de volksbank
Pillar 3 Report 2021

de volksbank

SNS asn bank RegioBank BLGwonen

1 Introduction

1.1 Introduction to Pillar 3

De Volksbank's Pillar 3 report deals with capital adequacy and risk management and has been approved by the management body. It contains the bank's main financial ratios and provides insight into aspects such as our capital position, the size and composition of capital and how the capital is related to risks, as expressed in risk-weighted assets. These ratios can also be found in the 2021 annual report.

The Pillar 3 report allows us to be transparent and comply with the reporting requirements from the European Capital Requirements Regulation (CRR). It provides information on all the topics mentioned in the Regulation to the extent that they apply to de Volksbank.

The Pillar 3 report is published separately to de Volksbank's 2021 annual report, which also contains a detailed explanation of capital and risk management. The information included in the annual report and the information in this report are consistent and partially overlap.

To make this report more readable, rows and columns in the tables have been omitted where they are not populated because de Volksbank does not have any exposure related to these rows or columns respectively. Also when columns are not populated because de Volksbank was not obliged to publish quarterly information before June 2021 the column has been omitted. In these cases the numbering of rows or columns has not been altered. The tables are simultaneously presented in their entirety on our website www.devolksbank.nl.

The Pillar 3 report has been prepared in millions of euros (€) unless stated otherwise. The euro is the functional and reporting currency of de Volksbank. Numbers presented throughout this document may not precisely add up to the totals due to rounding in some cases. The ratios in this document are visible in two decimals but are available in at least four decimals when accessed within the applicable cell in the tables on our website.

Where disclosures have been enhanced, we do not restate prior year comparatives, unless stated otherwise. Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates may differ from the current reporting year or may be absent. In addition, in several cases quarterly information is not published before and therefore absent in some disclosure templates.

The mandatory Pillar 3 information of de Volksbank is disclosed every six months, which is the regular disclosure scheme of de Volksbank. These disclosures also include the mandatory quarterly tables.

If it is deemed necessary, interim updates on key issues are provided in de Volksbank's press releases or on its website.

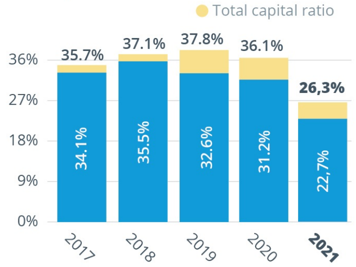
The Pillar 3 disclosures have been subject to de Volksbank's internal controls and validation mechanisms, to provide assurance over the information disclosed in this report as well as with regards to compliance with laws and regulations. The information in the Pillar 3 report has not been audited by de Volksbank's external auditor.

1.2 Key figures

Shareholders' equity and leverage

Based on the balance sheet position at year-end 2021, we estimate that we will still meet our external requirements and internal standards if Basel IV were to be implemented in its entirety and fully phased into European legislation.

Total capital ratio

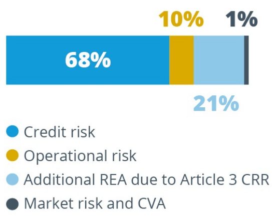


Common Equity Tier 1 ratio year-end 2021

22.7%

Leverage ratio

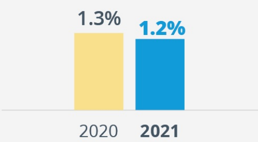
Risk-weighted assets



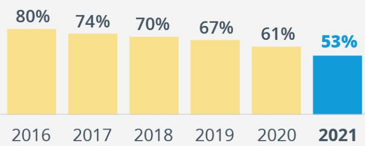
Credit risk

Favourable macro-economic developments in 2021 resulted in the continued improvement of the credit quality of the Loans and advances to customers. Until date, negative impact of the Covid-19 pandemic on the loan book turned to be much less than initially anticipated. Nevertheless, a substantial degree of uncertainty remains. Therefore, de Volksbank opted to keep an expert overlay in place as a buffer for the risk of, among other things, a large drop in house prices.

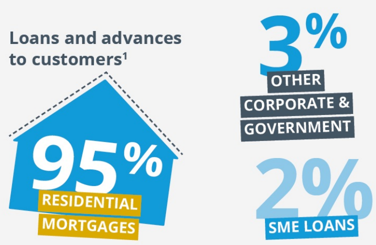
Stage 3 loans expressed as a percentage of the total loans and advances



Average Loan-to-Value residential mortgages



Loans and advances to customers[1]



[1] Consumer loans are less than 1% of total loans and advances to customers

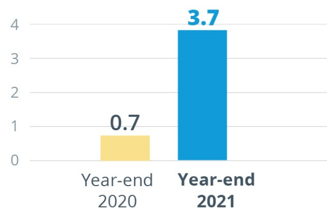
Market risk

Due to the further decline in market rates and the expectation that these will remain low for longer, we have a low interest rate sensitivity for equity.

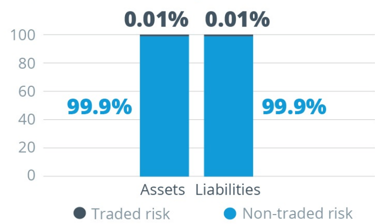
Volume of Earnings at Risk year-end 2021

€ 67 MILLION

Duration of equity



Exposure market risk year-end 2021



Liquidity risk

The bank has a strong liquidity position to continuously meet its financial obligations. Savings are our main source of funding.

Liquidity buffer year-end 2021

€ 22.6 BILLION

12 month average LCR

271%

Green Bond Issuance in 2021

€ 1.0 BILLION

1.3 Management statement

RISK MANAGEMENT

De Volksbank aims to live up to its 'banking with a human touch' mission. We are a retail bank with sustainable business operations that provides services to private individuals, self-employed persons and small businesses in the Netherlands. We engage in low-risk activities that create benefits for customers, take responsibility for society, provide meaning for employees and achieve stable returns for shareholder(s) over a long-term horizon. As a bank with a strong social identity, we optimise these shared values for all stakeholders.

Our risk management recognises developments that might impede that mission and identifies initiatives that fit in with de Volksbank's objectives. In doing so, we take into account the interests of all four stakeholders. This results in the following overall qualitative Risk Appetite Statement for de Volksbank:

With simple and preferably sustainable products and transparent processes we earn our customers' confidence. In our relationship with customers, we act upon trust and embrace their interests. We focus on providing sound solutions within the financial capabilities of the customers. We have controlled and predictable operations, committed and agile employees, a solid capitalisation and an adequate liquidity position. Being a systemically relevant bank with a non-diversified business model, we accept a higher concentration risk and moderate risk profile that accompanies this business model, including its vulnerabilities.

Derived from our banking with a human touch mission and our ambition to optimise shared value, we have formulated a mission for our risk management:

'*We provide our customers with financial peace of mind by managing risks for all stakeholders in an integrated, safe and innovative manner*'.

In our business operations, we run the risk of harming our (non-) financial interests in several areas, including our reputation. We have identified these risks and continuously seek to take timely and adequate control measures.

TOP RISKS

De Volksbank primarily carries out regulated and supervised activities that may be impacted by internal and external developments. These developments and related risks may affect the achievement of our strategic objectives. De Volksbank assesses top risks related to these developments and adjusts the risk taxonomy if necessary. We than take measures to align our strategy and risk appetite with the potential impact of such top risk.

STRATEGIC RISKS

De Volksbank determines four strategic risks, i.e. business, organisational, sustainability and reputation risk. We have introduced the various strategic risk categories because they are different in nature. All these risks have a material impact on the viability of our business model. They threaten the bank's ability to add value in the long term when we fail to sufficiently identify internal and external changes and events and do not adequately respond to them.

CREDIT RISK

De Volksbank has a high concentration of residential mortgage loans in the Netherlands. Other loan portfolios on our balance sheet are much smaller in size. We have developed a policy framework to actively monitor, and thus prevent, any undesirable concentration risks within our portfolio clusters.

As part of credit risk management, we internally assess and monitor the credit standing of our customers and counterparties. In this process we estimate the probability of our customer not being able to meet contractual payment obligations arising from the loan agreement to the best of our knowledge. Such inability would result in a potential financial loss for the bank.

MARKET RISK

The market risk in the banking book mainly comprises market interest rate risk, i.e. the risk that the bank's future interest income deteriorates if market rates change. This risk is part and parcel of a bank that provides mortgage and savings products. In addition, tradable securities in the liquidity portfolio are sensitive to value decreases as a consequence of credit spread risk. Other risks that may be qualified as market risk are very limited for de Volksbank.

Interest rate risk management aims to protect and generate stable net interest income. We achieve this goal by optimising the value of our interest cashflows.

NON-FINANCIAL (OPERATIONAL) RISKS

Non-financial risks stem from inadequate or deficient internal processes and systems, inadequate human behaviour or human error, incorrect data or the use of such data, or external events.

De Volksbank adapts its processes and systems to meet the stricter standards on an ongoing basis by using standard processes and tooling to monitor these standards. The non-financial risk level is continuously measured and assessed by the Operational Risk Committee (ORC).

LIQUIDITY MANAGEMENT AND FUNDING STRATEGY

De Volksbank has a strong liquidity position, enabling it to meet its financial obligations at all times. The bank manages its liquidity position such that it is able to absorb the consequences of bank-specific and market-wide stress factors, such as stress in the money and/or capital markets. To fund its liquidity needs, de Volksbank seeks to diversify its funding sources in accordance with its strategy.

De Volksbank centrally manages its liquidity position, cash flows and liquidity risks. The risk management cycle organised for liquidity risk forms the Internal Liquidity Adequacy Assessment Process (ILAAP). This process is organised on a continuous basis, to monitor the liquidity profile of de Volksbank and to ensure the timely awareness of developments that may require action.

CAPITAL MANAGEMENT

The primary objective of capital management is to ensure that the amount of de Volksbank’s available capital is sufficient to support our strategy. Our capital requirements are determined on the basis of the bank’s strategy, risk appetite and exposures now and in the future.

Considering our ambition of optimising shared value, we take into account the requirements of supervisory authorities, the expectations of rating agencies and the interest of customers and investors, while delivering an adequate return for the shareholder. We also need to meet internal targets that are consistent with our aim of being a stable bank with a moderate risk profile and low-risk activities.

There are no intragroup transactions and/or transactions with related parties that have a material impact on the risk profile of the consolidated group.

PILLAR 3 PROCESS

The Pillar 3 disclosures are predominantly based on information used in prudential, financial and management reporting. The data is obtained from several departments and aggregated within the Risk and Finance divisions in conjunction with information used in the management or annual reports. In addition, the Risk and Finance divisions check whether the information complies with the requirements noted in the CRR/CRD. The information has been presented to and approved by the Managing Board and the (respective committees of the) Supervisory Board. The Management Body thereby verifies that the Pillar 3 report conveys the risk profile of de Volksbank comprehensively to market participants.

MANAGEMENT STATEMENT

The Board of Directors of de Volksbank is responsible for the set-up, presence and operation of the (risk) management and control system. This system is designed to manage risks, to ensure that de Volksbank is not prevented from achieving its strategic operational and financial objectives, that reporting on financial and non-financial performance indicators is reliable and that laws and regulations are complied with. The management body of de Volksbank N.V. confirms that the risk management systems of de Volksbank are adequate with regard to the risk profile and strategy of all of the identified and abovementioned risks.

For further in-depth information see chapter 3 Risk management objectives and policies.

1.4 Consolidation scope

BASIS FOR CONSOLIDATION IFRS

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksbank, are consolidated in accordance with IFRS 10 Consolidated Financial Statements. Subsidiaries are fully consolidated from the date on which control is transferred to de Volksbank. They are deconsolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of de Volksbank's financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksbank.

Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

De Volksbank accounts for business combinations when control is obtained by the bank. All items of the consideration are measured and recognised at fair value at acquisition date. The excess of consideration over the share of the fair value of the identifiable net assets acquired is recorded as goodwill. Transaction costs in connection to the purchase of the business combination are expensed as incurred.

PRUDENTIAL CONSOLIDATION

The prudential scope of consolidation for the purpose of calculating regulatory capital is the same as the IFRS scope of consolidation of de Volksbank.

1.5 Scope of application

The regulatory scope of consolidation of de Volksbank is based on the IFRS scope of consolidation in the annual accounts. For more information about the consolidation principles, please refer to the accounting principles for the consolidated financial statements in the 2021 annual report of de Volksbank.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories 2021

	a/b	c	d	e	f	g
		Carrying values of items:				
in € millions	Carrying values as reported in published financial statements and under scope of prudential consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework[1]	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS						
Cash and cash equivalents	10,296	10,296	--	--	--	--
Derivatives	591	--	591	--	--	--
Investments	5,638	5,531	--	107	--	--
Loans and advances to banks	4,527	3,936	591	--	--	--
Loans and advances to customers	50,727	50,727	--	--	--	--
Tangible and intangible assets	93	86	--	--	--	7
Tax assets	39	39	--	--	--	--
Other assets	170	170	--	--	--	--
Total assets	**72,081**	**70,785**	**1,182**	**107**	**--**	**7**
Liabilities						
Savings	45,646	--	--	--	--	45,646
Other amounts due to customers	12,482	--	--	--	--	12,482
Amounts due to customers	**58,128**	**--**	**--**	**--**	**--**	**58,128**
Amounts due to banks	1,059	--	92	--	--	967
Debt certificates	7,402	--	--	--	--	7,402
Derivatives	1,013	--	1,013	--	--	--
Tax liabilities	9	--	--	--	--	9
Other liabilities	382	--	--	--	--	382
Provisions	102	--	--	--	--	102
Subordinated debts	500	--	--	--	--	500
Total other liabilities	**10,467**	**--**	**1,105**	**--**	**--**	**9,362**
Share capital	381	--	--	--	--	381
Reserves	2,943	--	--	--	--	2,943
Net result for the period	162	--	--	--	--	162
Shareholders' equity	**3,486**	**--**	**--**	**--**	**--**	**3,486**
Total equity and liabilities	**72,081**	**--**	**1,105**	**--**	**--**	**70,976**

1 This concerns derivatives, which are mainly part of an ISDA master netting agreement.

Items subject to counterparty credit risk decreased by € 740 million to € 2.287 million (2020: € 3.027 million).

Items subject to the securitisation framework has slightly increased by € 12 million to € 107 million in 2021 (2020: € 95 million). De Volksbank currently has no positions subject to market risk.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories 2020

	a/b	c	d	e	f	g
		Carrying values of items:				
in € millions	Carrying values	Subject to credit risk framework	Subject to counterparty credit risk framework[1]	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS						
Cash and cash equivalents	4,672	4,672	--	--	--	--
Derivatives	864	--	864	--	--	--
Investments	5,114	5,019	--	95	--	--
Loans and advances to banks	5,990	5,990	--	--	--	--
Loans and advances to customers	50,542	50,542	--	--	--	--
Tangible and intangible assets	110	110	--	--	--	--
Tax assets	42	26	--	--	--	17
Other assets	150	150	--	--	--	--
Total assets	**67,484**	**66,509**	**864**	**95**	**--**	**17**
Liabilities						
Savings	42,111	--	--	--	--	42,111
Other amounts due to customers	11,541	--	--	--	--	11,541
Amounts due to customers	**53,652**	**--**	**--**	**--**	**--**	**53,652**
Amounts due to banks	945	--	--	--	--	945
Debt certificates	6,119	--	--	--	--	6,119
Derivatives	2,163	--	2,163	--	--	--
Tax liabilities	17	--	--	--	--	17
Other liabilities	558	--	--	--	--	558
Provisions	80	--	--	--	--	80
Subordinated debts	500	--	--	--	--	500
Total other liabilities	**10,382**	**--**	**2,163**	**--**	**--**	**8,219**
Share capital	381	--	--	--	--	381
Reserves	2,895	--	--	--	--	2,895
Net result for the period	174	--	--	--	--	174
Shareholders' equity	**3,450**	**--**	**--**	**--**	**--**	**3,450**
Total equity and liabilities	**67,484**	**--**	**2,163**	**--**	**--**	**65,321**

1 This concerns derivatives, which are mainly part of an ISDA master netting agreement.

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2021

		a	b	c	d	e
			Items subject to:			
	in € millions	Total	Credit risk framework	Counterparty credit risk framework[1]	Securitisation framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	72,074	70,785	1,182	107	--
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,110	5	1,105	--	--
3	**Total net amount under regulatory scope of consolidation**	**70,964**	**70,780**	**77**	**107**	**--**
4	Off-balance sheet amounts	3,408	3,408[2]	--	--	--
5	Differences in valuations	-2	-2	--	--	--
6	Differences due to different netting rules, other than those already included in row 2	--	--	--	--	--
7	Differences due to consideration of provisions	72	72	--	--	--
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-11	-11	--	--	--
9	Differences due to credit conversion factors	-755	-755	--	--	--
10	Differences due to Securitisation with risk transfer	--	--	--	--	--
11	Other differences	-227	-784	556	0	--
12	**Exposure amounts considered for regulatory purposes**	**73,449**	**72,708**	**633**	**107**	**--**

1 This concerns derivatives, which are mainly part of an ISDA master netting agreement.

2 After credit conversion factor.

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2020

		a	b	c	d	e
			Items subject to:			
	in € millions	Total	Credit risk framework	Counterparty credit risk framework[1]	Securitisation framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	67,467	66,509	864	95	--
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	2,163	--	2,163	--	--
3	**Total net amount under regulatory scope of consolidation**	**67,467**	**66,509**	**864**	**95**	**--**
4	Off-balance sheet amounts	2,833	2,138[2]	--	--	--
5	Differences in valuations	-3,272	-3,272	--	--	--
6	Differences due to different netting rules, other than those already included in row 2	--	--	--	--	--
7	Differences due to consideration of provisions	110	110	--	--	--
8	Differences due to prudential filters	--	--	--	--	--
9	Differences due to counterparty credit risk	-459	--	-459	--	--
10	**Exposure amounts considered for regulatory purposes**	**66,680**	**65,485**	**405**	**95**	**--**

1 This concerns derivatives, which are mainly part of an ISDA master netting agreement.

2 After credit conversion factor.

EXPLANATIONS OF DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

The prudential scope of consolidation for the purpose of calculating regulatory capital is the same as the IFRS scope of consolidation of de Volksbank.

The main differences between the carrying value of assets in the financial statements and the exposure amounts considered for regulatory purposes per year-end 2021 can be explained by the following elements:

- inclusion of off-balance sheet liabilities and the effect of credit conversion factors (shown in row 4 and 9)
- loan loss provisions are not taken into account in the IRB exposure value of residential mortgages (shown in row 7)
- exclusion of fair value adjustments from hedge accounting (shown in row 11)
- different valuation of derivatives due to netting rules (shown in row 11)
- inclusion of an add-on for derivatives and a multiplier of 1,4 (shown in row 11)
- the exclusion of items that are capital deducted (shown in row 11)

For further information on the differences in the IRB exposure value of residential mortgages, see section 7.4 Use of the AIRB approach to credit risk.

As the prudential scope of consolidation for the purpose of calculating regulatory capital is the same as the IFRS scope of consolidation of de Volksbank, template EU LI3 is not applicable and therefore not disclosed.

EU PV1: Prudent valuation adjustments (PVA) 2021

		a	b	c	d	e	EU e1	EU e2	f	g	h
		Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: **Total core approach** in the trading book	Of which: **Total core approach** in the banking book
	in € millions										
12	**Total Additional Valuation Adjustments (AVAs)**								**2**	**--**	**--**

De Volksbank uses the Simplified approach for calculating the prudent valuation adjustment for fair valued positions, hence only the additional valuation adjustments is reported in the table above.

OTHER QUALITATIVE INFORMATION ON THE SCOPE OF APPLICATION

De Volksbank does not apply on-balance sheet netting between assets and liabilities.

There is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the de Volksbank and its subsidiaries.

All subsidiaries are included in the prudential scope of consolidation for the purpose of calculating regulatory capital. Therefore, the aggregate amount by which the actual own funds are less than the required minimum in subsidiaries not included in the consolidation scope is nil.

According to the CRR de Volksbank is required to comply with prudential and liquidity requirements on a consolidated and individual basis. De Volksbank does not make use of derogation referred to in Article 7 or 9 CRR.

1.6 Detailed index of Pillar 3 references

The Pillar 3 disclosure requirements are described in Part Eight of the CRR 2. The table below provides insight into these requirements and states where the reader can find this information in the Pillar 3 report and/or the annual report.

CRR 2 article	Pillar 3 disclosure requirements	Location in Pillar 3 report	Notes
435	Disclosure of risk management objectives and policies	Chapter 3 Risk management objectives and policies Chapter 4 Own funds Chapter 5 Leverage Section 7.1.1 General qualitative information regarding credit risk Section 8.1 Qualitative disclosure requirements regarding CCR Section 10.2 Interest rate risk not included in the trading portfolio Chapter 11 Operational risk See also the annual report of de Volksbank	Chapter 2 in the annual report addresses subjects of the risk committees and the governance provisions. Chapter 1 discusses in section 1.3 How we create value and in section 1.4 Progress on our objectives.
436	Disclosure of the scope of application	Section 1.4 Scope of application	
437	Disclosure of own funds	Chapter 4 Own funds	In section 1.3 Consolidation scope the basis for consolidation is included.
437a	Disclosure of own funds and eligible liabilities	Not included	De Volksbank is not considered an institution of global systemic importance and therefore not subject to article 92a or 92b.
438	Disclosure of own funds requirements and risk weighted exposure amounts	Section 2.2 Overview of RWA Section 2.3 ICAAP information (including CRR/CRD IV requirements) Section 4.2 Own funds Section 4.3 Macro prudential supervisory measures	
439	Disclosure of exposures to counterparty credit risk	Chapter 8 Counterparty credit risk (CRR)	
440	Disclosure of countercyclical capital buffers	Section 4.3 Macroprudential supervisory measures	
441	Disclosure of indicators of global systemic importance	Not included	De Volksbank is not considered an institution of global systemic importance.
442	Disclosure of exposures to credit risk and dilution risk	Section 7.1.1 General qualitative information regarding credit risk Section 7.1.2 General quantitative information regarding credit risk	
443	Disclosure of encumbered and unencumbered assets	Section 6.3 Encumbered and unencumbered assets	
444	Disclosure of the use of the Standardised Approach	Section 7.3 Use of the Standardised Approach	
445	Disclosure of exposure to market risk	Section 10.1 Market risk qualitative disclosure	
446	Disclosure of operational risk management	Chapter 11 Operational risk	
447	Disclosure of key metrics	Section 2.1 Key metrics	
448	Disclosure of exposures to interest rate risk on positions not held in the trading book	Section 10.2 Interest rate risk not included in the trading portfolio	Qualitative key assumptions for modelling customer behaviour (regarding loan prepayments and behaviour of non-maturity deposits) are included. Quantitative information is considered to be proprietary information as these are key assumptions in interest (pricing) strategy.

449	Disclosure of exposures to securitisation positions	Chapter 9 Securitisation	
449a	Disclosure of environmental, social and governance risks (ESG risks) (applicable as of 28 June 2022)	Chapter 13 Sustainability risk	
450	Disclosure of remuneration policy	Chapter 12 Remuneration policy	Section 2.6 in the annual report of de Volksbank also contains information about the remuneration report.
451	Disclosure of the leverage ratio	Chapter 5 Leverage ratio	
451a	Disclosure of liquidity requirements	Section 6.1 Liquidity risk management Section 6.2 Liquidity Coverage Ratio Section 6.4 Net Stable Funding Ratio	
452	Disclosure of the use of the IRB Approach to credit risk	Section 7.4 Use of the AIRB approach to credit risk	
453	Disclosure of the use of credit risk mitigation techniques	Section 7.2 Use of credit risk mitigation techniques	
454	Disclosure of the use of the Advanced Measurement Approaches to operational risk	Not included	De Volksbank does not use internal models to calculate capital requirements for operational risk.
455	Use of internal market risk models	Not included	De Volksbank does not use internal models to calculate capital requirements for market risk.

1.7 Tables that are out of scope for de Volksbank

The following tables are not applicable to de Volksbank and therefore not included in this report.

Table	Description	Reason of exclusion
EU INS1	Insurance participations	De Volksbank does not hold any own fund instruments in insurance or re-insurance undertakings or insurance holding company not deducted from own funds.
EU INS2	Financial conglomerates information on own funds and capital adequacy ratio	De Volksbank is not (part of) a financial conglomerate.
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	The prudential scope of consolidation for the purpose of calculating regulatory capital is the same as the IFRS scope of consolidation of de Volksbank.
EU CR7	AIRB approach – Effect on the RWAs	De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.
EU CR9.1	IRB approach – Back-testing of PD per exposure class	De Volksbank does not apply CRR article 180(1)(f).
EU CR10	Specialised lending and equity exposures under the simple riskweighted approach	De Volksbank does not use the Internal Ratings Based approach for specialised lending and equity exposures.
EU MR2-A	Market risk under the Internal Model Approach (IMA)	De Volksbank does not use the Internal Model Approach to calculate own funds requirements for market risk.
EU MR2-B	RWA flow statements of market risk exposures under the IMA	De Volksbank does not use the Internal Model Approach to calculate own funds requirements for market risk.
EU MR3	IMA values for trading portfolio	De Volksbank does not use the Internal Model Approach to calculate own funds requirements for market risk.
EU MR4	Comparison of VaR estimates with gains/losses	De Volksbank does not use the Internal Model Approach to calculate own funds requirements for market risk.
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	De Volksbank does not use the Internal Ratings Based approach for counterparty credit risk exposures
EU CCR6	Credit derivative exposures	De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk
EU CCR7	RWEA flow statements of credit exposures under the IMM	De Volksbank does not use the Internal Ratings Based approach for counterparty credit risk exposures
EU SEC2	Securitisation exposures in the trading book	De Volksbank does not have any trading book securitisation exposures.
EU SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	Where de Volksbank is the originator institution of securitisation, own funds requirements are calculated on the securitised exposures instead of securitisation positions from the securitisations.
EU REM3	Deferred remuneration	De Volksbank does not grant deferred remuneration.
EU REM4	Remuneration of 1 million EUR or more per year	De Volksbank does not have staff that have been remunerated €1 million or more per financial year.
EU KM2	Key metrics – MREL and, where applicable, G-SII requirements for own funds and eligible liabilities	De Volksbank is not a Globally Systemically Important Institution (G-SII).
EU TLAC1	Composition - MREL and, where applicable, G-SII Requirement for own funds and eligible liabilities	De Volksbank is not a Globally Systemically Important Institution (G-SII).
EU TLAC2	Creditor ranking - Entity that is not a resolution entity	De Volksbank is not a Globally Systemically Important Institution (G-SII).
EU TLAC3	Creditor ranking - resolution entity	De Volksbank is not a Globally Systemically Important Institution (G-SII).
EU iLAC	Internal loss absorbing capacity: internal MREL and, where applicable, requirement for own funds and eligible liabilities for non-EU G-SIIs	De Volksbank is not a Globally Systemically Important Institution (G-SII).

De Volksbank does not have a NPE ratio equal to or higher than 5%. The reporting threshold of Article 8 (3) of Regulation (EU) 2021/637 is thus not met and therefore the following tables are not included in this report.

Table	Description
EU CR2a	Changes in the stock of non-performing loans and advances and related accumulated recoveries
EU CQ2	Quality of forbearance
EU CQ6	Collateral valuation – loans and advances
EU CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown

2 Key metrics and overview of risk-weighted exposure amounts

2.1 Key metrics

EU KM1 - Key Metrics

		a	b	c	e
	in € millions	**31-12-2021**	**30-9-2021**	**30-6-2021**	**31-12-2020**
	Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	3,182	3,195	3,194	3,223
2	Tier 1 capital	3,182	3,195	3,194	3,223
3	Total capital	3,682	3,695	3,713	3,734
	Risk-weighted exposure amounts				
4	Total risk exposure amount	13,993	11,161	11,279	10,331
	Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	22.74%	28.63%	28.33%	31.19%
6	Tier 1 ratio (%)	22.74%	28.63%	28.33%	31.19%
7	Total capital ratio (%)	26.31%	33.11%	32.92%	36.14%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.50%	2.50%	2.50%	2.50%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.41%	1.41%	1.41%	1.41%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.88%	1.88%	1.88%	1.88%
EU 7d	Total SREP own funds requirements (%)	10.50%	10.50%	10.50%	10.50%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%	0.0%	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	0.0%	0.0%	0.0%	0.0%
EU 9a	Systemic risk buffer (%)	0.0%	0.0%	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	0.0%	0.0%	0.0%	0.0%
EU 10a	Other Systemically Important Institution buffer (%)	1.0%	1.0%	1.0%	1.0%
11	Combined buffer requirement (%)	3.5%	3.5%	3.5%	3.5%
EU 11a	Overall capital requirements (%)	14.0%	14.0%	14.0%	14.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	16.83%	22.7%	22.42%	25.28%
	Leverage ratio				
13	Total exposure measure	62,206	62,979	62,647	62,494
14	Leverage ratio (%)	5.11%	5.07%	5.10%	5.16%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%	0.0%	
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0%	0.0%	0.0%	
EU 14c	Total SREP leverage ratio requirements (%)	3.2%	3.2%	3.2%	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)	0.0%	0.0%	0.0%	
EU 14e	Overall leverage ratio requirement (%)	3.2%	3.2%	3.2%	

De Volksbank's CET1 capital ratio went down to 22.74%, from 31.19% at year-end 2021, mainly due to a temporary and voluntary add-on related to our internal credit risk model for residential mortgages and an ongoing supervisory review on the underlying database infrastructure. The CET1 capital ratio remained well above our target of at least 19.0%.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures for Q1 2021 are not included.

EU KM1 - Key Metrics Liquidity

		a	b	c	e
	in € millions	**31-12-2021**	**30-9-2021**	**30-6-2021**	**31-12-2020**
	Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	12,099	10,594	8,790	6,360
EU 16a	Cash outflows - Total weighted value	6,083	6,065	6,028	5,958
EU 16b	Cash inflows - Total weighted value	1,508	1,515	1,808	2,591
16	Total net cash outflows (adjusted value)	4,575	4,550	4,220	3,367
17	Liquidity coverage ratio (%)[1]	270.94%	236.05%	207.83%	196.11%
	Net Stable Funding Ratio				
18	Total available stable funding	65,166	64,620	63,508	
19	Total required stable funding	37,001	37,218	37,059	
20	NSFR ratio (%)	176.12%	173.63%	171.37%	

1 The LCR figures in this table are calculated using the reported supervisory values and figures for each of the four calendar quarters (January-March, April-June, July-September, October-December) preceding the disclosure date. The values and figures in the table are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. Following this approach, the LCR cannot be calculated using the figures in the table.

In 2021, the Liquidity Coverage Ratio (LCR) remained well above the regulatory minimum of 100%. Continued growth in retail deposits resulted in a liquidity position that is substantially higher than de Volksbank's internal targets and regulatory requirements. In addition to holding Central Bank reserves and (highly) liquid investments, de Volksbank lends part of the available liquidity to several counterparties with short tenors. This translates into a relatively high average inflow within 30 days.

Retail savings are our main source of available stable funding. We also attract savings deposits and current account balances from SME customers. In 2021, customer deposits increased to € 57.6 billion, from € 53.0 billion at year-end 2020.

The bank also attracts funding from the capital market through various funding instruments. For more information on our funding strategy see Section 6.2 LCR. Required stable funding mainly stems from our residential mortgage portfolio. Part of our mortgage portfolio is encumbered mainly on account of outstanding covered bonds. For more information on see Section 6.3 Encumbered and unencumbered assets.

De Volksbank has no interdependent assets and liabilities in accordance with Article 428f CRR.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

2.2 Overview of RWA

EU OV1 – Overview of RWA

		Total risk exposure amounts (TREA)				Total own funds requirements
		a		b		c
	in € millions	31-12-2021	30-9-2021	30-6-2021	31-12-2020	31-12-2021
1	**Credit risk (excluding CCR)**	**12,347**	**9,453**	**9,552**	**8,677**	**988**
2	*Of which the standardised approach*	3,102	2,594	2,656	2,179	248
3	*Of which the Foundation IRB (F-IRB) approach*	-	-	-	-	-
4	*Of which slotting approach*	-	-	-	-	-
EU 4a	*Of which equities under the simple riskweighted approach*	-	-	-	-	-
5	*Of which the advanced IRB (A-IRB) approach*	6,240	5,645	5,682	5,897	499
5a	*Additional risk exposure amount due to Article 3 CRR*	3,005	1,214	1,214	600	240
6	**Counterparty credit risk - CCR**	**234**	**228**	**257**	**183**	**19**
7	*Of which the standardised approach*	150	137	151	-	12
8	*Of which internal model method (IMM)*	-	-	-	-	-
EU 8a	*Of which exposures to a CCP*	9	10	10	-	1
EU 8b	*Of which credit valuation adjustment - CVA*	75	80	96	70	6
9	*Of which other CCR*	-	-	-	-	-
9a	*Of which mark to market*	-	-	-	113	-
10	*Not applicable*					
11	*Not applicable*					
12	*Not applicable*					
13	*Not applicable*					
14	*Not applicable*					
15	**Settlement risk**	-	-	-	-	-
16	**Securitisation exposures in the non-trading book (after the cap)**	**20**	**20**	**19**	**17**	**2**
17	*Of which SEC-IRBA approach*	-	-	-	-	-
18	*Of which SEC-ERBA (including IAA)*	13	13	4	7	1
19	*Of which SEC-SA approach*	7	6	15	10	1
EU 19a	*Of which 1250% / deduction*	-	-	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	-	**10**	-	-	-
21	*Of which the standardised approach*	-	10	-	-	-
22	*Of which IMA*	-	-	-	-	-
EU 22a	**Large exposures**	-	-	-	-	-
23	**Operational risk**	**1,392**	**1,451**	**1,451**	**1,451**	**111**
EU 23a	*Of which basic indicator approach*	-	-	-	-	-
EU 23b	*Of which standardised approach*	1,392	1,451	1,451	1,451	111
EU 23c	*Of which advanced measurement approach*	-	-	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	-	-	-	**3**	-
25	*Not applicable*					
26	*Not applicable*					
27	*Not applicable*					
28	*Not applicable*					
29	**Total**	**13,993**	**11,161**	**11,279**	**10,331**	**1,119**

In 2021, RWA increased by € 3.7 billion to € 14.0 billion. RWA for the credit risk of the residential mortgage portfolio, calculated according to the AIRB Approach, increased by € 343 million due to the growth of the mortgage portfolio and the update of the AIRB model. The average risk weighting of residential mortgages declined slightly to 12.6% from 12.7% at year-end 2020. The impact of the AIRB model update was compensated by a further improvement of the credit quality of our customers.

In addition, RWA for credit risk calculated according to the Standardised Approach increased by € 965 million, largely related to the increased RWA for exposures to Institutions and exposures to corporates.

The RWA for operational risk, market risk, the Credit Valuation Adjustment and the revised securitisation framework decreased by € 52 million to € 1.5 billion in total.

At year-end 2021 de Volksbank has no transactions in which the agreed delivery dates have not been settled yet. Therefore per year-end 2021 there is no RWA for settlement risk.

The bank does not hold commodities and therefore no capital is required for commodity risk.

At year-end 2021, the total net position in foreign currency is lower than the CRR threshold of 2% of total capital. Therefore no capital is required for this item.

The additional RWA amount due to Article 3 CRR per year-end 2020 includes the expected impact of the revised Advanced Internal Ratings Based (AIRB) model (PHIRM 3.1) for our retail non-SME mortgages. Per end-June 2021 and end-September 2021 the additional RWA due to Article 3 was increased due to a recalibration of the expected impact of the revised AIRB model PHIRM 3.1 and the inclusion of the expected impact of the new EBA guidelines on Definition of Default on our PHIRM model.

The additional RWA amount of € 3.0 billion due to a temporary and voluntary Article 3 CRR add-on as at year-end 2021 is related to the new data warehouse, which needs supervisory review before actual use in external RWA calculations. Awaiting further formal approval, de Volksbank added extra conservatism to the amount of RWA. The previous Article 3 add-on in anticipation of the recent update of PHIRM and the new Definition of Default is no longer applicable.

2.3 ICAAP information

CAPITAL ADEQUACY LIFECYCLE

The risk management lifecycle applies to capital management in the following way:

1. Identification of risks within the scope of capital adequacy: we continuously aim to identify all potential, material individual, aggregate and emerging risks within the scope of capital adequacy. For example, we perform an independent risk review of all relevant proposals related to capital adequacy.
2. Assessment of the risk profile against the risk thresholds by comparing the risk exposure with the available capital from own funds and bail-in eligible liabilities: as part of the ICAAP, we continuously assess the adequacy and effectiveness of the risk management framework as far as capital adequacy and its compliance with internal policies and the risk appetite framework are concerned. ICAAP provides input for the ECB's Supervisory Review & Evaluation Process (SREP). We present the outcome of the assessment in the annual ICAAP capital adequacy statement (CAS) report. The assessment of (expected future) capital exposure and developments also comprises the:
   - Annual recalibration of the capital management strategy.
   - Definition of actions in the capital and liquidity plan, which we draw up at least once a year, giving substance to the anticipated capital needs ensuing from the Operational Plan. As the OP has a multi-year horizon, we make forecasts of relevant risk indicators and compare these with the internal thresholds. We work out various scenarios, taking into account the anticipated effects of future regulations.
   - Update of forecasts in the monthly Capital Adequacy Assessment Report (CAAR). The CAAR includes a CAS based on the current risk profile versus the risk thresholds and a forward-looking assessment.
   - Regular stress tests to provide insight into the key vulnerabilities and to assess the resilience of the capital position to severe but plausible adverse (economic) conditions. The results are used to set the risk appetite thresholds.
3. Risk response to capital adequacy: every year, we determine the Risk Appetite Statement (RAS) for capital adequacy in conjunction with the bank’s general risk appetite and strategic objectives. To monitor capital adequacy, we use specific risk indicators and determine the level above which we feel comfortable based on the risk appetite for capital adequacy.
4. Monitoring of capital adequacy: the Treasury Committee monitors early warning indicators defined in the RAS for capital adequacy on a regular basis. The ALCO monitors the RAS indicators in the CAAR on a monthly basis.
5. Residual risk: Not all capital risks are identified or fully managed at all times, because of expected or unexpected balance sheet or regulatory developments. By following the capital adequacy lifecycle, we intend to identify these risks and formulate a risk response.
6. Reporting of capital adequacy indicators: we prepare regulatory and internal reports to measure, monitor and manage the bank’s capital adequacy on an ongoing basis.

CRR/CRD IV REQUIREMENTS

CRR/CRD IV requirements 1 March 2022

	Total capital	of which Tier 1 capital	of which CET1 capital
Pillar 1 requirement	8.00%	6.00%	4.50%
Pillar 2 requirement	3.00%	2.25%	1.69%
Total SREP Capital Requirement (TSCR)	**11.00%**	**8.25%**	**6.19%**
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII buffer	1.00%	1.00%	1.00%
Countercyclical capital buffer[1]	0.01%	0.01%	0.01%
Combined Buffer Requirement (CBR)	**3.51%**	**3.51%**	**3.51%**
Overall Capital Requirement (OCR)	**14.51%**	**11.76%**	**9.70%**

1 In the course of 2021 Luxembourg changed their Countercyclical buffer rate to 0.5% leading to a minimal Institution specific countercyclical capital buffer rate.

With effect from 1 March 2022, de Volksbank is required to meet a minimum total Overall Capital Requirement (OCR) of 14.5%, of which at least 9.69% needs to be composed of Common Equity Tier 1 (CET1) capital. This obligation stems from the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2021.

The OCR is defined as the level at which the maximum distributable amount of dividend (Maximum Distributable Amount, MDA) is curtailed by regulations. The OCR includes the Pillar 1 capital requirement of 8.0%, the Pillar 2 capital requirement of 3.0% – together forming the Total SREP Capital Requirement (TSCR) – and the Combined Buffer Requirement (CBR).

The CBR, to be held in the form of CET1 capital, consists of a capital conservation buffer, a capital buffer for Other Systemically Important Institutions (O-SII buffer) and a countercyclical capital buffer. The capital conservation buffer equalled 2.50% on 1 March 2022 and the O-SII buffer for de Volksbank equalled 1.0% on 1 March 2022. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising from excessive credit growth. Each quarter, DNB sets the level of the buffer for the Netherlands, which, in principle, may vary from 0% to 2.5%. DNB has the discretion to set the countercyclical capital buffer above 2.5%.

De Volksbank is not classified as G-SII (global systemically important institutions).

3 Risk management objectives and policies

3.1 Institution risk management approach

RISK MANAGEMENT STRUCTURE

De Volksbank aims to live up to its ‘banking with a human touch’ mission. We are a retail bank with sustainable business operations that provides services to private individuals, self-employed persons and small businesses in the Netherlands. We engage in low-risk activities that create benefits for customers, take responsibility for society, provide meaning for employees and achieve stable returns for shareholder(s) over a long-term horizon. As a bank with a strong social identity, want to build a strong customer relationship and increase the social impact we make.

Risk Appetite Statement

Our risk management recognises developments that might impede that mission and identifies initiatives that fit in with de Volksbank's objectives. In doing so, we take into account the interests of all four stakeholders. This results in the following overall qualitative Risk Appetite Statement for de Volksbank:

With simple and preferably sustainable products and transparent processes we earn our customers’ confidence. In our relationship with customers, we act upon trust and embrace their interests. We focus on providing sound solutions within the financial capabilities of the customers. We have controlled and predictable operations, committed and agile employees, a solid capitalisation and an adequate liquidity position. Being a systemically relevant bank with a non-diversified business model, we accept a higher concentration risk and moderate risk profile that accompanies this business model, including its vulnerabilities.

Risk management mission

Derived from our banking with a human touch mission and our strategy for building a strong customer relationship and increasing social impact, we have formulated a mission for our risk management:

'*We provide our customers with financial peace of mind by managing risks for all stakeholders in an integrated, safe and innovative manner*'.

Risk management and shared value

De Volksbank aims for an integrated risk management approach in which all risks within the bank’s risk taxonomy are managed in accordance with our shared value:

BENEFITS FOR CUSTOMERS

We work towards a sound and long-term customer relationship that is based on mutual trust, we are better equipped to support our customers in controlling their personal finances. We aim for clear and transparent risk management.

RESPONSIBILITY FOR SOCIETY

We follow up on the development of products and services that increase our customers' financial resilience. This includes careful risk considerations and close monitoring of laws and regulations.

GENUINE ATTENTION FOR OUR EMPLOYEES

We need motivated and competent people to live up to our mission. We encourage employees’ commitment and the development of their expertise by giving them genuine attention.

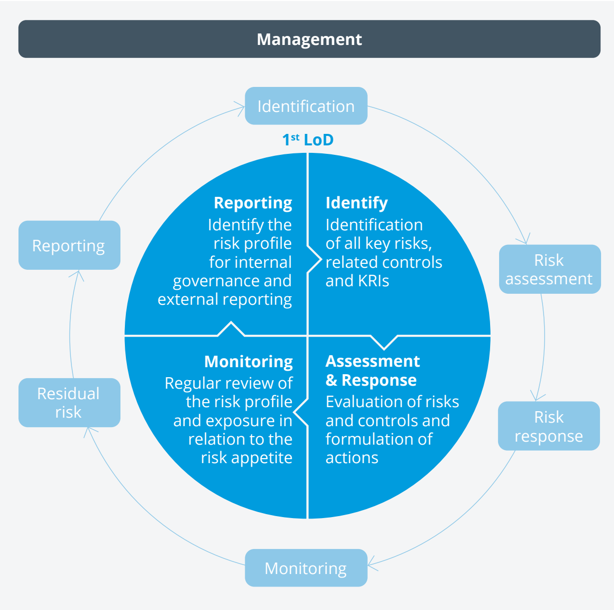
RETURN FOR THE SHAREHOLDER

We aim for a solid capital position, an adequate liquidity position and a simple and transparent balance sheet. This is how we contribute to a financially sound and stable bank with activities that yield stable returns in the long term.

Risk management framework

To manage risks, de Volksbank applies the COSO[1] Enterprise Risk Management Framework. We have set up a Risk Management Cycle (RMC) to properly apply all COSO ERM elements and this serves as generic tool for both the first line and the second line of defence. The RMC ensures consistent terminology and provides a compatible methodology for the identification, assessment, measurement, monitoring, management and reporting of all risks.

1 COSO: The Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org



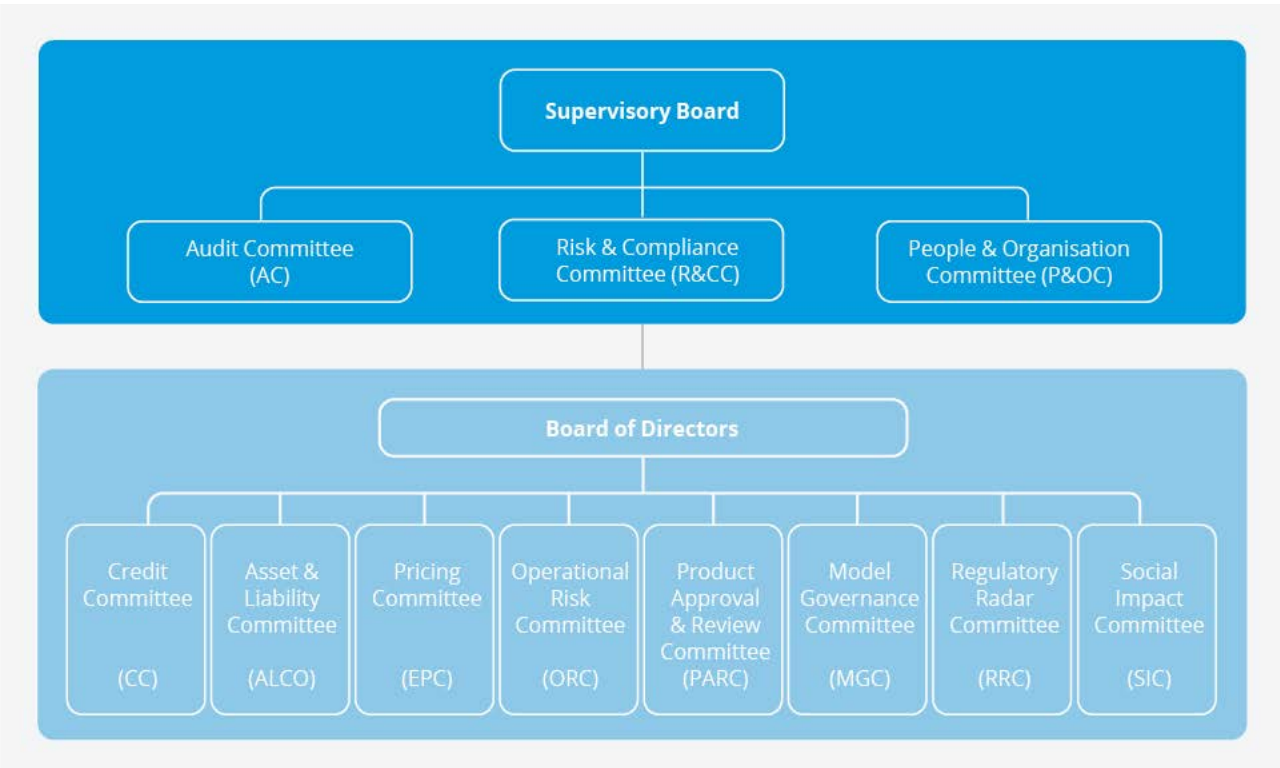
Risk governance

De Volksbank' s risk governance is based on the three lines of defence model. In this model, the first line of defence (the business) is responsible for setting up and executing its own processes and the identification and assessment of the risks involved. The business measures the risks against the risk appetite that has been determined, and reports on them. The second line supports the business, sets the frameworks, gives advice and monitors if the business takes its responsibility. The second line, here the Compliance Function, monitors if de Volksbank complies with laws and regulations as well as its internal policies on integrity. The third line, the Audit Function, independently assesses if the first and second lines are operating effectively.

As the Board of Directors has ultimate accountability for risk management within the risk management organisation, it therefore functions as an overarching Bank Risk Committee, which is supported by risk committees, with representatives from the first and second lines in each committee.

As from the second quarter of 2022, the Board of Directors as governing body, will be re-named 'Executive Board' and will be extended to an Executive Committee. The Executive Board will remain accountable for the risk management framework of the bank and all risk related decision-making. See for more information Section 2 Governance in the annual report.

The Supervisory Board is charged with the supervision of the Board of Directors and in that role are provided with advice by the Audit Committee, the Risk and Compliance Committee and the People and Organisation Committee.



Each Board of Directors-related risk committee is chaired by a Board member. The third line has a standing invitation for committee meetings and is regularly represented in the risk committees, but has no voting rights. Risk committee meetings are held between the business, which controls the risks, and the risk management function, which monitors the risks and related risk response. Decision-making related to risk management follows the lines of risk governance and is assessed against risk guidelines. If, and when, risk limits are exceeded or otherwise the risk appetite is not observed, risk committees discuss the issue and any subsequent remedial actions to be taken. A risk committee may escalate or otherwise present a point of discussion to the Board of Directors if and when necessary. Every year, we perform a complete self-assessment for all risk committees. Where needed we will define areas for improvement.

In addition to our existing risk committee structure, we installed a Regulatory Radar Committee in 2021. It replaces two former regulatory (monitoring) boards. This new committee oversees developments in relevant prudential and non-prudential laws and regulations and monitors correct and timely implementation thereof within the bank.

In 2021, the Social Impact Committee (SIC) was formally acknowledged as a risk committee dedicated to support the Board of Directors. The SIC is responsible for monitoring the development and implementation the Social Impact strategy, for overseeing the Environmental, Social and Governance (ESG) risks in the business strategy and for monitoring the balance between the inside-out and outside-in impact, including any ethical dilemmas attached to it. For more information, see chapter 13 Sustainability Risk.

Changes resulting from the transformation to an agile organisation

In 2021 de Volksbank started a transformation towards an agile way of working within the organisation, which will also affect the risk organisation and risk governance. The governing three lines of defence principles will continue to be applied and the risk committees also will continue to exist. We do, however, expect to see changes in the underlying processes, staff functions' responsibilities yet to be defined and memberships of new staff functions in the risk committees. We are currently in the process of fine-tuning the design for the risk and compliance domain, adjusting the policy guidelines to reflect the new organisational units and implementing the new hubs and centres of expertise.

CULTURE AND RISK AWARENESS

Risk culture propagation

De Volksbank's Risk Management (RM) Function is an integral but independent part of the organisation. On the one hand, the RM Function informs, challenges, takes positions and gives solicited and unsolicited advice, and on the other hand it is essential that they listen and seek connections. They have an eye for all stakeholders and try to find solutions that do justice to the various stakeholder interests and contribute to the realisation of the strategy. Self-reflection is an important part of the culture.

Culture is a decisive factor in risk management and risk awareness. We want the risk culture to be propagated by the entire organisation. The Board of Directors leads by example and, like any other employee, they take on their role and responsibilities. The Board of Directors approves our Risk Policy Framework. The presence of members of the Board of Directors in all risk committees testifies to their commitment to risk management.

Risk Policy Framework

De Volksbank has risk policies in place on its risk appetite, duties and responsibilities, reporting, communication and various other guidelines. Our risk policies reflect our position as a social bank with low-risk activities. We continuously fine-tune our risk policies in which the shared value approach has been incorporated. We encourage a critical consideration of the risk-return ratio by focusing on our customers, society, our employees and the shareholder.

Raising risk awareness among employees

Management ensures that the risk guidelines are sufficiently clear and known to employees. We provide training courses, workshops and e-learning programmes to further raise risk awareness and help employees respond better and more consciously to risks. We also share risk awareness-related success stories and lessons learned with our employees.

Internal code of conduct

We expect our employees to act with integrity. In doing so, they are guided by our code of conduct entitled Common Sense, Clear Conscience, which pays attention to moral dilemmas and how to deal with them. A well-spread network of confidants offers staff the opportunity to raise concerns about malpractices. The score for employee awareness about integrity and the internal code of conduct in our biannual Employee Survey is above average.

Remuneration policy

De Volksbank pursues a remuneration policy that is based on our Manifesto, our ambition to create shared value and our profile of a social bank. De Volksbank does not grant any variable remuneration so as to discourage employees from taking undesirable risks that may give priority to short-term individual interests over long-term collective objectives. For more detailed information see Chapter 12 Remuneration policy.

Risk profile

De Volksbank focuses primarily on private individuals, self-employed persons and small businesses in the Netherlands. We offer a limited but relevant range of products and services: mortgages, payments, savings and small business financing. We accept the risk profile that matches a business model of low-risk activities and limited product and geographical diversification.

In our business operations, we run the risk of harming our (non-)financial interests in several areas, including our reputation. We have identified these risks and continuously seek to take timely and adequate control measures.

For more information about the separate risk committees, including the frequency of the meetings, see Section 2.2 Report of the Supervisory Board in the annual report.

TOP RISKS

De Volksbank primarily carries out regulated and supervised activities that may be impacted by internal and external developments. These developments and related risks may affect the achievement of our strategic objectives. To anticipate these developments and related risks. De Volksbank annually carries out a Strategic Risk Assessment (SRA) to identify and assess the top risks in relation to its strategy. In 2021, the SRA activities were integrated into the development of the new strategy.

De Volksbank assesses top risks related to these developments and adjusts the risk taxonomy if necessary. We than take measures to align our strategy and risk appetite with the potential impact of such top risk. In this section, we consider recent developments by looking ahead to 2022 and describe the top risks of 2021. The arrows in the table below display the trend movement of the specific risk. The effect of mitigating measures were taken into account.

Top risks resulting from external developments[2]

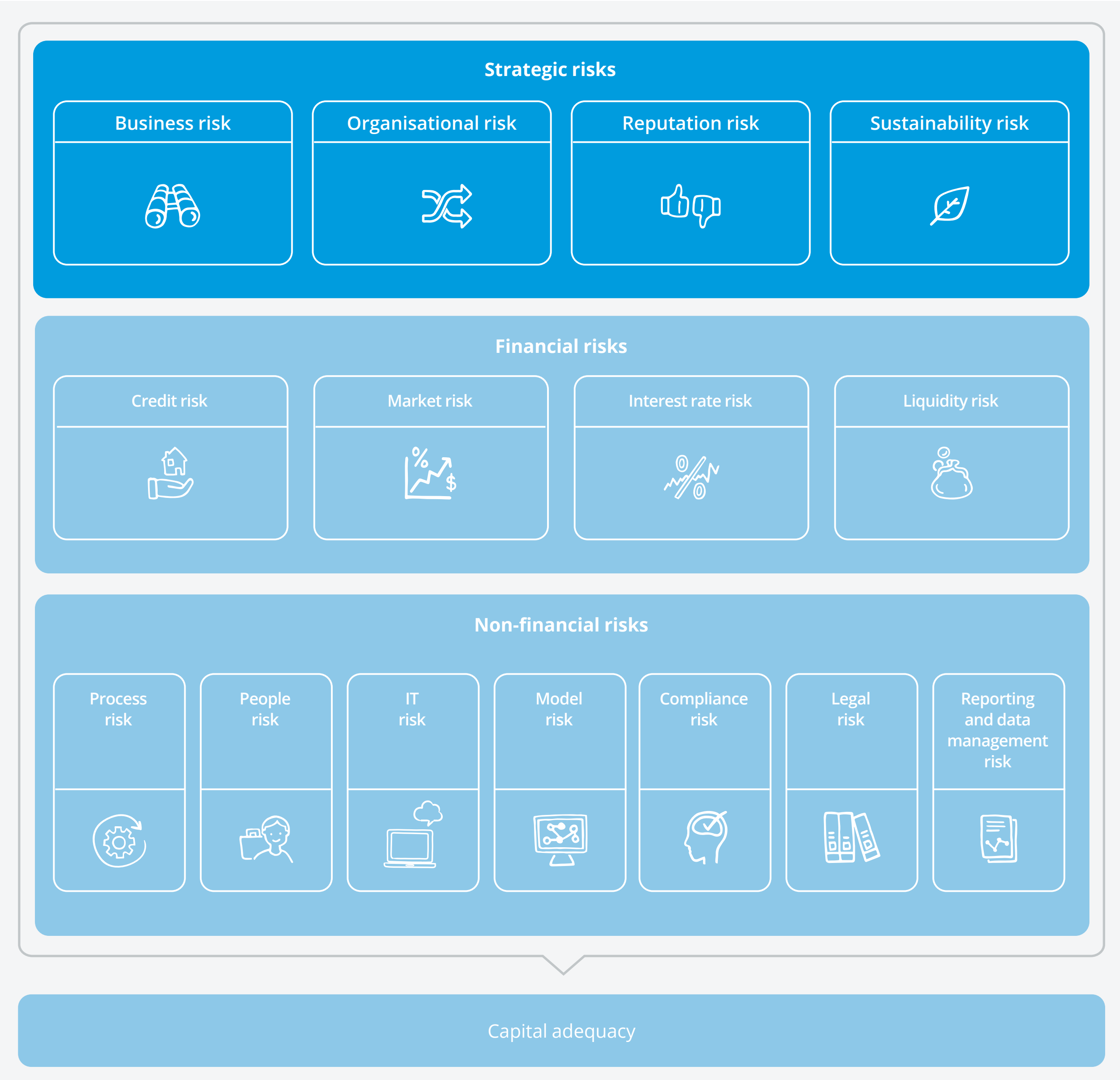
Events	Description of risk and impact	Trend	Measures
Covid-19 pandemic	Due to the Covid-19 pandemic and subsequent governmental support measures taken there is a risk that economic conditions will deteriorate when these measures are gradually released. Under stress, unemployment could increase, the economy would contract and consumer spending postponed, leading to a deterioration of our mortgage loan book quality, increasing savings account balances and mounting loan impairments.	→	• See Section 3.2 Strategic Risk - Business Risk and Section 3.3 Credit Risk in the annual report.
An increasingly fast-paced environment with new technologies and competitors. Customer expectations therefore shift towards greater convenience, online and mobile services	There is a risk that de Volksbank is not able to adapt rapidly and adequately enough to cybercrime threats and market changes and that customer relationships therefore suffer. As a result, it fails to put Banking with a human touch into practice, does not create benefits for customers, customer relationships are lost and, in time, the viability of the business model is impaired and the bank's existence no longer adds any value.	↗	• See Section 3.2 Strategic Risk - Organisational risk in the annual report for an explanation of the measures.
Gearing the strategy towards the (new) shareholder(s)	There is a risk that de Volksbank's future ownership structure will change dramatically, so that our strategy cannot sufficiently be achieved, if at all.	→	• Periodic meetings are held with the shareholder to discuss progress on the implementation of the strategy.
Growing social awareness	Customers and society are developing ever greater social awareness, which makes it challenging for the bank to keep up with evolving societal standards.	↗	• See Section 3.9 Sustainability risk in the annual report.
Impact tight labour market on attraction and retention of employees	There is a risk that labour market conditions will hinder the ability to attract and retain employees. Employers in the financial sector and beyond are competing to fill vacancies and retain people; especially in the field of IT, data analytics and risk. As a result of which the bank's performance and change capacity would lag behind.	↗	• See Section 3.5 Non-financial risk - People risk in the annual report for an explanation of the measures.

2 The assessment of top risks was completed before the violation of Ukraine's sovereignty. For more information please refer to Note 25 Post balance sheet events to the consolidated financial statements in the annual report.

Top risks resulting from internal developments

Events	Description of risk and impact	Trend	Measures
Insufficient data and IT systems and lack of innovation capabilities	There is a risk that de Volksbank's data and IT systems are not timely up to standard to monitor and keep up with market developments, that system availability falls short, or that (customer) data is not reliable or poorly accessible; resulting in lagging innovation agility and capacity and reputational damage.	↗	• See Section 3.2 Strategic risk - Organisational risk and Section 3.5 Non-financial risk in the annual report for an explanation of the measures.
Monoline business model highly dependent on interest rate margin	There is a substantial sensitivity to (lower) interest rates due to the 'monoline' business model and lack of diversity of income.	→	• See Section 3.2 Strategic risk - Business risk and Section 3.4 Market risk in the annual report for an explanation of the measures. • The new strategy anticipates this by diversifying products and thus revenues. See Section 1.1 Our Strategy in the annual report.
Demand on execution power and adaptability	There is a risk that de Volksbank is unable to proactively transform itself sufficiently into an adaptable, agile organisation due to the magnitude of necessary changes.	↗	• See Section 3.2 Strategic Risk - Organisational Risk and Business Risk in the annual report.

RISK APPETITE AND RISK INDICATORS



All material risk types are included in our risk taxonomy. When the results of the Strategic Risk Assessment (SRA) lead to a new material risk, this risk will be included in the taxonomy. We have clustered the main types of risk within the risk taxonomy, i.e. strategic risks, financial risks and non-financial risks.

Every year we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives. The results are laid down in our so-called Risk Appetite Statements (RAS). Risk appetite sets the basis for the level of risk taking we feel comfortable with. We do so using specific risk indicators. When risks manifest themselves at a decentral level within de Volksbank, risk indicators are also measured and monitored at that level, allowing us to manage any such risks more effectively and quickly. For each risk indicator, we have set an intervention ladder defining ranges to allow for follow-up action.

These ranges are determined on the basis of results from internal stress tests, economic capital and the recovery plan.

The following table presents the bank's risk appetite and shows how we score with our current risk profile in relation to the risk appetite. Every quarter, the indicators are reported to the risk committee that controls the relevant risk. For the definitions of the different risk types, see the relevant chapters in the Risk Management section in the annual report.

Relative score legend

- (green) Current risk profile corresponds to risk appetite
- (yellow) Current risk profile slightly above risk appetite
- (orange) Current risk profile above risk appetite

Strategic Risks

Risk Appetite Statement	Relative score	Note to the score
BUSINESS RISK • De Volksbank aims to generate stable and sufficient returns for its shareholder(s) in order to ensure the viability and sustainability of its business model.	Above risk appetite (orange)	• The pressure on our net interest income continued to increase further due to the low interest rate environment and competition. Cost levels increased due to temporary transformation costs and higher capital costs. This resulted in a deterioration of the C/I ratio. Cost, income and profitability levels require constant vigilance. Measures have been taken to implement stricter cost controls, and to increase the overall profitability.
ORGANISATIONAL RISK • De Volksbank wants to be able to pro-actively adjust itself to a changing environment to maintain a sustainable and viable business model and to contribute to our strategy Better for each other - from promise to impact. We therefore have a low appetite for Organisational risk.	Slightly above risk appetite (yellow)	• Risk assessments are frequently carried out for the various transformations. As a result, the transformations are carried out in a controllable manner. Nevertheless, the transformations have a major impact on the organisation as a whole and trigger risks. We have set up all kinds of arrangements to reduce the impact for employees. We schedule frequent assessments and are closely monitoring the further implementation of the strategy.
REPUTATION RISK • As de Volksbank thrives on trust and customer confidence, there is no appetite for reputational risk exposure. Internal indicators for reputation sensitive risk types and (in and external) signals of events, incidents or complaints that may endanger the bank's reputation and/or image are assessed - as part of regular business operations - and followed up in a pro-active and adequate manner in order to mitigate the risks involved.	Slightly above risk appetite (yellow)	• De Volksbank and its brands have a strong reputation, which further improved in 2021. There are no active events that could cause material reputational damage to the bank or its brands. However, given the volatile environment in which the bank operates and the occurrence of reputation sensitive events during 2021, we signal a (potentially) slightly higher risk profile.
SUSTAINABILITY RISK • De Volksbank wants to make a positive contribution to a sustainable and just society with our core activities – mortgages, savings, payments and investments. ESG events that can lead to financial or reputational damage will be assessed in order to mitigate these risks. Therefore we have a low appetite for Sustainability risk.	Slightly above risk appetite (yellow)	• De Volksbank is on track to achieve its target of a 100% climate-neutral balance sheet and net positive biodiversity impact by 2030. The percentage of females appointed in management positions in the new agile organisation is somewhat behind the ambitious gender balance target. However, we expect the gender balance to improve and remain committed to moving towards the target.

Financial risks

Risk Appetite Statement	Relative score	Note to the score
CREDIT RISK • De Volksbank is primarily a retail bank that provides loans to private individuals, self-employed persons and small businesses in the Netherlands. In addition, de Volksbank finances activities related to the sustainable energy sector such as wind and solar energy production. It is our responsibility to help our customers become and remain financially resilient. As such, we will only engage in low-risk lending activities that result in a high and stable number of financially resilient customers. We ensure that our strategic focus does not result in undesired concentration risks.		• Notwithstanding the pandemic, de Volksbank registered little credit deterioration in its loans and advances portfolio. Overall portfolio development remains positive. The outlook is strongly linked to future macro-economic developments and is therefore uncertain. Although the housing market remained strong, we take into account the possibility of a downturn in the economic cycle. To cover this risk we keep an additional buffer as part of the provision for credit losses, i.e. the 'management overlay'. This management overlay serves as an effort to quantify the uncertainty in a seemingly high-performing economy.
MARKET RISK • De Volksbank has a low appetite for Market risk, which implies that trading book exposure to potentially adverse movements in market variables should be limited.		• We have a limited market risk appetite in the trading book. Market risk indicators are consistently (and largely) below their maximum limits.
INTEREST RATE RISK IN THE BANKING BOOK • De Volksbank aims to protect and stabilise its net interest income, economic value and capital from the potentially adverse impact of movements in interest rates and credit spreads.		• Although de Volksbank is working towards overall compliance with the EBA GL on IRRBB, we are lagging behind in some cases. Full compliance is considered a high priority and progress is regularly monitored internally and discussed in the relevant committees.
LIQUIDITY RISK • De Volksbank aims to maintain an adequate liquidity and funding position, taking into account the different types of liquidity risk, and ensuring this has a low appetite for Liquidity Risk.		• We have a strong liquidity and funding position. Our funding consists of stable retail savings, supplemented by long-term wholesale funding.

Non-financial risks

Risk Appetite Statement	Relative score	Note to the score
PROCESS RISK • Our philosophy is risk-averse: avoidance of Process risk and uncertainty is a key objective. De Volksbank accepts a low rate of performance error in business operations and learns from mistakes if and when they occur.		• Process controls are continuously tested and have proven to be effective. Although working from home remained the standard in 2021 due to the Covid-19 pandemic, process control awareness was still high. There are still a number of overdue high-risk issues.
PEOPLE RISK • De Volksbank has a limited appetite for failing to attract and retain good-quality staff. De Volksbank has no appetite for failing in strategic succession planning for (top) management.		• Transformation to an agile organisation results in the departure of experienced senior management members. Employee absenteeism rates are slightly up as a result of Covid-19, but remain within tolerance levels. Critical business, such as SNS shops and RegioBank branch offices remained open. Hiring is a continuous effort and developments in absenteeism rates are closely monitored.
IT RISK • De Volksbank has a low risk appetite for disruptions in system continuity, integrity and availability, including information security.		• Cybercrime threats are persistent and the number of successful cyberattacks in society are increasing. We closely monitor cyber threats and take mitigating actions where necessary. Further implementation of the IT Control framework takes place and is being intensified, however, the overall IT Risks level is above our risk appetite. Increased coverage of IT key controls and adequate resources to combat cybercrime remain essential to bring the exposure within the risk appetite.
COMPLIANCE RISK • De Volksbank has no tolerance for violations of company standards and values or laws and regulations.		• Changes in laws and regulations result in continuous adjustments of our processes and systems. We are carrying out several mitigating actions to mitigate control findings in relation to AML/CFT, duty of care and privacy. • We witness an increase in cases of external fraud in payment transactions. The Board has taken action to address the issues.
MODEL RISK • De Volksbank strives to reduce Model risk by adhering to a simple business model with a focus on the Dutch retail market and by providing financial services to its customers that are easy to understand. The remaining Model risk is mitigated by allocating capital reserves to Model Risk and optimising the quality of model development and use, while simultaneously weighing the resources required to improve this quality. De Volksbank only accepts a limited number of models that have not been validated or for which the validation period has expired.		• New models are being developed in a rapid pace so as to keep up with relevant developments, such as changes in laws and regulations. In this respect, effective prioritisation and planning remains essential.

Non-financial risks (continued)

Risk Appetite Statement	Relative score	Note to the score
LEGAL RISK • Our risk philosophy is cautious: we prefer safe options that have a low degree of residual risk.		• Based on the outcome of the in-house analysis of the revolving consumer credit file, the Board decided to take a provision and to release a press release on compensating customers proactively. The file may also affect other variable interest products and has the attention of claim organisations.
REPORTING AND DATA MANAGEMENT RISK • De Volksbank has a very limited appetite for weaknesses and gaps in its internal control which could result in incorrect, incomplete or untimely reporting to its internal and external stakeholders. We have no appetite for material errors or omissions in our internal or external reporting. • De Volksbank takes a minimal risk approach with regard to Data Management risk, i.e. a low tolerance for dysfunctionalities in the data management process, and accepts a low rate of data quality issues.		• Some projects to improve data quality passed their original deadlines. Indicators to monitor reporting and Data Management risk have improved in 2021. Depending on the further progress of deliverables in major data projects, the risk profile will improve further in 2022.

Capital adequacy

Risk Appetite Statement	Relative score	Note to the score
CAPITAL ADEQUACY • De Volksbank targets a solid and well-diversified capital position that supports its strategy and suits its risk profile. De Volksbank aims to operate well above the minimum regulatory capital ratios and safeguard its retail customers and suppliers from bail-in in case of resolution.		• We are strongly capitalised in the short and medium terms. Regulations in the distant future may impact the capitalisation.

STRESS TESTING

In addition to monitoring our risk indicator-based risk appetite, we use stress tests to gain insight into the sensitivity to changes in the underlying causes and the interrelationship of risks. Several times a year, we calculate an extreme yet plausible macro-economic scenario to determine its effects on aspects such as our capital and liquidity position. We also perform climate stress tests to gain insight into the effects of climate change. Different types of stress tests will reveal any potential vulnerabilities.

STRATEGIC RISK

De Volksbank determines four strategic risks, i.e. business, organisational, sustainability and reputation risk.

We have introduced the various strategic risk categories because they are different in nature. All these risks have a material impact on the viability of our business model. They threaten the bank's ability to add value in the long term when we fail to sufficiently identify internal and external changes and events and do not adequately respond to them. An exception to this is reputation risk, which is regarded a consequential risk rather than a primary risk cause. Therefore, given reputation risk's potential impact, it is classified as a strategic risk.

In general, we established indicators for all types of risk, ensuring that the development of risks is continuously measured and adjustments are made if necessary.

Type of risk	Developments in 2021
BUSINESS RISK • Business risk is defined as the risk that de Volksbank's profitability may not be sufficient to guarantee the viability and sustainability of the bank's earnings model. We define the viability of the earnings model as the extent to which the bank is capable of generating acceptable revenues in the next twelve months. The sustainability of the earnings model is defined as the extent to which the bank is capable of generating acceptable revenues over a three-year horizon.	• The low interest rate environment kept challenging the achievement of financial objectives. Furthermore, the excess liquidity increased significantly. As a consequence, de Volksbank's profit level dropped compared with 2020. De Volksbank developed a new strategic plan for the 2021-2025 period and is in the transition process towards the implementation of this plan. The plan sets mission-driven objectives for growth and improvement. It also provides a path with actions leading towards the required level of financial performance. See Section 1.1 Our strategy in the annual report for more information on ongoing and future actions.
ORGANISATIONAL RISK • Organisational risk is the risk that the bank is unable to respond quickly and in a controlled manner to changes that may impact the bank's business model, with an adequate infrastructure and streamlined management processes. The risk may arise from failure to identify significant changes in a timely manner or the failure to make proper adjustments following inadequate design of infrastructure and processes, inadequate execution or incorrect deployment of capacity.	• De Volksbank continuously monitors its environment, assesses developments that may be relevant to us and determines how to respond to them. To improve our adaptability to the environment, we made a start towards an agile way of working which is part of our 2021-2025 strategy. Our risk management framework monitored whether the risk assessments on the organisational transformations were carried out in accordance with the prescribed methodology. Change portfolio management is important to mitigate organisational risk. We also continued to refine improvements made in previous years, such as reporting on the identified risks and risk-response effectiveness.
REPUTATION RISK • Reputation risk is the risk that de Volksbank becomes exposed to public attention and judgement following failure to take due account of de Volksbank's image and opinion as perceived by the outside world. Reputational damage may be related to our own conduct in crisis situations, but also to policy decisions, our day-to-day actions and issues regarding products or the behaviour of individual employees. Reputational damage leads to loss of trust and support from customers, counterparties, the shareholder, regulatory authorities and other stakeholders, and has a direct impact on employee motivation, ultimately leading to a loss in revenues.	• The two main pillars of our strategy, strengthening the relationship with our customers and having a positive and measurable impact on society, were and will continue to be key in maintaining the good reputation of de Volksbank and its brands. The progress made on these strategic goals has reinforced and boosted our reputation, as is reflected in our brands NPS scores in 2021. At the same time, the speed and impact of digital and social media continue to make consistent monitoring and adequate responses to reputation risks necessary. A complaint or adverse publication may eventually grow into a crisis, and a crisis may damage our reputation. De Volksbank actively monitors current and upcoming internal and external events that may result in reputational damage for the bank and its brands. In 2021, key events in relation to reputation risk management were the aftermath of the departure of key officers on the Board of Directors and Supervisory Board (see also Section 2 Governance in the annual report) and the implementation of the new strategy. We also gave full attention to the ongoing Covid-19 pandemic and how by the Dutch government, supervisory authorities and our own organisation handled it. The way we coped with Covid measures taken by the government did not affect our reputation. Although we consider the reputational impact of the aforementioned issues to be limited, we closely monitor news flows and employee sentiment in this respect to mitigate any reputational damage and the risk of an increase in (key) staff turnover in the period 2021-2025. To further improve our reputation management, we will implement more advanced tooling to measure our reputation in 2022.
SUSTAINABILITY RISK • Sustainability risk is the risk of financial and/or reputational damage as a result of environmental, social and governance developments.	• The developments concerning sustainability risk are elaborated in Chapter 13 Sustainability risk

MANAGING AND HEDGING RISK

Our strategy incorporates the objective of having a solid capital position at our disposal to support de Volksbank's overall strategy, combined with an adequate Return on Equity (RoE).

We assess the risk profile against the risk thresholds by comparing the risk exposure with the available capital from own funds and bail- in eligible liabilities: as part of the ICAAP, we continuously (internal) assess the adequacy and effectiveness of the risk management framework as far as capital adequacy and its compliance with internal policies and the risk appetite framework are concerned. Every year, we determine the Risk Appetite Statement (RAS) for capital adequacy in conjunction with the bank's general risk appetite and strategic objectives. To monitor capital adequacy, we use specific risk indicators and determine the level above which we feel comfortable based on the risk appetite for capital adequacy.

Our credit risk management includes the clustering of loans in portfolios. De Volksbank has a high concentration of residential mortgage loans in the Netherlands.

As part of credit risk management, we internally assess and monitor the credit standing of our customers and counterparties. In this process we estimate the probability of our customer not being able to meet contractual payment obligations arising from the loan agreement to the best of our knowledge. On portfolio level, we also steer the risk by defining the desired credit quality of new loans and the status of the healthy loans versus the loans in arrears, and by monitoring the outflow.

When providing a new mortgage loan, we put customers' interests first. We apply internal standards, which are in line with the applicable legal frameworks, such as customer's income and the collateral value. Furthermore, we use the acceptance scorecard to predict whether customers are able to comply with their obligations in the long term.

In 2021, we performed the annual revision of the internal credit approval authorisation framework. Because of increased quality of the credit proposals and growth ambitions, the first-line loan officers are given the mandate to decide whether to accept or reject loan applications, revisions and other amendments in more instances. In case of a specific higher credit risk, the authority for final approval is assigned to second-line credit risk management.

De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.

De Volksbank enters into money and capital market transactions with various financial institutions. This also includes derivative transactions for the hedging of interest rate and currency risks. Here, the bank runs a counterparty risk: the risk that the counterparty to a transaction defaults before the final settlement of the cashflows associated with the transaction has taken place. Where possible, the bank concludes derivative transactions with financial institutions using clearing via a central counterparty (CCP).

Interest rate risk management in the banking book aims to protect and optimise the economic value of current and future interest cashflows and to achieve a stable net interest income. We take an optimal interest rate position, taking account of projected portfolio changes, economic conditions and the risk profile that the bank is aiming for.

Market risk may arise because de Volksbank concludes contracts and enters into obligations with customers and professional counterparties. The market risk in the banking book mainly comprises market interest rate risk, i.e. the risk that the bank's future interest income deteriorates if market rates change.

Interest rate risk management aims to protect and generate stable net interest income. We achieve this goal by optimising the value of our interest cashflows. When managing the banking book's interest rate risk we focus on the interest income sensitivity to market rate movements.

We minimise currency risk by effecting most of our foreign currency exposures through the trading book, where currency risk is managed on a day-to-day basis.

De Volksbank has a strong liquidity position, enabling it to meet its financial obligations at all times. The bank manages its liquidity position in such that it is able to absorb the consequences of bank-specific and market-wide stress factors, such as stress in the money and/or capital markets.

To fund its liquidity needs, de Volksbank seeks to diversify its funding sources, in accordance with its strategy.

Besides financial risks, de Volksbank is also exposed to non-financial (operational) risks caused by both internal and external factors and developments. The impact of non-financial risks is becoming more and more material, partly as a result of technological developments, a changing market that is getting harder to predict, political developments and increasingly stringent laws and regulations. De Volksbank adapts its processes and systems to meet the stricter standards on an ongoing basis by using standard processes and tooling to monitor these standards.

Accounting policy

De Volksbank applies hedge accounting to ensure that its interest rate and currency risk hedge activities are appropriately reflected in the financial statements. See also note 4 Hedge and hedge accounting in the annual report.

MANAGEMENT STATEMENT ON THE ADEQUACY OF RISK MANAGEMENT

For the concise risk statement by the management body see section 1.3 Management statement.

3.2 Governance arrangements

DEVELOPMENT IN LEGAL STRUCTURE

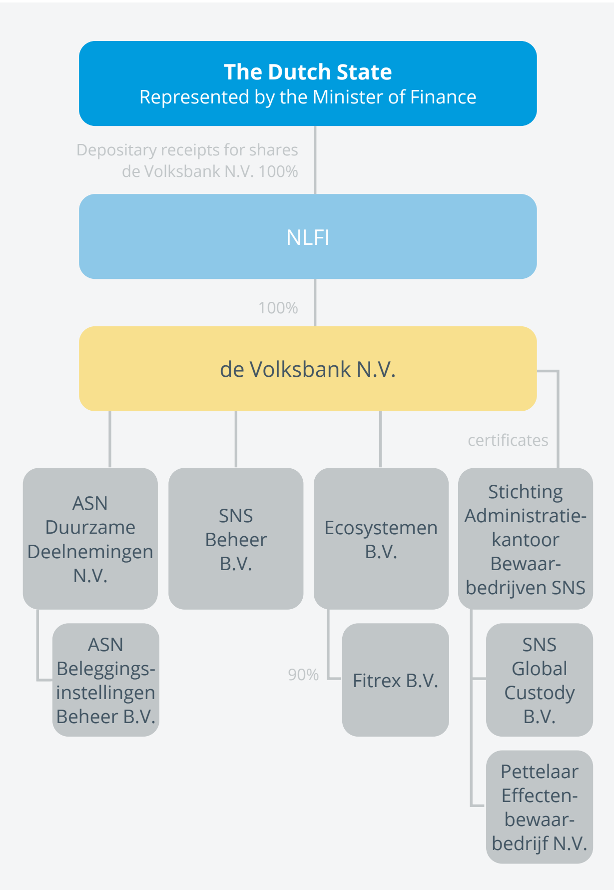
Stichting administratiekantoor beheer financiële instellingen (NLFI) holds 100% of the share capital of de Volksbank on behalf of the Dutch State. NLFI is a foundation with a statutory task established by the Minister of Finance and was established to exercise the shareholder rights on behalf of the Dutch State in a number of financial institutions in a business-like, non-political manner and to separate the interests in a transparent manner.

In future, de Volksbank wants to continue to simplify its legal structure.

On 1 September, 2021 de Volksbank (via Ecosystemen B.V., formerly known as 1817 B.V.) acquired 90% of the shares of Fitrex B.V., a platform that acts as an intermediary for valuations and technical inspections of real estate on behalf of obtaining financing and/or purchase/sale agreements.

The overview comprises a statement of all wholly-owned subsidiaries as at 31 December 2021.

For more information see www.devolksbank.nl



Internal solvency and liquidity management is exercised at the level of de Volksbank N.V.

The four brands ASN Bank, BLG Wonen, RegioBank and SNS operate under the banking license of de Volksbank N.V.

INFORMATION ABOUT GOVERNANCE GUIDELINES

Members of the Board are appointed by NLFI on nomination by the Supervisory Board after approval by the supervisory authorities. NLFI suspends and dismisses members of the Board.

Marcel Klopper, currently Hub & Expertise lead Balance Sheet Management, performed many of the CFO's duties from 5 September 2020 until the appointment of John Reichardt, who acted as interim CFO from 15 April 2021 until 31 December 2021. As from this date and until a new CFO is appointed, Martijn Gribnau will assume the CFO's duties. As far as the COO role is concerned, both Martijn Gribnau and Marinka van der Meer have performed many of the COO's duties since 12 November 2020. They will continue to do so until the Executive Committee (ExCo) is installed in the second quarter of 2022.

Functioning of the Board of Directors

The Articles of Association of de Volksbank contain a list of the duties of the Board and the rules governing its functioning. Additional practical arrangements on how the Board is to exercise its duties and powers are defined in the Regulations for the Board and in the Memorandum of Understanding between NLFI and de Volksbank. The Regulations for the Board were adjusted with effect from 11 February 2021. On 12 August 2021, the Supervisory Board approved new regulations for the ExCo, which will be effective on the date of installation of the ExCo, i.e. in the second quarter of 2022.

The Board meets every week and takes decisions by a majority of votes. In order to fulfil the mission and ambition of de Volksbank, the Board continuously and explicitly weighs up the interests of all stakeholders.

Please refer to chapter 2 of the 2021 annual report of de Volksbank for information about the governance arrangements.

FLOWS OF RISK MANAGEMENT INFORMATION TO BOARD OF DIRECTORS AND SUPERVISORY BOARD

Table of reports and frequencies

	Report	Board of Directors	Supervisory Board
1st line	Quarterly Business Review/Management reports	quarterly	quarterly
	Monthly Business Review	monthly	n.a.
	In Control Statement	semi annually	semi annually
	ICAAP/ILAAP package	annually	annually
	Recovery Plan	annually	annually
2nd line	Risk Report	quarterly	quarterly
	ICAAP/ILAAP opinion	annually	annually
	Risk Appetite Statement	annually	annually
	Strategic Risk Assessment	annually	annually
	Self-assessment risk committees	annually	n.a.
	Recovery Indicator Dashboard	semi annually	n.a.
	Risk Management Function	quarterly	quarterly
	Review self-assessment Integrated Control Framework	annually	annually
3rd line	Audit report external accountant	annually	annually
	Internal audit report	quarterly	quarterly
	Management Letter accountant	annually	annually

The Board of Directors and Supervisory Board of de Volksbank are regularly informed about risks and risk management. The table above mentions important reports that they receive, as well as their frequency.

As the Board of Directors has ultimate accountability for risk management within the risk management organisation, it therefore functions as an overarching Bank Risk Committee, which is supported by risk committees, with representatives from the first and second lines in each committee.

We also refer to the report of the Supervisory Board included in the annual report, which includes a detailed list of the subjects and reports discussed by the Supervisory Board members in 2021. The reports received by the Supervisory Board members were also discussed by the Board of Directors.

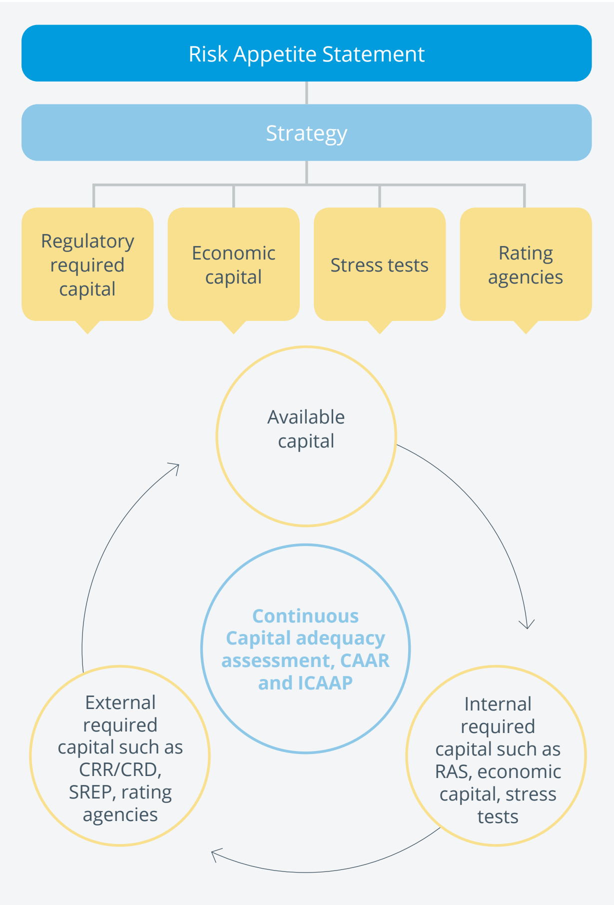
4 Own funds

4.1 Capital Management and control

CAPITAL MANAGEMENT STRATEGY

Our strategy incorporates the objective of having a solid capital position at our disposal to support de Volksbank's overall strategy, combined with an adequate Return on Equity (RoE). In respect of the RoE, de Volksbank applies a (long-term) target of 8.0%. The basic principle for the amount of capital is that the bank maintains buffers in addition to the minimum amount of capital required by the supervisory authority, to guarantee sufficient capitalisation in the event of a severe yet plausible stress scenario.

Capital is managed from several perspectives, as presented in the figure below.



REGULATORY CAPITAL AND MREL

The minimum amount of capital required by law, i.e. regulatory capital, is based on risk-weighted capital ratios (CET1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required, i.e. the leverage ratio. The minimum risk-weighted capital ratios are based on the SREP. In addition to the capital ratios required by law, de Volksbank calculates and reports the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) on both a risk-weighted and non-risk-weighted basis, as required by law as from 1 January 2022.

ECONOMIC CAPITAL

De Volksbank also makes its own internal (economic) estimate of the amount of capital required. This differs from regulatory capital in two significant respects:

1. Our calculations of economic capital include all risks from which material losses may ensue within a one-year horizon according to internal insight. Thus, we consider more types of risk than in regulatory capital calculations.
2. Using our own insight, we translate our risk appetite into internal capital requirements, partly on the basis of the desired credit rating.

We share the economic capital requirements with the supervisory authority. This is part of the Internal Capital Adequacy Assessment Process (ICAAP). We also use them to determine our internal capital targets and limits for specific types of risk, as applied in the Risk Appetite Statement (RAS).

STRESS TESTING

De Volksbank performs several stress tests every year to test the robustness of capital adequacy and examine other financial aspects, such as in the areas of liquidity and profitability. Stress tests may be imposed internally or may be requested by supervisory authorities.

The scenarios to be calculated are drafted on the basis of a detailed risk identification, which considers both systemic risks, i.e. financial system-related risks, and idiosyncratic risks, i.e. de Volksbank-specific risks. In addition to scenario analyses, which are used to calculate the impact of, for example, a macroeconomic scenario on de Volksbank's capital position, sensitivity analyses and reverse stress tests are also performed. The latter start from a pre-determined outcome, such as a situation in which the bank is unable to meet its minimum capital requirements, and then looks at events that could lead to such a situation.

For the scenarios for which the impact is calculated by means of a stress test, we estimate the development of unemployment, economic growth, the interest rate and other factors. In such a stress test, these macroeconomic variables adversely impact aspects such as the net interest margin, the creditworthiness of the outstanding loan portfolio and the fair value of the interest-bearing investment portfolio.
This subsequently results in a deterioration of the bank's capital position. The stress test results are used not only to analyse the bank's sensitivity to various types of stress, but also as input for setting limits as part of the risk appetite and to determine the management buffers that we use to set the internal minimum levels of the capital ratios. Finally, they are used as input for de Volksbank's recovery plan.

RECOVERY PLAN AND CONTINGENCY PLANNING

The planning for unforeseen events, i.e. contingency planning, is part of the bank's recovery plan. Its key objective is to prepare de Volksbank for a crisis in a way that enables us to recover independently and safeguard the bank's continuity.

Contingency planning encompasses the drafting and implementation of an action plan that allows us to take prompt measures as soon as our capital position deteriorates (as anticipated or unexpectedly), for example as a result of financial market conditions. In addition to capital aspects, we also monitor the situation with respect to possible liquidity problems. Potential capital or liquidity problems are identified by frequent monitoring of 'early warning' indicators. Changes in these indicators may be a first sign of stress.

Besides early warning indicators, recovery indicators have been defined that can trigger the activation of the recovery plan. Applying the recovery plan-based measures helps us to reinforce the ratios and recover independently. These measures have a wide scope and relate not only to capital and liquidity, but also to operations and communications. The nature and severity of the deteriorating conditions will determine the appropriate measures, such as raising capital, lowering the risk-weighted assets and raising funding.

In addition to a description of the available measures and conditions to be met before implementation of any measures, the recovery plan also contains an analysis of the expected recovery. The analysis is supported by a number of (severe) stress scenarios in which the effectiveness of these measures has been assessed, the so-called recoverability assessment.

The recovery plan is updated and discussed with the ECB's Joint Supervisory Team (JST) every year. The recovery plan for 2021 included two Covid-19 scenarios, as requested by the ECB. These scenarios addressed system-wide macroeconomic and idiosyncratic stress.

RATING AGENCIES

The bank's creditworthiness is assessed by credit rating agencies S&P, Moody's and Fitch. To determine a credit rating, they look at aspects such as our capital position. To ensure that our capital ratios are in line with our credit rating ambition, we include the corresponding capital requirements in our capital planning.

4.2 Own funds

Under the CRD IV rules, de Volksbank's own funds comprise a number of components that must comply to certain conditions. De Volksbank's capital base consists of Common Equity Tier 1 capital (CET1) and Tier 2 capital. These capital components in relation to the capital structure are explained below. We also address the ability of capital items to absorb losses and the restrictions applicable.

The table below lists the main features and conditions of the equity components of de Volksbank.

EU CCA - Main features of regulatory own funds instruments and eligible liabilities instruments

		a	b
	In € millions	**CET1 Capital**	**Tier 2 Capital**
1	Issuer	de Volksbank N.V.	de Volksbank N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	XS2202902636
2a	Public or private placement	Private	Public
3	Governing law(s) of the instrument	Dutch law	Dutch law
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A	Yes
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Consolidated and solo	Consolidated and solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated loans
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	3,918	500
9	Nominal amount of instrument	381	500
EU-9a	Issue price	381	500
EU-9b	Redemption price	N/A	500
10	Accounting classification	Shareholders' equity	Liability-amortised cost
11	Original date of issuance	N/A	22 July 2020
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	22 October 2030
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	22 July 2025 to (and including) 22 October 2025
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Fixed
18	Coupon rate and any related index	N/A	1.75%
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A

		a	b
	In € millions	**CET1 Capital**	**Tier 2 Capital**
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Statutory	Statutory
EU-34b	Ranking of the instrument in normal insolvency proceedings	1	3
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Most subordinated position	Subordinated to senior unsecured funding
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A	https://www.devolksbank.nl/en/investor-relations/debt-information/achtergestelde-schuld/green-tier-2

EU CC1 - Composition of regulatory own funds

		31-12-2021	
		(a)	**(b)**
	in € millions	**Amounts**	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
	COMMON EQUITY TIER 1 (CET1) CAPITAL: INSTRUMENTS AND RESERVES		
1	Capital instruments and the related share premium accounts	3,918	21, 22
	of which: Ordinary shares	381	21
	of which: Share premium	3,537	22
	of which: Instrument type 3	-	
2	Retained earnings	-	26
3	Accumulated other comprehensive income (and other reserves)	-594	23, 24, 25
EU-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	38	27
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3,362**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-2	2, 3, 14
8	Intangible assets (net of related tax liability) (negative amount)	-6	6a
9	Not applicable	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	7a, 16a
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-19	2, 5, 14, 24

	in € millions	31-12-2021 (a) Amounts	(b) Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
12	Negative amounts resulting from the calculation of expected loss amounts	-74	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Not applicable	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
EU-20c	of which: securitisation positions (negative amount)	-	
EU-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17.65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Not applicable	-	
25	of which: deferred tax assets arising from temporary differences	-	
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
26	Not applicable	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments	-78	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-180	
29	**Common Equity Tier 1 (CET1) capital**	**3,182**	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	

	in € millions	31-12-2021 (a) Amounts	(b) Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Not applicable	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	
44	**Additional Tier 1 (AT1) capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**3,182**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	500	19
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**500**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	Not applicable	-	

		31-12-2021	
		(a)	(b)
	in € millions	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Not applicable	-	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
EU-56b	Other regulatory adjustments to T2 capital	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 (T2) capital**	**500**	
59	**Total capital (TC = T1 + T2)**	**3,682**	
60	**Total Risk exposure amount**	**13,993**	
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	22.74%	
62	Tier 1 capital	22.74%	
63	Total capital	26.31%	
64	Institution CET1 overall capital requirements	9.42%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical capital buffer requirement	0.01%	
67	of which: systemic risk buffer requirement	0.00%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	1.00%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.41%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**16.83%**	
	National minima (if different from Basel III)		
69	Not applicable	-	
70	Not applicable	-	
71	Not applicable	-	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	9	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	
74	Not applicable	-	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	41	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	37	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	

	in € millions	31-12-2021 (a) Amounts	(b) Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

The interim profit of € 38 million not paid out but independently reviewed is represented in line EU-5A.

The deduction of € 78 million included in line 27a 'Other regulatory adjustments' is related to an Article 3 CRR deduction, which is mainly related to a pending supervisory examination on the implementation of a new data warehouse. Awaiting further formal approval, de Volksbank added extra conservatism to the CET1 capital amount and deducted an amount of € 62 million. An additional € 16 million was deducted as a prudential backstop following the ECB's guidelines on non-performing exposures (NPEs). Line 12a represent a deduction of € 74 million related to the IRB shortfall.

Source is based on the reference numbers of the balance sheet under the regulatory scope of consolidation disclosed in template EU CC2.

EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a/b	c
		Balance sheet as in published financial statements / Under regulatory scope of consolidation	Reference
	in € millions	31-12-2021	
	ASSETS - *BREAKDOWN BY ASSET CLASSES ACCORDING TO THE BALANCE SHEET IN THE PUBLISHED FINANCIAL STATEMENTS*		
1	Cash and cash equivalents	10,296	
2	Derivatives	591	7, 11
3	Investments	5,638	7
4	Loans and advances to banks	4,527	
5	Loans and advances to customers	50,727	11, 50
6	Tangible and intangible assets	93	
6a	of which: intangible assets	6	8
7	Tax assets	39	
7a	of which: deferred tax assets	5	10
8	Other assets	170	
9	**Total assets**	**72,081**	
	Liabilities - *Breakdown by liability classes according to the balance sheet in the published financial statements*		
10	Savings	45,646	
11	Other amounts due to customers	12,482	
12	Amounts due to banks	1,059	
13	Debt certificates	7,402	
14	Derivatives	1,013	7, 11
15	Tax liabilities	9	
16a	of which: deferred tax liabilities	9	10
17	Other liabilities	382	
18	Provisions	102	
19	Subordinated debts	500	46
20	**Total liabilities**	**68,595**	
	Shareholders' Equity		
21	Share capital	381	1
22	Share premium reserve	3,537	1
23	Accumulated other comprehensive income	11	3
24	Fair value reserves related to gains on cash flow hedges	19	3, 11
25	Other reserves	-624	3
26	Retained earnings	-	2
27	Net result for the period	162	EUR-5a
28	**Shareholders' equity**	**3,486**	

Reference includes the reference numbers of the regulatory own funds breakdown disclosed in template EU CC1.

There is no difference between the regulatory consolidation scope defined pursuant to Chapter 2 of Title II of Part One CRR and the method for consolidation used for the balance sheet in the financial statements.

4.3 Macroprudential supervisory measures

CAPITAL REQUIREMENTS

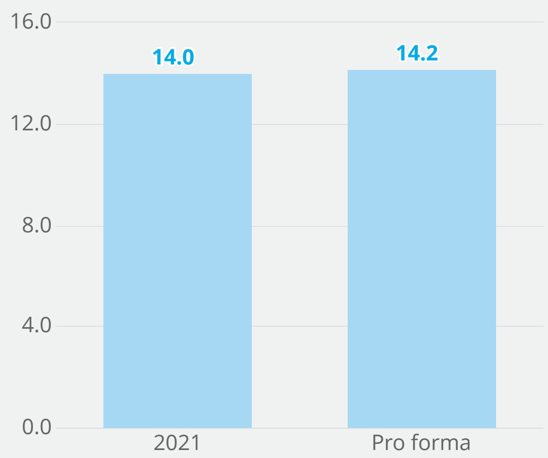
BASEL IV

In late 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV. On 27 October 2021, the EC published a legislative proposal amending the Capital Requirements Regulation (CRR) and the CRD in order to implement the remaining elements of Basel IV in the EU. De Volksbank closely monitors the developments, paying particular attention to new rules for residential mortgages. We will adjust our capital planning if necessary.

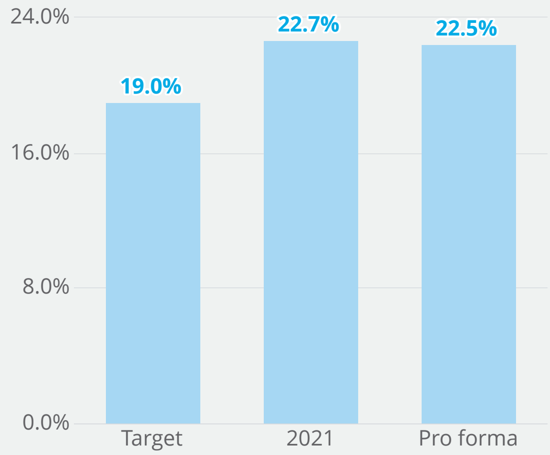
As at year-end 2021, we estimate that as a result of fully phased-in Basel IV our risk-weighted assets (RWA) would increase by approximately 1.5%[3] which would consequently reduce our CET1 capital ratio by approximately 0.2 percentage points. The largest effect is caused by the output floor on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM. The EC proposal stipulates that the output floor will phase in from 50% in 2025 to 72.5% in 2030. We expect the anticipated changes in internal modelling approaches and the SA for operational risk under Basel to have a limited effect on the RWA of de Volksbank.

Basel IV impact after 72.5% floor

RWA in € billions



Basel IV impact on (fully phased-in) CET1 ratio



The Basel IV fully loaded CET1 capital ratio declined from 24.2% to 22.5%, mainly driven by an increase in risk-weighted assets for exposures to financial institutions and corporates. This estimate of our CET1 capital ratio under full phase-in of Basel IV will still exceed our target of at least 19%[4]. This will allow us to both continue our growth path and pay out dividend.

COVID-19 RELATED MEASURES

In addition to bringing forward the entry into implementation of Article 104(a) of Capital Requirements Directive (CRD) V, the following supervisory and regulatory measures were taken in response to Covid-19, which affect de Volksbank's capital adequacy to a greater or lesser extent:

- The ECB has allowed banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer (CCB). On 10 February 2022, the ECB announced that banks are once again expected to operate above Pillar 2 Guidance from 1 January 2023.
- The ECB has recommended banks not to make dividend payments for the financial years 2019 and 2020 until at least 1 January 2021, and to exercise extreme prudence until 30 September 2021 when deciding on or paying out dividends. On 23 July 2021, the ECB decided not to extend this recommendation.
- The ECB has announced that banks under its direct supervision may exclude certain central bank exposures from the leverage ratio calculation. On 10 February 2022, the ECB announced that banks have to reinclude central bank exposures in the leverage ratio from 1 April 2022.
- The BCBS has postponed the introduction of Basel IV, including the phase-in of the output floor on revised standardised approaches, to 1 January 2023 and has extended the accompanying transitional

[3] Taking into account the ECL's legislative proposal and starting from the assumption that 93% of the residential mortgages meet the document requirements.

[4] Based on our balance sheet position as at 31 December 2021 and assuming the implementation of Basel IV rules in European legislation remains unchanged.

period for the output floor to 1 January 2028. The EC's legislative proposal to implement Basel IV further delays the phase-in of the output floor from 2025 to 2030.
- DNB has postponed the introduction of the new floor for the risk weighting of mortgages , initially scheduled for the autumn of 2020. In June 2021, DNB announced not to postpone the introduction of the measure any further and, in October 2021, it communicated that the regulation will be implemented with effect from 1 January 2022.

INTERNAL MINIMUM LEVEL

De Volksbank has set its target for the leverage ratio at a level of at least 4.50% and the CET1 capital ratio target at a level of at least 19.0% based on the fully phased-in Basel IV rules. Our leverage ratio target of at least 4.50% is in line with the leverage ratio of comparable European banks and includes an ample management buffer to withstand severe stress situations involving unfavourable conditions that could greatly impact income, costs and impairments.

On top of the 9.69% SREP requirement and Pillar2 Guidance, we also have an ample management buffer to withstand severe stress situations. With respect to our minimum risk-weighted target, the management buffer also factors in uncertainties that are not relevant for the leverage ratio, such as the impact of future regulatory requirements, including Basel IV.

In time, management buffers – and thus the capital targets – may be revised, for example when the final impact of Basel IV has become clear. Capital expected to sustainably exceed our minimum targets is available for distribution, subject to regulatory approval.

MINIMUM FLOOR FOR RISK WEIGHTING OF MORTGAGES LOANS

In anticipation of the implementation of Basel IV, DNB announced in October 2019 that it would increase the minimum risk weighting for mortgage portfolios of Dutch banks, with the exception of mortgages with (partial) National Mortgage Guarantee (NHG) coverage. This measure applies to banks that use internal risk models to calculate capital requirements for their mortgage portfolios, such as de Volksbank. In June 2021, DNB announced not to further postpone the introduction of the measure and in October 2021, it was published that the regulation will effectively come into force as of 1 January 2022. The measure will expire on 1 December 2022, but it is up to DNB to decide whether or not to extend the measure, every time for a two-year period. Given the RWA increase due to the update of de Volksbank's AIRB model and the Article 3 CRR add-on, which is fully related to RWA for residential mortgages, we expect no impact of this measure for de Volksbank.

PROVISION FOR NON-PERFORMING EXPOSURES

With effect from 26 April 2019, the CRR was amended to introduce common minimum loss coverage levels, i.e. a statutory backstop, for newly originated loans that become non-performing. Non-performing exposures (NPEs) represent a risk to a bank's balance sheet as future losses may not be fully covered by appropriate reserves.

In addition to these CRR requirements, the ECB published its expectations for the level of provisions for NPEs originated before 26 April 2019 and classified as non-performing on or after 1 April 2018. It also made a recommendation in its SREP decision in relation to loans that were classified as non-performing before 1 April 2018.

De Volksbank will deduct any insufficient coverage for NPEs under the CRR statutory backstop from its CET1 capital. As at year-end 2021 this did not result in a deduction from CET1 capital. The prudential provisions for outstanding NPEs according to the ECB expectation and SREP recommendation resulted in a CET1 capital deduction of € 16 million at year-end 2021. De Volksbank is developing an NPE strategy which adequately defines effective management and substantiates a reduction of credit risk in non-performing exposures. The supervisory dialogue concerning the ECB's expectations and the SREP recommendation may impact de Volksbank's CET1 capital ratio and leverage ratio in the next few years.

GONE-CONCERN CAPITAL: MREL

On 10 May 2021 the national resolution authority set the MREL requirement for de Volksbank as from 1 January 2022 at 7.87% of the leverage ratio exposure (LRE). As a binding intermediate subordination target at least 6.55% of the LRE has to be met with subordinated instruments, i.e. Tier 1 capital, Tier 2 capital and senior non-preferred (SNP) notes.

As of 1 January 2024, the 7.87% MREL has to be fully met with subordinated instruments. The MREL requirement based on RWA amounts to 26.78%, including the Combined Buffer Requirement of 3.5%. The non-risk-weighted MREL requirements are more restrictive for de Volksbank than the risk weighted MREL requirements.

De Volksbank's capital planning is based on meeting the binding MREL subordination target as from January 2024, while taking into account the binding intermediate MREL subordination target as from 1 January 2022.

Based on its current capital position, de Volksbank plans to issue SNP notes totalling € 1.2 billion to € 1.7 billion up to 2024. This is on top of the planned issuance of Additional Tier 1 (AT1) capital in 2022 and the € 1.0 billion SNP debt instruments already issued in the first half of 2021.

EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer 2021

		a	b	f	g	j	k	l	m
		General credit exposures			Own fund requirements				
	in € millions	Exposure value under the standardised approach	Exposure value under the IRB approach	Total exposure value	Relevant credit risk exposures - Credit risk	Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
010	**Breakdown by country:**								
	The Netherlands	1,939	49,606	51,545	612	612	7,655	92.45%	0.00%
	Belgium	250	46	296	20	20	256	3.09%	0.00%
	United Kingdom	161	6	166	6	6	80	0.97%	0.00%
	France	154	2	156	3	3	42	0.51%	0.00%
	Luxembourg	144	-	144	11	11	144	1.74%	0.50%
	Germany	115	8	123	6	6	73	0.88%	0.00%
	Norway	50	-	50	-	-	5	0.06%	1.00%
	Canada	16	-	16	-	-	2	0.02%	0.00%
	Italy	12	1	13	1	1	12	0.15%	0.00%
	Sweden	9	1	10	1	1	9	0.11%	0.00%
	United States	-	2	2	-	-	-	0.01%	0.00%
	Switzerland	-	2	2	-	-	-	0.00%	0.00%
	Cyprus	2	-	2	-	-	1	0.01%	0.00%
	Spain	-	1	1	-	-	-	0.00%	0.00%
	Curaçao	-	1	1	-	-	-	0.00%	0.00%
	Other	-	8	8	-	-	1	0.00%	0.00%
020	**Total**	**2,850**	**49,685**	**52,535**	**662**	**662**	**8,281**	**100%**	

EU CCyB2 - Amount of institution specific countercyclical capital buffer 2021

	in € millions	**a**
1	Total risk exposure amount	13,993
2	Institution specific countercyclical capital buffer rate	0.01%
3	Institution specific countercyclical capital buffer requirement	1

In the course of 2021 Luxembourg changed their countercyclical buffer rate to 0.5% leading to a minimal Institution specific countercyclical capital buffer rate.

5 Leverage ratio

5.1 Leverage ratio qualitative disclosure

The leverage ratio is the ratio between a bank's amount of Tier 1 capital and its total risk exposure. A minimum level for the leverage ratio is to prevent banks from building up excessive debts. As from June 2021, a leverage ratio requirement of 3% applies to de Volksbank. Since de Volksbank temporarily excludes certain central bank exposures from the leverage ratio exposure, the leverage ratio requirement for de Volksbank is slightly higher at 3.2% until 1 April 2022. As at the end of December 2021, de Volksbank had deducted an amount of € 10.7 billion of central bank exposures from its leverage ratio exposure.

To manage the risk of excessive leverage, leverage ratio planning is part of our capital management process explained in section 3.1 Institution risk management approach. The Risk Appetite Statement (RAS) describes de Volksbank's risk appetite in relation to the leverage ratio and other aspects. The accompanying Early Warning Indicator (EWI) framework defines intervention levels to identify a falling leverage ratio in good time.

5.2 Leverage ratio quantitative disclosure

The risk exposure that is used in calculating the leverage ratio differs from the value of the assets as included in the financial statements. The table below presents the reconciliation of accounting assets and the leverage ratio exposure.

EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures 2021

		a
	in € millions	**Applicable amount**
1	**Total assets as per published financial statements**	**72,081**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-10,706
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	-243
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,752
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-2
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
12	Other adjustments	-676
13	**Total exposure measure**	**62,206**

On 18 June 2021, the ECB announced that banks under its direct supervision may continue to exclude certain central bank exposures from the leverage ratio calculation until 1 April 2022. As at the end of December 2021, de Volksbank has deducted an amount of € 10.7 billion of central bank exposures from its leverage ratio exposure (€ 4.5 billion at year-end 2020).

Other adjustments includes the receivables for cash variation margin provided in derivative transactions (€ 498 million) and the asset amounts deducted in Tier 1 (€ 178 million) due to prudential filters, regulatory deductions, and additional deductions due to Article 3 CRR.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

Reconciliation of accounting assets and the leverage ratio exposure 2020

	in € millions	
1	**Total assets as per published financial statements**	**67,484**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	--
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	--
4	Adjustments for derivative financial instruments	-459
5	Adjustments for securities financing transactions "SFTs"	--
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,519
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	--
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-4,452
7	Other adjustments	-1,501
7a	Regulatory adjustments	-96
8	**Total leverage ratio exposure (CRR)**	**62,494**

EU LR2 - LRCom: Leverage ratio common disclosure 2021

		CRR leverage ratio exposures
		a
	in € millions	31-12-2021
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)	
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	60,784
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-498
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(General credit risk adjustments to on-balance sheet items)	-
6	(Asset amounts deducted in determining Tier 1 capital)	-180
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**60,106**
	Derivative exposures	
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	36
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	312
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	-
EU-9b	Exposure determined under Original Exposure Method	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	-
11	Adjusted effective notional amount of written credit derivatives	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
13	**Total derivatives exposures**	**348**
	Securities financing transaction (SFT) exposures	
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
16	Counterparty credit risk exposure for SFT assets	-

		CRR leverage ratio exposures
		a
	in € millions	31-12-2021
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-
17	Agent transaction exposures	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-
18	**Total securities financing transaction exposures**	**-**
	Other off-balance sheet exposures	
19	Off-balance sheet exposures at gross notional amount	3,397
20	(Adjustments for conversion to credit equivalent amounts)	-1,636
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated associated with off-balance sheet exposures)	-9
22	**Off-balance sheet exposures**	**1,752**
	Excluded exposures	
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-
EU-22k	**(Total exempted exposures)**	**-**
	Capital and total exposure measure	
23	**Tier 1 capital**	3,182
24	**Total exposure measure**	**62,206**
	Leverage ratio	
25	Leverage ratio (%)	5.11%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	5.11%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	4.36%
26	Regulatory minimum leverage ratio requirement (%)	3.20%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%
EU-26b	of which: to be made up of CET1 capital	0.00%
27	Leverage ratio buffer requirement (%)	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.20%
	Choice on transitional arrangements and relevant exposures	
EU-27b	Choice on transitional arrangements for the definition of the capital measure	fully phased-in
	Disclosure of mean values	
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	12
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	62,218
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	72,924

		CRR leverage ratio exposures
		a
	in € millions	**31-12-2021**
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.11%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.36%

The leverage ratio requirement of 3% became binding with effect from 28 June 2021. Since de Volksbank temporarily excludes certain central bank exposures from the leverage ratio exposure, the leverage ratio requirement for de Volksbank is slightly higher at 3.2% until 1 April 2022. As at the end of December 2021, de Volksbank has deducted an amount of € 10.7 billion of central bank exposures from its leverage ratio exposure. In table EU LR2 this deduction is included in line 1.

The leverage ratio decreased to 5.1% from 5.2% at year-end 2020, mainly driven by a decrease in the leverage ratio numerator (i.e. Tier 1 capital) by € 41 million. The decrease in the leverage ratio exposure of € 0.3 billion mainly results from the growth in the balance sheet total (€ 4.6 billion), the decreased deduction of receivables for cash variation margin for derivatives (- € 1.0 billion) and an increased deduction of central bank exposures in the amount of € 6.2 billion. The increase in the balance sheet total was mainly due to the growth in deposits. The 5.1% leverage ratio is well above the regulatory requirement of 3.2% and our target of at least 4.5%.

Based on our capital targets, the amount of capital required to meet the leverage ratio requirement is higher than the amount required to meet risk-weighted capital requirements. This is the consequence of the bank's focus on retail mortgages, a low-risk activity with a correspondingly low risk weighting.

Our leverage ratio target of at least 4.5% is in line with the leverage ratio of comparable European banks and includes an ample management buffer to withstand severe stress situations involving unfavourable conditions that could greatly impact income, costs and impairments.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

Leverage ratio common disclosure 2020

		CRR leverage ratio exposures
	in € millions	**31-12-2020**
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	65,118
2	(Asset amounts deducted in determining Tier 1 capital)	-96
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**65,022**
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	271
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	305
EU-5a	Exposure determined under Original Exposure Method	--
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	--
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-171
8	(Exempted CCP leg of client-cleared trade exposures)	--
9	Adjusted effective notional amount of written credit derivatives	--
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	--

		CRR leverage ratio exposures
	in € millions	**31-12-2020**
11	**Total derivative exposures (sum of lines 4 to 10)**	**405**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	--
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	--
14	Counterparty credit risk exposure for SFT assets	--
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	--
15	Agent transaction exposures	--
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	--
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**--**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	2,801
18	(Adjustments for conversion to credit equivalent amounts)	-1,282
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,519**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	--
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-4,452
	Capital and total exposures	
20	Tier 1 capital	3,223
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**62,494**
	Leverage ratio	
22	Leverage ratio	5.2%
22a	'Leverage ratio' (excluding the impact of any applicable temporary exemption of central bank exposures)	4.8%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	fully phased-in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	n.a.

EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) 2021

	in € millions	a CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**60,286**
EU-2	Trading book exposures	--
EU-3	Banking book exposures, of which:	60,286
EU-4	Covered bonds	217
EU-5	Exposures treated as sovereigns	5,176
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	62
EU-7	Institutions	3,260
EU-8	Secured by mortgages of immovable properties	48,217
EU-9	Retail exposures	124
EU-10	Corporates	1,686
EU-11	Exposures in default	598
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	946

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) 2020

	in € millions	CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**60,666**
EU-2	Trading book exposures	--
EU-3	Banking book exposures, of which:	60,666
EU-4	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	164
EU-5	Exposures treated as sovereigns	5,667
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	35
EU-7	Institutions	4,420
EU-8	Secured by mortgages of immovable properties	47,968
EU-9	Retail exposures	122
EU-10	Corporate	1,606
EU-11	Exposures in default	364
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	321

6 Liquidity requirements

As explained in Section 3.6.2 Management and control of the risk disclosures in the annual report, the Liquidity Coverage Ratio (LCR) is one of the instruments that we use to manage liquidity risk. The regular liquidity management process is also discussed in the risk disclosures in the annual report.

6.1 Liquidity risk management

Liquidity risk is the risk that de Volksbank, under normal circumstances as well as in times of stress, has insufficient liquid assets available in the short, medium or long term to meet its financial obligations without incurring unacceptable costs or losses. Liquidity risk also includes the situation in which the balance sheet structure develops in such a way that the bank suffers excessive exposure to a disruption of its funding sources.

Liquidity management supports the bank's strategy within our risk appetite.

RISK PROFILE

De Volksbank has a strong liquidity position, enabling it to meet its financial obligations at all times. The bank manages its liquidity position such that it is able to absorb the consequences of bank-specific and market-wide stress factors, such as stress in the money and/or capital markets.

To fund its liquidity needs, de Volksbank seeks to diversify its funding sources in accordance with its strategy.

RISK GOVERNANCE

De Volksbank's risk governance is based on the three lines of defence model (see Section 3.1 Institution risk management approach).

In terms of liquidity risk management, de Volksbank Financial Markets (VFM) and Balance Sheet Management (BSM) departments make up the first line. Their main liquidity management responsibilities are to manage our liquidity profile with maximum efficiency within the risk appetite determined, and to raise funding in the money and capital markets.

The Credit Market & Operational Risk department constitutes the second line. It sets frameworks and monitors whether these are complied with, provides advice and determines the liquidity adequacy.

The third line (the audit function) independently assesses the first and second lines' performance.

As the Board of Directors has ultimate accountability for risk management within the risk management organisation, it therefore functions as an overarching Bank Risk Committee, which is supported by risk committees, with representatives from the first and second lines in each committee.
The Supervisory Board is charged with the supervision of the Board of Directors and in that role are provided with advice by the Audit Committee, the Risk and Compliance Committee and the People and Organisation Committee.

MANAGEMENT AND CONTROL LIQUIDITY RISK

De Volksbank centrally manages its liquidity position, cash flows and liquidity risks .
The risk management cycle as defined in section 3.1 Institution risk management approach, set up to manage liquidity risk forms the Internal Liquidity Adequacy Assessment Process (ILAAP). This process is performed on a continuous basis, to monitor the liquidity profile of de Volksbank and to ensure the timely awareness of developments that may require action. The objective of the ILAAP is to ensure appropriate coverage of all liquidity risk and control elements, and to evaluate how planned and expected developments could influence the adequacy of de Volksbank's liquidity profile. The risk management lifecycle applies to liquidity risk management in the following way:

1. Identification of liquidity risks: we continuously aim to identify all potential risks within the scope of liquidity management. For example, we perform an independent risk review of all relevant liquidity management-related proposals.
2. Assessment of liquidity risks: one element of the ILAAP is that we continuously assess the adequacy of our liquidity profile and liquidity risk management. ILAAP provides input for the ECB's Supervisory Review & Evaluation Process (SREP). We present the outcome of our assessment in the annual ILAAP Liquidity Adequacy Statement (LAS) report. We compare the current and expected risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity profile, risk appetite, policy or guidelines, and to improve the risk management process. Liquidity risk assessment within the liquidity risk management lifecycle also entails:
   - the annual recalibration of the liquidity management strategy. We lay down guidelines for a balance sheet structure with maximum efficiency from a liquidity risk perspective. In this process, we take account of the liquidity management objective, i.e. an adequate liquidity and funding profile.
   - the definition of actions in the capital and liquidity plan. We do this at least once a year, giving substance to the anticipated funding and liquidity needs ensuing from the Operational Plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal thresholds and work out various scenarios.
   - the updating of forecasts in the monthly Liquidity Adequacy Assessment Report (LAAR). The forecasts are updated every month based on the most recent insights and reported to the ALCO. The LAAR includes a LAS based on the

current risk profile versus the risk thresholds and a forward-looking assessment.
- regular stress testing to provide insight into the key vulnerabilities and to assess the resilience of the liquidity position to severe but plausible adverse (economic) conditions. The results are included in the LAAR.
- drawing up a recovery plan for adverse circumstances. This plan contains possible measures to strengthen the liquidity position. An annual update of the recovery plan contributes to the bank's continuity. For more information see Section 4.1 Capital management and control.

3. Risk response to liquidity risks: every year, we determine the Risk Appetite Statement (RAS) for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives. To monitor liquidity risk, we use specific risk indicators and determine the level at which we feel comfortable on the basis of the liquidity risk appetite.
4. Monitoring of liquidity risks: we monitor early warning indicators defined in the RAS for liquidity risk on a regular basis in the Treasury Committee. On top of this, the ALCO monitors the RAS indicators in the LAAR on a monthly basis.
5. Residual risk: because of (unexpected) balance sheet or regulatory developments, we may not be able to identify or fully manage liquidity risks at all times. By carrying out the liquidity risk management lifecycle, we intend to identify these risks and formulate a risk response.
6. Reporting of liquidity risk indicators: we prepare regulatory and internal reports to measure, monitor and manage the bank's liquidity profile on an ongoing basis.

MANAGEMENT INSTRUMENTS

Liquidity position

De Volksbank maintains a liquidity position, which includes the central bank reserves, to be able to instantly absorb unexpected increases in its liquidity need when necessary. In addition to central bank reserves, the liquidity position comprises a liquidity portfolio with unencumbered (highly) liquid investments that are eligible as ECB collateral and are already registered in the DNB collateral pool. The investments included in our liquidity portfolio are required to meet our sustainability criteria.

On top of the central bank reserves, the liquidity position mainly consists of government bonds and bonds of de Volksbank's own securitisations, known as Residential Mortgage Backed Securities (RMBS), with underlying mortgages of the bank. We determine the liquidity value of bonds in the liquidity position on the basis of the fair value of the bonds after applying the percentage haircuts as determined by the ECB.

Liquidity stress testing

We test the robustness of the liquidity position by means of stress tests to which end we have defined various scenarios, of which the so-called combined severe stress test has the highest impact. In this scenario we take the following into account:

- a strong outflow of savings and current account balances;
- a lack of funding options in money and capital markets;
- a decline in the fair value of bonds in the liquidity position;
- additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating;
- additional collateral requirements caused by margin requirements on derivatives;
- a possible liquidity outflow in the event that committed credit lines are drawn.

The objective of the bank's liquidity management is to survive this severe stress scenario for a certain period of time. The impact of this stress scenario on the liquidity position therefore serves as input to determine and monitor the bank's risk capacity and risk appetite.

We perform the combined severe stress test every month and review the stress testing principles every year.

Key liquidity ratios

The Liquidity Coverage Ratio (LCR) tests whether we have adequate liquid assets to absorb a prescribed thirty-day stress scenario. The Net Stable Funding Ratio (NSFR) serves to determine the extent to which longer-term assets are financed with more stable forms of funding. A 100% regulatory minimum applies to both liquidity standards.

In addition to the LCR and NSFR, we manage the Loan-to-Deposit ratio and the degree of asset encumbrance. Whereas the liquidity position focuses on liquidity that is instantly available to function as counterbalancing capacity when necessary, we also manage liquidity with a short-term horizon through short-term loans and investments and money market funding. Apart from this, we monitor the liquidity that may potentially be generated from our assets. On this basis, we assess the extent to which we can absorb certain stress and extreme outflows of funds.

COVID-19 RELATED MEASURES

In response to Covid-19, the ECB took the following supervisory and regulatory measures, which affect de Volksbank's liquidity position to a greater or lesser extent:
- banks were allowed to temporarily operate below LCR requirements up to year-end 2021;
- conditions for targeted longer-term refinancing operations (TLTRO-III) were eased;
- a temporary general reduction of collateral valuation haircuts by 20% was adopted.

LIQUIDITY POSITION

In 2021, continued deposit growth resulted in a liquidity position that is substantially higher than de Volksbank's internal targets and regulatory requirements.

De Volksbank aims to reduce the undesirable impact of excess liquidity on the bank's profitability and capitalisation by taking measures, such as the application of a negative interest rate to business and retail customer accounts upward of € 250,000 as from 1 March 2021 and upward of € 100,000 as from 1 July 2021. As from 1 April 2022, we will apply a negative interest rate on balances in excess of € 100,000 at customer level.

Liquidity position[1]

in € millions	2021	2020
Central bank reserves	10,707	5,003
Sovereigns	1,780	2,803
Regional/local governments and supranationals	1,567	1,252
Other liquid assets	618	337
Eligible retained RMBS	7,898	8,529
Liquidity position	**22,570**	**17,924**

1 In the second half of 2021, the liquidity position has replaced the previous indicators cash position and liquidity buffer to better reflect directly available liquidity instead of including a 10-day in- and outflow horizon. Comparative figures have been adjusted accordingly.

This table provides an overview of the liquidity position from an internal perspective which differs from the regulatory perspective for the liquidity buffer in accordance with Annex I of EU Regulation 2015/61. The liquidity position includes amongst others ECB-eligible retained RMBS notes that are registered in the DNB collateral pool, and which could be pledged to obtain central bank funding, thereby serving as additional counterbalancing capacity when necessary. As a result, the liquidity position differs from the liquidity buffer used in the LCR disclosure template.

The liquidity position increased to € 22.6 billion as at 31 December 2021 (year-end 2020: € 17.9 billion).

At year-end 2021, central bank reserves stood at € 10.7 billion (year-end 2020: € 5.0 billion). Cash outflows in 2021 mainly resulted from € 1.0 billion net loan growth, a € 0.4 billion repayment in capital market funding and the dividend payments of € 269 million. The cash outflows were more than covered by € 4.5 billion deposit growth. Furthermore, de Volksbank issued € 1.0 billion in green senior non-preferred debt instruments and € 0.7 billion in covered bonds and saw a € 0.9 billion decrease in cash collateral placed in connection with derivative transactions. In addition, in the first half of 2021 de Volksbank participated in additional TLTRO-III funding from the ECB for an amount of € 70 million. The substantially higher cash inflows than cash outflows, resulted in an increase in the central bank reserves. A lower amount of available liquidity was invested in the money market. As at 31 December 2021, € 4.0 billion in assets had been invested for cash management purposes (year-end 2020: € 4.5 billion), of which € 2.1 billion was held at Swiss banks (year-end 2020: € 3.1 billion) and was therefore not included in the central bank reserves.

The liquidity value of bonds in the DNB collateral pool at year-end 2021 amounted to € 11.9 billion (year-end 2020: € 12.9 billion), of which:

- The liquidity value of eligible retained RMBS decreased to € 7.9 billion (year-end 2020: € 8.5 billion), mainly due to prepayments in the underlying mortgage pool;
- The value of other liquid assets in the liquidity position decreased by € 0.4 billion. This is predominantly because not all sovereign bonds were registered in the DNB collateral pool at year-end 2021. These sovereign bonds were ring-fenced for other purposes, such as possible repo transactions.

6.2 Liquidity Coverage Ratio

EU LIQ1 - Quantitative information of LCR

	Consolidated	a	b	c	d	e	f	g	h
	In € millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	31-12-2021	30-9-2021	30-6-2021	31-3-2021	31-12-2021	30-9-2021	30-6-2021	31-3-2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					12,099	10,594	8,790	7,458
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	52,367	51,081	49,655	48,328	2,908	2,851	2,776	2,702
3	*Stable deposits*	45,037	43,716	42,424	41,362	2,252	2,186	2,121	2,068
4	*Less stable deposits*	5,877	5,895	5,748	5,558	656	665	655	635
5	Unsecured wholesale funding	1,901	1,939	2,007	2,130	1,025	1,057	1,099	1,158
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	1,845	1,886	1,919	2,031	969	1,004	1,011	1,059
8	*Unsecured debt*	56	53	88	99	56	53	88	99
9	*Secured wholesale funding*					6	6	7	31
10	Additional requirements	1,560	1,579	1,686	1,710	1,002	1,019	1,111	1,118
11	*Outflows related to derivative exposures and other collateral requirements*	945	962	975	982	945	963	976	982
12	*Outflows related to loss of funding on debt products*	3	3	82	82	3	3	82	82
13	*Credit and liquidity facilities*	612	614	629	646	54	53	53	54
14	Other contractual funding obligations	695	722	676	723	643	672	627	675
15	Other contingent funding obligations	1,878	1,726	1,578	1,422	499	460	408	374
16	TOTAL CASH OUTFLOWS					6,083	6,065	6,028	6,058
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	5	5	5	5	-	-	-	-
18	Inflows from fully performing exposures	1,513	1,562	1,861	2,273	1,364	1,390	1,684	2,103
19	Other cash inflows	144	125	124	161	144	125	124	161
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	1,662	1,692	1,990	2,439	1,508	1,515	1,808	2,264
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	1,662	1,692	1,990	2,439	1,508	1,515	1,808	2,264
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					12,099	10,594	8,790	7,458
22	TOTAL NET CASH OUTFLOWS					4,575	4,550	4,220	3,794
23	LIQUIDITY COVERAGE RATIO[1]					270.94%	236.05%	207.83%	197.41%

1 The figures in this table are calculated using the reported supervisory values and figures for each of the four calendar quarters (January-March, April-June, July-September, October-December) preceding the disclosure date. The values and figures in the table are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. Following this approach, the LCR cannot be calculated using the figures in the table.

In 2021, the Liquidity Coverage Ratio (LCR) remained well above the regulatory minimum of 100%. Continued growth in retail deposits resulted in a liquidity position that is substantially higher than de Volksbank's internal targets and regulatory requirements. The growth in retail deposits also resulted in an increase in total high quality liquid assets and thereby a higher liquidity buffer. In addition to holding Central Bank reserves and (highly) liquid investments, de Volksbank lends part of the available liquidity to several counterparties with short tenors.

Cash outflows are mainly driven by stable retail deposits. Outflows from contingent funding obligations mainly consist of mortgages agreed but not yet drawn down. Inflows are mainly driven by monies due from financial customers as a result of lending part of our available liquidity to several counterparties with short tenors. As a result, total net cash outflow increased.

QUALITATIVE INFORMATION ON LCR

In line with the EBA guidelines on LCR disclosure, information is provided below on:
- Funding strategy;
- Counterparty risk on derivative positions;
- Currency risk;
- A description of the degree of centralisation of liquidity management.

Funding strategy

The funding strategy supports de Volksbank's strategy. The objective of the funding strategy is to optimise the bank's liquidity and funding profile and to ensure access to diversified funding sources in order to maintain the bank's long-term funding position.

Retail savings are de Volksbank's main source of funding. Through our brands, we attract term deposits, demand deposits and current account balances from retail customers. We also attract savings deposits and current account balances from SME customers. In 2021, customer deposits increased to € 57.6 billion, from € 53.0 billion at year-end 2020.

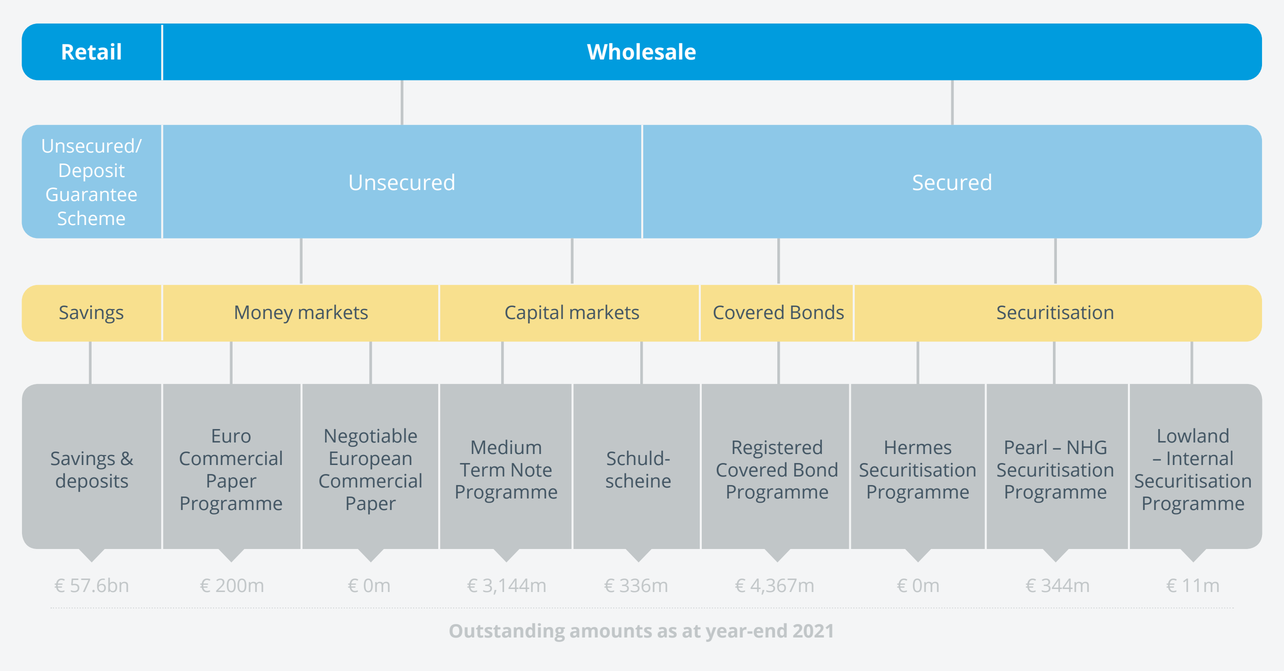
The bank also attracts funding from the capital market through various funding instruments spread over terms, markets, regions and types of investor.

The bank issues capital market funding with maturities above one year by means of:
- senior (unsubordinated) unsecured debt;
- (mortgage) securitisations (RMBS);
- covered bonds;
- subordinated debt.

The covered bond programme not only permits the issue of public covered bonds but also of private placements.

The bank issues funding with a term of up to one year in the money markets via its Euro Commercial Paper (ECP) and Negotiable European Commercial Paper (NEUCP) programmes.

The overview below presents the various public funding programmes (including maximum amounts and outstanding nominal value) available to the bank at year-end 2021. In addition, the overview includes other important funding sources.



Counterparty risk on derivative positions

De Volksbank enters into money and capital market transactions with various financial institutions. This also includes derivative transactions for the hedging of interest rate and currency risks. Here, the bank runs the risk that the counterparty to a transaction defaults before the final settlement of the cashflows associated with the transaction has taken place.

Currency risk

The currency risk is minimised by effecting most of our foreign currency exposures through the trading book, where currency risk is managed on a day-to-day basis. As a result, there is no currency mismatch in the LCR.

Degree of centralisation of liquidity management

De Volksbank supports the brands by means of centrally managed mid and back offices and staff departments and has a central liquidity management function.

Potential collateral deposit

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 196 million with counterparties. We include this potential collateral deposit as an outflow in the LCR and the combined severe liquidity stress test.

Management statement

The management statement on the adequacy of risk management for liquidity is included in the overall statement in Section 1.3 Management statement.

6.3 Encumbered and unencumbered assets

The extent of asset encumbrance provides insight into the collateral used and available for funding to be raised or for other reasons.

There is no difference between the regulatory consolidation scope used for the purpose of the disclosures on all asset encumbrance information and the accounting scope of consolidation. For more information reference is made to Section 1.4 Consolidation scope and 1.5 Scope of application.

IMPORTANCE OF ASSET ENCUMBRANCE

Retail savings are de Volksbank's main source of funding. Through our brands, we attract term deposits, demand deposits and current account balances from retail customers. We also attract savings deposits and current account balances from SME customers.

The objective of the bank's funding strategy is to optimise our liquidity and funding profile and to ensure access to diversified funding sources in order to maintain the bank's long-term funding position. Hence, in addition to savings deposits and current account balances, the bank attracts funding from the capital market through various funding instruments, including secured debt instruments as covered bonds and securitisations. Further, de Volksbank currently participates in TLTRO-III funding from the ECB. De Volksbank has encumbered part of its loan portfolio in these secured transactions, which is reflected in a limited level of asset encumbrance. Other sources that contribute to asset encumbrance are margining of derivative exposures related to managing interest rate risk, a savings-based mortgage arrangement with Athora Netherlands and mandatory minimum reserve requirements.

TOTAL ENCUMBERED ASSETS

Based on the median of the four quarters, € 9.5 billion of the assets was encumbered during 2021. At year-end 2021, € 9.3 billion of the assets was encumbered (2020: € 10.3 billion), mainly on account of:

- outstanding covered bonds;
- collateral deposited in connection with derivative transactions;
- a savings-based mortgage arrangement with Athora Netherlands;
- TLTRO-III funding;
- outstanding securitisations;
- cash reserve requirements;
- foreign exchange transactions;
- payment transactions.

The decrease in 2021 was primarily due to a lower volume of collateral deposited in relation to derivative positions.

The total encumbered assets mainly consist of pledged mortgages related to bonds issued under the covered bond programme. The total amount of liabilities related to total encumbered assets was € 7.7 billion (2020: € 8.6 billion).

Covered bonds involve overcollateralisation, which means that the volume of encumbered mortgages exceeds the notional principal of the covered bond.

UNENCUMBERED ASSETS

The unencumbered part of the assets amounted to € 62.7 billion and may partly be converted into cash, for example through a securitisation. Securitised mortgages of which the bank itself holds the bonds are considered to be unencumbered, except if these bonds are used as collateral, for instance in a repurchase transaction.

COLLATERAL RECEIVED

The bank received a total amount of € 93 million in collateral at year-end (2020: € 207 million). This consists entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

EU AE1 - Encumbered and unencumbered assets 2021[1]

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	in € millions	**010**	**030**	**040**	**050**	**060**	**080**	**090**	**100**
010	**Assets of the disclosing institution**	9,394	599			61,423	4,788		
030	Equity instruments	--	--	--	--	8	--	8	--
040	Debt securities	627	599	637	608	4,911	4,788	4,936	4,788
050	*of which: covered bonds*	--	--	--	--	200	200	200	200
060	*of which: securitisations*	--	--	--	--	50	50	50	50
070	*of which: issued by general governments*	471	471	479	479	3,691	3,661	3,711	3,667
080	*of which: issued by financial corporations*	136	129	136	129	966	904	967	903
090	*of which: issued by non-financial corporations*	21	--	22	--	254	207	258	206
120	Other assets	8,801	--			56,505	--		

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

The asset encumbrance ratio at year-end 2021 amounts to 12.9%, which is well below the risk appetite threshold of 25%.

Encumbered and unencumbered assets 2020[1]

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	in € millions	**010**	**030**	**040**	**050**	**060**	**080**	**090**	**100**
010	**Assets of the reporting institution**	10,409	750			55,210	4,362		
030	Equity instruments	--	--			8	--		
040	Debt securities	750	750	765	765	4,575	4,362	4,605	4,394
050	*of which: covered bonds*	--	--	--	--	143	132	134	131
060	*of which: asset-backed securities*	--	--	--	--	36	36	36	36
070	*of which: issued by general governments*	589	589	602	602	3,596	3,416	3,621	3,441
080	*of which: issued by financial corporations*	140	140	140	140	833	809	831	810
090	*of which: issued by non-financial corporations*	21	21	23	23	131	131	136	136
120	Other assets	9,693	--			50,612	--		
121	*of which: mortgage loans*	7,476	--			39,353	--		

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

EU AE2 - Collateral received and own debt securities issued 2021[1]

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
	in € millions	010	030	040	060
130	**Collateral received by the disclosing institution**	--	--	--	--
140	Loans on demand	--	--	--	--
150	Equity instruments	--	--	--	--
160	Debt securities	--	--	--	--
170	of which: covered bonds	--	--	--	--
180	of which: securitisations	--	--	--	--
190	of which: issued by general governments	--	--	--	--
200	of which: issued by financial corporations	--	--	--	--
210	of which: issued by non-financial corporations	--	--	--	--
220	Loans and advances other than loans on demand	--	--	--	--
230	Other collateral received	--	--	--	--
240	**Own debt securities issued other than own covered bonds or securitisations**	--	--	--	--
241	**Own covered bonds and securitisations issued and not yet pledged**			**10,253**	--
250	**TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**9,399**	**608**		

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

Collateral received 2020[1]

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
	in € millions	010	030	040	060
130	**Collateral received by the reporting institution**	--	--	--	--
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	--	--	--	--
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**10,454**	--
250	**Total assets, collateral received and own debt securities issued**	**10,409**	**750**		

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

EU AE3 - Sources of encumbrance 2021[1]

	in € millions	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	7,758	8,377

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

Sources of encumbrance 2020[1]

	in € millions	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	8,631	9,429
011	*of which: Derivatives*	2,063	2,098
012	*of which: Deposits*	2,532	2,519
013	*of which: Debt securities issued*	4,211	5,046

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

6.4 Net Stable Funding Ratio

As of 28 June 2021, the amended Capital Requirements Regulation (CRR) requires all financial institutions to maintain a minimum Net Stable Funding Ratio (NSFR) of 100%.

EU LIQ2 - Net Stable Funding Ratio 31 December 2021

		a	b	c	d	e
		Unweighted value by residual maturity				
	In € millions	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**
	AVAILABLE STABLE FUNDING (ASF) ITEMS					
1	Capital items and instruments	**3,362**	**-**	**-**	**500**	**3,862**
2	*Own funds*	3,362	-	-	500	3,862
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		**53,216**	**79**	**1,238**	**51,582**
5	*Stable deposits*		47,463	72	1,173	46,333
6	*Less stable deposits*		5,753	7	65	5,249
7	Wholesale funding:		**3,083**	**325**	**8,553**	**9,469**
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		3,083	325	8,553	9,469
10	Interdependent liabilities		**-**	**-**	**-**	**-**
11	Other liabilities:	**35**	**359**	**9**	**249**	**253**
12	*NSFR derivative liabilities*	35				
13	*All other liabilities and capital instruments not included in the above categories*		359	9	249	253
14	**Total available stable funding (ASF)**					**65,166**
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					**268**
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		**-**	**-**	**4,928**	**4,188**
16	Deposits held at other financial institutions for operational purposes		**-**	**-**	**-**	**-**
17	Performing loans and securities:		**4,261**	**843**	**43,023**	**30,421**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		3,019	468	223	759
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns,and PSEs, of which:*		837	19	2,080	2,074
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		8	7	1,259	844
22	*Performing residential mortgages, of which:*		337	349	40,642	27,476
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		318	330	39,586	26,668
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		68	7	78	112
25	Interdependent assets		**-**	**-**	**-**	**-**
26	Other assets:	-	**1,191**	**3**	**2,003**	**2,086**
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		113	-	388	426
29	*NSFR derivative assets*		-			-
30	*NSFR derivative liabilities before deduction of variation margin posted*		540			27
31	*All other assets not included in the above categories*		538	3	1,615	1,633
32	Off-balance sheet items		**583**	**-**	**-**	**38**
33	**Total RSF**					**37,001**
34	**Net Stable Funding Ratio (%)**					**176.12%**

Retail savings are our main source of available stable funding. We also attract savings deposits and current account balances from SME customers. In 2021, customer deposits increased to € 57.6 billion, from € 53.0 billion at year-end 2020.

The bank also attracts funding from the capital market through various funding instruments. For more information on our funding strategy see Section 6.2 Liquidity Coverage Ratio. Required stable funding mainly stems from our residential mortgage portfolio. Part of our mortgage portfolio is encumbered mainly on account of outstanding covered bonds. For more information see Section 6.3 Encumbered and unencumbered assets.

De Volksbank has no interdependent assets and liabilities in accordance with Article 428f CRR.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures year-end 2020 are not included.

EU LIQ2 - Net Stable Funding Ratio 30 September 2021

		a	b	c	d	e
		Unweighted value by residual maturity				
	In € millions	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	AVAILABLE STABLE FUNDING (ASF) ITEMS					
1	Capital items and instruments	3,365	-	-	500	3,865
2	*Own funds*	3,365	-	-	500	3,865
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		52,061	93	1,270	50,521
5	*Stable deposits*		46,146	86	1,205	45,125
6	*Less stable deposits*		5,915	7	65	5,395
7	Wholesale funding:		1,711	993	8,823	10,004
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		1,711	993	8,823	10,004
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	42	756	9	227	231
12	*NSFR derivative liabilities*	42				
13	*All other liabilities and capital instruments not included in the above categories*		756	9	227	231
14	**Total available stable funding (ASF)**					**64,620**
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					264
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	4,942	4,201
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		5,207	954	42,652	30,381
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		3,930	504	176	821
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns,and PSEs, of which:*		927	72	2,252	2,298
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		8	4	1,286	861
22	*Performing residential mortgages, of which:*		325	334	40,140	27,152
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		307	317	39,040	26,316
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		25	43	84	111
25	Interdependent assets		-	-	-	-
26	Other assets:	-	1,502	3	2,179	2,338
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		67	-	455	444
29	*NSFR derivative assets*		29			29
30	*NSFR derivative liabilities before deduction of variation margin posted*		693			35
31	*All other assets not included in the above categories*		713	3	1,724	1,830
32	Off-balance sheet items		581	-	-	34
33	**Total RSF**					**37,218**
34	**Net Stable Funding Ratio (%)**					**173.63%**

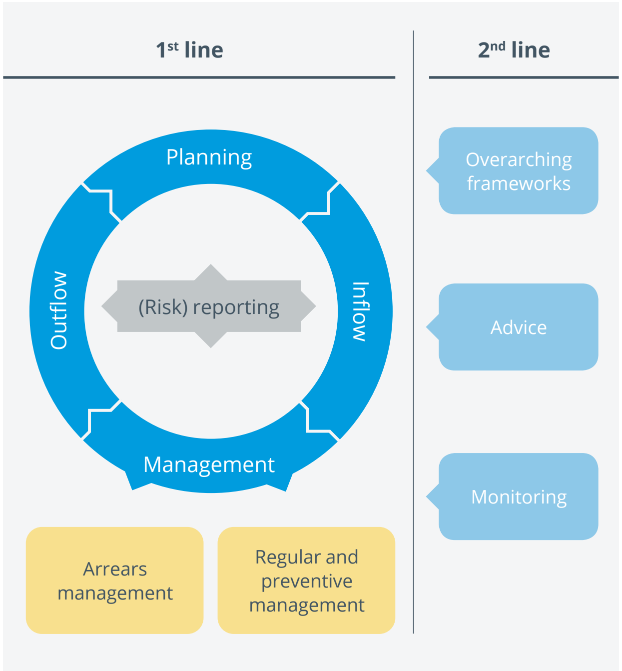
7 Credit risk

7.1 Credit risk quality

7.1.1 General qualitative information regarding credit risk

As part of credit risk management, we internally assess and monitor the credit standing of our customers and counterparties. In this process we estimate the probability of our customers not being capable of meeting contractual payment obligations arising from the loan agreement. Such incapability would result in a potential financial loss for the bank.

On portfolio level, we also steer the risk by defining the desired credit quality of new loans and the status of the healthy loans versus the loans in arrears, and by monitoring the outflow. For a visual representation of de Volksbank's credit risk management process, see the diagram below.



GENERAL APPROACH TO CUSTOMER SERVICES AS A CONSEQUENCE OF THE COVID-19 CRISIS

In 2020, in response to the Covid-19 crisis, we adjusted our approach to supporting customers who suffer from the economic impact of the pandemic. In 2021, we continued to offer financial support to customers who had trouble paying their mortgage or consumer loan due to Covid-19 under certain conditions. All customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2. Throughout the year we experienced a limited inflow of customers with financial problems as a result of the pandemic, and the vast majority of customers granted a payment holiday in 2020 or 2021 recovered over the course of 2021.

LOAN PORTFOLIOS

Residential mortgages

When providing a new mortgage loan, we put customers' interests first. We apply internal standards, which are in line with the applicable legal frameworks, such as customer's income and the collateral value. Furthermore, we use the acceptance scorecard to predict whether customers are able to comply with their obligations in the long term.

In 2020, we adjusted our acceptance policy to reduce the impact of the Covid-19 crisis on our current and potential customers, while at the same time keeping the credit risk within the risk appetite as defined by de Volksbank. Due to the limited and continuously decreasing inflow of customers facing financial difficulties as a result of the pandemic, some of these measures were lifted in the second half of 2021. However, we still take into account the potential impact of Covid-19 when determining the income of new applicants who are self-employed. In addition, all next-home buyers who have not sold their current home must be able to absorb a 10% loss on the sale of their current home.

Interest-only mortgage and Aflossingsblij campaign

De Volksbank pays special attention to the sub-portfolio composed of interest-only mortgages. We continuously monitor the credit risk profile of customers with an interest-only mortgage to timely identify, and proactively contact, those who fall into a high-risk category. These include customers who are due to retire soon, causing a drop in income, while the mortgage is nearing its maturity. In conversations with customers in this category, we attempt to find out whether it is likely that the mortgage can be refinanced based on their retirement income and if they have accumulated sufficient capital to repay their mortgage in full or in part at the end of the term. Moreover, de Volksbank is one of the participants in the *Aflossingsblij* campaign initiated by the Dutch Banking Association (NVB). The aim of this campaign is to create nationwide awareness of the characteristics of interest-only mortgages, i.e. that customers are not obliged to repay the loan. The AFM monitors our activities in the context of interest-only mortgages.

Preventive management and Arrears management for retail customers

De Volksbank regards a bond of trust with its customers as the basis for a long-term relationship. We manage the credit risk through an active and specific policy for customers who are in arrears or are expected to fall into arrears within 12 months. If there is reason to doubt the ability of a customer to fulfil his or her commitment towards the bank in accordance with the agreed terms, Preventive Management will contact the customer in question. After examining the situation, Preventive Management assesses if a solution needs to be found for the customer and if any such a solution is within the commercial mandate. If this is not the case, the customer in question is transferred to the Arrears Management department.

Customers experiencing financial difficulties come under the responsibility of the Arrears Management department. If the arrears exceed 30 days, the customer is assigned to a case handler. Our starting point is that customers are able to stay in their homes and continue to make their mortgage payments.

To prevent accumulation of payment problems, or situations in which the loan has to be called in early, we may have to apply a forbearance measure. This measure is a non-commercial concession: an arrangement with the customer entailing a temporary or permanent modification of the loan, the terms and conditions of the loan and/or payment conditions. If customers are truly unable to meet their obligations, we consult with them and may agree on a payment or restructuring measure.

If no solution can be found to resolve the financial difficulties, we support customers in selling their home. De Volksbank stays in touch with the customer at all times, keeping the relationship optimal. We do not engage debt collection agencies and only engage a bailiff if we do not succeed in arriving at a long-term solution together with the customer even though the customer has the necessary financial resources. The reason for this is that using the external parties' services drive up the costs for the customer and exacerbate his or her financial problems.

The outbreak of the Covid-19 pandemic has brought significant changes to the operations of the Arrears Management department as far as customers hit by the economic lockdown are concerned. In response to the crisis we have adjusted our approach to customer services to support customers who suffer from the economic consequences of the pandemic.

In 2021 we continued to offer our retail customers that faced financial difficulties due to Covid-19 the opportunity to take a full or partial payment holiday. The maximum length of the payment holiday, i.e. interest and repayments, is 6 months and can be combined with a default interest reduction to 0% during the payment holiday. The time frame for repayment depends on the customer’s repayment capacity, yet should not exceed five years. The payment holiday may also be granted to customers who are already in arrears, but who are temporarily unable to comply with their payment arrangements due to Covid-19. In line with the fiscal policy of the Dutch government, banks had extended this payment holiday until the end of 2021. De Volksbank applied this extension selectively, since we believe that it does not contribute to the long-term financial resilience of our customers in all cases. The ability to pay the outstanding arrears in full generally diminishes as time progresses, as a result of which the amount of arrears accumulates. Our aim is to help customers get a grip on their financial situation as soon as possible.

Consumer loans

Our consumer loan portfolio consists of personal loans, revolving credit facilities and overdraft facilities, i.e. credit limits on current accounts.

De Volksbank has not offered personal loans for the past few years. We reintroduced this product in 2021 for SNS customers, but first as a pilot project. Upon completion of this pilot project, we will evaluate the product and decide if we will add it to our product portfolio. We expect the pilot to be a success and the portfolio of personal loans to grow as a result.

Furthermore, we revised the revolving credit facility in line with the EBA Guidelines on Loan Origination and Monitoring (GLOM). As a result, customers are no longer able to make withdrawals on an existing revolving credit facility.

Although our retail customers with a consumer loan were allowed to make use of the same Covid-19 relief measures as customers with a mortgage loan, only few of them made use of these measures. All in all, the Covid-19 pandemic had no noticeable impact on our consumer loan portfolio.

SME loans

Our SME loan portfolio consists of two basic products, i.e. mortgage loans to purchase or refinance commercial real estate with a maximum notional amount of € 2 million and a maturity of up to 20 years, and working capital loans of up to € 50,000 for a maximum of 5 years.

In 2021, we performed the annual revision of the internal credit approval authorisation framework. Because of increased quality of the credit proposals and growth ambitions, the first-line loan officers are given the mandate to decide whether to accept or reject loan applications, revisions and other amendments in more instances. In case of a specific higher credit risk, the authority for final approval is assigned to second-line credit risk management. The Credit Committee for SME loans has therefore been discontinued. This transfer of powers shortened the processing period and ensures that decisions are taken by the people with the most in-depth knowledge.

Preventive management and Arrears management for SME customers

We take action as soon as SME customers fall into arrears or state that they anticipate payment problems, and we do so based on the key principles of continuity of the enterprise of the customer concerned and the potential for recovery. We record our SME customers’ payment behaviour, combine this with other data and use this information in risk models to monitor whether our customers are able to meet their obligations in the long term. We may have to apply a forbearance measure. The models calculate the probability of default – i.e. the failure to make contractually agreed payments, such as interest and any repayments – and the resulting loss expected for the bank. As from 2018, we use the IFRS 9 ECL model outcomes to prioritise customers who are to be assisted in recovering from arrears or default. Together with the customer, we explore the options for making the business financially resilient again, focusing on a healthy liquidity and profitability position. When a customer has recovered and a stable situation has been achieved, Arrears Management supervision ceases and the customer is transferred back to regular management. If recovery proves impossible, we may support the customer in selling the collateral. In this case, we aim to limit the loss for the customer as well as for the bank.

To support our SME customers who were affected by the Covid-19 pandemic, we offered a repayment and/or interest holiday of up to 6 months. In addition, customers with an active business bank account who met a number of conditions were eligible for the Small Loans Covid Guarantee Scheme (*Kleine Kredieten Corona garantieregeling*, *KKC*). The Dutch State guarantees these loans for 95%. Entrepreneurs with annual turnover of € 50,000 or more and a funding need between € 10,000 and € 50,000 could apply for this business loan. In 2021 we also simplified the approval process for payment holiday requests that met certain conditions. The Credit Committee's authority to approve Covid-19-related payment holiday requests of up to 3 months was delegated to second-line credit risk management, thus ensuring that our customers are offered support in a timely and efficient manner.

Other corporate and government loans

This portfolio consists of two sub-portfolios: sustainable loans and private loans.

In addition, through our Financial Markets portfolio we provided various loans to other financial institutions and central governments.

Investments

Investments predominantly consist of a bond portfolio used for the purpose of liquidity management. To be included in this portfolio, counterparties must meet stringent requirements and have good ratings.

Loans and advances to banks

The loans provided to counterparty banks or other credit institutions in the Financial Market portfolio are classified as Loans and advances to banks.

REPORTING

De Volksbank has a comprehensive credit risk monitoring framework allowing it to monitor, analyse and manage the credit risk at risk appetite level.

The responsibility for credit risk reporting lies with first- and second-line risk management. The first line monitors portfolio developments to keep the risk for which it is accountable within the risk appetite. The second line develops credit risk reports which provide comprehensive insight into the level of credit risk and gives a timely warning in case the quality of the portfolio deteriorates in terms of credit risk. The first and second lines hold monthly meetings in which they discuss portfolio developments as well as various credit risk aspects, including insights gained from the credit risk reports.

The credit risk reports are periodically submitted to the Credit Committee, the Board of Directors and the Risk and Compliance Committee of the Supervisory Board.

LOAN LOSS PROVISIONS (IFRS 9)

As from 1 January 2018, we have adopted IFRS 9 and form loan loss provisions in accordance with these requirements. Based on IFRS 9 Expected Credit Loss (ECL) models, we estimate the risk of running into financial difficulties for all our customers on a monthly basis.

DEFINITION OF DEFAULT

As of 31 December 2021, we have implemented a uniform definition of default (DoD) for all de Volksbank's credit exposures, which is aligned to the Regulatory Capital CRR Article 178. A default is considered to occur if at least one of the following conditions is met:

- the obligor is past due more than 90 days on any material credit obligation and/or;
- the obligor is considered unlikely-to-pay (UtP).

The major change with the previous DoD applied is the way in which the day counter is defined. To that end we check a total amount in arrears against absolute and relative thresholds. In the case of a private obligor, the counting starts when the total amount in arrears exceeds € 100 and is higher than 1% of total outstanding exposure for days past due. For business obligors and financial institutions, the absolute threshold is set at € 500, while the relative threshold is kept at 1%, the same level as for private obligors.
Regulatory requirements for UtP triggers also became more detailed and prescriptive. De Volksbank differentiates between mandatory and judgemental UtP triggers. Mandatory UtP triggers, such as fraud, bankruptcy or exposure assignment to stage 3, automatically lead to a default status. judgemental triggers give signals that there is a high probability that the obligor's payment capacity will suffer as a result of the changing conditions and /or specific events. judgemental triggers are based on subjective signals that should be supported by verifiable evidence. Both mandatory and judgemental triggers are specified in the risk policy on the application of default and registered in the bank's system.

In the fourth quarter of 2021, the ECB granted de Volksbank permission to use its new version of the Advanced Internal Ratings Based (AIRB) model, which incorporates the new DoD, including some model improvements as identified during the Targeted Review of Internal Models (TRIM). For more information on the AIRB model, see Section 7.4 Use of the A-IRB approach to credit risk. The IFRS 9 Expected Credit Loss (ECL) models were not fully recalibrated at year-end 2021, but did apply the new DoD to align the AIRB and IFRS 9 estimates. Full calibration would entail a re-estimation of model parameters based on reference data set under the new DoD. This is included in the model development plans for 2022/2023. Meanwhile, we accept that model performance can be suboptimal. With the new DoD in place, the provisioning process needs fewer rules for individually determined provisions as it can rely on the credit risk status for arrears and default as well as forborne and non-performing classification. The effect on the provisioning level is elaborated upon in the section Changes in the provision for the different credit portfolios. Overall, applying the new DoD within the IFRS 9 ECL models led to an increase in the provisions for credit losses of € 5 million.

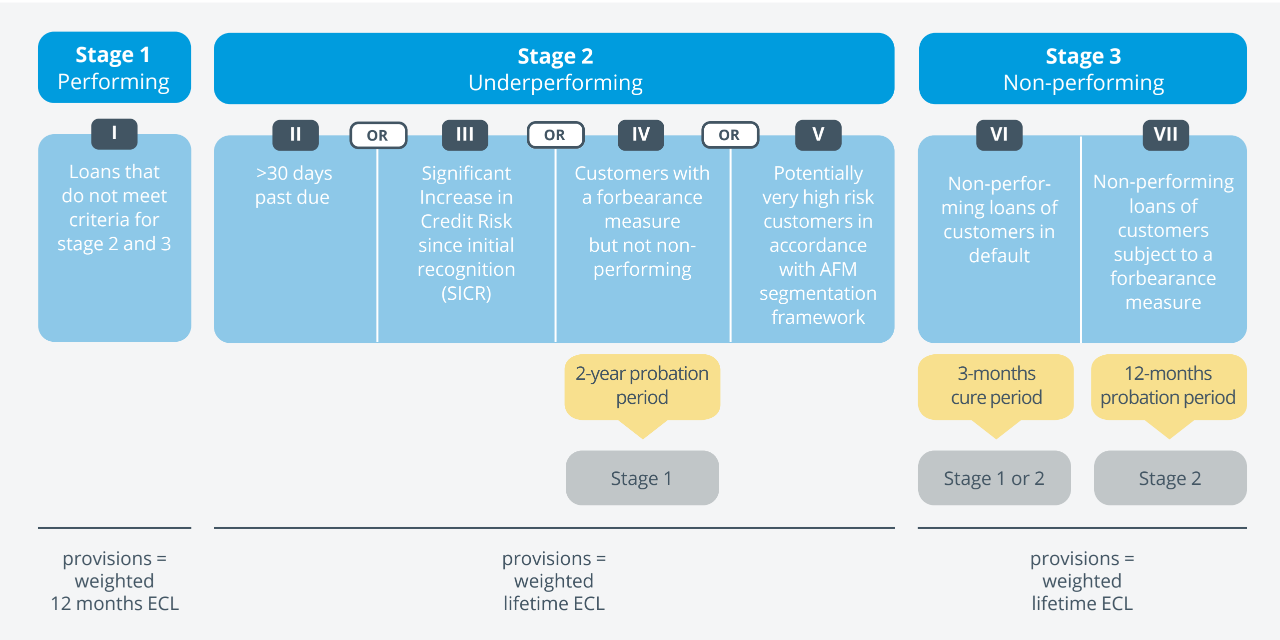
The definition of a distressed restructuring used by de Volksbank for the implementation of point (d) of Article 178(3) CRR is the same as the definition of forborne exposure in accordance with Annex V to Commission Implementing Regulation (EU) 680/2014.

STRESS TESTING AND SENSITIVITY ANALYSES

As part of its Risk Management Framework de Volksbank evaluates its capital and liquidity position under severe stress conditions. The level of credit risk has a significant impact on stress test results.

In addition, we regularly measure the sensitivity of the loan portfolios and the level of the loan loss provisions against fluctuations of macroeconomic parameters. Just like other banks, we are sensitive to these fluctuations. However, thanks to its strong capital and liquidity position, de Volksbank has proven capable of withstanding the extreme scenarios applied.

STAGE ALLOCATION



IFRS 9 includes three stages reflecting how the credit risk of a loan may develop over time compared with the date of origination. The stages are decisive for the calculation method and the amount of the provision to be made. The IFRS 9 stage allocation process within de Volksbank is presented in the diagram above.

Stage 1: 12-month ECL (category I)

Stage 1 includes customers with loans that have shown no significant increase in credit risk since they were originated. For these customers, a provision is formed for expected losses (ECL) in the next 12 months.

Stage 2: lifetime ECL not credit impaired (categories II-V)

A provision is formed for stage 2 customers based on losses expected until maturity (lifetime ECL). A customer is included in stage 2 if at least one of the following conditions applies:

II. A customer has been in arrears for more than 30 days

A customer is in arrears if the interest payment and/or redemption amount is past due one day after the agreed payment date (monthly payment arrangement) and exceeds a threshold value. When a customer is past due for more than 30 days, the loan is transferred to stage 2.

III. The credit rating is subject to significant deterioration (SICR trigger), which ensues from the ECL models

The ECL models determine for each individual portfolio when a customer's credit rating is subject to significant deterioration (Significant Increase in Credit Risk; SICR). For the residential mortgage portfolio this deterioration is assessed by comparing the current lifetime PD with the lifetime PD we assigned to the customer when the loan was originated. If the difference between the two exceeds a pre-defined threshold, the lifetime PD is considered to have significantly deteriorated and the customer is allocated to stage 2. If the customer's lifetime PD subsequently improves, the customer may be transferred back to stage 1 minding the threshold. The threshold is defined based on statistical methods.

For the other loan portfolios, a significant deterioration in credit risk is assessed as follows:

- In the SICR model for SME loans, customers are classified into PD buckets according to their individual credit rating calculated when the loan was originated. Depending on the PD bucket, the current credit rating may show a capped deterioration compared with the moment when the loan was originated.
- For consumer loans, the customer receives a rating. If this rating exceeds a pre-determined limit, the credit facility will be allocated to stage 2.
- For customers in the ASN Bank portfolio, it is assessed whether the current PD shows that pre-determined relative and absolute limits are exceeded compared with the PD when the loan was originated. If this is indeed the case, the loan will be placed in stage 2.
- For the exposures in the Financial Markets portfolio, the current external credit rating and PD are used to assess whether there is a significant deterioration relative to the external credit rating and the PD upon initial recognition of the bond or loan. If pre-determined relative and absolute limits are exceeded, the bond or loan will be allocated to stage 2.

IV. A forbearance measure is applied to one of the customer’s contracts

Customers who have been subjected to a forbearance measure and who do not meet the prudential non-performing criteria are included in stage 2. This category contains:
1) customers who are subject to a forbearance measure but who have not yet been classified as non-performing, and
2) customers who were previously part of the prudential non-performing forborne category (category VII) and were reclassified to the prudential performing forborne category after a probation period of at least one year. Following a minimum probation period of two years, a customer is included in stage 1.

V. Potentially very high-risk customers according to the AFM methodology

De Volksbank pays special attention to retail customers with full or partial interest-only mortgage loans.

Mortgage loans with a high expected Loan-to-Value (LtV) and nearing maturity, retirement or the end of tax deductibility are allocated to stage 2 because of the higher potential risk of these loans. The stage can be revised when after contact with the customer, there is more certainty about income data and the capacity to refinance the loan in the future.

Stage 3: lifetime ECL credit impaired (VI-VII)

If a customer is credit impaired, the loans provided are considered non-performing and included in stage 3. The provision is formed based on losses expected until maturity (lifetime ECL). A loan is credit impaired in the following situations:

VI. Non-performing loans of customers in default

De Volksbank applies a specific definition of default to every portfolio for which loan loss provisions have to be determined. A default is considered to occur if at least one of the following conditions is met:

- the obligor is past due more than 90 days on any material credit obligation and/or;
- the obligor is considered unlikely-to-pay (UtP).

Examples of these UtP triggers are the following:

- suspension of payment
- bankruptcy
- fraud
- sale of the collateral by the Arrears Management department
- sale of the collateral with a residual debt
- potentially very high-risk interest-only mortgages with affordability under pressure

Customers only recover from the default status once the arrears have been repaid in full or the UtP triggers have lapsed and a three-month probation period has expired.

VII. Non-performing loans of customers subject to a forbearance measure

In addition to loans in default, loans to customers who are subject to a forbearance measure, who meet the prudential non-performing criteria are placed in stage 3. This is the case for forborne loans that were transferred to stage 2 after a one-year probation period in stage 3 and receive a new forbearance measure and/or later fall into arrears of 30 days.

Adjustments to the credit loss provision methodology resulting from the Covid-19 crisis

We still offer financial support to our customers who encounter financial difficulties as a result of the Covid-19 pandemic, although the volume of this sort of requests was limited in 2021. All customers that receive financial support in the form of payment relief measures or payment holidays are considered to be forborne and follow the same staging rules as the rest of the customers in the portfolio. Upon expiration of a payment holiday, retail customers are contacted to resume both their normal and missed payments. If customers manage to adhere to both payment schemes, they could return to stage 1 while respecting the regular conditions for probation.

MANAGEMENT OVERLAY

In response to the extraordinary level of economic uncertainty related to the impact of the Covid-19 pandemic and the subsequent lockdowns, in mid-2020 de Volksbank introduced a management overlay for its residential mortgages and SME loans.

In the course of 2021 the management overlay at first decreased as macroeconomic conditions improved and lockdown measures related to the Covid-19 pandemic were lifted. In the last quarter of the year, however, the severity of the pandemic and the resulting uncertainty, increased again. Throughout 2021, the total management overlay increased to € 67 million, from € 55 million at year-end 2020, consisting of a general and a Covid-related overlay. This management overlay serves as an effort to quantify the uncertainty in a seemingly high-performing economy.

General management overlay

A change in the house price index is a key risk driver in determining the level of loan loss provisions. Actual house prices showed double digit growth in 2021: a rise of up to 20% year-on-year. De Volksbank kept a management overlay in place to cover the risk of a big drop following this record growth. The uncertainty regarding the sustainability of this level of house prices is significant. In previous quarters, this development was deemed as Covid related (for example renewed appreciation of the home environment following the massive shift towards working from home). Now it seems to have a more structural character independent of the evolution of the pandemic. The emerging concern for increase in inflation and its subsequent potential effect on interest rates is another factor of looming uncertainty, as this may put downward pressure on house prices. To absorb the impact of a shock in house prices to the level of one year ago, we took an additional provision of € 52 million for both the effect on the total residential mortgage portfolio and the effect specifically for interest-only mortgages in case of such a shock. Together with the € 2 million model overlay, this makes up the general management overlay.

Covid-related management overlay

To absorb the uncertainty of the Covid-19 pandemic, its economic ramifications, and the extent of the accompanying government support, de Volksbank applies a Covid-related overlay.

We set aside € 2 million to mitigate the uncertainty around the financial resilience of self-employed retail customers in sectors directly impacted by the lockdown measures. This group of customers is expected to be exposed to a higher probability of default as soon as most of the government support is discontinued.
Lastly, we also made a provision of € 6 million as a proxy for potential second-order effects, i.e. the consequences for the financial resilience of retail customers employed in sectors directly impacted by the lockdown measures.

As far as the SME loan portfolio is concerned, we applied a Covid-related management overlay in the amount of € 5 million to stage 1 customers active in sectors most severely impacted by the lockdown measures such as restaurants, the event industry and art galleries.

There is no expert overlay is place for consumer loans nor other corporate and government loans.

De Volksbank reviews the elements of the management overlay at least every quarter.

7.1.2 General quantitative information regarding credit risk

EU CR1 - Performing and non-performing exposures and related provisions 2021

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	in € millions		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	10,285	10,285	--	--	--	--	--	--	--	--	--	--	--	--	--
010	Loans and advances	53,888	52,064	1,824	607	--	607	-67	-38	-29	-40	--	-40	--	49,242	559
020	*Central banks*	511	511	--	--	--	--	--	--	--	--	--	--	--	--	--
030	*General governments*	556	534	22	--	--	--	--	--	--	--	--	--	--	46	--
040	*Credit institutions*	4,016	4,016	--	--	--	--	--	--	--	--	--	--	--	1,443	--
050	*Other financial corporations*	199	162	37	--	--	--	--	--	--	--	--	--	--	--	--
060	*Non-financial corporations*	1,333	1,216	117	27	--	27	-5	-3	-2	-6	--	-6	--	617	18
070	*Of which SMEs*	310	257	53	27	--	27	-5	-3	-2	-6	--	-6	--	294	18
080	*Households*	47,273	45,625	1,648	580	--	580	-62	-35	-27	-34	--	-34	--	47,136	541
090	Debt securities	5,626	5,626	--	--	--	--	-2	-2	--	--	--	--	--	678	--
110	*General governments*	4,152	4,152	--	--	--	--	-2	-2	--	--	--	--	--	291	--
120	*Credit institutions*	978	978	--	--	--	--	--	--	--	--	--	--	--	330	--
130	*Other financial corporations*	165	165	--	--	--	--	--	--	--	--	--	--	--	--	--
140	*Non-financial corporations*	331	331	--	--	--	--	--	--	--	--	--	--	--	57	--
150	Off-balance-sheet exposures	3,402	3,371	31	13	--	13	-8	-7	-1	-5	--	-5		765	--
170	*General governments*	301	301	--	--	--	--	--	--	--	--	--	--		--	--
190	*Other financial corporations*	6	6	--	--	--	--	--	--	--	--	--	--		--	--
200	*Non-financial corporations*	327	322	5	1	--	1	-1	-1	--	--	--	--		10	--
210	*Households*	2,768	2,742	26	12	--	12	-7	-6	-1	-5	--	-5	--	755	--
220	**Total**	**73,201**	**71,346**	**1,855**	**620**	**--**	**620**	**-77**	**-47**	**-30**	**-45**	**--**	**-45**	**--**	**50,685**	**559**

The coverage ratio for non-performing loans and advances is 6.5% as per 31 December 2021 (2020: 11.2%). The coverage ratio for non-performing loans and advances is calculated by dividing the provisions and if applicable, the negative fair value adjustments due to credit risk for non-performing loans and advances, by the total gross carrying value for non-performing loans and advances.

De Volksbank's residential mortgage portfolio, excluding IFRS value adjustments, grew to € 47.3 billion (year-end 2020: € 46.1 billion) as new production exceeded redemptions. As the mortgage rates remained at all-time low levels, homeowners were eager to lock in rates for a longer period of time, increasing their financial security. In a growing market for new mortgages, de Volksbank's new mortgage production amounted to € 8.1 billion (2020: € 6.1 billion).

The weighted average indexed Loan-to-Value (LtV) of the residential mortgages improved to 53%, from 61% at year-end 2020. To determine the LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of mortgages to lower LtV buckets.

Increase in the total gross carrying amount is mainly due to the inclusion of cash balances at central banks and other demand deposits in the new template (year-end 2021: € 10.3 billion).

The total provision for credit losses (excluding securities) dropped from € 171 million as at 31 December 2020, to € 120 million as at 31 December 2021, predominantly driven by the improving economic sentiment.

In 2021, the credit loss provision for households fell from € 142 million to € 96 million. Included in households is the credit loss provision for residential mortgages, which fell from € 111 million to € 73 million. The release in model provisions thanks to the improved macroeconomic scenarios was partially offset by an increase in the management overlay to cover the degree of uncertainty about the economic outlook. The impact of the new DoD for the residential mortgage provision for credit losses is limited to € 1 million, in stage 3.

The stage 1 provision rose from € 24 million to € 32 million, following the inflow of new customers and the reassessment of the management overlay for stage 1.

The stage 2 provision dropped significantly from € 52 million to € 24 million, caused by the improved macroeconomic scenarios and recovery of customers to stage 1, i.e. fewer customers in SICR and fewer customers with an interest-only mortgage in a potentially high-risk category. The latter can be explained by the surge in house prices. Rising house prices reduce customers' expected LtV leading to reduced exposure to potentially high-risk interest-only mortgages with a more stringent provisioning methodology. Furthermore, the stage 2 provision decreased due to a redistribution of the management overlay to stage 1.

The stage 3 provision dropped from € 35 million to € 17 million. The stage 3 coverage ratio decreased from 6.4% to 3.2%, mainly due to very low realised losses resulting in a lower estimate of loss given foreclosure. Furthermore, a higher probably of cure following an increased LtV, decreased amount of arrears and upward revisions of the macroeconomic forecast lowered both the probability of default (PD) and the Loss Given Default (LGD) and therefore ECL model estimates. The increased exposure in stage 3 is a consequence of the introduction of the new DoD. More customers are allocated to stage 3 on the back of unlikely-to-pay triggers rather than arrears. As a lower model provision is formed for customers who are not in arrears than for customers in arrears, this leads to a decrease in the stage 3 coverage ratio.

To harmonise the Definition of Default (DoD) across EU banks, the ECB and EBA issued guidelines on how banks should classify credit defaults for prudential purposes. These guidelines entered into force on 1 January 2021. De Volksbank accordingly implemented the DoD in 2021.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

NPL 4 - Performing and non-performing exposures and related provisions 2020

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**						**Accumulated partial write-off**	**Collateral and financial guarantees received**	
		Performing exposures			**Non-performing exposures**			**Performing exposures - accumulated impairment and provisions**			**Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**				**On performing exposures**	**On non-performing exposures**
	in € millions		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
010	Loans and advances	54,423	51,530	2,892	685	8	678	-88	-30	-58	-77	--	-77	--	46,592	552
020	*Central banks*	463	463	--	--	--	--	--	--	--	--	--	--	--	--	--
030	*General governments*	665	627	38	--	--	--	--	--	--	--	--	--	--	--	--
040	*Credit institutions*	5,528	5,528	--	--	--	--	--	--	--	--	--	--	--	--	--
050	*Other financial corporations*	395	326	69	--	--	--	--	--	--	--	--	--	--	--	--
060	*Non-financial corporations*	1,259	1,050	208	80	--	80	-7	-3	-4	-16	--	-16	--	643	19
070	*Of which SMEs*	243	189	54	38	--	38	-5	-2	-3	-10	--	-10	--	222	19
080	*Households*	46,113	43,536	2,577	605	8	598	-81	-27	-54	-61	--	-61	--	45,949	533
090	Debt securities	5,104	5,104	--	--	--	--	-1	-1	--	--	--	--	--	998	--
110	*General governments*	3,986	3,986	--	--	--	--	-1	-1	--	--	--	--	--	642	--
120	*Credit institutions*	838	838	--	--	--	--	--	--	--	--	--	--	--	272	--
130	*Other financial corporations*	110	110	--	--	--	--	--	--	--	--	--	--	--	15	--
140	*Non-financial corporations*	170	170	--	--	--	--	--	--	--	--	--	--	--	69	--
150	Off-balance-sheet exposures	2,800	2,753	47	15	--	15	-3	-1	-1	-2	--	-2		619	5
170	*General governments*	300	300	--	--	--	--	--	--	--	--	--	--		--	--
190	*Other financial corporations*	5	5	--	--	--	--	--	--	--	--	--	--		--	--
200	*Non-financial corporations*	117	116	1	6	--	6	--	--	--	-1	--	-1		7	--
210	*Households*	2,378	2,332	46	9	--	9	-3	-1	-1	-2	--	-1		612	5
220	**Total**	**62,327**	**59,387**	**2,939**	**700**	**8**	**693**	**-92**	**-32**	**-59**	**-79**	**--**	**-79**	**--**	**48,209**	**557**

EU CR1-A - Maturity of exposures 2021

		a	b	c	d	e	f
		Net exposure value					
	In € millions	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	559	3,957	1,334	48,000	538	**54,388**
2	Debt securities	-	664	2,354	2,607	-	**5,624**
3	**Total**	**559**	**4,621**	**3,687**	**50,607**	**538**	**60,012**

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

The gross NPL ratio of de Volksbank is 1.1% (2020: 1.2%) and therefore below the threshold of 5%. The required tables CQ1, CQ3, CQ4, CQ5 and CQ7 are disclosed.

EU CQ1 - Credit quality of forborne exposures 2021

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
	in € millions	Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which Collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits	--	--	--	--	--	--	--	--
010	Loans and advances	1,132	419	419	419	-12	-24	1,498	390
060	*Non-financial corporations*	39	21	21	21	-1	-3	51	16
070	*Households*	1,093	398	398	398	-11	-21	1,447	374
080	Debt securities	--	--	--	--	--	--	--	--
090	Loan commitments given	7	3	3	3	--	--	--	--
100	**Total**	**1,139**	**422**	**422**	**422**	**-12**	**-24**	**1,498**	**390**

All customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2.

As of 31 December 2021, we have implemented a uniform definition of default (DoD) for all de Volksbank's credit exposures, which is aligned to the Regulatory Capital CRR Article 178. A default is considered to occur if at least one of the following conditions is met:

- the obligor is past due more than 90 days on any material credit obligation and/or;
- the obligor is considered unlikely-to-pay (UtP).

The major change with the previous DoD applied is the way in which the day counter is defined. To that end we check a total amount in arrears against absolute and relative thresholds. In the case of a private obligor, the counting starts when the total amount in arrears exceeds € 100 and is higher than

1% of total outstanding exposure for days past due. For business obligors and financial institutions, the absolute threshold is set at € 500, while the relative threshold is kept at 1%, the same level as for private obligors.

Regulatory requirements for UtP triggers also became more detailed and prescriptive. De Volksbank differentiates between mandatory and judgmental UtP triggers. Mandatory UtP triggers, such as fraud, bankruptcy or exposure assignment to stage 3, automatically lead to a default status. Judgmental triggers give signals that there is a high probability that the obligor's payment capacity will suffer as a result of the changing conditions and /or specific events.

Judgmental triggers are based on subjective signals that should be supported by verifiable evidence. Both mandatory and judgmental triggers are specified in the risk policy on the application of default and registered in the bank's system. The decline in performing forborne can be explained because throughout the year we experienced a limited inflow of customers with financial problems as a result of the pandemic, and the vast majority of customers granted a payment holiday in 2020 or 2021 recovered over the course of 2021.

See also Section 7.1.1 General qualitative information regarding credit risk and particularly, the adjustments to the credit loss provision methodology resulting from the Covid-19 crisis.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

NPL 1 - Credit quality of forborne exposures 2020

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
	in € millions	Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which Collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	1,385	456	269	451	-20	-41	1,750	405
6	*Non-financial corporations*	26	22	22	22	-1	-8	33	12
7	*Households*	1,359	434	247	429	-19	-33	1,717	393
8	Debt securities	--	--	--	--	--	--	--	--
9	Loan commitments given	8	3	2	3	--	1	5	2
10	**Total**	**1,393**	**459**	**271**	**454**	**-20**	**-40**	**1,755**	**407**

EU CQ3 - Credit quality of performing and non-performing exposures by past due days 2021

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			**Non-performing exposures**								
	in € millions		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	10,285	10,285	--	--	--	--	--	--	--	--	--	--
010	Loans and advances	53,888	53,752	136	607	473	18	29	53	19	3	12	607
020	*Central banks*	511	511	--	--	--	--	--	--	--	--	--	--
030	*General governments*	556	556	--	--	--	--	--	--	--	--	--	--
040	*Credit institutions*	4,016	4,016	--	--	--	--	--	--	--	--	--	--
050	*Other financial corporations*	199	199	--	--	--	--	--	--	--	--	--	--
060	*Non-financial corporations*	1,333	1,324	9	27	20	--	1	2	1	--	3	27
070	*Of which SMEs*	310	310	--	27	20	--	1	2	1	--	3	27
080	*Households*	47,273	47,146	127	580	453	18	28	51	18	3	9	580
090	Debt securities	5,626	5,626	--	--	--	--	--	--	--	--	--	--
110	*General governments*	4,152	4,152	--	--	--	--	--	--	--	--	--	--
120	*Credit institutions*	978	978	--	--	--	--	--	--	--	--	--	--
130	*Other financial corporations*	165	165	--	--	--	--	--	--	--	--	--	--
140	*Non-financial corporations*	331	331	--	--	--	--	--	--	--	--	--	--
150	Off-balance-sheet exposures	3,402			13								13
170	*General governments*	301			--								--
190	*Other financial corporations*	6			--								--
200	*Non-financial corporations*	327			1								1
210	*Households*	2,768			12								12
220	**Total**	**73,201**	**69,663**	**136**	**620**	**473**	**18**	**29**	**53**	**19**	**3**	**12**	**620**

In addition to loans in default, loans to customers who are subject to a forbearance measure, who meet the prudential non-performing criteria are placed in stage 3. This is the case for forborne loans that were transferred to stage 2 after a one-year probation period in stage 3 and receive a new forbearance measure and/or later fall into arrears of 30 days.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

NPL 3 - Credit quality of performing and non-performing exposures by past due days 2020

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
	in € millions	Performing exposures	Not past due or past due <= 30 days	Past due > 30 days <= 90 days	Non-performing exposures	Unlikely to pay that are not past due or are past due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 years <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	54,423	54,345	78	685	550	55	57	14	6	1	2	425
2	*Central banks*	463	463	--	--	--	--	--	--	--	--	--	--
3	*General governments*	665	665	--	--	--	--	--	--	--	--	--	--
4	*Credit institutions*	5,528	5,528	--	--	--	--	--	--	--	--	--	--
5	*Other financial corporations*	395	395	--	--	--	--	--	--	--	--	--	--
6	*Non-financial corporations*	1,259	1,259	--	80	76	--	4	--	--	--	--	81
7	*Of which SMEs*	243	243	--	38	34	--	4	--	--	--	--	38
8	*Households*	46,113	46,035	78	605	474	55	53	14	6	1	2	344
9	Debt securities	5,104	5,104	--	--	--	--	--	--	--	--	--	--
11	*General governments*	3,986	3,986	--	--	--	--	--	--	--	--	--	--
12	*Credit institutions*	838	838	--	--	--	--	--	--	--	--	--	--
13	*Other financial corporations*	110	110	--	--	--	--	--	--	--	--	--	--
14	*Non-financial corporations*	170	170	--	--	--	--	--	--	--	--	--	--
15	Off-balance-sheet exposures	2,800	2,800	--	15	15	--	--	--	--	--	--	12
17	*General governments*	300	300	--	--	--	--	--	--	--	--	--	--
19	*Other financial corporations*	5	5	--	--	--	--	--	--	--	--	--	--
20	*Non-financial corporations*	117	117	--	6	6	--	--	--	--	--	--	6
21	*Households*	2,378	2,378	--	9	9	--	--	--	--	--	--	6
22	**Total**	**62,327**	**62,249**	**78**	**700**	**565**	**55**	**57**	**14**	**6**	**1**	**2**	**437**

EU CQ4 - Quality of non-performing exposures by geography 2021

		a	b	c	d	e	f	g
		Gross carrying/Nominal amount				**Accumulated impairment**	**Provisions on off-balance sheet commitments and financial guarantee given**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
			of which: non-performing		**of which: subject to impairment**			
	In € millions		of which: defaulted					
010	***On balance sheet exposures***	**60,122**		**607**		**-109**		**-**
020	*Netherlands*	50,853		601		-105		-
030	*Switzerland*	2,442		-		-		-
040	*Germany*	1,951		-		-1		-
050	*Belgium*	877		5		-1		-
060	*Luxembourg*	840		-		-		-
070	*France*	833		-		-		-
080	*United Kingdom*	547		-		-		-
090	*Finland*	523		-		-		-
100	*Spain*	282		-		-		-
110	*Austria*	255		-		-		-
120	*Liechtenstein*	193		-		-		-
130	*Czech Republic*	161		-		-		-
140	*Ireland*	129		-		-		-
150	*United States*	68		-		-		-
160	*Norway*	50		-		-		-
170	*Canada*	48		-		-		-
180	*Korea, Republic of*	20		-		-		-
190	*Italy*	13		-		-		-
200	*Sweden*	13		-		-		-
210	*Slovenia*	10		-		-		-
220	*Other countries*	3		1		-2		-
230	*Cyprus*	2		-		-		-
240	*Denmark*	2		-		-		-
250	*United Arab Emirates*	1		-		-		-
260	*Australia*	1		-		-		-
270	*Curaçao*	1		-		-		-
280	*Russian Federation*	1		-		-		-
290	*Singapore*	1		-		-		-
300	*Turkey*	1		-		-		-
310	*Taiwan, Province of China*	1		-		-		-
320	***Off balance sheet exposures***	**3,415**		**13**			**13**	
330	*Netherlands*	3,394		12			13	
340	*Belgium*	8		-			-	
350	*Germany*	8		-			-	
360	*United Kingdom*	2		-			-	
370	*Other countries*	3		1			-	
380	***Total***	**63,537**		**620**		**-109**	**13**	**-**

The template is disclosed because the non-domestic exposures as at 31 December 2021 is 18.2%, which exceeds the required threshold of 10%.

De Volksbank is predominantly active in the Dutch market and especially the domestic mortgage market. The exposures outside the Netherlands are mostly caused by liquidity management activities (central government bonds, money market activities with financial institutions).

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

EU CQ5 - Credit quality of loans and advances by industry 2021

		a	b	c	d	e	f
		Gross carrying amount					
			of which: non-performing		of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	In € millions			of which: defaulted			
010	Agriculture, forestry and fishing	-		-		-	-
020	Mining and quarrying	-		-		-	-
030	Manufacturing	21		7		-2	-
040	Electricity, gas, steam and air conditioning supply	563		-		-1	-
050	Water supply	-		-		-	-
060	Construction	24		1		-	-
070	Wholesale and retail trade	28		1		-1	-
080	Transport and storage	3		-		-	-
090	Accommodation and food service activities	3		1		-	-
100	Information and communication	2		-		-	-
110	Real estate activities	289		3		-2	-
120	Financial and insurance activities	199		9		-4	-
130	Professional, scientific and technical activities	56		5		-1	-
140	Administrative and support service activities	7		-		-	-
150	Public administration and defense, compulsory social security	-		-		-	-
160	Education	1		-		-	-
170	Human health services and social work activities	127		-		-	-
180	Arts, entertainment and recreation	15		-		-	-
190	Other services	23		1		-	-
200	**Total**	**1,361**		**28**		**-11**	**-**

The table above shows the credit quality of loans and advances of non-financial corporations. De Volksbank mainly focuses on retail customers and therefore this exposure is relatively small.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

De Volksbank does not have collateral obtained by taking possession and execution processes. Template EU CQ7 - Collateral obtained by taking possession and execution processes is therefore not included in this report.

EU CR2 - Changes in the stock of non-performing loans and advances 2021

		a
	In € millions	Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**685**
020	Inflows to non-performing portfolios	341
030	Outflows from non-performing portfolios	-419
040	Outflows due to write-offs	-7
050	Outflow due to other situations	-412
060	**Final stock of non-performing loans and advances**	**607**

The stock of non-performing loans and advances showed an improvement.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

COVID-19

Since early 2020, the Covid-19 pandemic has had a significant negative effect on the global economy. Nevertheless, by the end of 2021 we have registered little credit deterioration in our loans and advances, largely as a result of government and other support measures.

At the end of 2021 almost 1,900 customers made use of the customer support offered in response to the Covid-19 pandemic, which is only a slight decrease compared with year-end 2020. The total exposure of € 0.5 billion also decreased slightly compared with year-end 2020, because this amount only decreases if full or partial repayments are made by these customers. Of the total outstanding amount, one-third was allocated to stage 3. The amount of provisions allocated to customers who received a Covid-19 support measure amounted to € 11 million, of which € 5 million was allocated to residential mortgage customers and € 6 million to SME customers.

About 80% of our residential mortgage customers who have made use of the scheme had paid their arrears due to the payment holiday in full by the end of 2021.

Most of the payment holidays granted to our SME customers under moratoria expired by the end of 2020. The Small Loans Covid Guarantee Scheme, announced on 7 May 2020, which had an original expiration date of 31 December 2020 and was subsequently extended by the Dutch state to 31 December 2021, was used by 78 customers (year-end 2020: 56) for a total exposure of € 1 million.

Below, templates are included with detailed information regarding SME customers subject to legislative and non-legislative moratoria and public guarantee schemes.

Covid-19 template 1 - Information on loans and advances subject to legislative and non-legislative moratoria 2021

		a	b	e	f	g	h	i	l	m	n	o
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk					Gross carrying amount
			Per-forming	Non per-forming				Per-forming	Non per-forming			
	in € millions				Of which: exposures with for-bearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days				Of which: exposures with for-bearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-per-forming expo-sures
1	**Loans and advances subject to moratorium**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**

As at year-end 2021, there were no active loans subject to legislative and non-legislative moratoria.

Covid-19 template 1 - Information on loans and advances subject to legislative and non-legislative moratoria 2020

		a	b	e	f	g	h	i	l	m	n	o
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk					Gross carrying amount
			Per-forming	Non per-forming				Per-forming	Non per-forming			
	in € millions				Of which: exposures with for-bearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days				Of which: exposures with for-bearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-per-forming expo-sures
1	**Loans and advances subject to moratorium**	**4**	**2**	**2**	**2**	**2**	**-1**	**--**	**-1**	**-1**	**-1**	**--**
2	*of which: Households*	2	--	1	1	1	-1	--	-1	-1	-1	--
3	*of which: Collateralised by residential immovable property*	2	--	1	1	1	-1	--	-1	-1	-1	--
4	*of which: Non-financial corporations*	2	2	1	1	1	--	--	--	--	--	--
5	*of which: Small and Medium-sized Enterprises*	2	2	1	1	1	--	--	--	--	--	--

Covid-19 template 2 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria 2021

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
	in € millions					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	314	98							
2	Loans and advances subject to moratorium (granted)	244	89	--	89	--	--	--	--	--
3	of which: Households		52	--	52	--	--	--	--	--
4	of which: Collateralised by residential immovable property		37	--	37	--	--	--	--	--
5	of which: Non-financial corporations		37	--	37	--	--	--	--	--
6	of which: Small and Medium-sized Enterprises		37	--	37	--	--	--	--	--
7	of which: Collateralised by commercial immovable property		6	--	6	--	--	--	--	--

Covid-19 template 2 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria 2020

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
	in € millions					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	314	110							
2	Loans and advances subject to moratorium (granted)	259	99	--	95	4	--	--	--	--
3	of which: Households		57	--	55	2	--	--	--	--
4	of which: Collateralised by residential immovable property		41	--	39	2	--	--	--	--
5	of which: Non-financial corporations		42	--	40	2	--	--	--	--
6	of which: Small and Medium-sized Enterprises		42	--	40	2	--	--	--	--
7	of which: Collateralised by commercial immovable property		9	--	9	--	--	--	--	--

Covid-19 template 3 - Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis 2021

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	in € millions		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	1	1	1	
2	*of which: Households*	1			

Covid-19 template 3 - Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis 2020

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	in € millions		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	1	1	1	--
2	*of which: Households*	1			--

7.2 Use of Credit Risk Mitigation techniques

De Volksbank has divided its credit risk portfolio into several exposure classes. We use the Advanced Internal Ratings-Based approach to calculate the capital requirements for the residential mortgage portfolios. We use the Standardised Approach for all other portfolios. The credit risk portfolio is presented in the Pillar 3 report in accordance with regulations: Standardised Approach (SA) versus Advanced Internal Ratings-Based (AIRB) approach and then further specified within the exposure classes.

7.2.1 General qualitative information regarding credit risk mitigation

COLLATERAL

Residential mortgages

For residential mortgages, we ensure that the inflow of loans meets adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a National Mortgage Guarantee (NHG). Of the Internal Ratings-Based (IRB) exposure class residential mortgages, € 12.4 billion (2020: € 12.6 billion), i.e. 27%, of the gross carrying amount of the exposure comes under the NHG guarantee scheme.

Every month, collateral values are indexed based on house price developments. We do so by using indices, by municipality and type of collateral, that we purchase from third parties. For our portfolio management, we adjust the collateral value both upwards and downwards. We adjust the LtV if the value of collateral has dropped, but we do not pass on the higher risk surcharge to the customer.

In the event of foreclosure, the bank instructs an appraiser of its choosing to (re)value the collateral.

SME loans

We verify the value of collateral in the corporate SME portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform checks more frequently. The revaluation frequency for property depends on the amount of debt. If the debt (the exposure) exceeds

€ 3 million or the exposure exceeds € 1 million and the LtV is above 80%, the property must be revalued once every three years. No revaluation is required if the debt is lower since we monitor the development of the value of the collateralised property based on market information.

A revaluation may also be initiated as part of the (arrears) management process. As soon as we commence the arrears management process for a credit facility that has been declared to be in default, we have a revaluation conducted as a standard procedure. A revaluation is also made if, upon a check, the information received indicates that the value of the property has dropped sharply in comparison to general market prices.

For every new mortgage or material change in a credit facility, a valuation report is required for all properties to which the loan pertains. For new developments, this is a valuation based on the specifications and underlying documents such as a building contract.

Other corporate loans

Guarantees for corporates are government-issued guarantees for, for example, healthcare institutions or housing corporations.

We do not use credit derivatives as collateral.

7.2.2 General quantitative information regarding credit risk mitigation

EU CR3 – CRM techniques – Overview 2021

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
	In € millions	a	b	c	d	e
1	Loans and advances	14,980	49,800	47,987	1,813	-
2	Debt securities	4,948	678	-	678	-
3	**Total**	**19,928**	**50,478**	**47,987**	**2,491**	**-**
4	*Of which non-performing exposures*	48	559	559	-	-
EU-5	*Of which defaulted*	48	559	559	-	-

Compared to 2020, exposure secured by financial guarantees has decreased due to a different treatment of exposures to Swiss regional governments. As financial guarantees are only included if the guarantee reduces the capital requirement of an exposure, guarantees from Swiss regional governments to Swiss banks are no longer taken into account as credit risk mitigation.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

EU CR3 – CRM techniques – Overview 2020

		a	b	c	d	e
	in € millions	**Exposures unsecured – Carrying amount**	**Exposures to be secured**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Total loans	5,854	49,253	46,284	2,969	--
2	Total debt securities	4,106	998	--	998	--
3	**Total**	**9,960**	**50,251**	**46,284**	**3,967**	**--**
4	*Of which defaulted*	137	290	290	--	--

7.3 Use of the Standardised Approach

We distinguish the following exposure classes within the Standardised Approach (SA):

- **Central governments or central banks.** In addition to direct exposures to central governments and central banks, this also includes items covered by guarantees of these entities.
- **Regional governments or local authorities.** These are, for example, provinces, municipalities or water boards.
- **Public sector entities.** These include non-commercial administrative bodies, such as universities or university hospitals, that are accountable to central, regional or local governments.
- **Multilateral development banks.** Examples in this exposure class are the European Investment Bank and the Council of Europe.
- **International organisations.** Legal entities subject to international law, established by two or more member states and incorporated on the basis of a treaty or an agreement. An example is the European Stability Mechanism (ESM).
- **Institutions.** These are mainly credit institutions such as banks.
- **Corporates.** These include large SME's as well as large businesses. Large businesses are companies employing more than 250 people, with sales equal to or greater than € 50 million and a balance sheet total equal to or greater than € 43 million.
- **Retail.** In addition to natural persons, this category also contains small SMEs. These are companies employing fewer than 50 people, with sales or a balance sheet total of less than € 10 million and exposures of no more than € 1 million.
- **Secured by mortgages on immovable property.** This exposure includes exposures secured by mortgages on residential on commercial immovable property.
- **Exposures in Default.** All SA exposures that are either or both unlikely to pay or are more than 90 days in arrears on any material credit obligation are in default.
- **Items associated with particularly high risk.** This includes high risk mortgages and investments in venture capital funds.
- **Covered bonds.** These are bonds that offer additional security to the holders by means of a first right to specific assets upon bankruptcy.
- **Collective investments undertakings.** These are equity exposures in investment funds.
- **Equity exposures.** This category includes exposures to equities of businesses.
- **Other items.** All other exposures that do not fall in any of the above categories are classified in this category.

De Volksbank does not have exposures in the exposure class:

- **Claims on institutions and corporates with a short-term credit assessment.**

7.3.1 Qualitative information regarding the use of the Standardised Approach

Under the Standardised Approach (SA), credit risk is measured using prescribed risk weights that are applied to the exposure. The application of risk weights within the SA is subject to a set of fixed rules and is primarily determined by the risk classification of the underlying asset.

External ratings issued by recognised credit rating agencies serve as input to determine the risk classification and, as a result, the risk weight in the SA measurement of risk-weighted assets (RWA). De Volksbank uses the recognised external ratings issued by Standard & Poor's, Moody's and Fitch Ratings. The credit rating is related to the credit quality steps (from high to low: 1 through 6) defined in the rules. The CRR/CRD IV rules indicate for various exposure classes which risk weight corresponds with which credit quality step.

The table below indicates for each exposure class, if applicable, the rating agency whose ratings are applied.

Exposure classes	S&P	Moody's	Fitch	Regulatory Risk Weight
Central governments or central banks	x	x	x	
Regional governments or local authorities				x
Public sector entities				x
Multilateral development banks	x	x	x	
International organisations				x
Institutions	x	x	x	
Corporates	x	x	x	
Retail				x
Secured by mortgages on immovable property				x
Exposures in Default				x
Covered Bonds	x	x	x	
Equity exposures				x
Other exposures				x

Following the guidelines (CRR), we use credit ratings to determine the risk weight for an exposure, which is a standard method used to link the rating to a credit quality step (in accordance with ITS 2016/1799). If a single credit rating is available, that credit rating is used to determine the risk weight; if two credit ratings are available and the associated risk weights differ, the highest risk weight is used; If three credit ratings are available the highest associated risk weight is removed, of the two remaining risk weights the highest is used.

If no issue rating is available, we first check whether a rating has been given for a similar issue of the same counterparty, which may be adopted. If no other issue rating is available, the issuer rating – the rating provided by the issuer – may be used. If neither an issue rating nor an issuer rating exists, the risk weight for unrated exposures is used.

7.3.2 Quantitative information regarding the use of the Standardised Approach

EU CR4 – Standardised approach – Credit risk exposure and CRM effects 2021[1]

	in € millions	Exposures before CCF and before CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	13,813	--	14,325	--	--	0.00%
2	Regional government or local authorities	712	--	736	--	76	10.30%
3	Public sector entities	884	300	838	150	33	3.36%
4	Multilateral development banks	464	--	464	--	--	0.00%
5	International organisations	71	--	71	--	--	0.00%
6	Institutions	3,758	--	3,645	--	985	27.01%
7	Corporates	1,686	257	1,310	128	1,233	85.81%
8	Retail	124	506	124	29	95	62.00%
9	Secured by mortgages on immovable property	665	15	665	8	350	52.03%
10	Exposures in default	59	1	59	1	78	131.18%
11	Exposures associated with particularly high risk	--	--	--	--	--	150.00%
12	Covered bonds	217	--	217	--	22	10.00%
14	Collective investment undertakings	1	--	1	--	4	302.40%
15	Equity	12	--	12	--	12	100.00%
16	Other items	242	--	242	--	215	88.54%
17	**Total**	**22,708**	**1,080**	**22,708**	**315**	**3,102**	**13.47%**

1 This table excludes exposures subject to counterparty credit risk.

EU CR4 – Standardised approach – Credit risk exposure and CRM effects 2020[1]

	in € millions	C		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density (%)
		a	b	c	d	e	f
1	Central governments and central banks	8,248	--	8,855	--	3	0.0%
2	Regional governments or local authorities	776	--	3,330	--	--	0.0%
3	Public sector entities	677	300	648	150	30	3.8%
4	Multilateral developments banks	416	--	416	--	--	0.0%
5	International organisations	38	--	38	--	--	0.0%
6	Institutions	5,916	--	1,770	--	593	33.5%
7	Corporates	1,611	117	864	57	846	91.9%
8	Retail	123	477	122	19	89	63.1%
9	Secured by mortgages on immovable property	541	7	541	4	274	50.3%
10	Exposures in default	92	6	93	3	119	124.0%
11	Items associated with particularly high risk	--	--	--	--	--	0.0%
12	Covered bonds	165	--	164	--	16	9.8%
14	Collective investments undertakings	--	--	--	--	--	0.0%
15	Equity exposures	11	--	11	--	11	100.0%
16	Other Items	210	--	210	--	199	94.8%
17	**Total**	**18,824**	**907**	**17,062**	**233**	**2,180**	**12.6%**

1 This table excludes exposures subject to counterparty credit risk.

EU CR5 – Standardised approach 2021

	in € millions	Risk weight										
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
		a	d	e	f	g	i	j	k	l	p	q
1	Central governments or central banks	14,325	--	--	--	--	--	--	--	--	14,325	--
2	Regional government or local authorities	357	--	379	--	--	--	--	--	--	736	2
3	Public sector entities	822	--	166	--	--	--	--	--	--	988	4
4	Multilateral development banks	464	--	--	--	--	--	--	--	--	464	--
5	International organisations	71	--	--	--	--	--	--	--	--	71	--
6	Institutions	--	--	2,793	--	852	--	--	--	--	3,645	--
7	Corporates	--	--	144	--	108	--	1,185	--	--	1,437	861
8	Retail exposures	--	--	--	--	--	153	--	--	--	153	153
9	Exposures secured by mortgages on immovable property	--	--	--	40	201	362	70	--	--	673	673
10	Exposures in default	--	--	--	--	--	--	22	37	--	60	60
12	Covered bonds	--	217	--	--	--	--	--	--	--	217	--
14	Units or shares in collective investment undertakings	--	--	1	--	--	--	--	--	--	1	1
15	Equity exposures	--	--	--	--	--	--	12	--	--	12	12
16	Other items	28	--	--	--	--	--	215	--	--	242	242
17	**Total**	**16,067**	**217**	**3,483**	**40**	**1,161**	**514**	**1,503**	**38**	**--**	**23,023**	**2,007**

The increase in exposures to Central governments or central banks is mainly due to an increase in central bank reserves by € 5.5 billion compared to year-end 2021.

De Volksbank has reassessed the risk weight it applies for existing exposures to Swiss regional governments and Swiss cantonal banks guaranteed by Swiss regional governments. For prudential reasons, we no longer classify these as exposures to regional governments treated as exposures to the central government. Furthermore, as financial guarantees are only included if the guarantee reduces the capital requirement of an exposure, guarantees from Swiss regional governments to Swiss cantonal banks are no longer taken into account as credit risk mitigation. As a result exposures are reclassed from Exposure Class Regional governments or local authorities to Institutions.

Furthermore, exposures to British banks were reclassified from the asset class Institutions to the asset class Corporates as a result of Brexit, resulting in an increase of RWEA in the asset class Corporates. Under the CRR, exposures to a non-EU country are treated as exposures to Institutions only where this country applies prudential and supervisory requirements that are at least equivalent to those applied in the European Union. As per December 2021 the European Commission has not taken an equivalence decision for Great Britain with respect to the CRR. In addition, the RWEA in the asset class Corporates has increased due to investments in corporate debt securities.

EU CR5 – Standardised approach 2020

	in € millions	Risk weight										
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
		a	d	e	f	g	i	j	k	l	p	q
1	Central governments and central banks	8,854	--	--	--	--	--	--	--	1	8,855	--
2	Regional governments or local authorities	3,330	--	--	--	--	--	--	--	--	3,330	2
3	Public sector entities	642	--	156	--	--	--	--	--	--	798	6
4	Multilateral developments banks	416	--	--	--	--	--	--	--	--	416	--
5	International organisations	38	--	--	--	--	--	--	--	--	38	--
6	Institutions	--	--	972	--	798	--	--	--	--	1,770	--
7	Corporates	--	--	64	--	38	--	819	--	--	921	820
8	Retail	--	--	--	--	--	141	--	--	--	141	141
9	Secured by mortgages on immovable property	--	--	--	44	176	290	35	--	--	545	545
10	Exposures in default	--	--	--	--	--	--	48	48	--	96	96
12	Covered bonds	--	164	--	--	--	--	--	--	--	164	--
14	Collective investments undertakings	--	--	--	--	--	--	--	--	--	--	--
15	Equity exposures	--	--	--	--	--	--	11	--	--	11	11
16	Other Items	12	--	--	--	--	--	198	--	--	210	210
17	**Total**	**13,292**	**164**	**1,192**	**44**	**1,012**	**431**	**1,111**	**48**	**1**	**17,295**	**1,832**

7.4 Use of the AIRB approach to credit risk

De Volksbank uses the Advanced Internal Ratings-Based (AIRB) approach for residential mortgages. At the moment, de Volksbank has no intention of reporting other exposures classes under the AIRB approach.

RESIDENTIAL MORTGAGES

Exposures to individual residential mortgages – secured with collateral subject to a mortgage registration and possibly a National Mortgage Guarantee (NHG) – are classified as loans and advances to customers. At year-end 2021, the residential mortgages portfolio comprised 95% (2020: 94%) of de Volksbank's total loans and advances to customers.

7.4.1 Qualitative information regarding the use of the AIRB-approach

The AIRB approach measures credit risk using by supervisory authority approved internal models for the calculation of Probability of Default (PD), (downturn) Loss Given Default (LGD), Credit Conversion Factor (CCF), Exposure at Default (EAD) and Margin of Conservatism (MoC), as input for the Risk Weighted Assets (RWA) calculation.

PROBABILITY OF DEFAULT

De Volksbank assesses debtors' credit quality by assigning them an internal risk rating. Based on historical data, a statistical rating model has been developed. The rating reflects the probability of a customer running into payments problems within the next 12 months, which is defined as default.

The model leads to the classification of customers in 15 different PD exposure risk classes: 14 non-default classes and 1 default class. Broadly speaking classes 5-9 correspond to customers 'recently recovered'[5] and classes 10-14 correspond to customers 'in arrears'. Class 5 refers to the part of the portfolio which is not graded directly by the rating model, but using a standard value comprising of the portfolio average. Class 5 represents approximately 4.0% of the portfolio.

LOSS GIVEN DEFAULT

When a customer defaults on its residential mortgage loan, large parts of the amount outstanding are usually recovered by the proceeds of selling the underlying collateral. The actual loss is the remaining part of the outstanding amount of the loan increased by the recovery costs. Together with the economic costs associated with the (un)forced sale of the collateral, this is the total loss namely Loss Given Default. The LGD is measured as a percentage of the exposure at default. Based on historical information, the average loss incurred in the event of default is estimated.

5 Relates to customers who were at least one month in arrears or in default at least once in the last 12 months but who have now recovered (i.e. who have paid the missed payments and now mortgage payments on time).

Each customer is allocated to a LGD rating bucket, which in turn is calibrated on a historically observed realised loss.

DOWNTURN LGD

In addition to determining the LGD based on current information, Downturn LGD is determined as input for calculating the RWA. The regulations specify that LGD estimates of internal models should be appropriate for an economic downturn, meaning that losses may be systematically higher under worse macroeconomic conditions than under 'normal' or average conditions. For the residential mortgages portfolio of the bank, downturn periods are determined. Based on these determined economic downturn periods, a downturn LGD is determined for each LGD bucket.

EAD AND CCF

The EAD is a calculation of the outstanding amount of a customer at the moment of default. For the products with a credit line a Credit Conversion Factor (CCF) is estimated for the relevant products. This model is based on historical credit line usage.

MARGIN OF CONSERVATISM

Next to the PD, LGD and CCF models, a Margin of Conservatism (MoC) framework is required to take into account model risk. A MoC framework has been developed, which includes model risks related to development data, model estimation and model performance. The relevant identified risks are quantified and lead to an MoC add-on for PD, LGD, Downturn LGD and CCF.

INTERNAL RATING PROCEDURE

The internal rating procedure for residential mortgages is based on various data elements such as Loan-to-Value, type of collateral and payment behaviour, ensuring that risk is correctly measured. The ratings are automatically assigned in the rating procedure. This rating procedure runs every month for the entire residential mortgages portfolio, including contractual obligations for future loans (quotations or signed offers). Regarding the latter category, not enough information is available on that specific reporting date to calculate the regular PD, LGD and CCF; for this reason the average portfolio values are substituted, internally known as standard values.

CONTROL MECHANISM FOR THE INTERNAL RATING SYSTEM

Model documentation

An internal guideline of de Volksbank is that the documentation of AIRB models must be of sufficient detail to allow an independent validation of the model. It must include a description of the data used for model development, the methods used (and the rationale for choosing those methods), all assumptions used in the model and the known strengths and weaknesses of the model. Furthermore the documentation should include an assessment of compliance with relevant legislation and regulations.

Initial and periodic model validation
All new or revised models are subject to a thorough validation process before the external approval process by the supervisor commences. Model Validation (MV) examines the model's methodological development, the data used for model development, the model performance, the assumptions made during model development and whether the model can be used for calculating RWA. The examination by MV results in a validation report and accompanying advice.

MV also subjects the model to an annual review. Just like the model monitoring process (see below), this review is used to determine the extent to which the model is still performing in line with expectations, as well as whether the changes in model performance require a model adjustment.

Internal Model approval process
MV is an independent team that reports directly to the Model Governance Committee (MGC), which is chaired by the CRO. This prevents model owners and/or model co-owners from using their position in the hierarchy to influence the validation process or its results.

De Volksbank has adopted clear rules for the model approval process. The model owners submit the risk models to the MGC for approval, and the Credit Committee is also given the opportunity to examine the models' impact and decide on the timing of their implementation.

The MGC ensures that the model building and approval processes are followed and the various models are consistent.

After MV has issued its advice and the MGC has given a positive decision, the model is assessed for materiality of model change. If the change is determined to be material, the model is submitted for supervisory approval. In the case of a material model change, the model can only be deployed after external approval.

Model monitoring
After the model has been approved and implemented, the second-line risk management department (CMO-CRCU) performs a model monitoring process on a quarterly basis with the aim of assessing whether the model's predictive and explanatory power is still sufficient. The process includes an explicit review by the CMO-CRCU of the model's projections as compared to actual performance. If CMO-CRCU finds a significant difference between the projections and actual performance, the cause is investigated and the need for a model adjustment is assessed. In this case, the model monitoring may lead to an early model review requested by MGC.

Audit
Audit has a standard invitation to MGC meetings and always receives the model validation reports, based on which it may commence an additional procedure.

Supervisory authority
Our AIRB models are also assessed by the supervisory authority: at the start of AIRB application, after a material change, and through Internal Model Investigations (IMIs). De Volksbank must act on the Supervisory Authority's findings, either immediately or in a subsequent model iteration. To address the findings of the Supervisory Authority as well as to implement the new regulations on PD and LGD estimation (issued by European Banking Authority), the AIRB model is redeveloped and submitted to the Supervisory Authority for their assessment.

In their assessment, the Supervisory Authority assesses the degree of compliance with legislation and regulations, the modelling techniques used and the model's applicability to the portfolio concerned. Based on findings, if any, the Supervisory Authority may give instructions, demand adjustments or even impose sanctions.

In October 2021, de Volksbank was given permission to use its updated AIRB model RegCap PHIRM to calculate the capital requirement of its mortgage portfolio. It consists of models for PD, (Downturn) LGD and CCF. The model calculates the likelihood of a customer running into payment problems within one year and the (un)expected losses resulting for the bank. We use the results to determine the RWA of the residential retail mortgage portfolio. They also serve as input for the management process and internal risk reports.

OTHER USES
Internal rating models are used to determine the LGD, the downturn LGD and the PD and calculate the RWA from these. Next to being used for regulatory capital calculations, the PD and LGD estimates play an essential role in the following processes:
- Input for regulatory and internal Stress tests;
- Collection processes, early and late collections;
- Input for determining Economic Capital;
- Pricing;
- Portfolio management.

To determine IFRS 9 provisions de Volksbank has developed a separate IFRS 9 ECL model, using methodology comparable to our AIRB models and compliant to IFRS 9 regulations.

EXPECTED CREDIT LOSS ADJUSTMENT FOR THE AIRB APPROACH
The available capital for the potential differences between the loss expected under the CRR/CRD IV guidelines and the actual IFRS 9 provision for the related AIRB exposures is adjusted. A negative difference arises when the loss expected according to the CRR/CRD IV guidelines exceeds the IFRS 9 provision, creating an AIRB shortfall. Based on the CRR/CRD IV rules, the shortfall is subtracted from the available Common Equity Tier 1 capital. If the difference is positive (the provision is higher than the expected loss), this surplus is added to Tier 2 capital, taking into account certain regulatory restrictions.

7.4.2 Quantitative information regarding the use of the AIRB-approach

De Volksbank avails itself of an Advanced Internal Ratings Based (Advanced IRB or AIRB) model called PHIRM to determine the credit risk in its residential mortgage portfolio. For more information regarding the (management of the) residential mortgage portfolio see also Section 3.3.2 Management and control and 3.3.5 Residential mortgages in the annual report.

The following table presents the breakdown of the residential mortgages portfolio by PD scale.

EU CR6 – AIRB approach – Credit risk exposures by exposure class and PD range 2021[1]

A-IRB	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposure class Retail - Secured by immovable property non-SME													
	0.00 to <0.15	17,818	355	1.0	18,172	0.11%	141,126	16.95%	--	816	4.49%	3	-2
	0.00 to <0.10	*--*	*--*	*--*	*--*	*0.00%*	*--*	*0.00%*	*--*	*--*	*--*	*--*	*--*
	0.10 to <0.15	*17,818*	*355*	*1.0*	*18,172*	*0.11%*	*141,126*	*16.95%*	*--*	*816*	*4.49%*	*3*	*-2*
	0.15 to <0.25	24,423	302	1.0	24,725	0.22%	104,211	18.37%	--	2,069	8.37%	10	-12
	0.25 to <0.50	--	--	--	--	0.00%	--	0.00%	--	--	--	--	--
	0.50 to <0.75	1,563	14	1.0	1,578	0.51%	6,220	22.62%	--	299	18.94%	2	-6
	0.75 to <2.50	1,642	1,438	1.0	3,079	1.38%	12,670	25.53%	--	1,284	41.70%	11	-6
	0.75 to <1.75	*1,526*	*1,437*	*1.0*	*2,962*	*1.36%*	*12,094*	*25.79%*	*--*	*1,239*	*41.84%*	*10*	*-5*
	1.75 to <2.5	*116*	*1*	*1.0*	*117*	*1.92%*	*576*	*18.93%*	*--*	*45*	*38.28%*	*--*	*-1*
	2.50 to <10.00	1,024	163	1.0	1,186	6.25%	3,422	18.94%	--	862	72.61%	14	-15
	2.5 to <5	*235*	*1*	*1.0*	*236*	*3.45%*	*993*	*19.01%*	*--*	*129*	*54.39%*	*2*	*-2*
	5 to <10	*788*	*162*	*1.0*	*950*	*6.94%*	*2,429*	*18.92%*	*--*	*733*	*77.14%*	*12*	*-13*
	10.00 to <100.00	355	50	1.0	406	16.78%	1,149	20.86%	--	441	108.67%	14	-21
	10 to <20	*284*	*47*	*1.0*	*331*	*11.92%*	*846*	*20.63%*	*--*	*349*	*105.51%*	*8*	*-15*
	20 to <30	*40*	*2*	*1.0*	*42*	*24.88%*	*153*	*21.51%*	*--*	*55*	*132.34%*	*2*	*-3*
	30.00 to <100.00	*32*	*1*	*1.0*	*33*	*55.31%*	*150*	*22.39%*	*--*	*36*	*110.46%*	*4*	*-2*
	100.00 (Default)	533	6	1.0	539	100.00%	2,605	18.23%	--	469	87.04%	98	-16
	Subtotal (exposure class)	47,357	2,327	1.0	49,685	1.62%	271,403	18.46%	--	6,240	12.56%	153	-79
	Total (all exposures classes)	**47,357**	**2,327**	**1.0**	**49,685**		**271,403**		**--**	**6,240**	**12.56%**	**153**	**-79**

1 Including the Margin of Conservatism and Trim obligations.

De Volksbank uses the Advanced Internal Ratings-Based (AIRB) approach for the residential mortgages and securitisation exposure classes. At the moment, de Volksbank has no intention of reporting other exposures classes under the AIRB approach.

The table above only includes residential mortgages. The securitisations are addressed in table EU_SEC1 to EU_SEC5 of these Pillar 3 disclosures. In 2021 RWA for the credit risk of the residential mortgage portfolio, calculated according to the AIRB Approach, increased by € 343 million due to the growth of the mortgage portfolio and the update of the AIRB model. The average risk weighting of residential mortgages declined slightly to 12.6% from 12.7% at year-end 2020. The impact of the AIRB model update was compensated by a further improvement of the credit quality of our customers. The EAD of the residential mortgage portfolio grew from € 46.4 billion to € 49.7 billion. € 1.6 billion of this total increase of € 3.3 billion is related to mortgage savings deposits which are no longer subtracted from the EAD and included in the LGD estimate now due to the update of the PHIRM model.

De Volksbank does not apply F-IRB to credit risk exposures. Therefore, template EU CR6 for F-IRB approach is not applicable and therefore not included in this report.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

EU CR6 – AIRB approach – Credit risk exposures by exposure class and PD range 2020[1]

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and pro-visions
Exposure class Retail - Secured by immovable property non-SME												
0.00 to <0.15	11,545	177	1.0	11,722	0.08%	109,084	6.58%	--	171	1.46%	0.7	
0.15 to <0.25	8,542	86	1.0	8,628	0.23%	50,306	9.78%	--	404	4.68%	2.0	
0.25 to <0.50	10,070	141	1.0	10,210	0.35%	47,196	12.60%	--	822	8.05%	4.5	
0.50 to <0.75	7,297	169	1.0	7,467	0.51%	28,291	18.16%	--	1,141	15.29%	7.0	
0.75 to <1.25	3,376	69	1.0	3,445	0.86%	15,210	18.49%	--	764	22.19%	5.5	
1.25 to <1.50	1,187	1,245	1.0	2,432	1.42%	12,992	16.95%	--	690	28.38%	5.9	
1.50 to <3.50	562	5	1.0	567	1.94%	2,633	21.36%	--	246	43.44%	2.4	
3.50 to <10.0	1,047	6	1.0	1,053	5.88%	5,303	14.87%	--	582	55.24%	9.3	
10.0 to <25.0	220	2	1.0	222	15.19%	990	16.16%	--	200	90.09%	5.5	
25.0 to <100	388	1	1.0	390	34.05%	1,744	16.40%	--	376	96.49%	22.1	
100.00 (Default)	290	3	1.0	293	100.00%	1,319	11.66%	--	500	170.63%	34.2	
Total (all portfolios)	**44,524**	**1,905**	**1.0**	**46,429**	**1.51%**	**275,068**	**12.32%**	**--**	**5,897**	**12.70%**	**98.8**	**-110**

1 Including the Margin of Conservatism and Trim obligations.

EU CR6-A – Scope of the use of AIRB and SA approaches 2021

	In € millions	Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposurevalue subject to a roll-out plan (%)
		a	b	c	d	e
1	Central governments or central banks	-	16,243	100%	0%	0%
1.1	*Of which Regional governments or local authorities*		712	100%	0%	0%
1.2	*Of which Public sector entities*		1,184	100%	0%	0%
2	Institutions	-	4,553	100%	0%	0%
3	Corporates	-	1,508	100%	0%	0%
3.1	*Of which Corporates - Specialised lending, excluding slotting approach*		-	100%	0%	0%
3.2	*Of which Corporates - Specialised lending under slotting approach*		-	100%	0%	0%
4	Retail	48,090	49,455	2.76%	97.24%	0%
4.1	*of which Retail – Secured by real estate SMEs*		715	100%	0%	0%
4.2	*of which Retail – Secured by real estate non-SMEs*		48,102	0%	100%	0%
4.3	*of which Retail – Qualifying revolving*		455	100%	0%	0%
4.4	*of which Retail – Other SMEs*		184	100%	0%	0%
4.5	*of which Retail – Other non-SMEs*		455	100%	0%	0%
5	Equity	-	12	100%	0%	0%
6	Other non-credit obligation assets	-	242	100%	0%	0%
7	**Total**	**48,090**	**72,013**	**33.22%**	**66.78%**	**0.00%**

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures for Q1 2021 are not included.

Because de Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk, template EU CR7 AIRB approach – Effect on the RWAs is not applicable and therefore not included in this report.

EU CR7-A – AIRB approach – Disclosure of the extent of the use of CRM techniques 2021

	A-IRB	Total exposures	Credit risk Mitigation techniques						Credit risk Mitigation methods in the calculation of RWEAs	
			Funded credit Protection (FCP)					Unfunded credit Protection (UFCP)		
			Part of exposures covered by Financial Collaterals (%)	Part of exposures covered by Other eligible collaterals (%)	Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Other funded credit protection (%)	Part of exposures covered by Instruments held by a third party (%)	Part of exposures covered by Guarantees (%)	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)
		a	b	c	d	g	j	k	m	n
1	Central governments and central banks	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-	-	-
3	Corporates	-	-	-	-	-	-	-	-	-
3.1	*Of which Corporates – SMEs*	-	-	-	-	-	-	-	-	-
3.2	*Of which Corporates – Specialised lending*	-	-	-	-	-	-	-	-	-
3.3	*Of which Corporates – Other*	-	-	-	-	-	-	-	-	-
4	Retail	49,685	3.66%	0.00%	97.92%	0.00%	0.00%	22.17%	6,240	6,240
4.1	*Of which Retail – Immovable property SMEs*	-	-	-	-	-	-	-	-	-
4.2	*Of which Retail – Immovable property non-SMEs*	49,685	3.66%	0.00%	97.92%	0.00%	0.00%	22.17%	6,240	6,240
5	**Total**	**49,685**	**3.66%**	**0.00%**	**97.92%**	**0.00%**	**0.00%**	**22.17%**	**6,240**	**6,240**

This table shows that the majority of our IRB exposures at 31-12-2021 was covered by eligible collateral consisting of mainly immovable property and guarantees. De Volksbank only uses collateral and guarantees as credit risk mitigation technique for its IRB retail portfolio and that do not lead to substitution effects.

De Volksbank does not apply F-IRB to credit risk exposures. Therefore, template CR7-A for F-IRB approach is not applicable and therefore not included in this report. Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures previous year are not included.

EU CR8 – RWEA flow statements of credit risk exposures under the AIRB approach 2021

		Risk weighted exposure amount
	in € million	a
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**5,682**
2	Asset size (+/-)	115
3	Asset quality (+/-)	-268
4	Model updates (+/-)	452
5	Methodology and policy (+/-)	260
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	-
8	Other (+/-)	-
9	**Risk weighted exposure amount as at the end of the reporting period**	**6,240**

This table includes the RWEA flow statement from 30 June 2021 to 31 December 2021.

The method to attribute the changes in RWEA to asset size and asset quality has been updated from the first quarter of 2021. Changes in RWEA due to organic changes in book size are included in asset size. Asset quality includes RWEA changes due to changes in borrower risk, such as changes in obligor grade or pool.

The increase in RWEA of € 260 million due to Methodology and Policy concerns de implementation a uniform definition of default (DoD) for all credit exposures of de Volksbank, which has been aligned to the Regulatory Capital CRR Article 178.

The RWEA flow due to Model Updates of € 452 million is a result of the implementation of the updated AIRB model RegCap PHIRM.

EU CR8 – RWEA flow statements of credit risk exposures under the AIRB approach 2020

		Risk weighted exposure amount
	in € million	a
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**5,932**
2	Asset size (+/-)	-
3	Asset quality (+/-)	-146
4	Model updates (+/-)	-
5	Methodology and policy (+/-)	111
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	-
8	Other (+/-)	-
9	**Risk weighted exposure amount as at the end of the reporting period**	**5,897**

BACKTESTING

As part of the quarterly monitoring process, a backtest is conducted to determine the extent to which the model's projections match actual performance within the portfolio. A major point of focus is that estimates in the model are based not only on recent developments but especially also on longer periods of observation. The PD model's backtest shows that the model delivers a stable projection for the various years that is in line with the model's purpose: to provide a 'Through the Cycle' probability of default. Note that the mortgages that are part of the formerly acquired DBV portfolio and the mortgage offers are not included in these backtesting results. Also note that the backtest of the PD's is excluding the Margin of Conservatism and the TRIM/IMI limitation on PD.

The following table shows the predicted PD of 2021 and shows the actual defaults of calendar year 2021. A decrease in defaults is observed for most PD buckets due to the run-out effects of Covid-19 of 2020. It is in line with our expectation that the observed 5 years default rate in 2021 remains below the level of the 'Through the Cycle' model prediction at year-end 2021.

CR9 – AIRB approach – Back-testing of PD per exposure class (fixed PD scale) 2021

Exposure class	PD range	Number of obligors at the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)[1]
a	b	c	d	e	f	g	h
Retail -	0.00 to <0.15	109,083	61	0.06%	0.11%	0.08%	0.07%
Secured	*0.00 to <0.10*	109,083	61	0.06%	0.00%	0.08%	0.07%
by	*0.10 to <0.15*	-	-	0.00%	0.11%	0.00%	0.00%
immovable	0.15 to <0.25	50,306	40	0.08%	0.22%	0.23%	0.13%
property	0.25 to <0.50	47,197	52	0.11%	0.00%	0.35%	0.20%
non-SME	0.50 to <0.75	28,291	68	0.24%	0.51%	0.51%	0.34%
	0.75 to <2.50	17,843	108	0.60%	1.38%	1.02%	0.85%
	0.75 to <1.75	15,210	82	0.54%	1.36%	0.87%	0.73%
	1.75 to <2.5	2,633	26	0.99%	1.92%	1.94%	1.46%
	2.50 to <10.00	5,303	106	2.00%	6.25%	5.76%	3.25%
	2.5 to <5	2,582	34	1.32%	3.45%	3.70%	2.32%
	5 to <10	2,721	72	2.65%	6.94%	7.72%	4.13%
	10.00 to <100.00	2,734	451	16.50%	16.78%	26.83%	17.14%
	10 to <20	990	74	7.47%	11.92%	15.19%	9.45%
	20 to <30	1,186	182	15.35%	24.88%	26.04%	15.48%
	30.00 to <100.00	558	195	34.95%	55.31%	49.14%	31.93%
	100.00 (Default)	1,300	-	0.00%	100.00%	100.00%	0.00%

1 5 year average historical default rate.

Due to the new CRR 2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

CR9 – AIRB approach – Back-testing of PD per exposure class (fixed PD scale) 2020

a	b	c	d	e	f		g	h	i
Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new defaulted obligors	Average historical annual default rate[1]
					End of previous year	End of the year			
Retail -	0.00 to <0.15		0.074	0.074	106,863	109,084	129	-	0.07
Secured	0.15 to <0.25		0.205	0.205	46,392	50,306	115	1	0.15
by	0.25 to <0.50		0.306	0.306	52,771	47,196	221	5	0.22
immovable	0.35 to <0.50								
property	0.50 to <0.75		0.450	0.450	31,608	28,291	230	5	0.35
non-SME	0.75 to <1.25		1.715	1.715	17,483	15,210	228	-	1.64
	1.25 to <1.50								
	1.50 to <1.75								
	1.50 to <3.50		1.702	1.702	3,573	2,633	96	1	1.47
	3.50 to <10.0		10.008	10.008	5,461	5,303	381	-	6.67
	10.0 to <15.0								
	10.0 to <25.0		13.319	13.319	833	990	142	1	9.07
	25.0 to <100		65.908	65.908	1,765	1,744	422	24	45.59
	100.00 (Default)				928	1,319			

1 5 year average historical default rate.

8 Counterparty credit risk

8.1 Qualitative disclosure regarding CCR

METHODOLOGY

Pillar 1 method for counterparty credit risk

We use the market value of the derivatives and an 'add-on' to establish the EAD of the counterparty credit risk on derivative positions. The 'add-on' is a charge to factor in potential future counterparty credit risks. We determine this add-on charge on the basis of the type of contract, the remaining maturity and the underlying value or principal of the contract.

OFFSETTING AND COLLATERAL

Offsetting

The bank offsets financial assets and liabilities and reports the net amount on the balance sheet if there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. There is an enforceable right to offset provided it is not dependent on a future event and is legally enforceable under normal circumstances as well as bankruptcy. If these conditions are not met, amounts will not be offset.

Mitigation of counterparty credit risk exposure

De Volksbank enters into money and capital market transactions with various financial institutions. This also includes derivative transactions for the hedging of interest rate and currency risks. Here, the bank runs the risk that the counterparty to a transaction defaults before the final settlement of the cashflows associated with the transaction has taken place.

To mitigate the counterparty risk, de Volksbank concluded International Swaps and Derivatives Association (ISDA) Master Agreements with these institutions entailing, among other things, that if the counterparty remains in default, all derivative transactions may be terminated and netted within the netting set defined in the ISDA, with only a net claim or commitment in respect of the counterparty remaining.

In this respect, we determine the collateral required on a regular, frequent basis (generally daily), i.e. the net market value of the outstanding derivative transactions, which we subsequently receive (or must pay) pursuant to the Credit Support Annex (CSA) following a notification (margin call) to or from the counterparty.

Both counterparty risk mitigating measures have the effect of reducing the EAD calculation according to the CRR/CRD IV rules.

In addition to CSAs, de Volksbank uses central clearing of OTC[6] derivative transactions to shift counterparty risk to the central counterparty (CCP) in order to mitigate this risk.

A CCP is a legal entity that positions itself between the counterparties to an OTC contract, thus becoming the buyer for the OTC seller and the seller for the OTC buyer[7]. Given the daily settlement by the CCP of the counterparties' market value commitments, as well as the initial and variation margin requirements, to be paid to the CCP by the counterparties, this central clearing has the effect of reducing the EAD calculation. The exposures are recognised under the categories Institutions and Corporates and have a RWA risk weight depending on how the CCP has separated the collateral from the exposures and collateral of other CCP clients and clearing members.

Other risk-mitigating measures taken by de Volksbank include the following:

- Daily checks to determine whether the fair value development of derivative positions with collateral arrangements is proportionate to the collateral received or to be provided;
- Settlement of forward exchange transactions via the Continuous Linked Settlement system, a global system that limits settlement risk by means of the 'payment versus payment' method and payment netting;
- Continuous monitoring to assess whether the assets available still meet the requirements to serve as collateral;
- Assessment of the fair value of the collateral received to ensure that it provides adequate cover for the underlying derivative.

De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.

CREDIT VALUATION ADJUSTMENT

The Credit Valuation Adjustment (CVA) is defined as the risk to losses as a result of a deterioration in credit worthiness of a derivative counterparty.

The market value of derivatives with counterparties is determined based on the underlying value-determining factors, such as interest rates for interest rate swaps. If the credit quality of a counterparty of an interest rate swap deteriorates, a higher interest rate (or credit spread) must be used in the valuation, due to which the valuation changes.

CRR/CRD IV requires that an RWA be determined for CVA, as a result of a deterioration in the credit quality of the derivative counterparties.

De Volksbank applies the standardised method for determining RWA for CVA in accordance with CRR, article 384.

6 OTC: Over The Counter, i.e. a bilateral agreement/trade between two counterparties not effected via a formal stock exchange (such as NYSE or Euronext).

7 See also EU Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 (Article 2(1)).

WRONG-WAY RISK

Wrong-way risk pertains to the unfavourable relation between the creditworthiness of the counterparty and the exposure to the counterparty if the creditworthiness deteriorates and the exposure increases simultaneously. We distinguish between general wrong-way risk and specific wrong-way risk. General wrong-way risk pertains to situations in which general market conditions or macroeconomic factors are the cause. Examples of this are decreasing interest rates and companies in distress, deteriorating economic conditions. If companies in distress had concluded interest rate swaps with a bank (had hedged the interest rate risk by paying a fixed interest rate and receiving a floating interest rate), the market value (i.e. the exposure) of the swap would rise for the bank in case of falling interest rates. After all, the bank received the fixed interest rate and paid an increasingly lower floating interest rate. Specific wrong-way risk pertains to the situation in which the unfavourable relation is more direct and is actually inherent in (the execution of) the transaction itself. An example of this type of risk is a put option with a bank's stock being the underlying asset, in which the counterparty to the transaction is a subsidiary of the same bank. De Volksbank primarily transacts 'plain-vanilla' interest rate and currency derivative transactions, which are mostly settled centrally at a CCP or fall under ISDA/CSA conditions with daily collateral settlement. We thus minimise counterparty credit risk exposure and therefore also any possible wrong-way risk exposure.

POTENTIAL COLLATERAL DEPOSIT

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 196 million with counterparties. We include this potential collateral deposit as an outflow in the LCR and the combined severe liquidity stress test.

8.2 Quantitative disclosure regarding CCR

EU CCR1 – Analysis of CCR exposure by approach 2021[1]

		a	b	c	d	e	f	g	h
	In € millions	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	--	--		1.4	--	--	--	--
EU-2	EU - Simplified SA-CCR (for derivatives)	--	--		1.4	--	--	--	--
1	SA-CCR (for derivatives)	62	173		1.4	364	329	329	150
6	**Total**					**364**	**329**	**329**	**150**

1 This table excludes all counterparty credit risk exposures cleared through a CCP. Counterparty credit risk exposures cleared through a CCP are included in EU CCR8.

De Volksbank uses the Standardised approach for counterparty credit risk. The simplified method for calculating the exposure value of derivatives according to Article 273a of CRR is not used.

This table excludes all counterparty credit risk exposures cleared through a CCP. Counterparty credit risk exposures cleared through a CCP are included in EU CCR8.

The increase in RWEA is mainly caused by the SA-CCR implementation in the CRR2.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

EU CCR1 – Analysis of CCR exposure by approach 2020[1]

		a	b	c	d	e	f	g
	in € millions	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		101	174	--	--	275	110
11	**Total**							**110**

1 This table excludes all counterparty credit risk exposures cleared through a CCP. Counterparty credit risk exposures cleared through a CCP are included in EU CCR8.

EU CCR2 – CVA capital charge 2021

	in € millions	a Exposure value	b RWEA
1	Total transactions subject to the Advanced method	--	--
2	(i) VaR component (including the 3× multiplier)		--
3	(ii) stressed VaR component (including the 3× multiplier)		--
4	Transactions subject to the Standardised method	322	75
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	--	--
5	**Total transactions subject to own funds requirements for CVA risk**	**322**	**75**

De Volksbank applies the standardised method for determining RWA for CVA in accordance with CRR, article 384.

The increase in RWEA is mainly caused by the SA-CCR implementation in the CRR2.

EU CCR2 – CVA capital charge 2020

	in € millions	a Exposure value	b RWEA
1	Total transactions subject to the Advanced method	--	--
2	(i) VaR component (including the 3× multiplier)		--
3	(ii) stressed VaR component (including the 3× multiplier)		--
4	Transactions subject to the Standardised method	268	70
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	--	--
5	**Total transactions subject to own funds requirements for CVA risk**	**268**	**70**

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk 2021

	in € millions	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
6	Institutions	-	164	141	-	63	209	-	-	-	-	-	577
7	Corporates	-	-	-	-	-	47	-	-	9	-	-	56
11	**Total exposure value**	**-**	**164**	**141**	**-**	**63**	**256**	**-**	**-**	**9**	**-**	**-**	**633**

The increase in RWEA is mainly caused by the SA-CCR implementation in the CRR2.

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk 2020

	in € millions	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
6	Institutions	3	96	35		99	164	-		-	-		397
7	Corporates	-	-	-	-	-	-	-		8	-		8
11	**Total**	**3**	**96**	**35**	**-**	**99**	**164**	**-**	**-**	**8**	**-**	**-**	**405**

EU CCR5 – Composition of collateral for CCR exposures 2021

in € millions	Collateral type	a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	47	45	467	123	-	-	-	-
3	Domestic sovereign debt	-	-	51	-	-	-	-	-
4	Other sovereign debt	-	-	251	79	-	-	-	-
9	**Total**	**47**	**45**	**769**	**202**	**-**	**-**	**-**	**-**

The total fair value of posted collateral decreased due to lower margin requirements.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

EU CCR5-B – Composition of collateral for CCR exposures 2020

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
in € millions	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Derivatives	--	206	1,523	497	--	--
Repurchase agreements	--	--	--	--	--	--
Total	**--**	**206**	**1,523**	**497**	**--**	**--**

EU CCR8 – Exposures to CCPs 2021

		a	b
	in € millions	Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**12**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	305	9
3	(i) OTC derivatives	305	9
7	Segregated initial margin	414	
8	Non-segregated initial margin	79	3
11	**Exposures to non-QCCPs (total)**		-

Where possible, the bank concludes derivative transactions with financial institutions using clearing via a central counterparty (CCP). Exceptions are transactions that are not supported by a CCP or very short-term transactions entailing extremely high costs of central clearing.

The increase in CCR exposure value is mainly caused by the SA-CCR implementation in the CRR2. Furthermore, part of the segregated initial margin posted to CCPs has been reclassified to non-segregated initial margin.

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, comparative figures templates differ from the current reporting year.

EU CCR8 – Exposures to CCPs 2020

		a	b
	in € millions	EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**		**3**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	131	3
3	(i) OTC derivatives	131	3
7	Segregated initial margin	518	
11	**Exposures to non-QCCPs (total)**		-

9 Securitisation

9.1 Qualitative disclosure requirements related to securitisation exposures

De Volksbank acts as originator and investor to securitisation positions. As originator, we have securitised part of our residential mortgage loan portfolio to obtain funding and to improve liquidity. As investor, we hold a relatively small portfolio of third-party securitisation notes in our banking book. De Volksbank does not hold any securitisation positions in its trading book.

DE VOLKSBANK AS ORIGINATOR

By the end of 2021, de Volksbank securitised residential mortgages in the amount of € 11.6 billion (2020: € 12.1 billion). We only securitise residential mortgages that we originated. In securitisation transactions, the beneficial and legal title of the residential mortgages is transferred to separate entities, which are referred to as Special Purpose Vehicles (SPVs).

There are three reasons for securitising residential mortgages:

- Funding: securitisation is a funding instrument that broadens and diversifies our funding base;
- Lower capital charges: securitisation of residential mortgages enables us to reduce the risk-weighted assets;
- Liquidity: by securitising residential mortgages we create new assets that may be used as collateral.

De Volksbank does not have any re-securitisation activities, nor does it perform securitisation programmes for third parties. We securitise residential mortgages under two different programmes: Pearl and Lowland.
The purpose of the Pearl programme is funding. The Lowland transactions are set up for liquidity purposes.

Part of the senior tranches of Pearl and Lowland as a whole are held for own account and qualify as eligible assets at the European Central Bank. The securitisation programmes have all been originated before the introduction of the new Securitisation Regulation which includes a specific framework for Simple, Transparent and Standardised (STS) securitisations. The Pearl and Lowlands programmes outstanding are not designated as STS securitisations.

No synthetic securitisations – transactions in which it is not the assets that are transferred but merely the associated credit risks – were outstanding for de Volksbank in 2021.

An overview of the securitisations originated by de Volksbank and included in the regulatory scope of consolidation as at 31 December 2021 is provided below:

	Initial principal	Start of securitisation	Book value		First call-option date	Contractual expiration
in € millions			**2021**	**2020**		
PEARL Mortgage Backed Securities 1 B.V.	1,014	09-2006	422	511	18-09-2026	18-09-2047
Lowland Mortgage Backed Securities 4 B.V.	4,114	02-2017	3,609	4,098	18-02-2022	18-02-2054
Lowland Mortgage Backed Securities 5 B.V.	5,027	05-2018	5,022	5,016	18-05-2023	18-05-2055
Lowland Mortgage Backed Securities 6 B.V.	2,500	10-2018	2,497	2,496	18-10-2023	18-10-2055
Total	**12,655**		**11,550**	**12,121**		
On own book			-11,206	-11,688		
Total			**344**	**433**		

In 2021 de Volksbank has not set up any new securitisation transactions.

There are no legal entities affiliated with de Volksbank that invest in securitisations originated by de Volksbank.

DE VOLKSBANK AS INVESTOR

By the end of 2021, de Volksbank held a portfolio of senior tranches in third-party residential mortgage backed securities of € 107 million (2020: € 95 million). De Volksbank has not invested in re-securitisation positions.

RISKS

In the context of the securitisation programmes where de Volksbank acts as originator, we recognise several types of risk, including credit risk, interest rate risk and liquidity risk.

The credit risk from the securitisation programmes pertains to the possible credit losses on the underlying residential mortgages. In the Pearl 1 and Lowland transactions, de Volksbank retains the credit risk of the underlying mortgages in full or in part. In these cases, the underlying mortgages are weighted based on the internal risk model (AIRB).

There is also counterparty risk in respect of counterparties with which risks are hedged in swap transactions. See the explanation of the interest rate risk below, which includes a description of the background of the swap transactions. The credit and counterparty risks are managed in the regular control processes for mortgages, counterparty risk and balance sheet management.

De Volksbank holds the interest rate risk of the residential mortgages in the Pearl programme securitised by it on the balance sheet. The SPVs hedged the interest rate risk of the securitisation programme with interest rate swaps, which have been concluded with third parties. We concluded back-to-back swaps with these third parties. The interest rate risk of the other back-to-back swaps is included in the regular process of managing the balance sheet. The Lowland transactions are an exception. These transactions do not include any interest rate swaps, but we still bear the interest rate risk because these notes are on our balance sheet.

The liquidity risk of de Volksbank's own securitisation positions pertains to the possible cash outflows. This has to do with its role of liquidity provider and the possible deposit of cash collateral in swap transactions. The impact on the liquidity position is included in the regular process of liquidity management. See Sections 3.3, 3.4 and 3.6 in the annual report for an explanation of the regular processes for credit-, interest- and liquidity risks.

Where de Volksbank acts as investor, the risks of positions in securitisations of third parties mainly pertain to credit risk of default on the underlying mortgages. We are limiting this risk by purchasing tranches of the highest seniority, the so-called A notes, and we are also monitoring the investor reports of these transactions.

ROLES

De Volksbank plays various roles in its own securitisation programmes. As 'originator' we granted the underlying residential mortgages. In addition, we are active as 'arranger': we structure the transaction and conduct negotiations with the rating agencies. We coordinate the documentation on the transaction together with our legal advisor. As 'manager' we are co-responsible for placing securities with institutional investors, for which purpose we work together with other financial institutions.

De Volksbank can also (indirectly) act as swap counterparty for the interest rate risk management of the SPV. The SPV concluded an interest rate swap with a third party that, in turn, concludes a fully offsetting transaction for the swap with us. Consequently, we do not play a role as swap counterparty in the swap transactions of the SPV itself. The Lowland securitisation programme does not comprise swaps.

As 'servicer' we are responsible for the daily operational management of the underlying residential mortgages. We set up a foundation that is in charge of collecting the principal and interest payments: 'Stichting Hypotheken Incasso'. The foundation is responsible for the collection of the various mortgage payments and transfers these amounts to the relevant SPVs.

Our support of the securitisation programmes does not extend beyond our contractual obligations, nor do we act as a programme sponsor.

Following table shows the roles that de Volksbank plays in the different securitisation programmes.

Roles in securitisation programmes

Programme name	Originator	Arranger	Manager	Servicer	Swap CP (indirect)
Pearl	x	x	x	x	x
Lowland	x	x	x	x	

POLICY & PROCESSES

Risk management is applied on the residential mortgages in the securitisation programmes. The interest rate and liquidity risks of these mortgages fall under the regular process for balance sheet management. See also Section 10.2 Interest rate risk not included in the trading portfolio of this report, where we explain the interest rate risk outside the trading book.

The credit risk is included in the regular process for monitoring mortgage loans. This process does not distinguish between securitisation positions issued or retained. That is why we do not pursue separate policies to hedge the risks relating to (retained) securitisation positions.

De Volksbank Financial Markets conducts the operational management of the retained (unsold) or purchased securitisation positions within the mandate set by the Board of Directors.

The interests in securitisation positions of third parties are part of the investments by de Volksbank. Within the powers delegated to it, de Volksbank Financial

Markets is free to take positions and manage the risks of these investments.

ACCOUNTING POLICY FOR SECURITISATION

We do not have a separate loan book containing loans that may still be securitised. For each securitisation transaction, loans to be securitised are selected from the total pool of eligible loans. Partly for that reason, we do not have a different accounting policy or classification for loans that may be eligible for future securitisation transactions. In the securitisation transactions we initiated, we transferred the underlying loans to separate SPVs at nominal value. Our economic interest in the SPVs is expressed in several ways. First of all, in most SPVs we have a large or significant direct position in the notes issued by the SPV. The size of these positions differs for each securitisation programme and may also differ in each SPV within the various programmes. Furthermore, the securitisations entitle us to a deferred selling price that is not obtained until the SPV generates positive results during the transaction. This economic connection in combination with the other IFRS criteria shows that de Volksbank must be considered the entity that controls the SPVs. That is why we fully consolidate the SPVs in our consolidated financial statements. On de Volksbank's consolidated balance sheet, the securitisation positions of securitisations we initiated are limited to the SPVs' monetary balances and the derivative transactions that the SPVs concluded with third parties. These securitisation positions are measured on the balance sheet at amortised cost and fair value, respectively. The consolidated balance sheet also shows securitisation positions in which we are the investor. These are positions in notes issued by these SPVs. These notes are classified as part of the investments and are measured at fair value, with gains and losses being recognised directly in equity.

RATING AGENCIES

De Volksbank obtained credit ratings from the main credit rating agencies for its residential mortgages securitisations. The table below shows which credit ratings the rating agencies issued for the securitisation programmes active at year-end 2021.

Credit ratings securitisation programmes

Programme name	Moody's	Fitch
Pearl 1	x	x
Lowlands 4	x	x
Lowlands 5	x	x
Lowlands 6	x	x

REGULATORY TREATMENT FOR SECURITISATION

The regulatory scope of consolidation is the same as the IFRS scope of consolidation. For securitisations where de Volksbank acts as originator and no significant transfer of credit risk has occurred, the risk-weighted exposure is calculated for the underlying securitised mortgage loans using the internally developed AIRB model PHIRM. There is no significant transfer of credit risk for the Pearl and Lowland transactions.

For our investment in third-party securitisation positions we follow the hierarchy of RWA calculation approaches pursuant to CRR article 242 to 270e. Three RWA calculation approaches are distinguished: Internal Ratings-Based Approach (SEC-IRBA), Standardised approach (SEC-SA) and External Ratings-Based Approach (SEC-ERBA). We do not make use of the option provided for in CRR article 254 (3) to apply the SEC-ERBA instead of the SEC-SA to all securitisation positions for which an external credit rating is available or for positions in respect of which an inferred rating may be used. Following the prescribed hierarchy our third-party securitisation positions are risk weighted by the standardised approach (SEC-SA) and the external ratings-based approach (SEC-ERBA) as of the end of 2021. The new framework also introduces a specific framework for Simple, Transparent and Standardised (STS) securitisations. Under all approaches in the hierarchy, the risk weight for STS-compliant securitisations is subject to a preferential treatment. To determine regulatory capital under the SEC-ERBA, de Volksbank uses the following External Credit Assessment Institutions (ECAIs): Fitch Ratings, Moodys Investor Service and Standard & Poor's Rating Services.

As de Volksbank does not have any positions in an ABCP programme or ABCP transaction, there are no securitisation positions subject to the Internal Assessment Approach at the end of 2021.

9.2 Securitisation exposures

The tables below show explanatory figures pertaining to the securitised residential mortgages. These are exposures in the banking book. De Volksbank does not hold any securitisation positions in the trading portfolio.

The tables present, if applicable, the outstanding nominal values of de Volksbank’s own securitisation programmes plus the investment positions in third-party securitisations. De Volksbank's own securitisation programmes decreased as a result of regular redemptions in the programmes.

EU-SEC1 - Securitisation exposures in the non-trading book 2021

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS												
	In € millions		of which SRT		of which SRT		of which SRT		STS	Non-STS			STS	Non-STS		
1	**Total exposures**	**-**	**-**	**11,214**	**-**	**-**	**-**	**11,214**	**-**	**-**	**-**	**-**	**50**	**57**	**-**	**107**
2	Retail (total)	-	-	11,214	-	-	-	11,214	-	-	-	-	50	57	-	107
3	Residential mortgage	-	-	11,214	-	-	-	11,214	-	-	-	-	50	57	-	107
7	Wholesale (total)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor 2021

		a	b	f	g	h	j	k	l	n	o	EU-p
		Exposure values (by RW bands/ deductions)		Exposure values (by regulatory approach)			RWEA (by regulatory approach)			Capital charge after cap		
	In € millions	≤20% RW	>20% to 50% RW	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA
1	**Total exposures**	**90**	**17**	**-**	**67**	**40**	**-**	**13**	**7**	**-**	**1**	**1**
2	Traditional securitisation	90	17	-	67	40	-	13	7	-	1	1
3	Securitisation	90	17	-	67	40	-	13	7	-	1	1
4	Retail underlying	90	17	-	67	40	-	13	7	-	1	1
5	Of which STS	50	-	-	33	17	-	7	2	-	1	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

EU-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments 2021

		a	b	c
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
	In € millions		Of which exposures in default	
1	**Total exposures**	**11,558**	**19**	**1**
2	Retail (total)	11,558	19	1
3	Residential mortgage	11,558	19	1
7	Wholesale (total)	-	-	-

Due to the new CRR2 disclosure requirements regarding the Pillar 3 report, effective from Q2 2021, comparative figures are not included.

10 Market risk

10.1 Market risk qualitative disclosure

We use the standardised approach in CRD IV to calculate capital requirements for the trading book. At year-end 2021, the capital requirement for the market risk of debt securities was nil (2020: nil). The model covers interest rate risk and equity risk and is based on fixed risk weights. Given this insignificant exposure template "MR1 - Market risk under the standardised approach" is not included in this report.

CURRENCY RISK

We minimise currency risk by effecting most of our foreign currency exposures through the trading book, where currency risk is managed on a day-to-day basis. The portfolios that contain currency risk are part of the set of portfolios for which a 1-day VaR is calculated. These portfolios all have approved limits and are managed as such. We have hedged the remaining foreign currency risk in the banking book almost entirely with FX swaps. The equivalent of the total net foreign currency exposure of the banking book and trading book combined at the end of 2021 was € 3.3 million (2020: € 3.6 million).

In 2021, economic uncertainty related to the pandemic led to high liquidity positions at de Volksbank. This was mainly driven by retail customers who deposited more savings into their accounts. De Volksbank deposits its excess liquidity into its account at the European Central Bank at a rate of -0.50%. At the same time de Volksbank continuously investigates opportunities to optimise the return on its excess liquidity. The aforementioned economic uncertainty caused volatility in the short-term interest rates of currencies. The use of short-term currency swaps to manage excess liquidity resulted in a more positive return compared with the rate of the ECB. The volume of currency swaps is strongly related to the excess liquidity position. Short swap transactions fall within our risk parameters (VaR, Stress and Expected Shortfall) set for such activities by the ALCO. Transactions are only executed with counterparties approved by de Volksbank's Risk department and its Credit Committee. Controls are carried out continuously and reported on a daily basis. All transactions related to cash management are settled through the Continuously Linked Settlements system.

MARKET RISK IN THE TRADING BOOK

The trading book may contain exposure to interest rate risk, credit spread risk and currency risk. Credit spread risk is only permitted by means of bond exposure in the HTCS (Hold to Collect and Sale) banking book part of the liquidity portfolio. The bank does not trade in credit default swaps. Exposure to equities or equity risk instruments also falls outside the scope of our policy.

Market risk in the trading portfolio is measured on a daily basis by using Value at Risk (VaR), Expected Shortfall (ES) and stress testing indicators, which are used for internal monitoring and to specify limits. VaR, ES as well as the stress tests look ahead to the next day (one-day horizon), applying a confidence interval for VaR of 99% and for ES of 97.5%. Throughout the year, the total VaR limit for the trading book remained stable at € 2 million (2020: € 2 million), reflecting the relatively low risk profile of these activities in terms of size.

The VaR methodology is based on Monte Carlo simulations in which underlying probability distributions are based on historical data. In these simulations, the VaR models take account of interest rate risk and currency risk. Stress testing is based on 239 stress scenarios. The risk appetite for currency risk is also low. In addition to the Monte Carlo simulations, currency risk is managed on the basis of daily monitoring, thus ensuring that currency positions remain within their limits.

10.2 Interest rate risk not included in the trading portfolio

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk management aims to protect and generate stable net interest income. We achieve this goal by optimising the value of our interest cashflows. In the assessment and management of interest rate risks we take the following into account:

- anticipated prepayments on mortgage loans;
- anticipated early adjustments of mortgage rates;
- behavioural aspects of demand deposits;
- customer options in the products;
- effects of the current and anticipated interest rate environment;
- effects of interest rate developments that deviate from our expectations.

When managing the banking book's interest rate risk we focus on the interest income sensitivity to market rate movements. We measure the short to medium-term impact market rate movements by using the Earnings-at-Risk (EaR) methodology, and the long-term impact by using the Economic Value of Equity (EVE) methodology.

Short-term interest rate risk: EaR

To determine the EaR, we measure the change in income due to deviations from the expected interest rate development over a horizon of one year. Deviating interest rate scenarios are calibrated using statistical analysis, taking into account a floor for the market interest rate. This means that it is assumed that market interest rates will not fall below a certain level. For this floor, we assume a proportional movement of -1% for the overnight interest rate, up to 0% for interest rates of 20 years and longer in line with the EBA guidance.

Long-term interest rate risk: EVE

When applying the EVE methodology, we determine the economic value of all future incoming and outgoing cashflows based on current market rates. Duration of equity and basis point values per tenor are the key control measures of EVE sensitivity. Duration of equity is used to express the relative decrease in the EVE in the event of a parallel interest rate increase of 1%. The basis point values per tenor represent the sensitivity in euros to an interest rate shift at specific points on the yield curve, enabling us to identify sensitivity to non-parallel shifts in the market yield curve.

Key assumptions for modelling customer behaviour from an interest rate risk perspective the following customer options are relevant:

Customers have the option to fully or partially prepay mortgages before maturity. Typical examples of prepayments are when someone moves house, early renews a mortgage rate, or changes bank. A model is used to accurately estimate the probability of a mortgage prepaying in a certain month, given its loan characteristics and macro-economic circumstances. Important drivers are the number of houses being sold and the interest rate incentive for the customer e.g. is it beneficial given current mortgage rates to prepay.

Customers have the option during the application process of a mortgage to accept or reject an offer from the bank. The bank commits itself several months to a client rate without firm commitment from the customer. A model is used to estimate how many customers accept the offer and after how many months. This model is based on historical data.

Customers have the option to withdraw its balance on savings and/or current accounts without notice. The future client rate on these products is modelled using a replicating portfolio model. Important drivers are the historic development of yield curves, liquidity spread and client rates. A maximum maturity of 10 years is assumed for savings accounts and 15 years for current accounts. The average duration for the whole Non Maturing Deposits (NMD) portfolio is around 2,35, well below the regulatory cap of 5 year.

EBA guidelines

De Volksbank is partially non-compliant with the EBA guidelines on IRRBB. Full compliance is considered a high priority and progress is regularly monitored internally and discussed in the relevant committees.

Credit spread risk

At year-end 2021, the credit spread risk for Hold to Collect and Sale (HTCS) and Hold to Collect (HTC) liquidity portfolios, amounted to € 148 million and € 93 million respectively (2020: € 118 million and € 88 million). The increase in the credit risk spread was largely due to the greater size of this portfolio for both HTC and HTCS to manage excess liquidity.

MARKET RISK EXPOSURE TRADING AND NON-TRADING RISK

The overview below presents the balance sheet broken down by the risks associated with the banking book and the trading book. It shows that de Volksbank, in view of its activities, is particularly sensitive to the market interest rate risk in the banking book.

Market risk exposure trading and non-trading risk

in € millions	Carrying amount	Market risk measure		Carrying amount	Market risk measure		Primary risk sensitivity
		Non-trading	Trading		Non-trading	Trading	
	2021	2021	2021	2020	2020	2020	
ASSETS SUBJECT TO MARKET RISK							
Investments fair value through P&L	8	--	8	6	--	6	interest rate, exchange rate, credit spread
Investments fair value OCI	2,335	2,335	--	2,025	2,025	--	interest rate, credit spread
Investments amortised costs	3,295	3,295	--	3,082	3,082	--	interest rate, credit spread
Derivatives	591	533	58	864	785	79	interest rate, exchange rate
Loans and advances to customers	50,727	50,727	--	50,542	50,542	--	interest rate
Loans and advances to banks	4,527	4,527	--	5,990	5,990	--	interest rate
Cash and cash equivalents	10,296	10,296	--	4,672	4,672	--	interest rate
Other	302	302	--	303	303	--	
Total assets	**72,081**	**72,015**	**66**	**67,484**	**67,399**	**85**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	500	500	--	500	500	--	interest rate
Debt certificates	7,402	7,402	--	6,119	6,119	--	interest rate, exchange rate
Derivatives	1,013	956	57	2,163	2,077	86	interest rate, exchange rate
Savings	45,646	45,646	--	42,111	42,111	--	interest rate
Other amounts due to customers	12,482	12,482	--	11,541	11,541	--	interest rate
Amounts due to banks	1,059	1,059	--	945	945	--	interest rate
Other	3,979	3,979	--	4,105	4,105	--	
Total liabilities	**72,081**	**72,024**	**57**	**67,484**	**67,398**	**86**	

INTEREST RATE RISK BANKING BOOK

A short description of the six supervisory shock scenarios referred to in table EU IRRBB1 below:

1. parallel shock up, where there is a parallel upward shift of the yield curve with the same positive interest rate shock for all maturities;
2. parallel shock down, where there is a parallel downward shift of the yield curve with the same negative interest rate shock for all maturities;
3. steepener shock, where there is a steepening shift of the yield curve, with negative interest rate shocks for shorter maturities and positive interest rate shocks for longer maturities;
4. flattener shock, where there is a flattening shift of the yield curve, with positive interest rate shocks for shorter maturities and negative interest rate shocks for longer maturities;
5. short rates shock up, with larger positive interest rate shocks for shorter maturities to converge with the baseline for longer maturities; and
6. short rates shock down, with larger negative interest rate shocks for shorter maturities to converge with the baseline for longer maturities.

EU IRRBB1 - Interest rate risks of non-trading book activities 2021

	Supervisory shock scenarios	a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
	In € thousands	Current period	Last period	Current period	Last period
1	Parallel up	-390	-381	169	175
2	Parallel down	84	15	-71	-72
3	Steepener	-284	-209		
4	Flattener	237	238		
5	Short rates up	183	197		
6	Short rates down	-41	-49		

The table above contains the change of economic value under six supervisory shock scenarios, as well as the change in Net Interest Income (NII) under the parallel up and parallel down scenario. For the calculation of the NII, the most recent business forecast has been used. The parallel up and down scenarios are calculated as a 200 bps instantaneous interest rate shock. Spreads and margins are assumed to be constant in these scenarios.

Results of the parallel down scenario are less severe than the impact of the up scenario, mainly due to the application of the interest rate floor: a proportional movement of -1% for overnight interest rates up to 0% for rates of 20 years or more. This floor is applied for both the economic value of equity scenarios as well as for the net interest income scenarios.

Economic Value of Equity

The scenario with the largest negative outcome is the parallel up scenario. This scenario has a negative impact on the economic value of equity of € 390 million (HY21: € -381 million). This is mainly caused by the interest rate sensitivity of the mortgage portfolio, which is largely, but bot fully hedged.

Net interest income

The parallel up scenario has a positive impact on net interest income of € 169 million at year-end 2021 (HY21: € 175 million), predominantly triggered by the rate hike boosting income from derivatives. In addition the interest income from our liquidity position increased. The parallel down scenario has a negative impact of € 71 million (HY21: € -72 million), primarily driven by the lower interest received from derivatives.

11 Operational risk

11.1 Operational (non-financial) risk qualitative disclosure

CAPITAL REQUIREMENTS

De Volksbank calculates the capital requirements for operational risk according to the standardised approach, in which all activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage. At year-end 2021, the Pillar 1 capital requirements were € 111 million for the operational risks (2020: € 116 million).

The total capital requirement for operational risks is calculated as the sum of the capital requirements for each of the business lines. The total capital is calculated as the 3-year average of the sum of the statutory capital costs for each of the divisions. The capital requirement for each business line equals the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are 12%, 15% or 18%. The capital requirement calculated on a yearly basis constitutes input for the Internal Capital Adequacy Assessment Process (ICAAP).

De Volksbank manages its non-financial risks by planning, implementing, monitoring and improving activities aimed at:

- realising predictable performance;
- protecting de Volksbank from unforeseen losses;
- offering sufficient certainty on the reliability of information in order to achieve (strategic) objectives.

Upon implementing the Corporate Governance Code, de Volksbank has chosen to realise as much synergy as possible between the risk management demands of this code and compliance with CRD IV requirements.

RISK MANAGEMENT APPROACH

The Board of Directors dedicates a great deal of attention to managing and controlling non-financial risks. De Volksbank operates in a rapid changing environment, with society having ever higher expectations in areas of laws and regulations. This compels de Volksbank to frequently increase the efficiency and effectiveness of its processes, systems, data management and products and services, while at the same time retaining adequate control. De Volksbank continuously monitors and improves its internal processes and systems, helping to more efficiently meet the growing information needs of supervisory authorities. De Volksbank adapts its processes and systems to meet the stricter standards on an ongoing basis by using standard processes and tooling to monitor these standards. The non-financial risk level is continuously measured and assessed by the Operational Risk Committee (ORC).

11.2 Operational risk quantitative disclosure

EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts 2021

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
	In € millions	Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	929	922	828	111	1,392
3	*Subject to TSA:*	929	922	828		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

The decrease in the relevant indicator last year compared to the previous year is mainly the result of a lower interest margin on our retail banking activities.

11.3 Types of risk and areas of focus

We have categorised the non-financial risks, including operational risk, into the following sub risk types of operational risk, i.e. compliance risk, model risk, process risk, people risk, IT risk, legal risk and reporting and data management risk. The term non-financial risk is fully in line with the term Operational Risk as defined in the Basel regulations.

In the section below, we address the most important developments in 2021.

PROCESSES RISK, PEOPLE RISK AND IT RISK

Operational risk is defined as the risk of direct or indirect losses arising from inadequate or failed internal processes and systems, human failures and errors, or external events, which may result in a weaker financial position and/or reputational damage. In our business operations, we seek to manage and control our risks in a responsible manner. This includes effective and efficient processes that guarantee high quality products and services to our customers and are user friendly for our employees.

Our improvement cycle is primarily aimed at reducing error rates and being demonstrably in control.

Most important developments in 2021

Process risk

In 2021, we made progress in further strengthening the operational risk control processes and updated the operational control framework.

Work on the implementation of the Governance, Risk and Compliance (GRC) tool continued too. This GRC tool is a risk management application that simplifies the records management of our business operations data, enabling us to perform more in-depth analyses of the effectiveness of our risk management framework. We started to implement the Policy Management and Policy Compliance procedures in the GRC tool. In 2021, we also enhanced procedures to monitor operational control effectiveness.

Since the outbreak of the Covid-19 pandemic, de Volksbank – like many other companies in the Netherlands – encouraged its employees to work from home. There are no indications that the effectiveness of de Volksbank's operational processes was negatively affected by this, as is shown by monitoring performed by the second line risk management function.

De Volksbank strengthened its ability to perform process scenario analyses to further improve the quality of its risk framework. No major incidents occurred in 2021.

People risk

Since March 2020, at the beginning of the Covid-19 pandemic, de Volksbank has strongly advised its employees to work from home, unless activities require their presence at the office. Working from home did not result in any significant increases in staff absence. As a token of appreciation for the efforts during the Covid-19 pandemic, de Volksbank offered its staff two extra days of leave.

De Volksbank announced the transformation to an agile way of working and subsequent restructuring of the organisation. We are constantly monitoring the consequences of the agile transformation in relation to our control framework.

IT risk

Also in 2021, cybercrime threats kept increasing globally, especially ransomware and DDOS attacks. In response de Volksbank launched IT programmes to further strengthen the IT landscape, organisation and IT control framework. In addition, as IT risk management is everyone's job, in 2021 an initiative was launched to further involve business management with strengthening the IT Control Framework. As migration to the cloud is an important element of our overall strategy, de Volksbank – together with external parties - initiated an extensive assessment of our IT landscape to identify further improvements. To continuously test our IT resilience, de Volksbank successfully performed a fallback test in which production with respect to payment processes and infrastructure was run for multiple days at the fallback location.

Closely associated with cyber threat is the vulnerability in Apache Log4j, a tool used by many web applications and services, that can be exploited by remote attackers. De Volksbank has implemented measures to ensure that all versions are up to the required level.

COMPLIANCE RISK

It is the Compliance Function's mission to enhance safe and ethical banking with a human touch. We define compliance risk as the risk that de Volksbank fails to comply with laws, or the spirit of any such laws, and additional regulations, self-regulation and relevant codes of conduct.
To achieve its mission the Compliance Function continuously monitors compliance levels with regulatory and internal policies. De Volksbank strives to achieve the desired corporate culture, attitude and conduct. With the use of tools, such as Regulatory Technology and new privacy tooling, we ensure improved identification and management of compliance risks.

Developments in 2021

Below, we describe the most important compliance risk-related developments in 2021.

Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT)

As a gatekeeper, de Volksbank helps to detect and prevent financial crime, taking a holistic approach to customer integrity in relation to anti-money laundering, to countering the financing of terrorism and to compliance with sanctions and tax regulations. In 2021 de Volksbank continued to increase investments in this domain, both in personnel and in systems. The Compliance Function is continuously working to enhance our AML/CFT framework.

DNB, the Dutch Central Bank, concluded an investigation into de Volksbank's cash activities in relation to anti-money laundering and countering the financing of terrorism (AML/CFT). The investigation also entailed an instructive conversation with the Board of Directors. The results of this investigation were included in an overarching remediation programme on customer integrity to improve processes and compliance with policies. The first line is currently carrying out an improvement programme under the supervision of the Compliance Function.

Furthermore, we closely followed, and will continue to follow, developments in the new AML/CFT legislative package as these could lead to changes in the Compliance Function's structure and reporting obligations.

De Volksbank closely monitors leaks and papers, such as the Pandora Papers, for customer portfolio-related risks.

General Data Protection Regulation (GDPR)

Privacy and adequate use of personal data is of great importance in the relationship between de Volksbank and our customers and employees. At the end of 2021, de Volksbank started the implementation of an improved module for Data Privacy Impact Assessments. De Volksbank continues to enhance its compliance with the GDPR to protect its customers' and employees' privacy. After repositioning the Privacy Office to the second line of defence in 2020, the Data Protection Officer strengthened his independent position, complying with the guidelines issued by the Dutch Data Protection Authority in mid-2020. Furthermore, following the Schrems II judgment of the EU Court of Justice (CJEU), de Volksbank is elaborating guidelines issued by the European Data Protection Board (EDPB), which means that we need to scrutinise our vendor agreements, adhering additional measures and closing new Standard Contractual Clauses (SCC). To further close the privacy-gaps around the data warehouse, preparations were made for temporarily mitigation actions on access rights on specific information, as the full migration of the data warehouse is still pending.

Customer journey and customer knowledge

Trust is the cornerstone of the relationship with our customers. We gain trust by making our products simple, fair and understandable. That is why our Product Approval and Review Process (PARP) is continuously improved. Following a review by the Netherlands Authority for the Financial Markets (AFM) in 2020, we made some major improvements to the PARP in 2021. These improvements allow us to examine the duty of care in relation to our customers in greater depth, including the definition of target markets and the distribution and expansion of the range of financial products. This improvement process was concluded in the first half of 2021. De Volksbank, however, received a warning for the scenario analysis component. We are further improving the depth of the scenario analysis of life and market events as part of the approval and review process of our products for our customers.

Genuine attention for our employees

Our code of conduct entitled Common Sense, Clear Conscience is principles based and provides our employees with guidance, for instance on how to handle a conflict of interest or inappropriate behaviour. The Covid-19 pandemic forces a large number of our employees to work from home.
We have updated our annual Common Sense, Clear Conscience e-learning with specific scenarios applicable, to help them adjust to this situation.

Compliance Function

It is the Compliance Function's mission to enhance safe and ethical banking with a human touch. We define compliance risk as the risk that de Volksbank fails to comply with laws, or the spirit of any such laws, and additional regulations, self-regulation and relevant codes of conduct. To achieve the bank's mission, the Compliance Function continuously monitors the level of compliance with regulatory and internal policies.
De Volksbank strives to achieve the desired corporate culture, attitude and conduct. With the use of certain tools, such as regulatory technology and new privacy tooling, we ensure the improved identification and management of compliance risks.
As a result of the completed Compliance Improvement Programme in early 2021, the Compliance Function was further enhanced and strengthened. In the coming year, it is also important to further strengthen our Risk & Compliance framework following the results of our Culture and Behaviour Survey and the implementation of controls to further strengthen our culture and behaviour.

External and internal fraud

After the number of fraud incidents had risen for several years in a row, the number of new payment fraud incidents stabilised in 2021. Phishing is still the most common type of fraud. De Volksbank does everything it can to raise its customers' awareness, for example by means of a customer training course entitled 'Recognise the scammer'. However, it is and remains a challenge to prevent customers from falling victim to the increasingly convincing lies of fraudsters.

De Volksbank conducted its systematic integrity assessment (SIRA), including employee integrity. The assessment identified possible improvements in the area of awareness and registration of (potential) conflict of interest. The assessment was presented to the Operational Risk Committee and the Board for discussion and follow-up.

MODEL RISK

Model risk is defined as the risk that the financial position of the bank, or the customers' interests, are negatively impacted as a consequence of the use of models. Model risk arises from errors in the development, implementation, use, or interpretation of models, leading to inaccurate, incompliant, or misinterpreted model output.

Developments in 2021

We paid a great deal of attention to ensuring compliance with regulations related to regulatory capital and provisions, especially with respect to the residential mortgage portfolio. Throughout the year, the active model versions for regulatory capital and IFRS 9 provisioning for our residential mortgages (PHIRM models) were validated in accordance with regulatory requirements. An important achievement was the implementation of the new Definition of Default (DoD) and the commissioning of an improved active regulatory model in the new bank-wide data warehouse as from 31 December 2021. In addition, we developed a new, internally validated regulatory model, which is currently awaiting for regulatory approval.

We took a close look at the impact of the current challenging economic conditions within the context of the IFRS 9 provisioning model, and established that the accuracy of the ECL prediction is still within the tolerance. Nonetheless, the model risk level is currently higher than the model risk appetite of de Volksbank. and therefore has the attention of both the Model Validation department and the Model Governance Committee.

The continued low interest rate environment and the implication this had for the models involved, e.g. the replicating portfolio model, in predicting the metrics sensitive to interest rates such as economic value and duration, were also points of greater focus.

We have established that the performance of a new version of the model that predicts customer behaviour in relation to mortgage prepayment has improved, and that - once the model is implemented in 2022 - the risk level of the model will be acceptable given de Volksbank's model risk appetite. In the meantime, the underperformance of the current version is sufficiently mitigated through the use of overrides.

Finally, we are preparing to transition from the current focus on model validation to a more comprehensive model risk management approach. Expansion of the scope will go hand in hand with a more efficient use of resources in assessing and mitigating model risk, in accordance with the bank-wide agile transition.

LEGAL RISK

Legal risk is the risk of financial loss or reputational damage due to legal or regulatory events originating from lack of awareness, incorrect or altered interpretation or non-compliance with laws and regulations that apply to de Volksbank and its entities in relation to its agreements, liabilities, processes, products and services. Nowadays, legal risk is not just about the strict legal standard, compliance with (contractual) obligations or laws and regulations, but also – especially in the financial services sector – about social norms and unwritten rules, i.e. the spirit of the law.

Developments in 2021

The number of legal claims remained stable. The notes 19 Contingent liabilities and commitments and 20 Legal proceedings to the consolidated financial statements in the annual report include an overview of material legal proceedings involving de Volksbank.

The Legal Department reported several events related to mortgage and consumer credit products to the Board of Directors. Consumer credit products received increasing attention from both the AFM and the media. The legal dispute between de Volksbank and the former CFO also required management attention and resulted in several media items.

Legal risk remained within risk appetite, because adequate business management processes are in place. The new Regtech tool was put into operation by Legal and Compliance to signal and monitor the implementation of new laws and regulations and will help to control legal risk.

REPORTING AND DATA MANAGEMENT RISK

Reporting risk is defined as the risk that the reporting process does not function or does not function properly, or that key data elements included in the reports are not reliable due to the lack of data management, leading to a lack of reliable and timely reporting. Data management risk is defined as the risk of losses for de Volksbank and its customers arising from shortcomings in our data, data definitions and data structures or their use. This involves the entire life cycle of data from data entry, development, interpretation, storage and deletion to phase-out. This risk excludes arrangements with third parties, which risk is related to third-party risk.

Developments 2021

Deltawerken is the name of de Volksbank's strategic programme to set up a robust data processing infrastructure in the reporting processes. Implementation of the new infrastructure is an important step towards being demonstrably in control of data quality and data lineage through a single point of truth in the central financial data warehouse. A major deliverable of *Deltawerken* is a new reporting lane through the new data warehouse, which was implemented in the reporting process as from 31 December 2021. This new data warehouse, however, awaits supervisory review for regulatory reporting purposes and therefore reporting based on this new data warehouse needs to be adjusted in order to reflect the previous approved data warehouse. De Volksbank has received guidance from the supervisory authorities for drawing up the required reports.

An integral recalibration of the key control framework started in 2021. The results of this programme will allow for a more in-depth evaluation of the controls relating to financial reporting risk. In a project based on the agile way of working, all key processes will be reviewed and controls will be improved where necessary. The programme is expected to be finalised in the third quarter of 2022.

12 Remuneration policy

12.1 Qualitative information regarding remuneration policy

SCOPE

The Pillar 3 Remuneration Report focuses entirely on the remuneration of de Volksbank's Identified Staff based in the Netherlands and aimed at the Dutch market. In this report, Identified Staff is divided into the following groups:

1. Supervisory Board (in their role of supervisor)
2. Board of Directors (statutory and non-statutory)
3. Other senior management (reporting to the Board of Directors)
4. Other Identified Staff

Identified Staff of de Volksbank is not a homogeneous group, these staff members are spread throughout the organisation and comprise members of the Supervisory Board, Board of Directors and senior management, as well as CLA employees. The latter category includes, for example, employees with voting rights on a risk committee. In this report, fixed remuneration includes: 12 times the fixed monthly salary, holiday pay, fixed 13th month and any fixed allowances. De Volksbank has no variable remuneration schemes.

STARTING POINTS

As the mission of de Volksbank is 'Banking with a human touch', it is only natural that we also 'put the human touch' into rewarding our employees. In determining our remuneration policy and the actual remuneration, we take account of our stakeholders, i.e. our customers, society, our employees and the shareholder. We like to keep it straightforward and want to show that our strategy enables us to attract and retain talented employees, without offering them higher pay than the industry average. Employees are rewarded equally in equal situations: differences in, for example, gender or ethnicity have no impact on remuneration and/or appreciation. The remuneration of the Board of Directors is in reasonable proportion to the salaries of the employees and to the average remuneration in the Netherlands. We do not consider variable pay to be in keeping with the social character of our bank and, for that reason, do not award any variable pay.

RESPONSIBILITIES

The Board of Directors is responsible for the remuneration policy of senior management and other employees of de Volksbank. The Board of Directors has the discretionary power to deviate from the established remuneration policy with reasons in exceptional situations, insofar as this is permitted by law and regulation. If this occurs, approval will be requested from the Supervisory Board for employees above the collective labour agreement.

The Supervisory Board adopts the Remuneration Report and is responsible for the implementation and evaluation of the remuneration policy for the members of the Board of Directors. The Supervisory Board also approves the remuneration policy for senior management as proposed by the Board of Directors and supervises its implementation. The Supervisory Board is also responsible for approving the outlines of the remuneration policy as proposed by the Board of Directors for the employees of de Volksbank.

The Supervisory Board discusses material retention, sign-on and severance payments and sees to it that they are in keeping with de Volksbank's established remuneration policy and are not excessive. The Supervisory Board directly supervises the remuneration of the directors of Risk, Compliance and Audit who have ultimate responsibility. The Supervisory Board does so on the basis of the Annual Remuneration Policy Review Report drawn up by the Remuneration Working Group. The People and Organisation Committee (MOCo) of the Supervisory Board has, where applicable, prepared the decision-making for the Supervisory Board on subjects relating to the both the employees of de Volksbank and the organisation. In 2021, the MOCo met four times. At year-end 2021, the MOCo consisted of three members of the Supervisory Board, namely: Gerard van Olphen (Chair), Jeanine Helthuis and Aloys Kregting. In 2021, de Volksbank engaged external consultant Willis Towers Watson - hired by HR - to benchmark the remuneration of the Board of Directors and senior management and to give advice on a new remuneration policy for senior management. The remuneration policy for senior management was adjusted at the end of 2021.

GOVERNANCE

The implementation of the remuneration policy is the responsibility of line management in collaboration with HR. There is a Remuneration Working Group comprising representatives of Risk, Compliance, Legal Affairs, Finance and HR who supervise the greatest risks in the implementation of the remuneration policy and provide risk management and policy related advice. Every year, the Remuneration Working Group carries out a remuneration risk analysis, as well as a review of the remuneration policy and its implementation in preparation for discussion in the Supervisory Board.

De Volksbank works with key performance indicators (KPIs). The KPIs of the Board of Directors are derived from de Volksbank's long-term goals and contribute to the long-term value creation for all stakeholders. These KPIs are drawn up annually and set by the Supervisory Board. The KPIs are input for senior management and all other employees, so that everyone contributes to achieving de Volksbank's long-term goals. KPIs are not linked variable remuneration as de Volksbank does not award any. There is, however, an audit on the cascading of the Board of Directors KPIs to the functions that report to the Board of Directors. For more information about the compensation of the Board of Directors and of the Supervisory Board and also about the performance see Section 2.6 Remuneration Report in the annual report.

12.2 Quantitative information regarding remuneration policy

EU REM1 - Remuneration awarded for the financial year

			a	b	c	d
		in € thousands	**MB Supervisory function**	**MB Management function**	**Other senior management**	**Other identified staff**
1	Fixed remuneration	Number of identified staff	8	4	33	19
2		Total fixed remuneration	191	1,464	6,034	2,394
3		Of which: cash-based	191	1,464	6,034	2,394
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	-	-	-	-
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	-	-	-	-
10		Total variable remuneration	-	-	-	-
11		Of which: cash-based	-	-	-	-
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**191**	**1,464**	**6,034**	**2,394**

EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d
	In € thousands	**MB Supervisory function**	**MB Management function**	**Other senior management**	**Other identified staff**
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	1	2	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	240	190	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	5	-
7	Severance payments awarded during the financial year - Total amount	-	-	958	-
8	Of which paid during the financial year	-	-	141	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	241	-

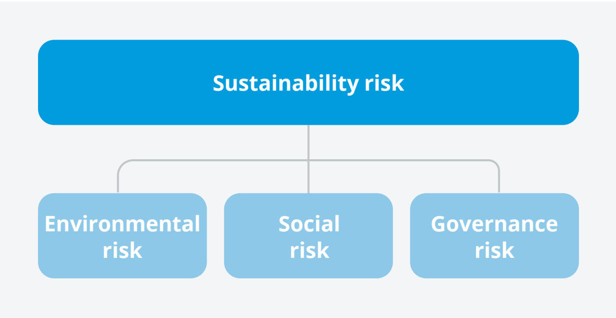
EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
	In € thousands	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	**Total number of identified staff**										**64**
2	Of which: members of the MB	8	4	12							
3	Of which: other senior management				1	11	-	14	7	-	
4	Of which: other identified staff				1	2	4	2	10	-	
5	**Total remuneration of identified staff**	191	1,464	1,655	639	2,384	425	2,388	2,592	-	
6	Of which: variable remuneration	-	-	-	-	-	-	-	-	-	
7	Of which: fixed remuneration	191	1,464	1,655	639	2,384	425	2,388	2,592	-	

13 Sustainability Risk

Sustainability risk is one of the strategic risks of de Volksbank and is incorporated in the risk taxonomy as a stand-alone risk type with the aim of developing a holistic approach to the incorporation of ESG events into the bank's risk management framework. We define sustainability risk as the risk of (in)direct financial or reputational damage to the bank due to ESG events or lack of response to public expectations to ESG events.

Sustainability risk and sub-risk types



Environmental risk

Environmental risk is the risk of (in)direct financial or reputational damage to the bank due to acute or chronic physical environmental events, or the role in the transition to an environmentally sustainable economy of the bank itself or of parties with which the bank may interact. Environmental risk is broader than just climate risk and includes for example biodiversity loss and water scarcity. Environmental risk includes both physical risk and transition risk:

- Physical risks may arise from more frequent and severe climate events. These events can be acute, such as floods, or chronic, such as a sea level rise;
- Transition risks may arise from the process of adapting to a low-carbon and more environmentally sustainable economy, for example climate-related policy changes, technological changes or investor and consumer sentiment towards a greener environment.

Physical and transition risks are closely related. As a response to the potential impact of physical risks rapid, stringent and far-reaching governmental policy can be introduced, which can lead to increased transition risks. On the other hand physical risks worsen over time by a lack of governmental policy.

Social risk

Social risk is the risk of (in)direct financial or reputational damage to the bank due to violations of human rights, employee rights, poverty and customer relationships committed by the bank itself or by parties with which the bank may interact.

Governance risk

Governance risk is the risk of (in)direct financial or reputational damage to the bank due to inadequate corporate governance, ethical management and transparency by the bank itself or by parties with which the bank may interact.

The potential impact of ESG matters on de Volksbank is considered to be outside-in impact. Alternatively, activities of de Volksbank which may have an impact on society and the environment are considered to be inside-out impact. We want to make a positive contribution to society by encouraging society changes and by managing a portfolio of sustainable activities. We are also aware that de Volksbank may have a negative impact on society. We strive to minimise this negative inside-out impact. For more information on this topic, see both the Integrated Annual Review and the ESG Report.

13.1 Risk profile

Our business model and strategy are the main factors determining our sustainability risk profile. Being a retail bank with a high concentration of residential mortgage loans in the Netherlands, we estimate our risk profile for sustainability risk to be low. While the transition to a more sustainable housing sector will involve significant costs, the impact on the ability of our customers to cover their mortgage payments is expected to be limited. Yet we aim to act beyond that. De Volksbank actively encourages and facilitates mortgage customers to isolate their homes. We monitor Dutch and European regulation to stimulate the transition towards a sustainable economy. It is expected that climate change itself will increase the intensity and frequency of floods in the Netherlands. We monitor the possibility and impact of such climate events in the Netherlands and formulate actions if necessary. We use the average energy label of our mortgage portfolio as a supporting metric. Year-end 2021, the average was 3.7 (label A=1, B=2 etc.).

Loans and advances to non-financial corporates and high carbon-intensive sectors

Nace code	Description sector	2021[1] (in € millions)	2020 (in € millions)	High carbon-intensive sector[2] (yes/no)	Total carbon emissions 2021[3] (tonnes CO2eq)	Total carbon emissions 2020 (tonnes CO2eq)	Carbon intensity 2021[4] (tCO2eq/€ million)	Carbon intensity 2020 (tCO2eq/€ million)
010 (A)	Agriculture, forestry and fishing	0	0	yes	-	-	-	-
020 (B)	Mining and quarrying	-	-	yes	-	-		
030 (C)	Manufacturing	21	18	yes	421	969	63.69	64.43
040 (D)	Electricity, gas, steam and air conditioning supply	563	520	yes	-252,236	-218,793	10.49	9.24
050 (E)	Water supply	0	0	yes	-	-	-	-
060 (F)	Construction	24	20	yes	1,411	1,166	62.52	58.11
070 (G)	Wholesale and retail trade	28	28	no	3,247	3,321	115.76	117.33
080 (H)	Transport and storage	3	27	yes	423	387	123.16	14.43
090 (I)	Accommodation and food service activities	3	3	no	371	395	119.47	114.88
100 (J)	Information and communication	2	3	no	288	349	135.89	134.18
110 (K)	Financial and insurance activities	199	152	no	13,435	10,929	81.74	84.34
120 (L)	Real estate activities	288	319	no	11,637	9,871	40.39	30.95
130 (M)	Professional, scientific and technical activities	56	55	no	1,206	1,033	73.55	57.43
140 (N)	Administrative and support service activities	7	3	no	-41	311	36.18	121.52
150 (O)	Public administration and defense, compulsory social security	-	-	no	-	-		
160 (P)	Education	1	1	no	99	85	104.26	97.13
170 (Q)	Human health services and social work activities	127	153	no	11,796	15,075	93.03	98.46
180 (R)	Arts, entertainment and recreation	15	10	no	523	277	49.42	52.89
190 (S)	Other services activities	23	28	no	-3,024	-1,883	12.51	6.67

1 Gross carrying amount
2 Based on Guidelines on reporting climate-related information (2019), p.35
3 Estimates of scope 1 & 2 emissions and avoided emissions of our counterparties based on the PCAF methodology
4 Excluding avoided emissions, for example avoided emissions due to the financing of renewable energy projects are not included in this ratio.

Our sustainability risk profile in SME and corporate lending is low, due to the relatively small size of our SME and corporate lending portfolio and our strict investment criteria. The table above displays the loans and advances to non-financial corporates by industry. Seven of these industries may be considered carbon intensive. Counterparties operating in these high carbon-intensive sectors may pose a significant transition risk. Due to our strict sustainability policy, we have small or no exposures in carbon-intensive industries. A notable exception is the electricity, gas and steam sector. We do not have any exposures in the gas sector, but we do have a project finance portfolio that is mostly comprised of renewable energy companies. For this reason, the carbon intensity ratio of our exposure to this sector is relatively low.

13.2 Management and control

Within the Board of Directors the CRO is responsible for sustainability risk. In addition to the existing risk committees the Social Impact Committee (SIC) is in place to promote a better understanding of and a deeper focus on our social impact and sustainability risk control. The SIC monitors the coherence between inside-out and outside-in impact, the proper integration of sustainability risks in the overall business strategy, governance and risk management framework and the transparency of reporting about it. The CRO is the chairman of this multidisciplinary risk committee.

In order to manage sustainability risks, it is important to elaborate the responsibilities for the business and independent control functions based on the 'Three Lines of Defence' model. As a supporting team of the first line (the business) the Expertise Centre Sustainability is responsible for set up and maintenance of the first line policies within the House of Policies Sustainability, including investment criteria for the entities ASN Impact Investors and ASN Sustainable Finance.

As sustainability risk is classified as a stand-alone risk type and therefore managed within our risk appetite, a risk management policy and a Risk Appetite Statement (RAS) for sustainability risk are in place. This RAS encompasses metrics with thresholds to monitor this risk. The metrics and thresholds are aligned with the long-term targets to have a climate neutral balance sheet and to have a (net) positive impact on biodiversity in 2030. However, ESG events can also be considered as a potential driver for other risk types in the risk taxonomy and can impact these risk types. The ECB economy-wide climate stress test of 2021 showed that countries in Northern Europe are more vulnerable to flooding compared to other physical risks. Floods can increase credit risk via the micro-economic transmission channel of asset damages because of climate events. The supervisor expects banks to incorporate sustainability risks into the existing risk management cycles by including ESG risks in a materiality assessment.

13.3 Areas of focus and activities

ESG RISK ASSESSMENT

In November 2020, the ECB published a guide on climate-related and environmental risks, explaining how the ECB expects banks to prudently manage and transparently disclose such risks under current prudential rules. De Volksbank conducted a self-assessment on its practices in relation to these expectations in 2021. To fill in the gaps thus identified, we set up an implementation plan.

Central to this implementation plan is an ESG risk assessment for all risk types in the de Volksbank's risk taxonomy. This assessment is the continuation of the impact analysis we conducted in 2020. The RMF set up an ESG guidance to ensure structured ESG risk assessments to determine the impact of ESG events on other risk types. The ESG risk assessment is mostly qualitative as methodologies are currently evolving and most of the relevant data is not, or not yet, available. The scope of the ESG risk assessment not only includes climate-related and environmental risks, but also the other risk sub-types of sustainability risk. This is in line with the recommendations of the EBA report on management and supervision of ESG risks for credit institutions and investment firms, which was published in June 2021. This EBA report covers environmental risks, as well as social and governance risks. The ESG risk assessment can be seen as an addition to the existing risk management cycle of existing risk types.

To identify ESG events that may lead to a material impact in the other risk types, we established a long-list of possible ESG events, such as a flood, policy and regulation changes to stimulate a carbon-neutral economy or social movements that could lead to a social transformation towards a more inclusive society.

To assess the materiality of the impacts of these ESG events in the short term (up to 1 year), medium term (1-5 years) and long term (longer than 5 years) we use three climate scenarios from the Network for Greening the Financial System (NFGS) to asses the microeconomic impacts on banks' counterparties, including businesses and households, and to analyse the indirect impact of macroeconomic effects.

The ESG risk assessment resulted in the following analysis:

Overview results ESG risk assessment[1]

	PHYSICAL RISK		TRANSITION RISK	
ESG Event	**Acute physical events, such as floods**	**Chronic physical changes, such as rising sea levels**	**Changing regulation regarding ESG issues**	**Changing social sentiment regarding ESG issues**
Impacted Risk types	Credit, Business, Market, Liquidity, IRRBB, Operational & Reputation risk	Credit & Business risk	Credit, Business, Compliance, Organisational risk & Capital adequacy	Liquidity, Market, Compliance, Reputation & Organisational risk
Time horizon	Short, Medium & Long term	Long term	Short, Medium & Long term	Short, Medium & Long term
Description Impact	Acute physical events can have many disrupting effects: widespread damage to property of our clients can lead to increased credit and business risks. Such an event can also cause sudden repricing in financial markets affecting market, liquidity and IRRBB risk. Additionally, operational processes can be disrupted, and an inadequate response of the bank can have reputational impact.	The chronic impact of climate change, which includes rising sea levels, poses an unprecedented threat to our economy and society. In the long-term, this can create substantial risks for the mortgage portfolio that is central to our business model.	Policy changes stimulating the transition towards a sustainable economy can pose risks for de Volksbank. Our mortgage clients might be faced with financial distress due to high adaptation costs. Furthermore, complex ESG regulations directly applicable to our own organisation can create the risk of not transforming in a timely manner. This can lead to non-compliance and implementation projects can decrease the profitability of our business model.	Increasingly higher expectations regarding ESG performance can become a challenge for de Volksbank to transform in a timely manner. Not meeting these expectations or not behaving according to (un)written rules can negatively impact our reputation. This can create difficulties in attracting clients and investors.

1 The table illustrates ESG events, the impacted risk types, potential impacts on de Volksbank in short, medium and long term.

Because of our focus on residential mortgages in the Netherlands and the relatively small size of our SME and corporate lending portfolio the material impact of climate and other environmental events is expected to be limited. For example deterioration of biodiversity may have a material impact on agriculture industries, but will have less impact on the prices of houses in the Netherlands. Northern Europe will be more vulnerable to flooding. Preliminary analysis indicates that extreme weather events, such as the floods in Dutch province of Limburg in June 2021, can cause high costs for society and households, however the direct impact on the mortgage portfolio of de Volksbank due to depreciation of collateral is not expected to be material in the short term. Further analysis should provide more information on the exact impact of such an event in the medium and long term. The results of the ESG risk assessment are a starting point for further analysis and incorporation of ESG events in the risk management cycle of other risk types. Next steps will be to further quantify the material impact of ESG events on other risk types. Because relevant data is not always available and quantification methodologies are under development, the integration of sustainability in the risk management framework will have a phase-in approach. The feedback we received from the ECB on our implementation plan has been incorporated in an addendum of the implementation plan.

MITIGATING RISK CONTROLS

If risks stemming from ESG events are assessed as material, current risk control mechanisms are evaluated and additional risk responses may be formulated.

De Volksbank has strict sustainability criteria for investments in place to make a positive contribution to society. We continuously assess if investments still meet our sustainability criteria. We update these criteria on a regular basis, which may lead to the termination of specific loans or investments in our investment universe or portfolio. These investment criteria also mitigate the credit risk and can be seen as a risk response. To illustrate this, we rule out investments in companies involved in fossil fuels, thus reducing the risk of stranded assets.

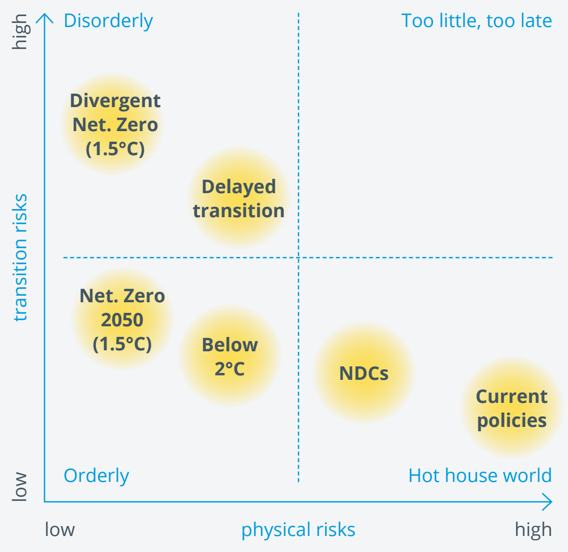
STRESS TESTING AND SCENARIO ANALYSIS

In 2020, de Volksbank performed a quantitative climate impact analysis. This stress test consisted of an impact analysis and two scenario analyses. The impact analysis assessed the direct impact of physical risks such as flooding and extreme drought. The first scenario was based on the macroeconomic impact after a climate event materialised and the second scenario focused on the urge to accelerate the energy transition. In 2021, a slimmed-down version of the climate impact analysis was used as input for the reverse stress test as part of the ICAAP package.

After the climate stress test in 2020, one of the lessons learned was to perform a climate analysis over a longer time horizon. The climate stress test included a 4-year horizon and to properly measure climate effects on the portfolio, a longer time horizon has to be considered.

Following the insufficiency of the current stress test methods to analyse the climate impact on a 10, 20 or 30-year horizon, we developed a model in 2021 to estimate the long-term portfolio development. This model estimates the portfolio based on several parameters, including climate neutrality of the assets and asset-specific emissions or abatement. This model is the first to project long-term asset developments for de Volksbank, especially up until 2050, and provides a useful basis for future stress testing under different scenarios. However, given the current limitations of data and methodologies, some assumptions and simplifications are needed in this pilot stage. Therefore, the outcome should not be considered as a precise prediction of what the balance sheet will look like in 2030, 2040 and 2050.

NGFS scenarios Framework



The scenarios applied in this long-term portfolio development model are taken from the climate transition scenarios developed by the NGFS. These scenarios are the most comprehensive transition scenarios to date and have been used in climate stress testing pilots by supervisory authorities and other assessments of transition risks by intergovernmental bodies such as the United Nations. From a grand total of six developed scenarios, four were chosen for the long-term portfolio development model exercise based on extremity and recognisability. The four chosen scenarios are: Current Policies, Delayed Transition, Net Zero 2050 and Divergent Net Zero. We chose these scenarios because they differ a lot in terms of policy coordination and transition timing to achieve the European climate targets, and therefore have varied effects on the bank's balance sheet. Specifically, while return on equity targets and realisations are assumed to be stable, the carbon intensity of assets, i.e. the emitted or abated CO2 per euro shows a wide dispersion over time and between the scenarios. This has far-reaching asset redistribution effects given de Volksbank's aim for climate neutrality.