de volksbank

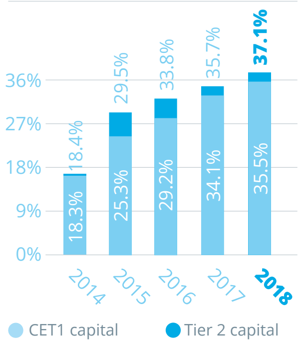
Pillar 3 report 2018

2018

Shareholders’ equity and leverage

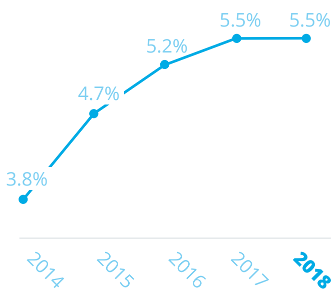
Based on the balance sheet position at year-end 2018, we estimate that we will still amply meet our external requirements and internal standards if Basel IV were to be implemented in European legislation unchanged.

Total capital ratio

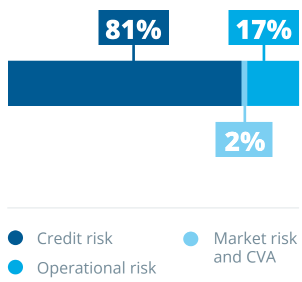


35.5%
Common Equity Tier 1 ratio year-end 2018

Leverage ratio

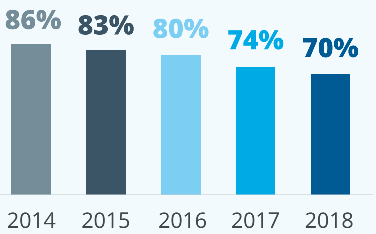


Risk-weighted assets



Credit risk

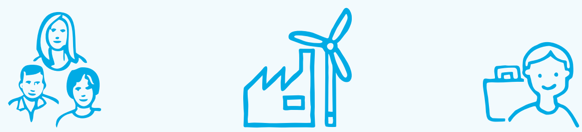
Credit risk decreased again in 2018. The positive economic development in the Netherlands has resulted in fewer customers getting into financial difficulties and rising house prices. The tax regime also promotes a repayment component for new mortgages.



Average Loan-to-Value retail mortgages

78.0%
IRB approach of total exposure

Loans and advances to customers



93%
Retail mortgages

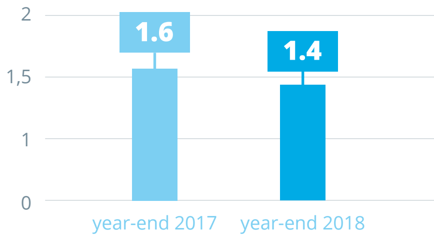
5%
Other commercial loans and loans to the public sector

2%
SME loans

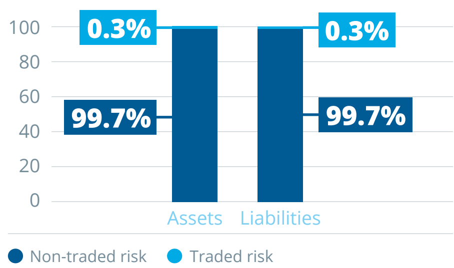
Market risk

Because of the historically low market rates and the expectation that they will rise slowly, we decided to keep the duration of equity low to limit our sensitivity to market rates. Our trading positions are limited.

Duration of equity



Market risk exposure year-end 2018



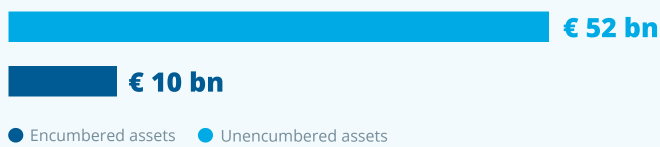
€ 83 m
Volume of Earnings at Risk year-end 2018

Liquidity risk

The bank has a strong liquidity position to continuously meet its financial obligations. Savings are our main source of funding. In 2018, our long-term credit rating at Moody's improved

€ 15.2 bn
Volume of liquidity buffer

158%
12 month average LCR



1 INTRODUCTION

1.1 INTRODUCTION TO PILLAR 3

De Volksbank's Pillar 3 Report deals with capital adequacy and risk management, and has been approved by the Board of Directors. It contains the main ratios and provides insight into such aspects 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 annual report.

The present Pillar 3 report is separately publiced to de Volksbank's annual report. The annual report 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). The report provides information on all the topics mentioned in the Directive to the extent that they apply to de Volksbank. 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.

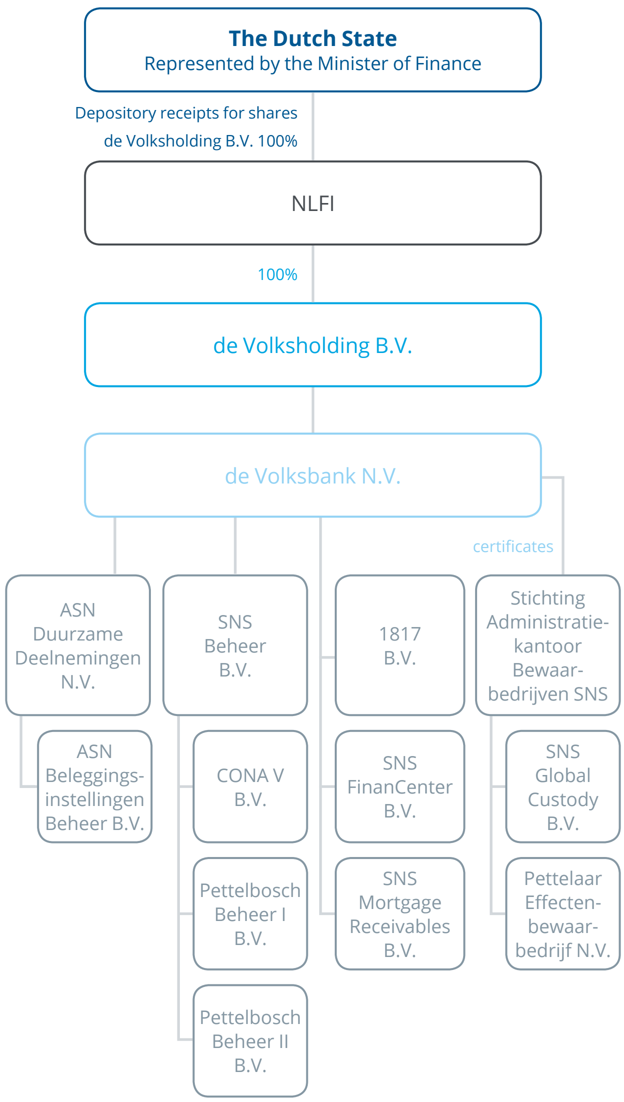
The mandatory Pillar 3 information of de Volksbank is disclosed every six months. Interim updates on key issues are given in de Volksbank's press releases or on its website.

The Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board issued 32 recommendations for risk disclosures of banks. De Volksbank supports the recommendations. The additional information section of the annual report explains how the EDTF recommendations have been incorporated in the annual report and the Pillar 3 report.

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

1.2 DEVELOPMENT IN LEGAL STRUCTURE

Legal structure of de Volksbank as at 31 December 2018:



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 fall under the banking license of de Volksbank N.V.

De Volksbank N.V. is a wholly owned subsidiary company of de Volksholding B.V. NL Financial Investments (NLFI) has a direct participating interest in the holding and issued depository receipts for shares to the Dutch State.

1.3 CONSOLIDATION SCOPE EDTF 10

De Volksbank N.V. (de Volksbank) is subject to compulsory reporting at an individual level and at a prudential consolidated level. The individual reporting obligation is based on the IFRS scope of consolidation of the licensed institution, i.e. de Volksbank (Article 9 of the European Capital Requirements Regulation, CRR). De Volksbank's prudential scope of consolidation encompasses the financial holding company is called de Volksholding B.V. (de Volksholding).

Impacted by the EBA interpretation of CRR Article 82 (of 3 November 2017), our own funds and solvency ratio at the individual level (de Volksbank) differ from those at the prudential consolidated level. The EBA interpretation affects financial parent holding companies having a single subsidiary and a strong capital position, as is the case for de Volksholding. At consolidated level, the haircut on Tier 2 capital that de Volksbank has issued to third parties is related to the surplus of available capital in relation to the minimum capital requirements. See also Section 3.2 Own funds for the impact of this haircut on capital.

In addition, the structure of own funds at the prudential consolidated level differs from the individual level in terms of share capital, share premium reserve and other reserves. The Pillar 3 report is published at the prudential consolidated level.

De Volksbank intends to incorporate de Volksholding in de Volksbank by means of a legal merger. This will mitigate the impact of the EBA interpretation, and the Tier 2 capital issued will effectively and fully be available for de Volksbank. Subject to all required approvals, including those from NLFI and the supervisory authorities, we expect the merger to be completed in the first half of 2019.

Comparison between capitalisation on prudential and individual level 2018

In € millions	CRD IV	
	Prudential (incl. de Volksholding B.V.)	Individual (de Volksbank N.V.)
Capital instruments	-[1]	381
Share premium	4,117	3,787
Retained earnings	268	268
Accumulated other comprehensive income (OCI)	51	51
Other reserves	-865	-916
Shareholders' equity	**3,571**	**3,571**
Not eligible interim profits	-178	-178
Shareholders' equity for CRD IV purposes	**3,393**	**3,393**
Cash flow hedge reserve	-30	-30
Other prudential adjustments	-3	-3
Total prudential filters	**-33**	**-33**
Intangible assets	-6	-6
AIRB shortfall[2]	-41	-41
Total capital deductions	**-47**	**-47**
Total regulatory adjustments to shareholders' equity	**-80**	**-80**
CRD IV Common Equity Tier 1 capital	**3,313**	**3,313**
Additional Tier 1 capital	-	-
Tier 1 capital	**3,313**	**3,313**
Eligible Tier 2	500	500
Impact EBA interpretations CRR artikel 82	-348	-
Total Tier 2 capital	**152**	**500**
Total capital	**3,465**	**3,813**
Risk-weighted assets	9,341	9,341
Exposure measure as defined by the CRR	60,625	60,625
Common Equity Tier 1 ratio	35.5%	35.5%
Tier 1 ratio	35.5%	35.5%
Total capital ratio	37.1%	40.8%
Leverage ratio	5.5%	5.5%

1 The issued share capital of de Volksholding B.V. amounts to € 1,-

2 The AIRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision.

1.4 SCOPE OF APPLICATION

The regulatory scope of consolidation of de Volksbank is based on the IFRS scope of consolidation at the level of de Volksholding. Please refer to the accounting principles for the consolidated financial statements in the 2018 annual accounts of de Volksbank for more information about the consolidation principles.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories 2018

	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	815	815	-	-	-	-
Derivatives	732	-	732	-	-	-
Investments	4,782	4,697	-	85	-	-
Loans and advances to banks	3,589	3,589	-	-	-	-
Loans and advances to customers	50,536	50,461	-	-	-	75
Tangible and intangible assets	68	62	-	-	-	7
Tax assets	133	119	-	-	-	15
Other assets	292	292	-	-	-	-
Total assets	**60,948**	**60,034**	**732**	**85**	**-**	**97**
Liabilities						
Savings	37,376	-	-	-	-	37,376
Other amounts due to customers	10,841	-	-	-	-	10,841
Amounts due to customers	**48,217**	**-**	**-**	**-**	**-**	**48,217**
Amounts due to banks	1,116	-	484	-	-	632
Debt certificates	5,822	-	-	-	-	5,822
Derivatives	1,120	-	1,120	-	-	-
Tax liabilities	15	-	-	-	-	15
Other liabilities	487	-	-	-	-	487
Provisions	98	-	-	-	-	98
Subordinated debts	502	-	-	-	-	502
Total other liabilities	**9,160**	**-**	**1,604**	**-**	**-**	**7,556**
Share capital	-	-	-	-	-	-
Other reserves	3,303	-	-	-	-	3,303
Retained earnings	268	-	-	-	-	268
Shareholders' equity	**3,571**	**-**	**-**	**-**	**-**	**3,571**
Minority interests	-	-	-	-	-	-
Total equity	**3,571**	**-**	**-**	**-**	**-**	**3,571**
Total equity and liabilities	**60,948**	**-**	**1,604**	**-**	**-**	**59,344**

Due to the repurchase agreements amounting to € 484 million, compensated by a decrease in derivative positions, counterparty credit risk slighty increased with € 9 million.

The decrease in the securitisation framework of € 92 million to € 85 million in 2018 (2017: € 177 million) is mainly caused by the exclusion of securitisation programme Holland Homes 1 due to a change in the consolidation scope.

De Volksbank currently does not have a trading portfolio and consequently no posititions subject to market risk. All trading positions have been sold during the year.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories 2017

	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	2,180	2,180	-	-	-	-
Derivatives	1,075	-	1,075	-	108	-
Investments	5,094	4,761	-	74	259	-
Loans and advances to banks	2,643	2,643	-	-	-	-
Loans and advances to customers	49,322	49,219	-	103	-	-
Tangible and intangible assets	81	67	-	-	-	14
Tax assets	132	87	-	-	-	45
Other assets	365	365	-	-	-	-
Total assets	**60,892**	**59,322**	**1,075**	**177**	**367**	**59**
Liabilities						
Savings	36,575	-	-	-	-	36,575
Other amounts due to customers	10,280	-	-	-	-	10,280
Amounts due to customers	**46,855**	**-**	**-**	**-**	**-**	**46,855**
Amounts due to banks	2,681	-	-	-	-	2,681
Debt certificates	4,900	-	-	-	-	4,900
Derivatives	1,252	-	1,252	-	-	
Tax liabilities	45	-	-	-	-	45
Other liabilities	822	-	-	-	-	822
Provisions	125	-	-	-	-	125
Subordinated debts	498	-	-	-	-	498
Total other liabilities	**10,323**	**-**	**1,252**	**-**	**-**	**9,071**
Share capital	-	-	-	-	-	-
Other reserves	3,385	-	-	-	-	3,385
Retained earnings	329	-	-	-	-	329
Shareholders' equity	**3,714**	**-**	**-**	**-**	**-**	**3,714**
MINORITY INTERESTS						
Total equity	**3,714**	**-**	**-**	**-**	**-**	**3,714**
Total equity and liabilities	**60,892**	**-**	**1,252**	**-**	**-**	**59,640**

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2018

		a	b	c	d	e
			Items subject to:			
	in € millions	Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	60,851	60,034	732	85	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,604	-	1,604	-	-
3	**Total net amount under regulatory scope of consolidation**	**60,851**	**60,034**	**732**	**85**	**-**
4	Off-balance sheet amounts	2,750	1,145[1]	-	-	-
5	Differences in valuations	-2,256	-2,256	-	-	-
6	Differences due to consideration of provisions	59	59	-	0	-
7	Differences due to counterparty credit risk	72	-	72	-	-
8	**Exposure amounts considered for regulatory purposes**	**61,476**	**58,981**	**804**	**85**	**-**

1 After credit conversion factor.

De Volksbank does not apply on-balance sheet netting between assets and liabilities. This concerns derivatives and repo transactions exposure, which are mainly part of an ISDA or GMRA master netting agreement.

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements 2017

		a	b	c	d	e
			Items subject to:			
	in € millions	Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	60,941	59,322	1,075	177	367
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,252	-	1,252	-	-
3	**Total net amount under regulatory scope of consolidation**	**60,941**	**59,322**	**1,075**	**177**	**367**
4	Off-balance sheet amounts	2,632	922[1]	-	-	-
5	Differences in valuations	-1,777	-1,777	-	-	-
6	Differences due to consideration of provisions	71	71	-	-	-
7	Differences due to counterparty credit risk	-216	-	-216	-	-
8	**Exposure amounts considered for regulatory purposes**	**61,651**	**58,538**	**859**	**177**	**367**

1 After credit conversion factor.

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 amounts considered for regulatory purposes.

1.5 DETAILED INDEX OF PILLAR 3 REFERENCES

The Pillar 3 disclosures are described in Part Eight of the CRR. The table below provides insight into these disclosure 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 2 Objectives and guidelines regarding risk management Chapter 3 Own funds and leverage Section 4.1 General qualitative information regarding credit risk Section 7.1 Qualitative disclosure requirements regarding counterparty credit risk Section 10.2 Interest rate risk not included in the trading portfolio Chapter 12 Operational risk See also the annual report of de Volksbank	Section 4.11 of the annual report contains the management statement. Chapter 5 (Report Supervisory Board) adresses subjects of the risk committees and chapter 6 of the annual report discusses the governance provisions. Chapter 6 and section 3.4 (Genuine attention for our employees) of the annual report discusses topics including the diversity policy.
436	Scope of application	Section 1.4 Scope of application	
437	Own funds	Chapter 3 – Own funds and leverage	Section 1.3 Consolidation scope discusses the capital structure and the full reconciliation of shareholders' equity.
438	Capital requirements	Section 3.3 Capital requirements	
439	Exposure to counterparty credit risk	Chapter 7 Counterparty risk	
440	Capital buffers	Section 3.4 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 4.2 General quantitative information regarding credit risk	
443	Unencumbered assets	Section 9.3 Encumbered and unencumbered assets	
444	Use of ECAIs	Section 5.1 Qualitative information regarding the use of the Standardized Approach	
445	Exposure to market risk	Section 10.1 Capital requirements for market risk using the Standardized Approach	
446	Operational risk	Chapter 12 Operational risk	
447	Exposures in equities not included in the trading book	Chapter 8 Shares outside the trading portfolio	
448	Exposure to interest rate risk on positions not included in the trading book	Section 10.2 Interest rate risk not included in the trading portfolio	
449	Exposure to securitisation positions	Chapter 11 Securitisation	
450	Remuneration policy	For the Pillar 3 remuneration report we refer to www.devolksbank.nl	Section 6.7 of the annual report of de Volksbank also contains information about the remuneration report.
451	Leverage	Section 3.5 Leverage ratio	
452	Use of the AIRB Approach to credit risk	Chapter 6 Credit risk and credit risk mitigation under the AIRB-approach	
453	Use of credit risk mitigation techniques	Section 4.3 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.

1.6 FLOWS OF RISK MANAGEMENT INFORMATION TO DIRECTORS

Table of reports and frequencies

	Report	Board of Directors	Supervisory Board
1st line	Quarterly Business Review/Management reports	quarterly	quarterly
	Monthly Business Review	monthly	
	In Control Statement	semi annually	semi annually
2nd line	Non-Financial Risk Rapport	quarterly	quarterly
	Financial Risk Rapport	quarterly	quarterly
	Risk Appetite Statement	annually	annually
	Recovery Plan	annually	annually
	Strategic Risk Assessment	annually	annually
	Self assessment risicocomités	annually	
	ICAAP/ILAAP rapportages	annually	annually
	List of decisions risk committees	afterwards	
3rd line	Auditreport external accountant	annually	annually
	Internal audit reports	quarterly	quarterly
	Management Letter external accountant	annually	annually

The Board of Directors and Supervisory Board of de Volksbank are regularly informed about the risks and risk management.

The table above mentions important reports that the directors receive, as well as their frequency.

The Board of Directors bears ultimate responsibility for risk management. In this proces, it is supported by risk committees. Each risk committee is chaired by a member of the Board of Directors, which keep them informed of 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 committee has ended (see also Section 2.2 Risk management approach of the institution).

We also refer to the report of the Supervisory Board included in the annual report, which gives a detailed list of the subjects and reports discussed by the supervisory directors in 2018. The reports received by the supervisory directors were also discussed by the Board of Directors.

1.7 INFORMATION ABOUT GOVERNANCE GUIDELINES

APPOINTMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

The (General Meeting of Shareholders) GMS appoints a member of the Board of Directors with prior approval of the Supervisory Board and NLFI. The Supervisory Board appoints the Chairman of the Board of Directors on the nomination of the GMS. The GMS suspends and dismisses a member of the Board.

Functioning of the Board of Directors

The Articles of Association of de Volksbank (Articles) contain a list of the duties of the Board of Directors and rules on its functioning. In addition to the Articles, NLFI, de Volksholding and de Volksbank have signed a Memorandum of Understanding (MoU). In addition, as in the MoU, the Regulations for the Board (Regulations) contain additional practical agreements on the way in which the Board of Directors is to exercise its duties and powers.

The Articles and the MoU were not amended in 2018. The Regulations for the Board were last amended on 23 November 2017.

In principle, the Board meets every week and takes decisions by majority vote. Because of the personal union, meetings of the Boards of Directors of de Volksbank and de Volksholding usually take place in combination.

In order to fulfil the mission of de Volksbank and to optimise the shared value ambition, the Board of Directors constantly and explicitly weighs up the interests of all its stakeholders in exercising its duties and responsibilities.

Please refer to chapter 6 of the 2018 annual report of de Volksbank for information about the governance arrangements.

1.8 MANAGEMENT STATEMENT ON THE ADEQUACY OF RISK MANAGEMENT

The Management Board of de Volksbank N.V. confirms that the risk management systems of de Volksbank are adequate with regard to the risk profile and strategy.

2 OBJECTIVES AND GUIDELINES REGARDING RISK MANAGEMENT

2.1 GENERAL INFORMATION ON RISK MANAGEMENT, OBJECTIVES AND POLICIES

Risk management objectives EDTF 1

De Volksbank wants to make safe and innovative banking available to everyone by turning risks into opportunities. This is rooted in the maximum confidence that de Volksbank has in customers and staff, and vice versa. We distinguish between risks that provide opportunities and risks that should be avoided, while considering all elements of our shared value. We aim for business operations in which we demonstrably manage and control the risks in a responsible manner. Mistakes are an inevitable part of this process. We want to learn from our mistakes so as to prevent them in the future.

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 support our customers in controlling their own financial position. Risk management sees to such matters as clear and transparent products, and reliable and controlled processes.

Responsibility for society
We contribute to products and services that increase the financial resilience of customers. Our aim of creating a portfolio of sustainable activities involves risk considerations. We closely monitor laws and regulations.

Genuine attention for our employees
We need motivated and competent people to live up to our ambition. We encourage the development of their expertise.

Returns for the shareholder(s)
We aim for a stable 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.

Moderate risk profile EDTF 7

De Volksbank is a bank that focuses on Dutch retail customers with three clear and transparent products and services: mortgages, payments and savings. Low-risk activities with corresponding solid buffers and responsible risk management fit into this business model. We form adequate provisions for any credit losses we may reasonably expect. We also maintain an ample capital position to absorb unexpected losses.

Three-quarters of de Volksbank's assets comprise residential mortgages. This focus on the Dutch retail market entails concentration risks. We accept that this focus makes the bank sensitive to economic, political and social developments in the Netherlands. In addition, we are facing substantial pressure from competition in our domestic market. We are aware of this risk. We mitigate the risk of our strategic choice by explicitly opting for Banking with a human touch and our ambition of shared value that reflects this identity. We absorb the adverse effects of this concentration by adhering to the three strategic pillars.

Our portfolio management focuses on:
- the responsible funding of new customers;
- retention of a healthy, existing portfolio;
- support for customers who have run into payment problems.

A considerable part of de Volksbank's income consists of net interest income, which is affected by the level of and fluctuations in interest rates and credit spreads. We manage this interest rate sensitivity with due care but cannot rule out the possibility that interest rate changes will impact the result.

Customer savings are the main source of funds entrusted to us. The amount of these savings is sensitive to the savings rates we pay. We also raise funds in the money and capital markets to supplement the savings and diversify our funding sources. The level of our credit rating is a major factor. It partly determines the price of funds we raise externally. Using liquidity management, we see to it that an ample supply of funds is available.

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

Risk appetite and risk indicators EDTF 2 EDTF 3 EDTF 7

De Volksbank has divided the main types of risk into financial and non-financial risks.

The classification of the types of risk is evaluated annually and adjusted where necessary. Such adjustments may be required as a result of, for example, new regulations, internal and external developments or a change of strategy or risk capacity. The risk classification remained virtually unchanged in 2018.

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, 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 indicator:
- warning indicators giving early warning signs of deteriorating 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.

Risk Appetite Statement	Relatieve score	Note to the score
BUSINESS RISK • People-oriented, social, sustainable bank; • Stable profit for the shareholder(s); • Timely adaptation to (market) developments.		The pressure on our net interest income and the importance of cost control remain unchanged.
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.
CREDIT RISK • Control is such that it does not threaten our financial position (capital and liquidity).		The credit risk on our portfolios has again decreased. This is due to an increase in the number of new (financially strong) customers and a decrease in the number of customers in arrears.
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.		The risk models were further refined, partly due to new laws and regulations and customer behaviour, to improve asset & liability management. This will still be a focus area in 2019.
MARKET RISK • Monitoring risks in the trading book caused by movements of market variables.		We have a limited market risk appetite in the trading book. The indicators are within our limits.
LIQUIDITY RISK • Monitoring a strong liquidity and funding position, so that financial obligations can be met at any time and the consequences of bank-specific and market-wide stress factors can be absorbed.		We have a strong liquidity and funding position. Our funding is mainly made up of stable customers' savings and long-term wholesale funding.
OPERATIONAL RISK • Effective, high-quality processes, acceptance of low error rates; • Sufficient and competent employees and a pleasant working environment; • Efficient and stable IT environment; • Low tolerance for disruptions of integrity and continuity of systems and reliability, confidentiality and integrity of information.		Improvements in process control are being implemented, although at a slower pace than desired. Knowledge in the area of operational risk management is enhanced by means of training. Dynamics in the organisation result in high work pressure. IT control is high. The threat of cybercrime is real and sometimes serious.
REPORTING RISK • Reasonable degree of assurance that the information provided is reliable.		Insight into processes and internal control have been improved. Data management is not at the desired level and will be a focus area in 2019.
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. However, some desirable adjustments were not made in 2018.
MODEL RISK • Controlled model development and strong model governance;		Model adjustments were implemented to comply with new regulations. The ECB conducted an extensive model study in 2018.

Risk Appetite Statement	Relatieve score	Note to the score
• Limited model risk by avoiding products with complex features.		
LEGAL RISK • Excellent business processes in place to help prevent claims; • Settlement of any claims with due care.		The situation with regard to procedures, contracts and legal awareness is stable. Improvements were introduced in such areas as interest-only mortgages, comprising the application of Banking with a human touch.
CHANGE RISK • We want to be able to proactively adapt to changing circumstances; • We want effective change management in which we achieve objectives that are in line with de Volksbank's strategy.		There are a large number of change programmes, which require a lot of resources and knowledge. This means that results are not always achieved in good time. Improvements have been made to the management of the change programmes.

Legenda

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

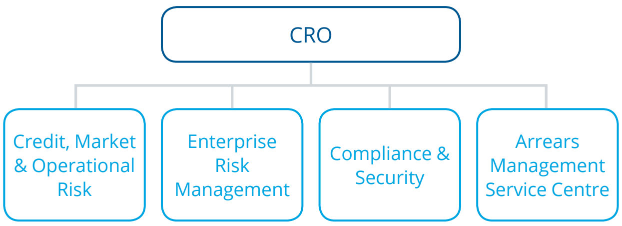
2.2 RISK MANAGEMENT APPROACH OF THE INSTITUTION

Risk management organisation EDTF 5

Developments in 2018

The bank's management and organisational structures were changed in 2018. The CEO was made accountable for the Legal and Fiscal Affairs departments and the Supervisory Office with effect from 21 August 2018.

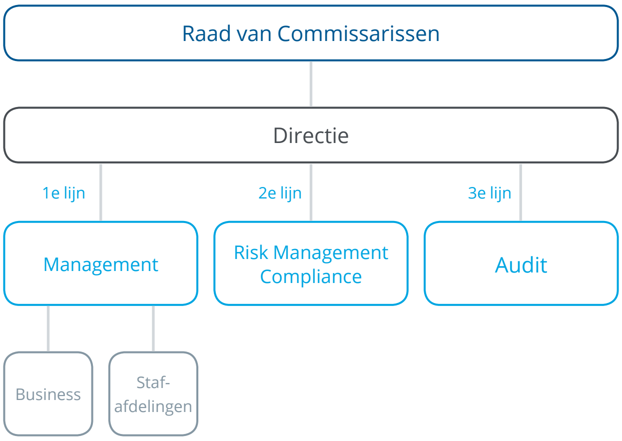
The risk management organisation in 2018 was as follows:



Risk governance EDTF 5

Three lines of defence

De Volksbank's risk governance is based on the three lines of defence model.

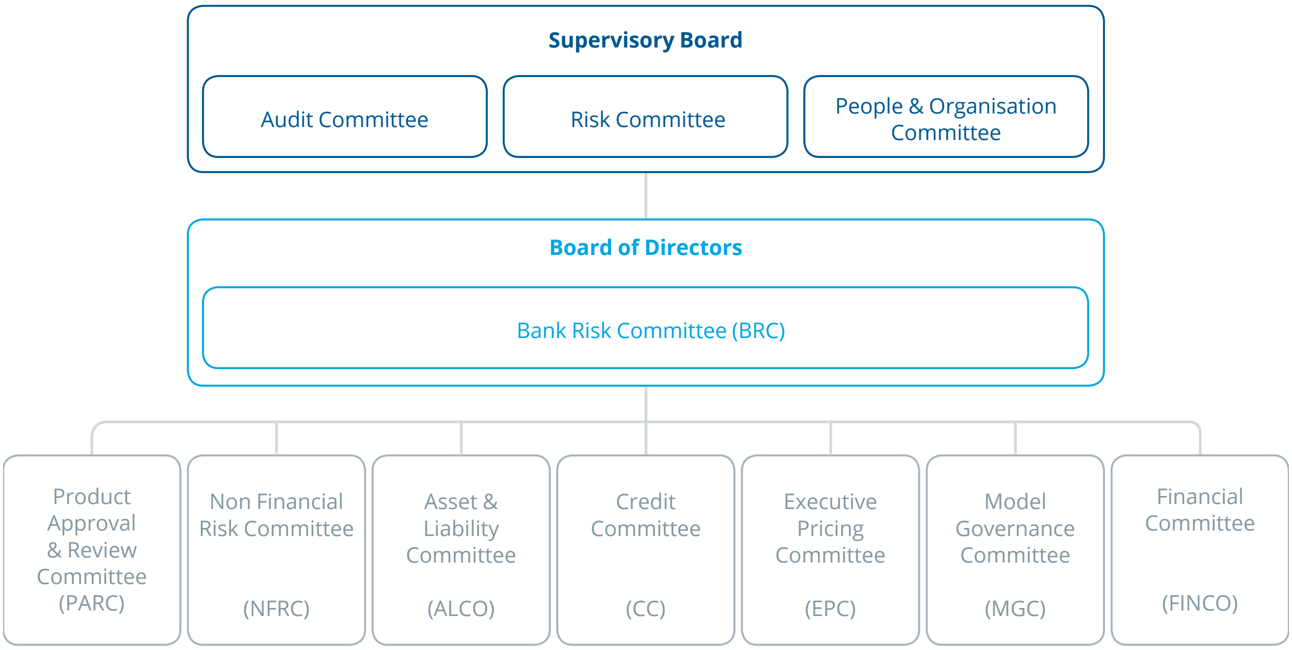


In this model, the first line (the business) is responsible for setting up and executing their own processes. They identify the risks, assess and report on these risks and measure them against the risk appetite that has been determined. The second line supports the business, sets frameworks, provides advice and monitors whether the business is actually taking its responsibility. The second line also monitors whether de Volksbank complies with integrity laws and regulations as well as its internal policies on that subject. The third line (the audit function) independently assesses the first and second lines' performance.

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.

The Board of Directors bears ultimate responsibility for risk management. In this process, it is supported by risk committees, with representatives from the first and second lines in each 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 it may attend meetings at all times.

The Board of Directors also identifies the top risks on an annual basis. Where necessary, it formulates measures to bring the consequences within the risk appetite. The Board of Directors forms an opinion on the achievement of the strategic objectives and risk management. It does so on the basis of documents including monthly and quarterly business reports, second-line risk reporting, self-assessments of the risk committees and internal audit reports.



As from 2018, the Bank Risk Committee (BRC) holds an additional quarterly meeting to take a holistic, integrated look at risks and opportunities for de Volksbank. It discusses and decides on topics such as external and internal developments, strategy, risk management and implications for putting the strategy into practice. In addition to the risk committee structure, two Regulatory Boards and an Information Board are in place. The Regulatory Boards' duties are to identify developments in relevant laws and regulations and to ensure their correct and timely implementation within de Volksbank. The Information Board 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.

Risk culture EDTF 6

Although our risk organisation is an integral part of the bank, it acts independently. It informs, challenges, takes positions and provides advice when requested and at its own initiative. As an expert knowing all the ins and outs of the organisation, it gives insight into the risks and clarifies them. Listening and connecting are key here. The risk organisation bears in mind all stakeholders and expresses its point of view without judging. It helps devise solutions that do justice to the various interests and that contribute to achieving the strategy. Self-reflection is a key component of the culture. The risk organisation will continue to grow into its role.

Risk culture propagation

Culture is a decisive factor in risk management and risk awareness and, as such, is part of the Internal Control Framework (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 bears ultimate responsibility and approves the risk policy. Members of the Board of Directors chair the various risk committees and, by doing so, also put the Board of Directors' involvement in risk management into practice.

Clear governance EDTF 5

We have set up a clear governance structure with risk committees where discussions are held between the business, which controls the risks, and the risk organisation, which monitors the risks and associated control. Decision-making on risks follows the lines of 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 in the risk committees. A risk committee presents a point of discussion to the Board of Directors where necessary.

The Board of Directors confirms major or overarching risk guidelines and re-adopts them annually. Every year, we perform a complete self-assessment for all risk committees. Points for improvement are defined where necessary.

Risk guidelines

De Volksbank has an extensive set of risk guidelines in place, describing, for example, its risk appetite, duties and responsibilities, as well as reporting and communication lines. Our risk guidelines dovetail with our position as a social bank with low-risk activities. Our guidelines are subject to continuous fine-tuning and the shared value has been incorporated into our risk guidelines. We expect the intensified focus on customers, society, employees and shareholders to improve our analysis and understanding of the risk-return ratio in the next few years. Important aspects here include financial returns as well as benefits for customers, genuine attention for our employees and responsibility for society.

Developments of risk awareness

Managers ensure that the risk guidelines are sufficiently clear and known to employees. This is done with the aim of ensuring that our employees perform their duties as desired and take responsibility for their part of risk management. Training courses, workshops and e-learning programmes are provided within the organisation to further develop risk awareness. In addition, success stories and lessons learned in the area of risk awareness are shared.

Internal code of conduct

An internal code of conduct guides the ethical actions that we expect of all our employees. We pay 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

Our remuneration policy takes into account the right balance between risk and return. Our ambition dictates that, in addition to financial return, other aspects are important as well. We set goals that are aimed at creating shared value for all stakeholders. De Volksbank cancelled variable remuneration with effect from 1 January 2018. Previously, the Supervisory Board and the Board of Directors were already excluded from variable remuneration (see also Section 6.7 Remuneration report of the annual report).

2.3 HEDGING AND HEDGE ACCOUNTING

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 chapter 2 Objectives and guidelines regarding risk management).

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 portfolio and the arrears portfolio. 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.

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 so as 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 18 Hedge and hedge accounting of the annual report.

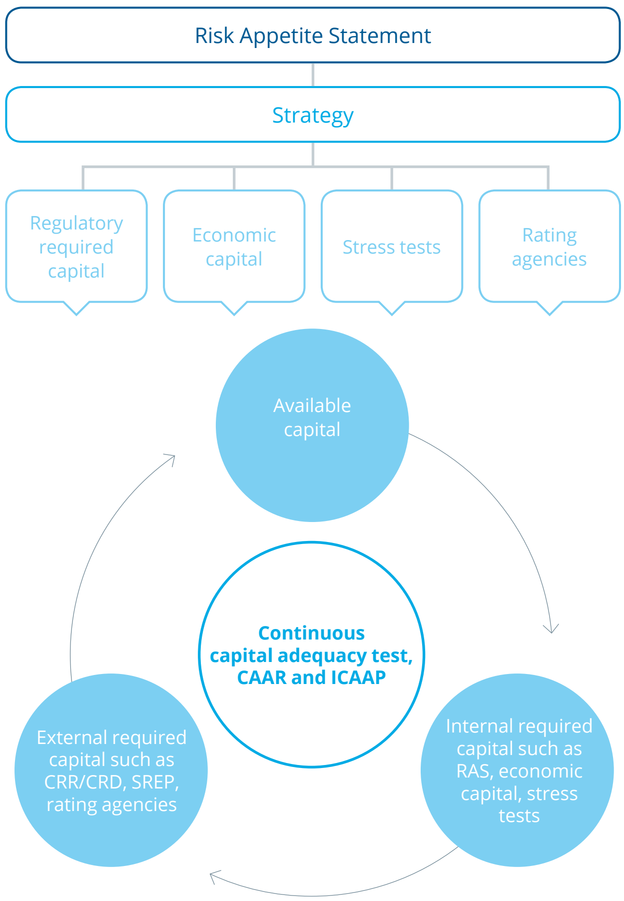
3 OWN FUNDS AND LEVERAGE EDTF 3

3.1 MANAGEMENT AND CONTROL EDTF 2

Management and control EDTF 7

Our strategy incorporates the objective of having a solid capital position at our disposal, combined with an appropiate Return on Equity (RoE) for our shareholders. In respect of the RoE, de Volksbank applies a target of 8.0%. The basic principle for the amount of capital is that the bank maintains internal 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 EDTF 9

The minimum amount of capital required by law (regulatory capital) relates to the 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 3.4 Macroprudential supervisory measures, the minimum risk-weighted capital ratios follow from the SREP. In addition to the weighted and unweighted capital ratio, de Volksbank calculates and discloses the ratios for Minimum Requirements for own funds and Eligble Lialibities (MREL) in both a risk-weighted and a non-weighted manner (see section 4.9 Capital management of the annual report).

Economic capital EDTF 7

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

1. Our calculations of economic capital include all risks from which material losses may ensue according to internal insight. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.
2. Using our own insight to guide us, we translate our risk appetite into internal capital requirements, partly on the basis of the desired 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 our limits for specific types of risk, as applied in the Risk Appetite Statement (RAS).

Stress testing EDTF 8

De Volksbank performs several stress tests every year, including a stress test as part of the ICAAP, to test the robustness of capital adequacy.

The scenarios to be calculated are drafted on the basis of a detailed risk identification. In addition to scenario analyses, which we use to calculate the impact of a macroeconomic scenario on de Volksbank's capital position, we also perform sensitivity analyses and reverse stress tests. In a reverse stress test, we start from a pre-determined outcome (such as a situation in which our capital ratios drop to below the designated minimum) and then look at the events that may lead to such a situation.

For the scenarios whose impact is calculated in a stress test, we estimate the development of unemployment, economic growth, interest rates and other factors. These macroeconomic variables 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 and to determine the management buffers that we consider in setting the internal minimum levels of the capital ratios.

The reverse stress test and capital adequacy under stress are part of the ICAAP and provide input for, for example, de Volksbank's recovery plan.

In 2018, de Volksbank also participated in the Single Supervisory Mechanism (SSM) SREP stress test carried out by the ECB. This stress test supplements the EU-wide stress test performed by the EBA and is based on the same methodology as the EBA stress test. Based on the assumptions and methodological limitations of the adverse stress test scenario, de Volksbank's CET1 capital ratio would remain well above its minimum target of 15%.

Rating Agencies

The bank's creditworthiness is also assessed by rating agencies, i.e. by S&P (only for Issuer Credit Rating), Moody's and Fitch. When determining a rating, rating agencies look at aspects such as the bank's 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.

Continuous capital adequacy assessment EDTF 9

Capital Adequacy Assessment Report

We continuously assess our capital adequacy in order to introduce timely adjustments. The capital planning forms the basis. It is established annually, simultaneously with the operational plan, and contains a projection of our capital position and requirements over a multi-year horizon. The anticipated effects of future regulations are also factored in. We review this capital planning every month on the basis of the most recent figures and qualitative knowledge in the Capital Adequacy Assessment Report (CAAR).

If necessary, we use this review to steer the capital to the desired level, for example by raising new capital.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) comprises the entire continuous capital management process and focuses on the capital adequacy requirements set by supervisory authorities. We draft an ICAAP report on an annual basis to inform the supervisory authority of the process organisation and results of the ICAAP. On this basis, the supervisory authority assesses the capital adequacy as part of the SREP.

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 de Volksbank'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 any liquidity problems. Potential capital or liquidity problems are identified by frequent monitoring of 'early warning' indicators. Changes in the values of the indicators may be the first sign of stress.

We activate the recovery plan if and when the development of the indicators signals that this is necessary. Applying the measures available from the recovery plan helps us to reinforce the ratios and recover independently. The measures available 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 – such as raising new capital, lowering the risk-weighted assets, raising funding and setting up the backup for critical systems or applications – depends on the nature and severity of the deteriorating conditions.

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 resulting from these measures. The analysis is supported by a number of (severe) stress scenarios in which the effectiveness of these measures has been assessed ('recoverability assessment').

We update the recovery plan every year. We share and discuss it with the ECB's Joint Supervisory Team (JST).

3.2 OWN FUNDS EDTF 10 EDTF 11

Under the CRD IV rules, de Volksbank's own funds comprise a number of components that must satisfy certain conditions. The composition of own funds according to the CRD IV rules is broken down in the table in Section 1.4 Consolidation scope. De Volksbank's capital base consists of Common Equity Tier 1 capital 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.

On 3 November 2017, EBA published its interpretation of CRR Article 82, which has consequences for financial parent holding companies with a single subsidiary and a strong capital position, such as de Volksholding. In the consolidated capitalisation, a haircut is applied to the Additional Tier 1 and Tier 2 capital issued to third parties by de Volksbank. This haircut is related to the surplus of available capital in relation to the minimum capital requirements. The rationale behind this EBA interpretation is based on the consideration that the subordinated assets at the level of a subsidiary cannot fully serve to absorb risks arising from the specific activities of a holding company. Although de Volksholding. has no other activities than holding the shares in de Volksbank, this correction does apply to de Volksholding. As a result, the effective amount of Tier 2 capital at consolidated level is lower than at solo bank level: at year-end 2018, the effective amount of Tier 2 capital is € 152 million at consolidated level, versus € 500 million at solo bank level.

De Volksbank intends to incorporate de Volksholding in de Volksbank by means of a legal merger. This will mitigate the impact of the EBA interpretation, and the Tier 2 capital issued will effectively and fully be available for de Volksbank. Subject to all required approvals, including those from NLFI and the supervisory authorities, we expect the merger to be completed in the first half of 2019.

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

Main features of capital instruments

		de Volksholding B.V.	de Volksbank N.V.	
	In € millions (unless stated otherwise)	**CET1 Capital**	**CET1 Capital**	**Tier 2 Capital**
1	Issuer	de Volksholding B.V.	de Volksbank N.V.	de Volksbank N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)			XS1315151388
3	Governing law(s) of the instrument	Dutch law	Dutch law	Dutch law
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Subordinated loans
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	3,313	3,313	500
9	Nominal amount of instrument (originally issued capital)	€ 1,-	381	500
9a	Issue price	3.2 billion	381	497
9b	Redemption price	N/A	N/A	500
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability-amortised cost
11	Original date of issuance	N/A	N/A	5 November 2015
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	5 November 2025
14	Issuer call subject to prior supervisory approval	No	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	5 November 2020
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Fixed
18	Coupon rate and any related index	N/A	N/A	3.75%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible
	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Most subordinated position	Most subordinated position	Subordinated to senior unsecured funding.
36	Non-compliant transitioned features	No	No	No

Pillar 3 own funds

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date
1	Capital instruments and the related share premium accounts	4,117
	of which: ordinary shares	-
	of which: share premium	4,117
	of which: instrument type 3	-
2	Retained earnings	-
3	Accumulated other comprehensive income (and other reserves)	-814
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	90
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	*3,393*
	Common equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-3
8	Intangible assets (net of related tax liability) (negative amount)	-6
9	Empty set in the EU	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related taks 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	-30
12	Negative amounts resulting from the calculation of expected loss amounts	-41
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)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	*-80*
29	**Common Equity Tier 1 (CET1) capital**	*3,313*
	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	-

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date
35	*of which: instruments issued by subsidiaries subject to phase out*	-
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 eligable 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**	*0*
44	**Additional Tier (AT1) capital**	*0*
45	**Tier 1 capital (T1= CET1 + AT1)**	*3,313*
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	152
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	-
51	**Tier 2 (T2) capital before regulatory adjustments**	*152*
	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 entitities (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 entitities (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**	*152*
59	**Total capital (TC = T1 + T2)**	*3,464*
60	**Total risk weighted assets**	*9,341*
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	35.5%
62	Tier 1 (as a percentage of total risk exposure amount)	35.5%
63	Total Capital (as a percentage of total risk exposure amount)	37.1%
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)	2.63%
65	*of which: capital conservation buffer requirement*	1.88%
66	*of which: countercyclical buffer requirement*	0.00%
67	*of which: systemic buffer requirement*	0.00%
67a	*of which: Global Systemically important Institution (G-SII) or Other Systemically important institution (O-SII) buffer*	0.75%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	27.5%
69	[non relevant EU regulation]	0.0%
70	[non relevant EU regulation]	0.0%
71	[non relevant EU regulation]	0.0%
	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)	-

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date
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	-
75	deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditoins 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	27
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	33
	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	-

Pillar 3 own funds reconciliation with IFRS balance sheet

Equity	IFRS balance sheet	Page/note[1]	Row in own funds template
Total Equity	3,571[2]		
- of which share capital	0[3]		1
- of which share premium reserve	4,117		1
- of which accumulated other comprehensive income	21		3
- of which fair value reserves related to gains on cash flow hedges	30		3.11
- of which other reserves	-865		3
- of which retained earnings	-		2
- of which profit/loss of the current financial year	268		5a
Assets			
Loans and advances to customers	50,536	n5	7,11,12,13
Investments	4,782	n3	7
Tangible and intangible assets	69	n6	
- of which Intangible assets	6		8
Tax assets	133	n7	
- of which deferred tax assets	70		10
Derivatives	732	n2	7
Liabilities			
Subordinated debt	502	n15	46
Derivatives	1,120	n2	7
Tax liabilities	15	n7	
- of which deferred tax liabilities	15		10

1 2018 annual report of de Volksholding B.V.

2 Reference is made to the Consolidated statement of changes in equity in the annual report of de Volksholding BV.

3 The issued share capital amounts to € 1,-

3.3 CAPITAL REQUIREMENTS EDTF 9 EDTF 12 EDTF 13 EDTF 14

EU OV1 – Overview of RWAs 2018

		RWA		Minimum capital requirements
	in € millions	2018	2017	2018
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**7,348**	**7,510**	**588**
2	*Of which the standardised approach*	1,861	1,439	149
3	*Of which the foundation IRB (FIRB) approach*	-	-	-
4	*Of which the advanced IRB (AIRB) approach*	5,487	6,071	439
5	*Of which equity IRB under the simple risk-weighted approach or the IMA*	-	-	-
6	**CCR**	**306**	**394**	**24**
7	*Of which mark to market*	157	186	13
7a	*Of which SFTs*	2	5	-
8	*Of which original exposure*	-	-	-
9	*Of which the standardised approach*	-	-	-
10	*Of which internal model method (IMM)*	-	-	-
11	*Of which risk exposure amount fro contributions to the default fund of a CCP*	-	-	-
12	*Of which CVA*	147	203	12
13	**Settlement risk**	**-**	**-**	**-**
14	**Securitisation exposures in banking book (after the cap)**	**6**	**6**	**-**
15	*Of which IRB approach*	6	6	-
16	*Of which IRB supervisory formula approach (SFA)*	-	-	-
17	*Of which internal assessment approach (IAA)*	-	-	-
18	*Of which standardised approach*	-	-	-
19	**Market risk**	**-**	**44**	**-**
20	*Of which standardised approach*	-	44	-
21	*Of which IMA*	-	-	-
22	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**1,544**	**1,633**	**124**
24	Of which basic indicator approach	-	-	-
25	*Of which standardised approach*	1,544	1,633	124
26	*Of which advanced measurement approach*	-	-	-
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**137**	**194**[1]	**11**
28	**Floor adjustment**	**-**	**-**	**-**
29	**Total**	**9,341**	**9,781**	**747**

1 Year-end 2017 figures have been adjusted. An amount of € 194 million RWA is reclassified from '2 Of which the standardised approach' to '27 Amounts below the thresholds for deduction (subject to 250% risk weight)'.

The RWA decreased by € 440 million to € 9.3 billion. Credit risk RWA (not including Counterparty Credit Risk, CCR) subject to the Standardised Approach increased by € 422 million to € 1.9 billion, primarily caused by exposure class Corporates. Credit risk RWA (not including CCR) calculated according to the Internal Ratings-Based approach decreased by € 584 million to € 5.5 billion. This decrease was mainly driven by a further improvement of the creditworthiness of the IRB-portfolio, mainly on account of improved economic conditions. This improvement is reflected in lower Probabilities of Default (PD's) and Loss Given Defaults (LGD's). The average risk weight of residential mortgages dropped from 13.5% per year-end 2017 to 12.0%.

Market risk RWA dropped by € 44 million to nil, primarily caused by reduced trading positions.

RWA for CCR, operational risk and securitisation positions in the investment portfolio fell by € 177 million in total.

At year-end 2018 de Volksbank has no transactions in which the agreed delivery dates have not been settled yet. Therefore per year-end 2018 there is no RWA for settlement risk.

The bank does not hold commodities and therefore no capital is required for foreign-exchange risk.

At year-end 2018, 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.

3.4 MACROPRUDENTIAL SUPERVISORY MEASURES EDTF 9

Capital requirements EDTF 4
CRR/CRD IV -requirements

CRR/CRD IV requirements 1 March 2019

	Total capital	of which Tier 1 capital	of which CET1 capital
	2019	2019	2019
Pillar 1 requirement	8.0%	6.0%	4.5%
Pillar 2 requirement (CET1)	2.5%	2.5%	2.5%
Total SREP Capital Requirement	**10.5%**	**8.5%**	**7.0%**
Capital conservation buffer	2.5%	2.5%	2.5%
O-SII buffer	1.0%	1.0%	1.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%
Combined Buffer Requirement	**3.5%**	**3.5%**	**3.5%**
Overall Capital Requirement	**14.0%**	**12.0%**	**10.5%**

The table above presents the capital requirements in respect of Common Equity Tier 1 capital, Tier 1 capital and total capital (Tier 1 and Tier 2) as at 1 March 2019. The Common Equity Tier 1 capital ratios and total capital ratios are well above these minimum capital requirements.

With effect from 1 March 2019, de Volksbank is required to meet a total capital ratio of at least 14.0% (Overall Capital Requirement, OCR) at consolidated level, of which at least 10.5% CET1 capital. This requirement ensues from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2018 and follows from the SREP decision that will come into force on 1 March 2019.

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 CET1 requirement of 2.5% (together the Total SREP Capital Requirement, TSCR) and the Combined Buffer Requirement (CBR) of 3.50%.

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[1]) and a 'countercyclical capital buffer'. The capital conservation buffer and the O-SII buffer have been fully phased-in starting 2019. The capital conservation buffer equalled 2.50% as from 1 January 2019 and the O-SII buffer for de Volksbank equalled 1.0% on 1 January 2019. Both buffers will remain at this level based on the SREP-decision taking effect per 1 March 2019. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising when credit growth is excessive. Each quarter DNB sets the level of the buffer for the Netherlands, which, in principle, varies from 0% to 2.5%[2].
De Volksbank is not classified as G-SII (global systemically important institutions).

Internal minimum level
De Volksbank aims for a CET1 capital ratio of at least 15.0%, and a leverage ratio of at least 4.25%. The objective for the CET1 capital ratio includes Pillar 2 Guidance and a management buffer, on top of the SREP requirement of 10.5%. One of the purposes of the management buffer is to absorb the combined impact of the final Basel IIII standards, also known as Basel IV, and the impact of stress testing on our capital ratios. We are presently consulting with our shareholder to determine whether there is any reason to revise our targets, using our up-to-date insight into the potential impact that Basel IV, other new regulations, impact of long-term low interest rate scenarios and stress testing may have on our capital ratios. We intend to give an update of our objectives in the second half of 2019.

1 The O-SII buffer applies to the highest consolidation level rather than to a subconsolidated, solo bank level.

2 DNB has the discretion to set the countercyclical capital buffer above 2.5%.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer 2018

In € millions	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requi-rements weights	Effective Counter-cyclical capital buffer rate
	Expo-sure value for SA	Expo-sure value for IRB	Sum of long and short positions of trading book	Value of trad-ing book expo-sures for internal models	Expo-sure value for SA	Expo-sure value for IRB	Of which: general credit expo-sures	Of which: Trading book expo-sures	Of which: Securi-tisation expo-sures	Total		
BREAKDOWN BY COUNTRY:												
The Netherlands	1,557	45,789	-	-	-	85	524	-	1	525	91.80%	0%
France	142	3	-	-	-	-	8	-	-	8	1.43%	0%
Germany	41	10	-	-	-	-	3	-	-	3	0.60%	0%
Belgium	283	59	-	-	-	-	23	-	-	23	4.08%	0%
Austria	-	-	-	-	-	-	-	-	-	-	0.00%	0%
Luxembourg	122	1	-	-	-	-	10	-	-	10	1.71%	0%
Great Britain	-	13	-	-	-	-	-	-	-	-	0.05%	0%
Switserland	68	4	-	-	-	-	1	-	-	1	0.20%	0%
Cyprus	1	-	-	-	-	-	-	-	-	-	0.02%	0%
Spain	-	3	-	-	-	-	-	-	-	-	0.01%	0%
Portugal	-	-	-	-	-	-	-	-	-	-	0.00%	0%
United States	-	4	-	-	-	-	-	-	-	-	0.01%	0%
Other	1	19	-	-	-	-	2	-	-	2	0.09%	0%
Total	**2,215**	**45,905**	**-**	**-**	**-**	**85**	**571**	**-**	**1**	**572**	**100%**	**0%**

in € millions	2018
Total risk exposure amount	9,341
Institution specific countercyclical buffer rate	-
Institution specific countercyclical buffer requirement	-

3.5 LEVERAGE RATIO EDTF 9

The leverage ratio is the ratio between a bank's amount of Tier 1 capital and total risk exposure. A minimum level for the leverage ratio serves to prevent banks from building up excessive debts. The coalition agreement of the Rutte III government as published states that the minimum requirement will be aligned with the European minimum requirement as soon as Basel IV become effective. It is expected to be at least 3%, with a possible surcharge for Systemically Important Institutions.

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 lays down intervention levels to identify a falling leverage ratio in good time.

Capital planning is a continuous process. The capital plan provides a projection of our capital position and requirements over a multi-year horizon including the expected impact of changes in regulations. The capital planning is reviewed every month on the basis of the most recent figures and qualitative knowledge in the Capital Adequacy Assessment Report (CAAR). We evaluate the leverage ratio against the expected future minimum of 3% plus possible add-on for systemically important banks and our internal target of at least 4.25%. This assessment is used to steer the capital to the desired level if necessary, for example by raising new capital.

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	CRD IV fully phased in 2018	CRD IV fully phased in 2017	CRD IV transitional 2017
EXPOSURE VALUES			
Derogation for SFTs	10	23	23
Derivatives: market value	147	212	212
Derivatives: add-on mark-to-market method	381	373	373
Off-balance: undrawn credit facilities	133	161	161
Off-balance: medium/low risk	410	228	228
Other assets	59,623	59,477	59,477
CAPITAL AND REGULATORY ADJUSTMENTS			
Tier 1 capital	3,313	3,353	3,339
Regulatory adjustments (Tier 1)	-80	-115	-129
Exposure measure as defined by the CRR	60,625	60,350	60,345
Leverage ratio	5.5%	5.6%	5.5%

The leverage ratio remained unchanged at 5.5% relative to year-end 2017 (transitional), in spite of a minor decrease of Tier 1 capital and an increase of the leverage ratio denominator (€ 0.3 billion). The leverage ratio denominator is equal to the risk exposure as defined by the Capital Requirements Regulation, CRR.

The 5.5% leverage ratio is well above the regulatory requirements and our target of at least 4.25%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount of capital necessary to meet risk-weighted capital ratio requirements. This is the consequence of de Volksbank's focus on retail 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 EDTF 10

	in € millions	2018	2017
1	Total assets as per published financial statements	60,948	60,892
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	-203	-486
5	Adjustments for securities financing transactions "SFTs"	10	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	543	389
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)	-	-
	Regulatory adjustments	-80	-129
7	Other adjustments	-593	-321
8	**Total leverage ratio exposure (CRR)**	**60,625**	**60,345**

Leverage ratio common disclosure

		CRR leverage ratio exposures	
	in € millions	**2018**	2017
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	59,623	59,477
2	(Asset amounts deducted in determining Tier 1 capital)	-80	-129
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	59,543	59,348
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	281	369
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	381	373
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)	-133	-157
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)**	529	585
	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	10	-
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)**	10	-
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,698	2,618
18	(Adjustments for conversion to credit equivalent amounts)	-2,155	-2,229
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	543	389
	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))	-	-
	Capital and total exposures		
20	**Tier 1 capital**	3,313	3,339
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	60,625	60,345
	Leverage ratio		
22	**Leverage ratio**	5.5%	5.5%
	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	transitional
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	2018	2017
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	59,623	59,477
EU-2	Trading book exposures	-	259
EU-3	Banking book exposures, of which:	59,623	59,315
EU-4	Covered bonds	51	40
EU-5	Exposures treated as sovereigns	5,850	7,108
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	3,056	2,296
EU-8	Secured by mortgages of immovable properties	47,178	46,146
EU-9	Retail exposures	268	350
EU-10	Corporate	2,209	2,650
EU-11	Exposures in default	294	358
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	717	367

4 CREDIT RISK AND GENERAL INFORMATION ON CRM

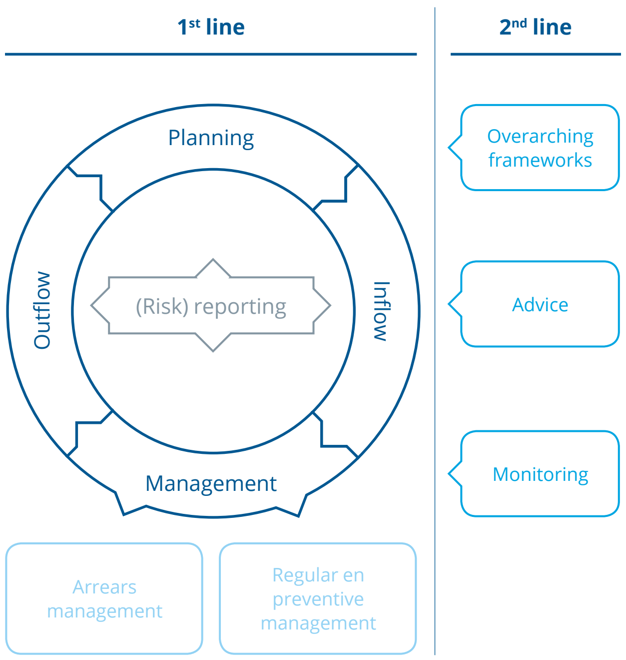
EDTF 3 EDTF 2

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 retail 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.

4.1 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK

Management and control EDTF 7 EDTF 27

In credit risk management, we take into account the individual customer. On a portfolio level we also manage the risk based on inflow, outflow, size and status of the healthy portfolio and the arrears portfolio. De Volksbank's credit management process is represented visually below.



Retail mortgages

In the provision of new mortgage loans (inflow) we put customers' interests first and use our internal standards, which are in line with the legal frameworks. 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 and see to it that the mortgages provided meet our internal standards regarding the customer's income and the collateral value. We limit credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee of Nationale Hypotheek Garantie (NHG). See also Section 4.3 General qualitative information regarding credit risk mitigation.

As the Dutch economy is currently experiencing strong economic growth, we tightened our risk acceptance in 2018 with regard to the inflow of new customers. This should prevent us from registering too large an increase in the expected loss or exceeding the long-term objective if and when the economic tide turns.

We monitor the development of the portfolio in terms of credit quality, collateral values, the percentage covered by NHG and the average expected loss. For this purpose, monthly reports are drafted and presented to second-line credit risk management and senior management. Second-line credit risk management defines frameworks, monitors portfolio quality and the execution of the management process and advises on opportunities for improvement.

For the outflow, we examine the reasons for redemption. In the context of portfolio management, we also look at the characteristics of these customers in terms of quality and estimated expected loss.

As part of the credit management process, we continuously evaluate the effectiveness of the management processes and introduce improvements where possible.

Interest-only and 'aflossingsblij'

In 2018, our attention continued to focus on interest-only mortgages. We actively contact customers whom we consider to be in a high-risk category. This may be, for instance, because their mortgage is nearing maturity and given their age it is likely that they will retire, which may result in a drop in income. This way, we find out whether these customers can be refinanced based on their retirement income and whether they have accumulated any capital to make full or partial repayments at the end of the term. De Volksbank is also one of the banks participating 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 the customer as the basis for a long-term customer relationship. We manage the credit risk through an active and specific policy on customers in arrears.

The Preventive Management department contacts the customer as soon as possible when the management processes show that there is a reason to do so. Contact will be initiated, for instance, when a missed payment (direct debit) is registered. In most cases, this contact results in payment of the missed instalment. The bank's active management prevents customers from falling into long-term registered arrears, which may affect the determination of their credit standing and future interest rate renewals.

If a customer experiences financial difficulties, the file is transferred to the Arrears Management department and the customer is assigned their own case handler. If necessary, we pay the customer a visit to look together for solutions serving the customer's interests as well as the bank's interests. The point of departure is that the customer is able to stay in their home and continue making their mortgage payments. If a customer is truly unable to meet the obligations, we may consult with them and agree a payment measure or restructuring (known as 'forbearance' measures). If no solution can be found to resolve the financial difficulties, we support the customer in selling their home.

De Volksbank itself keeps in touch with the customer, thus securing an optimum relationship. We do not intend to engage external debt collection agencies or bailiffs. The use of external parties creates more costs for the customer and exacerbates their financial problems. Only if a customer can cooperate but refuses to do so will the bank engage a bailiff. During the course of 2018, de Volksbank brought back most of the customer files that had previously been transferred to debt collection agencies, in order to work on a solution together with the customer.

Forbearance

We may apply a forbearance measure in situations where a customer has 'financial concerns' and is expected to be unable to meet their future financial obligations or to do so in time. This 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 the conditions of payment. We may apply this measure to prevent payment problems from accumulating or situations in which the loan has to be called in early.

Other retail loans

We may apply a forbearance measure in situations where a customer has 'financial concerns' and is expected to be unable to meet their future financial obligations or to do so in time. This 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 the conditions of payment. We may apply this measure to prevent payment problems from accumulating or situations in which the loan has to be called in early.

SME portfolio

We may apply a forbearance measure in situations where a customer has 'financial concerns' and is expected to be unable to meet their future financial obligations or to do so in time. This 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 the conditions of payment. We may apply this measure to prevent payment problems from accumulating or situations in which the loan has to be called in early.

Preventive management and arrears management for SME customers

We take action as soon as a corporate client falls into arrears or states that it anticipates payment problems, and we do so based on the key principles of continuity of the company (customer) concerned and the potential for recovery. Together, we explore the options for making the company financially resilient again, focusing on a healthy liquidity and profitability position. We may take forbearance measures for these customers, too. If and when a customer has recovered and a stable situation has arisen, 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 the bank.

Other commercial loans and loans to the public sector

This portfolio consists of several sub-portfolios. The ASN Bank brand manages sustainable and private loans, for example. Furthermore, through the 'Financial Markets' portfolio we provide various loans to other financial institutions and have lent funds to authorities.

Investments

De Volksbank has a bond portfolio for liquidity management purposes, which requires counterparties to meet stringent requirements and have good ratings.

Reporting

We monitor developments in the loan portfolios and periodically report on this to the Credit Committee, the Board of Directors and the Risk Committee of the Supervisory Board.

Every month, we prepare a report on the mortgage portfolio and discuss it within the mortgage distribution chain. Every quarter, we provide a detailed report on the loan loss provisions, which gives insight into internal and external developments affecting the loan loss provisions. Second-line credit risk management also issues quarterly reports presenting its view of the bank-wide credit risk in relation to the risk appetite determined. These reports are characterised not only by a quantitative analysis but also by a qualitative assessment and an estimate of short-term forecasts regarding the development of the credit risk on the portfolios.

Loan loss provisions (IFRS 9)

As from 1 January 2018, de Volksbank complies for calculation of loan loss provisions with the requirements of IFRS 9. These new guidelines make the provisions potentially more volatile, as anticipated macroeconomic developments must be included in the calculations. Based on our risk models, we make monthly calculations for all our customers to estimate their risk of running into financial difficulties.

The scope of the impairment requirements is broadened under IFRS 9. Under IAS 39 loan loss provisions were only recorded for realised credit losses. Under IFRS 9 de Volksbank forms provisions for expected credit losses on every outstanding loan. This also includes expected credit losses on loan commitments and financial guarantee contracts (off-balance sheet positions). See also Section 4.6.3 Implementation of IFRS 9 in the annual report.

4.2 GENERAL QUANTITATIVE INFORMATION REGARDING CREDIT RISK EDTF 26

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 2018

		a	b
	in € millions	**Net value of exposures at the end of the period**	**Average net exposures over the period**
6	Retail	48,996	47,224
7	*Secured by real estate property*	*48,996*	*47,224*
8	*SMEs*	-	-
9	*Non-SMEs*	*48,996*	*47,224*
15	**Total IRB approach**	**48,996**	**47,224**
16	Central governments or central banks	4,299	5,058
17	Regional governments or local authorities	711	824
18	Public sector entities	423	245
19	Multilateral development banks	389	339
20	International organisations	27	24
21	Institutions	3,649	2,997
22	Corporates	2,627	2,818
23	*Of which: SMEs*	*46*	*229*
24	Retail	776	876
25	*Of which: SMEs*	*214*	*248*
26	Secured by mortgages on immovable property	424	407
27	*Of which: SMEs*	*424*	*407*
28	Exposures in default	59	64
29	Items associated with particularly high risk	0	1
30	Covered bonds	51	46
33	Equity exposures	7	12
34	Other exposures	347	311
35	**Total standardised approach**	**13,789**	**14,020**
36	**Total**	**62,785**	**61,244**

On balance, the total exposures showed a slight increase in 2018 as we provided more new mortgage loans.

The decrease in central governments or central banks is mainly caused by a decrease of the position at the DNB (€ 1.3 billion). Beside that, there was a decrease in exposure of German and French government bonds.

The increase in institutions and the decrease in corporates is for a large part caused by a change in presentation of the London clearing house positions as institutions in 2018 instead of corporates in 2017.

Year-end 2018, there was an increase in positions at German and French public sector entities and a small decrease in the positions at Dutch academic hospitals.

EU CRB-B – Total and average net amount of exposures 2017

	in € millions	a Net value of exposures at the end of the period	b Average net exposures over the period
6	Retail	47,675	45,293
7	*Secured by real estate property*	*47,675*	*45,293*
8	*SMEs*	*-*	*-*
9	*Non-SMEs*	*47,675*	*45,293*
14	Equity	-	-
15	**Total AIRB approach**	**47,675**	**45,293**
16	Central governments or central banks	5,817	5,881
17	Regional governments or local authorities	936	974
18	Public sector entities	66	69
19	Multilateral development banks	289	293
20	International organisations	20	11
21	Institutions	2,346	2,521
22	Corporates	3,008	3,083
23	*Of which: SMEs*	*412*	*415*
24	Retail	976	837
25	*Of which: SMEs*	*283*	*423*
26	Secured by mortgages on immovable property	391	744
27	*Of which: SMEs*	*391*	*200*
28	Exposures in default	69	84
29	Items associated with particularly high risk	1	-
30	Covered bonds	40	15
33	Equity exposures	17	19
34	Other exposures	287	324
35	**Total standardised approach**	**14,263**	**14,855**
36	**Total**	**61,938**	**60,148**

EU CRB-C – Geographical breakdown of exposures 2018

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Net value												
	in € millions	The Netherlands	EMU	Germany	Belgium	France	Austria	Other countries	Outside EMU	Switzerland	United Kingdom	Czech Republic	Other countries	Total
4	Retail	48,881	76	10	58	3	-	5	39	4	13	-	22	48,996
6	**Total IRB approach**	**48,881**	**76**	**10**	**58**	**3**	**-**	**5**	**39**	**4**	**13**	**-**	**22**	**48,996**
7	Central governments or central banks	1,891	2,371	1,169	530	161	258	253	37	-	-	-	37	4,299
8	Regional governments or local authorities	425	286	65	180	41	-	-	-	-	-	-	-	711
9	Public sector entities	42	381	202	-	180	-	-	-	-	-	-	-	423
10	Multilateral development banks	-	389	-	-	79	-	310	-	-	-	-	-	389
11	International organisations	-	27	-	7	-	-	20	-	-	-	-	-	27
12	Institutions	835	402	259	-	35	97	11	2,412	1,827	330	-	255	3,649
13	Corporates	1,824	735	41	325	142	104	123	68	68	-	-	-	2,627
14	Retail	764	11	3	6	1	-	1	1	-	-	-	1	776
15	Secured by mortgages on immovable property	421	3	-	2	-	-	1	-	-	-	-	-	424
16	Exposures in default	58	1	-	1	-	-	-	-	-	-	-	-	59
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Covered bonds	51	-	-	-	-	-	-	-	-	-	-	-	51
21	Equity exposures	7	-	-	-	-	-	-	-	-	-	-	-	7
22	Other exposures	347	-	-	-	-	-	-	-	-	-	-	-	347
23	**Total standardised approach**	**6,665**	**4,606**	**1,739**	**1,051**	**639**	**459**	**719**	**2,518**	**1,895**	**330**	**-**	**293**	**13,789**
24	**Total**	**55,546**	**4,682**	**1,749**	**1,109**	**642**	**459**	**724**	**2,557**	**1,899**	**343**	**-**	**315**	**62,785**

EU CRB-C – Geographical breakdown of exposures 2017

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Net value												
	in € millions	The Netherlands	EMU	Germany	Belgium	France	Austria	Other countries	Outside EMU	Switzerland	United Kingdom	Czech Republic	Other countries	Total
4	Retail	47,539	89	13	67	3	-	6	47	4	16	-	27	47,675
6	**Total IRB approach**	**47,539**	**89**	**13**	**67**	**3**	**-**	**6**	**47**	**4**	**16**	**-**	**27**	**47,675**
7	Central governments or central banks	3,187	2,604	1,278	498	253	285	290	26	-	-	-	26	5,817
8	Regional governments or local authorities	511	425	53	328	44	-	-	-	-	-	-	-	936
9	Public sector entities	66	-	-	-	-	-	-	-	-	-	-	-	66
10	Multilateral development banks	-	289	-	-	109	-	180	-	-	-	-	-	289
11	International organisations	-	20	-	-	-	-	20	-	-	-	-	-	20
12	Institutions	362	265	165	-	50	20	30	1,719	1,450	85	151	33	2,346
13	Corporates	1,891	989	244	178	371	111	85	128	58	70	-	-	3,008
14	Retail	964	11	3	6	1	-	1	1	-	-	-	1	976
15	Secured by mortgages on immovable property	388	3	-	2	-	-	1	-	-	-	-	-	391
16	Exposures in default	68	1	-	1	-	-	-	-	-	-	-	-	69
17	Items associated with particularly high risk	1	-	-	-	-	-	-	-	-	-	-	-	1
18	Covered bonds	40	-	-	-	-	-	-	-	-	-	-	-	40
21	Equity exposures	17	-	-	-	-	-	-	-	-	-	-	-	17
22	Other exposures	287	-	-	-	-	-	-	-	-	-	-	-	287
23	**Total standardised approach**	**7,782**	**4,607**	**1,743**	**1,013**	**828**	**416**	**607**	**1,874**	**1,508**	**155**	**151**	**60**	**14,263**
24	**Total**	**55,321**	**4,696**	**1,756**	**1,080**	**831**	**416**	**613**	**1,921**	**1,512**	**171**	**151**	**87**	**61,938**

EU CRB-D – Concentration of exposures by industry or counterparty types 2018[1]

	in € millions	a Agriculture, forestry and fishing	c Manufacturing	d Electricity, gas, steam and air conditioning supply	f Construction	g Wholesale and retail trade	h Transport and storage	i Accommodation and food service activities	j Information and communication	k Financial and insurance activities	l Real estate activities	m Professional, scientific and technical activities	o Public administration and defence, compulsory social security	p Education	q Human health services and social work activities	r Arts, entertainment and recreation	s Retail Non SME	t Other services	u Total
4	Retail	-	-	-	-	-	-	-	-		-	-	-	-	-	-	48,996	-	48,996
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**48,996**	**-**	**48,996**
7	Central governments or central banks	-	-	-	-	-	-	-	-	1,100	-	-	3,199	-	-	-	-	-	4,299
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	711	-	-	-	-	-	711
9	Public sector entities	-	-	-	-	-	-	-	-	201	-	-	98	-	42	-	-	82	423
10	Multilateral development banks	-	-	-	-	-	-	-	-	389	-	-	-	-	-	-	-	-	389
11	International organisations	-	-	-	-	-	-	-	-	7	-	-	20	-	-	-	-	-	27
12	Institutions	-	-	-	-	-	-	-	-	3,649	-	-	-	-	-	-	-	-	3,649
13	Corporates	-	9	497	12	5	84	-	-	942	375	6	420	-	196	5	-	76	2,627
14	Retail	6	15	-	15	45	3	1	2	28	49	16	-	2	12	6	-	576	776
15	Secured by mortgages on immovable property	2	20	-	20	73	6	4	4	93	104	34	-	2	12	11	-	39	424
16	Exposures in default	1	4	-	1	6	-	-	-	10	24	4	-	-	1	1	-	7	59
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-	-	-	51	-	-	-	-	-	-	-	-	51
21	Equity exposures	-	-	-	-	-	-	-	-	7	-	-	-	-	-	-	-	-	7
22	Other exposures	-	-	-	-	-	-	-	-	49	-	-	-	-	-	-	-	298	347
23	**Total standardised approach**	**9**	**48**	**497**	**48**	**129**	**93**	**5**	**6**	**6,526**	**552**	**60**	**4,448**	**4**	**263**	**23**	**-**	**1,078**	**13,789**
24	**Total**	**9**	**48**	**497**	**48**	**129**	**93**	**5**	**6**	**6,526**	**552**	**60**	**4,448**	**4**	**263**	**23**	**48,996**	**1,078**	**62,785**

1 Due to enhancements in the reporting process, 2017 figures are not fully comparable with 2018 figures and are not included in this report.

EU CRB-E – Maturity of exposures 2018

		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	1,095	172	408	47,321	-	48,996
6	**Total IRB approach**	**1,095**	**172**	**408**	**47,321**	**-**	**48,996**
7	Central governments or central banks	1,169	143	1,421	1,566	-	4,299
8	Regional governments or local authorities	236	136	97	242	-	711
9	Public sector entities	-	-	97	326	-	423
10	Multilateral development banks	-	65	68	256	-	389
11	International organisations	-	-	-	27	-	27
12	Institutions	3,389	-	172	88	-	3,649
13	Corporates	889	77	442	1,219	-	2,627
14	Retail	621	1	9	145	-	776
15	Secured by mortgages on immovable property	2	2	20	400	-	424
16	Exposures in default	12	-	2	45	-	59
17	Items associated with particularly high risk	-	-	-	-	-	-
18	Covered bonds	-	-	-	51	-	51
21	Equity exposures	-	-	-	-	7	7
22	Other exposures	73	-	-	-	274	347
23	**Total standardised approach**	**6,391**	**424**	**2,328**	**4,365**	**281**	**13,789**
24	**Total**	**7,486**	**596**	**2,736**	**51,686**	**281**	**62,785**

EU CRB-E – Maturity of exposures 2017[1]

		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	1,461	110	342	45,762	-	47,675
6	**Total IRB approach**	**1,461**	**110**	**342**	**45,762**	**-**	**47,675**
7	Central governments or central banks	2,434	125	1,079	2,179	-	5,817
8	Regional governments or local authorities	343	46	257	290	-	936
9	Public sector entities	-	21	-	45	-	66
10	Multilateral development banks	-	41	76	172	-	289
11	International organisations	-	-	-	20	-	20
12	Institutions	1,869	111	146	220	-	2,346
13	Corporates	1,429	54	481	1,044	-	3,008
14	Retail	768	1	12	195	-	976
15	Secured by mortgages on immovable property	1	1	19	370	-	391
16	Exposures in default	13	-	-	56	-	69
17	Items associated with particularly high risk	-	-	1	-	-	1
18	Covered bonds	-	-	-	40	-	40
21	Equity exposures	-	-	-	-	17	17
22	Other exposures	-	-	-	-	287	287
23	**Total standardised approach**	**6,857**	**400**	**2,071**	**4,631**	**304**	**14,263**
24	**Total**	**8,318**	**510**	**2,413**	**50,393**	**304**	**61,938**

1 2017 figures have been adjusted to include off-balance sheet exposures.

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 2018

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
6	Retail	231	48,823	58	-	-	-13	48,996
7	*Secured by real estate property*	*231*	*48,823*	*58*	-	-	*-13*	*48,996*
8	*SMEs*	-	-	-	-	-	-	-
9	*Non-SMEs*	*231*	*48,823*	*58*	-	-	*-13*	*48,996*
15	**Total IRB approach**	**231**	**48,823**	**58**	**-**	**-**	**-13**	**48,996**
16	Central governments or central banks	-	4,300	1	-	-	1	4,299
17	Regional governments or local authorities	-	711	-	-	-	-	711
18	Public sector entities	-	424	1	-	-	1	423
19	Multilateral development banks	-	390	1	-	-	1	389
20	International organisations	-	27	-	-	-	-	27
21	Institutions	-	3,649	-	-	-	-	3,649
22	Corporates	-	2,633	6	-	-	4	2,627
23	*Of which: SMEs*	-	*49*	*3*	-	-	*1*	*46*
24	Retail	-	780	5	-	-	4	776
25	*Of which: SMEs*	-	*215*	*1*	-	-	*1*	*214*
26	Secured by mortgages on immovable property	-	429	5	-	-	5	424
27	*Of which: SMEs*	-	*429*	*5*	-	-	*5*	*424*
28	Exposures in default	117	-	59	-	-	-14	59
29	Items associated with particularly high risk	-	-	-	-	-	-1	-
30	Covered bonds	-	51	-	-	-	-	51
33	Equity exposures	-	7	-	-	-	-1	7
34	Other exposures	-	347	-	-	-	-	347
35	**Total standardised approach**	**117**	**13,749**	**77**	**-**	**-**	**-1**	**13,789**
36	**Total**	**348**	**62,572**	**135**	**-**	**-**	**-14**	**62,785**
37	*Of which: Loans*	*347*	*54,209*	*127*	-	-	*-21*	*54,428*
38	*Of which: Debt securities*	-	*4,778*	*3*	-	-	*3*	*4,775*
39	*Of which: Off-balance-sheet exposures*	*1*	*2,693*	*5*	-	-	*4*	*2,689*

The rebound of the Dutch economy continued in 2018, contributing to the further improvement of the quality of the AIRB exposures (retail mortgages portfolio). The collateral value of mortgages rose in the wake of a further rise in house prices. This favourable economic climate and also the proactive preventive- and arrears management contributed to the fewer customers running into financial problems, having a positive impact on the relative and absolute amount of the defaulted exposures.

The exposure under the Standardised approach is characterised for a large part by secured loans with an low credit risk profile. The defaulted exposure dropped as a result of the economic climate and partly because of foreclosures. Specific credit risk adjustments for standardized exposures stayed at a relative high level, partly caused by an additional provision for (default) loans that have been in default for more than 5 years.

EU CR1-A – Credit quality of exposures by exposure class and instrument 2017

		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)
6	Retail	286	47,460	71	-	-	-42	47,675
7	*Secured by real estate property*	*286*	*47,460*	*71*	-	-	*-42*	*47,675*
8	*SMEs*	-	-	-	-	-	-	-
9	*Non-SMEs*	*286*	*47,460*	*71*	-	-	*-42*	*47,675*
15	**Total IRB approach**	**286**	**47,460**	**71**	**-**	**-**	**-42**	**47,675**
16	Central governments or central banks	-	5,817	-	-	-	-	5,817
17	Regional governments or local authorities	-	936	-	-	-	-	936
18	Public sector entities	-	66	-	-	-	-	66
19	Multilateral development banks	-	289	-	-	-	-	289
20	International organisations	-	20	-	-	-	-	20
21	Institutions	-	2,346	-	-	-	-	2,346
22	Corporates		3,010	2	-	-	2	3,008
23	*Of which: SMEs*		*414*	*2*	-	-	*2*	*412*
24	Retail		977	1	-	-	-	976
25	*Of which: SMEs*		*283*	-	-	-	-	*283*
26	Secured by mortgages on immovable property		391	-	-	-	-4	391
27	*Of which: SMEs*		*391*	-	-	-	*-4*	*391*
28	Exposures in default	142	-	73	-	-	-23	69
29	Items associated with particularly high risk	2	-	1	-	-	1	1
30	Covered bonds	-	40	-	-	-	-	40
33	Equity exposures	-	18	1	-	-	1	17
34	Other exposures	-	287	-	-	-	-	287
35	**Total standardised approach**	**144**	**14,197**	**78**	**-**	**-**	**-23**	**14,263**
36	**Total**	**430**	**61,657**	**150**	**-**	**-**	**-65**	**61,938**
37	*Of which: Loans*	*429*	*52,148*	*149*	-	-	*-65*	*52,428*
38	*Of which: Debt securities*	-	*4,916*	-	-	-	-	*4,916*
39	*Of which: Off-balance-sheet exposures*	*1*	*2,634*	-	-	-	-	*2,635*

EU CR1-B – Credit quality of exposures by industry or counterparty types 2018

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Agriculture, forestry and fishing	1	8	-	-	-	-	9
3	Manufacturing	8	44	4	-	-	4	48
4	Electricity, gas, steam and air conditioning supply	-	497	-	-	-	-2	497
6	Construction	2	47	1	-	-	1	48
7	Wholesale and retail trade	10	124	5	-	-	4	129
8	Transport and storage	-	93	-	-	-	-	93
9	Accommodation and food service activities	1	4	-	-	-	-	5
10	Information and communication	-	6	-	-	-	-	6
11	Financial and insurance activities	17	6,521	12	-	-	-30	6,526
12	Real estate activities	35	531	14	-	-	13	552
13	Professional, scientific and technical activities	7	57	4	-	-	4	60
14	Administrative and support service activities	-	-	-	-	-	-	-
15	Public administration and defence, compulsory social security	-	4,450	2	-	-	-22	4,448
16	Education	-	4	-	-	-	-	4
17	Human health services and social work activities	1	263	1	-	-	1	263
18	Arts, entertainment and recreation	1	22	-	-	-	-	23
19	Retail Non SME	231	48,824	59	-	-	-13	48,996
20	Other services	34	1,077	33	-	-	26	1,078
21	**Total**	**348**	**62,572**	**135**	**-**	**-**	**-14**	**62,785**

EU CR1-B – Credit quality of exposures by industry or counterparty types 2017

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Agriculture, forestry and fishing	-	14	-	-	-	-1	14
3	Manufacturing	-	32	-	-	-	-3	32
4	Electricity, gas, steam and air conditioning supply	3	308	2	-	-	2	309
6	Construction	-	40	-	-	-	-18	40
7	Wholesale and retail trade	1	138	1	-	-	-6	138
8	Transport and storage	-	15	-	-	-	-1	15
9	Accommodation and food service activities	-	45	-	-	-	-4	45
10	Information and communication	-	5	-	-	-	-	5
11	Financial and insurance activities	81	7,875	43	-	-	43	7,913
12	Real estate activities	2	222	1	-	-	-19	223
13	Professional, scientific and technical activities	-	-	-	-	-	-	-
14	Administrative and support service activities	-	-	-	-	-	-20	-
15	Public administration and defence, compulsory social security	44	4,367	24	-	-	24	4,387
16	Education	-	6	-	-	-	-1	6
17	Human health services and social work activities	1	62	-	-	-	-1	63
18	Arts, entertainment and recreation	-	41	-	-	-	-1	41
19	Retail Non SME	286	47,460	71	-	-	-42	47,675
20	Other services	12	1,027	7	-	-	-17	1,032
21	**Total**	**430**	**61,657**	**149**	**-**	**-**	**-65**	**61,938**

EU CR1-C – Credit quality of exposures by geography 2018

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	The Netherlands	342	55,330	126	-	-	-14	55,546
2	EMU	4	4,685	7	-	-	-	4,682
3	Germany	1	1,749	1	-	-	-	1,749
4	Belgium	3	1,109	3	-	-	-	1,109
5	France	-	643	1	-	-	-	642
6	Austria	-	459	-	-	-	-	459
7	Other countries	-	726	2	-	-	-	724
8	Outside EMU	2	2,557	2	-	-	-	2,557
9	Switzerland	-	1,899	-	-	-	-	1,899
10	United Kingdom	1	342	-	-	-	-	343
11	Czech Republic	-	-	-	-	-	-	-
12	Other countries	1	316	2	-	-	-	315
13	**Total**	**348**	**62,572**	**135**	**-**	**-**	**-14**	**62,785**

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

EU CR1-C – Credit quality of exposures by geography 2017

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	in € millions	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	The Netherlands	425	55,042	146	-	-	-65	55,321
2	EMU	5	4,694	3	-	-	-	4,696
3	Germany	1	1,756	1	-	-	-	1,756
4	Belgium	4	1,078	2	-	-	-	1,080
5	France	-	831	-	-	-	-	831
6	Austria	-	416	-	-	-	-	416
7	Other countries	-	613	-	-	-	-	613
8	Outside EMU	-	1,921	-	-	-	-	1,921
9	Switzerland	-	1,512	-	-	-	-	1,512
10	United Kingdom	-	171	-	-	-	-	171
11	Czech Republic	-	151	-	-	-	-	151
12	Other countries	-	87	-	-	-	-	87
13	**Total**	**430**	**61,657**	**149**	**-**	**-**	**-65**	**61,939**

De Volksbank applies a specific default definition to every portfolio for which loan loss provisions are determined.
For the mortgage portfolio – de Volksbank's largest portfolio – 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.

Furthermore, customers may go into default due to special events, such as the consequences of a divorce or in the event of fraud.
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.

EU CR1-D – Ageing of past-due exposures 2018 EDTF 28

		a	b	c	d	e	f
		Gross carrying values					
	in € millions[1]	No arrears	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	53,646	650	86	3	79	56	36
2	Debt securities	4,778	-	-	-	-	-	-
3	**Total exposures**	**58,424**	**650**	**86**	**3**	**79**	**56**	**36**

1 Due to differences in the definition of past due exposures, figures presented in the table deviate from the past due exposures as reported in the 2018 annual report. The deviation relates to thresholds in terms of exposures and past due days.

EU CR1-D – Ageing of past-due exposures 2017 EDTF 28

		a	b	c	d	e	f
		Gross carrying values					
	in € millions[1]	No arrears	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	52,962	855	77	5	83	66	65
2	Debt securities	4,916	-	-	-	-	-	-
3	**Total exposures**	**57,878**	**855**	**77**	**5**	**83**	**66**	**65**

1 Due to differences in the definition of past due exposures, figures presented in the table deviate from the past due exposures as reported in the 2018 annual report. The deviation relates to thresholds in terms of exposures and past due days.

In line with the positive economic development in the Netherlands the past due exposures with arrears has decreased further in 2018.

EU CR1-E – Non-performing and forborne exposures 2018 EDTF 28

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					Of which non-performing				On performing exposures		On non-performing exposures			
	in € millions	Gross carrying amount	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Non-performing	Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
1	Loans	54,556	52	1,397	707	347	657	460	-25	-8	-102	-44	499	1,775
2	Debt securities	4,778	-	-	-	-	-	-	-3	-	-	-	-	-
3	Off-balance sheet exposures	2,694	-	6	7	1	-	-	2	-	-	-	-	-

EU CR1-E – Non-performing and forborne exposures 2017 EDTF 28

	a	b	c	d	e	f	g	h	i	j	k	l	m
	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing exposures			
in € millions	Gross carrying amount	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Non-performing	Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
1 Loans	54,113	23	1,541	1,058	419	419	830	-31	-6	-119	-43	926	2,261
2 Debt securities	4,916	-	-	-	-	-	-	-	-	-	-	-	
3 Off-balance sheet exposures	2,616	-	2	4	1	-	3	-	-	-	-	-	-

The coverage ratio for non-performing loans and advances is 14.4% as per 31 December 2018 (2017: 11.3%). The coverage ratio for non-performing loans and advances is calculated by dividing the provisions and negative fair value adjustments due to credit risk for non-performing loans and advances by the total gross carrying value for non-performing loans and advances.

De Volksbank concluded that the current interpretation of non-performing exposures has not taken into account the latest changes in EU-legislation, resulting is conservative interpretation and thus a relatively high reported non-performing exposure. More specifically, performing clients, with a forbearance measure and without a history of non-performance, who receive an additional forbearance measure and/or become more than 30 days past due are hereafter automatically considered non-performing, which is not required by these latest regulatory requirements. De Volksbank amended its policy in 2018 with respect to this interpretation of non-performing exposures. As a result, the coverage ratio for non-performing loans and advances increased.

Provisions for loans and advances to customers

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 present value of 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.

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well. De Volksbank applies a specific default definition for each portfolio for which loan loss provisions are determined under IFRS 9. In addition, prudential non-performing and forbearance criteria are used for stage allocation.

Write-off

Shortages following termination and redemption of the mortgage loan may arise as a result of insufficient repayment of the amounts due after a compulsory or voluntary foreclosure process or after scheduled mortgage payments based on a cancellation granted by the bank in advance, i.e. a commitment by the bank that it will cooperate in cancelling the mortgage registration, despite any shortfall after repayment. In respect of mortgage loans, the following triggers are distinguished that may result in write-off:

1. Waiver of amounts payable;
2. Termination and redemption of the loan with a shortfall;
3. Cessation of residual debt collection;
4. Occurrence of operational losses.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments 2018

	in € millions	a Accumulated specific credit risk adjustment[1]	b Accumulated general credit risk adjustment
1	**Opening balance**	**149**	**-**
1a	Impact IFRS 9	18	-
1b	**Opening balance IFRS 9**	**167**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	83	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-87	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-28	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	**Closing balance**	**135**	**-**
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.

Although the amount reserved for specific credit risk adjustments dropped even further in 2018, the release from the reserves showed a sharp decline compared to 2017.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments 2017

	in € millions	a Accumulated specific credit risk adjustment	b Accumulated general credit risk adjustment
1	**Opening balance**	**214**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	44	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-67	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-47	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	5	-
9	**Closing balance**	**149**	**-**
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	-	-

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities 2018

		a
	in € millions	Gross carrying value defaulted exposures
1	**Opening balance**	**419**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	144
3	Returned to non-defaulted status	-125
4	Amounts written off	-99
5	Other changes	8
6	**Closing balance**	**347**

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities 2017

		a
	in € millions	Gross carrying value defaulted exposures
1	**Opening balance**	**635**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	152
3	Returned to non-defaulted status	-164
4	Amounts written off	-205
5	Other changes	1
6	**Closing balance**	**419**

4.3 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK MITIGATION

Collateral EDTF 30

Retail mortgages
We subject the inflow to monitoring to ensure that the mortgage loans provided meet 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 guarantee by NHG. Of the Advanced Internal Ratings-Based (AIRB) exposure class ‘Retail mortgages’ almost 30% of the exposure comes under the NHG guarantee scheme.

Every month, collateral values are indexed based on house price developments. We do so 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. This means that where developments are negative, the Loan-to-Value will be adjusted but the surcharge that the bank passes on to customers will not be raised. In the most extreme scenario – foreclosure, that is, forced sale of the collateral – the bank instructs an appraiser of its choosing to (re)value the collateral.

SME portfolio
The revaluation period for property in this portfolio 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 the 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.

4.4 GENERAL QUANTITATIVE INFORMATION REGARDING CREDIT RISK MITIGATION

EU CR3 – CRM techniques – Overview 2018

		a	b	c	d	e
	in € millions	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	5,774	48,782	46,556	2,225	-
2	Total debt securities	4,289	489	-	489	-
3	**Total**	**10,063**	**49,270**	**46,556**	**2,714**	**-**
4	Of which defaulted	59	230	230	-	-

EU CR3 – CRM techniques – Overview 2017

		a	b	c	d	e
	in € millions	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	6,960	47,153	45,067	2,086	-
2	Total debt securities	4,337	579	-	579	-
3	**Total**	**11,297**	**47,732**	**45,067**	**2,665**	**-**
4	Of which defaulted	69	288	288	-	-

5 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 not-for-profit 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, operating in at least three countries 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 includes claims secured by both homes and business premises.
- **Exposures in Default.** All SA exposures that are more than 90 days in arrears are in default.
- **Items associated with particulary high risk.** This includes high risk mortgages.
- **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.

5.1 QUALITATIVE INFORMATION REGARDING THE USE OF THE STANDARDIZED APPROACH EDTF 30

Under the SA, credit risk is measured using 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 Weigth
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 determinethe 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, 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.

5.2 QUANTITATIVE INFORMATION REGARDING THE USE OF THE STANDARDIZED APPROACH EDTF 14 EDTF 15 EDTF 26

EU CR4 – Standardised approach – Credit risk exposure and CRM effects 2018

		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	4,299	-	5,217	-	137	2.6%
2	Regional governments or local authorities	711	-	2,508	-	-	0.0%
3	Public sector entities	423	-	103	-	1	1.0%
4	Multilateral developments banks	389	-	389	-	-	0.0%
5	International organisations	27	-	27	-	-	0.0%
6	Institutions	3,649	-	1,052	-	211	20.1%
7	Corporates	2,209	418	843	207	937	89.2%
8	Retail	268	508	268	18	180	62.9%
9	Secured by mortgages on immovable property	424	-	424	-	197	46.5%
10	Exposures in default	58	1	58	-	62	106.9%
11	Items associated with particularly high risk	-	-	-	-	-	0.0%
12	Covered bonds	51	-	51	-	5	9.8%
13	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investments undertakings	-	-	-	-	-	0.0%
15	Equity exposures	7	-	7	-	7	100.0%
16	Other Items	347	-	347	-	261	75.2%
17	**Total**	**12,862**	**927**	**11,294**	**225**	**1,998**	**17.3%**

EU CR4 – Standardised approach – Credit risk exposure and CRM effects 2017

		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	5,817	-	6,872	-	160	2.3%
2	Regional governments or local authorities	936	-	2,545	-	-	0.0%
3	Public sector entities	66	-	29	-	6	20.0%
4	Multilateral developments banks	289	-	289	-	-	0.0%
5	International organisations	20	-	20	-	-	0.0%
6	Institutions	2,346	-	596	-	119	20.0%
7	Corporates	2,961	47	715	23	645	87.4%
8	Retail	350	627	334	20	265	75.0%
9	Secured by mortgages on immovable property	391	-	390	-	195	50.0%
10	Exposures in default	66	3	64	-	65	101.9%
11	Items associated with particularly high risk	1	-	1	-	1	150.0%
12	Covered bonds	40	-	40	-	4	10.0%
13	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investments undertakings	-	-	-	-	-	0.0%
15	Equity exposures	17	-	17	-	17	100.0%
16	Other Items	287	-	287	-	156	54.3%
17	**Total**	**13,586**	**677**	**12,200**	**43**	**1,633**	**13.3%**

EU CR5 – Standardised approach 2018

	in € millions	Risk weight								Total	Of which unrated
	Exposure classes	0%	10%	20%	50%	75%	100%	150%	250%		
1	Central governments and central banks	5,162	-	-	-	-	-	-	55	5,217	-
2	Regional governments or local authorities	2,508	-	-	-	-	-	-	-	2,508	20
3	Public sector entities	96	-	7	-	-	-	-	-	103	7
4	Multilateral developments banks	389	-	-	-	-	-	-	-	389	-
5	International organisations	27	-	-	-	-	-	-	-	27	-
6	Institutions	-	-	1,050	2	-	-	-	-	1,052	244
7	Corporates	-	-	118	32	-	900	-	-	1,050	751
8	Retail	-	-	-	-	286	-	-	-	286	286
9	Secured by mortgages on immovable property	-	-	-	284	122	18	-	-	424	424
10	Exposures in default	-	-	-	-	-	49	9	-	58	58
11	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	51	-	-	-	-	-	-	51	-
15	Equity exposures	-	-	-	-	-	7	-	-	7	7
16	Other Items	73	-	-	-	-	259	-	15	347	332
17	**Total**	**8,255**	**51**	**1,175**	**318**	**408**	**1,233**	**9**	**70**	**11,519**	**2,129**

EU CR5 – Standardised approach 2017

	in € millions	Risk weight								Total	Of which unrated
	Exposure classes	0%	10%	20%	50%	75%	100%	150%	250%		
1	Central governments and central banks	6,808	-	-	-	-	-	-	64	6,872	-
2	Regional governments or local authorities	2,545	-	-	-	-	-	-	-	2,545	4
3	Public sector entities	-	-	29	-	-	-	-	-	29	29
4	Multilateral developments banks	289	-	-	-	-	-	-	-	289	-
5	International organisations	20	-	-	-	-	-	-	-	20	-
6	Institutions	-	-	596	-	-	-	-	-	596	-
7	Corporates	-	-	94	36	-	608	-	-	738	616
8	Retail	-	-	-	-	354	-	-	-	354	354
9	Secured by mortgages on immovable property	-	-	-	390	-	-	-	-	390	390
10	Exposures in default	-	-	-	-	-	62	2	-	64	64
11	Items associated with particularly high risk	-	-	-	-	-	-	1	-	1	-
12	Covered bonds	-	40	-	-	-	-	-	-	40	-
15	Equity exposures	-	-	-	-	-	17	-	-	17	17
16	Other Items	131	-	-	-	-	156	-	-	287	242
17	**Total**	**9,794**	**40**	**719**	**426**	**354**	**843**	**3**	**64**	**12,243**	**1,716**

6 CREDIT RISK AND CREDIT RISK MITIGATION UNDER THE AIRB-APPROACH EDTF 14 EDTF 15

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

Retail mortgages

Exposures to individual retail 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 2018, the retail mortgages portfolio comprised 93% (2017: 93%) 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 that have not been sold to investors or that have been repurchased.

Below, we will only discuss the retail mortgages. The securitisations are addressed in chapter 11 Securitisation of this Pillar 3 Report.

6.1 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).

Probability of Default

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

The model leads to the classification of customers in 14 different PD exposure risk classes: non-default (classes 1-13) and default (class 14). As regards 'non-default', broadly speaking classes 6-10 correspond to customers 'recently recovered'[3] and classes 11-13 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 4.7% of the portfolio.

Loss Given Default

When a customer defaults, we are usually able to recover large parts of the amount outstanding on their loans. 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, we can estimate the average loss incurred in the event of default.

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, we also determine a downturn LGD for calculating the RWA. The regulations specify that LGD estimates of internal models should be appropiate for an economic downturn, meaning that losses may be systematically higher under worse macroeconomic conditions than under 'normal' or average conditions. For the retail 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, which are used as input for the LGD model.

Exposure at Default

The EAD is an estimate of the the outstanding amount of a customer at the moment he defaults. The EAD mainly consists of all mortgage related loans a customer has. For a small group a customers which have a mortgage related credit limit facility, the EAD also takes into account their limit under the assumption that the full limit is drawn at the moment of default.

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. We developed a MoC framework based on an extensive model risk scorecard, which includes model risks related to development data, model estimation and model performance. For each of the identified risks in the scorecard, rules are described which should be followed to assign a risk score. For the risks which are assigned a high risk score, relevant analyses are performed to obtain a model risk-specific MoC contribution. Finally, model risk-specific MoC contributions are aggregated to receive final MoC estimates for PD, LGD, downturn LGD and EAD.

3 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).

INTERNAL RATING PROCEDURE

The internal rating procedure for retail mortgages is based on various data elements such as Loan-to-Value, type of home and payment behaviour, ensuring that we measure the risk correctly. The ratings are automatically assigned in the rating procedure. We perform this rating procedure every month for the entire retail mortgages portfolio, including contractual obligations for future loans (signed offers). As regards the latter category, we have insufficient information on that specific reporting date to establish the regular PD, LGD and EAD; that is why we use average portfolio values, 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 sufficiently detailed to allow an independent validation of the model based on the original data sources. 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

We internally subject all new or revised models to a thorough validation process before the external approval process 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 applied (is fit for purpose) to the envisaged portfolio. The examination results in a validation report and accompanying advice.

Where necessary, 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 requires a model adjustment. We therefore regard the model review as an analysis of the model and its performance that is more in-depth than model monitoring.

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 mutually 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 (or external) 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 (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 CRCU of the model's projections as compared to actual performance. If CRCU finds a significant difference between the projections and actual performance, we identify the cause and determine the need for a model adjustment. 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). We 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 laws 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

We use internal rating models 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;
- Pricing;
- Portfolio management.

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

6.2 QUANTITATIVE INFORMATION REGARDING THE USE OF THE AIRB-APPROACH EDTF 6 EDTF 17 EDTF 26

We use our internally developed AIRB model (PHIRM[4]) to calculate the likelihood of a customer running into payment problems within one year and the resulting losses expected for the bank. We use the results to determine the risk-weighted assets of the retail mortgages portfolio, but also serve as input for internal risk reports.

Indexation method

Since 2016, de Volksbank has estimated the collateral value using indexation figures from an external party (Ortec Finance). Based on this detailed method, the collateral is indexed using monthly updated figures depending on the house type as well as the municipality.

4 Retail Mortgages Internal Rating Model (PHIRM).

EAD post CRM and post CCF

in € millions	2018	2017
Exposure AIRB mortgages	47,210	45,717
Differences in valuations[1]	-2,282	-1,759
Provisions	58	71
Gross on-balance exposures	**44,986**	**44,029**
Off-balancesheet exposures post CCF	919	922
EAD post CRM and post CCF	**45,905**	**44,951**

1 Consisting mainly of savings deposits and fair value adjustments from hedge accounting and amortisations.

The table below presents the breakdown of the retail mortgages portfolio by credit quality class.

EU CR6 – AIRB approach – Credit risk exposures by exposure class and PD range 2018

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and pro-visions
EXPOSURE CLASS RETAIL MORTGAGES												
0.00 to <0.15	10,818	192	1.0	11,010	0.08%	106,978	8.79%	-	200	1.81%	0.7	
0.15 to <0.25	6,958	46	1.0	7,004	0.21%	41,514	9.66%	-	302	4.31%	1.4	
0.25 to <0.35	10,394	28	1.0	10,422	0.32%	53,056	11.97%	-	745	7.14%	4.0	
0.35 to <0.50	8,118	10	1.0	8,129	0.47%	34,479	15.77%	-	1,009	12.41%	6.0	
0.50 to <0.75	3,412	10	1.0	3,421	0.72%	15,590	18.13%	-	663	19.37%	4.5	
0.75 to <1.25	844	1	1.0	846	1.05%	3,991	18.88%	-	220	25.99%	1.7	
1.25 to <1.50	1,534	1,495	0.4	2,162	1.30%	15,645	15.41%	-	525	24.26%	4.3	
1.50 to <1.75	923	2	1.0	925	1.76%	4,240	20.99%	-	372	40.24%	3.4	
1.75 to <3.50	658	1	1.0	659	3.36%	3,340	16.22%	-	301	45.65%	3.6	
3.50 to <10.0	565	-	1.0	565	7.02%	2,738	14.80%	-	345	61.09%	5.9	
10.0 to <15.0	179	-	1.0	179	13.81%	896	15.94%	-	155	86.29%	4.0	
15.0 to <25.0	194	-	1.0	194	23.67%	1,021	15.07%	-	179	92.24%	6.9	
25.0 to <100	159	-	1.0	159	44.68%	679	16.57%	-	150	94.13%	11.8	
100.00 (Default)	230	1	-	230	100.00%	1,087	18.01%	-	324	140.95%	41.4	
Total (all portfolios)	**44,986**	**1,787**	**0.5**	**45,905**	**1.32%**	**285,254**	**12.63%**	**-**	**5,487**	**11.95%**	**99.6**	**-59**

EU CR6 – AIRB approach – Credit risk exposures by exposure class and PD range 2017

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and pro-visions
EXPOSURE CLASS RETAIL MORTGAGES												
0.00 to <0.15	10,431	234	1.0	10,665	0.08%	105,717	8.87%	-	195	1.83%	0.7	
0.15 to <0.25	6,021	48	1.0	6,069	0.21%	36,763	9.88%	-	267	4.41%	1.3	
0.25 to <0.35	8,965	27	1.0	8,992	0.32%	46,991	12.68%	-	680	7.57%	3.6	
0.35 to <0.50	8,100	10	1.0	8,111	0.47%	37,036	15.79%	-	1,008	12.42%	6.0	
0.50 to <0.75	3,942	10	1.0	3,952	0.72%	18,046	18.87%	-	796	20.14%	5.4	
0.75 to <1.25	976	2	1.0	979	1.05%	4,683	19.93%	-	268	27.38%	2.1	
1.25 to <1.50	2,215	1,623	0.4	2,802	1.30%	18,168	15.41%	-	680	24.26%	5.6	
1.50 to <1.75	1,056	2	1.0	1,058	1.76%	4,875	20.77%	-	420	39.72%	3.9	
1.75 to <3.50	770	1	1.0	770	3.36%	3,948	17.10%	-	369	47.96%	4.4	
3.50 to <10.0	609	-	1.0	610	7.02%	3,109	15.17%	-	380	62.37%	6.5	
10.0 to <15.0	257	-	1.0	258	13.81%	1,266	17.29%	-	240	93.08%	6.2	
15.0 to <25.0	215	-	1.0	215	23.67%	1,165	15.41%	-	202	93.88%	7.8	
25.0 to <100	186	-	1.0	186	44.68%	797	17.26%	-	182	97.78%	14.3	
100.00 (Default)	286	-	1.0	286	100.00%	1,313	20.63%	-	384	134.46%	58.9	
Total (all portfolios)	**44,029**	**1,958**	**0.5**	**44,951**	**1.57%**	**283,877**	**13.24%**	**-**	**6,071**	**13.51%**	**126.7**	**-72**

The RWA density of retail mortgages decreased from 13.5% at year-end 2017 to 12%.

In December 2014, de Volksbank was given permission to use its AIRB model 2.0 to calculate the capital requirement of its retail mortgages portfolio. In 2018 a new iteration of AIRB model was finalized and submitted to supervisor for approval. After supervisory approval this model version will be deployed in the end of 2019. This iteration was driven by new regulations regarding AIRB models. In this new iteration several supervisory obligations and recommendations as well as most internal model validation findings were addressed. Deployment of this new model iteration may result in different risk weight for the retail mortgages portfolio.

Expected credit loss adjustment for the AIRB approach

We adjust 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. 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, we deduct the shortfall from the Common Equity Tier 1 capital available. If the difference is positive (the provision is higher than the expected loss), we add this surplus to Tier 2 capital, taking into account certain regulatory restrictions.

Year-end 2018, a negative difference of € 41 million (2017: € 62 million[5]) applies to de Volksbank. This difference follows from the fact that the AIRB model gives an estimate based on the expected ‘through the cycle’ loss for a period of one year and the IFRS 9 provisions are based on life time prediction of expected loss.

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.

5 According to the CRR/CRD IV guidelines, in 2017 80% of the AIRB shortfall must be deducted from Common Equity Tier 1 capital, 10% from Additional Tier 1 capital and 10% from Tier 2 capital. As no Additional Tier 1 capital was present in de Volksbank’s capital structure in 2017, 90% of the AIRB shortfall is effectively deducted from Common Equity Tier 1 capital (€ 56 million) and 10% from Tier 2 capital (€ 6 million).

EU CR8 – RWA flow statements of credit risk exposures under the AIRB approach 2018

		a	b
	in € millions	RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**6,071**	**486**
3	Asset quality	-584	-47
4	Model updates	-	-
5	Methodology and policy	-	-
8	Other	-	-
9	**RWAs as at the end of the reporting period**	**5,487**	**439**

EU CR8 – RWA flow statements of credit risk exposures under the AIRB approach 2017

		a	b
	in € millions	RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**6,504**	**520**
3	Asset quality	-978	-78
4	Model updates	-	-
5	Methodology and policy	41	3
8	Other	504	40
9	**RWAs as at the end of the reporting period**	**6,071**	**486**

The decline of the RWA was mainly caused by a € 584 million reduction related to the credit risk of the retail (non-SME) mortgages portfolio. The decrease was driven by a further improvement of this portfolio's credit quality, particularly as a result of improved economic conditions, which is reflected in lower probabilities of default (PDs) and loss given defaults (LGDs).

As part of the quarterly monitoring process, we also carry out a back test 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 issues 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.

The following table shows the predicted PD of 2018 which concerns the actuals of year-end 2018 and predicts the development in the portfolio during 2018. It is in line with our expectation that the observed default rate in 2018 is below the level of the 'Through the Cycle' model prediction at year-end 2018.

EU CR9 – AIRB approach – Backtesting of PD per exposure class 2018

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**
					End of previous year	End of the year			
Retail mortgages	0.00 to <0.15		0.074	0.074	105,717	106,978	32	-	0.08
	0.15 to <0.25		0.205	0.205	36,763	41,514	5	-	0.18
	0.25 to <0.35		0.306	0.306	46,991	53,056	6	-	0.23
	0.35 to <0.50		0.450	0.450	37,036	34,479	5	1	0.34
	0.50 to <0.75		0.698	0.698	18,046	15,590	12	-	0.67
	0.75 to <1.25		1.017	1.017	4,683	3,991	9	-	1.01
	1.50 to <1.75		1.702	1.702	4,875	4,240	28	-	1.63
	1.75 to <3.50		3.241	3.241	3,948	3,340	87	-	2.72
	3.50 to <10.0		6.767	6.767	3,109	2,738	101	-	5.36
	10.0 to <15.0		13.319	13.319	1,266	896	197	-	10.63
	15.0 to <25.0		22.826	22.826	1,165	1,021	144	-	19.07
	25.0 to <100		43.082	43.082	797	679	134	5	39.36
	100.00 (Default)				1,313	1,087	327		

EU CR9 – AIRB approach – Backtesting of PD per exposure class 2017

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[1]	Average historical annual default rate
					End of previous year	End of the year			
Retail mortgages	0.00 to <0.15		0.074	0.074	102,352	105,717	48	-	0.09
	0.15 to <0.25		0.205	0.205	32,835	36,763	32	-	0.20
	0.25 to <0.35		0.306	0.306	36,123	46,991	34	-	0.25
	0.35 to <0.50		0.450	0.450	37,834	37,036	57	1	0.36
	0.50 to <0.75		0.698	0.698	24,455	18,046	84	-	0.68
	0.75 to <1.25		1.017	1.017	5,556	4,683	18	-	1.02
	1.50 to <1.75		1.702	1.702	5,633	4,875	50	-	1.66
	1.75 to <3.50		3.241	3.241	4,845	3,948	69	-	2.85
	3.50 to <10.0		6.767	6.767	4,238	3,109	120	-	5.50
	10.0 to <15.0		13.319	13.319	1,644	1,266	90	-	10.77
	15.0 to <25.0		22.826	22.826	1,347	1,165	187	1	19.39
	25.0 to <100		43.082	43.082	933	797	291	2	39.81
	100.00 (Default)				1,937	1,313	233		

1 The comparative figures of new defaulted obligors have been restated due to enhancements of the selection criteria.

Since back testing is only performed on mortgages granted, there is a difference with the ‘Qualitative disclosure requirements related to AIRB models’ table at the beginning of the section. The mortgages that are part of the former DBV portfolio are not included in the back-testing results.

Results back test AIRB model retail mortgages

Period	Predicted PD[1]	Observed default rate[2]
2006	1.35%	1.18%
2007	1.31%	1.06%
2008	1.26%	1.20%
2009	1.21%	1.22%
2010	1.22%	1.35%
2011	1.28%	1.44%
2012	1.38%	1.59%
2013	1.29%	1.45%
2014	1.26%	0.97%
2015	1.06%	0.62%
2016	0.84%	0.49%
2017	0.70%	0.42%

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.

7 COUNTERPARTY CREDIT RISK (CCR) EDTF 29 EDTF 30

7.1 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 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

Mitigation of counterparty credit risk exposure

De Volksbank enters into money and capital market transactions with various financial institutions. 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 an 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 CSA following a notification (margin call) to or from the counterparty.

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

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

A CCP is a legal entity that positions itself between the counterparties to an OTC contract, thus becoming the buyer for the OTC seller and the seller for the OTC buyer[7]. Given the daily settlement by the CCP of the counterparties' market value commitments, as well as the initial and variation margin requirements, to be paid to the CCP by the counterparties, this central clearing has the effect of reducing the EAD calculation. The exposures are recognised under the category 'Institutions' 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 include the following:

- De Volksbank checks every day whether the fair value development of positions with collateral arrangements are proportionate to the collateral received or to be provided;
- De Volksbank settles forward exchange transactions via the Continuous Linked Settlement system, a global settlement system that limits settlement risk by means of payment versus payment and payment netting;
- De Volksbank continuously monitors the market conditions to assess whether the assets available still meet the requirements to serve as collateral;
- A valuation function assesses whether the fair value used for the collateral is plausible.

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

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

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

7.2 INFORMATION REGARDING SUPERVISORY MEASURES

EU CCR1 – Analysis of CCR exposure by approach 2018

		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		160	142	302	144
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	2
10	VaR for SFTs				-	-
11	**Total**					**146**

EU CCR1 – Analysis of CCR exposure by approach 2017

		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		210	156	366	174
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)				23	5
10	VaR for SFTs				-	-
11	**Total**					**179**

A substantial part of the derivative positions is caused by securitisations. The reduction in the bank's securitisations has also translated into a decline in the derivative positions.

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 2018

	in € millions	a Exposure value	b RWAs
1	Total portfolios subject to the advanced method	-	-
4	All portfolios subject to the standardised method	299	147
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**299**	**147**

EU CCR2 – CVA capital charge 2017

	in € millions	a Exposure value	b RWAs
1	Total portfolios subject to the advanced method	-	-
4	All portfolios subject to the standardised method	359	203
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**359**	**203**

EU CCR8 – Exposures to CCPs 2018

	in € millions	a EAD post CRM	b RWAs
1	**Exposures to QCCPs (total)**		13
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	753	13
3	(i) OTC derivatives	492	13
7	Segregated initial margin	261	
8	Non-segregated initial margin	-	-
11	**Exposures to non-QCCPs (total)**		-

EU CCR8 – Exposures to CCPs 2017

	in € millions	a EAD post CRM	b RWAs
1	**Exposures to QCCPs (total)**		12
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	768	12
3	(i) OTC derivatives	493	12
7	Segregated initial margin	275	
8	Non-segregated initial margin	-	-
11	**Exposures to non-QCCPs (total)**		-

7.3 INFORMATION REGARDING THE STATUTORY RISKWEIGHT APPROACH

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk 2018

	in € millions	Risk weight									Total	Of which unrated
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	100%	150%		
6	Institutions	-	353	139	-	40	268	-	-	-	800	30
7	Corporates	-	-	-	-	-	-	-	4	-	4	4
11	**Total**	**-**	**353**	**139**	**-**	**40**	**268**	**-**	**4**	**-**	**804**	**34**

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk 2017

	in € millions	Risk weight									Total	Of which unrated
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	100%	150%		
6	Institutions	-	382	112	-	40	319	-	-	-	853	-
7	Corporates	-	-	-	-	-	-	-	6	-	6	7
11	**Total**	**-**	**382**	**112**	**-**	**40**	**319**	**-**	**6**	**-**	**859**	**7**

7.4 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 preads 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 2018

		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	732	452	280	133	147
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	**Total**	**732**	**452**	**280**	**133**	**147**

EU CCR5-A – Impact of netting and collateral held on exposure values 2017

		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	1,075	706	369	157	212
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	**Total**	**1,075**	**706**	**369**	**157**	**212**

The drop in credit exposures and collateral offered is mainly caused by the declining securitised portfolio.

EU CCR5-B – Composition of collateral for exposures to CCR 2018

	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	-	169	781	76	-	-
Repurchase agreements	-	-	-	-	-	484
Total	-	169	781	76	-	484

EU CCR5-B – Composition of collateral for exposures to CCR 2017

	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	-	203	584	55	-	-
Repurchase agreements	-	-	-	-	-	-
Total	-	203	584	55	-	-

7.5 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 in the past few years were the deteriorating economic conditions, decreasing interest rates and companies in distress. If such companies 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 closes '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.

8 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 2018

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	-	-	-	-	-	-	-
Investments available for sale	6	6	-	-	-10	-	-
Total	**6**	**6**	**-**	**-**	**-10**	**-**	**-**

Exposure of equity outside trading book 2017

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	-	-	-	-	-	-	-
Investments available for sale	16	16	-	-	2	-7	1
Total	**16**	**16**	**-**	**-**	**2**	**-7**	**1**

9 LIQUIDITY RISK EDTF 3 EDTF 18

As explained in Section 4.8.2 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.

9.1 LIQUIDITY MANAGEMENT EDTF 2

Liquidity risk is the risk that the bank has insufficient liquid assets available in the short 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 could develop 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 EDTF 18

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.

Risk governance EDTF 5

De Volksbank's risk governance is based on the three lines of defence model (see Section 2.2 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. In this process, it is supported by risk committees with representatives from the first and second lines in each risk committee. Each risk committee is chaired by a member of the Board of Directors. The third line is not a permanent representative in the risk committees, but it may attend meetings at all times. Within de Volksbank, liquidity risk management is supervised by the Asset & Liability Committee (ALCO).

The Supervisory Board is responsible for supervising the Board of Directors and is advised by the Audit Committee, the Risk Committee and the People & Organisation Committee.

Management and control liquidity risk EDTF 7

Liquidity risk management is laid down in a cycle consisting of seven elements. Combined, these elements form an integrated internal process that we use to continuously evaluate and manage our liquidity position.

The liquidity management cycle includes the following elements:

1. Every year, we determine the risk appetite for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives.
2. We then use the risk appetite for liquidity risk as a basis for determining the level above which we feel comfortable, using specific risk indicators. In addition, we set an intervention ladder with risk indicator specific ranges to be used when follow-up action is required.
3. We review the liquidity strategy every year, laying down the guidelines for ensuring a balance sheet structure with maximum efficiency. In this process, we take account of the liquidity management objectives: an adequate liquidity and funding profile.
4. At least once per year we set measures in the capital and liquidity plan to meet the expected 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 standards and work out various scenarios. We make adjustments to achieve the desired liquidity position based on business plans and the requirements imposed by supervisory authorities, rating agencies and investors.
5. Liquidity management is an ongoing operational process and comprises the identification, measurement and management of the bank's liquidity position in line with its risk appetite, risk limits, policy and guidelines.
6. We determine the liquidity adequacy on a monthly basis (Liquidity Adequacy Assessment Report) and monitor it on a quarterly basis (Financial Risk Report) and on an annual basis (Internal Liquidity Adequacy Assessment Process Report). We compare the current 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 (internal) assessment of the adequacy of our liquidity position and liquidity risk management is part of the ILAAP (Internal Liquidity Adequacy Assessment Process), and constitutes

input for the Supervisory Review & Evaluation Process (SREP) of the ECB.

7. The recovery plan contains measures to strengthen the liquidity position in adverse circumstances. Our annual update of the recovery plan contributes to the bank's continuity.

Management instruments

Cash instruments

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;
- the balance in accounts with correspondent banks;
- contractual cashflows of counterparties in money and capital markets taking place within no more than ten days.

Liquidity buffer

De Volksbank maintains a liquidity buffer, including the cash position, to absorb unexpected increases in our 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 of June 2018, the definition of the liquidity buffer has been changed. As a ten-day horizon is also used for the cash position, it is now also determined for the (highly) liquid assets which unencumbered ECB-eligible bonds can be registered in the DNB collateral pool in ten days. Comparative figures have been adjusted accordingly.

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 EDTF 8

We test the robustness of the liquidity position by means of stress tests. Of the various scenarios that we have defined for this purpose, the so-called combined severe stress test has the highest impact. In this scenario we take into account, among other things:

- 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 minimum 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.

Figures

In 2018 the bank maintained a strong liquidity position that amply complied with 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	2018	2017
Cash position[1]	2,447	3,753
Sovereigns	2,393	1,759
Regional/local governments and supranationals	975	850
Other liquid assets	437	421
Eligible retained RMBS	8,900	3,968
Liquidity buffer[2]	**15,152**	**10,751**

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.

2 As of June 2018, the definition of the liquidity buffer has been changed. In addition to the cash position, the liquidity buffer consists of (highly) liquid assets for which it is now determined which unencumbered ECB-eligible bonds will be registered in the DNB collateral pool in ten days, because a ten-day horizon is also used for the cash position. We determine the liquidity value of the bonds in the liquidity buffer on the basis of the market value of the bonds after application of the haircut determined by the ECB. Comparative figures have been adjusted accordingly.

The liquidity buffer remained high in 2018 and rose to € 15.2 billion, from € 10.8 billion at year-end 2017. This is more than sufficient to withstand the severe stress scenario for a certain period of time. The cash position decreased by € 1.3 billion to € 2.4 billion in 2018. The funding need, mainly resulting from € 1.3 billion growth of the retail mortgage portfolio and € 0.7 billion capital market funding redemptions, was more than satisfied by € 1.3 billion growth of deposits due to customers and the issuance of € 1.8 billion capital market funding. However, the resulting net cash inflow was offset by a € 2.3 billion lower volume of money market funding maturing outside ten days at year-end 2018 in comparison with year-end 2017.

Liquid assets other than the cash position increased to € 12.7 billion at year-end 2018 (2017: € 7 billion).

- The amount of sovereign debts in the liquidity buffer increased by € 0.6 billion, mainly due to a lower use as collateral for repo and other transactions;
- The liquidity value of eligible retained RMBS increased by € 4.9 billion as two maturing transactions were replaced by two transactions of significantly greater size. Furthermore, eligble retained RMBS were released as collateral compared to year-end 2017.

The volume of short-term cash management investments outside the cash definition amounted to € 0.4 billion at year-end 2018 (year-end 2017: € 0.5 billion). These investments are also available as liquid assets at short notice.

9.2 LCR

In 2018, 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)		31-3-2018	30-6-2018	30-9-2018	31-12-2018	31-3-2018	30-6-2018	30-9-2018	31-12-2018
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)					4,668	4,444	4,707	4,880
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	38,932	39,117	39,352	39,663	2,150	2,161	2,174	2,196
3	*Stable deposits*	35,711	35,890	36,107	36,348	1,786	1,794	1,805	1,817
4	*Less stable deposits*	3,221	3,227	3,246	3,316	365	366	368	378
5	Unsecured wholesale funding	4,191	4,155	4,213	4,250	1,554	1,597	1,711	1,780
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	4,079	4,027	4,089	4,132	1,442	1,470	1,586	1,662
8	Unsecured debt	112	128	125	118	112	128	125	118
9	Secured wholesale funding					14	15	15	1
10	Additional requirements	1,602	1,599	1,555	1,574	586	598	509	486
11	Outflows related to derivative exposures and other collateral requirements	393	405	410	411	393	405	410	411
12	Outflows related to loss of funding on debt products	135	137	37	6	135	137	37	6
13	Credit and liquidity facilities	1,074	1,057	1,108	1,157	58	56	63	70
14	Other contractual funding obligations	508	524	546	514	508	524	546	514
15	Other contingent funding obligations	11	37	59	81	11	37	59	81
16	**TOTAL CASH OUTFLOWS**					4,823	4,933	5,014	5,059
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	8	8	8	-	8	8	8	-
18	Inflows from fully performing exposures	2,401	2,364	2,004	1,789	2,237	2,187	1,805	1,588
19	Other cash inflows	315	413	389	386	315	413	389	386
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**	2,724	2,786	2,401	2,174	2,560	2,608	2,202	1,973
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	2,724	2,786	2,401	2,174	2,560	2,608	2,202	1,973
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					4,668	4,444	4,707	4,880
22	TOTAL NET CASH OUTFLOWS					2,269	2,331	2,812	3,085
23	LIQUIDITY COVERAGE RATIO (%)					206%	191%	167%	158%

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.

Concentration of funding and liquidity sources

Funding strategy and liquidity sources EDTF 21

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, while complying with regulatory requirements at all times.

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. We aim to diversify our sources of wholesale funding. Therefore, we use various funding instruments spread over different maturities, markets, regions and investor types.

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 our 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 can be 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 1.8.

9.3 ENCUMBERED AND UNENCUMBERED ASSETS EDTF 19 EDTF 30

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

Encumbered and unencumbered assets 2018

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible 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**	**9,973**	**2,529**			**51,604**	**4,740**		
030	Equity instruments	-	-			6	-		
040	Debt securities	2,145	2,125	2,178	2,156	3,202	2,403	3,252	2,428
050	of which: covered bonds	-	-	-	-	61	61	60	60
060	of which: asset-backed securities	22	22	22	22	59	59	59	59
070	of which: issued by general governments	1,928	1,928	1,965	1,965	2,331	1,536	2,370	1,569
080	of which: issued by financial corporations	149	149	138	138	737	737	739	739
090	of which: issued by non-financial corporations	20	0	24	0	220	157	228	165
120	Other assets	8,310	403			48,196	2,337		
121	of which:mortgage loans	6,939	-			40,046	-		

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.

Encumbered and unencumbered assets 2017

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible 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**	**9,637**	**2,073**			**51,585**	**5,011**		
030	Equity instruments	-	-			18	-		
040	Debt securities	1,705	1,680	1,705	1,680	3,268	3,204	3,268	3,204
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	41	33	41	33	50	50	50	25
070	of which: issued by general governments	1,585	1,585	1,585	1,585	2,146	2,146	2,146	2,146
080	of which: issued by financial corporations	105	95	105	95	879	866	879	866
090	of which: issued by non-financial corporations	25	-	25	-	227	164	227	164
120	Other assets	7,977	388			47,838	1,807		
121	of which: mortgage loans	6,842	-			38,952	-		

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.

Total encumbered assets

At year-end 2018, € 9.7 billion (2017: € 9.9 billion) of the assets is encumbered on account of:

- covered bonds;
- an offset mortgage arrangement with VIVAT;
- a loan provided to VIVAT to finance (sub-)participations in the securitisation entities;
- repurchase transactions;
- USD tender;
- outstanding securitisations;
- CSAs;
- foreign exchange transactions;
- payment transactions.

The increase in 2018 was mainly driven by the additional inclusion of encumbrance from offset mortgages based on an offset mortgage arrangement with VIVAT and a loan provided to VIVAT to fund (sub-)participations in the securitisation entities. At year-end 2018, this encumbrance amounted to € 1,7 billion.

The total encumbered assets mainly consist of pledged mortgages related to covered bonds. The total amount of liabilities related to these encumbered assets is € 8.4 billion (2017: € 7.5 billion). They mainly consist of bonds issued within the covered bond programme.

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 € 51.2 billion and may partly be converted into cash, for example by securitisations. 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 € 71 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 € 174 million in collateral at year-end 2018 (2017: € 212 million). This consists almost entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

Collateral received 2018

		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 elligible 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	-	-	40	-
241	Own covered bonds and asset-backed securities issued and not yet pledged			10,388	-
250	**Total assets, collateral received and own debt securities issued**	9,973	2,529		

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 2017

		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 elligible EHQLA and HQLA		of which EHQLA and HQLA
	in € millions[1]	010	030	040	060
130	**Collateral received by the reporting institution**	**23**	**23**	**-**	**-**
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	23	23	-	-
200	of which: issued by financial corporations	23	23	-	-
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	-	-	98	82
241	Own covered bonds and asset-backed securities issued and not yet pledged			-	-
250	**Total assets, collateral received and own debt securities issued**	9,648	2,112		

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 2018

	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**	**9,186**	**8,948**
011	of which: Derivatives	1,066	944
012	of which Deposits	4,414	3,679
013	of which: Debt securities issued	3,824	4,421

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 2017

	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**	**7,219**	**8,654**
011	of which: Derivatives	1,357	778
012	of which Deposits	1,785	1,770
013	of which: Debt securities issued	3,925	6,151

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.

10 MARKET RISK EDTF 2 EDTF 3 EDTF 22 EDTF 23

10.1 CAPITAL REQUIREMENTS FOR MARKET RISK USING THE STANDARDIZED APPROACH EDTF 14

We use the standardised approach in CRD IV to calculate capital requirements for the trading book. At year-end 2018, there were no Pillar 1 capital requirements (year-end 2017: € 4 million). The model covers interest rate risk and equity risk and is based on fixed risk weights.

Market risk RWA dropped by € 44 million to nil, primarily caused by reduced trading positions.

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.

10.2 INTEREST RATE RISK NOT INCLUDED IN THE TRADING PORTFOLIO

EDTF 7 EDTF 22 EDTF 23 EDTF 24 EDTF 25

Management and control

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk management aims to protect and generate stable long-term and short-term net interest income. We achieve this goal by optimising the value of current and future interest cashflows relative to current market rates, taking account of projected portfolio changes, economic conditions and the risk profile that the bank is aiming for.
In the assessment and management of interest rate risks we take into account matters such as:

- anticipated prepayments on mortgage loans;
- anticipated early adjustments of mortgage rates;
- behavioural aspects of demand deposits;
- customer options in the products;
- the current interest rate environment and its anticipated development.

The main factor used to manage the banking book's interest rate position and interest rate risk is net interest income sensitivity. The short-term impact of market rate changes is measured using the Earnings-at-Risk (EaR) measure. To measure the long-term impact, we use a method that we call Economic Value of Equity (EVE).

Long-term interest rate risk: EVE

When measuring EVE, we take future cashflows and calculate their present value based on the current market rate. We report the interest rate risk measures to the Asset & Liability Committee (ALCO) on a monthly basis.

The control measures we apply for EVE are 'duration of equity' and 'key rate durations'.

The duration of equity is the key measure of EVE sensitivity, which measures the percentage decrease in the EVE in the event of a parallel rate hike of 100 bps (1%).

The key rate durations represent market rate sensitivity for each maturity in years, and thereby also clarify sensitivity to non-parallel shifts in the market yield curve.

Every month, the ALCO sets the duration and key rate duration steering within the limit based on the envisaged risk profile and the market outlook. We use derivatives, mostly interest rate swaps, for the steering.

In 2018, we adjusted our method of calculating the EVE. In line with the prescribed methodology of our supervisory authority, we now use the risk-free rate for our valuation of future interest flows where we previously used our own curve. Furthermore, we only use the risk-free compensation in the cashflows rather than the entire coupon.

Short-term interest rate risk: EaR

The EaR is the key control measure for the assessment of net interest income sensitivity in the short term. The EaR measures the maximum loss of interest income within a year based on certain interest rate scenarios (among other things, parallel, non-parallel and inverse interest rate movements), while allowing for balance sheet developments expected in the next twelve months. In the EaR measurement we take account of the degree to which customer rates for demand deposits keep pace with market rates and the resulting margin development. The degree of margin narrowing or margin widening depends on the interest rate scenario.

Interest rate risk

Specification interest rate risk

	2018	2017
Duration of equity	1.4	1.6
Earnings-at-Risk (in € millions)	83	75
Credit spread risk liquidity portfolio (in € millions)[1]		413
Credit spread risk liquidity portfolio (in € millions) HTC[1]	57	
Credit spread risk liquidity portfolio (in € millions) HTCS[1]	86	

1 Under IFRS 9 with effect from 2018 the 'credit spread risk liquidity portfolio' is divided into two parts, HTC and HTCS.

The current, historically low, market rates are taken into account when controlling the market rate risk. The interest rate risk measures were changed in two ways in 2018. The main change was mentioned above, involving a different calculation of the EVE and the corresponding duration of equity. The duration calculated based on the risk-free market rate is lower than the duration based on our own curve. The previous methodology would have resulted in a duration of 2.2. In addition, the implementation of IFRS 9 caused us to split up the measure for credit spread risk in the liquidity portfolio. It was split up into two different parts: Hold to Collect for Sale (HTCS) and Hold to Collect (HTC). Both parts of the portfolio apply a different limit. Also, the measurement is now based on a 99% confidence interval (application of this rate would yield a measurement of € 132 million for 2017).

The historically low market rates and the expectation of their slow rise led to the decision to keep the duration of equity at 1.4 at year-end 2018 (2017: 1.6). This relatively low duration of equity limits our sensitivity to market rate rises.

Developments in Earnings-at-Risk

At year-end 2018, the EaR amounted to € 83 million before tax (2017: € 75 million). Net interest income is most sensitive to the 'steepener' scenario. In this scenario, the short-term interest rate continues to fall and the long-term interest rate goes up, leading to a steeper yield curve. The floor used for negative market rates is -0.75%, allowing short-term rates in the scenario to drop to -0.75%. This scenario furthermore includes narrowing margins on readily available current account balances.

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[1]

in € millions	Carrying amount	Market risk measure		Carrying amount	Market risk measure		Primary risk sensitivity
		Non-trading	Trading		Non-trading	Trading	
	2018	2018	2018	2017	2017	2017	
ASSETS SUBJECT TO MARKET RISK							
Investments held for trading	-	-	-	162	-	162	interest rate, exchange rate, credit spread
Investments Fair Value OCI	1,915	1,915	-				interest rate, credit spread
Investments Amortised costs	2,867	2,867	-				interest rate, credit spread
Investments available for sale	-	-	-	4,932	4,932	-	interest rate, credit spread
Derivatives	732	553	179	1,075	812	263	interest rate, exchange rate, credit spread
Loans and advances to customers	50,536	50,536	-	49,459	49,459	-	interest rate
Loans and advances to banks	3,589	3,589	-	2,643	2,643	-	interest rate
Cash and cash equivalents	815	815	-	2,180	2,180	-	interest rate
Other	494	494	-	441	441	-	
Total assets	**60,948**	**60,769**	**179**	**60,892**	**60,467**	**425**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	502	502	-	501	501	-	interest rate
Debt certificates	5,822	5,822	-	4,920	4,920	-	interest rate, exchange rate
Derivatives	1,120	923	197	1,252	973	279	interest rate, exchange rate, credit spread
Savings	37,376	37,376	-	36,756	36,756	-	interest rate
Other amounts due to customers	10,841	10,841	-	10,306	10,306	-	interest rate
Amounts due to banks	1,116	1,116	-	2,683	2,683	-	interest rate
Other	4,171	4,171	-	4,474	4,474	-	
Total liabilities	**60,948**	**60,751**	**197**	**60,892**	**60,613**	**279**	

1 The interest accrued on assets and liabilities was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. The comparative figures have been adjusted accordingly.

The overview shows that, in view of its activities, de Volksbank is particularly sensitive to the market interest rate risk of the banking book. Sensitivity analyses illustrate the market interest rate risk run by the banking activities. The table calculates the impact of an immediate parallel shift of the market yield curve of +100 or -100 basis points on the market value of equity, net interest income and IFRS equity. The reported outcomes are before taxation.

Sensitivity interest rates

in € millions	2018		2017	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Market value equity[1]	190	488	265	424
Net interest income[2]	53	-62	49	-57
Fair value option[3]	-	-	-3	8
Total result	**53**	**-62**	**46**	**-49**
IFRS equity[4]	-56	58	-98	100

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 Fair value option shows the sensitivity of the mortgage portfolio recognised at market value and the corresponding derivatives.

4 IFRS equity expresses the sensitivity resulting from the available-for-sale investment portfolio and the cashflow hedge derivatives to a parallel 100 basis point interest rate increase or decrease. The change in fair value of both of these items.

Market value of equity

A parallel interest rate hike has a positive impact of € 190 million on the market value of equity. The assets mainly consist of mortgages, the market interest rate sensitivity of which is hedged by means of derivatives to a great extent, especially by means of interest rate swaps. Nevertheless, a market interest rate hike will trigger a drop in value of assets including the corresponding derivatives that is less significant than the drop in value of liabilities.

The market value of equity is sensitive to a fall in interest rates. The scenario of an interest rate decrease does, however, have a positive effect of € 488 million on the market value of equity. This is explained partly by the fact that it is assumed that swap rates cannot fall further than -0.75% when calculating the impact of the fall in interest rates. It is furthermore assumed that customer rates on non-maturing deposits do not become negative.

As a result, the fair value of the non-maturing deposits rises to a much lesser extent than the assets, resulting in a positive impact on the market value of equity.

EaR

A parallel interest rate shift of +100 basis points yielded a positive impact on net interest income of € 53 million at year-end 2018 (2016: € 49 million), predominantly triggered by the rate hike boosting income from hedging instruments.

In addition, the pass-through of the market rate hike had a positive effect on income from floating-rate mortgages and our liquidity position. A parallel shift of -100 bps had a negative impact of € 62 million (2017: € 57 million), primarily driven by the lower interest received from derivatives. Furthermore, the assumption that the above decrease will be passed on to a lesser extent to the savings rates than to the floating-rate mortgage loans and the liquidity position also played a role.

Fair value of mortgages valued at market value

As from the introduction of IFRS 9 on 1 January 2018, mortgages are no longer accounted for at fair value; instead, amortised cost is applied as the accounting principle for all mortgages. The analysis below therefore shows the sensitivity of the mortgages at fair value by approximation during 2017. This sensitivity was no longer present in 2018.
A parallel shift of +100 basis points had a negative impact on mortgages accounted for at fair value and a positive impact on the related derivatives. These effects are reversed in the event of a parallel shift of -100 basis points. The negative impact of the aforementioned upward shift on mortgages accounted for at fair value was greater than the positive impact of the derivatives, resulting in an overall negative impact of € 3 million. These effects were reversed in the event of a parallel shift of -100 basis points.

Impact of HTCS portfolio on IFRS equity

For the HTCS portfolio, a parallel shift of +100 bps will have a negative impact on the fair value of the bonds in the HTCS portfolio and thus on the IFRS equity. A parallel shift of -100 bps, on the other hand, will have a positive impact. The portfolio is partly hedged, as a result of which the interest rate derivatives partly negate the changes in value of the bonds. Due to the partial hedge, the influence on the HTCS portfolio on the above-mentioned interest rate hike will remain negative (€ 56 million) and positive (€ 58 million) on balance in the event of an interest rate decrease.

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.

11 SECURITISATION

11.1 OBJECTIVES

By the end of 2018, de Volksbank securitised residential mortgages in the amount of € 12.3 billion. We only securitise residential mortgages that we granted. 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 four different programmes: Hermes, Pearl, Holland Homes and Lowland.
Introduced in 1999, Hermes is the programme for de Volksbank's residential mortgages. At the moment the Hermes programme does not pertain any securitisation. The securitisation through the Pearl programme only pertains to residential mortgages based on a guarantee under the NHG, the National Mortgage Guarantee system.
The Holland Homes programme originates from the acquisition of DBV and now falls under de Volksbank. Since 2012 we have a fourth securitisation programme, which is Lowland. The securitisation programmes Hermes and Holland Homes are 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 2018.

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

Securitiation programmes de Volksbank

in € millions	2018	Capital treatment	2017	Capital treatment
Pearl 1	687	look-through	789	look-through
Holland Homes 1	51	securitisation	67	securitisation
Holland Homes Oranje	-	Called in 2018	375	look-through
Lowland 2	-	Called in 2018	1,184	look-through
Lowland 3	-	Called in 2018	1,741	look-through
Lowland 4	4,067	look-through	4,114	look-through
Lowland 5	5,007	look-through	-	
Lowland 6	2,492	look-through	-	
Total	**12,304**		**8,270**	

In 2018 we terminated three transactions: Holland Homes Oranje in January, Lowland 2 in July and Lowland 3 in December. In 2018 de Volksbank concluded two new securitisation transactions: Lowland 5 in May and Lowland 6 in October.

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.

11.2 RISKS EDTF 31

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. The Holland Homes 1 transaction shifts most of the credit risk to the investors in the different types of notes issued under this programme. Due to the deferred purchase price and net margin in the transaction, a limited part of the credit risk remains for de Volksbank's account. 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 above, 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 and Holland Homes transactions are an exception. We have entered into back-to-back swaps for Holland Homes. In this case, the interest rate risk lies with the swap counterparty. The Lowland 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 4.6, 4.7 and 4.8, 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.

11.3 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.

In one instance, de Volksbank also (indirectly) acts 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. We have not concluded a fully offsetting swap for Holland Homes 1 transaction, which means that de Volksbank does not bear the interest rate risk. 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
Holland Homes	x				
Lowland	x	x	x	x	

11.4 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 4.2 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.

11.5 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.

The securitisation transactions that de Volksbank has put on the market since 2001 have what is called a 'call + step-up' structure. This means that the SPV has the right to redeem the issued notes prematurely on a certain call date. In addition, the interest payment on the notes is increased as from that call date (step-up). The step-up provides a financial incentive to redeem the notes. All notes that had such a call date in 2018 have been redeemed.

The structure of the transaction under the Holland Homes 1 programme is slightly different, as it has a clean-up call. The clean-up call gives the originator the right to buy all the loans from the SPV if the outstanding amount of the notes is less than 10% of the original outstanding principal of the notesnotes.

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 debtnotes. 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 2018

	Traditional	Synthetic
in € millions	Originator[1]	Originator
Exposure	51	-
Total	**51**	**-**

1 The figures for 'Originator' exposures relate to the securitisation programme Holland Homes 1.

Outstanding amounts of exposures securitised 2017

	Traditional	Synthetic
in € millions	Originator[1]	Originator
Exposure	67	-
Total	**67**	**-**

1 The figures for 'Originator' exposures relate to the securitisation programme Holland Homes 1.

Both tables above present 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.

The tables below show the composition of the programmes by type of bond, and what portion is held on own book.

Composition of securitisation programmes

in € millions[1]	Size of programme 2018	Own book at year-end 2018[2]	Size of programme 2017	Own book at year-end 2017[2]
A notes	35	-	51	-
B notes	16	-	16	-
C notes	-	-	-	-
D notes	-	-	-	-
E notes	-	-	-	-
Total	**51**	**-**	**67**	**-**

1 The figures relate to the securitisation programme Holland Homes 1.

2 The own book consists of unissued and repurchased securities.

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

	Exposure		Capital charges	
in € millions	**2018**	2017	**2018**	2017
<= 10%	85	74	-	-
> 10%	-	-	-	-
Total	**85**	**74**	**-**	**-**

The table above presents an overview of the securitised positions retained or purchased broken down by risk weight bands. As of 31 December 2018, de Volksbank only has purchased AAA-notes of third party transactions.

11.6 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 do not hold any positions in the balance sheet for the Holland Homes 1 transaction, where there is a significant transfer of credit risk; that is why the risk-weighted exposure is nil.

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.

11.7 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 Volkbank must be considered the entity that controls the SPVs. That is why we fully consolidate the SPVs in our consolidated financial statements.

On de Volkbank'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.

11.8 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 2018.

Credit ratings securitisation programmes

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

12 OPERATIONAL RISK EDTF 2 EDTF 3 EDTF 31

12.1 CAPITAL REQUIREMENTS EDTF 14

Capital requirements EDTF 14

De Volkbank calculates the capital requirements for non-financial risks 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 2018, the Pillar 1 capital requirements were € 124 million for the operational risks (2017: € 131 million).

The total capital requirement for non-financial 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 Volkbank manages its non-financial risks by planning, implementing, monitoring and improving activities aimed at:

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

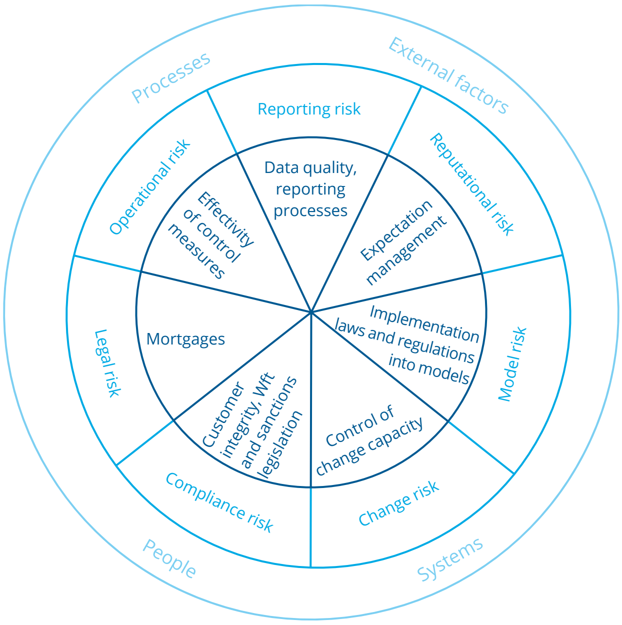
Upon implementing the Corporate Governance Code, de Volkbank has chosen to realise as much synergy as possible between the risk management demands of this code and compliance with CRD IV requirements.

12.2 RISK PROFILE

Management devotes a great deal of attention to managing and controlling non-financial risks. De Volksbank faces increasingly stringent requirements imposed by its surroundings, for instance in the area of laws and regulations, which continuously raises the standards that we want to – and are required to – comply with. We face challenges in controlling our continuously changing organisation, the security of our IT structure and the improvement of data management. Efficiently meeting the growing information needs of supervisory authorities also demands our attention. De Volksbank is adapting its processes and systems to meet the stricter standards, but this improvement project has not been completed. The scope of the risks is continuously measured and assessed by the Non-Financial Risk Committee (NFRC).

12.3 TYPES OF RISK AND AREAS OF FOCUS OF NON-FINANCIAL RISKS EDTF 31 EDTF 32

We have subdivided non-financial risk into seven types of risk: operational, reporting, compliance, model, legal, reputation and change risk.



- Internal and external causes of non-financial risk
- Implementation of non-financial risk types
- Key risk themes at de Volksbank, elaborated below by theme

This section discusses the main developments seen in 2018.

TYPE OF RISK	DEVELOPMENTS IN 2018
Operational	**DESCRIPTION** Operational risk is the risk resulting from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, or from external events. 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 minimising error rates and being demonstrably in control. **DEVELOPMENTS** In 2018, we made progress with further strengthening the organisation with regard to controlling non-financial risks. We designed a risk management application, dubbed the Integrated Risk Management (IRM) tooling, to simplify the recording of information on controlled business operations and enable us to perform more in-depth analyses of the effectiveness of our risk management. The roll-out of the application will be completed in 2019. Other improvement processes were the registration of and follow-up on operational risk incidents, and resolving weaknesses found in our system of control measures. A more detailed control testing method allowed us to establish more points for improvement, including further rationalisation of the controls to the key controls having the greatest impact. The implementation of these improvements commenced in 2018 and will continue in 2019. They further increase our understanding of the quality and predictability of our business processes and allow us to take more targeted measures. We have enhanced the knowledge of operational risk management within the bank by training and educating our employees. Interruption of services resulting from cyber-attacks and system failure remained very limited and within the limits set by us and supervisory authorities. The same goes for losses – for which customers were compensated – ensuing from phishing malware and skimming of debit cards and credit cards. We periodically test the operation of the continuity facilities of the main bank systems. It has been established that, after a disruption, all systems are operational within the required period of time.
Change	**DESCRIPTION** Change risk is the risk that we do not achieve our strategic objectives or do not achieve them in a timely fashion. It may arise through the inadequate design, execution or implementation of changes or the use of resources. The risk may manifest itself if choices are inconsistent with the strategic priorities, or as a result of an insufficient capacity or competency to change. **DEVELOPMENTS** In 2018 we carried out several strategic programmes, which rely heavily on the organisation's capacity to change. The number of programmes underway was large and they require a great deal of resources and expertise. This sometimes makes it difficult to set the right priorities and creates the risk that the results of our change programmes will not be achieved in a timely manner. For this purpose, we introduced improvements in the control of the strategic programmes, including a tool that gives more guidance to accomplish our mission, the 'Strategic Compass'. The IFRS 9 and Transaction Monitoring strategic programmes were successfully completed in 2018. The following programmes were added to the portfolio of strategic programmes: • DaVinci – which is intended to help us serve customers better and more efficiently, including through product harmonisation, process automation and creating channel uniformity; • RAP Margin of Conservatism – a Remedial Action Plan to align our internal credit model, PHIRM – which is also used to calculate RWA and provisions – with current and new statutory requirements; • Customers want to undertake business (Klant Wil Ondernemen) – a programme for the execution of the new vision, the corresponding processes and performance for small business customers. The programmes continuing in 2019 pursue the active management of both effective use of resources and limitation of complexity.
Compliance	**DESCRIPTION** Compliance risk is the risk that the company and/or its employees fail to observe written and unwritten rules of integrity and conduct correctly or completely and may be held accountable in that regard. It also pertains to the risk of doing business with unethical customers, insufficient transparency in our products, as well as to crime, fraud and corruption. As part of compliance, we focus on raising awareness and measuring ethical conduct among our employees as well as the integrity of our products and our customers. In its Manifesto, de Volksbank propagates a culture of Banking with a human touch. Together with our 'Common Sense, Clear Conscience' code of conduct and the promise made with the Bankers' Oath, they serve as a guideline for our employees in their contact with customers. Transparent and fair products match de Volksbank's standards and values. We therefore aim to simplify our product range and make sure that our advertising is clear and simple. De Volksbank maintains relationships with a large number of customers and considers it important to know its customers well. This allows us to offer suitable products and prevents us from entering into any relationship with persons or organisations with whom or which we may not conclude agreements under laws and regulations (Money Laundering and Terrorism Financing (Prevention) Act (Wwft), Sanctions Act). De Volksbank also sets great store by preventing and combating fraud and crime. **DEVELOPMENTS**

De Volksbank faces many changes in laws and regulations (see Section 1.5), which lead to policy adjustments and changes in our processes and systems. As regards laws and regulations, compliance with the Money Laundering and Terrorism Financing (Prevention) Act (Wwft) and sanctions legislation has the ongoing attention of de Volksbank and the necessary steps to implement the General Data Protection Regulation (GDPR) have been taken. In early 2018, we also largely completed the implementation projects for MiFID 2.

We also worked on further raising awareness of our employees' ethical behaviour and the integrity of our products. We also focused on customer integrity. In order to improve compliance with sanctions legislation, we made adjustments to sanction filters. Particular attention is paid to the Wwft, which was tightened in 2018. Furthermore, standards ensue from publications issued by the Public Prosecution Service and DNB. In response to the amended Wwft, we introduced improvements in our policy and their implementation is underway.

As regards revolving credit, we set up a process to assess whether the credit provided to customers is still appropriate under current conditions. In 2018, not all themes displayed a compliance risk within the limits of our risk appetite. In 2018, there were no cases of non-compliance concerning the 'labelling ' of our products and communications.

Legal

DESCRIPTION

De Volksbank takes legal risk to mean the risk that arises from non-compliance with contracts or applicable laws and regulations, or an unexpected interpretation of these laws and regulations, and from non-contractual liability. 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 the social norm resulting in the (unforeseen) interpretation of laws and regulations or unwritten rules.

DEVELOPMENT

Prominently placed on the agendas of both the AFM and civil society organisations in 2018, the mortgages theme comprised interest-only mortgages as well as the calculation of compensation in case of early repayment in the period preceding the entry into force of the European Mortgage Credit Directive (MCD), and the risk surcharge on mortgage rates. De Volksbank proactively introduced improvements on these themes in 2018, explicitly including the application of Banking with a human touch.

The notes to the off-balance sheet commitments include an overview of legal proceedings in which de Volksbank is involved.

Model

DESCRIPTION

Model risk is the risk that models generate incorrect results, or that models are used or interpreted in the wrong way.

DEVELOPMENT

The bank manages model risk based on three criteria. First of all, bottlenecks in resources must not result in the absence of periodic checks on the managed models. Furthermore, any points for improvement found must be followed up subject to the timelines agreed. And, finally, model risk must remain at a controllable level, for instance using mitigating measures such as the application of conservative surcharges on model results. Based on these criteria, model risk management was improved in 2018 compared with 2017.

Improvement processes were carried out for a number of models to adapt them to new regulations. For PHIRM – the set of credit models for our mortgage portfolio – this resulted in new models for both IFRS 9 (in use since 2018) and capitalisation calculations (submitted to the supervisory authority for approval in late 2018). In 2018 an extensive model review of the PHIRM models that the bank currently uses was also conducted on the ECB's behalf (TRIM). The models we use to manage and control interest rate risk are also subject to change. This is partly because of the effect that customer behaviour has on the models, in the event of repayments on mortgages and savings maturity, for example, and partly because of new requirements imposed by regulations.

Reporting

DESCRIPTION

Reporting risk is the risk that the company's financial and/or non-financial reporting contains material inaccuracies or is materially incomplete or is not available to its internal and external stakeholders in time.

DEVELOPMENT

We seek to provide reliable information both internally and externally. Good quality of the underlying data and data management is paramount in that regard. In 2018, we continued working on our understanding of processes and internal control, in order to improve our management of the risk of inaccuracies or omissions in the reports.

In 2018, we carried out adjustments in various processes for the purpose of providing reliable information both internally and externally, particularly in the area of forbearance and the process involving periodic and new reporting to supervisory authorities. The requirements of more and increasingly detailed reports to the supervisory authorities further increased. The processes in question were further automated and improvements were carried out in data management of the reporting chain. To avoid that data inaccuracies are not discovered and remedied until the end of the reporting process, the data quality monitoring has explicitly been shifted to the source and the Data Management Framework has been put into operation. This method was implemented for some of the relevant processes in 2018. Further implementation and process improvements will continue in the years ahead. Despite the improvements, this still exceeds the limits of our risk appetite. Through the implementation of the renewed processes, increased maturity of data management and the central and consistent availability of data, we aim to improve reporting and data management.

Reputation	**DESCRIPTION** Reputation risk is the risk that our stakeholders are losing confidence in the bank. We regard reputation as a major bank asset, and securing a good reputation is paramount to the successful execution of the bank's strategy. Reputation risk is often created if other types of risk are inadequately controlled. Controlling reputation risk through properly set up reputation management where each party's responsibilities are clear (1st line) is a key precondition to the bank. For 2019, the positioning of reputation risk in the risk taxonomy is reconsidered to permanently secure the importance of the bank's reputation in the execution of the strategy. **DEVELOPMENT** We monitor our reputation, for instance, in the media and among our customers. The customer-weighted average Net Promoter Score (NPS) for our brands improved from -3 at the end of 2017 to -1, which means that the percentage of customers who highly rate our brands has risen. More customers are satisfied and loyal and would recommend our brands.