Argenta Spaarbank nv*

Pillar 3 disclosures

Capital adequacy and risk report

2018

argenta.be

* Including Argenta BVg conso CRR scope

ARGENTA

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1. Introduction

Pursuant to the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV) of the European Union (EU), this report is disclosed on an annual basis. It contains all the information which is relevant to assess the risk profile and capital adequacy of Argenta Spaarbank nv. The report is prepared annually, following a pre-defined method, and validated by management.

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

The Pillar 3 report contains information on all subjects included in the directives and implementing regulations, insofar as they apply to Argenta Spaarbank nv:

- Part eight of CRR (Disclosure by institutions - better known as Pillar 3 disclosures, see section 1.3 for detailed index);
- Disclosure of the leverage ratio (EU No. 575/2013);
- Disclosure of own funds requirements (EU No. 1423/2013);
- Disclosure of encumbered and unencumbered assets (EBA/RTS/2017/03);
- Disclosure of remuneration policy (EBA/GL/2015/22);
- Disclosure of countercyclical capital buffer (EU No. 2015/1555);
- EBA guidelines for pillar 3 disclosures (EBA/GL/2016/11);
- Disclosure of liquidity coverage ratio (LCR) (EBA/GL/2017/01);
- Disclosure of transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01).

Argenta Group has decided to not apply the transitional arrangements to limit the impact of the introduction of IFRS 9 on own funds. This means that the full impact of IFRS 9 is reflected in own funds, capital and leverage ratios from 1 January 2018. For more information on the implementation and impact of IFRS 9, we refer to the IFRS annual report chapter 2.

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

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

1.1. Argenta Spaarbank - Profile

Argenta Spaarbank nv, abbreviated to Aspa (hereafter the Company) is registered in Belgium under Belgian law and has the legal form of a public limited liability company that has made a public call for savings. The Company was established for an unlimited duration and its registered office is situated at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a Belgian credit institution. The Company's core activities consist of attracting funds, offering housing loans to individuals and providing means of payment.

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

The Company and BVg are subject to the CRR and CRD IV legislation and the insurer to the Solvency (II) legislation. Given the dissimilarities between these two sets of 'capital' legislations, a so-called CRR consolidation is required for reporting at the consolidated BVg level.

In other words, this concerns a consolidation without the insurer (i.e. a consolidation of the bank pool with BVg on an unconsolidated basis). Since BVg is a mixed financial holding company with no activities other than providing services to the subsidiary entities, there is only a small difference between the own funds requirements of the Company and those of BVg according to the CRR scope.

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

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

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

1.2. Application framework

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

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

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

At the Company, the IFRS consolidation scope and the CRR consolidation scope (scope according to the CRR guidelines) match. There are therefore no differences between the accounting and regulatory consolidation scopes, so table **LI2** does not apply. For an overview of the entities included in the consolidation, we refer to table **LI3** appended to this report.

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

Although there is no capital link with the Company, the SPV Green Apple entities are consolidated because not all risks and income of the assets have been transferred. Consequently, the loans transferred are reflected in the balance sheet of the Bank Pool.

Further information on these Green Apple SPVs can be found in chapter 15. Exposure to securitisation positions.

In October 2017, Argenta Spaarbank successfully carried out a securitisation transaction. Thereafter, Argenta Spaarbank carried out a new securitisation in June 2018.

On July 30 2018 a new entity was established within the Argenta Group, namely Arvestar. This is a joint venture between Argenta Asset Management (AAM) and Degroof Petercam Asset Management and has the status of a fund manager.

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

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

At the level of the overarching BVg CRR scope, BVg is the consolidating company above the Bank Pool and the participation in the insurance entity is not included in the consolidation but is retained as a participating interest.

1.3. Applied approach and key figures pillar 1

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

The Argenta Group applies the internal rating approach for determining exposure to credit risk on 'retail covered by immovable property', and on financial institutions, corporates and securitisation positions. From June 30, 2018 onwards, after approval by the ECB, the standardised approach has been applied to the CBHK portfolio, which contains retail credits. For all other exposures to credit risk and other risks, it applies the standard approach.

Table **KM1**, also appended to this report, provides an overview of the relevant figures and ratios for the Company at year-end. In the IFRS BVg annual report, this table is included for the BVg consolidated level.

Table 1: Key metrics

		RAF standard	31/12/2017	31/12/2018
Available capital				
1	Common Equity Tier 1 (CET1)		1,895,235,880	1,935,219,831
2	Tier 1 capital		1,895,235,880	1,935,219,831
3	Total capital		2,392,184,698	2,433,021,445
Risk-weighted items				
4	Total risk-weighted assets (RWA)		7,382,269,776	8,381,681,014
Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	15%	25.67%	23.09%
6	Tier 1 capital ratio (%)		25.67%	23.09%
7	Total capital ratio (%)	17%	32.40%	29.03%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirements (2.5% from 2019) (%)		1.25%	1.88%
9	Countercyclical capital buffer requirement (%)		0.06%	0.04%
10	O-SII (Other Systemically Important Institution) capital buffer requirements (%)		0.50%	0.75%
11	Total CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)		1.81%	2.66%
12	% CET1 available to meet buffers after meeting minimum capital requirements (after 4.5% basic requirement)		21.17%	18.59%
Leverage ratio				
13	Baseline total exposure figure for calculating the leverage ratio		39,028,136,237	41,118,817,429
14	Leverage ratio (%) (row 2 / row 13)	4%	4.90%	4.71%
Liquidity Coverage Ratio (LCR)				
15	Total high-quality liquid assets (HQLA)		4,263,345,504	4,654,335,242
16	Total net cash outflow		2,635,902,500	2,732,178,355
17	LCR ratio (%)	125%	161.74%	170.35%
Net Stable Funding Ratio (NSFR)				
18	Total available stable funding		34,250,051,345	36,093,027,715
19	Total required stable funding		23,926,055,763	25,542,778,325
20	NSFR ratio (%)	120%	143.15%	141.30%

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

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

1.4. Detailed index with Pillar 3 references

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

Table 2: Overview CRR articles and their location in the annual reports

CRR article	Pillar 3 disclosure requirements	Location in the annual reports and/or the Pillar 3 report
435	Risk management objectives and policies	Part 5. Risk management (IFRS annual reports)
	Statement on adequacy of risk management arrangements	2. Risk management
	Governance, directors' mandates, pay policy el. al. (Art. 435 2)	Part 8. Corporate Governance (BVg Integrated Activities and Sustainability Report 2018) and Chapter 16. Remuneration Policy
	435.2 (e) data flow risks to management entitities	Reference is made to the governance memoran-dum on the website (www.argenta.be –general – about Argenta)
436	Application framework	1.2. Application framework
437	Equity	3. Equity
	437 (c) conditions Tier 2 issue	Reference is made to the www.argenta.eu website (under debt issuance) for the prospectus of this issue
	437 (f) capital ratios based on the CRR guidelines	All disclosed capital ratios are based on the CRR principles.
438	Capital requirements	4. Capital Requirements and 18. Capital management
439	Exposure to counterparty credit risk	5. Exposure to counterparty credit risk
440	Capital buffers	4. Capital Requirements and 18.Capital Management
441	Indicators of global systemic importance	Not listed because the Argenta Group is not considered as an institution with global systemic importance (see Chapter 4.1).
442	Credit risk adjustments	5.2 Disclosure on Basel exposure categories and 8. Credit risk adjustments
443	Unencumbered assets	9. Encumbered and unencumbered assets
444	Use of ECAIs	10. Use of ratings from external credit assessment institutions (ECAI)
445	Exposure to market risk	11. Exposure to market risk
446	Operational risk	12. Operational risk
447	Exposures to equities not included in the trading book	13. Exposure to equities risk
448	Exposure to interest rate risk on positions not included in the trading book	14. Exposure to interest rate risk
449	Exposure to securitisation positions	15. Exposures related to securitisation positions
450	Remuneration policy	16. Remuneration policy
451	Leverage	17. Leverage
452	Use of the IRB approach to credit risk	7. Use of the (F)IRB method
453	Application of credit risk mitigation techniques	5.3 Credit risk mitigation
454	Use of the Advanced Measurement Approaches to operational risk	12. Operational risk
455	Use of Internal Market Risk Models	11. Exposure to market risk

2. Risk management

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

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

The strategy and long-term policy of all entities within the Argenta Group are determined by the Executive Committee and Board of Directors of the parent company BVg. The two main subsidiaries, the Company and its sister entity Aras, are responsible for operational management within their own areas of competence as established in the Memorandum of Internal Governance.

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

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

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

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

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

In summary, the specialised committees have the following responsibilities:

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

  - Monitoring the adequacy of the remuneration system, with reference to risk management, own funds requirements, liquidity position and the probability and spread over time of the profit.
- Remuneration Committee and Appointments Committee:
  - For the tasks and responsibilities of these two committees, we refer to chapter 16. Remuneration policy

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

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

This results in the daily embedding of risk awareness in first line management and in better and more efficient risk management processes. The Argenta Group continued in 2018 to develop its cautious and transparent risk management with the above-mentioned RAF, policies and procedures.

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

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

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

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

The risk management of the Company distinguishes here, among other things, between the following financial and non-financial risk categories: market risk, liquidity risk, credit risk, operational risk, other risks, and, at BVg level, including insurance risks.

The risk management framework and control systems are based on a risk identification process (the aforementioned RAF), in combination with prevention and control measures. This provides a reasonable degree of certainty that the financial reporting does not contain material misstatements and that the internal risk management and control systems worked well during the 2018 financial year.

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

The risk function has prepared an activity report and RAF reporting for the Risk Committee of the Board of Directors. These documents come to the conclusion that, with respect to the financial risks, the financial result was achieved within Argenta’s budgeted risk appetite for 2018 and within the legal requirements imposed on the risk function. They also pointed to the increasing attention being paid to non-financial risks, with a focus on cyber, outsourcing and compliance risks.

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

For the Executive Committee.

Geert Ameloot (CFO)
Gert Wauters (CRO)

3. Equity

3.1. Accounting equity and calculation of prudential equity

Equity as reported in the consolidated annual report of the Company is determined on the basis of IFRS. The table below reconciles the IFRS accounting equity with the prudential Tier 1 core capital.

Table 3: Reconciliation of accounting equity versus Tier 1 equity

Components	31/12/2017	31/12/2018
Paid-in capital	715,947,400	770,019,400
Revaluation reserve for available-for-sale financial assets	87,020,883	14,196,228
Revaluation pension arrangement	-1,291,058	21,076
Reserves (including retained earnings)	1,041,790,009	1,109,137,174
Profit from the current year	138,986,274	113,880,422
Cash flow hedging	-10,941,067	-8,150,506
Total equity attributable to shareholders of the company	1,971,512,441	1,999,103,794
Non-controlling interests	43,643	107,148
Total equity and non-controlling interest - IFRS annual report	**1,971,556,084**	**1,999,210,942**
Adjustments		
(-) Inapplicable part of interim or year-end results	0	-16,052,625
Applicable profits (earnings from the current financial year)	138,986,274	113,880,422
Non-controlling interests	-43,643	-107,148
Tier 1 core capital before application of prudential filters	**1,971,512,441**	**1,999,103,794**
Fully paid-in capital instruments	715,947,400	770,019,400
Retained earnings	1,180,776,283	1,223,017,596
Cumulative unrealised results	74,788,758	6,066,798
Tier 1 core capital before application of prudential filters	**1,971,512,441**	**1,999,103,794**
Prudential filters		
Reserve for cash flow hedges	10,941,067	8,150,506
Profits and losses (at fair value) deriving from institution's own credit risk in respect of derivative instruments	-6,595,614	-10,820,578
(-) Value adjustments due to requirements for prudential valuation	-6,330,361	-3,894,622
(-) Other intangible assets	-41,980,259	-46,776,652
(-) For IRB, negative difference between credit risk adjustments and expected loss items	-14,907,218	-4,116,471
(-) Deferred tax assets that rely on future profitability excluding those arising from temporary differences	0	-6,426,145
Tier 1 core capital before transitional measures (fully phased-in definition)	**1,912,640,056**	**1,935,219,831**
Other transitional adjustments to Tier 1 core capital	-17,404,177	n.a.
Tier-1 core capital after transitional measures (transitional definition)	**1,895,235,879**	**1,935,219,831**

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

Note on prudential filters

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

- cash flow hedge reserve: the IFRS standards provide for the effective portion of the changes in the fair value of a cash flow hedging instrument to be included in own funds. At end-2018, EUR 8,150,506 was included in this way in own funds. However, in accordance with the CRR, this amount may not be included in determining the prudential own funds;
- gains and losses measured at fair value arising from the institution's own exposure in connection with derivative liabilities: deducted here is the positive impact of own exposure in calculating the market values of derivative instruments. This amounted to EUR 10,820,578 at end-2018;
- value adjustments as a result of the requirements for prudential valuation: this is a specific CRR requirement in the context of a prudent valuation of financial instruments measured at fair value in the IFRS balance sheet (this valuation adjustment amounted to EUR 3,894,622 at end-2018). This 'prudent valuation' adjustment is calculated based on the financial instruments that are carried on the balance sheet at market values and which can impact the result and/or own funds. This adjustment (of 0.1%) is calculated and deducted from the qualifying own funds;
- other intangible assets: the deduction of other intangible assets already existed. In the CRR regulations this item may be reduced by deferred tax liabilities. At end-2018, the net impact amounted to EUR 46,776,652;
- deferred tax assets based on future profitability (excluding those arising from timing differences). At end-2018, these deferred tax assets amounted to EUR 6,426,145;
- in the IRB application: negative difference between exposure adjustments and expected losses: the expected credit losses calculated according to CRR principles were higher than the impairments recorded under IFRS standards. Fully in line with the prudential guidelines, the Company deducted the shortfall from the prudential Tier 1 core capital. At end-2018, the difference between the expected losses (EL) and recorded impairments amounted to EUR 4,116,471.

3.2. Composition of prudential equity and capital ratios

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

3.3. Main features of capital instruments

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

This gives a further disclosure of lines 1 and 46 "capital instruments and the related premium reserves" in the EU 1423-2013 (ii) table appended to this report.

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

Through the way its dividend policy operates - for example, in 2018, the payment of an interim dividend in the last quarter of EUR 62,520,750 (EUR 370 per share), followed by a capital increase of EUR 54,072,000 by shareholders BVg and Investar - the value of the ordinary shares rises systematically.

On 24 May 2016, a Tier 2 issue was successfully completed. The nominal value of the issue amounted to EUR 500 million with a maturity of 10 years with a prepayment option after 5 years. The transaction enables Argenta to contribute to the regulatory bail-in requirements (MREL) and enhances its A- rating from Standard & Poor's. Based on a SRB decision, a MREL requirement of 4.85% applies compared to the total of debts and own funds.

In addition, this transaction further increased Argenta's total capital ratio (TCR) and added a new source of funding in addition to Argenta's strong retail financing model.

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

4. Capital requirements

4.1. Capital requirements

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

This buffer can be up to 2.50%. For 2018, the phase-in was 1.875%, and from the 2018 Supervisory Review and Evaluation Process (SREP), a CCB requirement of 2.50% is now imposed (which applies from 2019).

The Company may also be required to set up a countercyclical capital buffer, which is considered as an additional Tier 1 core capital requirement. This buffer has been introduced to protect the Company against risks arising from the financial cycle and can rise to 2.5%. This requirement came into force in 2016. Both the Belgian and the Dutch regulators have set the rate at 0%, but this requirement is subject to quarterly review. Tables **CCyB1** and **CCyB2** appended to this report provide further details on the institution-specific countercyclical capital buffer. Based on these tables, the institution-specific countercyclical capital buffer amounts to 0.04% at 31 December 2018.

The Belgian regulator has designated the Argenta Group as O-SII or ‘other systemically important institution’. As a result the Company is subject to an additional Tier 1 core capital requirement (O-SII buffer) of 0.75%. This buffer was phased in between 1 January 2016 and 1 January 2018. This meant that an additional 0.50% capital requirement was imposed on the Company in 2017, which was increased by 0.25% in 2018 to 0.75%.

The 3 buffers must be met with CET1 capital (the strongest form of capital).

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

In the SREP framework, the competent supervisory authority can require higher minimum ratios (Pillar 2 requirements) because, for example, not all risks are fully reflected in the Pillar 1 calculations. Based on the SREP process, a capital requirement of 8.875% was applicable for 2018. This consisted of a basic requirement of 4.5%, the CCB of 1.875%, an O-SII buffer of 0.75% and the P2R (pillar 2 requirement) of 1.75%. Furthermore, a countercyclical capital buffer of 0.04% needs to be taken into account. Since the Company has no additional Tier 1 (AT1), the CET 1 requirement is de facto 10.41% (8.91% + 1.5% AT1).

This results in a Total Capital Ratio (TCR) of 12.375% (being 10.375% and 2% Tier 2 requirement). Considering the further phasing-in of the CCB, this requirement will amount to 11% in the course of 2019 and the TCR requirement will be 13%.

The Company amply met all these requirements in 2018 with a CET1 (IRB) of 23.09% and a TCR (IRB) of 29.03%.

4.2. Minimum capital requirements per risk-weighted category

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

Table **OV1**, appended to this report, contains an overview of the risk-weighted assets and minimum capital requirements at the end of the year.

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

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

The increase in risk-weighted items is mainly the result of (a) the increased portfolio of mortgage loans (b) more investments in bonds with a higher weighting (c) more mortgage lending without a NHG guarantee in the Netherlands and (d) an increase in the “add on” in Belgium for mortgage loans, including the macroprudential multiplier of 1.33.

4.3. Capital Ratios

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

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

	31/12/2017	31/12/2017 fully loaded	31/12/2018
Total qualifying capital	2,392,184,698	2,408,008,766	2,433,021,445
Total CET capital	1,895,235,880	1,911,059,948	1,935,219,831
Risk-weighted items	7,382,269,776	7,382,269,776	8,381,681,014
IRB CET1 capital ratio	25.67%	25.89%	23.09%
IRB Tier 1 capital ratio	25.67%	25.89%	23.09%
IRB Total capital ratio (TCR)	32.40%	32.62%	29.03%

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

The total regulated qualifying capital at 31 December and throughout 2018 was exceeding the applicable prudential and internal requirements, and therefore the Company fully complied with all capital requirements.

4.4. Risk-weighted items

The capital requirements for credit risk are calculated as follows:

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

As reflected in the following table, total RWA have increased from EUR 7,382,269,776 at end-2017 to EUR 8,381,681,014 at end-2018. In this way the total capital requirement has risen from EUR 590,581,582 to EUR 670,534,481.

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

	31/12/2017		31/12/2018	
	Basel III RWA	Capital requirement	Basel III RWA	Capital requirement
Credit risk - STA				
Central governments or central banks	9,529,902	762,392	16,960,517	1,356,841
Regional and local governments	107,935,740	8,634,859	99,583,158	7,966,653
Public entities	37,873,188	3,029,855	97,784,790	7,822,783
Institutions	34,264,003	2,741,120	11,472,484	917,799
Corporates	48,029,412	3,842,353	192,584,351	15,406,748
Retail clients	88,758,865	7,100,709	126,855,312	10,148,425
Covered by real estate	183,289,043	14,663,123	347,824,341	27,825,947
Exposures in default	343,152	27,452	17,716,480	1,417,318
Equity	21,150,802	1,692,064	15,469,378	1,237,550
Other items	198,785,199	15,902,816	135,494,164	10,839,533
Securitisation positions	33,138,786	2,651,103	42,460,078	3,396,806
Total credit risk STA	**763,098,093**	**61,047,847**	**1,104,205,052**	**88,336,404**
Credit risk - IRB				
Institutions	616,179,029	49,294,322	564,663,196	45,173,056
Corporates - specialised lending	13,643,459	1,091,477	0	0
Corporates - other	1,141,172,301	91,293,784	1,302,038,165	104,163,053
Covered bonds	28,288,857	2,263,109	0	0
Covered by real estate	2,993,861,925	239,508,954	3,396,270,504	271,701,640
Securitisation positions	106,696,861	8,535,749	76,576,274	6,126,102
Total credit risk IRB	**4,899,842,432**	**391,987,395**	**5,339,548,139**	**427,163,851**
Total credit risk	**5,662,940,526**	**453,035,242**	**6,443,753,191**	**515,500,255**
Add-on for Belgian mortgage loans	572,297,114	45,783,769	783,658,995	62,692,720
Market risk	0	0	0	0
CVA risk	131,256,396	10,500,512	125,458,874	10,036,710
Operational risk	1,015,775,740	81,262,059	1,028,809,953	82,304,796
Total capital requirement	**7,382,269,776**	**590,581,582**	**8,381,681,014**	**670,534,481**

The risk-weighted volume for credit risk (excluding the add ons) calculated by the IRB/STA method was EUR 5,662,940,526 as of 31 December 2017 and evolved to EUR 6,443,753,191 as of 31 December 2018. This resulted in a capital requirement of EUR 515,500,255 (compared with EUR 453,035,242 as of 31 December 2017).

The total capital requirement for all risks (i.e. including the requirement for CVA, the 5% add-on on EAD and 33% add-on on RWA for Belgian loans and the operational risk requirement) amounted to EUR 670,534,481.

Note on capital requirement at BVg consolidated CRR level

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

The very limited difference in CET1 ratio between the Aspa conso and BVg conso CRR scope is mainly the result of the processing of the insurance participation in the equity calculation.

Table 6: Comparison of Aspa and BVg own funds requirements

	Argenta Spaarbank	BVg conso CRR scope Danish Compromise
Core Tier 1 capital	1,935,219,831	2,085,768,703
Tier 2 capital	497,801,614	229,191,081
Total capital	**2,433,021,445**	**2,314,959,784**
Capital requirement of exposures		
weighted according to the STA method	88,336,404	88,364,344
weighted according to the IRB method	427,163,851	427,163,851
IRB participation value insurer(s)	0	52,227,870
Add-on credit risks	62,692,720	62,692,720
CVA (Credit Valuation Adjustment) risk	10,036,710	10,036,710
Operational risk requirement	82,304,796	83,419,874
Total requirement according to IRB/STA	**670,534,481**	**723,905,369**
IRB Common Equity Tier 1 Capital ratio (CET1)	23.09%	23.00%
IRB Tier 1 ratio	23.09%	23.00%
Total Capital Ratio (TCR)	**29.03%**	**25.54%**

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

The CET1 qualifying capital at BVg conso CRR level is higher than at Aspa level. The (CE)T1 ratios at BVg CRR scope and Aspa level are almost identical.

The Common Equity Tier 1 ratio of BVg by the IRB/STA method is 23.00%.

Given the fact that, at BVg level for the Tier 2 issue, 'non-controlling interests' arise owing to the assimilation with equity, this TCR BVg ratio is lower than the TCR of the Company.

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

Overview of capital requirement at Aspa and BVg conso CRR level

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

The IRB CET1 ratio of 23.09% for Argenta Spaarbank (conso) and 23.00% for BVg Conso are the ratios used for comparison with other financial institutions.

Table 7: Overview of Aspa and BVg ratios

	Total Capital Ratio	CET1 ratio	Leverage ratio
Aspa (IRB)	29.03%	23.09%	4.71%
BVg (IRB)	25.54%	23.00%	5.04%

Chapter 17 of these Pillar 3 disclosures gives further detail of the calculation of the leverage ratio.

5. Exposure to counterparty credit risk

5.1. Composition of credit risk

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

Table **LI1**, appended to this report, gives the composition of the credit risk exposure, with a comparison between the financial reporting data (column IFRS annual accounts) and the exposures in the calculation of own funds. In total, EUR 39.26 billion of on-balance sheet exposure is shown in the table concerned.

For derivatives, there was an exposure of EUR 279,761,920. This amount includes an exposure of EUR 83,739,825 positive market value on the assets side of the balance sheet (swaps, swaptions and caps) and an add-on to the nominal amounts of EUR 196,022,095.

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

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

The off-balance sheet items include guarantees given - sureties, credit commitments and unused portions of credit lines. The CRR uses Credit Conversion Factors (CCF) to capture the capital requirement for credit risk.

This conversion factor for the guarantees is 50% or 100%, depending on the type. This has the effect of reducing the exposure from that shown on the balance sheet. Credit commitments and unused portions of credit lines are the parts of loans not yet used. The conversion factor can be 0%, 20%, 50%, 75% or 100% (depending among other things on the approach and product type).

Table 8: Overview of off-balance sheet items at year-end

Related COREP tables	CCF percentages	Exposure 31/12/2017	Exposure 31/12/2018
Table C.07 (STD)	0%	659,765,651	636,515,402
	20%	428,742,172	377,524,556
	50%	3,936,444	5,154,898
	100%	615,015,187	782,487,435
	Total STD approach	1,707,459,454	1,801,682,291
Table C.08 (IRB)	100%	516,999,217	495,244,747
	Total	**2,224,458,672**	**2,296,927,037**
Total weighted risk volume		**159,134,465**	**243,225,518**

The 'unconditionally cancellable credit card commitments' (EUR 659,765,561 as of 31/12/2017 compared to EUR 636,515,402 as of 31/12/2018) are included in the total exposure but carry a 0% credit risk weighting.

5.2. Additional information on the Basel exposure categories

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

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

The following table gives a separate global geographic overview for the Basel category ‘exposures covered by real estate’ (including total of STA and IRB approach). The most important geographical markets in which the Company is active are Belgium and the Netherlands.

Table 9: Geographical distribution of the ‘exposures covered by real estate’

Country	31/12/2017	31/12/2018
BE	12,121,007,303	13,124,336,317
NL	16,335,134,897	17,246,551,271
Other	33,286,229	35,245,936
	28,489,428,429	**30,406,133,524**

The total of EUR 30,406,133,524 is the summation of the total in line 6 of table CRB-B appended to this report (total exposure per 31/12/2018 of EUR 28,754,063,728) and the total in line 26 of that table (total exposure per 31/12/2018 of EUR 1,652,069,796).

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

In addition to private lending in both Belgium and the Netherlands, there is also a significant risk exposure in Belgium to the Belgian government. The geographical breakdown of the investment portfolio, also included in table **CRB-C** appended to this report, is based on the country of the issuer.

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

The remaining terms per IFRS category can be found in the IFRS financial statements published on the Company’s website. Table **CRB-E** appended to this report, indicates the remaining duration of the exposures in the main Basel categories.

5.3. Credit risk mitigation

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

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

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

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

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

Additional details on the property values is included in the IFRS valuation rules and in chapter 5 of the IFRS annual report of Argenta Spaarbank.

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

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

‘Funded credit protection’ is a credit risk mitigation technique whereby the credit risk of the institution’s exposure is limited due to a right that the institution has acquired. In the event of counterparty default or other specified credit events associated with the counterparty, certain assets or items can be liquidated or taken over, or ownership of acquired or retained, or else the exposure can be reduced or replaced by the difference between the exposure itself and a claim on the institution.

Table 10: Overview of exposures per category

	Risk exposure	Unfunded credit protection	Funded credit protection	Total inflow	Adjusted exposure
Central governments or central banks	2,989,600,038	0	0	696,972,926	3,686,572,964
Regional goverment or local authorities	715,381,369	0	0	36,754,325	752,135,694
Public sector entities	247,483,221	-36,754,325	0	0	210,728,896
Institutions	158,742,444	-151,320,620	0	0	7,421,824
Corporates	223,252,950	0	0	5,138,630	228,391,580
Retail	808,064,101	0	0	0	808,064,101
Covered by real estate	1,652,069,797	-545,652,306	0	0	1,106,417,491
Exposures in default	16,817,131	0	0	0	16,817,131
Covered bonds	0	0	0	0	0
Collective investment undertakings	0	0	0	0	0
Equity	20,608,008	-5,138,630	0	0	15,469,378
Other items	351,083,790	0	0	0	351,083,790
Securitisation positions	212,300,389	0	0	0	212,300,389
Totaal exposure (STA)	**7,395,403,238**	**-738,865,881**	**0**	**738,865,881**	**7,395,403,238**
Institutions	2,107,754,458	0	0	0	2,107,754,458
Corporates - specialised lending	0	0	0	0	0
Corporates - other	2,815,794,506	0	0	0	2,815,794,506
Covered bonds	0	0	0	0	0
Covered by real estate	28,754,063,728	0	0	0	28,754,063,728
Securitisation positions	767,162,260	0	0	0	767,162,260
Total exposure (IRB)	**34,444,774,951**	**0**	**0**	**0**	**34,444,774,951**
Total exposures	**41,840,178,189**	**-738,865,881**	**0**	**738,865,881**	**41,840,178,189**

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

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

The unfunded credit protection at the Company can be divided into two groups. This reflects a shift in exposure resulting from government guarantees and guarantees by financial institutions or other companies. Furthermore, the Dutch Mortgage Guarantee (NHG) also exists for Dutch mortgage loans.

The following table breaks down the EUR 151,320,620 of credit protection in the 'Institutions' category.

Table 11: Government guarantees in the 'institutions' category

Guarantee counterparty	Number of securities	Exposure	Guarantee amount
Belgian government	2	54,932,959	54,927,784
French government	1	30,232,531	30,232,107
Spanish government	1	11,996,828	11,992,957
Czech government	2	54,172,662	54,167,772
Total unfunded credit protection - Guarantees in the 'institutions' category			**151,320,620**

The main guarantees for mortgage loans are the properties for which the loans are granted and on which a mortgage can be registered and/or a mortgage mandate can be taken. When assessing a loan, the collateral value is always taken into account. The value of a property can fluctuate, which can impact the assessment of the remaining credit risk. The evolution of property values is therefore monitored systematically and the immovable properties are revalued systematically.

The loan to value (LTV) parameter is, alongside repayment capacity, an important indicator, for assessing the initial risk of new loans (relationship of the loan amount to the initially estimated property value) and later for estimating the remaining risk. The shift in focus from bullet loans to monthly capital repayments in the Netherlands following the legislative changes in 2013 has produced a positive evolution of the loan/collateral value relationship during the duration of the loans. With a bullet loan the total amount is repaid in full only on the final maturity date. During the term of the loan this capital is built up through life insurance or investment accounts.

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

The WEW was established on 10 November 1993 by the Ministry of Housing, Spatial Planning and the Environment (abbreviated to VROM in Dutch) and the Association of Netherlands Municipalities (abbreviated to VNG in Dutch). The background to this was the desire of the central government and the municipalities in the Netherlands to give independent form to the instrument of municipal guarantee with government participation. As of 1 January 1995, this independence became a fact with the introduction of the NHG.

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

The WEW is a private institution which has agreements with the government and the municipalities. In this way the WEW is able to meet its payment obligations at all times. As a result, the Dutch Central Bank (DNB) considers the NHG as a government guarantee. Consequently, loans covered by the NHG generally require less capital from the funds provider. This advantage for lenders is 'returned' to consumers in the form of lower mortgage interest on NHG-backed loans.

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

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

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

5.4. Counterparty risk

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

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

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

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

Counterparty risk derivatives

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

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

First, using the basis point value and the volatility of the market, the possible exposure ('Expected Exposure') is calculated per individual transaction, based on fluctuations in market value of a change in the interest rate by 1 basis point and market volatility. Second, the exposure per transaction is summed per counterparty. Finally, the largest counterparty defaults, assuming no recovery of other collateral next to the collateral already received (LGD of 100%).

5.5. Collateral

Collateral received

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

For such collateral (in this case the properties on which a mortgage registration or mandate is registered), new individual estimates are made whenever loans to which the collateral is attached are deemed in default. All material collateral is reviewed periodically using a statistical method.

Collateral given

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

A well-developed collateral management system exists for derivatives concluded by the Company. A CSA of the International Swaps and Derivatives Association (ISDA) is concluded with each counterparty. These CSAs are concluded primarily to limit the counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (securities or cash). Chapter 9 provides more information on the effectively granted collateral.

There are no explicit rating triggers (except the standard ones included in the basic contracts) provided for in the current contracts concluded with the counterparties of the derivatives. For a downgrade of the Argenta Spaarbank S&P rating by 1 notch (BBB+) no additional collateral is required. The impact on collateral of the derivatives of a downgrade of the rating by 2 or 3 notches (BBB or BBB-) is an increase of 10%, while for a downgrade by 4 or 5 notches (BB+ or BB), a mandatory increase of 20% applies to the collateral.

5.6. Wrong-way risk

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

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

5.7. Requirement for CVA risk

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

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

1. The expected risk is uncertain in terms of size; future cash flows are dependent on future market movements of underlying securities (e.g. interest).
2. A derivative may have, at one time, a positive value and at a later time, a negative value. In this way the derivative changes from asset to liability.

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

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

As of 31.12.2018 an exposure of EUR 125,458,874 was obtained, on which a capital requirement of EUR 10,036,710 was calculated. This amount can be found in table **OV1** appended to this report, which lists the risk weighted items by risk type.

The opposite of the CVA measures the own credit risk. This is called the Debit Valuation Adjustment (DVA). The DVA calculated following IFRS standards amounted to EUR 10,820,578 and was deducted from the qualifying capital.

5.8. Add-ons for Belgian mortgage loans

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

A RWA of EUR 783,658,995 was obtained, on which a capital requirement of EUR 62,692,720 was calculated. This additional capital requirement was included in the calculation as of 31 December 2018.

5.9. Derivatives

At the end of 2018, the Company had on its balance sheet only derivative instruments (in the form of caps, swaptions and swaps) concluded in the context of interest rate risk management. It has no credit derivatives. The Company uses the 'mark-to-market' valuation approach for calculating capital requirements for its derivatives. The exposure here is equal to the sum of the following elements:

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

The percentage is determined as follows based on the remaining life:

One year or less	0%
One to five years	0.5%
More than five years	1.5%

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

The current replacement cost based on the market value of the transactions with a positive value was EUR 83,739,826 and the potential future credit risk was EUR 196,022,095. We refer to **CCR1** for the overview of exposures to counterparty risk.

The EUR 83,739,826 is included the IFRS balance sheet in caption "financial assets held for trading" (EUR 10,028,699) and "derivatives used for hedging" (EUR 73,711,127).

The Company uses a central clearing institution (CCP) for a large part of its derivative instruments. Table **CCR8**, appended to this report, shows the exposure to ABN Amro (which also acts as a central clearing institution for the Company).

The global exposure to ABN Amro amounts to EUR 107.2 million, of which EUR 102 million relates to the central clearing of derivative instruments.

6. Use of the standard approach

The Company uses the standard approach for determining the credit risk for several categories. These categories are detailed in table 5 “Total risk-weighted assets and capital requirements per category” and table **CRB-B** “Total and average values of exposures by exposure category” appended to this report.

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

Table 12: Exposures applying STA approach at year-end

	RWA 31/12/2017	RWA 31/12/2018
Exposure - standard approach	763,098,093	1,104,205,052
Exposure - standard approach without securitisation positions	729,959,307	1,061,744,975

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

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

The higher of the two calculations should be taken as the requirement. At the end of 2018, the amount calculated by the STA method was higher than the one calculated by the IRB method. An additional EUR 1,622,910,367 of RWA was therefore included in the IRB category ‘secured by real estate’.

7. Use of the (F)IRB method

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

Table 13: Exposures applying IRB approach at year-end

	RWA 31/12/2017	RWA 31/12/2018
Internal ratings-based approach (IRB)	4,899,842,432	5,339,548,139
IRB approach where neither self-estimated LGD parameters nor conversion factors are used	1,799,283,647	1,866,701,361
Institutions	644,467,886	564,663,196
Corporates	1,154,815,761	1,302,038,165
IRB approach using own LGD calculations and/or own conversion factors	2,993,861,925	3,396,270,504
Retail - covered by real estate	2,993,861,925	3,396,270,504
Securitisation positions	106,696,861	76,576,274

7.1. Credit risk - (F) IRB approval

From reporting date 30 September 2009 onwards, the IRB method has been used for the mortgage portfolios, except for the so-called CBHK portfolio for which the standard approach has been applied as from 30 June 2018. The Company applies here a 10% LGD floor for its mortgage loans including the Dutch NHG mortgage loans.

From 2012, the (F)IRB approach is also be used for the following portfolios: corporates, institutions and covered bonds.

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

7.2. Internal rating systems

7.2.1. Structure of the internal rating systems

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

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

The PD model assigns a score to each loan file. This scoring is based on variables with associated modalities relating to both product and borrower criteria. Based on these scores, risk categories are created. A long-term PD is allocated to each risk category. This is the historic average default percentage, corrected for 'forward-looking' or to reflect model uncertainty.

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

LGD models were developed for estimating the size of the loss. This LGD pooling is also based on several variables. Each LGD pool is allocated 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 of the specific pool. This estimate takes into account aspects such as property values and the NHG guarantee (as credit risk mitigation elements). The historic averages are corrected to reflect any economic downturn.

The EAD (Exposure at Default) is the amount owed to the Company by the customer at the time of default. This includes the outstanding capital at the time of default, past due capital repayments and interest (from the past due date to the date of default), late payment interest and the reinvestment fee.

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

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

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

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

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

The implementation and embedding in the operational credit departments is followed up on the basis of the use test. This aspect involves, among other things, the implementation of the models in the operational business and risk management environment (credit application and the Basel II scoring, measurement and calculation software).

The Credit Risk Management Support (CRMS) department monitors the performance of the models for the mortgage portfolios, gathering the necessary monitoring information and reporting on it internally. The tasks of this department are described in the internal 'Credit risk policy - retail loans' policy.
The operational loan departments are are responsible for granting and managing loans in accordance with the prevailing internal authorisation and acceptance frameworks and the approval and management procedures applicable to each product and/or jurisdiction. They operate in a fully Basel-compliant manner, actively using the PD, LGD and EAD models in their processes and procedures and devoting the necessary time and attention to the effective embedding of all relevant Basel II standards and rules (risk-based acceptance).

The Credit Risk Analysis (CRA) department of the Financial Management department provides an analogous monitoring process for the performance of the models for exposures to corporates, institutions and covered bonds.

This process, together with the underlying tasks and responsibilities, is also described in a comprehensive internal policy 'internal credit risk models (retail and non-retail)'. This policy aims to verify that the internal credit risk models indicate correctly the risk levels of the credits to which they relate, via:

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

7.2.3. Organisation of the (F)IRB process

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

Within the governance framework for managing credit risk models and the project systems designed for this purpose, the Risk & Validation department has a specific second line role in the (further) development of the internal models. This consists, for the Risk department, of critical evaluation of and independent risk checks on the prepared reports and, for the Validation department, of running through the validation cycle.

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

Validation of the models is performed by the internal validator (validation unit) within the Risk & Validation department that reports hierarchically to the CRO. The validator (validation unit) is independent of both the business and the developers/modellers. The validator's task is defined clearly and concretely in a Model Risk Management Framework (MRMF).

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 compliant with the regulations.

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

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

The Credit & Insurance Risk Management Support department and the Financial Management department analyse the frequency, reasons and types of deviations from model outcomes and the way these are handled. They also draw up the (generally) annual review report on the models. The review report proposes targeted actions for optimising the performance of models such as the addition of supplementary variables. In this way, models are adjusted or recalibrated.

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

Internal audit

Internal audit has, over the past few years, continuously undertaken audits in respect of Basel pillar 1 credit risk. The Internal Audit department is responsible for determining whether a bank wishing to qualify for the advanced approach to credit risk under Basel meets all the minimum requirements. For this, the department needs the services of independent in-house and outside experts as well as using the results of the validator, once the validation activities have been audited.

Stress tests

Besides implementing and reporting on the back testing of the internal measurement systems used to determine PD, LGD and EAD, Credit & Insurance Risk Management Support and Financial Management carry out stress tests as indicated by Risk. Stress testing consists of measuring the effects of serious but plausible economic conditions on the institution's own portfolio. The results of the stress tests provide insight into the effects of potential unfavourable economic developments on the Company's risk profile.

The stress tests are conducted on the credit risk in the retail and non-retail portfolios with the following aims:

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

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

7.3. Models developed

7.3.1. Internal credit risk models for exposure to retail customers

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

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

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

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

As mentioned, the regulator has made the application of the existing model to the Dutch portfolio conditional on systematic comparisons being made between the STA-based and the IRB-based calculations.

Pooling - allocation to risk categories

The individual exposures are each assigned to a PD risk category (11 PD categories for Aspa credits and 9 for the Dutch sub-portfolio). Defaulted loans are classified into the default category. Each category or pool in the portfolio in question consists of loans with a similar risk profile. The best risks are those in class 1, the worst in the lowest class (the default class). The intention, in determining the number of risk categories, was to divide loans into a maximum number of risk categories that are significantly different from each other.

The results of these models and all relevant analyses are discussed on the Credit Risk Committee (Kreco) for retail portfolios. All model-technical matters are discussed in the Model Overview Committee (Moco).

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

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

These analyses are all subject to a systematic risk check as part of an annually recurring process. Before inclusion in the portfolio, every bank and corporate is assigned an internal rating, in accordance with the (F)IRB framework that has been ratified and implemented at Argenta, and which is reviewed at least annually. The results of these rating reviews are discussed in the monthly Rating Consultation, and finally in the Alco (Asset & Liability Committee).

The underlying rating models for the non-retail portfolio were developed by S&P with around twenty variables taken into account for each debtor.

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

7.4. Exposures by the (F)IRB method

The table **CCR4**, added in attachment, gives an overview of the exposure, average PD, average LGD, RWA and average risk weighting as at 31 December 2018 (of the categories institutions and corporates).

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

In the RWA calculation of the mortgage loans, however, the required LGD floor of 10% is used instead of the effective LGD. For the off-balance sheet items (consisting of unused credit lines and binding offers - the 'pipeline') a standard CCF of 100% is used. The PD%s include the defaults (for the definition see 8.1).

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

Table 14: Overview EL per mortgage sub-portfolio

	ASPA	The Netherlands	Total
Total provisions recognised	7,705,104	12,804,284	20,509,388
ELeff lgd	7,073,786	11,939,223	19,013,009
> non-defaults	2,157,472	6,590,666	8,748,138
> defaults	4,916,315	5,348,556	10,264,871
ELlgd floor	8,787,664	13,827,226	22,614,891
> non-defaults	3,871,349	8,478,670	12,350,020
> defaults	4,916,315	5,348,556	10,264,871

The EUR 10,264,871 are the individual provisions recognised on the default group (100% PD) in the “covered by real estate” category.

As of 31 December 2018 the total EL (with the effective LGD) for both defaults and non-defaults was EUR 19,013,009. Applying the LGD floor of 10% gives an EL of EUR 22,614,891.

For the individual mortgage loans processed according to the IRB approach, a total of EUR 20,509,388 of provisions were set up. These contain both the individual stage 3 provisions and the stages 1 and 2 provisions.

Since 2008, a collective IBNR provision has also been set up for those mortgage portfolios for which IRB models have been developed. From 1 January 2018, these have been replaced at the consolidated level by the stage 1 and stage 2 impairments.

Table **CR6** appended to this report groups the exposures per PD grade for the main exposure category, viz. ‘covered by real estate’ as of 31/12/2018. These exposures are processed according to the IRB(A) method.

The average PD for the exposure category ’covered by immovable property - non-SMEs’ was 0.78% and the average LGD was 11.13%. The overview in table CR6 does not include the regulatory add-ons (floor for Dutch loans and add-ons for Belgian mortgage loans). If these add-ons are taken into account a total amount of EUR 4,180 million is obtained for the risk-weighted assets, leading to a density of the risk-weighted assets of 14.53%.

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

Table 15: Overview LGD and PD per geographical location

Country	Original on-balance-sheet gross exposures	Off-balance-sheet exposures gross CCF*	Average CCF	EAD post CRM and post CCF*	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
European Union (Total)	**28,293,784,893**	**467,071,651**	**100%**	**28,760,856,543**	**0.78%**	**216,139**	**11.13%**	**7,559**	**1,772,834,006**	**6.16%**	**22,611,092**	
BE	11,897,100,207	234,383,748	100%	12,131,483,955	0.64%	114,518	10.00%	6,426	526,287,553	4.34%	8,473,414	
DE	2,170,549	-	100%	2,170,549	0.15%	18	10.00%	5,960	69,042	3.18%	336	
ES	2,154,630	-	100%	2,154,630	26.15%	22	10.00%	4,240	51,244	2.38%	230,762	
FR	6,244,967	-	100%	6,244,967	0.27%	71	10.00%	5,295	263,100	4.21%	1,711	
GB	2,127,282	-	100%	2,127,282	0.18%	25	10.00%	5,487	62,683	2.95%	391	
IE	44,070	-	100%	44,070	0.03%	1	10.00%	1,128	431	0.98%	1	
LU	3,678,666	7,600	100%	3,686,266	0.25%	33	10.00%	5,916	165,177	4.48%	938	
NL	16,376,018,884	232,680,303	100%	16,608,699,187	0.88%	101,414	11.95%	8,389	1,245,525,258	7.50%	13,902,875	
SE	893,987	-	100%	893,987	0.29%	9	10.00%	4,750	40,442	4.52%	262	
Other EU countries	3,351,652	-	100%	3,351,652	6.82%	28	10.00%	5,628	369,077	11.01%	399	
North-America (Total)	**2,586,869**	**-**	**100%**	**2,586,869**	**0.28%**	**23**	**10.00%**	**5,645**	**100,677**	**3.89%**	**717**	
CA	846,607	-	100%	846,607	0.14%	7	10.00%	6,553	25,414	3.00%	114	
US	1,740,262	-	100%	1,740,262	0.35%	16	10.00%	5,203	75,263	4.32%	602	
Other geographical areas	**10,872,140**	**257,564**	**100%**	**11,129,704**	**0.28%**	**99**	**10.00%**	**4,972**	**425,454**	**3.82%**	**3,082**	
Total	**28,307,243,901**	**467,329,215**	**100%**	**28,774,573,116**	**0.78%**	**216,261**	**11.13%**	**7,558**	**1,773,360,137**	**6.16%**	**22,614,891**	**20,509,388**

Evolution of the Loss Given Default (LGD)

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

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

Exposure category	LGD scale	Arithmetic average LGD per debtor	Number of obligors		Average annual LGD in the past
			End of previous year	End of year	
Belgium	1	N.A.	80,512	80,045	3.01%
Belgium	2	N.A.	50,216	52,172	6.65%
Belgium	3	N.A.	-	-	-
Belgium	4	N.A.	1,756	1,134	4.79%
Belgium	5	N.A.	22,689	24,083	2.15%
Belgium	6	N.A.	25,497	29,306	6.77%
The Netherlands	1	N.A.	5,500	6,959	3.66%
The Netherlands	2	N.A.	7,488	11,303	7.62%
The Netherlands	3	N.A.	60,884	53,840	7.05%
The Netherlands	4	N.A.	16,164	20,135	9.08%
The Netherlands	5	N.A.	6,125	5,946	13.89%
The Netherlands	6	N.A.	7,125	8,069	24.21%
The Netherlands	7	N.A.	74	25	24.87%

For the Belgian mortgage portfolio, one can observe a decrease in the average annual loss given default. This can be mainly explained by the increasing size of cured credit files (these are files where arrears have been settled by the client and the normal contractual relationship with the customer has been resumed). It should be noted that, in determining risk-weighted capital, a lower limit (floor) of 10% is imposed on the LGD figures, as a result of which there is no impact on the capital requirement.

For the Dutch loan portfolio there has been a decrease in the LGD figures for categories 3, 6 and 7, while an increase can be noted for the other classes. This increase lies in the categories for which the dynamic loan-to-foreclosure value is lower than 100%. The LGD figures for these categories are already below the 10% floor.

Backtesting the probability of default (PD)

Based on the data given in table **CR9** (see appendix), an insight can be obtained into the evolution of the “probability of default” for various mortgage sub-portfolios.

Column a shows the various categories used in the IRB modelling. Columns d and e contain the average PD figures on the situation date of 31 December 2018, weighted on the basis of exposure or unweighted respectively.

Subsequently, columns f and g indicate the number of obligors on the situation date of 31 December 2017 on the one hand and on 31 December 2018 on the other hand. Columns h and i show the number of borrower defaults during the past year (for existing loans and for customers newly acquired during the past year respectively) and, lastly, column j indicates the historical average PD.

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

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

Breakdown into pool/grades

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

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

Pool/grade	PD%	Corporates 2017	Institutions 2017	Pool/Grade	PD%	Corporates 2018	Institutions 2018
1	-	0	0	1	0.03%	0	24,507,935
5	0.03%	0	24,506,825	5	-	0	0
6	-	0	0	6	0.03%	0	154,352,907
7	0.03%	0	69,142,935	7	-	0	0
8	0.03%	103,953,597	147,337,491	8	0.03%	170,858,055	175,604,340
10	0.05%	497,528,952	457,151,910	10	-	0	0
11	-	0	0	11	0.04%	381,305,877	324,848,671
13	0.09%	228,434,846	239,088,181	13	-	0	0
14	-	0	0	14	0.08%	291,921,918	784,621,188
16	0.12%	198,958,901	419,779,105	16	0.12%	350,301,181	541,705,797
18	0.13%	409,585,131	433,130,816	18	0.12%	371,847,316	72,049,805
21	0.20%	477,831,195	45,787,678	21	-	0	0
22	-	0	0	22	0.20%	630,776,742	30,312,486
28	0.46%	386,170,720	0	28	0.44%	408,691,350	0
30	0.46%	93,284,344	0	30	0.44%	146,993,475	0
36	0.74%	51,962,034	0	36	-	0	0
37	-	0	0	37	0.72%	64,862,882	0
Total exposure		**2,447,709,720**	**1,835,924,939**	**Total exposure**		**2,817,558,796**	**2,108,003,128**
RWAs		**1,141,172,301**	**644,467,886**	**RWAs**		**1,302,038,165**	**564,663,196**
Capital require-ment		**91,293,784**	**51,557,431**	**Capital requirement**		**104,163,053**	**45,173,056**

Overview of flows of risk-weighted assets

Table **CR8** appended to this report shows the evolution of the risk-weighted assets of the most important IRB category, viz. the “covered by real estate” category. The figures in this table are exluding the add-ons where the IRB method results in a lower RWA than the one calculated according to the standard method.

This is an overview of the evolution as a result of full and partial capital repayments, changes in PD and/or LGD classes (including defaults), changes as a result of the annual calibration of the PD and LGD values and new production. The improvement of quality as a result of the migration in PD and LGD classes and the model adjustments as a result of the annual PD recalibration have led to a decrease in RWA (IRB) for the Belgian loan portfolio (a LGD floor of 10% applies as standard). The main driver in asset quality is the migration in the PD classes and to a lesser extent the LGD.

The decrease in RWA (IRB) for the Dutch portfolio is mainly due to the annual PD and LGD recalibration and partly due to the migration in PD and LGD classes. A new LGD value is calculated every year for the Netherlands. Currently, a LGD floor of 10% applies for LGD classes 1 through 4.

8. Credit risk adjustments

For a more detailed explanation of the credit risk (management) and the valuation rules in force, we refer to chapter 5.3. Credit risk and 2. Accounting policies - Valuation rules - Impairments, in the Argenta Spaarbank IFRS annual report (available on www.argenta.be and www.argenta.eu).

8.1. Definition of 'past due' and 'in default'

A loan is considered as 'past due' in the prudential reporting if the borrower is more than one month and more than EUR 25 in arrears with payments. In the prudential reporting and accounting, a credit is recorded as 'in default' when:

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

Loans, which are considered to be in default, are consequently reviewed (taking into account also the collateral received) to see whether impairments need to be recognised.

An internal project is ongoing to implement the new EBA default definition in the second semester of 2019. During this "definition of default" (DoD) project, adjustments are being made where necessary to the system in the valuation batches, the product applications and the respective valuation rules and policies.

8.2. Disclosures on the credit quality of the exposures

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

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

Country	Past due exposure 2017	Past due exposure 2018
BE	68,930,553	38,505,962
NL	70,459,358	71,370,065
Other	1,158,806	785,130
Total past due exposures	**140,548,717**	**110,661,156**

These are the total exposures by applying the IRB method.

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

From 1 January 2018, impairments are recorded based on the stages 1, 2 and 3 system of IFRS 9.

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

Table 19: Overview of recorded impairments

	01/01/2018	Increase due to origination and acquisition	Decrease due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in allowances due to write-offs	Other changes	31/12/2018
Stage 1	**-3,170,772**	**-1,362,428**	**780,548**	**809,973**	**602**		**-80,160**	**-3,022,237**
Fixed-income securities	-1,213,920	-520,201	294,754	-349,106	0		-15,407	-1,803,880
Loans and advances	-1,956,852	-842,227	485,794	1,159,079	602		-64,753	-1,218,357
Stage 2	**-13,459,428**	**-874,622**	**1,558,582**	**3,503,310**	**30,677**		**-998,241**	**-10,239,722**
Fixed-income securities	-964,113	0	197,969	280,105	0		0	-486,039
Loans and advances	-12,495,315	-874,622	1,360,613	3,223,205	30,677		-998,241	-9,753,683
Stage 3	**-20,331,261**	**-227,559**	**8,483,689**	**-10,842,227**	**257,861**	**10,097,573**	**0**	**-12,561,924**
Fixed-income securities	0	0	0	0	0	0	0	0
Loans and advances	-20,331,261	-227,559	8,483,689	-10,842,227	257,861	10,097,573	0	-12,561,924
Total provisions on commitments and financial guarantees given	**-499,014**	**-2,528,826**	**1,862,993**	**-181,287**	**228,064**	**0**	**-18,741**	**-1,136,811**
Stage 1	-439,619	-2,489,439	1,699,202	81,711	116,829		-7,146	-1,038,462
Stage 2	-59,395	-39,387	163,791	-262,998	111,235		-11,595	-98,349
Stage 3	0	0	0	0	0	0	0	0

As per 31/12/2017, individual provisions of EUR 20,331,261 were recorded on the balance sheet and an IBNR provision of EUR 6,240,696. At 31/12/2018 the stage 3 provisions amounted to EUR 12,561,924 and the stage 1 and 2 provisions (including the provision for off-balance sheet commitments) amounted to EUR 14,398,770.

The value adjustments had a positive effect on the income statement, partly due to a limited reversal of the IFRS 9 impairments taken through equity and to the good economic growth in Belgium and the Netherlands, resulting in rising property values and lower unemployment.

In table **CR1-C** appended to this report, the global exposure, with indication of credit quality, is broken down by geographic area.

9. Encumbered and unencumbered assets

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

Table 20: Overview of encumbered assets

	31/12/2017 nominal value	31/12/2017 market value	31/12/2018 nominal value	31/12/2018 market value	av. 2018 nominal value	av. 2018 market value
Collateral for derivatives (caps and swaps)	466,630,300	515,786,689	371,160,000	412,719,719	381,368,425	429,263,876
Collateral for repo transactions	0	0	0	0	0	0
Collateral for Bank Card Company	31,750,000	32,424,413	43,500,000	43,595,212	43,500,000	44,447,120
Total collateral given	**498,380,300**	**548,211,102**	**414,660,000**	**456,314,931**	**424,868,425**	**473,710,996**
Cash paid (derivatives)		22,286,000		33,487,068		23,110,767
Cash received (derivatives)		74,941,976		3,842,727		62,821,293
Net cash (derivatives)		**-52,655,976**		**29,644,341**		**-39,710,526**
Collateral NBB credit line	**250,000,000**	**259,573,950**	**250,000,000**	**256,135,687**	**250,000,000**	**257,854,818**

At end-2018 a nominal EUR 371,160,000 of assets were encumbered in the context of derivatives and repos and a nominal EUR 43.5 million in connection with the use of credit cards by clients of the Company. In the context of the collateral management EUR 33,487,068 in cash was paid in respect of derivatives and another EUR 3,842,727 was received in cash.

The sources of encumbrance are:

- collateral in the context of collateral management of derivatives (the Company concludes derivatives solely for managing its own interest rate risk). A well-developed collateral management system exists for derivatives concluded by the Company. A Credit Support Annexe (CSA) of the International Swaps and Derivatives Association (ISDA) is concluded with each counterparty. These CSAs are concluded primarily to minimise counterparty risk. Changes in the market value of the derivatives lead to the exchange of collateral (securities or cash).
- collateral for periodic repurchase agreements. The global framework for using repos has been elaborated but it is not an active part of the funding policy.
- collateral for the company Bank Card Company (BCC) in connection with the issuance and payment flows of payment cards. The amount of collateral given is stable and is periodically reviewed.
- possible collateral at the NBB under the Company's credit line with it. Given that the credit line is not used, the potential amount of collateral remains constant.
  The Company has a EUR 250 million credit line with the NBB, for which securities will be encumbered as and when this credit line is used.

The Company has until further notice not issued covered bonds. However, on 31/12/2018, there are securitised loans but these are again included in the balance sheet at the consolidated level.

Except from the collaterals mentioned above, no other assets of the Company were encumbered. The remaining assets on the balance sheet can therefore be seen as unencumbered. Table (**AE-Template A**) appended to this report provides an overview of the encumbered and unencumbered assets.

At the end of 2018 no other collateral was received than the already mentioned cash collateral. This collateral was included in the balance sheet so that template B on ‘collateral received’ does not need to be explicitly included.

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

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

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

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

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

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

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

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

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

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

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

Table 21: Overview of Basel STA categories for which ratings are used at year-end

Exposure (STA)	Exposure 31/12/2017	Exposure 31/12/2018
Central governments or central banks	3,317,360,825	2,989,600,038
Regional and local governments	911,923,981	715,381,369
Public entities	214,365,938	247,483,221
Institutions	360,666,809	158,742,444
Corporates	88,651,405	223,252,950
Equity (participating interests)	21,150,802	20,608,008
Securitisation positions	165,693,932	212,300,389

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

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

11. Exposure to market risk

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

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

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

12. Operational risk and other risks

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

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

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

Based on the three-year average of the sum of annual capital requirements for operational risk, the Company was required to hold EUR 82,304,796 of capital at 31 December 2018.

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

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

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

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

13. Exposure to equity

In addition to a limited number of strategic equity investments, the Bank Pool also holds a number of positions in individual shares (from an investment perspective).

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

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

In 2018, no gain was realised on this limited portfolio.

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

Table 22: Overview of shares according to STA approach

	Carrying value	Market value	Unrealised gain/ loss	Realised gain/ loss
Strategic participations	62,498	62,498	0	0
Investments				
Listed	4,939,117	6,587,685	1,648,567	0
Private equity	0	0	0	0
Other	0	0	0	0
Subordinated loans	13,869,303	13,960,724	91,421	0
Total	**18,870,918**	**20,610,906**	**1,739,988**	**0**

Shares traded on active markets are accounted for at market value. For the very limited portfolio of strategic shares, the book value serves as market value.

Processing the insurance participation at BVg CRR scope level

At BVg level the participation in the insurance pool is - as already explained - treated as an exposure using the Danish Compromise (DC) and weighted under the IRB approach at 370%.

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

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

14. Exposure to interest rate risk

This section gives further information on the assumptions used by the Company in monitoring the Interest Rate Risk in the Banking Book (IRRBB). A detailed description can be found in chapter 5 of the IFRS annual report.

Interest rate risk is defined as the current and future exposure of an institution's profitability and equity in the event of adverse market interest rate movements. The 'banking book' consists of all interest-bearing components of the institution's balance sheet not belonging to the trading portfolio.

Non-interest-bearing assets (including non-interest-bearing elements of the institution's required regulatory capital) are not included in the banking book. The Company's interest-bearing assets belong exclusively to the banking book.

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

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

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

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

The greater the mismatch, the greater the interest rate sensitivity. The interest rate sensitivity is measured and reported in terms of the sensitivity of the economic value and the interest result to a change in the interest curve using different interest rate scenarios. In calculating the sensitivity of the interest result, the business and basic risk are also taken into account in addition to the interest risk.

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

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

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

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

The ALM interest rate risk management system examines the impact of a determined spectrum of interest rate scenarios. Conservatively, for income analyses, a flat-balance hypothesis (i.e. unchanged balance sheet size and balance sheet mix) is applied. In addition, these can also be calculated dynamically based on the business plan.

Assumptions concerning the behaviour of deposits with no fixed maturity

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

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

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

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

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

Since the end of 2018, internally developed replicating models have also been used for internal simulations for savings accounts in the Netherlands and current accounts in Belgium. For the Netherlands savings accounts this is conceptually the same model as for the Belgium savings accounts. For Belgian current accounts the process is simpler, as these are not a tariff and volume- sensitive product, but a purely volume-sensitive product.

Assumptions with regard to option risk

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

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

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

These behavioural models are subject to the Model Risk Management Framework and must follow a model cycle linked to their importance in order to keep them in line with the observed prepayment behaviour.

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

Treatment of 'pipeline risk'

In the period between the approval of a mortgage loan and execution of the notary deeds, market interest rate fluctuations can influence the interest rate at which the mortgage loan is eventually completed. In the situation of rising interest rates, the customer is still able to enjoy the rate which was valid when the mortgage loan was applied for.

On the other hand, in situation of decreased interest rates, the customer can opt for the rate which applies immediately before the notary deeds are signed.

During this period, during which loans have been confirmed for which the rate is not yet established, there is an exposure to pipeline risk. From an economic value perspective, pipeline risk is always included in the interest rate exposure calculation.

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

15. Exposure to securitisation positions.

15.1. Own securitisations

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

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

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

The Company has itself purchased the B and C notes issued by the SPVs with an outstanding exposure of EUR 279,966,072. A notional EUR 1.2 billion (Green Apple 2017-I-NHG) and a notional EUR 1 billion (Green Apple 2018-I-NHG) of notes were initially placed with institutional investors. There are no off-balance sheet exposures for these securitisations. Further securitisations are planned in the context of the general funding plan.

Under IFRS, the Green Apple SPVs - which have carried out the securitisation transactions - are fully consolidated. In this way the underlying Dutch mortgage loans come back onto the consolidated entity's balance sheet.

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

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

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

Table 23: Overview of exposures of own securitisations

Total exposure	Performing	Non-performing	Of which: past due	Accumulated impairments	Of which stage 1:	Of which stage 2:	Of which stage 3:
2,272,215,885	2,269,096,758	3,119,127	1,981,726	194,538	14,131	129,576	50,651

The impairments recorded on own securitisations (based on the loans from both entities that are included as exposure in the calculation of the credit risk requirements) amount to EUR 194,538 in 2018, of which EUR 14,131 for stage 1, EUR 129,576 for stage 2 and finally EUR 50,651 for stage 3.

Role as originator in securitisation transactions

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

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

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

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

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

CRR approaches applied

For its own securitisations, the Company assesses that there is no significant transfer of credit risk and the securitised exposures are included under the own equity requirements instead of the B and C notes bought by the Company itself.

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

The securitisation transactions do not envisage a release of capital and, at the level of Argenta Spaarbank solo, a capital requirement is calculated for all securitised loans. This replaces the calculation of a capital requirement for the (purchased) B and C notes. For this reason a capital requirement is calculated for the underlying loans instead of the issued notes that were purchased by the company.

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

Accounting policies

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

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

The B and C notes of the Green Apple 2017-I-NHG and Green Apple 2018-I-NHG issues are recognised at amortised cost at unconsolidated level, given the intention to retain these securities until call date. At consolidated level, these notes are eliminated and the loans are recorded onto the Company's balance sheet.

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

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

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

Periodically (and immediately after the granting of the loans) loans are also sold by the Company to sister entity Argenta Assurannties, independently of the implemented and aforementioned securitisations.

15.2. Portfolio of securitisation positions

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

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

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

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

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

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

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

Table 24: Geographic distribution of securitisation exposures at year-end

Type of securitisation	Country	Exposure 2017	Exposure 2018
MBS	BE	23,431,633	17,678,755
MBS	ES	22,050,474	17,631,199
MBS	FR	39,091,729	25,340,006
MBS	GB	14,829,162	14,752,878
MBS	IE	32,416,706	29,788,052
MBS	NL	762,420,957	657,253,286
ABS	DE	20,680,302	48,639,180
ABS	ES	26,063,442	0
ABS	FR	25,623,978	14,977,848
ABS	IE	21,300,104	18,821,212
ABS	LU	74,926,547	101,793,541
ABS	NL	23,163,002	28,072,080
ABS	US	7,242,797	4,730,557
Total securitisation positions		**1,093,240,831**	**979,478,592**

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

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

Table 25: Overview EADs and capital requirements of securitisation positions

S&P rating	MDY rating	Fitch rating		ABS	MBS	Total
	Aaa		EAD	61,772,816	19,192,681	80,965,497
			Capital requirement	988,349	113,928	1,102,277
		AAA	EAD	50,751,303	319,370,680	370,121,983
			Capital requirement	812,008	1,895,784	2,707,792
		A+	EAD		1,041,053	1,041,053
			Capital requirement		8,828	8,828
	Aa1	AAA	EAD		3,648,368	3,648,368
			Capital requirement		24,751	24,751
		A+	EAD		4,217,130	4,217,130
			Capital requirement		35,761	35,761
A+	Aaa	B	EAD		2,345,100	2,345,100
			Capital requirement		19,886	19,886
AA	Aa2		EAD		1,886,960	1,886,960
			Capital requirement		12,801	12,801
AA+	Aaa	AAA	EAD	4,730,557		4,730,557
			Capital requirement	80,230		80,230
AAA			EAD	26,195,589	5.408.659	31.604.248
			Capital requirement	419,123	32.106	451.228
		AAA	EAD	23,454,900	83,887,283	107,342,184
			Capital requirement	375,272	497,955	873,227
	Aaa		EAD	47,793,844	61,314,462	109,108,306
			Capital requirement	764,689	363,963	1,128,652
		AAA	EAD	2,335,408	252,253,058	254,588,466
			Capital requirement	37,366	1,497,374	1,534,740
	Aa1	A+	EAD		2,285,944	2,285,944
			Capital requirement		15,508	15,508
B-	B2		EAD		1,499,457	1,499,457
			Capital requirement		1,499,457	1,499,457
AA-	Aa1		EAD		4,093,340	4,093,340
			Capital requirement		27,769	27,769
Total EAD				**217,034,417**	**762,444,175**	**979,478,592**
Total capital requirement				**3,477,036**	**6,045,872**	**9,522,908**

The portfolio of securitisation positions has fallen slightly from an exposure of EUR 1,093,240,831 as of 31 December 2017 to EUR 979,478,592 as of 31 December 2018.

After the application of the weighting percentages and the 8% requirement, a capital requirement of EUR 9,522,908 (compared to EUR 11,186,852 on 31/12/2017) was obtained for these purchased securitisation positions.

The Company buys only tranches with the highest credit quality (see table above with the indication of ratings) and does not have to deduct amounts from its eligible capital (Article 444 (e) CRR). No credit risk mitigations are applied either for these exposures in the capital calculations.

There is one position with an S&P rating of B- that is weighted at 1,250% at 31 December 2018 and for which the EAD amounts to EUR 1,499,457. The reason for the downgrade of this position is the losses incurred in the transactions (reserve funds are fully used). However, for the A tranche that Argenta holds, the payment occurs as expected (and therefore without losses).

15.3. Tracking of securitisation positions

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

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

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

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

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

Table 26: Overview of key data securitisation positions

Overview securitisation positions	Trading book	Investment portfoliio
Total securitisation portfolio	0	979,478,592
Of which exposure type (Mortgage Backed Securities - MBS)	0	767.174.731
Of which exposure type (Asset Backed Securities - ABS)	0	212.303.861
Traditional securitisations	0	979,478,592
Synthetic securitisations	0	0
Resecuritisation positions	0	0
Data for Green Apple 2017 SPV		
Outstanding amount as per end of 2018 of self-issued notes	0	1,210,512,000
Outstanding amount as per end of 2018 of self-purchased B and C notes	0	156,000,000
Securitised loans in October 2017	0	1,353,431,381
Data for Green Apple 2018 SPV		
Outstanding amount as per end of 2018 of self-issued notes	0	1,099,526,072
Outstanding amount as per end of 2018 of self-purchased B and C notes	0	123,966,072
Securitised loans in July 2018	0	984.947.146
Assets already assigned to securitise	0	0
Capital requirement securitisation positions	0	9,522,908
Deducted from equity or 1.250% weighting	0	1,499,457

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

16. Remuneration policy

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

Remuneration Committee

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

The Remuneration Committee has the following tasks:

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

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

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

The Remuneration Committee consisted in 2018 of: C. Henriksen (chairman), R. Vanderstichele, E. Walkiers, J. Cerfontaine, guest as representative of the Risk Committee.

Meetings are held as often as the chair of the committee considers it desirable, and, if possible, at least twice a year. In 2018, the committee met once.

Remuneration policy of the Argenta Group

The Argenta Board of Directors establishes the general principles of the remuneration policy for employees, with the advice of the Remuneration Committee, and monitors its implementation (hereinafter 'pay policy'). The pay policy determines which reference salaries apply to which functions, taking into account the degree of complexity, responsibility, level of required competence/experience and necessary specialisation of a particular function. Argenta strives to remunerate its employees in line with market conditions. The O&T (Organisation & Talent) communicated the remuneration policy in a transparent manner for all functions in all Argenta operating companies.

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

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

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

No variable pay

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

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

Identified staff

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

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

At Argenta, 7 executive directors (members of the Executive Committee), 10 non-executive directors and 38 employees (independent control functions, directors and managers of material business units) were designated as Identified Staff, resulting in a total of 55.

This is 5.07% of 1,058 employees at the Argenta head offices in Antwerp, Breda and Luxembourg or 2.12% of the total number of Argenta employees (including directors, employees, branch managers and branch staff).

In 2018 the total Argenta salary bill for Identified Staff amounted to EUR 7,864,153 (compared to EUR 7,501,599 in 2017). The table below provides a break down of the remunerations of these Identified Staff per business area.

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

Non-executive directors	887,121
Executive directors	2,243,400
Independent control functions	961,146
Retail banking	1,177,788
Asset Management	679,559
Corporate functions	1,915,139
Total remuneration	7,864,153

In 2018, severance indemnities were granted to 3 employees who belonged to the Identified Staff and to a number of other employees under the terms of their individual employment contracts. In addition, a termination fee was also paid to a member of the Executive Committee.

Employees in Argenta's branch offices in the Netherlands

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

Employees of Argenta Asset Management in Luxembourg

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

Updated pay policy since 2017

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

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

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

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

Argenta presented the cafeteria plan to the employees in a clear, well-organised presentation of the structure and modalities of the plan and the tax consequences. All participating suppliers presented their 'benefits', ranging from lease cars and bicycles to IT equipment and training. Almost two-thirds of employees took part in the second edition of the cafeteria plan. A new edition started in February 2019, and from then on, employees will be able to enter or leave the cafeteria plan at the start of each new calendar year.

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

Note on remuneration policy for Executive Committee members

The remuneration of Executive Committee members is set out in chapter 7 “remuneration of directors” in the Company’s IFRS annual report. No variable remuneration, shares, stock options, entry bonus or deferred compensation are granted to Executive Committee members either.

In 2018, the basic salary of Marc Lauwers (CEO of Argenta and chairman of the Executive Committees of Argenta Bank- en Verzekeringsgroep, Argenta Spaarbank and Argenta Assuranties) amounted to EUR 626,400. This is an increase by 2.15% compared to 2017. Added to this was a contribution to the supplementary pension and disability group policies amounting to EUR 113,087.

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

In 2018, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,617,000. Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 278,518.5.

Executive directors are contractually entitled to a severance payment which, except for withdrawal of the mandate due to serious misconduct, is equal to 18 months’ remuneration, but reducing at higher ages. The amount of this remuneration is based on the annual gross remuneration, calculated over the 24 months prior to the decision to terminate the contract, or calculated over the entire period of the mandate if less than 24 months. In 2018 severance payments totalling of EUR 491,100 were made to Executive Committee members (EUR 476,625 in 2017).

Appointments Committee

The Appointments Committee advises the Board of Directors by:

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

In summary, this committee reports and makes recommendations to the board but has no decision-making power.

The Appointments Committee is chaired by an independent director and is composed in such a way as to form a competent opinion on the optimal composition of the Boards of Directors and to provide a thorough and independent opinion on the composition and functioning of the other governing bodies of the institution and of the individual and collective expertise of the members, their integrity, reputation, independence of mind and availability.

The committee is composed of at least three board members, all non-executive, and at least one independent. The chairman is chosen from the independent directors, this function being incompatible with the function of chairman of the Board of Directors. The Appointments Committee consisted in 2018 of: C. Henriksen (chairman), J. Cerfontaine and B. Van Rompuy, members.

The meetings are held as often as the chair of the committee considers it desirable. In 2018 the committee met four times.

The Executive Committee in 2018 - evolution and selection process

On 26 April 2018, Anne Coppens resigned her mandate as CCO ('Chief Commercial Officer'). She was succeeded as of 1 October 2018 by Inge Ampe.

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

Diversity at Argenta Group

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

That is the reason why Argenta gives every employee equal opportunities and the focus is on talent regardless of gender, age, disability, belief, philosophy, marital status, birth, wealth, political opinion, trade union membership, language, health status, sexual orientation, physical or genetic characteristics, social, cultural or ethnic origin.
Argenta considers being able to handle diversity or "being different" as an added value that allows new perspectives and interaction with "other" individuals and communities.

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

Boards of Directors

For the Boards, Argenta applies a target male/female ratio of 30% (2020) and 33% (2025). Four of the 15 Argenta directors are female (26.6%).

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

Executive Committee, effective management and Argenta management

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

Two of the six Executive Committee and/or "effective management" members are female (33%) and one of the six members is ≤ 50 years (17%).

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

Argenta head office staff

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

17. Leverage

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

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

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

The Company tracks the leverage financing closely. In the RAF, the leverage ratio is one of the indicators that are systematically included in the periodic reports to management and to the Board's Risk Committee.

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

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

Description of the factors that impacted the leverage ratio

As shown in the table appended to this report, the total leverage ratio exposure as of 31/12/2018 is EUR 41,118,817,429 (compared to EUR 39,028,136,237 as of 31/12/2017). The corresponding leverage ratio is 4.71% (compared to 4.90 % at the end of 2017).

The Company's leverage ratio is in line with that of 2017, which has systematically improved compared with prior years. This reflects the focus on fee business (and hence an intended switch from on-balance sheet to off-balance sheet products for customers) and also the increasing equity base, given the very limited pay-out ratio of Argenta. Through this policy of the family shareholder, the profits of the year are to a large extent included in the available reserves.

As of 31/12/2018 – as in previous years - there was also a limited off-balance sheet exposure. This relates mainly to mortgage loans in the pipeline.

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

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

Based on a Tier 1 capital of 1,935,219,831, a leverage ratio of 4.71% was obtained. For BVg (CRR scope) we obtain a leverage ratio of 5.04% based on the Tier 1 capital of EUR 2,081,652,232.

18. Capital and liquidity management

Capital management

The dynamic growth of the financial markets and the increasing use of more complex bank products have produced major changes in the Company's business environment. These challenges require appropriate personnel, processes and systems for monitoring the Company's risk position.

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

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

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

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

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

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

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

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

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

Stress tests and stress scenarios

The Company conducts periodic stress tests. Every two years, Argenta, like all other significant banks that are subject to direct supervision by the ECB, is subject to the EBA/ECB stress test. These stress tests took place in 2014, 2016 and in 2018. The purpose of the stress test is on the one hand to evaluate the shock resistance of the European banking system and, on the other hand, to assess the financial health, risk profile and sustainability of the business model in the case of negative market developments.

In intermediate years, the European banking sector is subjected to other specific stress tests, such as the IRRBB stress test in 2017. This stress test was intended to test the sensitivity of the market value and the interest income under 6 hypothetical interest rate scenarios.

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

The focus of the regulatory stress test in 2019 is on the liquidity domain, as communicated in the SSM regulatory priorities for 2019. The regulator will use this stress test to investigate banks' resilience to liquidity shocks. The individual results of this stress test will be included in the SREP assessment.

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

The calculations according to the Basel rules (pillar 1) for capital management are reported to the supervisory authority and used in-house. In its ICAAP under pillar 2, the Company calculates the required economic capital on the basis of Basel IRB risk parameters.

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

For available economic capital versus required economic capital a minimum limit of 120% is provided and the green zone starts at 130%, but the self-imposed goal is a ratio of 156% (including an additional 20% buffer), so that the Company has at all times a comfortable capital situation. In addition the RAF includes limits for value stability (95% or 1 year in 20) and income stability (80% or 1 year in 5) which are derived directly from the ICAAP report.

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

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

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

The SREP by the ECB resulted in 2018 in a capital decision imposing a P2R (Pillar 2 Capital requirement) of 1.75% for 2019. This means that Argenta needs, under the IRB (Internal Rating Based) method, to meet a CET1 (Common Equity Tier 1) ratio of 9.50% (11% including alternative Tier 1 substitution) and TCR (Total Capital Ratio) of 13%, also taking into account the phasing in of the combined capital buffers. With regard to liquidity, the SREP decided not to impose additional liquidity buffers.

Liquidity management

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

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

Liquidity sources of the Bank Pool

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

- a substantial base of customer deposits;
- a spread over the Belgian and Dutch markets;
- total funding independence from the interbank market;
- a low loan-to-deposit ratio;
- a liquid securities portfolio.

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

Argenta Spaarbank also goes to the interbank and professional market to fund itself. For this the Company had in the past developed out the possibilities for doing this based on the desire to diversify funding sources (RMBS securitisation) and to meet new legal requirements (Tier 2 bail-inable issue). Repurchase agreements are concluded and when appropriate as part of liquidity management or to take advantage of investment opportunities on the financial market. In the meantime, an EMTN (European Medium Term Note) programme was also started in 2019 to raise funding via the professional market.

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

Risk management in the Bank Pool

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

The liquidity management and the liquidity risk management of the Bank Pool are centralised at Argenta Spaarbank.

The Asset and Liability Committee (Alco) monitors the liquidity indicators on a permanent basis. The management framework is clearly defined and detailed in the financial policy. First line responsibility for the measuring, monitoring, checking and reporting of the liquidity risk lies with the ALM department. The second-line responsibility lies with the Risk department. The management of the liquidity position falls under the authority of the Treasury Department.

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

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

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

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

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

The LCR and the underlying components can be found in table **LIQ1** appended to this report. As indicated above, the focus of the funding model is on retail clients. In addition, funds were raised in 2018 via a fourth Green Apple (RMBS) issue. The immediate available liquidity sources consist of high-quality assets. These are mainly central bank reserves, government bonds, securitisations and corporate bonds. These are diversified in terms of both counterparty type and individual counterparty. In addition to the liquid assets eligible for the LCR, Argenta Spaarbank also has a portfolio of ECB-eligible securities.

All liabilities and assets are denominated in euros, so that there is no currency mismatch between the liquidity and financing sources.

Argenta Spaarbank maintains a derivatives portfolio with a view to hedging the interest rate risk. The value of this portfolio is hedged with collateral. There are no other sources of collateral outflow. The assets used as collateral are excluded from the LCR liquid buffer. The LCR also takes into account potential collateral outflows due to fluctuations in the valuation of the portfolio and a negative rating evolution of Argenta Spaarbank. Only a limited portion of the liquid assets serve as collateral. Despite this, the evolution of the collateral is closely monitored.

19. Supplementary disclosure

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

Certain disclosures are not yet mandatory and will therefore be included in the next pillar 3 disclosures, including the disclosure requirements for non-performing and forborne exposures that will apply from 31 December 2019 (EBA/GL/2018/10). The intention is to adjust systematically these disclosures in line with those published by other financial institutions.

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

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

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

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