2020

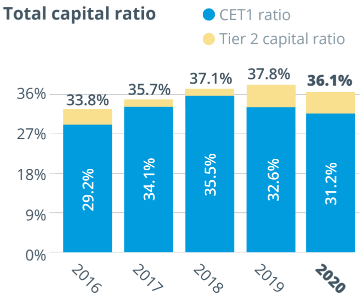
Pillar 3 Report

1 Key figures

Shareholders' equity and leverage

Based on the balance sheet position at year-end 2020, 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.

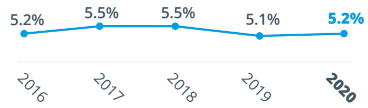
Total capital ratio



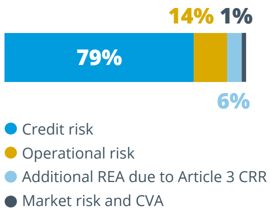
Common Equity Tier 1 ratio year-end 2020

31.2%

Leverage ratio



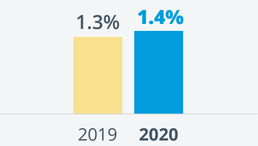
Risk-weighted assets



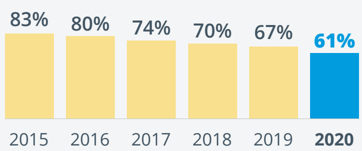
Credit risk

The outbreak of the Covid-19 pandemic has not considerably affected the credit quality of the loans and advances of de Volksbank so far. Nevertheless, by increasing loan loss provisions, we have taken measures to compensate for the uncertainty concerning the length and economic consequences of the pandemic that the bank may face in the near future.

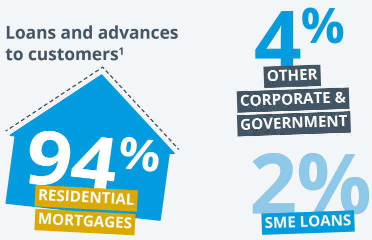
Stage 3 loans expressed as a percentage of total loans remained unchanged in 2020



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

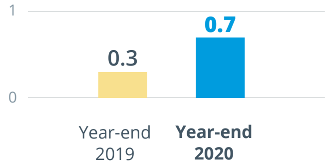
Market risk

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.

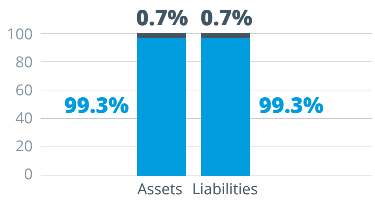
Volume of Earnings at Risk year-end 2020

€58 MILLION

Duration of equity



Exposure market risk year-end 2020



Liquidity risk

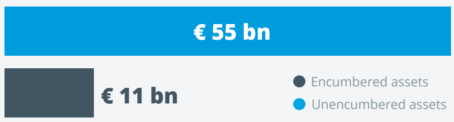
The bank has a strong liquidity position to continuously meet its financial obligations. Savings are our main source of funding.

Liquidity buffer year-end 2020

€19.1 BILLION

12 month average LCR

196%



2 Introduction

2.1 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 2020 annual report.

The Pillar 3 report is published separately to de Volksbank’s 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.

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 Remuneration Identified Staff report is disclosed separately on the website of de Volksbank.

Numbers presented throughout this document may not precisely add up to the totals due to rounding in some cases. Where disclosures have been enhanced, we do not restate prior year comparatives, unless stated otherwise.

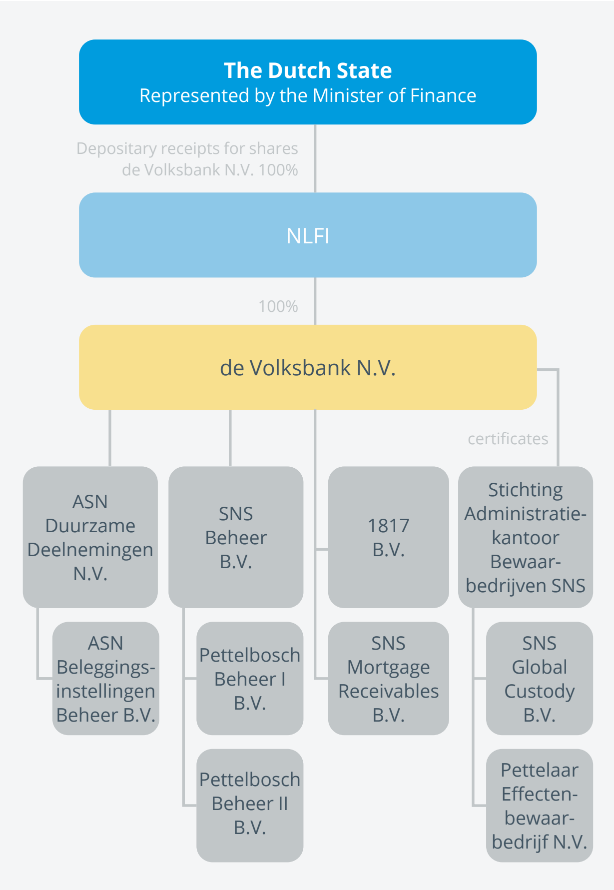
To make this report more readable, line items and columns in the tables have been abbreviated where possible. The tables are presented in their entirety on our website www.devolksbank.nl.

The mandatory Pillar 3 information of de Volksbank is disclosed every six months. 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.

2.2 Development in legal structure

There were no developments in the legal structure of de Volksbank during 2020. The legal structure at 31 December 2020 is as follows:



NL Financial Investments (NLFI) has a direct 100% participating interest in de Volksbank N.V. and issued depository receipts for shares to the Dutch State.

For more information see the website www.devolksbank.nl.

Internal solvency and liquidity supervision 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.

2.3 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.

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.

2.4 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 2020 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 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	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	-0	--	--	--
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
Other reserves	2,895	--	--	--	--	2,895
Retained earnings	174	--	--	--	--	174
Shareholders' equity	**3,450**	**--**	**--**	**--**	**--**	**3,450**
Minority interests	--	--	--	--	--	--
Total equity	**3,450**	**--**	**--**	**--**	**--**	**3,450**
Total equity and liabilities	**67,484**	**--**	**2,163**	**--**	**--**	**65,321**

Items subject to counterparty credit risk increased by € 322 million to € 2.163 million (2019: € 1.841 million).

Items subject to the securitisation framework has slightly decreased by € 2 million to € 95 million in 2020 (2019: € 97 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 2019

	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	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	2,026	2,026	--	--	--	--
Derivatives	718	--	718	--	--	--
Investments	5,350	5,243	--	97	10	--
Loans and advances to banks	3,791	3,791	--	--	--	--
Loans and advances to customers	50,461	50,461	--	--	--	--
Tangible and intangible assets	128	126				2
Tax assets	99	84				15
Other assets	268	268				
Total assets	**62,841**	**61,999**	**718**	**97**	**10**	**17**
Liabilities						
Savings	38,404	--	--	--	--	38,404
Other amounts due to customers	10,641	--	--	--	--	10,641
Amounts due to customers	**49,045**	**--**	**--**	**--**	**--**	**49,045**
Amounts due to banks	541	--	--	--	--	541
Debt certificates	6,906	--	--	--	--	6,906
Derivatives	1,841	--	1,841	--	--	--
Tax liabilities	15	--	--	--	--	15
Other liabilities	492	--	--	--	--	492
Provisions	64	--	--	--	--	64
Subordinated debts	502	--	--	--	--	502
Total other liabilities	**10,361**	**--**	**1,841**	**--**	**--**	**8,520**
Share capital	381	--	--	--	--	381
Other reserves	2,779	--	--	--	--	2,779
Retained earnings	275	--	--	--	--	275
Shareholders' equity	**3,435**	**--**	**--**	**--**	**--**	**3,435**
Minority interests	--	--	--	--	--	--
Total equity	**3,435**	**--**	**--**	**--**	**--**	**3,435**
Total equity and liabilities	**62,841**	**--**	**1,841**	**--**	**--**	**61,000**

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 consideration of provisions	110	110	--	--	--
7	Differences due to counterparty credit risk	-459	--	-459	--	--
8	**Exposure amounts considered for regulatory purposes**	**66,680**	**65,485**	**405**	**95**	**--**

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

2 After credit conversion factor.

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

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2019

		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)	62,824	61,999	718	97	10
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,841	--	1,841	--	--
3	**Total net amount under regulatory scope of consolidation**	**62,824**	**61,999**	**718**	**97**	**10**
4	Off-balance sheet amounts	2,706	1,170[2]	--	--	--
5	Differences in valuations	-2,947	-2,947	--	--	--
6	Differences due to consideration of provisions	67	67	--	0	--
7	Differences due to counterparty credit risk	-303	--	-303	--	--
8	**Exposure amounts considered for regulatory purposes**	**62,348**	**60,290**	**415**	**97**	**10**

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

2 After credit conversion factor.

2.5 Detailed index of Pillar 3 references

The Pillar 3 disclosure requirements are described in Part Eight of the CRR. 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 §	Pillar 3 disclosure requirements	Location in Pillar 3 report	Notes
435	Risk management objectives and policies	Chapter 3 Objectives and guidelines regarding risk management Chapter 4 Own funds and leverage Section 5.1 General qualitative information regarding credit risk Section 8.1 Qualitative disclosure requirements regarding counterparty credit risk Section 11.2 Interest rate risk not included in the trading portfolio Chapter 13 Non-financial risk See also the annual report of de Volksbank	Section 3.10 of the annual report contains the management statement. Chapter 2 of the annual report addresses subjects of the risk committees and the governance provisions. Chapter 2 and section 1.3 Developments in shared value ambition of the annual report discusses topics including the diversity policy.
436	Scope of application	Section 2.4 Scope of application	
437	Own funds	Chapter 4 Own funds and leverage	Section 2.3 Consolidation scope discusses the capital structure and the full reconciliation of shareholders' equity.
438	Capital requirements	Section 4.3 Capital requirements	
439	Exposure to counterparty credit risk	Chapter 8 Counterparty risk	
440	Capital buffers	Section 4.4 Macroprudential supervisory measures	
441	Indicators of global systemic importance	Not included	De Volksbank is not considered an institution of global systemic importance.
442	Credit risk adjustments	Section 5.2 General quantitative information regarding credit risk	
443	Unencumbered assets	Section 10.3 Encumbered and unencumbered assets	
444	Use of ECAIs	Section 6.1 Qualitative information regarding the use of the Standardized Approach	
445	Exposure to market risk	Section 11.1 Capital requirements for market risk using the Standardized Approach	
446	Operational risk	Chapter 13 Non-financial risk	
447	Exposures in equities not included in the trading book	Chapter 9 Shares outside the trading portfolio	
448	Exposure to interest rate risk on positions not included in the trading book	Section 11.2 Interest rate risk not included in the trading portfolio	Assumptions regarding loan prepayments and behaviour of non-maturity deposits are considered to be proprietary information as these are key assumptions in interest (pricing) strategy.
449	Exposure to securitisation positions	Chapter 12 Securitisation	
450	Remuneration policy	For the Pillar 3 remuneration report we refer to www.devolksbank.nl/en/about-us/beloningen-identified-staff	Section 2.6 of the annual report of de Volksbank also contains information about the remuneration report.
451	Leverage	Section 4.5 Leverage ratio	
452	Use of the AIRB Approach to credit risk	Chapter 7 Credit risk and credit risk mitigation under the AIRB-approach	

453	Use of credit risk mitigation techniques	Section 5.3 General qualitative information regarding credit risk mitigation	
454	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.

2.6 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
2nd line	Strategic Risk Report	quarterly	quarterly
	Non-Financial Risk Rapport	quarterly	quarterly
	Financial Risk Rapport	quarterly	quarterly
	Risk Appetite Statement	annually	annually
	Risk context	quarterly	quarterly
	Recovery Plan	annually	annually
	Strategic Risk Assessment	annually	annually
	Self-assessment risk committees	annually	n.a.
	Review self-assessment Integrated Control Framework	annually	annually
3rd line	ICAAP/ILAAP reports	annually	annually
	List of decisions risk committees	afterwards	n.a.
	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.

The Board of Directors bears ultimate responsibility for risk management. In this process, it is supported by risk committees. Each risk committee is chaired by a member of the Board of Directors, which keeps them informed about developments in the relevant focus area. A risk committee's list of decisions is sent to the Board of Directors after the meeting of that particular committee has ended (see also Section 3.3 Risk management approach of the institution).

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 2020. The reports received by the Supervisory Board members were also discussed by the Board of Directors.

2.7 Information about governance guidelines

APPOINTMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

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

De Volksbank's senior management saw a number of changes in 2020. Following a careful consideration by the Supervisory Board and consultation of the shareholder and external supervisory authorities, the Supervisory Board took measures that resulted, among other things, in the departure of the CFO and the COO. To objectify the factors underlying the partly unanticipated changes on the Board of Directors and the unrest, an independent external survey was commenced, the results of which became available in February 2021. The Supervisory Board has now started recruiting a new CFO. Marcel Klopper has carried out many of the CFO's duties since 5 September 2020 and will continue to do so until a new CFO is appointed. Martijn Gribnau and Marinka van der Meer have assumed many of the COO's duties since 12 November 2020. They will continue to do so until the Executive Committee, announced on 12 February 2021, to be set up for the successful implementation of the strategy is in place.

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. In addition, both the regulations for the Board (the Regulations) and the Memorandum of Understanding (MoU) agreed by NLFI and de Volksbank, contain additional practical agreements on the way in which the Board should exercise its duties and powers. The Regulations were unchanged in 2020.

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 four stakeholders.

Please refer to chapter 2 of the 2020 annual report of de Volksbank for information about the governance arrangements.

2.8 Management statement on the adequacy of risk management

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.

For further in-depth information see chapter 3 Objectives and guidelines regarding risk management.

3 Objectives and guidelines regarding risk management

3.1 General information on risk management, objectives and policies

RISK MANAGEMENT OBJECTIVE

De Volksbank wants to make safe and reliable banking available to everyone. Our risk management is the link between our mission and the risks associated with this mission. We distinguish between risks that provide opportunities and risks that should be avoided, and determine our risk appetite on this basis. In doing so, we consider all elements of our shared value principle, in which all four stakeholders are treated equally.

Risk management Mission

Based on our mission - banking with a human touch - and our ambition of optimising shared value, we have formulated the following mission for our risk management operations.

'*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

BENEFITS FOR CUSTOMERS

Working on a sound and long-term relationship with the customer that is based on mutual trust, we are better equipped to support our customers in controlling their own financial position. We aim for clear and transparent risk management.

RESPONSIBILITY FOR SOCIETY

We are involved in the development of products and services that increase the financial resilience of customers. 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 PROFILE

De Volksbank is a bank that focuses primarily on Dutch retail customers with three clear and transparent products and services: mortgages, payments and savings. We accept the risk profile that matches a business model of low-risk activities and limited product and geographical diversification.

In our operating activities, we may run risks on all sorts of fronts that may harm the bank and its reputation. We have identified these risks and continuously seek to take timely and adequate control measures.

RISK APPETITE AND RISK INDICATORS

We carry out the annual Strategic Risk Assessment (SRA) to identify and assess the risk in relation to the top risks and our strategy. The main risks are ultimately included in the risk classification. If necessary, we make adjustments to the classification to factor in, for example, new regulations, internal and external developments, or a change of strategy or risk capacity. We did not add new types of risk to the risk classification in 2020.

Every year, we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives. This is done in what we call the Risk Appetite Statements (RAS). We then use the risk appetite as a basis for determining for each type of risk the level above which we feel comfortable. We do so using specific risk indicators. In addition, we set a risk indicator specific intervention ladder with ranges to be used when follow-up action is required. The ranges are determined based on internal stress tests, economic capital and the recovery plan.

We distinguish the following types of risk indicator:

- warning indicators giving early warning signs of conditions with potentially adverse effects;
- risk appetite indicators monitoring our status in relation to the risk appetite;
- recovery indicators automatically activating the recovery plan.

The table below 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.

Strategic Risks

Risk Appetite Statement | **Relative score** | **Note to the score**

BUSINESS RISK
- Stable profit for the shareholder(s);
- Timely adaptation to (market) developments.

Note to the score:
- The pressure on our net interest income exerted by the low interest rate environment, combined with increased pressure from competition, remains unchanged.

ORGANISATIONAL RISK
- Proactively adapting to changing conditions and transforming into a financial services provider with a sustainable earnings model that contributes to the shared values.

Note to the score:
- Management of program portfolio was further strengthened.
- Anticipating the major change efforts following the new strategic plan, the ability to organise and manage this change effectively continues to be of the utmost importance.

REPUTATION RISK
- Preventing the reputation of the bank and its brands from being adversely affected by internal or external events.

Note to the score:
- De Volksbank and its brands boast a strong reputation;
- In the fourth quarter of 2020, board dynamics resulted in reputation sensitive publications and reputation issues were managed adequately.

SUSTAINABILITY RISK
- Banking in a socially responsible way within the risk appetite of the bank.

Note to the score:
- De Volksbank achieved its target of a 45% climate-neutral balance sheet and is on track to achieve its target of a fully climate-neutral balance sheet by 2030;
- Men and women in the same positions receive equal remuneration.

Financial risks

Risk Appetite Statement | **Relative score** | **Note to the score**

CREDIT RISK
- Control is such that it does not threaten our financial position (capital and liquidity).

Note to the score:
- Throughout 2020, the credit risk on our portfolios has been impacted by the Covid-19 pandemic. The impact on mid-term affordability of mortgage repayments has been moderate; the outlook is uncertain. The housing market has remained strong, with a positive outlook, although de Volksbank takes into account that a further deterioration of the housing market can occur under stressed conditions.

MARKET RISK
- Monitoring risks in the trading book caused by movements of market variables.

Note to the score:
- We have a limited market risk appetite in the trading book. The indicators are within our limits.

INTEREST RATE RISK IN THE BANKING BOOK
- Protecting and stabilising net interest income, economic values and capital due to interest rate movements and credit spreads.

Note to the score:
- The bank's current exposure to interest rate risk is within the limits, with the high demand for long-term mortgages and prepayments posing a risk. That is why the fine-tuning of behavioural models remains a focus area.
- Implementation of the Quantitative Risk Management (QRM) system is a main improvement

LIQUIDITY RISK
- Preventing the reputation of the bank and its brands from being adversely affected by internal or external events.

Note to the score:
- We have a strong liquidity and funding position. Our funding mainly consists of stable customers' savings and long-term wholesale funding.

Non-financial risks

Risk Appetite Statement	Relative score	Note to the score
OPERATIONAL RISK • Effective, high-quality processes, low error rates, low tolerance for poor risk management; • Sufficient and competent employees and a pleasant working environment; • Efficient and stable IT environment; • Low tolerance for disruptions of integrity and continuity of systems.		• Improvements in process control are being implemented. Knowledge in the area of operational risk management is enhanced by means of training. In spite of outbreak of Covid-19 pandemic, processes remain in control. IT control awareness is high. The threat of cybercrime is persistent, significant and continues to evolve. Monitoring on control effectiveness has been improved.
REPORTING AND DATA MANAGEMENT RISK • Zero tolerance for errors in external reporting; • Reliability, confidentiality and integrity of data.		• Data management is not at the desired level and is a consistent focus area. Monitoring on data management is becoming more mature, but challenges in business implementation remain.
LEGAL RISK • Excellent business processes in place to help prevent claims; • Settlement of any claims with due care.		• Developments in the inquiry into the board dynamics, discussions of Accidental Americans, and spoofing are topics that are closely monitored.
COMPLIANCE RISK • No tolerance of violations of company standards and values or laws and regulations.		• Changes in laws and regulations result in continuous adjustments of our processes and systems. • An increase in the number of fraud in payment transactions is visible. • Several mitigating actions are being carried out and will be closed before end of 2021 to mitigate findings of the regulator.
MODEL RISK • Controlled model development and strong model governance; • Limited model risk by avoiding products with complex features.		• Model adjustments are continuously implemented to comply with new regulations.

Capital adequacy

Risk Appetite Statement	Relative score	Note to the score
CAPITAL ADEQUACY • Monitoring a sound and well-diversified capital position in line with the bank's low-risk activities.		• We have a strong level of capitalisation in the short and medium terms. Regulations in the distant future may impact the capitalisation.

'Relative score' legend

As of this Pillar 3 report, the color coding of the risks has been changed to the color coding used internally. The principles have remained the same.

- Current risk profile corresponds to risk appetite
- Current risk profile slightly above risk appetite
- Current risk profile above risk appetite

3.2 Strategic risks

We have determined four strategic risks, i.e. business, organisational, sustainability and reputation risk. The different strategic risk categories have been introduced because they are different in nature. These risks have a material impact on the viability of our business model and threaten the bank's ability to add value in the long term if and when we insufficiently identify internal and external changes and/or events and fail to adequately respond to them or act on them. An exception to this is reputation risk, which is regarded a consequential risk. Combined with the potential impact reputation risk may have, it is classified as a strategic risk. Some of these strategic risks were part of the risk taxonomy before but were classified as financial and non-financial sub risk types. In general, indicators are determined for all types of risk, ensuring that the development of risks is continuously measured and adjustments may be made where necessary.

Type of risk	Developments 2020
BUSINESS RISK • Business risk is defined as the risk that de Volksbank's profitability may be insufficient 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 keeps challenging the achievement of financial objectives. Furthermore, the Covid-19 pandemic has increased pressure on the financial performance of de Volksbank. Provisions have been increased. As a consequence, de Volksbank's profit level decreased compared with 2019. A high degree of discipline in cost control is a necessary condition for maintaining profit at an acceptable level. De Volksbank has developed a new strategic plan for the 2021-2025 and is in the transition process towards the implementation of this plan. The plan includes directions for growth and improvement driven by our mission of 'Banking with a human touch'. It also provides a path towards/enables the required level of financial performance.
ORGANISATIONAL RISK • Organisational risk is the risk that the bank is not able to respond quickly and in a controlled way to changes that may negatively 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, no or incorrect decision-making on whether or not to anticipate a change, or failure to make proper adjustments as a result of inadequate design, inadequate execution or incorrect deployment of capacity.	• The bank is aware of its environment, which is changing at an increasingly rapid pace due to new entrants and the implementation of new technologies. Various analyses are conducted to monitor these changes, estimate their relevance to the bank and establish how we wish to respond to them. The analyses have resulted in the identification of the developments that are most important to the bank. This is part of the new strategic plan. In 2020 the central management of the programme portfolio was further strengthened. This enhancement included an improved reporting process and risk management of the portfolio. Anticipating the major change efforts following the new strategic plan, the ability to organise and manage this change effectively continues to be of the utmost importance. Changes and replacements in the Board during 2020, mitigated by backfill and adapted reporting lines, did not lead to less effective or less efficient decision-making and controlling operational or organisational risks, nor to delays in the execution of change programmes and supervisory expectations.
REPUTATION RISK • Reputation risk is the risk that negative publicity ensuing from an internal or external event directly or indirectly diminishes confidence in the integrity of de Volksbank and/or its brand(s), resulting in reputational damage. Reputational damage may be related to our own conduct in crisis situations for example, but also to policy choices and our day-to-day actions, issues regarding products or the behaviour of individual employees. Reputational damage may include financial losses, such as the loss of current or future income, as well as a loss of motivation among employees.	• The speed and impact of (digital and social) media render consistent monitoring and adequate responses necessary; a complaint or adverse publication may eventually grow into a crisis, a crisis may lead to a loss of reputation, and a bad reputation will result in a loss of current or potential customers and income for the bank. De Volksbank actively monitors internal and external events that may potentially result in a loss of reputation and/or reputational damage for the bank and its brands. As regards the organisation, internal decision-making and assessments of events must include a sufficient consideration of the bank's reputation in the outside world (which also includes its customers, counterparties, shareholders and supervisory authorities). In 2020, the brands of de Volksbank were well appreciated, as reflected by the NPS scores. However, the departure of key functionaries and related board dynamics initiated some intense reputation management. As the bank maintains a structure to allow rapid identification of events that potentially threaten its reputation, the follow-up of adverse media exposure has been adequate in preventing further reputational damage. Upcoming related reputation sensitive events are being anticipated upon.

Type of risk

SUSTAINABILITY RISK
- Sustainability risk is the risk of financial and/or reputational damage as a result of ecological and/or social developments.

Developments 2020
- The developments concerning sustainability risk are elaborated in Chapter 14 Sustainability risk.

3.3 Risk management approach of the institution

RISK MANAGEMENT FRAMEWORK

De Volksbank applies the Integrated Control Framework (ICF) to manage risks. In line with COSO Enterprise Risk Management, the ICF creates well-defined frameworks that ensure streamlined control processes with clear risk governance and provide direction to the right culture and risk awareness.

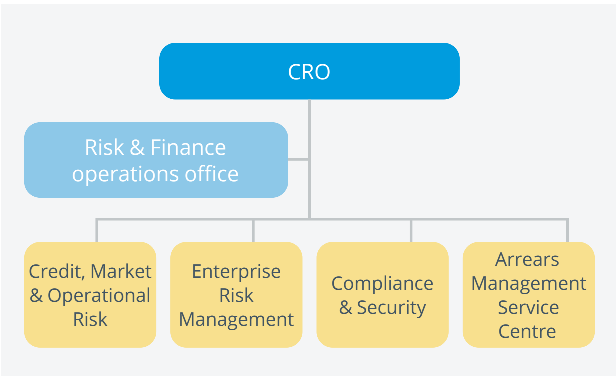
The risk management process consists of four annual cycles: the performance of the strategic risk analysis (SRA), the tactical risk analysis (TRA), the determination of the risk appetite and the risk strategy.
Together, these components form a solid foundation that enable the bank to actively manage the risks that affect the achievement of the strategic objectives.

The Board of Directors performs the annual SRA, identifying all risk factors resulting from both internal and external developments. Where necessary, measures are defined to bring the consequences of these risk factors within the risk appetite. The Board of Directors forms an opinion on the achievement of the strategic objectives and risk management on the basis of documents such as monthly and quarterly business reports, second-line risk reports and internal audit reports.

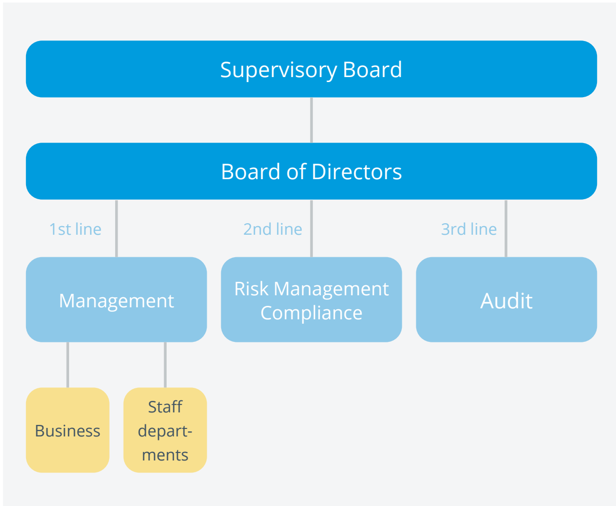
De Volksbank's mission, ambition and strategic objectives are translated into a risk strategy that describes risk management objectives with due regard to the SRA results.

RISK GOVERNANCE

The risk management organisation is as follows:



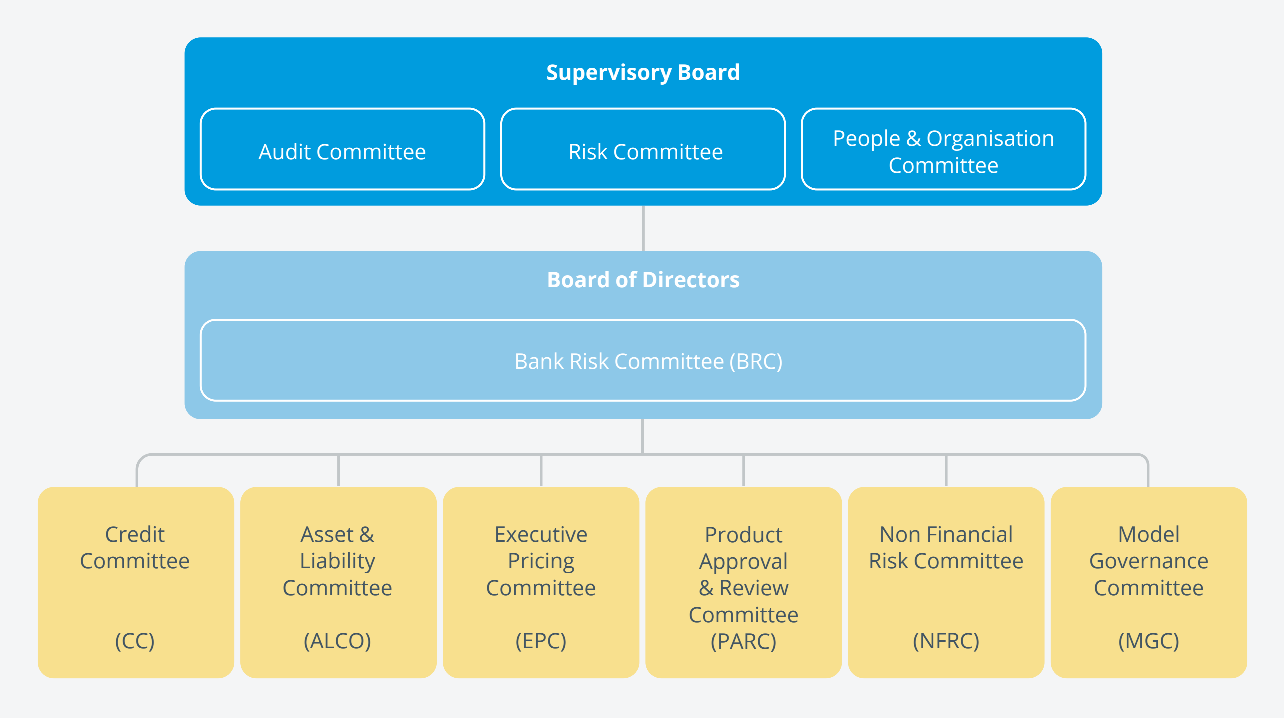
We are currently working to improve the structure of the Compliance organisation. De Volksbank's risk governance is based on the three lines of defence model.



In this model, the first line of defence (the business) is responsible for setting up and executing its own processes. It identifies the risks, assesses and reports on these risks and measures them against the risk appetite that has been determined. The second line supports the business, sets the frameworks, gives advice and monitors whether the business actually takes its responsibility. The second line compliance function monitors whether de Volksbank complies with laws and regulations as well as its internal policies on integrity. The third line (the audit function) independently assesses the first and second lines' performance.

The Board of Directors bears ultimate responsibility for risk management. Within the risk management organisation, the Board of Directors acts as an overaching 'Bank Risk Committee (BRC)', 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 is advised by the Audit Committee, the Risk Committee and the People & Organisation Committee.



Each risk committee is chaired by a member of the Board of Directors. The third line does not have permanent representation in the risk committees, but may attend meetings if they wish.

In the committees, discussions are held between the business, which controls the risks, and the risk management organisation, which monitors the risks and related control. Decision-making on risks follows the lines of risk governance and is assessed against the risk guidelines. If, and when, risk limits are exceeded or the risk appetite is not adhered to, we discuss this and the subsequent remedial actions in the risk committees.

A risk committee may presents a point of discussion to the Board of Directors where necessary.

In addition to the risk committee structure, there are two regulatory boards. They identify developments in relevant laws and regulations and ensure their correct and timely implementation within de Volksbank. There is also an information board, which adopts data management and data definition policies and monitors their implementation. The regulatory boards and the information board come under the responsibility of a member of the Board of Directors.

Every year, we perform a complete self-assessment for all risk committees. Points for improvement are defined where necessary.

CULTURE AND RISK AWARENESS

Risk culture propagation

Culture is a decisive factor in risk management and risk awareness and, as such, is part of the ICF. We want the risk culture to be propagated by the entire organisation. The Board of Directors and employees are aware of their role, of their serving as an example and of their responsibilities. The Board of Directors approves the risk policy. The presence of members of the Board of Directors in all risk committees testifies to their commitment to risk management.

Risk guidelines

De Volksbank has extensive risk guidelines in place, describing, for example, its risk appetite, duties and responsibilities, and reporting and communication lines. Our risk guidelines dovetail with our position as a social bank with low-risk activities. We continuously fine-tune our guidelines and have incorporated the shared value approach into these guidelines. We encourage a critical consideration of the risk-return ratio by focusing on customers, society, employees and the shareholder. In addition to financial returns, other important aspects are benefits for customers, genuine attention for our employees and responsibility for society.

Development of risk awareness

Managers ensure that the risk guidelines are sufficiently clear and known to employees. Training courses, workshops and e-learning programmes are provided within the organisation to further develop risk awareness and help employees respond to risks in a better and more conscious way. In addition, success stories and lessons learned in the area of risk awareness are shared with staff.

Internal code of conduct

We expect our employees to act with integrity. In doing so, they are guided by our Common Sense, Clear Conscience code of conduct, which pays attention to moral dilemmas and how employees can deal with them. A well-spread network of confidants offers staff the opportunity to broach the subject of any malpractices.

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, since this prevents us from taking undesirable risks that might give priority to short-term individual interests over long-term collective objectives. Please refer to section 6.6 Remuneration report of the 2019 annual report of de Volksbank for more information about the remuneration policy.

3.4 Managing and hedging risk

Every year, we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives (see also section 3.1 General information on risk management, objectives and policies).

Our strategy incorporates the objective of having a solid capital position at our disposal, combined with a proper Return on Equity (RoE) for our shareholders. The Risk Appetite Statement (RAS) describes de Volksbank's risk appetite in relation to its own capital position. We have also established intervention levels allowing us to identify any unforeseen weakening of our capital position in good time and to make adjustments.

In credit risk management, we take into account the individual customer and on a portfolio level we manage the risk based on inflow, outflow, size and status of the healthy loans versus the loans in arrears. Customers' interests are put first in the provision of new mortgage loans (inflow), which means that customers must be able to pay interest and make repayments now and in the future. We use the acceptance scorecard to predict long- term affordability by and for customers and see to it that the mortgages provided meet our internal standards regarding the customer's income and the collateral value. De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.

We have adjusted our acceptance policy in order 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 defined by de Volksbank. Applicants with business income became subject to greater scrutiny, since they are considered to be hit the hardest by the crisis. The possible impact of Covid-19 is now taken into account when determining the business income.

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.

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.

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 a way that it can absorb the consequences of bank-specific and market-wide stress factors, such as tensions in the money and/or capital markets.

When financing its liquidity needs, the bank aims for diversification of its funding sources, in accordance with its strategy.

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 of the annual report.

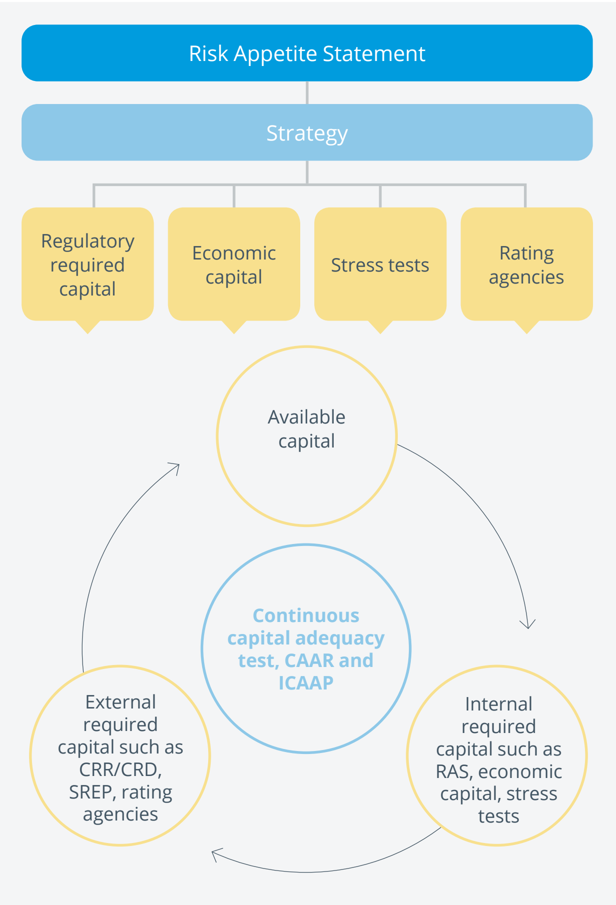
4 Own funds and leverage

4.1 Management and control

MANAGEMENT AND CONTROL

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.

Our capital management process is presented in the figure below.



REGULATORY CAPITAL AND MREL

The minimum amount of capital required by law (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 (leverage ratio). As described in section 4.4 Macroprudential supervisory measures, the minimum risk-weighted capital ratios follow from 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.

ECONOMIC CAPITAL

De Volksbank also makes its own internal (economic) estimate of the amount of capital required. This deviates from regulatory capital on two main points:

1. Our calculations of economic capital include all risks from which material losses may ensue within a one-year horizon according to internal insight. This means that we consider more types of risk than in the calculations for regulatory capital.
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, for example in the areas of liquidity and profitability. Stress tests may be prescribed internally, may be requested by supervisory authorities or may be part of the ICAAP.

The scenarios to be calculated are drafted on the basis of a detailed risk identification, which considers both systemic risks (i.e., risks related to the financial system) and idiosyncratic risks (i.e., risks specific to de Volksbank). 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. A reverse stress test starts 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 the events that could lead to such a situation.

For the scenarios whose impact is calculated in a stress test, the development of unemployment, economic growth, interest rates and other factors is estimated. In the stress test, these macroeconomic variables adversely impact, for example, 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 to analyse the bank's sensitivity to various types of stress. The results are also used as input for setting limits as part of the risk appetite and for determining 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.

RATING AGENCIES

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

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. As an 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. The continuous (internal) assessment of the adequacy and effectiveness of the risk management framework regarding capital adequacy and its compliance with internal policies and the risk appetite framework is part of the Internal Capital Adequacy Assessment Process (ICAAP), which constitutes input for the Supervisory Review & Evaluation Process (SREP) of the European Central Bank (ECB). 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 further comprises:
   - Annual recalibration of the capital management strategy.
   - Definition of actions in the capital and liquidity plan. We do this at least once a year, giving substance to the anticipated capital 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, taking into account the anticipated effects of future regulations.
   - Update of forecasts in the monthly Capital Adequacy Assessment Report (CAAR). Based on a revised capital plan when appropriate, the forecasts are updated every month based on the most recent insights and reported to the ALCO. The CAAR includes a CAS 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 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 on the basis of the risk appetite for capital adequacy. We also establish an intervention ladder with specific ranges per risk indicator in case follow-up is required.
4. Monitoring of capital adequacy. We monitor early warning indicators defined in the RAS for capital adequacy in the Treasury Committee on a regular basis. The ALCO monitors the RAS indicators in the CAAR on a monthly basis.
5. Residual risk. Because of (unexpected) balance sheet or regulatory developments, it is possible that not all capital risks are identified or fully managed at all times. 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.

RECOVERY PLAN AND CONTINGENCY PLANNING

The planning for unforeseen events (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 for possible liquidity problems. Potential capital or liquidity problems are identified by frequent monitoring of 'early warning' indicators. Changes in these indicators may be the first sign of stress.

We activate the recovery plan if and when the indicators signal that this is necessary. Applying the measures available from the recovery plan helps us to reinforce the ratios and recover independently. The measures have a wide scope and relate to capital and liquidity as well as to operations and communications. The choice of the measures to be applied depends on the nature and severity of the deteriorating conditions. Such measures include raising capital, lowering the risk-weighted assets, raising funding and setting up the backup for critical systems or applications.

In addition to a description of the available measures and the conditions to be satisfied before they can be implemented, 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 ('recoverability assessment').

The recovery plan is updated and discussed with the ECB's Joint Supervisory Team (JST) every year. The recovery plan of 2020 includes a COVID-19 scenario, as requested by the ECB. This scenario combines system-wide macroeconomic and idiosyncratic stress.

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.

Main features of capital instruments

		de Volksbank N.V.	
	In € millions (unless stated otherwise)	**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)		XS2202902636
3	Governing law(s) of the instrument	Dutch law	Dutch law
	Regulatory treatment		
4	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 (currency in million, as of most recent reporting date)	3,918	500
9	Nominal amount of instrument (originally issued capital)	381	500
9a	Issue price	381	500
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
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
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	Nonconvertible	Nonconvertible
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
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

	de Volksbank N.V.		
	In € millions (unless stated otherwise)	**CET1 Capital**	**Tier 2 Capital**
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
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

Pillar 3 own funds

1	**Capital instruments and the related share premium accounts**	**3,918**
	of which: ordinary shares	381
	of which: share premium	3,537
	of which: instrument type 3	--
2	Retained earnings	43
3	Accumulated other comprehensive income (and other reserves)	-642
3a	Funds for general banking risk	--
4	Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	--
5	Minority interests (amount allowed in consolidated CET1)	--
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	--
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	*3,319*
	Common equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-4[1]
8	Intangible assets (net of related tax liability) (negative amount)	--
9	Empty set in the EU	--
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) are met) (negative amount)	--
11	Fair value reserves related to gains or losses on cash flow hedges	-22
12	Negative amounts resulting from the calculation of expected loss amounts	--
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	-0
15	Defined-benefit pension fund assets (negative amount)	--
16	Direct and indirect holding by an institution of own CET1 instruments (negative amount)	--
17	Direct, indirect and synthetic holdings by the institution of the CET1 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	Empty set in the EU	--
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	--
20b	*of which: qualifying holdings outside the financial sector (negative amount)*	--
20c	*of which: securitisation positions (negative amount)*	--
20d	*of which: free deliveries (negative amount)*	--
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liability where the conditions in Article 38 (3) are met) (negative amount)	--
22	Amount exceeding the 15% threshold (negative amount)	--
23	*Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	--
24	Empty set in the EU	--
25	*of which: deferred tax assets arising from temporary differences*	--
25a	Losses for the current financial year (negative amount)	--
25b	Foreseeable tax charges relating to CET1 items (negative amount)	--
	Of Which: ...	--
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	--
27a	Other regulatory adjustments	-70[2]
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	*-96*
29	**Common Equity Tier 1 (CET1) capital**	*3,223*
	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 art. 484 (4) and the related share premium accounts subject to phase out from AT1	--
34	Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	--
35	*of which: instruments issued by subsidiaries subject to phase out*	--

1	**Capital instruments and the related share premium accounts**	**3,918**
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	--
	AT1 capital: regulatory adjustments	
37	Direct and indirect holding by an institution of own AT1 instruments (negative amount)	--
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the 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 (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	Empty set in the EU	--
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	--
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	--
44	**Additional Tier (AT1) capital**	--
45	**Tier 1 capital (T1= CET1 + AT1)**	*3,223*
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	500
47	Amount of qualifying items referred to in art. 484 (5) and the related share premium accounts 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	11
51	**Tier 2 (T2) capital before regulatory adjustments**	*511*
	Tier 2 (T2) capital: regulatory adjustments	
52	Direct and indirect holding by an institution of own T2 instruments and subordinated loans (negative amount)	--
53	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 and indirect 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)	--
55	Direct and indirect holdings 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)	--
56	Empty set in the EU	--
57	**Total regulatory adjustments to Tier 2 (T2) capital**	*0*
58	**Tier 2 (T2) capital**	*511*
59	**Total capital (TC = T1 + T2)**	*3,734*
60	**Total risk weighted assets**	*10,331*
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	31.19%
62	Tier 1 (as a percentage of total risk exposure amount)	31.19%
63	Total Capital (as a percentage of total risk exposure amount)	36.14%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	3.50%
65	*of which: capital conservation buffer requirement*	2.50%
66	*of which: countercyclical buffer requirement*	0.00%
67	*of which: systemic buffer requirement*	1.00%
67a	*of which: Global Systemically important Institution (G-SII) or Other Systemically important institution (O-SII) buffer*	1.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	23.19%
69	[non relevant EU regulation]	
70	[non relevant EU regulation]	
71	[non relevant EU regulation]	
	Amounts below the thresholds for deduction (before risk weighting)	
72	Direct and indirect holdings of the capital 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)	--
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 10% threshold and net of eligible short positions)	--
74	Empty set in the EU	--

1	**Capital instruments and the related share premium accounts**	**3,918**
75	deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) 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	--
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	29
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	--
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	35
	Capital instruments subject to phase-out arrangements (1 Jan 2014 - 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	--
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	--

1 De Volksbank is subject to requirements on prudential valuation on financial instruments that are measured at fair value. To this end, de Volksbank uses the simplified approach. This method implies that an additional valuation adjustment (AVA) is taken into account and calculated by multiplying the total absolute fair value of the financial positions in scope by 0.1%. The calculated AVA is deducted from CET1 capital and does not have an impact on the exposure amounts considered for regulatory purposes.

2 Expected impact of the revised Advanced Internal Ratings Based (AIRB) model (PHIRM 3.1) for our retail non-SME mortgages.

Pillar 3 own funds reconciliation with IFRS balance sheet

Equity	IFRS balance sheet	Page/note[1]	Reconciliation with row in own funds template
Total Equity	3,450[2]	p130	
- of which share capital	381		1
- of which share premium reserve	3,537		1
- of which accumulated other comprehensive income	31		3
- of which fair value reserves related to gains on cash flow hedges	22		3, 11
- of which other reserves	-695		3
- of which retained earnings	--		2
- of which profit/loss of the current financial year	174		5a
Assets			**Reference to row in own funds template**
Loans and advances to customers	50,542	n7	11
Investments	5,113	n5	7
Tangible and intangible assets	110	n8	
- of which Intangible assets	-0		8
Tax assets	42	n9	
- of which deferred tax assets	18		10
Derivatives	864	n3	7
Liabilities			
Subordinated debt	500	n18	46
Derivatives	2,163	n3	7
Tax liabilities	17	n9	
- of which deferred tax liabilities	17		10

1 2020 annual report of de Volksbank N.V.

2 Reference is made to the Consolidated statement of changes in equity in the annual report of de Volksbank N.V.

4.3 Capital requirements

EU OV1 – Overview of RWAs 2020

	in € millions	RWA 2020	RWA 2019	Minimum capital requirements 2020
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**8,077**	**7,875**	**646**
2	*Of which the standardised approach*	2,179	1,944	174
3	*Of which the foundation IRB (FIRB) approach*	--	--	--
4	*Of which the advanced IRB (AIRB) approach*	5,897	5,932	472
5	*Of which equity IRB under the simple risk-weighted approach or the IMA*	--	--	--
6	**CCR**	**183**	**219**	**15**
7	*Of which mark to market*	113	115	9
7a	*Of which SFTs*	--	--	--
8	*Of which original exposure*	--	--	--
9	*Of which the standardised approach*	--	--	--
10	*Of which internal model method (IMM)*	--	--	--
11	*Of which risk exposure amount for contributions to the default fund of a CCP*	--	--	--
12	*Of which CVA*	70	104	6
13	**Settlement risk**	**--**	**--**	**--**
14	**Securitisation exposures in banking book (after the cap)**	**17**	**8**	**1**
15	*Of which IRB approach*	--	5	--
16	*Of which IRB supervisory formula approach (SFA)*	--	--	--
17	*Of which internal assessment approach (IAA)*	--	--	--
18	*Of which standardised approach*	--	3	--
18a	*Of which securitisation external ratings-based approach (SEC-ERBA)*	7	--	1
18b	*Of which securitisation standardised approach (SEC-SA)*	10	--	1
19	**Market risk**	**--**	**5**	**--**
20	*Of which standardised approach*	--	5	--
21	*Of which IMA*	--	--	--
22	**Large exposures**	**--**	**--**	**--**
23	**Operational risk**	**1,451**	**1,503**	**116**
24	Of which basic indicator approach	--	--	--
25	*Of which standardised approach*	1,451	1,503	116
26	*Of which advanced measurement approach*	--	--	--
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**3**	**70**	**0**
28	**Floor adjustment**	**--**	**--**	**--**
28a	**Additional risk exposure amount due to Article 3 CRR**	**600**[1]	**--**	**48**
29	**Total**	**10,331**	**9,680**	**827**

1 Expected impact of the revised Advanced Internal Ratings Based (AIRB) model (PHIRM 3.1) for our retail non-SME mortgages.

In 2020, RWA increased by € 651 million to € 10.3 billion. This increase is mainly due to an upcoming update of our internal model to assess residential mortgages (PHIRM).

The AIRB model PHIRM, which the Volksbank uses to determine the credit risk in its residential mortgage portfolio is currently being updated. The current update addresses the EBA guidelines on Definition of Default and includes some model improvements as identified during the Targeted Review of Intern Models (TRIM), also to comply with updated CRR/CRD IV regulation for IRB portfolios. This PHIRM update will entail an estimated increase of RWA of € 775 million in total. Although implementation is scheduled for March 2021, the impact of the model improvements estimated at € 600 million is already included per 2020 year end as Additional risk exposure amount due to Article 3 CRR. The remaining impact related to the application of Definition of Default will be included per January 2021.

The remaining increase was mainly attributable to a € 369 million increase related to the increased short-term exposures to other financial institutions, partly offset by a € 120 million reduction due to an adjusted weighting of the credit facility granted to the Deposit Guarantee Fund (DGF) and a reduction of € 89 million for SME loans, mainly related to increased loan- splitting for these exposures in 2020.

Credit risk RWA (not including Counterparty Credit Risk, CCR) subject to the Standardised Approach increased by € 235 million to € 2.2 billion.

The RWA for the credit risk of the residential mortgage portfolio, calculated according to the AIRB approach, was € 35 million lower. Despite deteriorated economic conditions the credit quality of the portfolio improved, partly due to the strong development of the housing market. As a result the average risk weighting of residential mortgages in 2020 went down from 12.9% at year-end 2019 to 12.7%.

The RWA for operational risk, market risk, the Credit Valuation Adjustment and the revised securitisation framework decreased by € 81 million to € 1.5 billion in total.

At year-end 2020 de Volksbank has no transactions in which the agreed delivery dates have not been settled yet. Therefore per year-end 2020 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 2020, 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.

4.4 Macroprudential supervisory measures

CAPITAL REQUIREMENTS
CRR/CRD IV -REQUIREMENTS

CRR/CRD IV requirements 12 March 2020

	Total capital	of which Tier 1 capital	of which CET1 capital
Pillar 1 requirement	8.00%	6.00%	4.50%
Pillar 2 requirement	2.50%	1.88%	1.41%
Total SREP Capital Requirement (TSCR)	**10.50%**	**7.88%**	**5.91%**
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII buffer	1.00%	1.00%	1.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%
Combined Buffer Requirement (CBR)	**3.50%**	**3.50%**	**3.50%**
Overall Capital Requirement (OCR)	**14.00%**	**11.38%**	**9.41%**
Pillar 2 guidance add-on (CET1)			**2.70%**
Pillar 2 guidance level			**12.11%**

With effect from 12 March 2020, de Volksbank is required to meet a minimum total Overall Capital Requirement (OCR) of 14.0%, of which at least 9.41% (previously: 10.5%) needs to be composed of CET1 capital. This obligation stems from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2019, and the SREP decision applicable from 1 January 2020. As a measure to support the banks' capital position in response to the Covid-19 crisis, the ECB announced that, as from 12 March 2020, the Pillar 2 requirement need not be entirely composed of CET1 capital, but may partially consist of Additional Tier 1 and Tier 2 capital. In doing so, it brought forward Article 104(a) of CRD V, which was scheduled to come into effect in January 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 2.5% – together 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% as from 1 January 2020 and the O-SII buffer for de Volksbank equalled 1.0% on 1 January 2020. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising in case of excessive credit growth. Each quarter The Dutch Central Bank (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).

COVID-19 RELATED MEASURES

In addition to bringing forward Article 104(a) of CRD V, the following supervisory and regulatory measures have been 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).
- The ECB has recommended that banks do not pay dividends for the financial years 2019 and 2020 until at least 1 January 2021 and exercise extreme prudence until 30 September 2021 when deciding on or paying out dividends.
- The ECB has announced that banks under its direct supervision may exclude certain central bank exposures from the LR calculation until 27 June 2021.
- The BCBS has postponed the introduction of Basel IV, including the phasing of the output floor on revised standardised approaches, to 1 January 2023 and has extended the accompanying transitional period for the output floor to 1 January 2028.
- DNB has postponed the introduction of the new floor for mortgage loan risk weighting, initially scheduled for the autumn of 2020.

INTERNAL MINIMUM LEVEL

De Volksbank has adjusted its target for the leverage ratio target to at least 4.50% (previously: at least 4.75%). The CET1 capital ratio target remains unchanged 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 may greatly impact income, costs and impairments.

On top of the SREP requirement of 9.41% and the Pillar 2 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.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer 2020

	General credit exposures		Trading book exposures		Securitisation exposures			Own funds requirements					
In € millions	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Exposure value for SEC-ERBA	Of which: general credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights	Effective Countercyclical capital buffer rate
BREAKDOWN BY COUNTRY:													
The Netherlands	1,424	46,346	--	--	60	--	35	551	--	1	552	92.36%	0.00%
France	96	2	--	--	--	--	--	1	--	--	1	0.22%	0.00%
Germany	116	9	--	--	--	--	--	8	--	--	8	1.30%	0.00%
Belgium	273	48	--	--	--	--	--	23	--	--	23	3.77%	0.00%
Austria	0	1	--	--	--	--	--	0	--	--	0	0.00%	0.00%
Luxembourg	126	--	--	--	--	--	--	10	--	--	10	1.69%	0.25%
Great Britain	38	7	--	--	--	--	--	3	--	--	3	0.54%	0.00%
Switzerland	0	3	--	--	--	--	--	0	--	--	0	0.01%	0.00%
Cyprus	1	0	--	--	--	--	--	0	--	--	0	0.01%	0.00%
Spain	0	1	--	--	--	--	--	0	--	--	0	0.01%	0.00%
Portugal	0	--	--	--	--	--	--	0	--	--	0	0.00%	0.00%
United States	0	3	--	--	--	--	--	0	--	--	0	0.01%	0.00%
Other	23	10	--	--	--	--	--	1	--	--	1	0.08%	0.00%
Total	**2,097**	**46,429**	**--**	**--**	**60**	**--**	**35**	**597**	**--**	**1**	**598**	**100%**	

in € millions	2020
Total risk exposure amount	10,331
Institution specific countercyclical buffer rate	--
Institution specific countercyclical buffer requirement	--

4.5 Leverage ratio

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% will apply to de Volksbank.

To manage the risk of excessive leverage, leverage ratio control is part of our capital planning. 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.

The following table presents the leverage ratio for de Volksbank according to the composition of risk exposure and equity prescribed in the CRR.

Leverage ratio

in € millions	2020	2019
EXPOSURE VALUES		
Derivatives: market value	100	121
Derivatives: add-on mark-to-market method	305	276
Off-balance: undrawn credit facilities	43	113
Off-balance: medium/low risk	908	710
Off-balance: other	569	--
Other assets	65,118	60,850
Exposures exempted in accordance with Article 429 (14) of the CRR	-4,452	--
CAPITAL AND REGULATORY ADJUSTMENTS		
Tier 1 capital	3,223	3,156
Regulatory adjustments (Tier 1)	-96	-65
Exposure measure as defined by the CRR	62,494	62,006
Leverage ratio	5.2%	5.1%

The leverage ratio increased from 5.1% at year-end 2019 to 5.2%, mainly driven by an increase in the leverage ratio numerator (Tier 1 capital) by € 67 million. The leverage ratio denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR). The increase in risk exposure amounted to € 0.5 billion. This increase mainly results from the growth in the balance sheet total (€ 4.6 billion) and a deduction of central bank exposures of € 4.5 billion, as allowed by the ECB as a temporary Covid-19 relief measure. The increase was mainly due to the growth in deposits.

The 5.2% leverage ratio is well above the regulatory requirement of 3.0% 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 residential mortgages, a low-risk activity with a correspondingly low risk weighting.

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.

Reconciliation of accounting assets and the leverage ratio exposure

	in € millions	2020	2019
1	Total assets as per published financial statements	67,484	62,841
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	-321
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	824
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	-1,273
7a	Regulatory adjustments	-96	-65
8	**Total leverage ratio exposure (CRR)**	**62,494**	**62,006**

Leverage ratio common disclosure

	in € millions	CRR leverage ratio exposures 2020	2019
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	65,118	60,850
2	(Asset amounts deducted in determining Tier 1 capital)	-96	-65
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	65,022	60,785
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	271	246
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	305	276
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	-125
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)	--	--
11	**Total derivative exposures (sum of lines 4 to 10)**	405	397
	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	2,553
18	(Adjustments for conversion to credit equivalent amounts)	-1,282	-1,730
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	1,519	824
	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	3,156
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	62,494	62,006
	Leverage ratio		
22	**Leverage ratio**	5.2%	5.1%
22a	**'Leverage ratio' (excluding the impact of any applicable temporary exemption of central bank exposures)**	4.8%	5.1%
	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	fully phased-in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	n.a.	n.a.

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

		CRR leverage ratio exposures	
	in € millions	**2020**	**2019**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**60,666**	**60,850**
EU-2	Trading book exposures	--	10
EU-3	Banking book exposures, of which:	60,666	60,840
EU-4	Covered bonds	164	102
EU-5	Exposures treated as sovereigns	5,667	7,216
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	35	38
EU-7	Institutions	4,420	2,594
EU-8	Secured by mortgages of immovable properties	47,968	45,577
EU-9	Retail exposures	122	98
EU-10	Corporate	1,606	1,563
EU-11	Exposures in default	364	278
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	321	3,374

5 Credit risk and general information on CRM

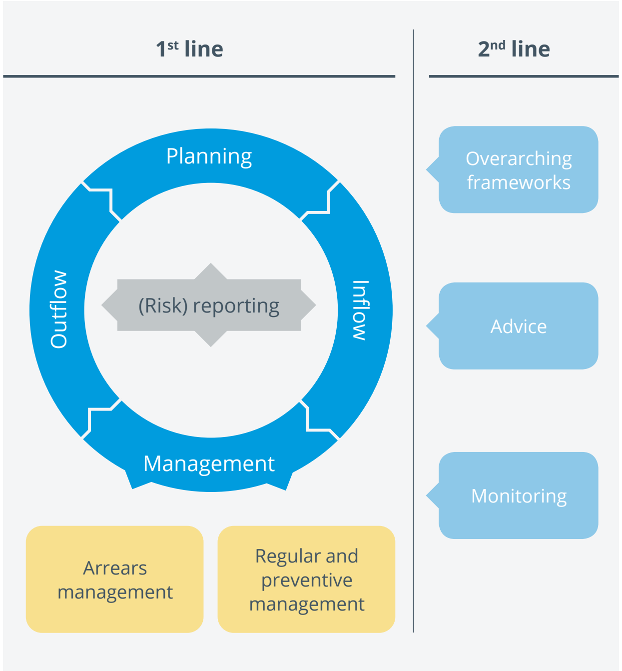
De Volksbank has divided its credit risk portfolio into several exposure classes. We use the Advanced Internal Ratings-Based approach to calculate the capital requirements for the residential mortgage portfolios and securitisations with underlying mortgages. We use the Standardised Approach for all other 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.

5.1 General qualitative information regarding credit risk

MANAGEMENT AND CONTROL

As part of credit risk management, we internally assess and monitor the credit standing of our customers and counterparties. In this process we estimate to the best of our knowledge the probability of our customer being unable to meet their contractual obligations arising from the loan agreement. Such an inability would result in a potential financial loss for the bank.

On a portfolio level we also steer the risk by defining the desired quality of inflow size and the status of the healthy loans versus the loans in arrears and by monitoring the outflow. De Volksbank's credit risk management process is represented visually below.



LOAN PORTFOLIOS

Residential mortgages

When providing a new mortgage loan we put customers' interests first and use internal standards, which are in line with the legal frameworks. We use the acceptance scorecard to predict whether customers are able to comply with their obligations in the long term and ensure that the originated loans meet internal standards regarding the customer's income and the collateral value. See also Section 5.3 General qualitative information regarding credit risk mitigation.

The structure of the approval mandates allows acceptors themselves to decide in many instances whether to accept or reject applications. Applications that result in a higher risk score on the acceptance scorecard and/or departing from the acceptance policy are submitted to second-line credit risk management for a decision. The Credit Committee's authority to approve residential mortgage loans has been delegated to second-line credit risk management. This division of powers shortens the processing period and ensures that decisions are taken by the people with the most in-depth knowledge.

We have adjusted our acceptance policy in order 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 defined by de Volksbank. Applicants with business income became subject to greater scrutiny, since they are considered to be hit the hardest by the crisis. The possible impact of Covid-19 is now taken into account when determining the business income.

For next-home buyers who have not sold their current home, we have lowered the maximum bridging loan from 100% to 90% in order to reduce the risk of a liquidity problem in case the home is sold at a lower price than expected. The second adjustment is the requirement that the buyer of the home must provide a bank guarantee. Should a situation arise in which he or she is forced to withdraw from the transaction, our applicant will be certain that the 10% penalty is covered.

Interest-only and 'Aflossingsblij'

De Volksbank pays special attention to the sub-portfolio of interest-only mortgages. We continuously monitor the credit risk profile of customers with an interest-only mortgage to be able to timely identify and proactively contact those who fall into a high-risk category. This may be, for instance, when the mortgage is nearing its maturity and given the age of the customer it is likely that they will retire, which may cause a drop in income. In the conversations we have with the customers, we attempt to find out to what extent it is likely that the mortgage can be refinanced based on their retirement income and whether they have accumulated sufficient capital to repay their loan in full or in part at the end of the term. De Volksbank is also one of the participants in the *Aflossingsblij* campaign of the Dutch Banking Association (NVB), which seeks to create nationwide awareness of the characteristics of this type of mortgage. 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. Preventive Management contacts the customer when there is a reason to doubt the ability of the customer to fulfil his or her commitment towards the bank in accordance with agreed terms. Preventive Management assesses whether a solution needs to be found for the customer and whether such a solution is within the adviser's mandate. If it is not, the customer 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 making their mortgage payments.

To prevent payment problems from accumulating or situations in which the loan has to be called in early we may 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 may consult with them and agree on a payment measure or restructuring.

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, securing an optimal relationship. 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 financial resources needed. This is because the use of external parties creates more costs for the customer and exacerbates the customer's financial problems.

The outbreak of the Covid-19 pandemic has brought significant changes to the operations of the Arrears Management department regarding customers hit by the economic lockdown.

In response to the Covid-19 crisis we have adjusted our approach to customer services in order to support our customers that suffer from the economic consequences of the pandemic. For our retail customers that foresee payment problems on their mortgage or any of their consumer loans due to Covid-19, we offer the opportunity to take a full or partial payment holiday of up to 6 months (interest and repayments) combined with a default interest reduction to 0% during the payment holiday and a repayment term of no more than 5 years depending on the customer's repayment capacity. 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 may extend this payment holiday until the end of 2021. De Volksbank applies this extension only selectively, since we believe that it does not in all cases contribute to the long-term financial resilience of our customers. The ability to pay the outstanding arrears in full generally diminishes as time progresses and the amount of arrears accumulates. Our aim is to help customers to get a grip on their financial situation as fast as possible.

Consumer loans

We hold a modest portfolio of personal loans, revolving credit and overdraft facilities, i.e. credit limits on current accounts. We no longer provide new personal loans or revolving credit.

To overcome the temporary financial difficulties caused by the Covid-19 pandemic, our retail customers with a consumer loan are allowed to make use of the same relief measures as customers with a mortgage loan.

SME loans

Within the scope of the SME portfolio we offer working capital loans, grant overdraft facilities of up to € 50,000 and provide mortgage loans for the purchase or refinancing of commercial real estate.

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 company (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. 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 2017, we use the 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 company financially resilient again, focusing on a healthy liquidity and profitability position. If and 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 turns out to be impossible, we may support the customer in selling the collateral. In such a situation, the aim is to limit losses for the customer as well as for the bank.

To support our SME customers hit 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 current account who meet a number of conditions are 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 may apply for this corporate loan.

Another option is to increase the limit of the existing overdraft facility.

In the EBA guidelines, published in April 2020, the EBA listed conditions to qualify for general payment moratoria. The repayment and/or interest holiday granted to SME customers fell under the (private) moratorium that the seven largest banks in the Netherlands announced on 19 March 2020 and that lasted until September 2020.

As the Covid-19 crisis persisted, the EBA extended the deadlines for general payment moratoria, first moving the end date from 30 June to 30 September. In the light of the second Covid-19 outbreak, in December 2020 the EBA introduced a new deadline for the application of moratoria of 31 March 2021. Within de Volksbank only certain measures available to SME customers qualified for 'general payment moratoria'. Together with other Dutch banks de Volksbank decided not to make use of the extended deadlines for the general payment moratoria. This means that only supporting measures granted prior to 30 September 2020 fall under the scope of the general payment moratoria.

Other corporate and government loans

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

Furthermore, through our 'Financial Markets' portfolio we provide various loans to other financial institutions and have lent funds to central governments.

Investments

Investments predominantly consist of a bond portfolio used for liquidity management purposes. Counterparties must meet stringent requirements and have good ratings to qualify for inclusion in this portfolio.

REPORTING

De Volksbank possesses a comprehensive credit risk monitoring framework which allows us to monitor, analyse and manage the credit risk at the level corresponding to our risk appetite.

The responsibilities of credit risk reporting lie with first- and second-line risk management. The first line monitors portfolio developments in order to steer the risk it owns to remain within the boundaries of the risk appetite. The second line develops credit risk reports which provide comprehensive insight into the level of credit risk and signal in a timely manner any sign of portfolio deterioration in the credit risk profile of de Volksbank. The first and second lines hold monthly meetings where portfolio developments as well as various aspects of the credit risk including insights gained from the credit risk reports are discussed.

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

LOAN LOSS PROVISIONS (IFRS 9)

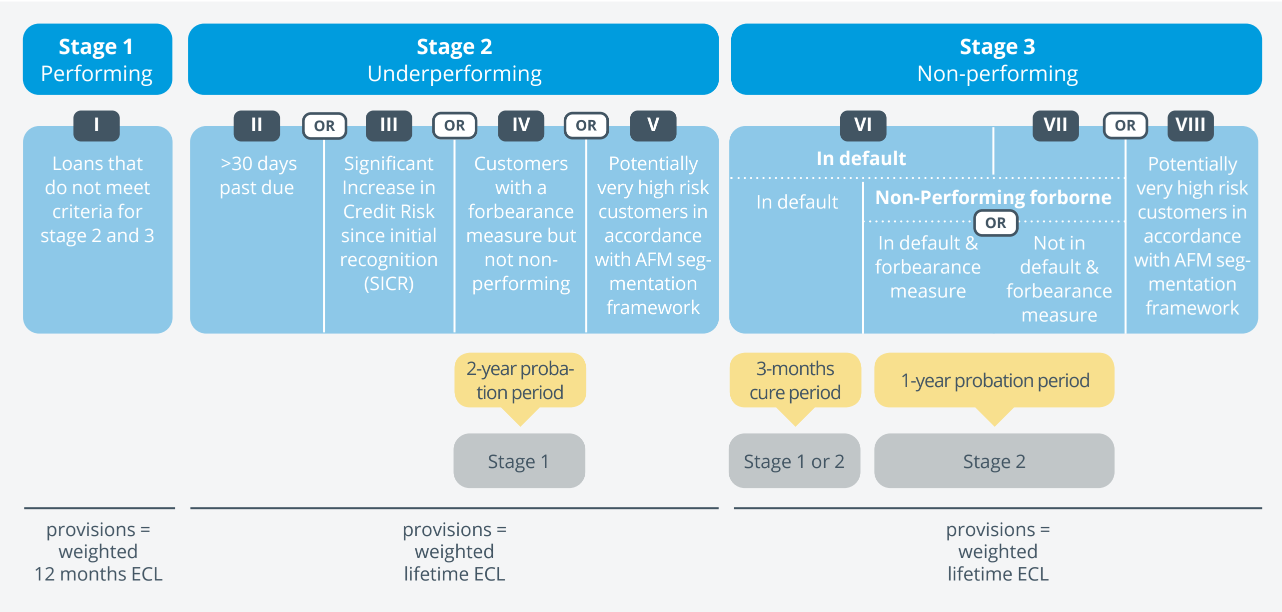
As from 1 January 2018, we have adopted IFRS 9 and form loan loss provisions in accordance with these requirements. Based on IFRS 9 Expected Credit Loss (ECL) models, we estimate the risk of running into financial difficulties for all our customers on a monthly basis. See also Section 3.3.3 Provisioning methodology in the annual report.

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 the credit risk has significant impact on stress test results.
In 2020 de Volksbank supplemented its stress test framework with a number of scenarios reflecting the 'worst case' expectations regarding the consequences of the Covid-19 pandemic.

In addition, we examine how sensitive the loan portfolios and the level of the loan loss provisions are to 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 payment of the interest 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 moved 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 predefined 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 fully or partially interest-only mortgage loans. Mortgage loans with a high expected 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. When after contact with the customer there is more certainty about income data and the capacity to refinance the loan in the future, the stage can be revised.

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

If a customer is credit impaired, the loans provided are 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. Customers in default

De Volksbank applies a specific definition of default to every portfolio for which loan loss provisions have to be determined. A customer goes into default once three monthly instalments have not been paid and the past-due amount exceeds a threshold value. A customer also goes into default if we consider it unlikely that the customer will be able to comply with his or her obligations in the future. These additional Unlikely-to-Pay (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

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.

In 2018, the supervisory authority tightened the guidelines for determining the default status. European banks have until 1 January 2021 to bring their definitions in line with the guidelines. Starting from 1 January 2021, de Volksbank reports will be based on the new definition of default.

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 and who are not in default (according to the criteria specified in VI) 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.

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

The basic principle for the stage 3 classification of customers with fully or partially interest-only mortgage loans is similar to the one described at V. If the income data obtained show an increased risk concerning the ability to make payments, the customer is regarded as credit impaired and placed in stage 3. For this customer group provisions are calculated based on the average coverage ratio of stage 3 customers.

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

In response of the Covid-19 pandemic, in April 2020 the European Banking Authority (EBA) published guidelines advising banks, among others, on how to classify exposures subject to Covid-19 supporting measures for the purpose of provisioning calculation. According to the EBA guidelines, customers receiving Covid-19-related support measures within the scope of the general payment moratoria, do not automatically need to be qualified as forborne and placed in stage 2. It is expected that the support provided will be limited to bridging liquidity shortages customers face due to the economic lockdown, which is temporary and that the customers have the potential to recover soon.

Within de Volksbank, only certain measures available to SME customers qualified as 'general payment moratoria'. For the purpose of stage allocation, we differentiated between SME customers under moratoria with a low and a potentially high risk. This was done based on the customer's probability of default (PD) bucket. Customers that were performing prior to the payment relief measures and had a PD in the low risk PD buckets, were kept in stage 1. Other customers, with a PD in the two highest buckets, were transferred to stage 2.

We apply regular stage allocation rules for SME customers applying for payment relief after 30 September 2020 and for customers who were eligible for a moratorium but that have not been able to catch up on their payment obligations despite the supporting measures.

Retail customers and ASN Bank's private loan customers do not fall under general payment moratoria and their financial situation is assessed individually. This gives us more certainty regarding their repayment capacity.
EBA guidelines, published in the early phases of the Covid-19 pandemic, provided clarification in terms of customer classification for the purpose of provisioning calculation. Nevertheless, in light of the increasing uncertainty around the duration of the Covid-19 pandemic, we revised our policy in respect of customers subject to the Covid-19-related measures starting from September 2020. Currently, all

non-SME customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2. In other words, in our stage allocation process we do not differentiate between retail customers and customers of ASN Bank with and without a Covid-19 supporting measure.

Expert overlay
There is a lot of uncertainty around the consequences of the Covid-19 pandemic and the impact of the second-wave lockdown on the Dutch economy. Although the quality of our credit portfolio has not experienced a severe deterioration in 2020, it is expected that prolonged lockdowns may lead to an increase in default rates as more customers may not be able to recover and go into default.

Since our models to determine loan loss provisions (ECL model) are not calibrated for the Covid-19 related events, we believe that the ECL outcomes may underestimate the elevated risk. For this purpose, we implement a so-called expert overlay for both our residential mortgage and SME portfolio.

To estimate the amount of this expert overlay for the residential mortgage portfolio, we considered macroeconomic stress reflected in a drop in house prices. The house prices and house price index are two macroeconomic risk drivers in the ECL model that have an impact on the PD and LGD of a customer, therefore affecting mostly stage 1 and stage 2 provisions.

For the SME loan portfolio the expert overlay was applied based on the assumption that all stage 1 customers in sectors that are hit most by the pandemic (such as the catering industry, travel agencies, non-essential stores, fitness clubs and hairdressing salons) will show a significant increase in credit risk even if they do not face problems at the moment of evaluation. To cover this risk, the stage 1 provisions were increased up to the level of stage 2 provisions that would be calculated for customers in the aforementioned sectors, given the actual stage 2 coverage ratios.

5.2 General quantitative information regarding credit risk

The table below shows a breakdown of exposures to customers by exposure classes (CRD asset classes) and reporting approach (AIRB or SA).

EU CRB-B – Total and average net amount of exposures 2020

		a	b
	in € millions	**Net value of exposures at the end of the period**	**Average net exposures over the period**
6	Retail	49,611	48,070
7	*Secured by real estate property*	49,611	48,070
8	*SMEs*	--	--
9	*Non-SMEs*	49,611	48,070
15	**Total AIRB approach**	**49,611**	**48,070**
16	Central governments or central banks	8,248	7,112
17	Regional governments or local authorities	776	552
18	Public sector entities	977	748
19	Multilateral development banks	416	399
20	International organisations	38	43
21	Institutions	5,916	4,891
22	Corporates	1,728	1,867
23	*Of which: SMEs*	27	23
24	Retail	600	593
25	*Of which: SMEs*	112	84
26	Secured by mortgages on immovable property	548	565
27	*Of which: SMEs*	542	558
28	Exposures in default	98	95
29	Items associated with particularly high risk	--	--
30	Covered bonds	165	133
33	Equity exposures	11	10
34	Other exposures	210	298
35	**Total standardised approach**	**19,731**	**17,306**
36	**Total**	**69,342**	**65,378**

Both the total and average exposure amounts increased in 2020. The increase is mainly due to Central banks (DNB: € 2.8 billion) and Institutions (Swiss Cantonal Banks: € 2 billion). Excess liquidity rose further driven by an increased amounts due to customers, partly offset by the impact from redemptions of debt certificates (€ 0.6 billion).

EU CRB-B – Total and average net amount of exposures 2019

	in € millions	a Net value of exposures at the end of the period	b Average net exposures over the period
6	Retail	49,822	47,872
7	*Secured by real estate property*	*49,822*	*47,872*
8	*SMEs*	--	--
9	*Non-SMEs*	*49,822*	*47,872*
15	**Total AIRB approach**	**49,822**	**47,872**
16	Central governments or central banks	5,977	5,138
17	Regional governments or local authorities	327	519
18	Public sector entities	520	472
19	Multilateral development banks	383	386
20	International organisations	47	37
21	Institutions	3,867	3,758
22	Corporates	2,005	2,316
23	*Of which: SMEs*	*19*	*32*
24	Retail	588	682
25	*Of which: SMEs*	*57*	*136*
26	Secured by mortgages on immovable property	581	502
27	*Of which: SMEs*	*573*	*499*
28	Exposures in default	92	75
29	Items associated with particularly high risk	--	--
30	Covered bonds	102	77
33	Equity exposures	9	8
34	Other exposures	385	359
35	**Total standardised approach**	**14,883**	**14,329**
36	**Total**	**64,705**	**62,201**

EU CRB-C – Geographical breakdown of exposures 2020

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Net value														
	in € millions	The Nether-lands	EMU	Ger-many	Belgium	France	Luxem-bourg	Other countries	Outside EMU	Switzer-land	United Kingdom	United states	Japan	Other countries	Other geo-graphical areas	Total
4	Retail	49,529	61	9	47	2	--	3	21	3	6	3	--	9	--	49,611
6	**Total AIRB approach**	**49,529**	**61**	**9**	**47**	**2**	**--**	**3**	**21**	**3**	**6**	**3**	**--**	**9**	**--**	**49,611**
7	Central governments or central banks	5,807	2,437	996	512	240	33	656	4	--	--	--	--	4	--	8,248
8	Regional governments or local authorities	223	309	246	--	63	--	--	244	244	--	--	--	--	--	776
9	Public sector entities	335	642	410	--	232	--	--	--	--	--	--	--	--	--	977
10	Multilateral development banks	--	--	--	--	--	--	--	--	--	--	--	--	--	416	416
11	International organisations	--	--	--	--	--	--	--	--	--	--	--	--	--	38	38
12	Institutions	400	489	97	--	39	252	101	5,027	3,083	1,675	88	83	98	--	5,916
13	Corporates	1,057	633	96	278	64	125	70	38	--	39	-1	--	--	--	1,728
14	Retail	591	8	3	4	--	--	1	1	--	--	--	--	1	--	600
15	Secured by mortgages on immovable property	546	2	--	2	--	--	--	--	--	--	--	--	--	--	548
16	Exposures in default	96	2	--	2	--	--	--	--	--	--	--	--	--	--	98
18	Covered bonds	88	54	22	--	32	--	--	23	--	--	--	--	23	--	165
21	Equity exposures	11	--	--	--	--	--	--	--	--	--	--	--	--	--	11
22	Other exposures	210	--	--	--	--	--	--	--	--	--	--	--	--	--	210
23	**Total standardised approach**	**9,364**	**4,576**	**1,870**	**798**	**670**	**410**	**828**	**5,337**	**3,327**	**1,714**	**87**	**83**	**126**	**454**	**19,731**
24	**Total**	**58,893**	**4,637**	**1,879**	**845**	**672**	**410**	**831**	**5,358**	**3,330**	**1,720**	**90**	**83**	**135**	**454**	**69,342**

EU CRB-C – Geographical breakdown of exposures 2019

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Net value														
	in € millions	The Nether-lands	EMU	Ger-many	Belgium	France	Luxem-bourg	Other countries	Outside EMU	Switzer-land	United Kingdom	United states	Japan	Other countries	Other geo-graphical areas	Total
4	Retail	49,725	69	9	53	3	1	3	28	3	8	3	--	14		49,822
6	**Total AIRB approach**	**49,725**	**69**	**9**	**53**	**3**	**1**	**4**	**28**	**3**	**8**	**3**	**--**	**14**		**49,822**
7	Central governments or central banks	3,051	2,479	1,171	491	285	52	481	449	--	--	--	407	42	--	5,977
8	Regional governments or local authorities	249	78	36	--	42		--	--	--	--	--	--	--	--	327
9	Public sector entities	38	482	300	--	181		--	--	--	--	--	--	--	--	520
10	Multilateral development banks	--	--	--	--	--		--	--	--	--	--	--	--	383	383
11	International organisations	--	--	--	--	--		--	--	--	--	--	--	--	47	47
12	Institutions	1,054	666	358	--	36	0	273	2,147	1,712	231	14	--	189	--	3,867
13	Corporates	1,309	587	37	295	50	140	64	109	66	43	--	--	--	--	2,005
14	Retail	578	8	3	5	--	0	1	1	--	--	0	--	1	--	588
15	Secured by mortgages on immovable property	576	5	--	3	1		1	--	--	--	--	--	--	--	581
16	Exposures in default	91	--	--	--	--		--	--	--	--	--	--	--	--	92
18	Covered bonds	62	33	15	--	17		--	7	--	--	--	--	7	--	102
21	Equity exposures	9	--	--	--	--		--	--	--	--	--	--	--	--	9
22	Other exposures	385	--	--	--	--		--	--	--	--	--	--	--	--	385
23	**Total standardised approach**	**7,402**	**4,338**	**1,920**	**794**	**612**	**191**	**821**	**2,713**	**1,778**	**274**	**14**	**407**	**239**	**430**	**14,883**
24	**Total**	**57,127**	**4,407**	**1,929**	**847**	**615**	**192**	**824**	**2,741**	**1,781**	**282**	**18**	**407**	**252**	**430**	**64,705**

EU CRB-D – Concentration of exposures by industry or counterparty types 2020

		a	b	c	d	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
	in € millions	**Agriculture, forestry and fishing**	**Mining and quarrying**	**Manufacturing**	**Electricity, gas, steam and air conditioning supply**	**Construction**	**Wholesale and retail trade**	**Transport and storage**	**Accommodation and food service activities**	**Information and communication**	**Financial and insurance activities**	**Real estate activities**	**Professional, scientific and technical activities**	**Administrative and support service activities**	**Public administration and defence, compulsory social security**	**Education**	**Human health services and social work activities**	**Arts, entertainment and recreation**	**Retail Non SME**	**Other services**	**Total**
4	Retail	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	49,611	--	49,611
6	**Total AIRB approach**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**49,611**	**--**	**49,611**
7	Central governments or central banks	--	--	--	--	--	--	--	--	--	5,087	--	--	--	3,161	--	--	--	--	--	8,248
8	Regional governments or local authorities	--	--	--	--	--	--	--	--	--	--	--	--	--	776	--	--	--	--	--	776
9	Public sector entities	--	--	--	--	--	--	--	--	--	710	--	--	--	125	--	35	--	--	107	977
10	Multilateral development banks	--	--	--	--	--	--	--	--	--	416	--	--	--	--	--	--	--	--	--	416
11	International organisations	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	38	38
12	Institutions	--	--	--	--	--	--	--	--	--	5,915	--	--	1	--	--	--	--	--	--	5,916
13	Corporates	--	--	4	566	16	3	59	--	--	426	262	14	--	99	--	139	12	--	128	1,728
14	Retail	--	--	2	--	2	5	--	--	1	14	2	4	--	--	--	--	1	--	569	600
15	Secured by mortgages on immovable property	--	--	6	--	4	20	1	1	2	109	30	25	--	--	1	2	4	--	343	548
16	Exposures in default	--	--	4	44	2	2	--	--	--	8	5	3	--	--	--	--	1	--	29	98
17	Items associated with particularly high risk	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
18	Covered bonds	--	--	--	--	--	--	--	--	--	165	--	--	--	--	--	--	--	--	--	165
21	Equity exposures	--	--	--	--	--	--	--	--	--	11	--	--	--	--	--	--	--	--	--	11
22	Other exposures	--	--	--	--	--	--	--	--	--	11	--	--	--	--	--	--	--	--	199	210
23	**Total standardised approach**	**--**	**--**	**16**	**610**	**24**	**30**	**60**	**1**	**3**	**12,872**	**299**	**46**		**14,161**	**1**	**176**	**18**	**--**	**1,413**	**19,731**
24	**Total**	**--**	**--**	**16**	**610**	**24**	**30**	**60**	**1**	**3**	**12,872**	**299**	**46**		**14,161**	**1**	**176**	**18**	**49,611**	**1,413**	**69,342**

EU CRB-D – Concentration of exposures by industry or counterparty types 2019

	in € millions	a	b	c	d	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
		Agriculture, forestry and fishing	**Mining and quarrying**	**Manufacturing**	**Electricity, gas, steam and air conditioning supply**	**Construction**	**Wholesale and retail trade**	**Transport and storage**	**Accommodation and food service activities**	**Information and communication**	**Financial and insurance activities**	**Real estate activities**	**Professional, scientific and technical activities**	**Administrative and support service activities**	**Public administration and defence, compulsory social security**	**Education**	**Human health services and social work activities**	**Arts, entertainment and recreation**	**Retail Non SME**	**Other services**	**Total**
4	Retail	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	49,822	--	49,822
6	**Total AIRB approach**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**49,822**	**--**	**49,822**
7	Central governments or central banks	--	--	--	--	--	--	--	--	--	2,334	--	--	--	3,643	--	--	--	--	--	5,977
8	Regional governments or local authorities	--	--	--	--	--	--	--	--	--	--	--	--	--	327	--	--	--	--	--	327
9	Public sector entities	--	--	--	--	--	--	--	--	--	301	--	--	--	98	--	38	--	--	83	520
10	Multilateral development banks	--	--	--	--	--	--	--	--	--	383	--	--	--	--	--	--	--	--	--	383
11	International organisations	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	47	47
12	Institutions	--	--	--	--	--	--	--	--	--	3,867	--	--	--	--	--	--	--	--	--	3,867
13	Corporates	--	--	6	472	16	3	34	--	--	489	333	14	--	380	--	170	17	--	71	2,005
14	Retail	1	--	5	--	5	15	1	1	1	4	7	4	--	--	1	3	3	--	537	588
15	Secured by mortgages on immovable property	5	--	32	--	31	105	6	4	5	124	142	45	--	--	4	18	14	--	46	581
16	Exposures in default	--	--	4	--	2	4	--	--	--	49	18	3	--	--	--	5	1	--	6	92
17	Items associated with particularly high risk	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
18	Covered bonds	--	--	--	--	--	--	--	--	--	102	--	--	--	--	--	--	--	--	--	102
21	Equity exposures	--	--	--	--	--	--	--	--	--	9	--	--	--	--	--	--	--	--	--	9
22	Other exposures	--	--	--	--	--	--	--	--	--	44	--	--	--	--	--	--	--	--	341	385
23	**Total standardised approach**	**6**	**--**	**47**	**472**	**54**	**127**	**41**	**5**	**6**	**7,706**	**500**	**66**	**--**	**4,448**	**5**	**234**	**35**	**--**	**1,131**	**14,883**
24	**Total**	**6**	**--**	**47**	**472**	**54**	**127**	**41**	**5**	**6**	**7,706**	**500**	**66**	**--**	**4,448**	**5**	**234**	**35**	**49,822**	**1,131**	**64,705**

EU CRB-E – Maturity of exposures 2020

		a	b	c	d	e	f
		Net value					
	in € millions	On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
4	Retail	1,002	142	469	47,998	--	49,611
6	**Total AIRB approach**	**1,002**	**142**	**469**	**47,998**	**-**	**49,611**
7	Central governments or central banks	5,114	197	1,633	1,304	--	8,248
8	Regional governments or local authorities	352	116	65	243	--	776
9	Public sector entities	--	-	533	444	--	977
10	Multilateral development banks	--	-	216	200	--	416
11	International organisations	--	--	38	-	--	38
12	Institutions	4,503	1,149	175	89	--	5,916
13	Corporates	362	99	322	945	--	1,728
14	Retail	542	1	2	55	--	600
15	Secured by mortgages on immovable property	3	4	35	506	--	548
16	Exposures in default	14	2	2	80	--	98
17	Items associated with particularly high risk	--	--	-	--	--	-
18	Covered bonds	--	--	46	119	--	165
21	Equity exposures	2	--	--	--	9	11
22	Other exposures	210	--	--	--	-	210
23	**Total standardised approach**	**11,102**	**1,568**	**3,067**	**3,985**	**9**	**19,731**
24	**Total**	**12,104**	**1,710**	**3,536**	**51,983**	**9**	**69,342**

EU CRB-E – Maturity of exposures 2019

		a	b	c	d	e	f
		Net value					
	in € millions	On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
4	Retail	1,020	188	431	48,183	--	49,822
6	**Total AIRB approach**	**1,020**	**188**	**431**	**48,183**	**--**	**49,822**
7	Central governments or central banks	2,808	149	1,531	1,489	--	5,977
8	Regional governments or local authorities	13	-	97	217	--	327
9	Public sector entities	--	20	134	366	--	520
10	Multilateral development banks	--	-	141	242	--	383
11	International organisations	--	--	--	47	--	47
12	Institutions	3,414	184	168	101	--	3,867
13	Corporates	382	41	763	819	--	2,005
14	Retail	583	-	1	4	--	588
15	Secured by mortgages on immovable property	2	4	33	542	--	581
16	Exposures in default	10	1	5	76	--	92
17	Items associated with particularly high risk	--	--	-	--	--	-
18	Covered bonds	-1	--	44	59	--	102
21	Equity exposures	--	--	--	--	9	9
22	Other exposures	96	--	--	--	289	385
23	**Total standardised approach**	**7,307**	**399**	**2,917**	**3,962**	**298**	**14,883**
24	**Total**	**8,327**	**587**	**3,348**	**52,145**	**298**	**64,705**

The main lending activity of the bank is the granting of long term loans for their core customer groups. The domestic mortgage loans portfolio is the most important portfolio. The exposures with a short term maturity are mainly related to the liquidity management activities of the bank.

EU CR1-A – Credit quality of exposures by exposure class and instrument 2020

		a	b	c	d	e	f	g
		Gross carrying values of					Credit risk adjustment charges of the period	Net values
	in € millions	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**		**(a+b-c-d)**
3	Corporates	-	-	-	--	--	--	--
4	*Of which: Specialised lending*	-	-	-	--	--	--	--
5	*Of which: SMEs*	-	-	-	--	--	--	-
6	Retail	293	49,428	110	--	5	42	49,611
7	*Secured by real estate property*	*293*	*49,428*	*110*	--	*5*	*42*	49,611
8	*SMEs*	-	-	-	--	--	--	-
9	*Non-SMEs*	*293*	*49,428*	*110*	--	*5*	*42*	49,611
10	*Qualifying revolving*	-	-	-	--	--	--	-
11	*Other retail*	-	-	-	--	--	--	-
12	*SMEs*	-	-	-	--	--	--	-
13	*Non-SMEs*	-	-	-	--	--	--	-
14	Equity	-	-	-	--	--	--	-
15	**Total AIRB approach**	**293**	**49,428**	**110**	**--**	**5**	**42**	**49,611**
16	Central governments or central banks	-	8,249	1	--	--	--	8,248
17	Regional governments or local authorities	-	776	-	--	--	--	776
18	Public sector entities	-	977	-	--	--	--	977
19	Multilateral development banks	-	416	-	--	--	--	416
20	International organisations	-	38	-	--	--	--	38
21	Institutions	-	5,916	-	--	--	--	5,916
22	Corporates	-	1,732	4	--	2	2	1,728
23	*Of which: SMEs*	-	*29*	*2*	--	*2*	*1*	*27*
24	Retail	-	604	4	--	2	2	600
25	*Of which: SMEs*	-	*115*	*3*	--	--	*3*	*112*
26	Secured by mortgages on immovable property	-	554	6	--	--	1	548
27	*Of which: SMEs*	-	*548*	*6*	--	--	*1*	*542*
28	Exposures in default	144	-	46	--	--	-2	98
29	Items associated with particularly high risk	-	-	-	--	--	--	-
30	Covered bonds	-	165		--	--	--	165
33	Equity exposures	-	11	-	--	--	--	11
34	Other exposures	-	210	-	--	--	--	210
35	**Total standardised approach**	**144**	**19,648**	**61**	**--**	**--**	**3**	**19,731**
36	**Total**	**437**	**69,076**	**171**	**-**	**9**	**45**	**69,342**
37	*Of which: Loans*	*426*	*54,681*	*165*	--	*9*	*44*	*54,942*
38	*Of which: Debt securities*	--	*5,104*	*2*	--	--	--	*5,102*
39	*Of which: Off-balance-sheet exposures*	*10*	*2,805*	*5*	--	--	*1*	*2,810*

There is a lot of uncertainty around the consequences of the Covid-19 pandemic and the impact of the second-wave lockdown on the Dutch economy. Although the quality of our credit portfolio has not experienced a severe deterioration in 2020, it is expected that prolonged lockdowns may lead to an increase in default rates as more customers may not be able to recover and go into default. The weighted average indexed LtV of the residential mortgages improved to 61%, from 67% at year-end 2019. 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.

Total gross carrying value of the portfolio rose from € 64.8 billion in 2019 to € 69.5 billion per the end of 2020. This rise was almost fully caused by higher exposures at central banks and (financial) institutions. The exposure under the standardised approach is characterised for a large part by secured loans with a low credit risk profile.
The total specific risk adjustments amounted to € 171 million (of which € 165 for Loans) compared to € 127 million (of which € 119 million for Loans) per the end of 2019. This increase was mainly a result of the increase in the provision for the residential mortgage portfolio.

In 2020 the gross carrying value of the residential mortgage portfolio (including off-balance exposures) was € 49.7 billion per the end of 2020. As mortgage production was slightly lower than repayments and because of other movements (- € 0.2 billion), de Volksbank's mortgage portfolio showed a limited decrease (2019: € 49.9 billion).

The credit loss provision for residential mortgages rose by € 42 million in 2020 (including provision for off balance exposures). This significant increase is explained by several factors. In 2020 we reviewed our provisioning methodology for interest-only loans. Both the application of segmentation rules and the provisioning levels were tightened. As a result of these adjustments and the worsened outlook for the unemployment rate there was a sharp increase in total provisions.

EU CR1-A – Credit quality of exposures by exposure class and instrument 2019

		a	b	c	d	e	f	g
		Gross carrying values of						
	in € millions	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
3	Corporates	--	--	--	--	--	--	--
4	*Of which: Specialised lending*	--	--	--	--	--	--	--
5	*Of which: SMEs*	--	--	--	--	--	--	--
6	Retail	214	49,675	68	--	10	9	49,822
7	*Secured by real estate property*	*214*	*49,675*	*68*	--	*10*	*9*	*49,822*
8	*SMEs*	--	--	--	--	--	--	--
9	*Non-SMEs*	*214*	*49,675*	*68*	--	*10*	*9*	*49,822*
15	**Total AIRB approach**	**214**	**49,675**	**68**	**--**	**10**	**9**	**49,822**
16	Central governments or central banks	--	5,978	1	--	--	-1	5,977
17	Regional governments or local authorities	--	327	--	--	--	--	327
18	Public sector entities	--	520	--	--	--	-1	520
19	Multilateral development banks	--	383	--	--	--	--	383
20	International organisations	--	48	--	--	--	--	47
21	Institutions	--	3,867	--	--	--	--	3,867
22	Corporates	--	2,007	3	--	4	-3	2,005
23	*Of which: SMEs*	--	*20*	*1*	--	*4*	*-2*	*19*
24	Retail	--	591	3	--	12	-1	588
25	*Of which: SMEs*	--	*57*	--	--	--	*-1*	*57*
26	Secured by mortgages on immovable property	--	586	5	--	--	--	581
27	*Of which: SMEs*	--	*578*	*5*	--	--	--	*573*
28	Exposures in default	139	--	47	--	--	-11	92
29	Items associated with particularly high risk	--	--	--	--	--	--	--
30	Covered bonds	--	102	--	--	--	--	102
33	Equity exposures	--	9	--	--	--	--	9
34	Other exposures	--	385	--	--	--	--	385
35	**Total standardised approach**	**139**	**14,803**	**59**	**--**	**16**	**-16**	**14,883**
36	**Total**	**353**	**64,480**	**127**	**--**	**26**	**-8**	**64,705**
37	*Of which: Loans*	*322*	*54,854*	*119*	--	*26*	*-8*	*55,058*
38	*Of which: Debt securities*	--	*5,342*	*2*	--	--	*-1*	*5,340*
39	*Of which: Off-balance-sheet exposures*	*29*	*2,519*	*6*	--	--	*1*	*2,542*

EU CR1-B – Credit quality of exposures by industry or counterparty types 2020

		a	b	c	d	e	f	g
		Gross carrying values of						
	in € millions	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
1	Agriculture, forestry and fishing	--	--	--	--	--	--	--
3	Manufacturing	7	12	3	--	--	--	16
4	Electricity, gas, steam and air conditioning supply	48	566	4	--	--	4	610
6	Construction	2	23	1	--	--	--	24
7	Wholesale and retail trade	3	29	2	--	--	-1	30
8	Transport and storage	--	60	--	--	--	--	60
9	Accommodation and food service activities	--	1	--	--	--	--	1
10	Information and communication	--	3	--	--	--	--	3
11	Financial and insurance activities	13	12,868	9	--	--	-2	12,872
12	Real estate activities	7	295	3	--	--	-10	299
13	Professional, scientific and technical activities	4	44	2	--	--	--	46
14	Administrative and support service activities	--	1	--	--	--	--	1
15	Public administration and defence, compulsory social security	--	4,162	1	--	--	--	4,161
16	Education	--	1	--	--	--	--	1
17	Human health services and social work activities	--	176	--	--	--	--	176
18	Arts, entertainment and recreation	1	17	--	--	--	--	18
19	Retail Non SME	293	49,428	110	--	7	42	49,611
20	Other services	59	1,390	36	--	2	12	1,413
21	**Total**	**437**	**69,076**	**171**	**--**	**9**	**45**	**69,342**

EU CR1-B – Credit quality of exposures by industry or counterparty types 2019

		a	b	c	d	e	f	g
		Gross carrying values of					Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs		(a+b-c-d)
1	Agriculture, forestry and fishing	0	6	0	--	--	0	6
3	Manufacturing	6	43	3	--	--	-1	47
4	Electricity, gas, steam and air conditioning supply	--	472	0	--	--	0	472
6	Construction	3	52	1	--	--	-0	54
7	Wholesale and retail trade	7	123	3	--	--	-2	127
8	Transport and storage	0	42	0	--	--	0	41
9	Accommodation and food service activities	1	5	0	--	--	0	5
10	Information and communication	0	6	0	--	--	0	6
11	Financial and insurance activities	57	7,660	11	--	--	-1	7,706
12	Real estate activities	29	484	13	--	--	-1	500
13	Professional, scientific and technical activities	5	63	3	--	--	-1	66
14	Administrative and support service activities	--	--	--	--	--	--	--
15	Public administration and defence, compulsory social security	--	4,449	1	--	--	-1	4,448
16	Education	0	5	0	--	--	0	5
17	Human health services and social work activities	5	230	0	--	--	-1	234
18	Arts, entertainment and recreation	1	35	0	--	--	0	35
19	Retail Non SME	214	49,676	67	--	22	8	49,822
20	Other services	25	1,128	23	--	4	-10	1,131
21	**Total**	**353**	**64,479**	**127**	**--**	**26**	**-8**	**64,705**

EU CR1-C – Credit quality of exposures by geography 2020

	in € millions	a Gross carrying values of Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	d General credit risk adjustment	e Accumulated write-offs	f Credit risk adjustment charges of the period	g Net values (a+b-c-d)
1	The Netherlands	430	58,629	166	--	9	44	58,893
2	EMU	6	4,636	5	--	--	1	4,637
3	Germany	1	1,880	2	--	--	-	1,879
4	Belgium	5	842	2	--	--	1	845
5	France	--	672	--	--	--	-	672
6	Luxembourg	--	410	--	--	--	-	410
7	Other countries	--	832	1	--	--	-	831
8	Outside EMU	1	5,357	--	--	--	-	5,358
9	Switzerland	--	3,330	--	--	--	-	3,330
10	United Kingdom	--	1,720	--	--	--	-	1,720
11	United States of America	--	90	--	--	--	-	90
12	Japan	--	83	--	--	--	-	83
13	Other outside EMU	1	134	--	--	--	-	135
14	Other geographical areas	--	454	--	--	--	-	454
15	**Total**	**437**	**69,076**	**171**	**--**	**9**	**45**	**69,342**

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).

Under other geographical areas are included exposures to international organisations and, mainly, to multilateral development banks, namely European Investment Bank, Nordic Investment Bank and Council of Europe Development Bank.

EU CR1-C – Credit quality of exposures by geography 2019

	in € millions	a Gross carrying values of Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	d General credit risk adjustment	e Accumulated write-offs	f Credit risk adjustment charges of the period	g Net values (a+b-c-d)
1	The Netherlands	350	56,900	122	--	26	-4	57,127
2	EMU	2	4,406	4	--	--	-3	4,407
3	Germany	1	1,930	1	--	--	--	1,929
4	Belgium	2	847	2	--	--	-1	847
5	France	--	615	--	--	--	-1	615
6	Luxemburg		192	--	--			192
7	Other countries	--	824	1	--	--	-1	824
8	Outside EMU	1	2,743	1	--	--	-1	2,741
9	Switzerland	--	1,781	--	--	--	--	1,781
10	United Kingdom	--	282	--	--	--	--	282
11	United States		18					18
12	Japan	--	407	--	--	--	--	407
13	Other outside EMU	1	252	1	--	--	-1	252
14	Other geographical areas	--	430	--	--	--	--	430
15	**Total**	**353**	**64,479**	**127**	**--**	**26**	**-8**	**64,705**

De Volksbank applies a specific definition of default to every portfolio for which loan loss provisions have to be determined. A customer goes into default once three monthly instalments have not been paid and the past-due amount exceeds a threshold value. A customer also goes into default if we consider it unlikely that the customer will be able to comply with their obligations in the future. These additional Unlikely-to-Pay (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

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

The supervisory authority tightened the guidelines for determining the default status during the course of 2018. European banks have until 1 January 2021 to bring this definition in line with the guidelines. We are rewording a bank-wide default definition to ensure timely compliance with the guidelines.

In December 2018, the European Banking Authority (EBA) published its final guidelines on disclosure of non- performing and forborne exposures. The guidelines include a set of common templates applicable to all banks and a set of additional templates applicable only to significant credit institutions with a gross Non Performing Loans (NPL) ratio at a level of 5% or above.
The gross NPL ratio of de Volksbank is 1,2% (2019: 1,2%) and therefore below the treshold of 5%. The required NPL tables 1, 3, 4 and 9 are disclosed.

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
2	*Central banks*	--	--	--	--	--	--	--	--
3	*General governments*	--	--	--	--	--	--	--	--
4	*Credit institutions*	--	--	--	--	--	--	--	--
5	*Other financial corporations*	--	--	--	--	--	--	--	--
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**

All non-SME customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2. In other words, in our stage allocation process we do not differentiate between retail customers and customers of ASN Bank with and without a Covid-19 supporting measure.

See also Section 5.1 General qualitative information regarding credit risk and particularly, the adjustments to the credit loss provision methodology resulting from the Covid-19 crisis.

NPL 1 - Credit quality of forborne exposures 2019

		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		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	1,399	438	173	415	-9	-43	1,780	390
2	*Central banks*	--	--	--	--	--	--	--	--
3	*General governments*	--	--	--	--	--	--	--	--
4	*Credit institutions*	--	--	--	--	--	--	--	--
5	*Other financial corporations*	--	--	--	--	--	--	--	--
6	*Non-financial corporations*	14	32	29	29	-1	-9	33	22
7	*Households*	1,385	406	144	386	-8	-34	1,747	368
8	Debt securities	--	--	--	--	--	--	--	--
9	Loan commitments given	6	1	1	1	--	1	--	--
10	**Total**	**1,405**	**439**	**174**	**416**	**-9**	**-42**	**1,780**	**390**

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	--	--	--	--	--	--	--	--	--	--
10	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--
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
16	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--
17	*General governments*	300	300	--	--	--	--	--	--	--	--	--	--
18	*Credit institutions*	--	--	--	--	--	--	--	--	--	--	--	--
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**

NPL 3 - Credit quality of performing and non-performing exposures by past due days 2019

		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	54,500	54,463	37	677	565	38	46	15	10	1	2	321
2	*Central banks*	2,220	2,220	--	--	--	--	--	--	--	--	--	--
3	*General governments*	287	287	--	--	--	--	--	--	--	--	--	--
4	*Credit institutions*	3,553	3,553	--	--	--	--	--	--	--	--	--	--
5	*Other financial corporations*	401	401	--	--	--	--	--	--	--	--	--	--
6	*Non-financial corporations*	1,549	1,549	--	93	82	3	5	2	2	--	--	90
7	*Of which SMEs*	617	617	--	72	60	3	5	2	2	--	--	69
8	*Households*	46,490	46,453	37	584	483	35	41	13	8	1	2	231
9	Debt securities	5,342	5,342	--	--	--	--	--	--	--	--	--	--
10	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--
11	*General governments*	4,249	4,249	--	--	--	--	--	--	--	--	--	--
12	*Credit institutions*	784	784	--	--	--	--	--	--	--	--	--	--
13	*Other financial corporations*	163	163	--	--	--	--	--	--	--	--	--	--
14	*Non-financial corporations*	146	146	--	--	--	--	--	--	--	--	--	--
15	Off-balance-sheet exposures	2,513	2,513	--	35	35	--	--	--	--	--	--	29
16	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--
17	*General governments*	--	--	--	--	--	--	--	--	--	--	--	--
18	*Credit institutions*	--	--	--	--	--	--	--	--	--	--	--	--
19	*Other financial corporations*	6	6	--	--	--	--	--	--	--	--	--	--
20	*Non-financial corporations*	442	442	--	27	27	--	--	--	--	--	--	27
21	*Households*	2,065	2,065	--	8	8	--	--	--	--	--	--	2
22	**Total**	**62,355**	**62,318**	**37**	**712**	**600**	**38**	**46**	**15**	**10**	**1**	**2**	**350**

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			
1	Loans and advances	54,423	51,530	2,892	685	8	678	-88	-30	-58	-77	--	-77	--	46,592	552
2	*Central banks*	463	463	--	--	--	--	--	--	--	--	--	--	--	--	--
3	*General governments*	665	627	38	--	--	--	--	--	--	--	--	--	--	--	--
4	*Credit institutions*	5,528	5,528	--	--	--	--	--	--	--	--	--	--	--	--	--
5	*Other financial corporations*	395	326	69	--	--	--	--	--	--	--	--	--	--	--	--
6	*Non-financial corporations*	1,259	1,050	208	80	--	80	-7	-3	-4	-16	--	-16	--	643	19
7	*Of which SMEs*	243	189	54	38	--	38	-5	-2	-3	-10	--	-10	--	222	19
8	*Households*	46,113	43,536	2,577	605	8	598	-81	-27	-54	-61	--	-61	--	45,949	533
9	Debt securities	5,104	5,104	--	--	--	--	-1	-1	--	--	--	--	--	998	--
10	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
11	*General governments*	3,986	3,986	--	--	--	--	-1	-1	--	--	--	--	--	642	--
12	*Credit institutions*	838	838	--	--	--	--	--	--	--	--	--	--	--	272	--
13	*Other financial corporations*	110	110	--	--	--	--	--	--	--	--	--	--	--	15	--
14	*Non-financial corporations*	170	170	--	--	--	--	--	--	--	--	--	--	--	69	--
15	Off-balance-sheet exposures	2,800	2,753	47	15	--	15	3	1	1	2	--	2	--	619	5
16	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
17	*General governments*	300	300	--	--	--	--	--	--	--	--	--	--	--	--	--
18	*Credit institutions*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
19	*Other financial corporations*	5	5	--	--	--	--	--	--	--	--	--	--	--	--	--
20	*Non-financial corporations*	117	116	1	6	--	6	--	--	--	1	--	1	--	7	--
21	*Households*	2,378	2,332	46	9	--	9	3	1	1	1	--	1	--	612	5
22	**Total**	**62,327**	**59,387**	**2,939**	**700**	**8**	**693**	**-86**	**-30**	**-57**	**-75**	**--**	**-75**	**--**	**48,209**	**557**

The coverage ratio for non-performing loans and advances is 12.6% as per 31 December 2020 (2019: 12.3%).

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.

NPL 4 - Performing and non-performing exposures and related provisions 2019

		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 perfor-ming expo-sures**	**On non perfor-ming expo-sures**
	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			
1	Loans and advances	54,500	51,871	2,629	677	33	644	-36	-8	-28	-83	-1	-82	--	49,994	578
2	*Central banks*	2,220	2,220	--	--	--	--	--	--	--	--	--	--	--	--	--
3	*General governments*	287	270	17	--	--	--	--	--	--	--	--	--	--	44	--
4	*Credit institutions*	3,553	3,553	--	--	--	--	--	--	--	--	--	--	--	2,621	--
5	*Other financial corporations*	401	325	76	--	--	--	--	--	--	--	--	--	--	1	--
6	*Non-financial corporations*	1,549	1,440	109	93	2	91	-7	-1	-6	-27	--	-27	--	1,011	51
7	*Of which SMEs*	617	556	61	72	3	69	-6	-1	-5	-25	--	-25	--	560	47
8	*Households*	46,490	44,063	2,427	584	31	553	-29	-7	-22	-56	-1	-55	--	46,317	527
9	Debt securities	5,342	5,342	--	--	--	--	-2	-2	--	--	--	--	--	--	--
10	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
11	*General governments*	4,249	4,249	--	--	--	--	-2	-2	--	--	--	--	--	--	--
12	*Credit institutions*	784	784	--	--	--	--	--	--	--	--	--	--	--	--	--
13	*Other financial corporations*	163	163	--	--	--	--	--	--	--	--	--	--	--	--	--
14	*Non-financial corporations*	146	146	--	--	--	--	--	--	--	--	--	--	--	--	--
15	Off-balance-sheet exposures	2,513	2,490	23	35	--	35	2	1	1	4	--	4	--	109	--
16	*Central banks*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
17	*General governments*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
18	*Credit institutions*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
19	*Other financial corporations*	6	6	--	--	--	--	--	--	--	--	--	--	--	--	--
20	*Non-financial corporations*	442	439	3	27	--	27	--	--	--	2	--	2	--	4	--
21	*Households*	2,065	2,045	20	8	--	8	2	1	1	2	--	2	--	105	--
22	**Total**	**62,355**	**59,703**	**2,652**	**712**	**33**	**679**	**-36**	**-9**	**-27**	**-79**	**-1**	**-78**	**--**	**50,103**	**578**

NPL 9 - Collateral obtained by taking possession and execution processes 2020

		a	b
		Collateral obtained by taking possession	
	in € millions	Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	--	--
8	**Total**	**--**	**--**

NPL 9 - Collateral obtained by taking possession and execution processes 2019

		a	b
		Collateral obtained by taking possession	
	in € millions	Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	1	--
8	**Total**	**1**	**--**

SPECIFIC CREDIT RISK ADJUSTMENTS

The specific credit risk adjustments are almost entirely related to provisions for loans and advances.

Expected credit loss (ECL) provisions are recognised for credit exposures measured at amortised cost and loan commitments and financial guarantee contracts (off-balance sheet items). Under the ECL model, de Volksbank calculates the probability that a default occurs at different moments in time, this is multiplied by the difference between contractual cash flows due and the expected cash flows to be received (i.e. 'cash shortfall'). The provision is the sum of all cash shortfalls multiplied by the probability of default at the different moments in time. The ECL calculations contain information about the past, present and future. In order to calculate the ECL, the applicable PD, EAD and LGD are multiplied and discounted.

For more information on specific credit risk adjustments see Section 5.1 General qualitative information regarding credit risk.

WRITE-OFF

When writing off a mortgage loan, a distinction is made between the write-off of a (part of the) mortgage loan and a possible write-off of a residual debt arising from the write-off of a mortgage loan. There are two triggers that can lead to a debit:

1. Waiver of amounts payable. Part of the mortgage loan is written off if the waiver of amounts payable leads to the client's recovery. The consequence of this is that the customer can meet his or her payment obligations again. Waivers of amounts payable are debited to the credit provision;
2. Write-off of residual debt collection. As a result of a recovery process, there may be a residual debt. This residual debt is fully provisioned. Collateral is realised during a period of 6 months after the execution process. After this period of 6 months, the debt still remaining is debited to the credit provision.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments 2020

	in € millions	a Accumulated specific credit risk adjustment[1]	b Accumulated general credit risk adjustment
1	**Opening balance**	**127**	**--**
8a	Increases due to origination and acquisition	23	--
8b	Decreases due to derecognition	-12	--
8c	Changes due to change in credit risk (net)	35	--
8d	Changes due to modifications without derecognition (net)	--	--
8e	Changes due to update in the institution's methodology for estimation (net)	7	--
8f	Decrease in allowance account due to write-offs	-9	--
8	Other adjustments	--	--
9	**Closing balance**	**171**	**--**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	--	--
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	--	--

1 Accumulated specific credit risk adjustment in the table relate to on-balance and off-balance sheet exposure.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments 2019

	in € millions	a Accumulated specific credit risk adjustment[1]	b Accumulated general credit risk adjustment
1	**Opening balance**	**135**	**--**
8a	Increases due to origination and acquisition	17	--
8b	Decreases due to derecognition	-15	--
8c	Changes due to change in credit risk (net)	6	--
8d	Changes due to modifications without derecognition (net)	--	--
8e	Changes due to update in the institution's methodology for estimation (net)	--	--
8f	Decrease in allowance account due to write-offs	-17[2]	--
8	Other adjustments	1	--
9	**Closing balance**	**127**	**--**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	--	--
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	--	--

1 Accumulated specific credit risk adjustment in the table relate to on-balance and off-balance sheet exposure.
2 Including reclassification of provisions for the residential mortgage portfolio.

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities 2020

	in € millions	a Gross carrying value defaulted exposures
1	**Opening balance**	**350**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	265
3	Returned to non-defaulted status	-105
4	Amounts written off	-57
5	Other changes	-16
6	**Closing balance**	**437**

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities 2019

	in € millions	a Gross carrying value defaulted exposures
1	**Opening balance**	**347**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	194
3	Returned to non-defaulted status	-115
4	Amounts written off	-70
5	Other changes	-4
6	**Closing balance**	**350**

COVID-19

In response to the Covid-19 crisis we have adjusted our approach to customer services in order to support our customers that suffer from the economic consequences of the pandemic. For our retail customers that foresee payment problems on their mortgage or any of their consumer loans due to Covid-19, we offer the opportunity to take a full or partial payment holiday of up to 6 months (interest and repayments) combined with a default interest reduction to 0% during the payment holiday and a repayment term of no more than 5 years depending on the customer's repayment capacity. 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 may extend this payment holiday until the end of 2021. De Volksbank applies this extension only selectively, since we believe that it does not in all cases contribute to the long-term financial resilience of our customers. The ability to pay the outstanding arrears in full generally diminishes as time progresses and the amount of arrears accumulates. Our aim is to help customers to get a grip on their financial situation as fast as possible. At the end of 2020, 1,591 retail customers made use of this scheme, which is slightly less than 1% of our retail customers. More than three quarters of these customers have now resumed their payments. These measures do not qualify as moratoria and are not included in the tables below.

We also set up similar schemes for SME customers with loans. At the end of 2020 almost all schemes, of the 259 entrepreneurs who used such a scheme, have expired. As a result, these entrepreneurs have resumed making payments. Within de Volksbank only certain measures available to SME customers qualified for 'general payment moratoria'. After the moratoria and the payment holidays expire, the customer's situation is thoroughly assessed in order to determine whether the customer can keep fulfilling its payment obligations. As a result of this assessment a customer may be declared unlikely-to-pay and be placed in default.

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

To support our SME customers hit 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 current account who meet a number of conditions are 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 may apply for this corporate loan.

Another option is to increase the limit of the existing overdraft facility.

In the EBA guidelines, published in April 2020, the EBA listed conditions to qualify for general payment moratoria. The repayment and/or interest holiday granted to SME customers fell under the (private) moratorium that the seven largest banks in the Netherlands announced on 19 March 2020 and that lasted until September 2020.

As the Covid-19 crisis persisted, the EBA extended the deadlines for general payment moratoria, first moving the end date from 30 June to 30 September. In the light of the second Covid-19 outbreak, in December 2020 the EBA introduced a new deadline for the application of moratoria of 31 March 2021. Together with other Dutch banks de Volksbank decided not to make use of the extended deadlines for the general payment moratoria. This means that only supporting measures granted prior to 30 September 2020 fall under the scope of the general payment moratoria.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria December 2020[1]

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount							**Accumulated impairment, accumulated negative changes in fair value due to credit risk**							**Gross carrying amount**
			Performing			**Non performing**				**Performing**			**Non performing**			
	in € millions			Of which: exposures with for-bearance measures	Of which: Instruments with significant increase in credit risk since initial recog-nition but not credit-impaired (Stage 2)		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: Instruments with significant increase in credit risk since initial recog-nition but not credit-impaired (Stage 2)		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-performing exposures
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	--	--	--	--	--	--	--	--
6	of which: Collateralised by commercial immovable property	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

1 19-10-2021: Due to new insights in the COVID-19 disclosure requirements, figures have been adjusted to only include active loans as at the reporting date.

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria December 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	--	--	--	--	--

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

	in € millions	a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			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			--
3	of which: Collateralised by residential immovable property	--			--

5.3 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, € 12.6 billion (2019: € 12.9 billion), i.e. 29%, 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.

Corporate portfolio

We verify the value of collateral in the corporate 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 € 1 million, the property must be revalued once every three years. No revaluation is required if the debt is lower.

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.

See also section 8.1 Qualitative disclosure requirements regarding counterparty credit risk for more information regarding on-balance sheet and off-balance sheet netting.

5.4 General quantitative information regarding credit risk mitigation

EU CR3 – CRM techniques – Overview 2020

	in € millions	a Exposures unsecured – Carrying amount	b Exposures to be secured	c Exposures secured by collateral	d Exposures secured by financial guarantees	e Exposures secured by credit derivatives
1	Total loans	5,854	49,253	46,284	2,969	--
2	Total debt securities	4,912	192	--	192	--
3	**Total**	**10,766**	**49,445**	**46,284**	**3,161**	**--**
4	Of which defaulted	137	290	290	--	--

The increase in exposures secured by financial guarantees is mainly due to additional exposures in Institutions (Swiss Cantonal Banks).

EU CR3 – CRM techniques – Overview 2019

	in € millions	a Exposures unsecured – Carrying amount	b Exposures to be secured	c Exposures secured by collateral	d Exposures secured by financial guarantees	e Exposures secured by credit derivatives
1	Total loans	6,613	48,563	46,757	1,806	--
2	Total debt securities	5,143	199	--	199	--
3	**Total**	**11,756**	**48,762**	**46,757**	**2,005**	**--**
4	Of which defaulted	138	213	213	--	--

6 Credit risk and credit risk mitigation under the Standardized 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.
- **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 classes:

- Claims on institutions and corporates with a short-term credit assessment.
- Collective investments undertakings.

6.1 Qualitative information regarding the use of the Standardized Approach

Under the 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
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.

6.2 Quantitative information regarding the use of the Standardized Approach

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

		a	b	c	d	e	f
	in € millions	Exposures before CCF and 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
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%
12	Covered bonds	165	--	164	--	16	9.8%
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%**

EU CR4 – Standardised approach – Credit risk exposure and CRM effects 2019

		a	b	c	d	e	f
	in € millions	Exposures before CCF and 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
1	Central governments and central banks	5,977	--	6,650	--	70	1.1%
2	Regional governments or local authorities	327	--	1,659	--	--	0.0%
3	Public sector entities	520	--	489	--	1	0.2%
4	Multilateral developments banks	383	--	383	--	--	0.0%
5	International organisations	47	--	47	--	--	0.0%
6	Institutions	3,867	--	1,110	--	223	20.1%
7	Corporates	1,563	442	799	220	887	87.0%
8	Retail	98	490	98	16	78	68.4%
9	Secured by mortgages on immovable property	581	--	580	--	362	62.4%
10	Exposures in default	64	28	64	14	97	124.4%
12	Covered bonds	102	--	102	--	10	9.8%
15	Equity exposures	9	--	9	--	9	100.0%
16	Other Items	385	--	385	--	276	71.7%
17	**Total**	**13,923**	**960**	**12,375**	**250**	**2,013**	**15.9%**

EU CR5 – Standardised approach 2020

	in € millions	Risk weight									Total	Of which unrated
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%		
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	0
7	Corporates	--	--	64	--	38	--	819	--	--	921	820
8	Retail	--	--	--	--	--	141	--	--	--	141	140
9	Secured by mortgages on immovable property	--	--	--	44	176	290	35	--	--	545	546
10	Exposures in default	--	--	--	--	--	--	48	48	--	96	96
12	Covered bonds	--	164	--	--	--	--	--	--	--	164	--
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**

EU CR5 – Standardised approach 2019

	in € millions	Risk weight									Total	Of which unrated
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%		
1	Central governments and central banks	6,623	--	--	--	--	--	--	--	28	6,650	--
2	Regional governments or local authorities	1,659	--	--	--	--	--	--	--	--	1,659	18
3	Public sector entities	482	--	7	--	--	--	--	--	--	489	7
4	Multilateral developments banks	383	--	--	--	--	--	--	--	--	383	--
5	International organisations	47	--	--	--	--	--	--	--	--	47	--
6	Institutions	--	--	1,107	--	3	--	--	--	--	1,110	--
7	Corporates	--	--	117	--	73	--	829	--	--	1,019	706
8	Retail	--	--	--	--	--	114	--	--	--	114	114
9	Secured by mortgages on immovable property	--	--	--	--	--	499	81	--	--	580	580
10	Exposures in default	--	--	--	--	--	--	40	38	--	78	78
12	Covered bonds	--	102	--	--	--	--	--	--	--	102	--
15	Equity exposures	--	--	--	--	--	--	9	--	--	9	9
16	Other Items	95	--	--	--	--	--	275	--	15	385	371
17	**Total**	**9,288**	**102**	**1,231**	**--**	**76**	**613**	**1,234**	**39**	**43**	**12,625**	**1,883**

7 Credit risk and credit risk mitigation under the AIRB-Approach

De Volksbank uses the Advanced Internal Ratings-Based (AIRB) approach for the residential mortgages and securitization exposure classes. 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 2020, the residential mortgages portfolio comprised 94% (2019: 95%) of de Volksbank's total loans and advances to customers.

SECURITISATION

The securitisation exposure class consists mainly of securitised mortgages of de Volksbank held for own account. These are securitised mortgages for which the securitisation entities issued bonds which are used for liquidity management.

Below, we will only discuss the residential mortgages. The securitisations are addressed in chapter 12 Securitisation of this Pillar 3 Report.

7.1 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), 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 in14 different PD exposure risk classes: non-default and default (class 14). Broadly speaking classes 5-9 correspond to customers 'recently recovered'[1] and classes 10-13 correspond to customers 'in arrears'.

Class 7 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 7 represents approximately 4.5% 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 EAD. Using historical information, the average loss incurred in the event of default is estimated.

In the rating model an individual LGD is calculated for each customer, with projections ranging from 0% to 100%.

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 as the lowest points in the Dutch house price cycle during the analysed historical period. Based on the determined downturn periods and expert input, a haircut is determined to correct the collateral values. These corrected (DownTurn) collateral values are input for the LGD model, resulting in a DownTurn LGD.

EXPOSURE AT DEFAULT

The EAD is an estimate of the outstanding amount of a customer at the moment of default. The EAD mainly consists of all mortgage related loans a customer has. For a small group of customers which have a mortgage related credit limit facility, the EAD also takes into account their limit with the assumption that the full limit is drawn at the moment of default. In other words, de Volksbank assumes a Credit Conversion Factor (CCF) of the undrawn amount of 100%.

MARGIN OF CONSERVATISM

Next to the PD, LGD and EAD 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 risk are quantified and lead to an MoC add-on for PD, LGD, DownTurn LGD and EAD.

INTERNAL RATING PROCEDURE

The internal rating procedure for residential mortgages is based on various data elements such as Loan-

[1] 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).

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, insufficient information is available on that specific reporting date to establish the regular PD, LGD and EAD; that is why the average portfolio values is used, 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 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 Targeted Reviews Internal Model (TRIMs). 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 some instances, the supervisory authority may require that a Margin of Conservatism (MoC) be applied on account of flaws found in the model. This MoC is no longer required as soon as the bank demonstrates that it has resolved the finding and the supervisory authority accepts the solution.

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:

- Collection processes, early and late collections;
- Input for determining Economic Capital;
- Input for regulatory and internal Stress tests;
- 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.

7.2 Quantitative information regarding the use of the AIRB-approach

EAD post CRM and post CCF

in € millions	2020	2019
Book value AIRB mortgages IFRS	47,697	48,090
Provisions	111	71
Gross amount AIRB mortgages IFRS	**47,808**	**48,161**
Differences in valuations[1]	-3,284	-2,951
Gross amount on-balance exposures	**44,524**	**45,210**
Off-balance sheet exposures post CCF	1,905	921
EAD post CRM and post CCF	**46,429**	**46,131**

1 Consisting mainly of savings deposits and fair value adjustments from hedge accounting and amortisations. Because of the high market value of hedge derivatives the correction for hedge accounting increased with € 0.4 billion per 31 December 2020.

In 2020 the book value of the residential mortgage portfolio was € 47.7 billion. As mortgage production was slightly lower than repayments, de Volksbank's mortgage portfolio showed a limited decrease of € 0.4 billion.

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 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 RESIDENTIAL MORTGAGES												
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 – AIRB approach – Credit risk exposures by exposure class and PD range 2019[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 RESIDENTIAL MORTGAGES												
0.00 to <0.15	11,043	167	1.0	11,210	0.08%	106,860	8.79%	-	219	1.95%	0.8	
0.15 to <0.25	7,808	49	1.0	7,857	0.23%	46,397	10.19%	-	383	4.88%	1.9	
0.25 to <0.50	10,657	31	1.0	10,688	0.35%	52,766	12.66%	-	865	8.09%	4.7	
0.50 to <0.75	7,832	13	1.0	7,845	0.51%	31,609	17.43%	-	1,151	14.67%	7.0	
0.75 to <1.25	3,846	12	1.0	3,858	0.87%	17,483	19.17%	-	893	23.14%	6.4	
1.25 to <1.50	1,393	1,325	0.5	2,034	1.42%	14,189	16.95%	-	577	28.38%	4.9	
1.50 to <3.50	787	2	1.0	789	1.94%	3,575	21.96%	-	352	44.66%	3.4	
3.50 to <10.0	1,098	1	1.0	1,099	5.68%	5,460	16.64%	-	661	60.14%	10.3	
10.0 to <25.0	177	4	1.0	181	15.19%	833	17.36%	-	175	96.76%	4.8	
25.0 to <100	357	0	1.0	357	36.63%	1,765	15.03%	-	310	87.02%	20.1	
100.00 (Default)	213	1	0.2	213	100.00%	928	16.16%	-	345	162.01%	34.4	
Total (all portfolios)	**45,210**	**1,604**	**0.6**	**46,131**	**1.34%**	**281,865**	**13.15%**	**-**	**5,932**	**12.86%**	**98.7**	**-67**

1 Including the Margin of Conservatism and Trim obligations.

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.

In December 2014, de Volksbank was given permission to use its AIRB model PHIRM to calculate the capital requirement of its mortgage portfolio. It consists of models for PD, (Downturn) LGD and EAD. The model calculates the likelihood of a customer running into payment problems within one year and the expected losses resulting for the bank. We use the results to determine the RWA of the residential mortgage portfolio. They also serve as input for the management process and internal risk reports.

Furthermore, RWA for the credit risk of the residential mortgage portfolio, calculated according to the AIRB approach, was € 35 million lower. Despite deteriorated economic conditions the credit quality of the portfolio improved, partly due to the strong development of the housing market. The average risk weighting of residential mortgages in 2020 went down from 12.9% at year- end 2019 to 12.7%. This was caused by a decline in LGD, and an increase in PD. The decline in LGD is mainly due to the increase in house prices.

EXPECTED CREDIT LOSS ADJUSTMENT FOR THE AIRB APPROACH

The available capital for the difference 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 deducted 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.

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" of credit derivatives used as CRM techniques is not included in this report.

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

		a	b
	in € millions	RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**5,932**	**474**
3	Asset quality	-145	-11
4	Model updates	--	--
5	Methodology and policy	111	9
8	Other	--	--
9	**RWAs as at the end of the reporting period**	**5,897**	**472**

The RWA increased by € 111 million due to changes in methodology and policy. This is caused by an increase of € 166 million due to repurchase commitments that are weighted with a CCF of 100% instead of 0% and a decrease of € 55 million due to the removal of the NHG/LGD floor. This floor was applied for every separate PD-bucket instead of the total portfolio.

EU CR8 – RWA flow statements of credit risk exposures under the AIRB approach 2019

		a	b
	in € millions	RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**5,487**	**439**
3	Asset quality	-347	-28
4	Model updates	792	--
5	Methodology and policy	--	--
8	Other	--	63
9	**RWAs as at the end of the reporting period**	**5,932**	**474**

BACKTESTING

As part of the quarterly monitoring process, a back test 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 back test 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 are not included in these back-testing results. Therefore, the PD-scale 1.25 to <1.50 is omitted in the table below. Also note that the backtest of the PD's is excluding the Margin of Conservatism and the TRIM limitation on PD.

The following table shows the predicted PD of 2020 which concerns the actuals of year-end 2020 and predicts the development in the portfolio during 2020. An increase in defaults is observed for almost all PD buckets due to the effects of covid-19. It is in line with our expectation that the observed 5 years default rate in 2020 is below the level of the 'Through the Cycle' model prediction at year-end 2020.

EU CR9 – AIRB approach – Backtesting of PD per exposure class 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			
Residential mortgages	0.00 to <0.15		0.074	0.074	106,863	109,084	129	-	0.07
	0.15 to <0.25		0.205	0.205	46,392	50,306	115	1	0.15
	0.25 to <0.50		0.306	0.306	52,771	47,196	221	5	0.22
	0.50 to <0.75		0.450	0.450	31,608	28,291	230	5	0.35
	0.75 to <1.25		1.715	1.715	17,483	15,210	228	-	1.64
	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 <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.

EU CR9 – AIRB approach – Backtesting of PD per exposure class 2019

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			
Residential mortgages	0.00 to <0.15		0.074	0.074	106,978	106,860	72	--	0.07
	0.15 to <0.25		0.205	0.205	41,514	46,397	51	--	0.13
	0.25 to <0.50		0.369	0.369	87,535	52,766	193	--	0.23
	0.50 to <0.75		0.698	0.698	15,590	31,609	91	--	0.57
	0.75 to <1.25		1.017	1.017	3,991	17,483	32	--	0.75
	1.50 to <3.50		2.391	2.391	7,580	3,575	103	--	1.48
	3.50 to <10.0		6.767	6.767	2,738	5,460	80	--	3.39
	10.0 to <25.0		17.871	17.871	1,917	833	239	--	10.91
	25.0 to <100		43.082	43.082	679	1,765	212	4	32.03
	100.00 (Default)				1,087	928			

1 5 year average historical default rate .

The following table shows the development of the predicted and observed default rate. The increase in the observed default rate compared to the predicted PD in 2019 is due to the effects of Covid-19.

Results back test AIRB model residential mortgages

Period	Predicted PD[1]	Observed default rate[2]
2006	1.35%	1.18%
2007	1.31%	1.06%
2008	1.25%	1.20%
2009	1.20%	1.22%
2010	1.20%	1.35%
2011	1.25%	1.44%
2012	1.33%	1.59%
2013	1.27%	1.45%
2014	1.23%	0.97%
2015	1.04%	0.62%
2016	0.82%	0.49%
2017	0.70%	0.43%
2018	0.61%	0.40%
2019	0.60%	0.74%

1 Calculated probability of default for the next 12 months; Customer weighted and Through the Cycle.
2 The observed percentage of the number of customers who went into default in the year after reporting.

8 Counterparty credit risk (CCR)

8.1 Qualitative disclosure requirements regarding counterparty credit risk

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.

NETTING AND COLLATERAL

Netting

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 and some corporates. This mainly comprises derivative transactions for the hedging of interest rate and currency risks. The bank assesses the quality of its counterparties on an annual basis. Internal limits are set based on the rating of the counterparty and a maximum exposure as a percentage of the eligible capital of the bank (once obligor limits are set).

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[2] 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[3]. 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 how 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 counterparty credit derivatives as a form of security or as an instrument to hedge credit risk.

2 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).

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

8.2 Information regarding supervisory measures

EU CCR1 – Analysis of CCR exposure by approach 2020

		a	b	c	f	g
	in € millions	Notional	Replacement cost/ current market value	Potential future credit exposure	EAD post CRM	RWAs
1	Mark to market		101	174	275	110
2	Original exposure	--	--	--	--	--
3	Standardised approach		--		--	--
4	IMM (for derivatives and SFTs)				--	--
8	Financial collateral simple method (for SFTs)				--	--
9	Financial collateral comprehensive method (for SFTs)				--	--
10	VaR for SFTs				--	--
11	**Total**					**110**

EU CCR1 – Analysis of CCR exposure by approach 2019

		a	b	c	f	g
	in € millions	Notional	Replacement cost/ current market value	Potential future credit exposure	EAD post CRM	RWAs
1	Mark to market		130	136	266	111
2	Original exposure	--	--	--	--	--
3	Standardised approach		--		--	--
4	IMM (for derivatives and SFTs)				--	--
8	Financial collateral simple method (for SFTs)				--	--
9	Financial collateral comprehensive method (for SFTs)					
10	VaR for SFTs				--	--
11	**Total**					**111**

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.

EU CCR2 – CVA capital charge 2020

		a	b
	in € millions	**Exposure value**	**RWAs**
1	Total portfolios subject to the advanced method	--	--
4	All portfolios subject to the standardised method	268	70
EU4	Based on the original exposure method	--	--
5	**Total subject to the CVA capital charge**	**268**	**70**

The RWA decrease can be explained by the decrease in exposure on uncollaterized netting sets, especially on those netting sets with the purpose to mitigate the interest rate risks of Special Purpose Vehicles (SPVs).

EU CCR2 – CVA capital charge 2019

		a	b
	in € millions	**Exposure value**	**RWAs**
1	Total portfolios subject to the advanced method	--	--
4	All portfolios subject to the standardised method	259	104
EU4	Based on the original exposure method	--	--
5	**Total subject to the CVA capital charge**	**259**	**104**

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)**		**--**

EU CCR8 – Exposures to CCPs 2019

		a	b
	in € millions	**EAD post CRM**	**RWAs**
1	**Exposures to QCCPs (total)**		**4**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	149	4
3	(i) OTC derivatives	149	4
7	Segregated initial margin	513	
11	**Exposures to non-QCCPs (total)**		**--**

8.3 Information regarding the statutory riskweight approach

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

	in € millions	Risk weight										Of which
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	100%	150%	Total	unrated
6	Institutions	3	96	35		99	164	--	--	--	397	
7	Corporates	--	--	--	--	--	--	--	8	--	8	8
11	**Total**	**3**	**96**	**35**	**--**	**99**	**164**	**--**	**8**	**--**	**405**	**8**

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk 2019

	in € millions	Risk weight										Of which
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	100%	150%	Total	unrated
6	Institutions	--	106	44	--	86	172	--	--	--	408	--
7	Corporates	--	--	--	--	--	--	--	8	--	8	8
11	**Total**	**--**	**106**	**44**	**--**	**86**	**172**	**--**	**8**	**--**	**416**	**8**

8.4 Other information regarding CCR

Off-balance sheet items and derivatives are divided into two types of exposure in accordance with the calculation of credit risk RWA in CRD IV:

- Off-balance sheet items: the main categories of off-balance sheet items are guarantees, credit commitments, and the undrawn portion of contractually committed credit facilities.
- Derivatives: financial instruments that derive their value from underlying interest rates, currencies, equities, credit spreads or commodity prices. Derivatives do not only result in counterparty credit risk measured within the credit risk RWA but also affect the market risk.

For the different off-balance sheet types of exposure, different values are possible for the calculation base. For guarantees, the nominal value is adjusted using a Credit Conversion Factor (CCF) for calculating the EAD. The CCF is 50% or 100%, depending on the risk assessment. Credit commitments and unutilised limits are part of the external commitment that has not been utilised. This amount forms the calculation base for which a CCF is used for calculating the EAD. The CCF is multiplied by the calculation base and is 0, 20, 50, 75 or 100% depending on approach, product type and whether the unutilised amounts are unconditionally cancellable or not.

For derivatives the calculation base is a combination of the market value and the notional amount.

EU CCR5-A – Impact of netting and collateral held on exposure values 2020

		a	b	c	d	e
	in € millions	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	864	593	271	171	100
2	SFTs	--	--	--	--	--
4	**Total**	**864**	**593**	**271**	**171**	**100**

EU CCR5-A – Impact of netting and collateral held on exposure values 2019

		a	b	c	d	e
	in € millions	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	718	472	246	125	121
2	SFTs	--	--	--	--	--
4	**Total**	**718**	**472**	**246**	**125**	**121**

EU CCR5-B – Composition of collateral for exposures to CCR 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**	**--**	**--**

Per year end 2020, de Volksbank did not enter into repurchase agreements.

EU CCR5-B – Composition of collateral for exposures to CCR 2019

	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	--	154	1,434	371	--	--
Repurchase agreements	--	--	--	--	--	--
Total	**--**	**154**	**1,434**	**371**	**--**	**--**

8.5 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.

9 Shares outside the trading portfolio

In the exposure class Equity, de Volksbank's equity holdings outside the trading book are included. Book value equals fair value for all the equities shown in the table. Published price quotations in an active market are the best evidence of fair value and, when they exist, they are used to measure financial assets and financial liabilities. We predominantly use published quotations to establish the fair value of shares.

Exposure of equity outside trading book 2020

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/ losses period YTD	Capital requirement
Associates	--	--	--	--	--	--	--
Joint ventures	--	--	--	--	--	--	--
Equities	10	10	--	--	5	--	--
Total	**10**	**10**	**--**	**--**	**5**	**--**	**--**

Exposure of equity outside trading book 2019

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/ losses period YTD	Capital requirement
Associates	--	--	--	--	--	--	--
Joint ventures	--	--	--	--	--	--	--
Equities	7	7	--	--	1	--	--
Total	**7**	**7**	**--**	**--**	**1**	**--**	**--**

10 Liquidity risk

As explained in Section 3.6.2 Management and control of the risk disclosures of 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 extensively discussed in the risk disclosures of the annual report. A summary is given below, which serves as background to the LCR.

10.1 Liquidity management

Liquidity risk is the risk that de Volksbank has insufficient liquid assets available in the short, medium or long term to meet its financial obligations without incurring unacceptable costs or losses. This applies both under normal circumstances and in times of stress. 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 sources of funding.

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 in such a way that it can absorb the consequences of bank-specific and market-wide stress factors, such as tensions in the money and/or capital markets.

When funding its liquidity needs, the bank aims for diversification of 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 3.3 Risk management approach of the institution).

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.

The Board of Directors bears ultimate responsibility for risk management. Within the risk management organisation, the Board of Directors acts as the umbrella Bank Risk Committee (BRC). In this responsibility, it is supported by risk committees (refer to Definitions for a description), 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 is advised by the Audit Committee, the Risk and Compliance Committee and the People and Organisation Committee.

MANAGEMENT AND CONTROL LIQUIDITY RISK

Liquidity risk management consists of seven elements. Combined, these elements form an integrated internal process that we use to continuously evaluate and manage our liquidity position, namely the:

1. Identification of liquidity risks. We continuously aim to identify all potential risks within the scope of liquidity management. As an example, we perform an independent risk review of all relevant proposals related to liquidity management.
2. Assessment of liquidity risks. The continuous (internal) assessment of the adequacy of our liquidity position and liquidity risk management is part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which constitutes input for the Supervisory Review & Evaluation Process (SREP) of the European Central Bank (ECB). We present the outcome of the 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 position, risk appetite, policy or guidelines and to improve the risk management process. The assessment of liquidity risks within the liquidity risk management lifecycle further comprises:
   - 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: an adequate liquidity and funding profile.
   - 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.
   - Update of forecasts in the monthly Liquidity Adequacy Assessment Report (LAAR). Based on a revised liquidity plan when appropriate, 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 of a recovery plan for adverse circumstances. This plan contains possible measures to strengthen the liquidity position. By updating the recovery plan annually, we

contribute to the bank's continuity. See also Section 3.8.2 Management and control of the annual report.

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 above which we feel comfortable on the basis of the appetite for liquidity risk. We also establish an intervention ladder with specific ranges per risk indicator in case follow-up is required.
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. The ALCO monitors the RAS indicators in the LAAR on a monthly basis.
5. Residual risk. Because of (unexpected) balance sheet or regulatory developments, it is possible that not all liquidity risks are identified or fully managed at all times. By following the liquidity risk management life cycle, 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 position on an ongoing basis.

MANAGEMENT INSTRUMENTS

Cash position

Under normal circumstances, the cash position is the source of liquidity that we use to meet regular obligations. The cash position as defined by de Volksbank comprises:

- Central Bank reserves;
- account balances with correspondent banks;
- contractual cashflows of counterparties in money and capital markets taking place within ten days.

Liquidity buffer

De Volksbank maintains a liquidity buffer, including the cash position, to absorb unexpected increases in its liquidity need. In addition to the cash position, the liquidity buffer comprises (highly) liquid investments that are eligible as ECB collateral and can be sold in (highly) liquid markets or used in repo transactions. As a ten-day horizon is used for the cash position, it is also determined for the (highly) liquid assets which unencumbered ECB-eligible bonds can be registered in the DNB collateral pool within ten days.

The liquidity buffer 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 buffer on the basis of the fair value of the bonds after application of the percentage haircuts determined by the ECB.

Liquidity stress testing

We test the robustness of the liquidity position by means of stress tests. We have defined various scenarios, of which the so-called combined severe stress test has the highest impact. In this scenario we, inter alia, 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 buffer;
- additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating;
- a decline in the fair value of derivatives;
- a possible liquidity outflow in the event that committed credit lines are drawn.

The bank's liquidity management is aimed at surviving this severe stress scenario for a certain period of time. The impact of the stress scenario on the liquidity buffer 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.

COVID-19 RELATED MEASURES

In response to Covid-19 the following supervisory and regulatory measures have been taken, which affect de Volksbank's liquidity position to a greater or lesser extent:

- The ECB has allowed banks to operate temporarily below the required Liquidity Coverage Ratio (LCR).
- The ECB has eased the conditions for targeted longer-term refinancing operations (TLTRO-III).
- The ECB has adopted a temporary general reduction of collateral valuation haircuts by 20%.

LIQUIDITY BUFFER

In 2020, the bank maintained a strong liquidity position that amply met both its internal targets and regulatory requirements.

The table below shows the composition of the liquidity buffer, with liquid assets included at market value after applying the percentage haircut determined by the ECB.

Liquidity buffer composition

in € millions	2020	2019
Cash position[1]	5,925	3,836
- *of which central bank reserves & nostro accounts*	*5,010*	*2,302*
- *of which contractual wholesale cashflows maturing in ten days or less*	*915*	*1,534*
Sovereigns	2,778	2,805
Regional/local governments and supranationals	1,252	1,091
Other liquid assets	337	263
Eligible retained RMBS	8,829	8,902
Liquidity buffer	**19,121**	**16,897**

1 The cash position comprises central bank reserves, current account balances held at correspondent banks and contractual cashflows of counterparties on money and capital markets maturing within ten days or less. As a result, the cash position differs from the cash and cash equivalents balance in the balance sheet.

The liquidity buffer remained high and amounted to € 19.1 billion at 31 December 2020 (year-end 2019: € 16.9 billion).

As at 31 December 2020, the cash position amounted to € 5.9 billion (year-end 2019: € 3.8 billion). The 2020 funding need arose mainly from the € 2.5 billion repayment in capital market wholesale funding and was more than fully met by a € 5.3 billion growth in deposits. Furthermore, de Volksbank participated for € 0.7 billion in TLTRO-III funding from the ECB and issued € 0.5 billion in green Tier 2 capital instruments, € 0.5 billion in covered bonds and € 0.5 billion in green unsecured bonds in 2020. Although in 2020 cash inflows were substantially higher than cash outflows, driven by the € 5.3 billion deposit growth, this was only partly visible in the cash position as available liquidity was invested in longer maturities. At year-end 2020, the volume of short-term loans and investments entered into for cash management purposes with a remaining maturity of more than ten days (not included in the cash position) was € 2.7 billion higher compared with year-end 2019.

The liquidity value of other liquid assets in the liquidity buffer as at the end of 2020 amounted to € 13.2 billion (year-end 2019: € 13.1 billion):

- The liquidity value of eligible retained RMBS decreased to € 8.8 billion (year-end 2019: € 8.9 billion). The € 0.7 billion reduction in retained RMBS notes related to the TLTRO-III participation was largely offset by the impact of reduced ECB collateral valuation haircuts for de Volksbank's retained RMBS notes. The reduced ECB haircuts are partly the result of a general reduction of collateral valuation haircuts by 20% as approved by the ECB as from 20 April 2020. The latter is a temporary Covid-19 measure that is expected to apply until June 2022;
- The value of other liquid assets in the liquidity buffer rose by € 0.2 billion, predominantly because of nominal growth of de Volksbank's liquidity portfolio.

As at year-end 2020, € 3.5 billion in assets had been invested for cash management purposes with an investment horizon of more than ten days (year-end 2019: € 0.8 billion), of which € 2,3 billion at Swiss banks. These assets are available as liquid assets on short notice.

10.2 LCR

In 2020, the Liquidity Coverage Ratio (LCR) remained well above the regulatory minimum of 100%. 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.

LCR disclosure template

	Consolidated	Total unweighted value (average)				Total weighted value (average)			
	in € millions								
	Quarter ending on (DD Month YYY)	31-3-2020	30-6-2020	30-9-2020	31-12-2020	31-3-2020	30-6-2020	30-9-2020	31-12-2020
	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)					5,179	5,398	5,870	6,360
	CASH – OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	42,616	43,994	45,374	46,718	2,396	2,473	2,547	2,619
3	*Stable deposits*	38,341	39,054	39,728	40,425	1,917	1,953	1,986	2,021
4	*Less stable deposits*	4,275	4,649	4,979	5,254	479	520	561	598
5	Unsecured wholesale funding	3,068	2,573	2,197	2,228	1,429	1,271	1,156	1,222
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	2,973	2,465	2,048	2,097	1,334	1,163	1,007	1,091
8	Unsecured debt	95	108	149	131	95	108	149	131
9	Secured wholesale funding					1	26	28	29
10	Additional requirements	1,638	1,643	1,753	1,736	863	968	1,105	1,124
11	Outflows related to derivative exposures and other collateral requirements	786	900	962	985	786	900	962	985
12	Outflows related to loss of funding on debt products	8	5	82	82	8	5	82	82
13	Credit and liquidity facilities	844	738	709	668	68	63	60	57
14	Other contractual funding obligations	556	618	589	635	556	606	565	599
15	Other contingent funding obligations	481	719	948	1,190	278	331	347	365
16	**TOTAL CASH OUTFLOWS**					5,524	5,675	5,747	5,958
	CASH – INFLOWS								
17	Secured lending (e.g. reverse repos)	2	2	2	-	0	0	0	-
18	Inflows from fully performing exposures	1,986	2,331	2,387	2,509	1,896	2,233	2,261	2,349
19	Other cash inflows	449	376	317	242	449	376	317	242
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**	2,437	2,708	2,705	2,751	2,346	2,609	2,577	2,591
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	2,437	2,708	2,705	2,751	2,346	2,609	2,577	2,591
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					5,179	5,398	5,870	6,360
22	TOTAL NET CASH OUTFLOWS					3,178	3,066	3,170	3,367
23	LIQUIDITY COVERAGE RATIO (%)					170%	183%	191%	196%

In line with the EBA guidelines on LCR disclosure, information is provided below on:

- Concentration of funding and liquidity sources;
- Derivative exposures and potential collateral calls;
- Currency mismatch in the LCR;
- A description of the degree of centralisation of liquidity management.

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.

CONCENTRATION OF FUNDING AND LIQUIDITY SOURCES

Funding strategy and liquidity sources

The funding strategy supports the bank's strategy. In this regard, we aim to optimise and ensure access to diversified funding sources in order to maintain the bank's long-term funding position and liquidity profile.

The bank uses retail savings as its primary funding source, which translates into a large share of stable deposits from retail and SME customers in the table above.

The bank also attracts funding from the capital market, aiming for diversification of funding sources. To this end, we use various funding instruments spread over terms, markets, regions and types of investors.

The liquidity buffer 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. De Volksbank maintains a liquidity buffer, including the cash position, to absorb unexpected increases in its liquidity need. In addition to the cash position, the liquidity buffer comprises (highly) liquid investments that are eligible as ECB collateral and can be sold in (highly) liquid markets or used in repo transactions.

Derivative exposures and potential collateral calls

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. The LCR factors in additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating and a decline in the fair value of derivatives based on the historical look-back approach.

Currency mismatch in the LCR

The exchange rate risk is minimised by transferring that risk from the banking book to the trading portfolio on a daily basis, where this risk is also controlled on a daily 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.

Management statement

For the management statement on the adequacy of risk management see Section 2.8.

10.3 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 2.3 Consolidation scope and 2.4 Scope of application.

TOTAL ENCUMBERED ASSETS

Based on the median of the four quarters, € 10.4 billion of the assets was encumbered during 2020. At year-end 2020, € 10.3 billion of the assets was encumbered (2019: € 10.3 billion), mainly on account of:

- outstanding covered bonds;
- collateral deposited in relation to outstanding derivative positions;
- an savings-based mortgage arrangement with Athora Netherlands;
- a loan provided to Athora Netherlands to finance (sub-)participations in the securitisation entities;
- TLTRO-III funding;
- outstanding securitisations;
- foreign exchange transactions;
- payment transactions.

The limited change in 2020 was primarily the result of a decrease in outstanding covered bonds that was offset by the encumbrance of collateral related to the TLTRO-III participation and a higher 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 is € 8.6 billion (2019: € 8.4 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 amounts to € 57.2 billion and may partly be converted into cash, for example by securitisation. Securitised mortgages of which the bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral, for instance in a repurchase transaction.

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 € 218 million with counterparties. We include this potential collateral deposit as outflow in the LCR and the combined severe liquidity stress test.

COLLATERAL RECEIVED

The bank received a total amount of € 207 million in collateral at year-end 2020 (2019: € 156 million). This consists entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

Encumbered and unencumbered assets 2020

		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[1]	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.

The median asset encumbrance ratio for 2020 amounts to 15.9%, which is well below the risk appetite threshold of 25%.

Encumbered and unencumbered assets 2019

		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[1]	010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**11,499**	**1,422**			**52,803**	**3,465**		
030	Equity instruments	--	--			7	--		
040	Debt securities	1,422	1,422	1,443	1,443	3,512	3,465	3,564	3,521
050	of which: covered bonds	--	--	--	--	80	80	80	80
060	of which: asset-backed securities	9	9	10	10	83	83	83	83
070	of which: issued by general governments	1,322	1,322	1,339	1,339	2,620	2,515	2,661	2,557
080	of which: issued by financial corporations	144	144	145	145	735	735	738	738
090	of which: issued by non-financial corporations	21	21	24	24	215	215	223	223
120	Other assets	9,965	--			48,924	--		
121	of which: mortgage loans	7,742	--			39,748	--		

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

		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[1]	010	030	040	060
130	**Collateral received by the reporting institution**	--	--	--	--
140	Loans on demand	--	--	--	--
150	Equity instruments	--	--	--	--
160	Debt securities	--	--	--	--
200	of which: issued by 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 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.

Collateral received 2019

		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[1]	010	030	040	060
130	**Collateral received by the reporting institution**	--	--	--	--
140	Loans on demand	--	--	--	--
150	Equity instruments	--	--	--	--
160	Debt securities	--	--	--	--
200	of which: issued by 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 asset-backed securities**	--	--	50	--
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			11,071	--
250	**Total assets, collateral received and own debt securities issued**	11,499	1,422		

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

	in € millions[1]	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.

Sources of encumbrance 2019

	in € millions[1]	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**	**10,142**	**10,522**
011	of which: Derivatives	1,821	1,851
012	of which Deposits	3,479	2,996
013	of which: Debt securities issued	4,536	5,364

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.

11 Market risk

11.1 Capital requirements for market risk using the Standardized Approach

We use the standardised approach in CRD IV to calculate capital requirements for the trading book. At year-end 2020, the capital requirement for the market risk of debt securities was nil (2019: EAD € 10 million; RWA € 5 million). 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 where a 1-day VaR is calculated on. 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 bank book and trading book combined at the end of 2020 was € 6 million (2019: € 5 million).

In 2020 economic uncertainty related to the pandemic have amongst others led to high liquidity positions at de Volksbank. This was mainly driven by retail clients who deposited more savings to the bank. De Volksbank holds its surplus liquidity on 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 of its excess liquidity. The aforementioned economic uncertainty caused volatility in the short-term interest rates of currencies other than that of the euro. The use of short-term currency swaps to manage excess liquidity resulted in a more positive return compared to the rate of the ECB. The volume of the currency swaps are strongly related to the excess liquidity position. The short swap transaction falls within our risk parameters (VaR, Stress and Expected Shortfall) set for such activities by the ALCO. Transactions are only executed by counterparties approved by the bank's risk department and its Credit Committee. Controls are carried out instantly and reported on a daily basis. All transactions related to cash management are settled through the CLS system (CLS; continuously linked settlements).

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 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.

The market risk in the trading portfolio is measured on a daily basis using Value at Risk (VaR), Expected Shortfall (ES) and stress testing indicators. These are used for internal monitoring and for specifying 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. This reflects the relatively low risk profile of these activities in terms of size.

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

11.2 Interest rate risk not included in the trading portfolio

MANAGEMENT AND CONTROL

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;
- influences of the current and anticipated interest rate environment;
- influences 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. The short to midterm impact of market rate movements is measured using the Earnings-at-Risk (EaR) methodology, and to measure the long-term impact, we use the Economic Value of Equity (EVE) methodology.

Short-term interest rate risk: EaR

In determining the EaR, the change in income due to deviations from the expected interest rate development is measured 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, 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 key rate durations 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 key rate durations represent EVE sensitivity 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.

Interest rate risk

Specification interest rate risk

	2020	2019
Duration of equity	0.7	0.3
Earnings-at-Risk (in € millions)	58	61
Credit spread risk liquidity portfolio (in € millions) HTC	88	72
Credit spread risk liquidity portfolio (in € millions) HTCS	118	103

Duration of equity
At year-end 2020, the duration of equity stood at 0.7 (2019: 0.3). Given our expectation that interest rates will continue to be low for a longer period of time, a duration of equity around 2 is desirable. In general we opt for a gradual implementation through regular balance sheet development, rather than actively managing it via the capital markets.

Earnings-at-Risk
At year-end 2020, the EaR amounted to € 58 million before tax (2019: € 61 million). This is comparable to the EaR at year-end 2019.

Credit spread risk
At year-end 2020, the credit spread risk for Hold to Collect and Sell (HTCS) and Hold to Collect (HTC) liquidity portfolios, amounted to € 118 million and € 88 million respectively (2019: € 103 million and € 72 million). For the HTCS portfolio, the increase in credit risk spread was largely due to the changed composition and increased size of this portfolio. For the HTC portfolio, the increase is mainly explained by realised value increases compared to last year.

Market risk exposure trading and non-trading risk
The overview below shows the balance sheet broken down by the risks associated with the banking book and the trading portfolio.

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	
	2020	2020	2020	2019	2019	2019	
ASSETS SUBJECT TO MARKET RISK							
Investments fair value through P&L	6	--	6	14	--	14	interest rate, exchange rate, credit spread
Investments fair value OCI	2,025	2,025	--	2,028	2,028	--	interest rate, credit spread
Investments amortised costs	3,082	3,082	--	3,308	3,308	--	interest rate, credit spread
Derivatives	864	407	457	718	495	223	interest rate, exchange rate
Loans and advances to customers	50,542	50,542	--	50,461	50,461	--	interest rate
Loans and advances to banks	5,990	5,990	--	3,791	3,791	--	interest rate
Cash and cash equivalents	4,672	4,672	--	2,026	2,026	--	interest rate
Other	303	303	--	495	495	--	
Total assets	**67,484**	**67,021**	**463**	**62,841**	**62,604**	**237**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	500	500	--	502	502	--	interest rate
Debt certificates	6,119	6,119	--	6,906	6,906	--	interest rate, exchange rate
Derivatives	2,163	1,706	457	1,841	1,614	227	interest rate, exchange rate
Savings	42,111	42,111	--	38,404	38,404	--	interest rate
Other amounts due to customers	11,541	11,541	--	10,641	10,641	--	interest rate
Amounts due to banks	945	945	--	541	541	--	interest rate
Other	4,105	4,105	--	4,006	4,006	--	
Total liabilities	**67,484**	**67,027**	**457**	**62,841**	**62,614**	**227**	

Sensitivity analyses illustrate the market interest rate risk. The table shows the impact of an immediate parallel shift of the market yield curve of +100 or -100 basis points (bps). We do this for three components: market value of equity, net interest income and IFRS equity. The impact on net interest income is shown on a one-year horizon. The reported outcomes are before taxation.

Sensitivity interest rates

in € millions	2020 Interest rate +1%	2020 Interest rate -1%	2019 Interest rate +1%	2019 Interest rate -1%
Market value equity[1]	150	2,076	289	1,227
Net interest income[2]	46	-55	46	-63
IFRS equity[3]	-67	18	-68	49

1 The market value of equity reflects the changes in all assets and liabilities values in the banking book, including embedded options for the capped rate and interest rate dampener, at a market rate shock of 1%.

2 Net interest income shows the sensitivity of the net interest income to interest rate fluctuations for the first 12 months.

3 IFRS equity expresses the sensitivity resulting from the fair value through OCI investment portfolio to a parallel 100 basis point interest rate increase or decrease.

The results show that the effect of the + 100 bps and - 100 bps scenarios differ significantly from 2019, due to a combination of lower interest rates and the lower level of market interest rates. This means that because of the assumed floor the impact of a shock down is limited.

Market value of equity

We derive the market value of equity from the market value of the assets and liabilities. Where possible, we base this on available market prices. When these are not available, we determine the expected market value on the basis of the net present value of the cash flows. On top of the interest rates, we also take into account any product-specific characteristics. We do this for the cash flows as well as for the discount rate. The change in the market value of equity is reflected by the difference in value that arises when 1% higher and lower interest rates are discounted.

A parallel interest rate hike has a positive impact of € 150 million on the market value of equity. The assets mainly consist of mortgages, the interest rate sensitivity of which is to a great extent hedged by means of derivatives, especially by means of interest rate swaps. Nevertheless, an interest rate hike will trigger a drop in value of assets including the corresponding derivatives that is less significant than the drop in the value of liabilities.

The scenario of an interest rate decrease does, however, have a positive effect of € 2,076 million on the market value of equity. The value of our assets increases significantly but the offsetting impact on the liabilities is limited. This is partly explained by the application of the floor to the interest rate, which considerably limits the drop in the value of the derivatives. In addition, we do assume that customer rates will become negative based on the publicly available information. This however only impacts only balances above a certain amount. For balances below this amount the rate decrease is not passed through, although based on our internal models it would be expected to do so. As a result the fair value of demand deposits increases to a lesser extent than the assets, with a positive impact on the market value of equity as a result.

Net Interest income

A parallel interest rate shift of +100 basis points yielded a positive impact on net interest income of € 46 million at year-end 2020, predominantly triggered by the rate hike boosting income from derivatives. In addition, the pass-through of the market rate hike had a positive effect on income from floating-rate mortgages and the interest income from our liquidity position increased. A parallel interest rate shift -100 bps had a negative impact of € 55 million, primarily driven by the lower interest received from derivatives. Furthermore, the assumption that the above interest rate decrease will be passed through to a lesser extent to the savings rates than to the floating-rate mortgage loans and the liquidity position also played a role.

IFRS Equity

A parallel interest rate shift of +100 basis points will have a direct negative impact on the IFRS equity of € 67 million, whereas a parallel interest rate shift of -100 basis points will have a positive impact on the IFRS equity of € 18 million. This is in line with the previously explained impact of lower interest rates in combination with the assumed floor. The interest rate sensitivity of IFRS equity is reflected in the fair value reserve. This is a consequence of changes in the fair value of the HTCS liquidity portfolio, including related interest rate derivatives.

MARKET RISK PROFILE IN THE TRADING BOOK

De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the year, the total VaR limit for the trading book remained stable at € 2 million. This limit thereby reflects the relatively low risk profile of these activities in terms of size.

12 Securitisation

12.1 Objectives

By the end of 2020, de Volksbank securitised residential mortgages in the amount of € 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 three different programmes: Hermes, Pearl and Lowland.
Introduced in 1999, Hermes is the programme for de Volksbank's residential mortgages. At the moment the Hermes programme does not have any securitisation outstanding. The securitisation through the Pearl programme only pertains to residential mortgages based on a guarantee under the NHG, the National Mortgage Guarantee system.
Since 2012 we have a third securitisation programme, which is Lowland. The securitisation programme Hermes is used for funding and to manage risk weighted assets. The purpose of the Pearl programme is funding. The Lowland transactions are set up for liquidity purposes.

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 2020.

The table below presents the volume of de Volksbank's securitisation programmes and the treatment applied in calculating capital requirements.

Securitisation programmes de Volksbank

in € millions	2020	Capital treatment	2019	Capital treatment
Pearl 1	511	look-through	600[1]	look-through
Lowland 4	4,098	look-through	4,083	look-through
Lowland 5	5,017	look-through	5,012	look-through
Lowland 6	2,496	look-through	2,494	look-through
Total	**12,122**		**11,667**	

1 Comparative figure has been adjusted by including the securitisation out of own book.

In 2020 de Volksbank has not set up any new securitisation transactions.

For the purpose of calculating capital requirements, a 'look-through' approach is applied if the credit risk of the securitised exposures (i.e. residential mortgages) has not (largely) been transferred. This means that the risk weighted exposure amount for the securitised exposures is calculated as if the securitised exposures had not been securitised. In case of significant risk transfer, securitisation positions kept on own book are risk weighted.

12.2 Risks

In the context of the securitisation programmes de Volksbank recognises 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).

In addition, de Volksbank has credit risk because the balance sheet includes securitisation notes of third-party transactions.

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 the risk management section of the annual report for an explanation of the regular processes for credit, interest rate and liquidity risks: Sections 3.3, 3.4 and 3.6, respectively).

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.

12.3 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)
Hermes	x	x	x	x	x
Pearl	x	x	x	x	x
Lowland	x	x	x	x	

12.4 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 5.2 General quantitative information regarding credit risk 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.

12.5 Securitisation exposures

The securitised loans were sold to the SPV at nominal value plus a deferred purchase price, which entails that we have a claim against the SPV. This claim is payable partly during the term of the transaction and partly once the securitisation transaction has been fully settled.

The notes issued by the SPV include so-called junior notes (often the E notes), which are high-risk and high-yield notes. The junior notes form the second loss position after the net margin in the transactions. In the Pearl 1 transaction, the junior notes of the securitisation have not been placed with investors. De Volksbank holds the junior notes in its own book. Stress testing showed that de Volksbank runs a credit risk due to the deferred purchase price and the junior notes.

There is a hierarchy in which notes and the deferred purchase price are called upon in the event of credit losses. Losses are first charged to the net margin and then to the junior notes. If this is insufficient to cover the losses the notes will be called upon, beginning with the mezzanine notes (D to B notes) and ending with the senior notes (A notes).

In the set-up of the securitisation programmes, a certain expectation of pre-payment behaviour on mortgages is assumed. If the actual pre-payments turn out to be higher, the notes will pay off more quickly. A notes are redeemed first, followed by B, C and subsequent notes.

We have two subordinated notes in the books that were issued under the Pearl programme. As Pearl pertains to a funding transaction, we did not sell the subordinated debt notes. The Lowland transactions were set up for liquidity purposes and may be placed with investors if so desired.

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.

Outstanding amounts of exposures securitised 2020

	Traditional		Synthetic	
in € millions	Originator	Investor	Originator	Investor
Exposure	--	95	--	--
Total	**--**	**95**	**--**	**--**

Outstanding amounts of exposures securitised 2019

	Traditional		Synthetic	
in € millions	Originator	Investor	Originator	Investor
Exposure	--	97	--	--
Total	**--**	**97**	**--**	**--**

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

Exposure and capital charges of securitisation positions retained or purchased per risk weight band

	Exposure		Capital charges	
in € millions	2020	2019	2020	2019
<= 10%	11	82	--	--
> 10% <= 20%	67	15	--	--
> 20% <= 50%	17	--	--	--
Total	**95**	**97**	**--**	**--**

The table above presents an overview of the securitised positions retained or purchased broken down by risk weight bands. As of 31 December 2020, de Volksbank only has purchased AAA-notes of third party transactions.

12.6 Calculation of risk-weighted exposure

For securitisations that are subject to a look-through approach because there is no significant transfer of credit risk, 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.

We apply the Ratings-Based Approach (RBA) for investments in securitisation positions of third parties. Pursuant to the RBA, the risk-weighted assets are determined by multiplying the exposures in the securitisation positions by a regulatory risk weight. The risk weights depend on the external rating and seniority of the position.

12.7 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 small 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 'other comprehensive income' as part of the investments and are measured at fair value, with gains and losses being recognised directly in equity.

12.8 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 2020.

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

13 Non-financial risk

13.1 Capital requirements

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 2020, the Pillar 1 capital requirements were € 116 million for the operational risks (2019: € 120 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.

13.2 Risk profile

Management devotes a great deal of attention to managing and controlling non-financial risks. De Volksbank faces an environment that changes at an increasingly rapid pace, with society having ever higher expectations in the area of laws and regulations, for example. This compels de Volksbank to frequently increase the efficiency and effectiveness of its processes, systems, data management and products and services, while retaining adequate control. De Volksbank is improving its internal processes and systems, which will also help to meet the growing information needs of supervisory authorities more efficiently. De Volksbank is adapting its processes and systems to meet the stricter standards, but this improvement project has not been completed. The non-financial risk level is continuously measured and assessed by the Operational Risk Committee (ORC).

13.3 Types of risk and areas of focus of non-financial risks

Non-financial risks cover those actual or potential events in the operational execution of de Volksbank's strategy that have a negative impact on the achievement of our objectives. We have categorised the non-financial risk into three risk types: operational risk, compliance risk and model risk. Operational risk comprises the subtypes of 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 this section we address important developments in 2020.

TYPE OF RISK	DEVELOPMENTS IN 2020
OPERATIONAL RISK • Operational risk is defined as the risk of direct or indirect losses arising from inadequate or failed internal processes and systems (IT), human failures and errors, or external events, which may result in a weakened 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 to our customers and that are easy to carry out by our employees. Our improvement cycle is primarily aimed at reducing error rates and being demonstrably in control.	• **Process Risk** In 2020, we made progress in further strengthening the organisation that oversees non-financial risk control and we updated the non-financial control framework. We proceeded with the implementation of the Integrated Risk Management (IRM) tool, a risk management application that simplifies the recording of information on our business operations and enables us to perform more in-depth analyses of the effectiveness of our risk management framework. We integrated this framework into the Compliance risk framework. In 2020, we enhanced procedures to monitor the effectiveness of operational controls. With the outbreak of the Covid-19 pandemic, de Volksbank – like many other companies in the Netherlands – intensified working from home. De Volksbank was able to make a swift shift from working from the office to working from home. Although adjustments have been made to some processes, there are no indications that the effectiveness of de Volksbank's operational processes was negatively affected by the pandemic. De Volksbank strengthened its ability to perform process scenario analyses in order to further improve the quality of the risk framework. • **People Risk** As a result of the Covid-19 outbreak, since March 2020 the credo for staff is to work from home unless activities require a presence at the office. De Volksbank actively monitors the consequences for staff. The new situation has not led to an increase in staff absence. Management and HR are redesigning the 'new way of working' (*Het Nieuwe Werken*, HNW) guidelines for both the Covid-19 period and thereafter. • **IT Risk** According to our cyber threat reports, cyber threat keeps increasing, as indicated by increased levels for the risk indicators phishing (correlated with the Covid-19 outbreak), malware and vulnerabilities. Furthermore, de Volksbank suffered from DDoS attacks that impacted iDEAL availability. Taking into account the ECB's recommendations, we are further strengthening the control framework. IT General controls are further rationalised.
COMPLIANCE RISK • We define compliance risk as the risk that de Volksbank or any of its subsidiaries fail to comply with (the rationale of) legislation and additional rules, self-regulation rules and codes of conduct applicable to them, including the related internal policies, to a sufficient extent or at all, possibly resulting in criminal or regulatory action, sanctions, a material financial loss or loss of reputation.	• **Prudential** In 2020, as a follow-up to the restructuring activities started in 2019, the overall compliance function broadened its scope to include all relevant prudential legislation, resulting in the establishment of a new prudential compliance team. This team is solely responsible for managing prudential compliance risks and works within the risk function to ensure that overlap and boundary risks are minimised and that efficiency gains, are maximised by drawing on each other’s expertise. • **External Crime** In 2020, we continuously saw an increase in fraud in our payment transactions, as well as an increase in the related amount of damage reimbursed to customers. Currently, de Volksbank faces approximately 200 reported fraud cases in payment transactions per week. The increased frequency of ‘WhatsApp fraud’ is the major contributor to the rising number of fraud cases. Moreover, in the third quarter of 2020, Compliance signalled an increase of 7% in the number of bank accounts opened at de Volksbank with the aim of conducting fraud. The cause of this increase is currently being investigated.

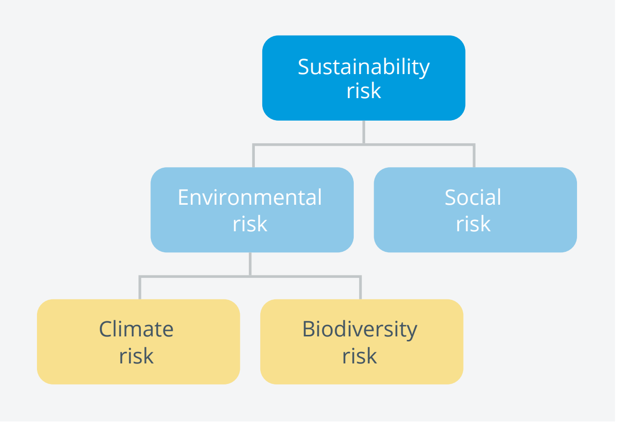
TYPE OF RISK	DEVELOPMENTS IN 2020
COMPLIANCE RISK (CONTINUED)	• Furthermore, the foreseen closure of a number of our SNS and RegioBank ATMs was accelerated in 2020. This was done in order to protect society and our partners from the risk of raids on our ATMs. Lastly, de Volksbank will continue to participate in Public Private Partnerships to ensure the integrity of the Dutch financial system. • **Non-Prudential** Within de Volksbank, all new and changed products and important customer services are approved by the Product Approval and Review Committee (PARC). The PARC is composed of directors from Business, Legal, Risk and Compliance and is headed by the CCO. The underlying Product Approval and Review Process (PARP) is managed and continuously improved. In 2020, after a review by the Financial Markets Authority (AFM), de Volksbank made a number of major improvements to the PARP to investigate in more depth the duty of care for our customers, including the definition of target markets, the distribution of financial products and the extension and width of scenario analysis. De Volksbank has taken steps to embed these in the PARC process. • **Privacy Office** Compliance with the General Data Protection Regulation (GDPR) remained an area of focus. Privacy governance is being enhanced by further clarifying, dividing and embedding first- and second-line responsibilities. E.g., the Privacy Office now comes under the Compliance Function and the capacity in the second line for support and monitoring was expanded. Furthermore, authorities made clear that the use of the BSN (a national identification number) is restricted, as we had a non-compliance issue. Acting on this, we changed the mortgage service processes in which we used the BSN. Finally, progress was made on closing a GDPR-compliance gap around Data Warehouse. • **Client integrity** In order to contribute to an ethical financial services sector, de Volksbank attaches great importance to ethical conduct and social responsibility. We take the appropriate measures to prevent the bank and the financial system from being misused for money laundering and terrorist financing. Changes related to the Money Laundering and Terrorist Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme; Wwft*) and sanctions regulations rapidly have succeeded one another in the last few years. For instance, the fourth and fifth Anti-Money Laundering Directives were both enforced within a short period of time. Both are already implemented in national legislation. The sixth Anti-Money Laundering Directive is published. However, this still has to be implemented in national legislation. De Volksbank is continuously incorporating laws and regulations into internal policies, processes and procedures to control customer integrity. Changing laws and regulations have a considerable impact on our organisation. The day-to-day Wwft policymaker and other persons pay considerable attention to the implementation of these changes. The progress made is regularly discussed at Board level. Furthermore, DNB conducted an investigation into cash activities and has identified gaps regarding the Wwft. The business has initiated a remediation plan following the findings from the regulator. Currently this remediation plan is being executed. It became clear that the US Green Card of the newly installed CEO posed new risks. After being informed about the risks for de Volksbank and himself regarding the Green Card, the CEO handed in the Green Card. This way, the related risks were eliminated.

TYPE OF RISK	DEVELOPMENTS IN 2020
MODEL RISK • Model risk is defined as the risk that the financial position of the bank, or the interests of the customers of the bank, 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.	• In 2020, model risk policies were further refined to allow, for example, monitoring of issues in current models, which will be addressed in future versions of these models. This enhances risk management in an environment, where important models are being redeveloped to improve performance or comply with updated regulations, such as the RegCap PHIRM 4.0 project for the residential mortgage portfolio and the prepayment model. Also, the current low interest rate environment affects customer behaviour, which can lead to lower performance of behavioural models. Therefore, these models will be reviewed and modified to the extent necessary with the objective to increase performance in this interest rate environment. Furthermore, the first exploratory steps are being taken to incorporate Artificial Intelligence (AI) models in the Model Risk Framework.
LEGAL RISK • Legal risk is the risk of financial loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way laws and regulations apply to de Volksbank and its entities, with respect to its agreements, non-contractual liability, 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.	• The AFM and media remain focused on the mortgage domain due to several circumstances closely related to the product. The notes to the off-balance sheet commitments include an overview of legal proceedings in which de Volksbank is involved. We also pay attention to Brexit; we have made preparations to absorb the possible effects of Brexit and monitor further developments.
REPORTING AND DATA MANAGEMENT RISK • Data management risk is defined as the risk of losses for de Volksbank and its customers that arises as a result of shortcomings in our data, data definitions and data structures or their use. This concerns the entire life cycle of data from data entry, development, interpretation, storage and deletion to phase-out. This risk excludes the arrangements with third parties, which is related to third party risk. Reporting risk is defined as the risk that the reporting process does not function or does not function properly, which can lead to a lack of reliable and timely reporting.	• We strive to provide reliable internal and external information, in which respect high-quality underlying data and adequate data management are important. The strategic programme that was launched in 2019 was further developed and embedded in the organisation in 2020. As a result, we improved our data quality monitoring, enabling better management toward data and data quality. In 2020, good progress was made on the strategic programme for a robust infrastructure for data processing in the reporting chain. Governance on data management was formalised and data management processes became more mature. In 2021 this programme will enable reporting following the newly defined reporting chain. •

14 Sustainability Risk

Sustainability is one of the main themes of de Volksbank and integrated in our mission Banking with a human touch. We want to make a positive contribution to society by encouraging societal changes and by managing a portfolio of sustainable activities. Additionally, we define sustainability risk as the risk of financial, non-financial and/or reputational damage as a result of environmental and/or social events.

Sustainability risk and sub-risk types



Sustainability is one of the main themes of de Volksbank and integrated in our mission Banking with a human touch. We want to make a positive contribution to society by encouraging societal changes and by managing a portfolio of sustainable activities. See the ESG report for more information about our positive impact. Additionally, we define sustainability risk as the risk of financial, non-financial and/or reputational damage to the bank as a result of environmental and/or social events.

Environmental risk is the risk of direct and indirect financial or reputational damage due to a deteriorating environment. It has been cascaded down into the following sub-risk types, including:

- Climate risk: the risk of direct or indirect financial or other damage to the bank's assets or customers due to acute or chronic climate events;
- Biodiversity risk: the risk of direct or indicirect financial or other damage to the bank's assets due to damage to or a decrease in ecosystems.

Environmental risk includes both physical risk and transition risk. Physical risks arise from more frequent and severe climate events. These events can be acute, like floods or chronic, like a sea level rise. This is a transition risk that can result from the process of adapting to a low-carbon and more environmentally sustainable economy.

Social risk is the risk of direct or indirect financial or reputational damage to the bank due to human rights violations in the area of wages, health and safety, discrimination, involvement in conflicts or employee rights.

These sub-risk types are in line with the focus points de Volksbank has identified with regard to its role as a catalyst for sustainable change in society: climate, biodiversity and human rights.

We implement the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) not just for climate risk, but also for the other sub-risk types of sustainability risk. The content of this chapter is structured along the four pillars of TCFD: governance, strategy, risk management, and metrics and targets.

Core elements of TCFD disclosures

14.1 Governance

The Board of Directors is ultimately responsible for de Volksbank's risk management including sustainability risk. For a better understanding of and a deeper focus on our social impact, including sustainability, the Social Impact Committee (SIC) was formed. Although formally this committee is not a risk committee, it follows the same structure, procedures and guidelines. The CRO is the chairman of this multidisciplinary committee. Proposals with impact on the balance sheet must be approved by the ALCO. All members of the SIC may escalate (pending) decisions to the BoD. The SIC is responsible for approving Risk Policies for sustainability risk and for monitoring compliance with the risk appetite.

Because sustainability-related events can be a driver of conventional risk types, such as credit risk and operational risk, sustainability risk can also be discussed in other risk committees, for example the Credit Committee or the Operational Risk Committee. De Volksbank has an ASN Investment Committee to inform and advise the ALCO about sustainable investments, such as sustainable project finance, notes, private placement notes and ESG bonds.

14.2 Strategy

De Volksbank, wants to make an impactful positive contribution to a sustainable society. We take this opportunity within the limits of the risk appetite. For every pillar of sustainability we have formulated a main target:

Climate
A 100% climate-neutral balance sheet in 2030.

Biodiversity
The target of our brand ASN bank is to have a net positive impact on biodiversity in 2030. In 2020 de Volksbank adopted this goal for the bank as a whole.

Human rights (social)
De Volksbank continuously assesses where our investments pose risks to human rights and by subsequently taking action to contain those risks for the people concerned. The Platform Living Wage Financials is an example of how we contribute to achieving a living wage in the global garment industry.

Internally de Volksbank lives up to the ambition of being a diverse and inclusive organisation mirroring our society as much as possible. The long-term goal is a percentage of female managers of at least 40% in 2025. This long-term goal naturally also applies to the percentage of male managers.

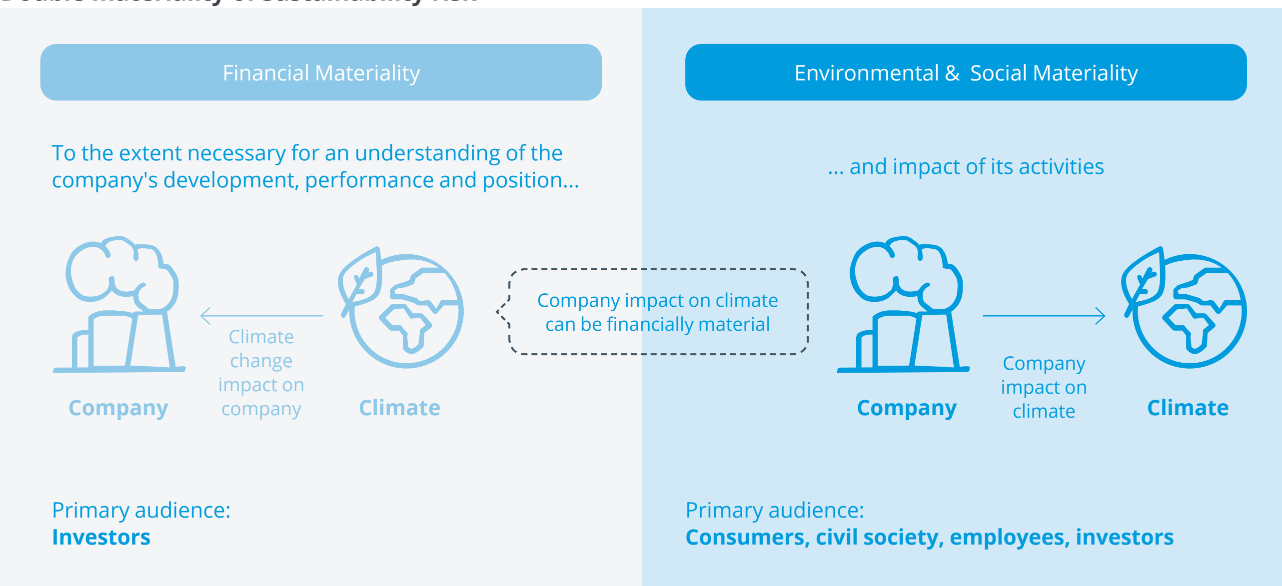
These targets give substance to the outcome of the materiality assessment. We consult our four groups of stakeholders regularly to discuss which topics they consider to be a priority. In these discussions responsible investing, a climate-neutral balance sheet and a diverse and inclusive organisation are determined as topics with the highest priority.

These targets also connect to the Sustainable Development Goals 13- Climate action and 8- Decent work and economic growth.

Sustainability has a double materiality. Firstly, the environmental and social materiality is the impact we can have on society. Secondly, there is the potential financial or other impact of sustainability matters on our bank, like acute and chronic climate events (physical risks) or the transition to a low-carbon economy (transition risk).

We are aware that activities of financial institutions can have a negative impact on climate change and the transition to a low-carbon economy, for example through loans or investments. Together with the financial sector we committed ourselves to the Dutch Climate Agreement at the end of 2019. We publish the climate impact of loans and investments, actively contribute to the energy transition and formulated targets to improve our climate impact. To mitigate the negative impact on society we rule out investments in certain companies and sectors, like investments in fossil fuels. To increase our positive impact on society we are investing in renewable energy projects and specific green bonds. De Volksbank also continuously assesses whether investments still meet its sustainability criteria. We update these criteria on a regular basis, which can lead to the termination of specific loans or investments in our investment universe or portfolio.

Double materiality of sustainability risk



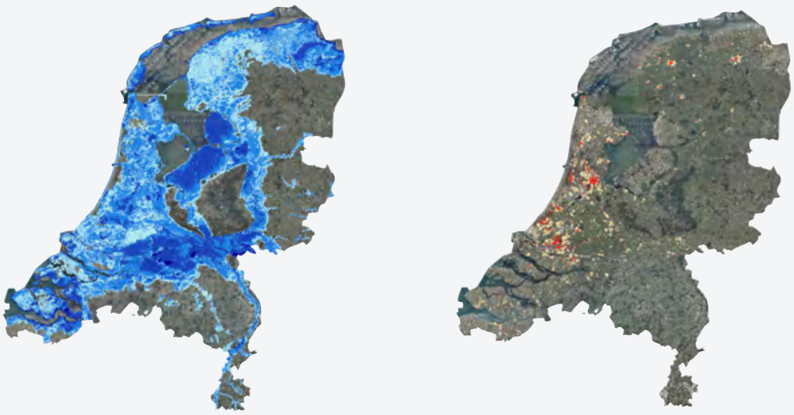
SCENARIO ANALYSIS AND STRESS TEST
In 2020, de Volksbank performed a climate risk scenario analysis and stress test to gain more insight into the impact of sustainability opportunities and risks, in particular climate risk.

According to the United Nations Environmental Programme (UNEP) there is still a gap between the plans for fossil fuel production and the Paris climate agreement. As a result, temperatures are expected to have risen by more than 2 degrees by the year 2100. The temperature rise is therefore expected to entail more extreme weather events that take place on a more frequent basis. This is similar to the view of the Dutch Meteorological Institute (KNMI), which anticipates an increase in the frequency and severity of climate events.

IPCC scenarios

De Volksbank uses scenario analyses to assess the vulnerability of its business model and capital position to several risks. Following a high-over qualitative climate scenario analysis in 2019, a more structural and quantitative data-driven approach was developed in 2020. Data from the Climate Adaptation Services (CAS) is used for the physical risks. The CAS has created a climate impact atlas for the Netherlands with an impression of the future impact of floods, extreme rainfall, drought and heat. The CAS has chosen the most extreme KNMI'14 scenarios as the basis for the atlas. These scenarios are based on the assumptions of the Intergovernmental Panel on Climate Change (IPCC). The scenario used for the CAS is the so-called GH scenario, which assumes a 2°C global warming in 2050.

Effects of floods and pile rot



The effects of floods (left) and pile rot caused by drought (right) on the Netherlands from the CAS. The dark blue areas are most at risk of flooding. The dark red areas are most at risk of pile rot as a result of drought.

Stress test

In 2019 a more qualitative analysis was performed where in 2020 a more data-driven quantitative analysis has been developed. The stress test included one impact analysis and two scenario analyses. The impact analysis assesses the direct impact of physical risks. The first scenario is based on the macroeconomic impact after a climate event materialises. The second scenario focuses on the urge to accelerate the energy transition.

The physical risks for the impact analysis are assessed by using the CAS scenarios about floods and droughts. The CAS data is matched with our own residential mortgage portfolio and enriched with data from other sources, for example renovation costs from Deltares. The effects of these events are analysed for de Volksbank's residential mortgage portfolio. This portfolio is the most prominent asset on our balance sheet and it is therefore important that we analyse it. A flood can cause damage to properties. This decreases the collateral value or forces people to pay renovation costs out of their savings. These climate events can have huge negative effects for us as a bank and for our customers. The calculation method used to calculate the impact on provisions, expected losses and Risk Exposure Amount (REA) is based on assumptions. The capital position of de Volksbank makes it possible to absorb losses from a climate event depending on the severity of the event that materialises.

The two scenarios are created by using the DNB Delfi Tool. This tool allows us to predict second-order effects of macroeconomic parameters. The first scenario focuses on the (macroeconomic) impact on the economy after a climate event materialises. A climate event can cause changes in economic activity, for example a drop in GDP due to reduced household wealth. The second scenario focuses on the urge to accelerate the energy transition. This urge has economic consequences, for example additional taxes for CO_2 emissions or lower ECB interest rates to stimulate sustainable investments. These scenarios are used for the stress test. Similar to the impact analysis, the stress test results show that the capital position of de Volksbank is large enough to absorb losses from these scenarios.

Next steps

We see sustainability as one of the most significant themes. Therefore we will continue to use our expertise and our network to make innovative ideas a success and be at the forefront of making sustainable changes in society.

In the next few years, we want to take the following steps:

- Environmental risk is broader than just climate and also includes the loss of biodiversity. De Volksbank has committed itself to a net positive biodiversity impact, for which a long-term goal will be defined in 2021;
- The analysis of the potential impact of sustainability on other risk types will be examined further in 2021 and sustainability will be incorporated in their existing risk management cycles. Also we will consider extra risk indicators for monitoring of sustainability risks;
- Climate change occurs over a longer time horizon. For the current scenario analysis, we have assumed that climate change occurs now. How to use the real development of climate change - which is very slow - is still a challenge. The time horizon of climate change in 2050 is therefore hard to incorporate in the shorter time horizon that banks normally use. Besides the time horizon, data is an important factor in performing reliable assessments. A significant amount of public data is available on physical asset risks. However, public data on transition risks is not yet available. This makes it a challenge to assess the materiality of transition risks.

14.3 Risk management

Strong risk management and external developments are essential for the successful execution of our strategic targets. Climate change, the Paris climate agreement, the Covid-19 pandemic, a compulsory women's quota for large companies and Black Lives Matter are important external developments, which are also identified as key risk drivers for sustainability risk.

Environmental and social events could expose de Volksbank to increased risks. They can have a potential impact and must be managed within de Volksbank's risk appetite. Therefore, a risk management framework must be in place. This framework is based on the risk management cycle of de Volksbank. It encompasses a limit system, policies, processes and internal controls, including regular independent reviews and evaluations of the framework effectiveness.

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.

The role of the business units as the first line is primarily to identify, assess, respond to, monitor and report sustainability risks on a daily basis within the first-line sustainability policies and the limits set.

As a team supporting the first line, our Sustainability Expertise Centre (SEC) has a key responsibility when it comes to the setup and maintenance of first-line policies within the House of Policies Sustainability, including investment criteria for the ASN Sustainable Finance department and the entity ASN Beleggingsfonden (ABB).

The policy of de Volksbank as a social bank is based on the Sustainable Development Goals (SDGs). As a result, our sustainability policy affects all seventeen SDGs to a greater or lesser extent. Our strategy and long-term targets are linked to five SDGs in particular, to which we can make a long-term contribution. De Volksbank also continuously assesses whether investments still meet its sustainability criteria. We update these criteria on a regular basis, which can lead to the termination of specific loans or investments in our investment universe or portfolio.

Human Resources is also a team supporting the first line. Its key responsibility is to set up and maintain the policy for a diverse and inclusive organisation.

The risk management function (second line) has set up the risk management framework within which the first line can accept and manage its sustainability risk. The risk management function has set up the Risk Management Policy and a Risk Appetite Statement (RAS) for sustainability risk and evaluates these at least annually.

The compliance function advises the management body on measures to be taken to ensure compliance with regulation and legislation on sustainability and assesses the possible impact of changes of rules on de Volksbank.

The third line of defence consists of the independent internal audit function. Internal Audit is responsible for the independent assurance on the quality and effectiveness of the internal control framework, the first and second line of defence and the risk governance.

Potential impact of sustainability on financial risk types

Sustainability events can serve as a trigger for other risk types and can impact these risk types. De Volksbank has identified environmental and social events, which could have a potential impact on other risk types. Environmental events are divided into events caused by physical risk and transition risk.

Financial risk

Risk type	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
Credit risk	Medium potential impact	Low potential impact	Medium potential impact
	• Acute events resulting from climate change, such as river flooding, extreme weather events and forest fires, can cause damage to collateral in the residential and commercial real estate portfolios. The event itself, or the risk of it, can lead to a devaluation of the collateral, which can lead to a higher LGD. In addition, the events can result in necessary recovery costs for the counterparty, which will lead to default if the counterparty cannot afford these; • Chronic changes in weather conditions such as drought, can cause damage to collateral (e.g. pile rot) in the residential and commercial real estate portfolios. This event can lead to a devaluation of the collateral value, which can lead to a higher LGD. In addition, the event can result in necessary recovery costs, which can lead to default if the counterparty cannot afford these.	• Introduction of legal requirements on energy efficiency of houses can lead to a devaluation of collateral in the residential and commercial portfolios that does not yet meet the criteria. When such requirements also lead to necessary costs for the counterparty, this can negatively affect the creditworthiness of the counterparty; • A substantial increase in energy costs can lead to a devaluation of (energy inefficient) collateral in the residential and commercial portfolios. In addition, increased monthly energy costs can negatively affect the counterparty's creditworthiness; • Legal environmental requirements on CO_2, nitrogen, air pollution or water pollution etc. can stop company activities in certain sectors temporarily or permanently (e.g. the recent 'nitrogen crisis'). This can form a risk to the profitability of our corporate counterparties (project financing and SME). For de Volksbank's portfolio this risk is low, as for both corporate portfolios strict internal sustainability requirements are in place that avoid carbon-intensive sectors.	• A large-scale outbreak of a disease, such as the Covid-19 pandemic, can partly or entirely shut down civil life, with substantial consequences for the economy, such as bankruptcies of companies and increased unemployment rate. This can cause a higher PD for households and SME counterparties and a higher LGD in case this leads to a long-lasting crisis in the housing market or in specific sectors.

Financial risk (continued)

Risk type	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
Market risk	Low potential impact • Physical damage to assets due to climate events will create turmoil in the financial markets, which can lead to losses in the trading books.	Low potential impact • If environmental risk leads to additional requirements in the trading area, it can negatively impact the trading book position. On the other hand, a transition in the markets can also open up new opportunities.	--
Interest Rate Risk of the Banking Book (IRRBB)	Low potential impact • In case physical events lead to increased defaults or payment delays, the cash-flows used for the IRRBB position will deviate from the model forecast and will lead to incorrect transformation results and position control.	Low potential impact • In case the transition leads to a new mortgage type with different IRRBB characteristics, it may impact the IRRBB position.	--
Liquidity risk	Low potential impact • If significant physical damage will impact the liquidity value of the liquidity portfolio (by higher shortcuts on certain types of bonds or country ratings) of de Volksbank, an additional amount of buffer may be required to comply with the regulatory requirements and risk limits; • Stressed customer behaviour may lead to higher liquidity outflow of non-maturing deposits (e.g. to repair the damage of the event); • Capital markets may become under stress, what can potentially impact the availability and costs of the wholesale funding.	Low potential impact • De Volksbank already applies the sustainability standards in the investment portfolio. Further limitations in the investment policy may lead to a need to increase the buffer or to P&L losses. However, new investment opportunities may also arise as a result of the transition; • Additional regulatory developments may also increase the liquidity buffer requirement; • The liquidity stress-testing framework is in place and anticipates on the potential stress events.	--

Non-financial risk

Risk type	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
Compliance risk	Low potential impact • A physical risk might have consequences for business continuity and the inherent compliance risk. For example, it may impact the existing controls in order to mitigate compliance risks.	Medium potential impact • The risk of no or insufficient implementation and compliance with supervisory laws and regulations applicable to its activities, including related internal policies, with the possible consequence of criminal or regulatory enforcement, sanctions, material financial loss or reputational damage.	Medium potential impact • A large-scale outbreak of a disease can lead to a large-scale loss of staff, which might have consequences for business continuity and the inherent compliance risk.

Strategic risk

Risk type	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
Business risk	Low potential impact • A climate-related event might negatively impact the profitability of de Volksbank. The size of the impact strongly depends on the kind of event, relative to the activities of de Volksbank.	Medium potential impact • Changing regulation in the area of sustainability is significant for the profitability of the bank. Different portfolios may have different sensitivities towards a changing regulatory landscape.	--
Organisa-tional risk	Low potential impact • Not responding promptly and in a controlled manner with an appropriate range of products and governance to physical risks that may negatively impact the viability and sustainability of the bank's business model.	Medium potential impact • Not responding promptly and in a controlled manner to transition risks that may negatively impact the viability and sustainability of the bank's business model.	Medium potential impact • Not responding promptly and in a controlled manner to changes in and expectations of society that may negatively impact the viability and sustainability of the bank's business model.
Reputation risk	Low potential impact • Not responding promptly and in a controlled manner with an appropriate range of products to physical risks, as a result of which the expectations of customers and society are not met.	Low potential impact • We do not meet the expectations or keep our promise to customers and society when it comes to informing and financing CO2-neutral targets.	Medium potential impact • Involvement in projects that violate human rights and insufficient implementation of diversity in staffing and Human Resources Management.

Capital adequacy

Capital adequacy	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
	Low potential impact • Losses in the mortgage portfolio may lead to increased capital requirements, but the main impact is covered via a credit risk assessment.	Medium potential impact • Changing/additional regulatory requirements may also lead to increasing capital requirements.	--

This is our first impact analysis and we do not suggest that this analysis is perfect or complete. The data required for this analysis was not always available or complete and methodologies to assess the impact are still being developed. We will continue to investigate the impact of sustainability on our bank and the risk types.

Next steps

Sustainability risks can be drivers for other risk types. Depending on the materiality of the possible impact that sustainability events have on other risk types, we will incorporate sustainability in the existing risk management cycles of these risk types.

14.4 Targets and metrics

In 2013, ASN Bank committed itself to the long-term goal of having a climate-neutral balance sheet in 2030. In 2017, de Volksbank adopted this goal. The short-term goal is to reach a 45% climate-neutral balance sheet in 2020, which we did. We have reported on our climate impact in our annual report since 2015.

Most of the carbon emissions on the balance sheet are caused by mortgages. Therefore, we monitor the average energy label of our total mortgage portfolio. Our goal is to inspire customers to make their homes more sustainable. We are committed to reducing emissions by encouraging our customers to make their houses more energy efficient and offer products to boost energy saving or renewable energy production.

Once every quarter, the metrics climate neutral balance sheet and average energy label of our mortgage portfolio are discussed and approved by the Social Impact Committee. The growth in climate neutrality is also a key risk indicator (KRI) and reported in the quarterly risk report.

We calculate the progress made towards our goal of a climate-neutral balance sheet. As from 2021 we will use the methodology of the Partnership Carbon Accounting Financials (PCAF). ASN Bank initiated PCAF as a collaborative venture of eleven Dutch financial institutions.

De Volksbank's climate-neutral goal comes down to equalising the CO2 emissions and avoided CO2 emissions of all balance sheet items (except for cash & cash equivalents and derivatives). The PCAF methodology for calculating the CO2 emissions of mortgages is based on an average energy consumption per energy label.

To increase our avoided emissions we are investing in renewable energy projects and specific green bonds. In order to decrease our carbon footprint, we rule out investments in companies involved in fossil fuels. De Volksbank also continuously assesses whether investments still meet its sustainability criteria.

Because of our focus on Dutch residential mortgages, we also monitor the average energy label of our mortgage portfolio as a metric.

The business operations of de Volksbank are net climate neutral. We achieve this by purchasing as much green energy as possible. The Greenhouse Gas (GHG) Protocol splits greenhouse gas emissions into three scopes:
- Scope 1: all direct CO2 emissions caused by fuels that we ourselves purchase and consume (natural gas for office heating and the fuel for our company cars).
- Scope 2: indirect CO2 emissions from our operations (electric energy consumption).
- Scope 3: other indirect CO2 emissions from energy we did not personally purchase or emit directly, including commuting by our employees who have no company car and consumption by third parties from which we obtain services (such as air travel).

The metric and KRI 'gender balance in management positions' assesses whether de Volksbank lives up to the ambition of being a diverse and inclusive organisation. Every quarter, this metric is measured as a percentage of female managers in comparison to the total number of managers.

Every year, we analyse the pay differentials between our male and female employees. Our goal is that men and women who perform the same work receive equal pay in equal situations.

Based on the result of the potential impact analysis of sustainability on other risk types we will evaluate if the current metrics are sufficient to assess and monitor sustainability risks or that we will introduce new metrics.

Next steps
Next year, de Volksbank will set a long-term goal for its biodiversity impact. A metric will be determined, including a limit system to monitor the development. This metric will be based on the methodology of the Partnership for Biodiversity Accounting Financials (PBAF). Our brand ASN bank is one of the initiators that sought to develop this transparent and uniform methodology for biodiversity accounting.

For further information see also the Environmental, Social and Governance 2020 report of de Volksbank.