



GE  
Artesia Bank

**Banque Artesia Nederland N.V.**  
**Pillar III report – Market disclosure**  
As of 31<sup>st</sup> of December 2009  
Risk Management and Capital Adequacy Report

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## 1. Introduction

In this report, Banque Artesia Nederland N.V. (hereafter 'GE Artesia Bank') discloses information on its risk management and capital adequacy in accordance with the legal requirements. These requirements are laid down in the Capital Requirements Directive (CRD) of the European Union and are based on Pillar III of the Basel II framework. Accordingly, this report is referred to as GE Artesia Bank's Pillar III report.

All information presented in this report represents the situation as of December 31, 2009 unless stated otherwise. It is the explicit intention to update and publish the Pillar III report annually. Note that this report is not audited by the Bank's external auditors. However, some of the information presented is also included in the (externally audited) annual report.

### 1.1 Purpose and Scope of This Report

This Pillar III report provides an overview of the overall risk structure of GE Artesia Bank and its subsidiaries. It also summarizes the major key risk indicators that are related to the risk policies and/or that are mandated by the supervisory authorities. Therefore, the scope of this report is consistent with the scope of the consolidated financial statements that are presented in the 2009 Annual Report as it is with the Basel II consolidation scope.

As at December 31, 2009 the Bank's wholly owned and controlled subsidiaries, which are included in the consolidated financial statements (also referred to as group companies) are listed below:

- Artesia Bedrijfsfinancieringen B.V. (Amsterdam, the Netherlands);
- Windwiek B.V. (Amsterdam, the Netherlands);
- N.V. Bewaarbedrijf Artesia Nederland (Amsterdam, the Netherlands);
- Exploitiemaatschappij Hereg B.V. (Amsterdam, the Netherlands);
- B.V. Algemene Financieringsmaatschappij voor Vastgoed Alfirmava (Amsterdam, the Netherlands);
- Artesia Beleggingsmaatschappij B.V. (Amsterdam, the Netherlands);
- Artesia Administratiekantoor B.V. (in liquidation (Amsterdam, the Netherlands);
- GE Commercial Finance B.V., previously Artesia Multipurpose I B.V. (Amsterdam, the Netherlands);
- Artesia Multipurpose II B.V. (Amsterdam, the Netherlands);
- GE Artesia Bank Hypotheken 11 B.V. (Rotterdam, the Netherlands);
- GE Artesia Bank Hypotheken 15 B.V. (Rotterdam, the Netherlands);
- Quion 10 B.V. (Rotterdam, the Netherlands);
- Stichting Seven Bridges I (Amsterdam, the Netherlands) and
- Stichting Seven Bridges II (Amsterdam, the Netherlands).

As at December 31, 2009 EUR 752,494,000 of the residential mortgage portfolio has been securitized into ECB eligible collateral (This amount was EUR 512,000,000 as per December 31, 2008). GE Artesia Bank has transferred the residential mortgages to the special purpose entities Stichting Seven Bridges I and Stichting Seven Bridges II, which are consolidated as a subsidiary due to the fact that GE Artesia Bank owns all notes and has retained full control. The sole objective of this securitization is to improve the liquidity position. For credit risk reporting, solvency and consolidated accounting purposes, the securitization has no effect.

## 2. Risk Management Framework

### 2.1 Business Profile

GE Artesia Bank, a wholly owned subsidiary of GE Commercial Finance Holding Nederland B.V., is a Dutch banking institution operating under the Banking Law and Regulations of the Netherlands. GE Artesia Bank's core business lines include commercial and private banking and the Bank provides a full service tailored to the specific needs of internationally-active companies and private clients through a network of six branches strategically located in the Netherlands.

The Bank offers specialized expertise in working capital facilities, trade and commodity finance solutions and asset-based loans, along with many other financial services. Solutions include business financing to drive growth, providing working capital, improving cash flow and consolidating debt. For private clients, GE Artesia Bank offers tailor-made solutions for high net worth individuals.

A large proportion of GE Artesia Bank's funding consists of savings and deposits through its Private Banking business. Additionally, next to the shareholders' equity, GE Capital provides long term funding to GE Artesia Bank.

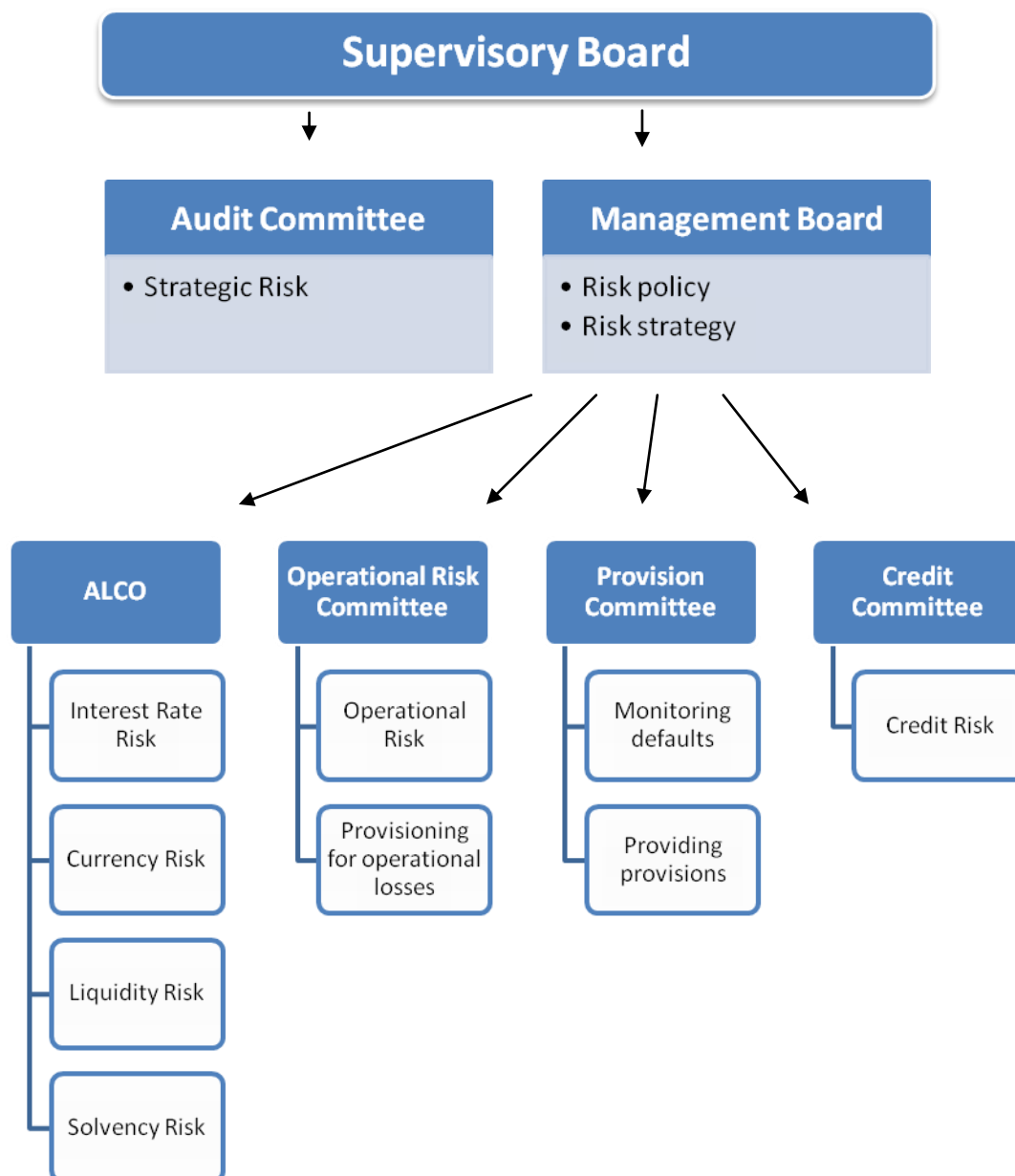
### 2.2 Risk Governance Structure

The Bank's risk management philosophy is based on the corporate culture of the GE Group. The Bank and its group companies provide core banking services to its customers with a robust capitalization. Since GE Artesia Bank operates in Europe and is supervised by the local regulators, the Bank's risk policy concerns the EU regulations as well as the national rules and regulations for regulatory compliance. The consolidated financial statements of GE Artesia Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

GE Artesia Bank is exposed to several types of risks, more specifically credit risk, market risk and liquidity risk. The Bank is also subject to more general risks such as operational risk, reputation risk, legal & compliance risk and strategic risk. Managing risk plays a central role in the Bank's operations. Risk management and risk awareness are an integral part of the Bank's organization and culture. From 2007, proprietary trading has ceased.

In order to effectively manage all of the above mentioned risks that the Bank is exposed to within the limits set by the Management Board, GE Artesia Bank aims to ensure an effective credit process, matched funding strategy, entering into derivatives transactions for hedging interest and currency risk and allocating sufficient internal capital, while mitigating organizational risks by means of organizational measures. The organizational approach to risk management is described below.

The Bank has created an internal risk governance structure, of which the related bodies hold the key responsibilities in the area of risk management. The main principal bodies within this structure are displayed in the below figure:



**Supervisory Board (SB)**

Supervisory Board carries the ultimate responsibility for the overall framework for the Bank’s risk governance. The SB determines both short and long-term risk strategy, sets the Bank’s risk appetite and ensures that risk is monitored and controlled effectively. The Board is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities.

**Audit Committee (AC)**

The Audit Committee is formed by the Supervisory Board members and therefore it is a committee of the SB. The Audit Committee supports the SB by means of the responsibilities and the duties it holds, which cover the risk management areas, financial reporting and internal control environment on consolidated basis.

The duties and responsibilities of the Audit Committee are set by the Audit Committee Terms of Reference. The Audit Committee meetings are once every quarter and review mainly the findings of the internal and external auditor.

### **Management Board (MB)**

The Management Board of the Bank holds the overall responsibility for setting the Bank's risk policy and strategy and monitoring the Bank's performance on meeting its business and operational objectives.

The Management Board ensures the setting-up of risk management systems, which define the key policies that the Bank is responsible of maintaining. The MB regularly reviews the risk management systems to control that the systems are adequate and appropriate and also regularly discusses the set-up and functioning of the internal management and control systems with the Supervisory Board and the Audit Committee. The Bank uses an internal control framework for risk management.

### **Credit Committee (CC)**

The Credit Committee is mainly responsible for the evaluation and assessment of the Credit Risk within the entire organization.

### **Provision Committee**

The Provision Committee is responsible for monitoring defaults on outstanding loans and provide for the necessary provisions.

### **Operational Risk Committee**

The Operational Risk Committee is responsible for monitoring operational risk and provisioning for operational losses.

### **Asset and Liability Committee (ALCO)**

The Asset and Liability Committee is responsible for setting the risk policies related to the interest rate risk, currency risk, liquidity risk and the solvency risk. ALCO also monitors all these risks and also formulates the strategies to manage the Bank's balance sheet structure.

## 2.3 Capital Management

### 2.3.1 Solvency Standards

GE Artesia Bank is committed to meet the capital requirements set by the Dutch Financial Regulation Act (Wft) and the Dutch Central Bank (De Nederlandsche Bank N.V.), which are based on the Capital Adequacy Directives of the European Union and the Basel Committee for Banking Supervision.

The Bank reports to the Dutch Central Bank (DNB) under Basel II and based on the internally set standards in line with the DNB requirements, GE Artesia Bank is committed to hold a minimum BIS ratio (regulatory capital ratio which is calculated as “Actual Own Funds/Allocated Capital for Pillar I risk \* 12.5”) of at least 10 per cent.

### 2.3.2 Composition and Sources of Capital

GE Artesia Bank has three elements to its core tier one capital, being permanent share capital, share premium and retained profit reserves. The own funds per December 31, 2009 are shown in Table 2.1.

<b>Actual own funds and BIS-ratio</b>	<b>2009</b>	<b>2008</b>
Called up and paid in share capital	73,733	73,773
Share premium reserve	79,495	79,495
Other reserves excluding legal reserves	78,817	122,232
<b>Tier 1 (core) capital</b>	<b>232,045</b>	<b>275,500</b>
Subordinated liabilities (qualifying as actual own funds)	62,000	62,000
Additional own funds	8,615	8,811
<b>Tier 2 (total) capital (maximized at 50% of Tier 1 capital)</b>	<b>70,615</b>	<b>70,811</b>
<b>Total actual own funds</b>	<b>302,660</b>	<b>346,311</b>
<b>Total risk weighted assets (RWA)</b>	<b>2,224,750</b>	<b>2,640,250</b>
<b>Tier 1 capital ratio (%)</b>	<b>10.4%</b>	<b>10.4%</b>
<b>Total capital BIS-ratio (required is 8%)</b>	<b>13.6%</b>	<b>13.1%</b>

Table 2.1: Actual Own Funds and BIS-ratio. Amounts in EUR million

GE Artesia Bank observed a decrease in both its Tier 1 capital and its RWA in 2009. GE Artesia Bank’s BIS ratio improved throughout the year of 2009, resulting in the final ratio of 13.6% as of December 31, 2009 (2008: 13.1%). Therefore, the Bank has fulfilled the solvency standards set by the DNB.

Within GE Artesia Bank, ICAAP is integrated into the strategic planning process and capital management is based on the business profile and on an on-going strategy followed by the Bank.

### 2.3.3 Capital Requirements

With effect from 2008 under Basel II reporting, GE Artesia Bank has chosen to use the standardized approach for the purposes of credit and operational risk as part of the capital requirements. A summary of the capital requirements under Pillar I as per 31<sup>st</sup> of December 2009 is provided in Table 2.2 below.

Credit Risk - Risk Weighted Assets	2,149,613
Credit Risk - Capital Requirement (8%*RWA)	171,969
Operational Risk - Capital Requirements	6,012
<b>Total - Capital Requirement (a)</b>	<b>177,981</b>
Total Own Funds (b)	302,659
<b>Ratio (b/a*8%)</b>	<b>13.60%</b>
Surplus (Ratio - 8%)	5.60%
Surplus (b-a)	302,481

Table 2.2: Minimum regulatory capital requirement. Amounts in EUR thousand

As can be seen from the table above, credit risk is the main risk type covered by GE Artesia Bank’s risk weighted assets.

GE Artesia Bank identified the major risks that might require further capital allocation to compute its actual own funds requirement on the basis of the ICAAP. In order to assess the current risk profile of the Bank, the Senior Management annually decides whether the Bank needs to allocate internal capital to cover any additional risk that is not covered by the Pillar I minimum requirements. As a result of this exercise, GE Artesia Bank has decided to allocate additional internal capital for credit concentration risk, interest rate risk in the banking book and business risk. The breakdown per risk type is provided in Table 2.3.

Risk Type	Internal Capital Share
Credit Risk (incl. Credit Concentration Risk)	83%
Interest rate risk in the banking book	2%
Operational and business risk	15%
<b>Total</b>	<b>100%</b>

Table 2.3: Internal capital requirements per risk type

### 2.3.4 Capital Planning

Capital planning and capital adequacy management is a key responsibility of the Asset and Liability Committee (ALCO) of the Bank. The Bank, by means of its ALCO, aims to assess both the current and future adequacy of the Bank’s capital with the goal to maintain sufficient buffers. GE Artesia Bank monitors its local capital adequacy ratio on an ongoing basis and shall be in compliance with the local minimum requirements on a local GAAP basis at all times.

GE Artesia Bank participates in the annual planning process of GE, the Strategic Playbook (SPB). In the SPB a multiyear forecast is made of the entire balance sheet and the capital ratios.

## 3. Credit Risk

### 3.1 Credit Risk Management

Credit risk represents the risk of a loss which GE Artesia Bank would encounter in case a borrower, both an individual or a business counterparty, fails to comply with its contractual obligations and when there are insufficient securities and guarantees to fulfill these obligations. These risks are inherent in traditional banking products – loans, credit undertakings and other conditional obligations, such as letters of credit – and in traded products: derivatives such as forward contracts, swaps, options and transactions for the purposes of borrowing and lending securities.

GE Artesia Bank has a risk policy and operating procedures in place based on the GE Global Banking risk policy, but amended where necessary. Appropriate risk controls and a monitoring framework have been established to ensure a thorough and comprehensive review of credit risk which is performed on a regular basis. Risks are reported to the GE Global Banking group following a strict rhythm of required reports. Based on this reporting cycle regular reviews are undertaken internally and with the GE Global Banking West European Head Office. A number of committees have been established to manage and control the credit risk operations of the Bank. Specifically these are:

- Credit Committee (2 times a week)
- Quarterly Provision Committee
- Weekly Trade & Commodity Finance Committee

Collateral is the most important credit risk mitigant available to GE Artesia Bank. Particularly when credit ratings are low (and consequently the default probability is high) GE Artesia Bank will demand high quality collateral. Collateral exists in all forms and shapes: physical objects like real estate or ships, inventory, receivables, cash or securities. Also other types of recourse, like guarantees and pledges mitigate the losses suffered in the event of a default.

### 3.2 Risk Weighted Assets

The credit portfolio of GE Artesia Bank consists of exposures to several segments. The total Risk Weighted Assets (RWA) for calculating the minimum capital requirements for credit risk can be divided over the corresponding exposure classes. The shares of RWA per exposure class as of December 2009 are listed in Table 3.1.

Exposure Class	Capital Requirement	RWA	Share
Administrative bodies and non-commercial undertakings	0.1	1.5	0%
Central governments or central banks	0.1	1.3	0%
Corporates	106.2	1,327.3	62%
Institutions	5.8	71.9	3%
Past due items	4.6	57.7	3%
Regional government and local authorities	0.0	0.0	0%
Retail	44.8	559.5	26%
Secured on real estate property	7.8	97.5	5%
Other items	2.6	32.8	2%
<b>Total</b>	<b>172</b>	<b>2,150</b>	<b>100%</b>

Table 3.1: Share of RWA per exposure class. Amounts in EUR million

### 3.3 Exposure Breakdown

The total exposures as of December, 2009 per exposure class before any credit risk mitigations (CRM) are listed in Table 3.2. The average exposure over 2009 and the Exposure at Default (EAD) amounts are also included. The EAD amounts displayed here are the “Exposure after CRM” with the credit conversion factors included (i.e. the Exposure before CRM corrected for mitigating measures, such as netting).

Exposure Class	Exposure before CRM	EAD
Administrative bodies and non-commercial undertakings	9	8
Central governments or central banks	285	285
Corporates	2,518	1,340
Institutions	389	271
Past due items	138	53
Regional government and local authorities	1	1
Retail	771	746
Secured on real estate property	186	185
Other items	33	33
<b>Total</b>	<b>4,329</b>	<b>2,922</b>

Table 3.2: Outstanding and average exposure per exposure class. Amounts in EUR million

The exposures can also be geographically distributed, as listed in Table 3.3.

Country	EAD	Share
Netherlands	2,219	76%
U.S.	15	1%
Italy	263	9%
Greece	158	5%
Switzerland	24	1%
Other	243	8%
<b>Total</b>	<b>2,922</b>	<b>100%</b>

Table 3.3: EAD per country. Amounts in EUR million

Table 3.1 lists the exposures per economic sector. The sector categorisation is based on the categories as defined by De Nederlandsche Bank (DNB).

<b>DNB economic sector</b>	<b>EAD</b>	<b>Share</b>
Private Individuals	1.008	35,1%
Banks and Financial Intermediation	418	14,6%
Public Administration	237	8,3%
Real Estate	208	7,2%
Food, beverages and tobacco	112	3,9%
Oil & Gas	115	4,0%
Construction and infrastructure	129	4,5%
Transport & Logistics	108	3,8%
Agriculture and fishing	47	1,7%
Chemicals	95	3,3%
Basic Materials	81	2,8%
Services	80	2,8%
Retail	51	1,8%
Automotive	0	0,0%
Building materials	36	1,3%
Utilities	32	1,1%
Technology	29	1,0%
Other	84	2,9%
<b>Total</b>	<b>2.869</b>	<b>100%</b>

Table 3.4: EAD per economic sector. Amounts in EUR million

In Table 3.5 the EAD per exposure class is further broken down on the basis of remaining maturity.

<b>Exposure Class</b>	<b>&lt;1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5-10 years</b>	<b>&gt;10 years</b>	<b>Total</b>
Adm. bodies and non-comm. undertakings	0	0	0	0	0	0
Central governments or central banks	30	30	1	148	76	285
Corporates	405	699	86	110	48	1.348
Institutions	213	18	16	14	11	271
Past due items	12	30	0	3	8	53
Regional government and local authorities	0	1	0	0	0	1
Retail	4	14	5	28	695	746
Secured on real estate property	8	8	7	26	137	185
Other items	0	33	0	0	0	33
<b>Grand Total</b>	<b>672</b>	<b>832</b>	<b>114</b>	<b>328</b>	<b>974</b>	<b>2.922</b>

Table 3.5: EAD per exposure class and remaining maturity. Amounts in EUR million

In the calculation of the minimum capital requirements, the EAD amounts are weighted on the basis of the credit quality. When available, external credit ratings from Moody's, Fitch or S&P are used in determining the risk weight for solvency purposes. This is only the case for some of the large counterparties such as banks, other financial institutions and a selected number of large corporates. Table 3.6 presents the exposures per risk weight, where exposures before and after credit risk mitigation and credit conversion factors are distinguished.

Risk Weight	Exposure Before CRM	Exposure After CRM	EAD	RWA
0%	285	285	285	0
10%	0	0	0	0
20%	339	339	221	44
35%	0	135	135	47
50%	83	83	82	41
75%	905	756	746	560
100%	2,703	2,393	1,443	1,443
150%	14	9	9	14
200%	0	0	0	0
<b>Total</b>	<b>4,329</b>	<b>4,001</b>	<b>2,922</b>	<b>2,150</b>

Table 3.6: Exposures per risk weight. Amounts in EUR million

### 3.4 Counterparty Credit Risk

The Bank exposes itself to counterparty risk by entering into derivative transactions. These derivatives are mainly interest swaps for hedging purposes and FX forwards with the Bank's customers and for hedging purposes.

The credit risk on the positive fair value of the derivatives amounted to EUR 31,771 as of December 31, 2009 (2008: EUR 23,567).

### 3.5 Credit Risk Mitigation Methodology

The credit risk mitigants applied can be separated into financial collateral (generally netting agreements) and guarantees. The effects of collateral on the exposure include volatility adjustments (haircuts) for currency and maturity mismatch. The regulatory haircut parameters are used for the valuation of collateral.

Guarantees are eligible as CRM if the protection provider is a sovereign, other public sector entity, bank or securities firm with a lower risk weight than the counterparty. Guarantees by other entities are only recognized if the credit quality of the entity is rated with credit quality step 2 or above, which corresponds to an external rating of at least A- (S&P) or A3 (Moody's). Moreover, the guarantee must be direct and unconditional, legally effective and enforceable in the relevant jurisdiction. As of December 31, 2009 the credit risk mitigation based on guarantees was negligible.

The CRM effects on the exposures per exposure class are listed in Table 3.7.

Exposure Class	Exposure before CRM	Financial collateral	Exposures after CRM
Adm. bodies and non-commercial undertakings	9	0	9
Central governments or central banks	285	0	285
Corporates	2,518	-214	2,304
Institutions	389	0	389
Past due items	138	-16	122
Regional government and local authorities	1	0	1
Retail	771	-16	756
Secured on real estate property	186	0	186
Other items	33	0	33
<b>Total</b>	<b>4,329</b>	<b>-245</b>	<b>4,084</b>

Table 3.7: CRM effects per exposure class. Amounts in EUR million

Another type of risk mitigation which changes the capital requirement exists in the residential mortgage portfolio. The real estate collateral (if certain preconditions on valuation and the method of valuation are met) allows it to assign a risk weight of 35% instead of 75%.

### 3.6 Impairments and Provisions

Formal impairment decisions are made quarterly by the Provision Committee. The provision for impairments is determined either on a general basis (incurred but not reported, IBNR) or by the Provision Committee on an individual basis.

The gross total loans and advances to customers amounted to EUR 2.2 billion as at December 31, 2009, including provisions for impaired loans of EUR 80.7 million (as at December, 31 2008: gross amount of EUR 2.9 billion, including a provision for outstanding losses on loans of EUR 48.7 million). GE Artesia Bank recognized a net impairment loss of EUR 33.2 million in the income statement in 2009 (a net recovery of EUR 9.5 million in 2008). Half of the amount is related to the bankruptcy of one specific client. The other half is spread over a number of files representing various industries.

Impairment losses are recognized as a loss in the income statement, if there is any objective evidence of impairment of a financial asset or a portfolio of different assets. Some objective indicators are the following:

- the debtor concerned has been declared bankrupt, has filed an application for the same or has been afforded similar protection, with the result that repayment is rendered impossible or is delayed;
- the debtor has been in arrears for a certain period of time with regard to the repayment of the principal, or the payment of interest or commission;
- the debtor finds himself in significant financial difficulties and these circumstances are having a negative impact on future cash flows relating to his debt and;
- the debt has been restructured for reasons that are not of a commercial nature. GE Artesia Bank has made concessions in relation to financial difficulties for economic or legal reasons and this results in a decrease of the expected future cash flows.

Accounts with indications of impairment are tested for impairment and individually reserved if necessary. Expert judgment is a major part of the assessment.

Next to the specific provisions, general provisions are determined for IBNR losses, resulting from events that occurred before the balance sheet date but which have not manifested themselves to GE Artesia Bank. A general provision is calculated for all assets of which the individual impairment

has not been determined. Such collectively assessed provisions are determined on the basis of estimates for the probability of default and loss given default.

<b>Business Line</b>	<b>Unimpaired Assets</b>	<b>Impaired Assets (gross amount)</b>	<b>Specific provision</b>	<b>General Provision</b>	<b>Total</b>
Loans and advances to customers	2,127,409	148,158	83,922	8,615	2,183,030
Financial assets available for sale	234,124	0	0	0	234,124
<b>Total</b>	<b>2,361,533</b>	<b>148,158</b>	<b>83,922</b>	<b>8,615</b>	<b>2,417,154</b>

Table 3.8: Financial assets affected by impairment losses. Amounts in EUR thousand

## 4. Market Risk

Banks and financial institutions bear market risk due to the fact that their earnings or capital, or their ability to meet business objectives are adversely affected by changes in the level or volatility of market rates or prices such as interest rates including credit spreads, foreign exchange rates, equity prices, and commodity prices.

GE Artesia Bank has no own trading book for proprietary trading activities. The positions on the balance sheet that are marked as “held for trading” include FX and interest rate derivatives that are entered for risk management purposes. The corresponding positions are no trading books, but should be seen as part of the banking book.

GE Artesia Bank considers the currency risk and the interest rate risk as the most important elements of market risk. These risk types are further elaborated in the next sections.

### 4.1 Foreign Exchange Risk

GE Artesia Bank doesn't carry any substantial foreign exchange (FX) risk resulting from its activities. The policy of GE Artesia Bank is not to acquire any strategic, long term FX positions. Currency positions are hedged by using currency derivatives, such as FX forwards, FX swaps, FX spot and FX options. These currency positions result from two types of activities:

- Origination of credit facilities and loans in foreign currencies;
- Execution of foreign exchange transactions for customers.

GE Artesia Bank is not active in trading, with the exception of activities on the foreign exchange market for customers ('back to back positions'). The major foreign exchange transactions for customers are hedged back-to-back. There are strict limits to the open FX positions. Accordingly, no Pillar I capital is required as open position limits never exceed 2% of the Bank's own funds.

The net exposures per currency are listed in the following overview.

Exposure Class	AUD	CAD	CHF	DKK	GBP	JPY	NOK	USD	Total
Net Exposure	31	102	3	42	51	13	42	47	331

Table 4.1: Net exposure per foreign currency. Amounts in EUR thousand

### 4.2 Interest Rate Risk in the Banking Book

Interest rate risk is the risk of an increase or decline in the value of the Bank's portfolios as a result of changes in interest rates. Excessive interest rate risk can be a significant threat to a Bank's earnings and capital base.

GE Artesia Bank divides this risk into cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk of fluctuations in the expected future cash flows as a result of changes in the interest rate risk. Fair value interest rate risk, on the other hand, is the risk of fluctuations in the value of a fixed-interest financial instrument due to changes in the interest rates.

The interest rate risk is managed through a matched funding strategy. This strategy focuses on mitigating the interest rate risk in seeking a faultless match between the asset and the related funding and entering into derivatives transactions to hedge the interest rate risk. The market value of all financial instruments is used in order to calculate the impact on the shareholders' equity and result. This impact is not immediately visible in the income statement or on the balance

sheet, because many financial instruments, such as loans and advances to customers and funds entrusted, are recognized at amortized cost price. GE Artesia Bank uses several measures to monitor interest rate risk and the impact on shareholders' equity. The most important are the BPV (basis point value) and the stress test. The Bank uses limits for the various indicators.

#### 4.2.1 Interest Rate Sensitivity

On a regular basis the BPV measures the sensitivity in the market value of the total balance sheet when the interest rate changes with 1 basis point ('bps') over the entire curve.

The BPV results under December 31, 2009 show that when there is an increase in the interest rates by 1 bp, the fair value drops by EUR 10,000 (in 2008: EUR 31,000).

Basis Point Value (BPV)	Impact on result		Impact on value	
	2009	2008	2009	2008
1 bp increase in interest rate	(4)	(6)	(10)	(31)
1 bp decrease in interest rate	4	6	10	31

Table 4.2: Comparison of BPV results for 2009 & 2008. Amounts in EUR thousand

In addition to this sensitivity analysis, a stress test is used to determine the impact of an exceptional event that is relevant to the Bank. This stress test conjectures a sudden parallel shift of the interest curve of 200 bps in both directions. In contrast to the BPV, which measures the sensitivity to a minor interest rate change only, within the stress test, the market value of the entire portfolio is recalculated under the new conditions. As a result, second and higher order impacts (like convexity) are also covered.

The results of the stress test in December 31, 2009 show that the fair value in 2009 decreases by EUR 2.487m (in 2008: EUR 7.236m decrease) when interest rates increase by 200 bps. If the interest rates decrease by 200 bps, the fair value in 2009 would rise by EUR 3,195 (in 2008: EUR 8,519 increase). The impact is within the limits set by the Management Board.

Stress test on interest rate	Impact on value	
	2009	2008
200 bp increase in interest rate	(2,487)	(7,236)
200bp decrease in interest rate	3,195	8,519

Table 4.3: Stress Test on Interest Rate. Amounts in EUR thousand

## 5. Operational Risk

Operational risk includes legal, compliance and reputation risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The consequence of operational risk is reputation damage resulting in a loss to GE Artesia Bank or interference by the supervisory authorities whereas applicable.

### 5.1 Capital Requirements

The minimum capital requirements for operational risk are calculated according to the standardized approach of the Basel II framework. For each of the standardized business lines the required capital is calculated by multiplying the average annual gross income over the last three years by the corresponding beta factor, which ranges from 12% to 18%. The results are shown in Table 5.1.

Business Line	Annual Gross Income			Capital Requirement	
	2007	2008	2009	Beta Factor	Amount
Retail Brokerage	5,306	3,567	3,310	12%	487
Commercial Banking	24,324	30,714	17,257	15%	3,615
Retail Banking	10,083	9,706	4,575	12%	975
Payment and Settlement	4,550	4,051	4,685	18%	797
Agency Services	1,053	966	741	15%	138
<b>Total</b>	<b>45,317</b>	<b>49,004</b>	<b>30,567</b>		<b>6,012</b>

Table 5.1: Operational risk capital requirements. Amounts in EUR thousand

### 5.2 Risk Management and Internal Controls

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is closely related to legal, compliance and reputation risk. Next to direct losses, a consequence of operational risk is also reputation damage resulting in a loss to GE Artesia Bank or interference by the supervisory authorities.

Like any organization, GE Artesia Bank is exposed to operational risk because of the volume and complexity of its various businesses and due to the unstable nature of these risks. The operating environment relies on Straight Through Processing ('STP') systems and documented procedures. In 2009 GE Artesia Bank did not initiate major changes of the operating environment which could generate unexpected or potential operational risks.

The Bank has implemented the sound practices recommended by the Basel Committee in the Consultative Paper "Sound Practices for the Management and Supervision of Operational Risk" and is compliant with the requirements related to the standardized approach. The operational risk organisation within GE Artesia Bank consists of a dedicated Operational Risk Leader who is responsible for the development and monitoring of the Operational Risk Framework within the Bank. Besides the Operational Risk Leader, each business line has an Operational Risk Champion that has functional expertise necessary for the effective analysis and mitigation of operational risk.

#### 5.2.1 Operational Risk Framework

Operational risk management within GE Artesia Bank is executed based on the so called Operational Risk Framework. The framework relies on four main components:

- **Risk & Control self-assessments.** The assessments take place in order to ensure that significant operational risks are encompassed within the risk management process and that controls to mitigate these risks are adequately implemented. On a yearly basis risk & control assessments on all critical processes are performed.
- **Incident and loss data collection.** Within GE Artesia Bank an incident and loss data collection process is in place to collect, assess and monitor the operational losses or potential losses (e.g. provisions) and to define the allocation of resources and to assess the losses due to operational risks.
- **Key Risk Indicators.** Both on GE Artesia Bank as well as on department level KRI's are in place and monitored on a periodic basis. These indicators follow up to alert to changes that may be indicative of risks concerns or future losses. In case of changing environment these KRI's can be redefined. Management has determined thresholds for each indicator according to their risk appetite.
- **Risk Appetite.** Senior Management has defined their operational risk appetite in order to identify material operational risk. Risk appetite per operational risk category has been defined and an escalation procedure has been put in place in case thresholds are crossed. The risk appetite will be reviewed at least annually or whenever is appropriate.

### 5.2.2 Legal & Compliance Risk

Legal & Compliance risk arises from violations or non-compliance with laws, rules, regulations, agreements, prescribes practices or ethical standards. As any other bank, GE Artesia Bank is facing a range of financial regulations. The legal framework of the Bank's activities is mainly provided by the Dutch regulators. Since GE Artesia Bank is part of the GE organization the Bank is also subject to the Sarbanes-Oxley Act. Non-compliance with laws and regulations can damage the Bank's reputation.

### 5.2.3 Reputation Risk

Reputation risk arises from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk can affect the Bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the institution to litigation, financial loss, or a decline in its customer base. Reputation risk exposure is present throughout the organization and includes the responsibility to exercise an abundance of caution in dealing with its customers and the community.

Reputation risks are managed within the operational risk framework. Moreover, GE Artesia Bank employees and partners act with unyielding integrity and compliance, according to the GE Spirit & Letter guidelines, which are constantly communicated on the GE intranet and have to be accepted by every employee yearly.

These guidelines include the GE's Code of Conduct that sets out general principles of conduct everywhere, every day and by every GE employee and describe GE employee responsibilities. These responsibilities can be summarized as follows:

- **Understand GE Policies:** Gain a basic understanding of the policy requirements summarized in the GE Spirit & Letter booklet.
- **Raise concerns:** promptly raise any concerns about potential violations of any GE policy, understand the different channels for raising integrity concerns (ombudsperson, manager, GE lawyer, GE auditor or other compliance resource) and if a concern the employee raises is not resolved, pursue the issue and cooperate in GE investigations related to integrity concerns.

## 6. Liquidity Risk

Liquidity risk, in other words 'funding risk', represents the Bank's ability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk comprises of funding liquidity risk – inability to access to funding sources and market liquidity risk – inability to liquidate assets quickly with minimal loss in value.

In order to establish its liquidity position, GE Artesia Bank considers the following items as key elements:

- Major sources for the Bank to meet its funding needs,
- Concentration risk in terms of the dependence on individual customers, market segments or particular countries for funds to prevent the possible negative effect of unexpected withdrawals of funds,
- Desired maturities for loans and investments.
- Internal risk limits set by the Bank,
- Regulatory limits on liquidity which the Bank has to fulfill

The primary objective of GE Artesia Bank's strategy is to always have sufficient liquid assets. ALCO is responsible for implementing liquidity risk policy as well as approving operating and contingency procedures. The ALCO policy includes the liquidity requirements imposed by the Dutch Central Bank (De Nederlandsche Bank N.V.) among the different requirements to respect. Day-to-day liquidity management is delegated to the department Treasury and Corporate Sales. ALCO monitors on an ongoing basis the liquidity position and corresponding limits.

### 6.1 Liquidity Risk Management

GE Artesia Bank's short-term liquidity position is part of Treasury's cash management, by which movements in liabilities are taken into account on an individual basis. The liquidity requirements of the Dutch Central Bank (De Nederlandsche Bank N.V.) are taken into account when measuring the liquidity risk.

Liquidity management ensures that, as far as possible, GE Artesia Bank will always have at its disposal sufficient liquid assets to fulfill its obligations on the due date. Given its significance, all important aspects relating to liquid assets are the direct responsibility of the ALCO. The liquidity position of the Bank is managed daily.