



GE  
Artesia Bank

Banque Artesia Nederland N.V.  
Pillar III report – Market disclosure  
As of 31<sup>st</sup> of December 2008  
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, 2008 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 Scope of this report

The scope of this Pillar III report includes GE Artesia Bank and its subsidiaries. This scope is identical to the scope of the consolidated financial statements (as presented in the 2008 Annual Report) and the Basel II consolidation scope.

All the below presented participating interests are in 2007 and 2008 wholly owned and controlled subsidiaries (also referred to as group companies) of GE Artesia Bank:

- 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 Alfimava (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) and;
- Stichting Seven Bridges I.

As at December 31, 2008 EUR 512,000,000 of the residential mortgage portfolio has been securitized into ECB eligible collateral. GE Artesia Bank has transferred the residential mortgages to the special purpose entity Stichting Seven Bridges I, which is 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 is a full service commercial and private bank operating primarily within the Dutch market. GE Artesia Bank's commercial banking activities focus on mid-sized companies, which can be locally based or internationally active. Within this segment GE Artesia Bank focuses on working capital finance by way of borrowing base as well as term loans backed by fixed assets. Also ancillary services such as FX, payment services and LC's can be provided. GE Artesia Bank's loans to individuals consist of two main activities, mortgage lending and advancing against securities. It has however been decided to stop offering mortgages through intermediaries as of August 2008. Existing mortgages are continued and renewed where requested by customers.

The majority of the funding originates from two sources: customer deposits and GE Term deposits. Customer deposits consist of savings and term deposits. Next to the shareholders' equity, GE Capital provides long term funding to GE Artesia Bank.

### 2.2 Risk Governance Structure

Risk is inherent to the business of GE Artesia Bank as a bank. GE Artesia Bank is exposed to several types of risks, namely 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 business 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. In 2007 the bank discontinued its proprietary trading book.

The policy of GE Artesia Bank is to manage all of the above mentioned risks within the limits set by the Management Board. This mainly comprises 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 set up an internal organization to monitor and control risks. The Management Board is primarily responsible for the risk policy and strategy. The policy endeavors to find a good balance between risks, return and costs. The Management Board 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.

In general the monitoring of risk management is the responsibility of the various committees, such as the Credit Committee ('CC'), the Provision Committee, the Operational Risk Committee ('ORC') and the Audit Committee ('AC'). The Asset and Liability Committee ('ALCO') is responsible for monitoring the interest, currency, liquidity and solvency risk. The Credit Committee is responsible for the credit risk. The Provision Committee is responsible for monitoring defaults on outstanding loans and provide for the necessary provisions. The Operational Risk Committee is responsible for monitoring operational risk and provisioning for operational losses. The Audit Committee consists of members of the Supervisory Board. 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.

## 2.3 Capital Management

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, 2008 are shown in Table 2.1.

<b>TOTAL OWN FUNDS FOR SOLVENCY PURPOSES</b>	<b>344</b>
<i>ORIGINAL OWN FUNDS</i>	<b>273</b>
Eligible Capital	153
Eligible Reserves	120
Funds for general banking risks	0
Other country specific Original Own Funds	0
(-) Other deductions from Original Own Funds	0
<i>ADDITIONAL OWN FUNDS</i>	<b>71</b>
Core Additional Own Funds	9
Supplementary Additional Own Funds	62
(-)Deductions from Additional Own Funds	0
<i>(-) DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS</i>	<b>0</b>
Of which: (-) From Original Own Funds	0
Of which: (-) From Additional Own Funds	0

Table 2.1: Available own funds per December 31, 2008. Amounts in EUR million

### 2.3.1 Capital requirements

GE Artesia Bank uses the Standardized Approach to calculate the minimum capital requirements for both credit risk and operational risk (Pillar 1). A summary of the capital requirements under Pillar I as per 31<sup>st</sup> of December 2008 is provided in Table 2.2 below.

Credit Risk - Risk Weighted Assets	2.554.875
Credit Risk - Capital Requirement (8%*RWA)	204.390
Operational Risk - Capital Requirements	6.831
Total - Capital Requirement (a)	211.221
Total own fund (b)	344.180
Ratio (b/a*8%)	13,04%
Surplus (Ratio – 8%)	5,04%
Surplus (b-a)	132.960

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

The risk profile of the bank is annually assessed by the Senior Management as part of the ICAAP process. In this process, it is decided whether the Bank needs to allocate internal capital to cover any additional risk 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 total internal capital requirement is EUR 248 million per December 31, 2008. The breakdown per risk type is provided in Table 2.3.

Risk type	Internal capital share
Credit risk	87%
Interest rate risk in the banking book	3%
Operational and business risk	10%

Table 2.3: Internal capital requirements per risk type

### 2.3.2 Capital planning

Capital planning and capital adequacy management is a key responsibility of the Asset and Liability Committee (ALCO) of the bank. 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.

The bank has set itself a minimum BIS-ratio of 10%.

GE Artesia Bank participates in the annual planning process of GE, the Strategic Playbook (SPB). The most recent SPB was finalised in April. 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

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 2008 are listed in Table 3.1.

Exposure class	Capital requirement	RWA	Share
Administrative bodies and non-commercial undertakings	0,1	1,0	0%
Central governments or central banks	0,1	1,6	0%
Corporates	134,7	1.684	66%
Institutions	11,9	149	6%
Past due items	0,5	6,3	0%
Regional government or local authorities	0,0	-	0%
Retail	39,9	499	20%
Secured on real estate property	13,2	165	6%
Other items	3,9	48	2%
<b>Total</b>	<b>204,4</b>	<b>2.555</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 2008 per exposure class before any credit risk mitigations (CRM) are listed in Table 3.2. Also the average exposure over 2008 and the Exposure at Default (EAD) are included. Note that the EAD is defined as the Exposure after CRM (i.e. the Exposure before CRM corrected for mitigating measures, such as netting), taking into account the credit conversion factors.

Exposure class	Exposure before CRM	Average exposure	EAD
Adm. bodies and non-comm. undertakings	6	19	5
Central governments or central banks	226	223	233
Corporates	2.462	2.600	1.713
Institutions	745	623	659
Past due items	18	20	6
Regional government or local authorities	6	10	6
Retail	701	669	666
Secured on real estate property	360	413	360
Other items	48	43	48
<b>Total</b>	<b>4.572</b>	<b>4.620</b>	<b>3.696</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	2.650	71,7%
U.S.	387	10,5%
Italy	289	7,8%
Greece	146	3,9%
Switzerland	67	1,8%
Other	158	4,3%
<b>Total</b>	<b>3.696</b>	<b>100%</b>

Table 3.3: EAD per country. Amounts in EUR million

Table 3.4 lists the exposures per economic sector. The sector categorisation is based on the categories as defined by De Nederlandsche Bank (DNB).

DNB economic sector	EAD	Share
Private Individuals	1.092	29,6%
Banks and financial intermediation	688	18,6%
Real Estate	294	7,9%
Public Administration	226	6,1%
Oil & Gas	145	3,9%
Services	138	3,7%
Basic materials	132	3,6%
Construction and infrastructure	126	3,4%
Transport & Logistics	116	3,1%
Food, beverages and tobacco	110	3,0%
Chemicals	97	2,6%
Automotive	94	2,5%
Agriculture and fishing	87	2,3%
Utilities	81	2,2%
Building materials	69	1,9%
Retail	39	1,0%
Technology	35	0,9%
Other	131	3,5%
<b>Total</b>	<b>3.696</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.

Exposure class	<1 year	1-3 years	3-5 years	5-10 years	>10 years	Total
Adm. bodies and non-comm. undertakings	1	1	0	3	0	5
Central governments or central banks	15	0	0	9	208	233
Corporates	1.163	208	141	144	57	1.713
Institutions	611	6	1	28	12	659
Past due items	5	0	-	-	1	6
Regional government or local authorities	4	0	1	0	0	6
Retail	13	9	6	23	615	666
Secured on real estate property	18	6	10	29	298	360
Other items	48	-	-	-	-	48
<b>Total</b>	<b>1.878</b>	<b>230</b>	<b>159</b>	<b>236</b>	<b>1.192</b>	<b>3.696</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 select 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%	230	238	238	-
10%	-	-	-	-
20%	696	696	609	122
35%	300	300	300	105
50%	111	121	111	56
75%	701	680	666	499
100%	2.533	2.256	1.771	1.771
150%	1	1	1	2
200%	-	-	-	-
<b>Total</b>	<b>4.572</b>	<b>4.292</b>	<b>3.696</b>	<b>2.555</b>

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

### 3.4 Counterparty credit risk

Limited counterparty credit risk results from financial derivatives transactions. Derivatives counterparty exposure accounts for 1.6% of the total exposure before credit risk mitigants and 1.3% of the risk weighted assets. Moreover, currently the counterparty for most foreign exchange and interest rate derivative transactions is GE Financial Markets, which is part of the same parent company.

### 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. Current netting practices within GE Artesia Bank consist of off-setting assets and liabilities of one or several counterparties between different currencies in current accounts.

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. Life insurances are not taken into account.

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

Exposure class	Exposure before CRM	Guarantees	Financial collateral	Exposure after CRM
Administrative bodies and non-commercial undertakings	6	-	-	6
Central governments or central banks	226	7,9	-	233
Corporates	2.462	-17,7	-247	2.198
Institutions	745	9,8	-	755
Past due items	18	-	-13	6
Regional government or local authorities	6	0,1	-	6
Retail	701	-0,1	-21	680
Secured on real estate property	360	-	-	360
Other items	48	-	-	48
<b>Total</b>	<b>4.572</b>	<b>0</b>	<b>-280</b>	<b>4.292</b>

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

Note that certain exposures, e.g. Institutions, have a higher exposure after CRM due to the substitution effect of guarantees. When the exposure of one counterparty is guaranteed by another, the total exposure is not altered.

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%. (see Table 3.6).

### 3.6 Impairments and provisions

Formal impairment decisions are made quarterly by the Default & Provision Committee. The provision for impairments is determined either on a general basis (incurred but not reported, IBNR) or by the Default & Provision Committee on an individual basis. The gross total loans and advances to customers amounted to EUR 2.9 billion as at December 31, 2008, including provisions for impaired loans of EUR 33.1 million (provisions on principals, both specific and general). GE Artesia Bank recognized a net release of EUR 9.5 million in the income statement in 2008.

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.

The specific provisions amount to a total of EUR 40 million; this is to a large extent (EUR 27 million) the result of historical impairments on one specific account. The remaining EUR 13 million predominantly consists of mortgages (EUR 2.5 million) and four corporate counterparties.

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.

	Unimpaired assets	Impaired assets (gross amount)	Specific provision	General provision	Total
Loans and advances to customers	2,906,722	73,011	39,836	8,811	2,931,086
Financial assets available for sale	236,960	340	340	-	236,960
<b>Total</b>	<b>3,143,682</b>	<b>73,351</b>	<b>40,176</b>	<b>8,811</b>	<b>3,168,046</b>

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

## 4. Market risk

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 can be seen as part of the banking book.

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

### 4.1 Foreign exchange risk

No substantial foreign exchange (FX) risk results from the activities of GE Artesia Bank. 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 banks own funds.

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

Currency	AUD	CAD	CHF	DKK	GBP	JPY	NOK	USD	Total
Net exposure	-3	-5	3	85	3	2	-18	13	81

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. GE Artesia Bank divides this risk into economic interest rate risk and accounting interest rate risk. Economic, or cash flow, interest rate risk is the risk of fluctuations in the expected future cash flows and corresponding present value as a result of changes in the interest rate risk. Accounting, or fair value, interest rate risk is the risk of fluctuations in the book 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 and the stress test. The bank uses limits for the various indicators.

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

interest cash flows are taken into account for calculation. Furthermore, in the approach defined by GE Artesia Bank, the capital is not included in the liabilities for calculating the change in the economic value.

The interest rate risk position is reflected in the gap profile, which evaluates the gap between assets and liabilities cash flows for a set of time buckets and is the basis for all interest rate risk measures. Following the matched funding strategy, particularly in the time buckets of one year and longer, no substantial gaps are allowed. A limited gap remains in the shorter time buckets. The notional gaps per maturity are listed in Table 4.2.

Maturity	Gap
0 to 3 Months	-113
3 Months to 1 Year	161
1 to 5 Years	52
More than 5 Years	39
<b>Total</b>	<b>140</b>

Table 4.2: Gap per maturity bucket per December 31, 2008. Amounts in EUR million

Savings accounts and other positions without a fixed interest rate typical maturity are assumed to mature in the shortest bucket. The cash flows resulting from the residential mortgage portfolio are based on the expected prepayments.

#### 4.2.1 Earnings at Risk

On a monthly basis, the impact of a parallel yield curve shift on the earnings, or interest rate result, is calculated. The calculation is based on the assumption of a stable balance sheet position, so all maturing positions are reinvested or refunded. The shift applied is a gradual 200 basis points upward or downward shift of all interest rates. Distinction is made between the earning impact in the first and second year after the calculation date and between the earnings impact of Euro and U.S. Dollar interest rates. Note that the impacts of an upward and downward shift are assumed to be equal with opposite sign. The Earnings-at-Risk as of December 31, 2008 are listed in Table 4.3.

Impact on	Euro, 200 bp upward	USD, 200 bp upward
First year earnings	1.288	202
Second year earnings	3,484	1.119

Table 4.3: Earnings-at-Risk per December 31, 2008. Amounts in EUR thousand

#### 4.2.2 Interest rate sensitivity

Given the interest rate position as determined by the gap profile, the BPV or interest rate sensitivity is calculated. The results of the impact of the 1 bp interest rate shift are presented in Table 4.4.

Economic BPV	-36.189
Accounting BPV	-5.633

Table 4.4: BPV of the banking portfolio as of December 31, 2008. Amounts in EUR

Both BPV figure do not take the convexity of the yield curve into account. However, the economic BPV results from the cash flow gap per maturity bucket, so the BPV can also be calculated per bucket. The positions per remaining maturity are listed in Table 4.5.

Maturity	Economic BPV
0 to 3 Months	1.788
3 Months to 1 Year	-3.231
1 to 5 Years	-11.104
More than 5 Years	-23.642
Total	-36.189

Table 4.5: BPV per maturity bucket per December 31, 2008. Amounts in EUR

On a monthly basis, a stress test is performed that measures the impact of a 200bp interest shock on the economic value (net present value) of the portfolio. As can be concluded from the economic BPV per maturity bucket, GE Artesia Bank is exposed to interest rate increases. Hence a positive shock is applied. As of December 31, 2008, the impact of a 200 basis points increase in the Euro interest rates on the total portfolio was EUR 7.3 million. The result of this stress test is used for internal capital allocation.

## 5. Operational risk

### 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.

Note that the standardized business lines corporate finance, trading & sales and asset management are not applicable to GE Artesia Bank.

Business line	Annual gross income			Capital requirement	
	2006	2007	2008	Beta factor	Amount
Retail Brokerage	4.338	5.306	3.567	12%	528
Commercial Banking	26.668	24.324	30.714	15%	4.085
Retail Banking	11.535	10.083	9.706	12%	1.253
Payment and Settlement	4.947	4.550	4.051	18%	813
Agency Services	998	1.053	966	15%	151
<b>Total</b>	<b>48.487</b>	<b>45.317</b>	<b>49.004</b>		<b>6.831</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 significantly exposed to operational risk due to the unstable nature of this risk. GE Artesia Bank does not expect any major changes in the operating environment in the coming year that can 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 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 always 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.