,350	2,412,588
Retail	125,743,275	10,059,462
Secured by real estate	131,686,800	10,534,944
Past due items	5,312,500	425,000
Covered bonds	0	0
Collective investment undertakings	0	0
Others	225,613,162	18,049,053
Securitization positions	0	0
Total credit risk – STA calculation	751,888,237	60,151,059
Institutions	445,322,918	35,625,833
Corporates	221,398,894	17,711,912
Covered bonds	19,665,036	1,573,203
Secured by real estate	2,125,206,354	170,016,508
Securitization positions	329,053,077	26,324,246
Total credit risk – IRB calculation	3,140,646,279	251,251,702
5 % add-on for Belgian mortgage loans	432,264,873	34,581,190
Market risk	0	0
Operating risk	473,781,287	37,902,503
Total as of end 2013	4,798,580,676	383,886,454



Under the Basel II rules governing the transition from the use of the standard approach (STA) to the use of the IRB approach, the Company is required in 2013 to apply a floor in calculating its capital requirements.

As in previous years, 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 Basel II pillar 1 regulations.

Table 8 (b): Capital requirements at year-end

	31 December 2012	31 December 2013
Tier 1 capital (sensu stricto)	1,106,745,985	1,277,842,335
minus Tier 1 loan	-70,000,000	-69,300,000
Core Tier 1 equity	1,036,745,985	1,208,542,335
<hr/>		
Total qualifying capital for covering capital requirements	1,436,906,803	1,567,118,925
<hr/>		
Required on the basis of the fixed assets	34,653,431	36,011,604
General solvency coefficient	651,364,460	609,001,622
<hr/>		
Adjustment Floor IRB transition period	80 % rule	80 % rule
Total required after adjusting Floor to Basel I	540,507,993	578,504,366
<hr/>		
Core Tier 1 ratio	15.34 %	16.71 %
Tier 1 ratio	16.38 %	17.67 %
Solvency ratio	21.27 %	21.64 %

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 2013, 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 2013 is therefore EUR 578,504,366 (80 % of EUR 723,130,458).

The Cooke ratio of 21.64 % as of 31 December 2013 is obtained by dividing the qualifying capital (EUR 1,567,118,925 as of 31 December 2013) by the risk-weighted assets (EUR 7,231,304,575 as of 31 December 2013).

The core Tier 1 ratio (CET - Common Equity Tier 1) has now become the most important ratio. This calculation uses the core Tier 1 capital instead of total capital. The core Tier 1 capital of the Company is calculated by not counting the amount of the perpetual loan (EUR 69.3 million) as qualifying capital for this ratio. The Core Tier 1 ratio was 16.71 % at 31 December 2013.

The total qualifying capital for regulatory purposes as of 31 December 2013 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 (core Tier 1) 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.

With a core Tier 1 ratio of 16.71% at 31 December 2013, all these new standards are 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:

$$\text{risk weighted assets (RWA)} * 8 \%$$

$$\text{where risk weighted assets} = (\text{Exposure At Default} - \text{EAD}) * \text{weighting percentages}$$

The risk weighted assets for credit risk amounted to EUR 3,892,534,513 as of 31 December 2013, giving a capital requirement of EUR 311,402,761.

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

5 % add-on for Belgian mortgage loans

The Belgian regulator has requested an add-on of 5 % from all Belgian financial institutions for Belgian mortgage loans.

Based on an EAD of EUR 8,645,297,452, an RWA of EUR 432 264 873 was obtained, on which a capital requirement of EUR 34,581,190 was calculated.

This additional capital requirement was included in the IRB/STA calculation as at 31 December 2013.



4.2. Capital requirements for market risk

The Company currently does not perform any equity calculations for market risk, since the Company did not have a trading book as of 31 December 2013.

4.3. Capital requirements for operational risk

Up to and including 30 June 2008, the Company calculated the capital 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 37,902,503 as of 31 December 2013.



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 311,402,761. Adding the EUR 34,581,190 add-on and the operational risk requirement of EUR 37,902,504, one arrives at a total capital requirement of EUR 383,886,455.

The capital requirement under Basel I amounted to EUR 723,130,458 at 31 December 2013. Applying here the applicable 80 % floor, we obtain a capital requirement EUR 578,504,366.

Given that this floor is higher than the capital requirement calculated according to the IRB method, it is the EUR 578,504,366 figure that applies as the minimum capital. This capital requirement corresponds to a risk weighted assets of EUR 7,231,304,575 (compared with EUR 4,798,580,680 following the IRB approach). If this Basel I floor were not applied, the Tier 1 ratio would be 26.63 % instead of 17.67 %.

5. Credit risk

The management of credit risk has already been described in Chapter 2 'Risk management'. The present chapter provides, among other things, 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.

The table below shows the total exposure to credit risk and the relationship between the on-balance sheet and off-balance sheet credit risk and the credit risk of the derivative instruments.

Table 9 (a): Overall exposure to credit risk

Total exposure to credit risk	31/12/2012	31/12/2013
Total on-balance sheet	33,016,224,682	31,303,978,267
Total off-balance sheet	1,102,045,460	886,965,728
Total derivatives	249,674,922	211,726,830
	34,367,945,064	32,402,670,825

The exposure of on-balance sheet credit risk is mainly determined by the asset side of the IFRS balance sheet. The table below reconciles the balance sheet asset total with the total on-balance sheet credit risk.

Table 9 (b): Reconciliation of IFRS balance sheet total and total on-balance sheet exposure

Balance sheet total – assets side –	32,146,953,508
Asset components not included in the exposure	
- delta market value of the hedged positions	-275,393,059
- latent gains of the 'available-for-sale' securities portfolio	-243,792,515
Adjustments owing to liabilities components	
- unreleased portion of credits	-241,491,592
- constituted reconstitution fund for mortgage loans	-42,370,076
Already deducted from equity, i.e. intangible assets	-39,927,999
Total on-balance sheet credit exposure	31,303,978,267



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

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

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

either the payment arrears are greater than the sum of three monthly instalments or, where another repayment frequency applies, when the payment arrears amount to more than three months, both in capital and in interest. This includes any outstanding claim greater than EUR 25 at loan maturity date.

indicators show that the claim is possibly completely or partially uncollectible ('unlikely to pay').

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

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.

Besides the impairments determined on an individual basis, collective – portfolio-based – impairments are also created in the form of an IBNR provision.

'Incurred but not reported' value adjustments are justified for mortgage receivables not in default for which no special impairments have been recognized on an individual basis (i.e. performing loans).

This collective evaluation of impairments includes the application of a 'loss confirmation period' with regards to the probability of default.

This 'loss confirmation period' represents a time interval (expressed in months) between the moment when the event causing the impairment occurs (i.e. a loss event) and the time when it is identified 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 are also included in the created impairments.

The 'loss confirmation period' is continuously evaluated and can be changed depending on market developments (including house prices, transactions, taxation), portfolio characteristics and macro-economic indicators (such as unemployment, GDP growth, debt, divorce rates).

The IBNR is calculated and set up for all retail credit portfolios based on adapted IRB models used to determine the minimum prudential capital requirements.

These adjustments relate essentially to the introduction of the above-mentioned loss confirmation period and an economic adjustment that reflects the actual losses on the portfolio in place of the average historical losses. The 'loss confirmation period' amounts here to at least 3 months for the different risk categories. On 31 December 2013, a loss confirmation period of 6 months was used.

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

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 10 (a)).

'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 10 (a): Exposure per category as at 31 December 2013

	Exposure	Unfunded credit protection - guarantees	Funded credit protection - collateral	Total inflow	Adjusted exposure
Central governments or central banks	4,527,091,733	0	0	574,531,873	5,101,623,606
Regional and local governments	795,176,160	0	0	49,204,151	844,380,311
Public entities	9,969,046	9,969,046	0	0	0
Institutions	599,576,760	309,050,761	0		290,525,999
Corporates	97,392,464	39,235,105	0		58,157,359
Retail	178,248,362	0	0	0	178,248,362
Secured by real estate	680,566,955	265,481,112			415,085,843
Past due items	5,204,647				5,204,647
Covered bonds	0	0	0	0	0
Undertakings for collective investment	0	0	0	0	0
Others	408,118,769	0	0	0	408,118,769
Securitization positions	0	0	0	0	0
Total exposure (STA)	7,301,344,896	623,736,024	0	623,736,024	7,301,344,896
Institutions	1,825,365,471	0	0	0	1,825,365,471
Corporates	807,254,635	0	0	0	807,254,635
Covered bonds	215,913,865	0	0	0	215,913,865
Secured by real estate	21,445,132,704	0	0	0	21,445,132,704
Securitization positions	807,659,254	0	0	0	807,659,254
Total exposure (IRB)	25,101,325,929	0	0	0	25,101,325,929
Total exposure	32,402,670,825	623,736,024	0	623,736,024	32,402,670,825

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. Until further order, the exposure is shifted as a result of government guarantees and guarantees from financial institutions (see the explanation below of the EUR 309,050,761 under 'institutions').

Table 10 (b): Government guarantees under 'institutions'

Counterparty	Exposure 2012	Guarantee amount 2012	Exposure 2013	Guarantee amount 2013
Irish government	5,753,114	5,585,521	4,730,560	4,606,579
Luxembourg government	211,037,905	208,979,346	82,440,001	80,448,453
Dutch government	170,179,474	170,008,337	70,164,778	70,001,736
Austrian government	100,248,733	100,000,000	100,253,583	100,000,000
Slovenian government	80,882,861	79,212,724	0	0
Czech government	4,097,276	3,981,673	4,099,895	3,984,293
Swedish government	50,036,825	50,024,038	50,024,175	50,009,700
Total unfunded credit protection - guarantees	617,791,639		309,050,761	

In addition, there is the NHG (Nederlandse HypotheekGarantie) 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 WEW guarantees the repayment of the mortgage amount to the credit institution.

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

The aim of the WEW is to promote home ownership. It is responsible for the policy and the implementation of the NHG. Every year, it sets rules for granting NHG guarantees. These 'conditions and standards' must be approved by the Minister of the Interior and Kingdom Relations. 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 generally require less solvency. 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 2013

	On-balance	Off-balance	Derivatives	Total exposure
Central governments or central banks	4,527,091,733	0	0	4,527,091,733
Regional and local governments	795,176,160	0	0	795,176,160
Public entities	9,969,046	0	0	9,969,046
Institutions	529,740,640	69,836,120	0	599,576,760
Corporates	97,392,464	0	0	97,392,464
Retail	160,581,293	17,667,069	0	178,248,362
Secured by real estate	134,212,171	546,354,784	0	680,566,955
Past due items	5,204,647	0	0	5,204,647
Undertakings for collective investment	0	0	0	0
Other	408,118,769	0	0	408,118,769
Securitization positions (STA)	0	0	0	0
	6,667,486,923	633,857,973	0	7,301,344,896
Institutions	1,652,659,903	0	172,705,568	1,825,365,471
Corporate	768,233,373	0	39,021,262	807,254,635
Covered bonds	215,913,865	0	0	215,913,865
Secured by real estate (IRB)	21,192,024,948	253,107,756	0	21,445,132,704
Securitization positions (IRB)	807,659,254	0	0	807,659,254
	24,636,491,343	253,107,756	211,726,830	25,101,325,929
Total exposure	31,303,978,266	886,965,729	211,726,830	32,402,670,825

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.



Table 12: Geographical breakdown of exposures as of 31 December 2013

Country code	Country	Exposure	Percentage	Required capital
AT	Austria	204,694,576	0.63 %	681,414
AU	Australia	186,564,392	0.58 %	2,754,662
BE	Belgium	13,716,497,531	42.33 %	98,300,916
BG	Bulgaria	15,554,165	0.05 %	622,170
CA	Canada	19,637,415	0.06 %	223,527
CZ	Czech Republic	131,994,249	0.41 %	2,114,684
DE	Germany	69,376,196	0.21 %	1,244,016
DK	Denmark	66,385,926	0.20 %	1,441,826
ES	Spain	224,381,461	0.69 %	16,414,664
FI	Finland	177,231,521	0.55 %	816,265
FR	France	571,740,687	1.76 %	6,241,240
GB	United Kingdom	578,283,990	1.78 %	15,465,261
IE	Ireland	123,954,557	0.38 %	13,244,527
IT	Italy	253,629,047	0.78 %	3,770,844
LU	Luxembourg	61,866,590	0.19 %	394,492
MX	Mexico	10,015,575	0.03 %	539,029
NL	Netherlands	14,955,592,351	46.16 %	135,469,003
NO	Norway	92,436,228	0.29 %	1,489,685
NZ	New Zealand	30,641,500	0.09 %	141,749
PL	Poland	131,320,360	0.41 %	2,100,564
PT	Portugal	30,902,578	0.10 %	3,610
SE	Sweden	241,787,869	0.75 %	2,102,484
SI	Slovenia	78,354,085	0.24 %	2,066,673
SK	Slovakia	208,583,693	0.64 %	0
US	United States Staten	211,841,671	0.65 %	3,616,278
Other	Exposure < 3 million	9,402,612	0.03 %	143,181
Total exposures		32,402,670,825	100.00 %	311,402,762

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 by exposure category as of 31 December 2013

Exposure category	Country	Exposure
Institutions	AT	116,692,339
Institutions	AU	178,023,912
Institutions	BE	214,556,125
Institutions	CA	19,478,573
Institutions	CZ	4,099,895
Institutions	DE	32,326,588
Institutions	DK	66,265,239
Institutions	ES	120,507,714
Institutions	FI	67,088,791
Institutions	FR	258,364,772
Institutions	GB	395,862,766
Institutions	IE	50,565,662
Institutions	IT	45,252,003
Institutions	NL	443,494,686
Institutions	NO	55,922,133
Institutions	SE	241,453,360
Institutions	SI	51,666,832
Institutions	US	63,078,143
Institutions	Other	242,698
Total Institutions		2,424,942,231
Corporates	BE	293,290,663
Corporates	ES	25,239,659
Corporates	FI	10,036,222
Corporates	FR	141,939,352
Corporates	GB	120,041,831
Corporates	IE	5,527,425
Corporates	IT	41,706,471
Corporates	LU	20,894,229
Corporates	MX	10,015,510
Corporates	NL	70,202,433
Corporates	NO	36,514,095
Corporates	US	129,239,209
Total corporates		904,647,099
Covered bonds	AU	8,142,614
Covered bonds	AT	25,476,384
Covered bonds	FR	61,412,912
Covered bonds	GB	60,953,686
Covered bonds	IT	29,393,708
Covered bonds	NZ	30,534,561
Total covered bonds		215,913,865
Central governments and central banks	AT	62,150,709
Central governments and central banks	BE	3,510,473,948
Central governments and central banks	BG	15,554,004
Central governments and central banks	CZ	127,894,322
Central governments and central banks	FI	100,054,222
Central governments and central banks	FR	102,537,115
Central governments and central banks	IE	54,108,927
Central governments and central banks	IT	137,090,896
Central governments and central banks	LU	5,153,379
Central governments and central banks	NL	14,740,000
Central governments and central banks	PL	131,220,853



Central governments and central banks	PT	30,842,412
Central governments and central banks	SI	26,687,253
Central governments and central banks	SK	208,583,693
Total central governments and central banks		4,527,091,733
Public entities	BE	9,969,046
Total public entities		9,969,046
Regional and local governments	BE	759,804,426
Regional and local governments	DE	35,371,733
Total regional and local governments		795,176,159
Secured by real estate	BE	8,646,497,188
Secured by real estate	CH	2,535,723
Secured by real estate	CN	1,314,764
Secured by real estate	DE	1,651,940
Secured by real estate	ES	1,561,737
Secured by real estate	FR	7,358,876
Secured by real estate	GB	1,396,044
Secured by real estate	LU	4,001,105
Secured by real estate	NL	13,450,579,091
Secured by real estate	TH	1,089,800
Secured by real estate	US	1,208,074
Secured by real estate	Other	6,505,319
Total secured by real estate		22,125,699,659



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 one 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 2013

Data as of 31/12/2013	Remaining life in years
Central governments and central banks	1.75
Regional and local governments	2.68
Public entities	0.50
Institutions	1.92
Corporates	2.12
Retail customers	0.91
Secured by real estate	17.94
Past due amounts	0.48
Covered bonds	1.88
Securitization positions - ABS	2.38
Securitization positions- MBS	5.19

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 'exposures in default' in the equity calculation. These credits are geographically almost entirely located in the core countries of Belgium and the Netherlands.

Geographical breakdown of default exposures as of 31 December 2013

Country	Exposure as of 31/12/ 2013
NL	100,197,270
BE	153,316,354
other countries	2,572,353
Total exposure	256,085,977

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

The individually determined impairments amount to EUR 39,025,677 as of 31 December 2013. The table below shows the evolution and breakdown into assets classes of the above-mentioned impairments.

Table 16: Evolution of individually determined impairments

as of 31/12/2013	Opening balance	Increase	Reversal	Closing balance
	31/12/2012	via P&L	via P&L	31/12/2013
Loans and receivables				
Consumer credit	3,156,256	2,720,990	-1,837,457	4,039,789
Mortgage loans	32,140,544	25,841,529	-27,985,944	29,996,129
Term loans	798,562	236,063	-371,027	663,598
Demand deposits / advances	8,370,698	1,469,442	-5,743,173	4,096,967
Other lending receivables	455,864	267,744	-494,413	229,195
Total loans and receivables	44,921,924	30,535,768	-36,432,014	39,025,678

In 2008, a general impairment, in the form of an IBNR provision, was created for the first time. The method of calculating this provision has already been explained in 5.2. 'Approaches and methods for determining impairments'. The provision has evolved – largely due to the change in calculation method – from EUR 3,007,049 as of 31 December 2012 to EUR 10,929,359 as of 31 December 2013.

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	31/12/2012		31/12/2013	
	EAD basis	IBNR	EAD basis	IBNR
Aspa Belgium	6,079,707,836	410,497	7,337,406,251	2,317,029
Aspa Netherlands	9,524,119,711	1,710,520	10,586,639,242	6,259,265
Green Apple	2,692,278,611	368,329	2,473,279,951	1,364,212
CBHK	662,369,940	517,703	568,828,458	988,853
Total		3,007,049		10,929,359

Total provisions in respect of lending amounted as of 31 December 2013 to EUR 49,955,037 made up of EUR 39,025,678 of individually determined impairments and a general provision of EUR 10,929,359.

The table below shows the changes in individually determined impairments and their impact on the income statement (see 'total impact' column) for 2013.

Table 18: Impact of impairments on the income statement

per 31/12/2013	Opening balance	Increase	Reversal	Closing balance	Recoveries	Direct	Collective	Total P&L
	31/12/2012	via P&L	via P&L	31/12/2013	via P&L	derecognition	provision	impact
"Loans and receivables"								
Consumer credit	3,156,256	2,720,990	-1,837,457	4,039,789	-180,541	1,121,318	0	1,824,310
Mortgage loans	32,140,544	25,841,529	-27,985,944	29,996,129	-320,700	15,615,577	7,866,377	21,016,838
Term loans	798,562	236,063	-371,027	663,598	-87,36	0	55,933	-79,118
Demand deposits / advances	8,370,698	1,469,442	-5,743,173	4,096,967	-449,085	4,564,675	0	-158,141
Other lending receivables	455,864	267,744	-494,413	229,195	-50,000	387,631	400,887	511,849
Total loans and receivables	44,921,924	30,535,768	-36,432,014	39,025,678	-1,000,413	21,689,201	8,323,197	23,115,738

Overall there is a negative impact of EUR 23,115,738 on the IFRS income statement, compared with a negative impact of EUR 8,603,895 as of 31 December 2012.



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 2013, 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 2013, 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 (STA)	Exposure 31/12/2012	Exposure 31/12/2013
Central governments and central banks	6,402,506,649	4,527,091,733
Regional and local governments	883,721,107	795,176,160
Public entities	0	9,969,046
Institutions	3,675,679,183	599,576,760
Corporates	1,068,807,337	97,392,464
Securitization positions	866,597,627	0

The 0 figure under securitization positions as of 31 December 2013 reflects the fact that these securities are weighted according to the IRB method.

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 2013, there was an exposure of EUR 211,726,830 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:

- a. the current replacement cost based on the market value of the transactions with a positive value and
- b. the potential future credit risk, i.e. the product obtained by multiplying the notional principal amount (or underlying value) 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.



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 2013, a (nominal) EUR 421,986,000 of securities were pledged as collateral, and EUR 76,750,000 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' section of 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 2013, collateral was provided 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 2013, a limited number of investment fund units and some (historically purchased) equities were recorded as 'financial assets'. These financial assets are classified until further order 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 %.

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.

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 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).

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

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 and the Basel II scoring, measurement and calculation software).

The Credit Risk Management department monitors the performance of the models, gathering the necessary monitoring information and report on it internally. The tasks of this Credit Risk Management department and of all other parties involved in the lending process are described in a '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, 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 also the necessary efforts both to reflect and react on the feedback from the credit risk management department and to provide feedback themselves on the use of the models in the daily lending processes.

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

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

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



- analysis of the model and 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.

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, once the validation activities have been audited.

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:

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

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



7.3. Models developed

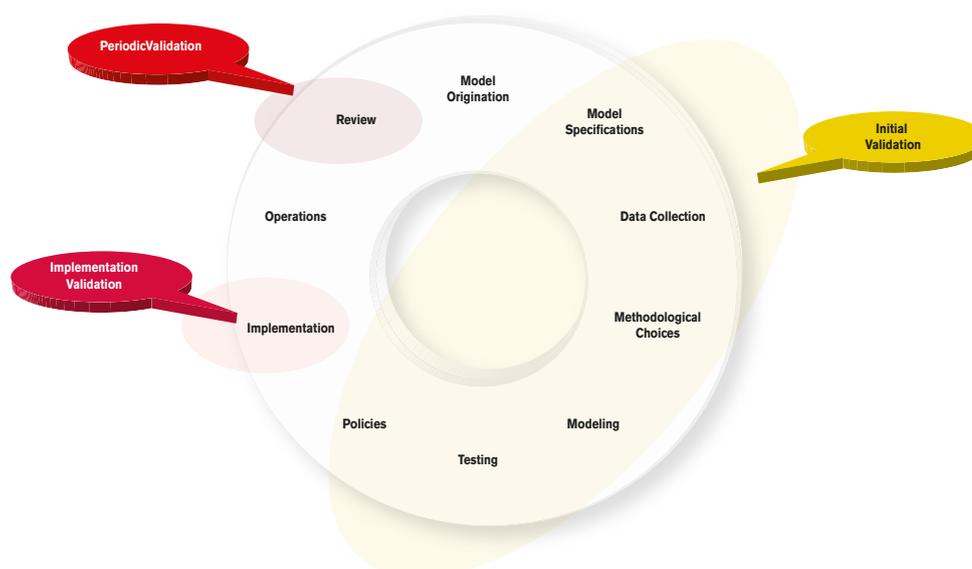
7.3.1. Internal credit risk models for exposure to retail customers

The Company has developed three global models for mortgage loans. 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. These new models were run in parallel during 2013, allowing them to be switched to in 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

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 central, regional and local governments, 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 consultation.

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.

7.4. Exposures – (F)IRB method

The table below shows the exposure, average PD, average LGD, RWA and average risk weight as of 31 December 2013.



Table 20: Exposures by the (F)IRB method as of 31 December 2013

as of 31/12/2013	Exposures	Av. PD %	Av. LGD %	RWA	Av RW %
Total exposure	24,293,666,675	1.78 %	12.24 %	2,811,593,202	
Balance sheet items	23,857,350,553	1.81 %	12.02 %	2,708,833,862	11.35 %
Provisions	-28,518,464				
Off-balance sheet items	253,107,756	0.35 %	5.33 %	12,086,273	4.78 %
Derivatives	211,726,830	0.12 %	45.00 %	90,673,067	42.83 %

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 as of 31 December 2013

as of 31/12/2013	ASPA	CBHK	Netherlands	Total
Total provisions included	5,224,485	8,736,790	14,557,189	28,518,464
EL _{eff} l _{gd}	7,705,457	10,869,325	26,161,699	44,736,481
> non-defaults	2,480,972	2,132,535	11,604,510	16,218,018
> defaults	5,224,485	8,736,790	14,557,189	28,518,463
EL _{gd} floor	11,997,781	11,048,875	27,856,369	50,903,025
> non-defaults	6,773,296	2,312,085	13,299,180	22,384,561
> defaults	5,224,485	8,736,790	14,557,189	28,518,464

As of 31 December 2013, the total EL (with the effective LGD) for both defaults and non-defaults was EUR 44,736,481. Applying the LGD floor of 10 % gives an EL of EUR 50,903,025 (as included in equity table 90.04).

For the individual credits in the lowest PD class (the default class), individual provisions of EUR 28,518,464 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 10,929,359 as of 31 December 2013.

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 requirement as of year end**

	31/12/2012	31/12/2013
Credit risk – STA	71,157,805	60,151,059
Credit risk – IRB	235,650,413	224,927,456
Securitization – STA	3,822	0
Securitization – IRB	24,329,463	26,324,246
Operational risk	33,610,934	37,902,503
Other country-related capital requirement	0	34,581,190
Total capital requirement	364,752,437	383,886,454
Capital requirement according to Basel I principles	675,634,991	723,130,458
Application of the 80 % floor	540,507,993	578,504,366
Effective capital requirement	540,507,993	578,504,366

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 211,726,830 for 'derivatives', there was an exposure of EUR 886,965,728 as of 31 December 2013 for 'other off-balance sheet items'.

These consisted of guarantees in an amount of EUR 3,620,216 (non-loan replacing guarantees) and EUR 1,710 (loan-replacing guarantees). In addition, there were EUR 813,509,393 of loan commitments and unused portions of confirmed credit lines and EUR 69,834,410 of additional exposure to derivatives counterparties..

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 2013.

	IRB	20%	50%	100%	Total
Exposure	253,107,756	536,896,166	27,125,686	69,836,120	886,965,728
Risk weighted assets	12,086,273	40,503,935	7,940,522	34,918,060	95,448,790
Capital requirement	966,902	3,240,315	635,243	2,793,445	7,635,903

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 Board of Directors.

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).

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:

- a. regulated savings accounts: 2 years;
- b. current accounts: 5 years;
- c. 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:

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

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 cashing the coupons, or capitalizing them. For future behaviour, the model is based on the current portfolio distribution between the two types of behaviour.

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

- a) for mortgages in Belgium an internally developed prepayment model is used;
- b) for mortgages in the Netherlands (until further notice) a standard prepayment behaviour of 10 % is assumed. From January 2014, the Company has moved here to an internally developed prepayment model.

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 set the global interest risk into sharper focus.

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.



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 1 and Tier 2 loans.

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

In this way, 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 2013, 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. For the credit risk, the so-called 80 % floor for the required regulatory capital will continue to be the statutory basis also after 2013. In its ICAAP under pillar 2, Argenta calculates the required economic capital on the basis of Basel II IRB risk parameters. These are globally 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 2013 but have already for some time been part of the RAF.

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 more than 130 % so that the Company always has a comfortable capital situation. In addition that RAF includes limits for value stability (95 %) and income stability (80 %) which are derived directly from the ICAAP report.

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

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

In 2013, systematic consultations were held with the supervisory authority in the framework of the SREP.



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;
- initial purchase of tranches B (EUR 10.5 million) and C (EUR 3 million) by the Company itself. In 2013, all A notes were purchased by the Company.

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.

At the end of 2013, the call on this tranche issued in 2008 was exercised, and on 23 January 2014, the notes were repaid. The Company has taken back the remaining loans and receivables directly into its balance sheet.

With the maturing of this transaction, a dispute arose with regard to remuneration possibly owed to the counterparty of the two swaps. Management has decided not to set up a provision in respect of the above-mentioned dispute.



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 SPV Green Apple, 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.moodyratings.com). In this way, the securities in question can serve permanently as ECB-eligible financial instruments.

The Green Apple SPV is administered by Intertrust 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 sufficient 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). In July and December 2013, the A notes too were purchased by the Company.

With the second SPV Green Apple securitization transaction, all notes issued were purchased directly 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 as a result of the annuity decrease of 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, a RWA percentage is assigned.

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 as of 31 December 2013

Exposure category	Country	Exposure
MBS	BE	8,640,074
MBS	ES	51,588,210
MBS	IE	13,496,712
MBS	NL	690,181,394
ABS	ES	25,443,674
ABS	US	18,309,190
Total securitization positions		807,659,254

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 2013 consisted of ABSs in a total amount of EUR 43,752,864 and MBSs in a total of EUR 763,906,390.

Table 25: Ratings, EADs and capital requirements of securitization positions as of 31 December 2013

Rating 1	Rating 2	Rating 3		ABS	MBS	Total	
AAA	Aaa	AAA	EAD	18,309,190	80,261,594	98,570,784	
			Capital	310,524	476,433	786,957	
	-	-	EAD		281,511,161	281,511,161	
			Capital		1,671,050	1,671,050	
-	-	AAA	EAD		129,754,102	129,754,102	
			Capital		770,220	770,220	
AA-	A3	-	EAD		3,843,448	3,843,448	
			Capital		65,185	65,185	
	Baa2	-	EAD		2,783,121	2,783,121	
			Capital		18,881	18,881	
	Baa1	-	EAD		1,969,332	1,969,332	
			Capital		13,360	13,360	
A+	Aaa	AAA	EAD		40,046,867	40,046,867	
			Capital		339,597	339,597	
A	Aa3	-	EAD		1,097,144	1,097,144	
			Capital		11,165	11,165	
	Baa3	-	EAD		4,359,695	4,359,695	
			Capital		369,702	369,702	
A-	Baa3	-	EAD		2,385,964	2,385,964	
			Capital		40,466	40,466	
BBB	Baa2	-	EAD		7,624,154	7,624,154	
			Capital		387,917	387,917	
BB+	Baa1	BB+	EAD	25,443,674		25,443,674	
			Capital	5,394,059		5,394,059	
	Baa3	-	EAD		3,730,704	3,730,704	
			Capital		790,909	790,909	
B+	B2	-	EAD		2,956,605	2,956,605	
			Capital		2,956,605	2,956,605	
B	Ba2	-	EAD		11,110,748	11,110,748	
			Capital		11,110,746	11,110,746	
-	Aaa	AAA	EAD		166,150,601	166,150,601	
			Capital		986,270	986,270	
	A3	AA-	-	EAD		475,730	475,730
				Capital		8,068	8,068
		BBB-	-	EAD		4,945,141	4,945,141
				Capital		419,348	419,348
		-	-	EAD		2,743,913	2,743,913
				Capital		46,537	46,537
	Baa2	AA-	-	EAD		4,505,667	4,505,667
				Capital		30,566	30,566
		A	-	EAD		8,136,835	8,136,835
				Capital		82,800	82,800
	Baa1	AA-	-	EAD		3,513,864	3,513,864
				Capital		23,838	23,838
Total EAD				43,752,864	763,906,390	807,659,254	
Total capital requirement				5,704,583	20,619,663	26,324,246	



The portfolio of securitized positions decreased (net) from an exposure of EUR 866,597,627 as of 31 December 2012 to EUR 807,659,254 as of 31 December 2013.

Applying the weighting percentages to the EUR 807,659,254 of securitization positions, and then the 8 % requirement, a capital requirement of EUR 26,324,246 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 1.86 million was applied as of 31 December 2013.



12. Concluding disclosures

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.

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



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