2020 Annual Report

Presentation of information

This is our 2020 Annual Report. As of this year we report according to the 'core & more' principle.

Our core **Integrated Annual Review** contains a concise summary of our most important financial and social results for the past year. It sets out how we dealt with opportunities and risks in 2020 and how we created value for our customers, society, our employees and our shareholder. Would you like more background information on certain subjects? You will find it in additional reports, such as our Annual Report 2020. Other 'more' reports are:

- **Pillar 3 Report 2020** containing the mandatory reporting on capital requirements and risk management ensuing from the European Capital Requirements Regulation (CRR)
- **ESG Report 2020** which includes more information on 'Environmental, Social and Governance' aspects.
- **Principles for Responsible Banking** explaining the progress made with the implementation of the sustainability principles (SDGs)[1]

The Integrated Annual Review is available in Dutch and English. The other publications are in English only.

The Annual Report provides information on the bank's financial and non-financial performance in compliance with regulatory requirements.

This 2020 Annual Report consists of:
- The Report of the Board of Directors, comprising:
  - Key figures
  - Our strategy
  - Governance (excluding 2.2 Report of the Supervisory Board)
  - Risk management
- The Report of the Supervisory Board
- Financial statements
- Other information and Additional information

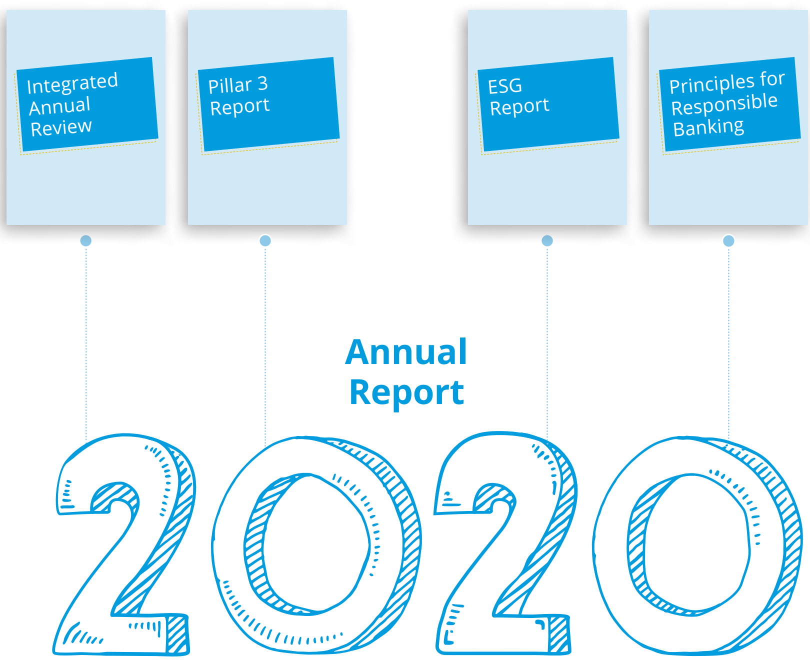
The financial information in the financial statements has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU IFRS). Moreover, the financial information meets the requirements as set out in Title 9, Book 2 of the Dutch Civil Code.

Capital metrics and risk positions for 2020 and comparative figures for 2019 are reported under the Basel III framework (CRD IV/CRR). Information on Pillar 3 (part of the CRR) can be found in a separate report on our website.

This Annual Report has been prepared in euros (€).

This Annual Report was published on 11 March 2021. To download this report or obtain more information, please visit the website of de Volksbank https://www.devolksbank.nl/.

1 Available online from March 22



Company profile

De Volksbank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner. Our mission is 'banking with a human touch'. We invest in Dutch society together with our four bank brands. Each brand contributes to one joint promise of being 'better for each other' based on its own distinctive and social profile.

de volksbank

SNS

Financial resilience
SNS is for anyone looking to manage their financial affairs with an accessible, straightforward and humane bank. SNS likes to keep things simple and smart. Personal advice and direct contact increase customers' financial confidence.

asn bank

Sustainability
ASN Bank invests customers' money in a way that respects human rights, the climate and biodiversity. That is how customers contribute to sustainable progress and a liveable world, now and in the future.

RegioBank

Quality of life in the neighbourhood
RegioBank makes sure that consumers and business owners are able to manage their financial affairs. The bank is also committed to improving the quality of life in neighbourhoods by promoting local cohesion.

BLGwonen

Good housing
BLG Wonen seeks to create a housing market that is accessible to all and just for all. Owning your own home gives people a feeling of security and happiness.

De Volksbank is the fourth-largest retail bank operating in the Dutch market. We offer simple and transparent mortgage, savings and payment products to private individuals, self-employed persons and smaller companies. We also offer insurance and investment products.

SNS

205
SNS shops

1,620,000
customers

asn bank

786,000
customers

de volksbank
Utrecht

RegioBank

483
branche offices

698,000
customers

BLGwonen

>3,000
independent advisers

238,000
customers

Legend

- Mortgages
- Savings
- Payments
- Investments

MORTGAGES

€47.8bn
market share 6.2%

SAVINGS

€42.1bn
market share 10.8%

PAYMENTS / CURRENT ACCOUNTS

1.66m
market share of new current accounts 19%

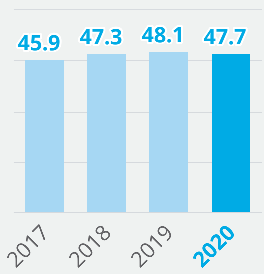
3,819
EMPLOYEES

of whom
3,171
internal

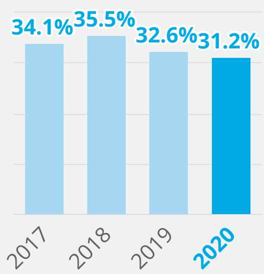
>3.34m
CUSTOMERS

Key figures

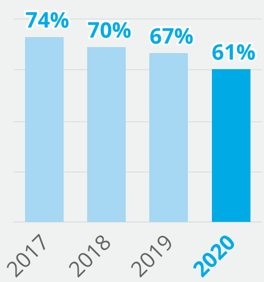
Residential mortgages
(in € billions)



CET 1 ratio



Loan-to-Value mortgage portfolio



Balance Sheet

in € millions	2020	2019	2018	2017	2016
Balance sheet total	67,484	62,841	60,948	60,892	61,588
Loans and advances to customers	50,542	50,461	50,536	49,459	48,620
- of which residential mortgages	47,697	48,090	47,262	45,934	44,824
Amounts due to customers	53,652	49,045	48,217	47,062	47,428
- of which savings	42,111	38,404	37,376	36,756	36,593
Debt instruments	6,119	6,906	5,822	4,920	5,696
Equity	3,450	3,435	3,571	3,714	3,561

Capital and funding

in € millions	2020	2019	2018	2017	2016
CET 1 capital	3,223	3,155	3,313	3,339	3,164
Risk-weighted assets (RWA)	10,331	9,680	9,341	9,781	10,824
RATIOS					
CET 1 ratio	31.2%	32.6%	35.5%	34.1%	29.2%
Tier 1 ratio	31.2%	32.6%	35.5%	34.1%	29.2%
Total capital ratio	36.1%	37.8%	37.1%	35.7%	33.8%
Leverage ratio	5.2%	5.1%	5.5%	5.5%	5.2%
Loan-to-deposit ratio	92%	102%	106%	107%	103%

Quality of the loan portfolio

	2020	2019	2018	2017	2016
Loan-to-Value mortgage portfolio	61%	67%	70%	74%	80%
Loans in arrears (%)	1.2%	1.0%	1.1%	1.4%	1.8%
Stage 3 ratio	1.4%	1.3%	1.3%	0.8%	1.3%
Stage 3 coverage ratio residential mortgages	6.4%	8.0%	8.4%	15.9%	19.0%

Market shares

	2020	2019	2018	2017	2016
New current accounts	19%	21%	24%	20%	21%
Retail savings	10.8%	10.6%	10.6%	10.7%	10.8%
Mortgage portfolio (in €)	6.2%	6.4%	6.5%	6.5%	6.4%
New mortgages (in #)	5.0%	6.1%	7.2%	6.8%	5.7%

Other key figures

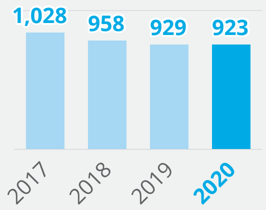
	2020	2019	2018	2017	2016
Number of SNS Shops	205	203	202	197	196
Number of independent advisers RegioBank	483	517	515	528	536

Profit and loss account

in € millions	**2020**	**2019**	**2018**	**2017**	**2016**
Net interest income	850	875	908	924	938
Net fee and commission income	46	51	44	49	57
Other income	27	3	6	55	39
Total income	**923**	**929**	**958**	**1,028**	**1,034**
Operating expenses excluding regulatory levies	602	533	562	560	596
Regulatory levies	50	41	47	43	46
Total operating expenses	**652**	**574**	**609**	**603**	**642**
Other expenses	-	-	-	-	1
Impairment charges	38	(7)	(12)	(24)	(68)
Total expenses	**690**	**567**	**597**	**579**	**575**
Result before tax	**233**	**362**	**361**	**449**	**459**
Taxes	59	87	93	120	110
Net result for the period	**174**	**275**	**268**	**329**	**349**
- Incidental items	(34)	-	-	13	(25)
Adjusted net result for the period	**208**	**275**	**268**	**316**	**374**

Total income

(in € milions)

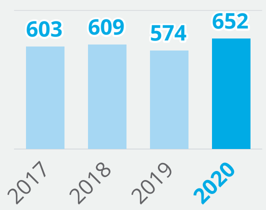


Shared value

	2020	**2019**	**2018**	**2017**	**2016**
CUSTOMERS					
Customer weighted average NPS[2]	2	0	-1	-3	-8
Current account customers (in 1,000)	1,657	1,568	1,488	1,409	1,328
SOCIETY					
Climate-neutral balance sheet[2]	59%	44%	37%	27%	22%
Financial Confidence Barometer	51[3]	48[3]	49[3]	40[4]	n.a.
EMPLOYEES					
Genuine attention[2]	7.9	7.7	n.a.	n.a.	n.a.
Commitment	8.4	8.0	7.4	7.6	8.1
Engagement	7.6	7.4	7.2	7.4	7.4
SHAREHOLDER					
Return on Equity[5]	5.1%	7.7%	7.6%	9.1%	10.1%
Adjusted Return on Equity[6]	6.1%	7.7%	7.6%	8.7%	10.8%

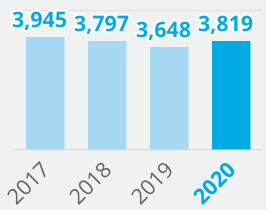
Total operating expenses

(in € millions)



Number of employees

(FTEs)



Other performance indicators

	2020	**2019**	**2018**	**2017**	**2016**
Cost/income ratio[7]	65.2%	57.3%	58.7%	54.5%	57.6%
Adjusted cost/income ratio[8]	60.3%	57.3%	58.7%	55.4%	54.5%
Net interest margin (bps)	1.30%	1.37%	1.47%	1.50%	1.48%
Cost of risk total loans	0.08%	-0.01%	-0.03%	-0.05%	-0.14%

2 For the measurement methodology of these KPIs reference is made to the ESG Report 2020.

3 Based on the moving average of the past 6 months.

4 Baseline measurement January 2018.

5 Net result / average month-end total equity for the reporting period.

6 Adjusted net result / average month-end total equity for the reporting period.

7 Total operating expenses adjusted for the impact of regulatory levies / total income.

8 Total adjusted operating expenses adjusted for the impact of regulatory levies / total adjusted income.

Foreword of the CEO

Martijn Gribnau, Chairman of the Board of Directors of de Volksbank

"For everyone, the year 2020 was dominated by Covid-19. In 2020, the pandemic and the associated measures had far-reaching consequences for society, for the economic environment in which we operate, for our customers, and for our employees, who were forced to work largely from home from March onwards.

Despite all these developments, SNS, ASN Bank, RegioBank and BLG Wonen successfully continued providing their services to customers, with measures that differed from time to time in order to secure both customer and employee safety.

Seeking to help mortgage customers who encountered financial problems as a result of the Covid-19 pandemic, from March onwards they were given the opportunity to take a payment holiday of up to six months. At the end of 2020, 1,591 retail customers made use of this scheme, which is slightly less than 1% of our retail customers. More than three quarters of these customers have now resumed their payments.

We also set up similar schemes for SME customers with loans. Of the 342 entrepreneurs who used such a scheme at the end of 2020 (almost 10% of the SME customers), again approximately three quarters have now resumed making payments.

In 2020, we also endeavoured to counter the increased threat of cybercrime, amongst others by means of information campaigns launched by our brands to help customers recognise the signs of a suspicious situation. In July, we decided with four other Dutch banks to establish Transaction Monitoring Netherlands (TMNL) in the collective fight against money laundering and terrorist financing. TMNL is an important addition to our own transaction monitoring activities.

Customers appreciate our efforts: the Net Promoter Scores improved at SNS and BLG Wonen; they remained at a high level at ASN Bank and RegioBank. At the end of 2020 the customer-weighted average NPS was +2, as against 0 at the end of 2019.

The number of current account customers and savings deposits entrusted to us continued to grow in the past year. High prepayments exceeded new mortgage production and the mortgage portfolio showed a decline.

It is of paramount importance to us that we act on our responsibility for the joint interest of society, customers, employees and our shareholder. We again took a number of nice steps in the past year to live up to our mission and our promise of being 'better for each other':

- The climate neutrality of our balance sheet improved to 59% compared with 44% at the end of 2019. This means that we exceeded our target of 45% for the end of 2020.

- In July, we were the first bank in Europe to issue a € 500 million subordinated green Tier 2 bond. This was an appropriate next step after the first issue of a green bond that was recognised internationally as 'Green Bond of the Year'.
- With a score of 51, we reached our target of a score of at least 50 on the Financial Confidence Barometer and continued the upward trend from the baseline measurement in 2018. Especially in this day and age we are glad that people contact the bank and experience that we are ready to help them whenever they have financial concerns.
- To stress our ambitions in the area of biodiversity preservation, we signed the widely supported 'Finance for Biodiversity Pledge' in 2020. We also joined the Platform for Biodiversity Accounting Financials and de Volksbank adopted ASN Bank's objective of having a net positive impact on biodiversity by 2030.
- In April 2020, our employees gave higher scores for nearly all questions in our genuine attention survey than they did the previous year. We held on to these scores in October. Employees experience great trust and the freedom to make a meaningful contribution, which is essential in a situation where most of them work fully from home.
- We were the only bank to obtain a green score and therefore a satisfactory score in a survey of gender equality conducted by the Fair Bank Guide.

The Dutch economy experienced an unprecedented slowdown in 2020. The economic contraction and the accommodating monetary policy resulted in further declining interest rates in 2020. House prices rose even more and the mortgage refinancing market in particular showed strong growth.

Against this macroeconomic background, de Volksbank posted an acceptable financial profit. The dropping market rates translated into further pressure on our net interest margins. This pressure was largely alleviated by higher compensation received for early repayments of mortgages, higher treasury results and higher realised results on bonds. On balance, total income remained virtually flat on 2019.

Operating expenses including regulatory levies were up 14%. Six percentage points of the increase were driven by a higher contribution to the Deposit Guarantee Scheme and higher staff and consultancy costs. The other eight percentage points of the increase ensued from a restructuring provision related to the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation, which is expected to reduce the number of jobs by 400-500 in the period 2021-2023. A provision totalling € 45 million has been formed for this purpose. In parallel with this process, new employees having the knowledge and skills needed for the strategy will be hired in the next few years. How many jobs this concerns partly depend on the growth rate.

The deterioration of macroeconomic prospects resulting from Covid-19 prompted a considerable addition to the credit loss provision. Impairment charges amounted to € 38 million in 2020, as against a reversal of € 7 million in 2019.

On balance, net profit dropped by € 101 million to € 174 million, which corresponds to a return on equity of 5.1%. Adjusted for the restructuring provision, net profit totalled € 208 million and the return on equity was 6.1%. This means that we did not reach our target of 8%.

Our capital position remained consistently strong: the CET1 capital ratio stood at 31.2% and the leverage ratio showed a limited increase to 5.2%. This means that de Volksbank's starting position is very strong, even considering the substantial challenges that lie ahead.

Maurice Oostendorp, Chairman of the Board of Directors since 2015, left de Volksbank in August 2020. In 2015, de Volksbank defined objectives for all four groups of stakeholders for the period 2016-2020. Looking back over this five-year period, we conclude that much has been accomplished. Under Maurice's direction, de Volksbank was able to shape its social role, both the number of customers and customer appreciation rose sharply, and solid financial results were achieved. As a result, we are indebted to Maurice. Personally I am grateful for the way in which Maurice transferred his chairmanship to me.

I would like to take this opportunity to thank our customers for the trust they have given us the past year. I would also like to thank all employees of de Volksbank, who – often under difficult conditions – have made every effort to ensure optimum quality and continuity of the services provided to our customers.

In 2020, de Volksbank's Board of Directors experienced differences of opinion that resulted in the departure of the CFO and COO for a variety of reasons. In response, an independent survey was commenced into the Board dynamics at the bank.

Our strategy for the period 2021-2025 is presented in a separate press release on 12 February 2021. The strategy is intended as a response to developments such as the increasing demand for digitisation in our services, intensification of the customer relationship, and the need for cost control and diversification of income in order to alleviate the pressure that the sustained low interest rate environment exerts on our returns.

As a bank, we want to continue to stand out with our social impact. We will also continue to work on a strong customer relationship and at the same time on solid financial results with attention for our employees. We refined our strategy to allow for this. Our mission 'banking with a human touch' and our promise 'better for each other' remain unchanged."

1.

STRATEGY AND PROGRESS

1.1 Economic developments

Dutch economy

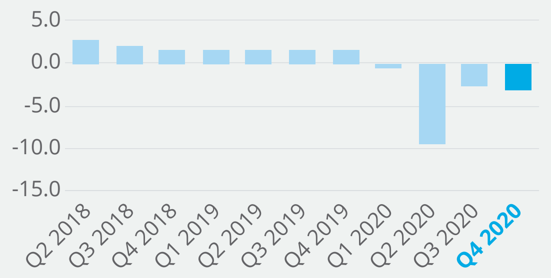
In 2020, the Dutch economy was hit extremely hard by the Covid-19 pandemic and the measures intended to control the spread of the virus. The gross domestic product (GDP) contracted sharply in the first half of the year. A strong upswing followed thanks to the relaxation of the measures. Nevertheless, a slowdown followed as the second wave of the virus hit the country in October and new containment measures were taken. Although the performance of the Dutch economy still compares favourably with most other European countries, measured throughout 2020, with a fall in GDP of -3.8%, the decline was unprecedented. Many companies were in dire straits as customers stayed away or were even forced to close down. Seeking to avoid permanent damage caused by unnecessary bankruptcies or job losses, the government introduced numerous support measures, such as the Temporary Emergency Bridging Measure for Sustained Employment (*Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid*), the Temporary Bridging Measure for Self-Employed Professionals (*Tijdelijke overbruggingsregeling zelfstandig ondernemers*) and the Fixed Costs Allowance (Tegemoetkoming Vaste Lasten).

The measures proved effective. As a percentage of the labour force, the unemployment rate rose to an annual average of 3.8%, limiting the increase compared with the previous year to 0.4 percentage points. The number of bankruptcies even dropped to the lowest level in twenty years. Inflation in the Netherlands plummeted from an annual average of 2.6% in 2019 to 1.3% in 2020. This was partly caused by the elimination of the 2019 VAT increase from the figures, but the sharp decline in energy and fuel prices was also a significant factor.

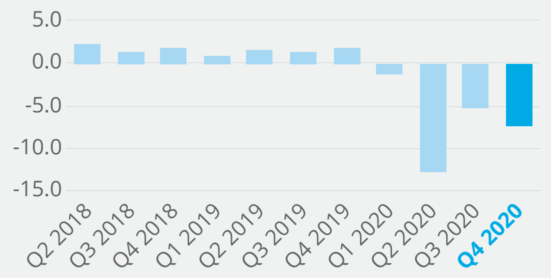
Interest rates and government bond yields

In March 2020, the spread of the pandemic triggered 'safe haven flows' in the financial markets, causing the prices of government paper – which was always considered safe – to rise sharply and, conversely, redemption yields to drop sharply. The anticipated further reduction in the policy rate by the ECB also contributed to this development. On 9 March, the Dutch ten-year yield hit a record low of -0.64%, but moved upwards when the ECB proved unwilling to lower its deposit interest rate of -/-0.5% even further. Bond yields remained under slightly downward pressure for the rest of the year, with the ECB's ramped-up bond purchases seeming to have been of decisive importance.

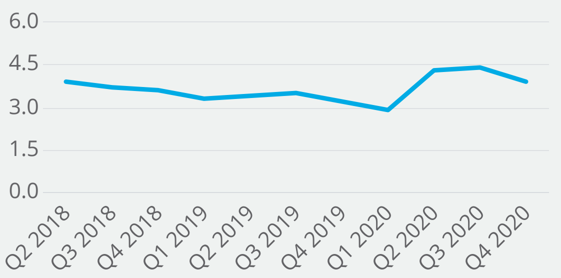
Gross domestic product Source: CBS
(YoY change in %)



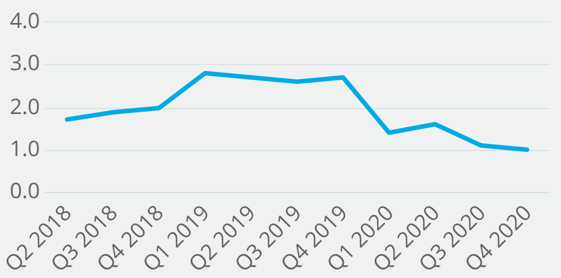
Household consumption Source: CBS
(YoY change in %)



Unemployment Source: CBS
(Seasonally adjusted in %)



Inflation Source: CBS
(YoY change in %)



The Dutch bond yields were in lockstep with the German yields. On balance, the Dutch ten-year yield dropped by 42 basis points to -0.48% in 2020. In the money market, tensions arose immediately after the outbreak of the crisis. Large-scale ECB liquidity injections, including through “Pandemic Emergency Longer-Term Refinancing Operations” (PELTROs), eased the tensions again.

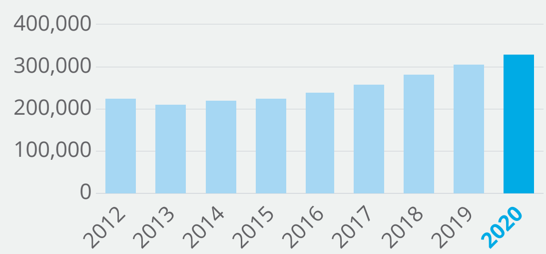
Housing and mortgage market

In 2020, the housing market developments remained insensitive to problems elsewhere in the economy. Partly because of the persistently low mortgage rates, interest in home purchases remained high. Despite the limited number of homes for sale, the number of transactions rose to 235,511, only slightly below the 2017 record. The rate of the price increase did not slow down in any way and even accelerated during the year. The average annual increase amounted to 7.8%, exceeding even the equally substantial rise in the previous year.

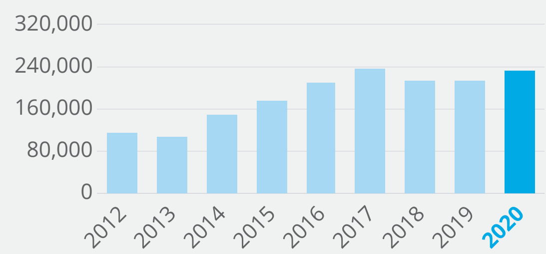
Savings market

Despite the historically low savings rates, the Dutch retail savings market grew to € 390 billion at the end of December 2020, from € 368 billion at year-end 2019.

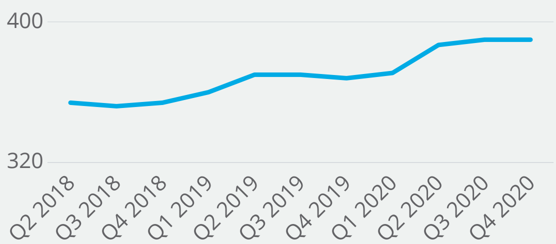
Average sales price homes Source: CBS



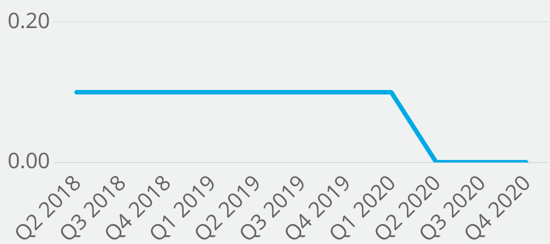
Number of homes sold Source: CBS



Total savings Source: DNB
(in € billions)



Average savings interest rate Source: DNB
(in %, redeemable at notice < 3 months)



1.2 Our Strategy

Our mission and ambition

De Volksbank has always been at the heart of society. Our history dates back to 1817, the year in which a number of regional savings banks merged with the aim of taking good care of the money that the Dutch people entrusted to them and promote financial resilience. It was to be a bank with a local character that operated close to its customers. This social origin defined our unique profile and is still de Volksbank's strength today.

Our mission: Banking with a human touch

Our mission is to bank with a human touch. We do this by creating value for all our stakeholders. We aim for optimum total value rather than maximisation of a single value.

Our ambition: Optimise shared value

Based on our mission, it is our ambition to create shared value that optimally benefits all our stakeholders. We divide our stakeholders into four groups that represent the main stakeholder interests: customers, society, employees and the shareholder. In 2016, we formulated our objectives for each of these four groups for the period 2016-2020.

We measure the achievement of our shared value ambition by the headway we make on those stakeholder objectives. The objectives have been specified for each group and are monitored as such. If we are to achieve our objectives, we need a strategy that considers the wishes and interests of all our stakeholders.

OUR STRATEGY

De Volksbank targets the Dutch retail market with three core services: we finance mortgages, manage savings and offer current accounts. Additionally, we also offer investment and insurance products. We have four distinctive brands. Although each of them has its own specific focus, all four of them work on the basis of our common mission and ambition. We steer everything in the right direction with a single back office, a strong IT organisation and a central staff organisation.

Our strategy (2016-2020) is underpinned by three strategic pillars that helped us reach our goals.

- **Strengthening our social identity**
  The Volksbank continues to strengthen its social identity. We want to make a positive contribution to society on four themes: financial resilience, sustainability, liveability in the region and good living for all.
- **Simplicity and efficiency**
  We continue to simplify our business operations. Simple and digitised processes and products make the services to customers easier, more efficient and more transparent. Efficient business operations also ensure a low cost level and a future-proof organisation.
- **Smart adopter**
  In order to keep up with technological developments, we invest in an agile organisation that brings about innovation as a smart adopter. We closely monitor innovations around the bank's core functions, allowing us to serve our customers better and faster in a way that meets their expectations and needs.

STRATEGY UPDATE 2021-2025

On 12 February 2021, we announced our new strategy for the period 2021-2025. The new strategy aims for growth through our four strong bank brands by strengthening the customer relationship and further increasing the social impact. The strategic plan builds

on de Volksbank's mission of creating a positive impact for customers, society, employees and shareholders by banking with a human touch. Our shared value ambition remains a major point of departure, in which respect we continuously seek to strike a balance between these stakeholders. By creating this long-term value, de Volksbank distinctively adds to the diversity of the Dutch banking landscape with its social focus and through its powerful brands SNS, ASN Bank, RegioBank and BLG Wonen.

For the period 2021-2025, we have set the following growth priorities for its brands:

- ASN Bank, as a digital, sustainable bank and a driver of sustainability, will accelerate its growth by offering more sustainable products and propositions, increasing the number of customers and further developing the customer relationship;
- SNS will change by also appealing to young people through personal, digital customer service in addition to advice in the shops and will increase its recurring fee income;
- RegioBank, being the bank nearby, will reinforce its strong local presence by broadening its propositions for instance to SME and by intensifying its collaboration with the independent advisers;
- BLG Wonen further expands its activities through growth in mortgage production by increasing the distribution reach in the intermediary channel and through faster, more transparent services to advisers and customers;
- Using the brands SNS, ASN Bank and RegioBank, we target SME business owners in the Netherlands with excellent services.

How we create value

Being a financial institution, we play a major role in the Dutch economy and are at the heart of the commercial and value chain. For example, we help households to store their money and build up capital. We also help companies and households with deficits by providing funding, such as a mortgage loan. We facilitate (online) payment transactions and manage sustainable funds for customers to invest in. These roles create value for our stakeholders and for society as a whole.

Moreover, being a social bank we aim specifically for a sustainable and fair society. Our shared value ambition drives us to create benefits for customers, give genuine attention to our employees, take responsibility for society and achieve returns for the shareholder. We realise that we can only do this if we remain a sound and solid bank.

In the Integrated Annual Review we further explain the value creation process. We do this by:

- Outlining our dialogue with, and the expectations of, our stakeholders.
- Further explaining the material topics for our stakeholders.
- Presenting the value creation model. This overview provides a visual representaton of how we create value for our stakeholders.
- Showing how our value creation, objectives and KPIs are linked to the SDGs.
- Presenting a strengths and weaknesses analysis. Strengths and weaknesses influence the value creation process as well as the opportunities and threats we face.
- Presenting our new strategic plan, which builds on de Volksbank mission of creating positive impact for our stakeholders by banking with a human touch, including targets for 2025 and other objectives.

Material topics

Once every two years, we conduct a materiality survey to identify the topics that are the most material to our stakeholders. In the survey, we explore what they consider to be the right long-term goals for de Volksbank. These conversations focused on de Volksbank's contribution to the SDGs, for instance. In this context, our stakeholders break down into four groups: the customer, society, the employee and the shareholder. As the material topics are specific issues that greatly impact our stakeholders and/or de Volksbank, they are key to achieving our shared value ambition and are directly linked to our objectives.

More information about the expectations our stakeholders have in relation to these material topics is included in the Integrated Annual Review, Chapter 2.6 Our stakeholders and in the ESG Report.

Most material topics:

1. Simple and transparent products
2. Socially responsible investing
3. Climate-neutral balance sheet
4. Financial resilience
5. Privacy and safety of customer data
6. Genuine attention for employees
7. Responsible financial and risk management
8. Diversity and inclusivity of employees

In Chapters 3.1 up to and including 3.4 in the Integrated Annual Review we discuss our KPIs and the most material topics per stakeholder group. The achievements of our KPIs are also set out in Section1.3 Developments in our shared value ambition of this Annual Report.

Our impact on the Sustainable Development Goals

In 2015, the United Nations drafted seventeen social and sustainable goals for the year 2030, which guide our policy as a social bank. As a result, our sustainability policy affects all seventeen SDGs to a greater or lesser extent. Our value creation strategy, objectives and KPIs are linked to five SDGs in particular, to which we can make a long-term contribution:

1. Decent work and economic growth (8)
2. Sustainable cities and communities (11)
3. Climate action (13)
4. Life on land (15)
5. Partnerships for the goals (17)

We refer to the Integrated Annual Review Chapter 2.3 and the ESG Report for more information about these SDGs.

1.3 Developments in our shared value ambition

	Target 2020	31-12-2020	31-12-2019
BENEFITS FOR CUSTOMERS			
Customer-weighted average Net Promoter Score (NPS)[1]	+10	+2	0
SNS		-9	-11
ASN Bank		+16	+17
RegioBank		+14	+14
BLG Wonen		-5	-17
Current account customers (in 1,000)	1,500	1,657	1,568
RESPONSIBILITY FOR SOCIETY			
Climate-neutral balance sheet[1]	45%	59%	44%
Financial Confidence Barometer[1]	>50	51	48
GENUINE ATTENTION FOR OUR EMPLOYEES			
Genuine attention	≥ 7.5	7.9	7.7
Commitment	8.0	8.4	8.0
Engagement	8.0	7.6	7.4
RETURNS FOR THE SHAREHOLDER			
Return on Equity (RoE)[2]	8.0%	6.1%	7.7%
OTHER OBJECTIVES			
Cost/income ratio	50-52%	60.3%	57.3%
Common Equity Tier 1 ratio	≥ 19.0%	31.2%	32.6%
Leverage ratio	≥ 4.75%	5.2%	5.1%

1 For the measurement methodology of these KPIs reference is made to the ESG Report .
2 Adjusted for the impact of incidental items.

PROGRESS ON OBJECTIVES

We measure the progress in achieving our mission and the realisation of our shared value ambition by means of specific objectives that we defined in 2016 for our four stakeholder groups.

Benefits for customers

De Volksbank aims to be a bank where people feel at home. A bank that cares about easy-to-understand products, privacy and security, technological innovation and that wholeheartedly supports society.

We aim to create benefits for customers. In order to measure the headway we make here, we defined two specific KPIs, each with its own target. The KPIs are the Net Promoter Score (NPS) and the number of current account customers. The NPS measures customer satisfaction based on the likelihood of customers of de Volksbank's brands recommending their bank to others. The higher the score, the more satisfied and loyal our customers are.

Net Promoter Score

The customer-weighted average of all brand-specific Net Promoter Scores (NPS)[2] improved to +2, compared with a break-even score at the end of 2019. This improvement was driven by SNS and BLG Wonen. The NPS at SNS improved from -11 to -9 and at BLG Wonen from -17 to -5. The NPS at RegioBank remained stable at +14 and that of ASN Bank showed a limited decrease from +17 to +16. ASN Bank and RegioBank are in the top 3 of Dutch bank brands with a positive NPS.

Number of current account customers

The number of current account customers rose by 89,000 (156,000 gross) to 1,657,000 in 2020. The target of 1.5 million current account customers was reached as early as the end of 2019. Within the total number of customers, the number of active multi-customers[3] increased to 949,000, ten from 899,000 at the end of 2019. We consider the development of the number of multi-customers as an important indicator of the quality of our relationship with our customers.

Current account customers per brand

	2020	2019
Total current account customers (in 1,000)	1,657	1,568
SNS	961	941
RegioBank	334	309
ASN Bank	362	318

2 Marks on a 1 to 10 scale determine if a customer is a 'promoter' (9-10), 'passively satisfied' (7-8) or a 'detractor' (0-6). A positive NPS requires the percentage of promoters to be higher than the percentage of detractors.

3 The number of customers with an active current account (> 10 customer-initiated transactions per month for 3 months in a row) and in addition at least one product from another product group.

Responsibility for society

We aim to make a positive contribution to society. Through our core activities mortgages, savings and payments, we can have a considerable positive impact on sustainability in our chain and our customers' financial resilience.

Climate-neutral balance sheet

Together with the financial sector, we committed ourselves to the Dutch Climate Agreement at the end of 2019. This means that we:

- publish the climate impact of loans and investments;
- actively contribute to the energy transition;
- phrase objectives to improve our climate impact.

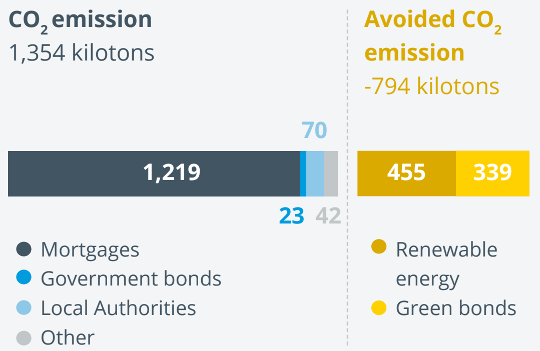
In 2015, we had already set ourselves the goal of having a climate-neutral balance sheet by 2030 at the latest, with an interim target of 45% climate neutrality in 2020.

Our balance sheet is climate neutral when our entire bank balance sheet causes as much CO_2 as we avoid, reduce or even take out of the air. We have been measuring and reporting on the steps we take towards a climate-neutral balance sheet since 2015. We present the measurement results in a CO_2 balance sheet. We will continue to increase the climate neutrality of our balance sheet by funding renewable energy projects and making our residential portfolio more sustainable.

At the end of 2020, our balance sheet was 59% climate neutral and therefore we reached our interim target of 45%. The total CO_2 emission rose slightly to 1,354 kilotons from 1,290 kilotons at the end of 2019. This was compensated by an increase of the avoided CO_2 emissions to 794 kilotons (2019: 573 kilotons). The increase was mainly driven by additional project financing and the purchase of climate bonds.

In 2020, we made further progress with the elaboration of the Partnership Carbon Accounting Financials (PCAF) methodology in our business processes, and we will report according to this methodology as from 2021. We expect the switch to the PCAF methodology to have an significant negative effect on the measurement of our climate neutrality as, for example, other emission factors are applied in calculating the impact.

Climate-neutral balance sheet



Financial resilience

We want to help our customers to increase their financial resilience. In a monthly survey, we ask 1,300 Dutch people, 530 of whom are customers of our brands, if they notice that the bank is there to help them in case of financial stress. The respondents answer the question on a scale of 1 (totally disagree) to 100 (totally agree). This score, expressed in the Financial Confidence Barometer, averaged 48 at the end of 2019 and rose to 51 at the end of 2020 with which the upward trend continues since the baseline measurement in 2018. We aimed to reach a score of more than 50 in 2020.

Especially at times like these, our presence is of the utmost importance and we intend to show that we are there for both our retail and SME customers. Together with other Dutch banks, we have taken measures to help our customers. For instance, de Volksbank has lowered the interest rates on current account overdrafts for all its brands. The Arrears Management department was able to help many customers and temporarily offered them financial relief by agreeing to a payment holiday on their mortgage or consumer loan. De Volksbank assesses for each customer what the most suitable solution is: a partial or full payment holiday. It is best not to let payment arrears accumulate unnecessarily if customers are still able to pay part of the loan, since they have to catch up on any arrears when the payment holiday ends. That is why we make feasible arrangements, giving the customer plenty of opportunity to recover financially.

Personal contact with our customers and our availability, especially at times when customers have many questions about their money, are paramount. That is why the SNS shops and RegioBank branches remained open with additional or adjusted opening hours. We introduced video calling, and the SNS shops launched several small initiatives throughout the country. One such example is proactively contacting customers who might be financially affected by the Covid-19 crisis.

Genuine attention for our employees

Every day, our employees put our mission of 'banking with a human touch' into practice with their heads and hearts. To provide them with maximum support, we give genuine attention to professionalism, autonomy and personal growth.
We would like employees to develop themselves in order to make a difference for customers and make a meaningful contribution to our mission and strategy every single day.

KPIs[1]	Oct 2020	Apr 2020	Oct 2019	Apr 2019	Oct 2018	Target 2020
Genuine attention	7.9	7.9	7.7	7.6	--	≥7,5
Engagement	8.4	--	8.0	--	7.4	8.0
Commitment	7.6	--	7.4	--	7.2	8.0

1 On a scale from 1 to 10.

For the KPI 'genuine attention for employees', we aimed for a score of at least 7.5 (on a 1-10 scale) in 2020. Obtaining an average score of 7.9 at the end of 2020, we therefore reached this target. Twice a year, we ask employees how they experience this genuine attention. The first survey, conducted in the spring of 2020, already showed higher scores than those in the previous year for nearly all questions, especially in that challenging period. What is more, it emerged that employees generally felt they were sufficiently supported and were able to do their work from home during the time the Covid-19 measures were in force.

The second survey of October 2020 revealed that we had succeeded in holding on to this high appreciation of genuine attention. Employees experience great trust and the freedom to make a meaningful contribution, which is essential in a situation where they work fully from home. Commitment and engagement are also two key indicators of shared value for employees. We saw an upward trend for these indicators, too. Giving scores of 7.6 (2019: 7.4) and 8.4 (2019: 8.0), respectively, our employees were more engaged and committed in 2020 than they were the year before. According to employees, collaboration, innovation and efficiency are the main points for improvement. We will set to work on these aspects.

Return for the shareholder

De Volksbank aims to be a financially healthy and stable bank with low risk activities. Our target return on equity (RoE) is 8%.

Return on equity

Return on equity amounted to 5.1%. Excluding incidental items, the adjusted return on equity stood at 6.1%, a decline compared with 2019 (7.7%) as a result of a lower net profit combined with higher average shareholders' equity.

Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the net adjusted profit. In line with this policy, de Volksbank decided in its General Meeting of Shareholders in April 2020 to declare a dividend of € 165 million for 2019 in April 2020. This comes down to a pay-out ratio of 60%.

On 28 July 2020, the ECB requested banks not to pay out dividends for 2019 and 2020 until at least 1 January 2021 on account of the Covid-19 pandemic. On 27 March 2020, the ECB had already requested banks not to pay out dividends for these years until at least 1 October 2020. De Volksbank has, therefore, temporarily postponed the planned dividend payment for 2019. On 15 December 2021, the ECB recommended that until 30 September 2021 de Volksbank exercises extreme prudence when deciding on or paying out dividends. The ECB considers that it would not be prudent to consider making a distribution amounting to more than 15% of accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the CET1 capital ratio, whichever is lower. In accordance with this recommendation, de Volksbank intends to pay € 20 million of the dividends over 2019 before 30 September 2021. The remaining dividend for 2019 will be paid out as soon as the ECB recommendation is no longer restrictive.

Although the dividend for 2019 has not yet been paid out, the amount has already been reserved for distribution, as a result of which it is no longer part of the bank's CET1 capital. Following the General Meeting of Shareholders in April 2020, the dividend determined for 2019 was declared and recognised as a liability in the balance sheet. If the deferred dividend was to be added to capital, it would require a shareholders' resolution to pay up the capital.

For 2020, we propose to pay out a dividend of € 104 million. This implies a pay-out ratio of 50% of the 2020 net adjusted profit, and with 60% of the net profit. The proposed dividend for 2020 will be paid out as soon as it is in accordance with the ECB recommendation to make such payment.

Other objectives

Cost/income ratio

The cost/income ratio (operating expenses excluding regulatory levies divided by total income) was 65.2%. Adjusted for incidental items, the cost/income ratio was 60.3%, an increase compared with 2019 (57.3%) and nearly entirely caused by higher operating expenses excluding regulatory levies. As in 2019, the adjusted cost/income ratio exceeded the target range of 50% to 52% for 2020. This is due to the pressure on net interest income in the current low interest rate environment. Moreover, the total operating expenses declined less than expected in 2016, in particular as a result of additional costs related to laws and regulations, for example for transaction monitoring. Please refer to the section 1.6 Financial Results for more information about the cost/income ratio.

Capital

De Volksbank's CET1 capital ratio decreased to 31.2%, from 32.6% at year-end 2019, primarily due to an increase in RWA. The CET1 capital ratio remained well above our target of at least 19%.

Leverage ratio

The leverage ratio increased from 5.1% at year-end 2019 to 5.2%, mainly driven by an increase in the leverage ratio numerator (Tier 1 capital) by € 67 million.

Please refer to the section 3.8 Capital Management for more information about our capital position.

1.4 Options for the future

On 9 November 2020 the Minister of Finance informed the House of Representatives by letter about the progress of the study announced in 2019 into the privatisation options for de Volksbank. The exploration of the various options will also look at the possibilities of safeguarding the social character of the bank.

The letter noted that the aim was to complete the exploration as soon as possible but that this was no longer expected before the end of 2020. This was due to unforeseen circumstances at the bank and work associated with the Covid-19 crisis.

On 12 February 2021 de Volksbank shared its strategic plan 2021-2025 with the outside world. Taking this plan into account, NLFI will prepare a new progress report assessing the readiness of de Volksbank for a decision on its future. Subsequently, the Minister will inform the House of NLFI's findings and share the report.

1.5 Commercial developments

	31-12-2020	31-12-2019
CUSTOMERS AND CURRENT ACCOUNTS		
Total number of customers (in 1,000)	3,342	3,270
Total number of current account customers (in 1,000)	1,657	1,568
Market share of new current accounts[1]	19%	21%
Mortgages		
Residential mortgages (gross in € billions)	47.8	48.2
Market share of new mortgage production (in #)	5.0%	6.1%
Market share of mortgage portfolio (in €)	6.2%[2]	6.4%[3]
Savings		
Retail savings (in € billions)	42.1	38.4
Market share of retail savings[4]	10.8%	10.6%

1 Source: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.
2 Third quarter 2020 figures because market size figures were not yet available.
3 Market share 2019 has been adjusted due to adjustments of market size figures by CBS.
4 Market shares as of 2019 have been adjusted due to the inclusion of bank savings.

Customers and current accounts

In 2020, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 235,000 new customers. Setting this off against customers who left the bank, the total number of customers rose by 72,000 (2019: 68,000). This net growth was higher than in 2019 despite the outflow of 15,000 customers as a result of the discontinuation of savings accounts at BLG Wonen. As in 2019, the growth in the number of customers was largely attributable to the growth in the number of current account customers. This number rose by 89,000 (156,000 gross) to 1,657,000.

De Volksbank's market share of new current accounts was slightly down but remained high at 19% (2019: 21%). This market share is significantly above the market share on a total portfolio basis of approximately 8%.

Mortgages

De Volksbank's new mortgage production showed an increase to € 5.9 billion, from € 5.5 billion in 2019 (+7%) in a mortgage market that grew by 25% compared with 2019[4]. This increase was mainly driven by a significantly higher mortgage refinancing market, which grew by approximately 50%. The market share of new mortgages was 5.0%, a decrease compared with 2019 (6.1%). This decline was due to intense competition and the further increased demand for mortgages with a fixed-rate term of 15 years or more.

Interest rate renewals amounted to € 3.2 billion, an increase in comparison with 2019 (€ 2.8 billion). Early renewals in particular, approximately one third of the total, showed an increase.

Repayments amounted to € 6.1 billion, up from 2019 (€ 5.3 billion). This was mainly a consequence of the expanding mortgage refinancing market and an increase in the number of people moving house. Contractual repayments also gradually increased in line with the changing composition of the mortgage portfolio, reflected in an increase in annuity mortgages. Early repayments rose significantly as a result of a sizeable mortgage refinancing market. As mortgage production was slightly lower than repayments and because of other movements (-€ 0.2 billion), de Volksbank's mortgage portfolio showed a decrease to € 47.8 billion compared with € 48.2 billion at the end of 2019.

Savings

Retail savings at de Volksbank rose to € 42.1 billion, compared with € 38.4 billion at year-end 2019. Our market share showed a limited increase to 10.8% (2019: 10.6%).

4 Source: HDN

1.6 Financial results

Profit and loss account

in € millions	2020	2019	Change
Net interest income	850	875	-3%
Net fee and commission income	46	51	-10%
Other income	27	3	800%
Total income	**923**	**929**	**-1%**
Operating expenses excluding regulatory levies	602	533	13%
Regulatory levies	50	41	22%
Total operating expenses	**652**	**574**	**14%**
Impairment charges of financial assets	38	-7	--
Total expenses	**690**	**567**	**22%**
Result before taxation	**233**	**362**	**-36%**
Taxation	59	87	-32%
Net result	**174**	**275**	**-37%**
Addition to restructuring provision	-34	--	
Total incidental items	**-34**	**--**	
Adjusted net result	**208**	**275**	**-24%**
Cost/income ratio[1]	65.2%	57.3%	
Adjusted cost/income ratio[2]	60.3%	57.3%	
Return on Equity (RoE)[3]	5.1%	7.7%	
Adjusted Return on Equity (RoE)[4]	6.1%	7.7%	
Net interest margin (bps)[5]	1.30%	1.37%	
Cost/assets ratio as a % of average assets[6]	0.92%	0.83%	

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items.
3 Net result / average month-end total equity for the reporting period.
4 Net result adjusted for incidental items / average month-end total equity for the reporting period.
5 Net interest income / average month-end total assets for the reporting period.
6 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.

NET PROFIT

Net profit dropped to € 174 million, compared with € 275 million in 2019 (-37%). Of this drop, € 34 million is attributable to incidental items, consisting entirely of a restructuring provision of € 45 million before tax in 2020 in connection with the transformation to a new organisational structure and way of working.

Net profit, adjusted for incidental items, decreased by € 67 million to € 208 million (-24%). This drop was mainly attributable to a swing in impairment charges of financial assets. These amounted to € 38 million, after a reversal of € 7 million in 2019. In addition, adjusted total operating expenses were € 33 million higher. Total income showed a limited decline of € 6 million.

INCOME

Breakdown income

in € millions	2020	2019	Change
Net interest income	850	875	-3%
Net fee and commission income	46	51	-10%
Investment income	17	12	42%
Other results on financial instruments	9	-10	--
Other operating income	1	1	--
Total income	**923**	**929**	**-1%**
Net interest margin (bps)[1]	1.30%	1.37%	

1 Net interest income / average month-end total assets for the reporting period.

Net interest income

Net interest income decreased by € 25 million to € 850 million (-3%) and the net interest margin decreased to 1.30% (2019: 1.37%). This was mainly due to lower income on mortgages as a result of (early) interest rate renewals at lower rates. In addition, new mortgage production was concluded at substantially lower rates than the rates of repaid mortgages.

This lower income was partly compensated by higher compensation received for loss of interest on account of early repayments of mortgages. This compensation amounted to € 56 million and exceeded the level of 2019 (€ 34 million) as a result of a higher mortgage refinancing market.

In addition, interest expenses on savings were lower. In 2020, retail savings grew by € 3.7 billion. As a result of this and given our policy to not introduce a negative interest rate on retail savings in 2020, lower interest expenses could not fully compensate for the decline in interest income. As from 1 August 2020, SME customers who have savings deposits in excess of € 1 million are charged 0.5% interest.

Finally, net interest income was positively impacted by another classification of distribution fees paid by RegioBank. In the fourth quarter, RegioBank changed its commission fee model from a combined savings balance and customer model to a full customer model. As a consequence, distribution fees paid are classified as fee and commission expenses instead of interest expenses. The impact of this modified classification amounted to € 7 million. The full effect will be visible in 2021.

Net fee and commission income

Net fee and commission income decreased by € 5 million to € 46 million, mainly due to a changed classification of distribution fees paid by RegioBank. Excluding this classification change, net fee and commission rose by € 2 million, mainly driven by higher fees received for mortgage advice and insurance, partly compensated by a one-off termination payment.

Investment income

Investment income rose by € 5 million to € 17 million, driven by higher realised results on fixed-income investments sold as part of asset and liability management and optimisation of the investment portfolio.

Other results on financial instruments

Other results on financial instruments amounted to € 9 million (2019: € 10 million negative). The € 19 million increase was largely due to higher treasury results. Besides this, the result on ineffectiveness of hedge accounting, among others related to mortgages, was higher. In 2020, this result was almost nil, and in 2019 it was negative.

EXPENSES

Operating expenses and FTE

in € millions	2020	2019	Change
Staff costs	427	373	14%
Depreciation of (in)tangible assets	29	36	-19%
Other operating expenses	196	165	19%
Total operating expenses	**652**	**574**	**14%**
Incidental addition to restructuring provision (staff costs)	45	--	--
Regulatory levies (included in other operating expenses)	50	41	22%
Adjusted operating expenses	**557**	**533**	**5%**
Cost/income ratio[1]	65.2%	57.3%	
Adjusted cost/income ratio[2]	60.3%	57.3%	
Cost/assets ratio as a % of average assets[3]	0.92%	0.83%	
Adjusted cost/assets ratio as a % of average assets[4]	0.85%	0.83%	
FTE			
Total number of internal FTEs	3,171	2,991	6%
Total number of external FTEs	648	657	-1%
Total number of FTEs	**3,819**	**3,648**	**5%**

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items.
3 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.
4 Operating expenses adjusted for regulatory levies and incidental items / average month-end total assets for the reporting period.

Total operating expenses rose by € 78 million to € 652 million, largely driven by a one-off restructuring charge of € 45 million and € 9 million higher regulatory levies.

The restructuring provision of € 45 million has been made in connection with the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation, which is expected to reduce the number of jobs by 400-500 in the period 2021-2023. A provision totalling € 45 million has been formed for this purpose.

Regulatory levies amounted to € 50 million, of which € 8 million was related to the resolution fund contribution (2019: € 7 million), and € 42 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution, as against € 34 million in 2019. The increased DGS contribution was mainly caused by growth in covered deposits.

Adjusted for regulatory levies and the one-off restructuring charge, operating expenses rose by € 24 million to € 557 million.

Excluding the one-off restructuring charge, staff costs were € 9 million higher than in 2019. The rise in permanent staff costs was underpinned by wage inflation and an increase in the number of internal employees, which was partly compensated by lower costs of travel and training as a result of Covid-19. In comparison with year-end 2019, the total number of FTEs increased by 171 to 3,819. The number of internal employees rose by 180 to 3,171 FTEs and the number of external employees dropped slightly by 9 to 648 FTEs. The increase in the number of internal employees was mainly in the areas of IT, compliance, customer integrity and in connection with the SME finance proposition finance.

Depreciations of tangible and intangible assets were € 7 million lower as part of these assets had already been written off at year-end 2019. The lower depreciations mainly related to software developed, information processing equipment and office equipment. The year 2019 also included an impairment charge of ATMs.

Other operating expenses, excluding regulatory levies, were € 22 million higher. Of this amount, € 6 million was related to a positive revaluation for a previous contribution made under the DGS in relation to the insolvency of DSB. This revaluation totalled € 1 million in 2020, as against € 7 million in 2019. In addition, particularly consultancy costs rose, for example in connection with the new strategic plan and for regulatory projects.

Adjusted operating expenses divided by average total assets rose from 83 basis points (bps) in 2019 to 85 bps.

Impairment charges of financial assets

in € millions	2020	2019	Change
Residential mortgages	29	2	--
Consumer loans	-1	-2	--
SME loans	8	-8	--
Other corporate and government loans	--	2	--
Investments	--	-1	--
Other	2	--	--
Total impairment charges financial assets	**38**	**-7**	**--**
Cost of risk total loans[1]	0.08%	-0.01%	
Cost of risk residential mortgages[1]	0.06%	0.00%	
Cost of risk SME loans[1]	1.16%	-1.05%	

1 Impairment charges / average month-end portfolio exposure for the reporting period.

Impairment charges of financial assets amounted to € 38 million; in 2019 there was a reversal of € 7 million. The swing was caused by substantial additions to the credit loss provision in connection with the Covid-19 pandemic.

A detailed description of the credit loss provisioning is set out in the chapter 3.3 Credit risk.

Residential mortgages

Impairment charges on residential mortgages amounted to € 29 million, compared with € 2 million in 2019. The higher charge was caused by the deteriorated economic outlook used to determine the credit loss provision, a change to the provisioning methodology for interest-only mortgages that was implemented at the beginning of 2020, and the application of an expert overlay in connection with the high degree of uncertainty surrounding economic developments in the Netherlands and the financial resilience of customers whose incomes have been cut by the crisis. In 2019, the release as a result of a decrease in stage 3 loans was more than offset by additional impairments for interest-only mortgages and adjustments in the provisioning model that particularly affected stage 2 loans.

Consumer loans

The reversal of impairment charges on consumer loans amounted to € 1 million and was mainly prompted by model improvements. This was partly compensated by higher stage 1 and stage 2 provisions for debit balances on current accounts due to an expected rise in unemployment. In 2019, we saw a reversal of impairment charges on consumer loans of € 2 million.

SME loans

The impairment charges on SME loans amounted to € 8 million as a result of the application of an expert overlay for customers active in sectors carrying a higher risk of adverse financial consequences ensuing from the crisis, especially on the back of the lockdowns.

The year 2019 saw a reversal of impairment charges on SME loans of € 8 million as a result of a decline in stage 2 loans due to an improved economic outlook at that moment. Stage 3 loans also decreased due to a recovery of customers in default.

Outlook

Net interest income in 2021 is expected to be lower than in 2020, especially as a result of lower interest income on mortgages in the sustained low interest rate environment.

Other income, mainly comprising treasury results and realised results on fixed-income investments, is expected to fall below the exceptionally high level of 2020.

Operating expenses, excluding the one-off restructuring charge in 2020, are expected to be higher in 2021 compared with the 2020 level, mainly driven by expenses related to our new strategy. Regulatory levies are also expected to be higher due to a higher contribution to the Deposit Guarantee Scheme.

Given our low risk profile, we expect impairment charges on loans and advances to be lower in 2021 compared to 2020. However, economic developments in the Netherlands and the financial resilience of customers whose incomes have been cut by the crisis and the impact this has on our credit loss provisions are highly uncertain.

All things considered, we expect the net profit for 2021 to be lower compared with 2020.

1.7 Compliance and de Volksbank

The correct and timely implementation of an increasing number of laws and regulations continues to be a crucial aspect of de Volksbank's business operations. Supervisory authorities and legislators – both Dutch and European – impose ever-increasing numbers of laws and regulations on banks on topics ranging from capital and liquidity (prudential supervision) to consumer protection and sustainability. De Volksbank continues to work on its individual resilience and stability without losing sight of the interests of customers and other stakeholders. In this section we highlight the laws and regulations with the highest relevance in 2020 with respect to prudential supervision and customer interests, and explain how de Volksbank deals with them.

Prudential supervision

In 2020, the elaboration of laws and regulations governing prudential supervision of the financial sector was dominated by Covid-19. Supervisory authorities focused on facilitating a maximum lending capacity and the absorption of losses ensuing from this crisis for credit institutions. Banks also required more time to prepare for the implementation of changes to laws and regulations after the Covid-19 pandemic. We cover a few important developments in 2020 below.

Banking package

The banking package published in June 2019 contains a revision of the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). The aim of the package is to reduce risks in the banking sector and strengthen the Banking Union. The introduction of Basel IV was postponed by one year to give banks more time to prepare for Basel IV following the Covid-19 pandemic, with the phase-in period running from 2023 to 2028.

De Volksbank is making preparations to comply with the banking package, which is gradually implemented starting in June 2019 (CRR). The implementation dates of a number of topics were also brought forward compared with the original phase-in. This was done because they maximise the lending capacity of credit institutions and the absorption of losses ensuing from the Covid-19 pandemic. The latter changes only have a limited impact on de Volksbank.

Capital and liquidity positions

De Volksbank continuously monitors from various perspectives whether the financial stability and continuity of the bank is guaranteed. Supervisory authorities are provided with our data and analyses, such as ICAAP and ILAAP, external and internal stress tests, the recovery plan and information for the purposes of resolution planning by the Dutch Central Bank (De Nederlandsche Bank, DNB). Because of the impact of Covid-19 and the measures that Dutch and European authorities have taken in that context, de Volksbank paid even more attention to macroeconomic scenarios and stress tests from the second quarter onwards. This was prompted by both an internal need and requests from supervisory authorities. All (additional) analyses confirm the bank's strong capital and liquidity positions. See Chapter 3 Risk Management for more information on the BRRD, ILAAP, ICAAP, SRMR/MREL and bail-in.

Basel IV and Article 458 of the CRR

DNB has decided to postpone the increase in risk weights assigned to residential mortgage portfolios, which it had announced in 2019, until further notice. The purpose of the postponement is to further support the banks' capital positions in response to the Covid-19 pandemic. A risk weight floor was to become effective in the autumn of 2020 for a period of two years, which was to apply to banks that use internal risk models to calculate capital requirements for their mortgage loan portfolios. This measure stems from the framework that Article 458 of the CRR provides to DNB for this purpose. The additional capital is intended to strengthen Dutch banks' capital to absorb possible shocks in the Dutch housing market. For the estimated impact on de Volksbank of Basel IV see section 3.8.3 Developments in capital requirements.

Capital markets union

The European Commission has been working towards a fully integrated European capital market for more than five years now. This should make it easier for savers and investors to invest in companies in foreign countries. In September 2020, the European Commission launched a new, ambitious action plan to boost the European Union's capital markets union (CMU) over the coming years. The action plan has three key objectives:

- Ensuring that the EU's economic recovery is green, digital, inclusive and resilient by making financing more accessible for European companies, in particular SMEs.
- Making the EU an even safer place for individuals to save and invest long-term.
- Integrating national capital markets into a genuine EU-wide single market for capital.

To do this, the Commission has put forward sixteen targeted measures to make real progress to complete the CMU. With these measures, the EU intends to promote more cross-border investment in the EU, for example by supporting insurers and banks to invest more in EU businesses and by strengthening investor protection.

The EU's top priority is to ensure that Europe recovers from the economic crisis caused by the Covid-19 pandemic. Developing the EU's capital markets and ensuring access to market financing is essential in this regard. Furthermore, only an efficient, fully integrated capital market can raise the funds for the enormous investment required to tackle the climate and biodiversity emergency situations and other environmental challenges. The European Green Deal is the new EU growth strategy and the step-by-step plan for turning the EU economy into a sustainable economy. The Green Deal Investment Plan is intended to encourage sustainable investment, but public funds are not sufficient to cover these funding needs.

The Commission will prepare a renewed sustainable funding strategy that is to ensure more private investments in sustainable projects and activities. The Green Deal and the renewed sustainable funding strategy prepared by the Commission are important developments for de Volksbank, for example in respect of green bonds, which de Volksbank frequently issues.

Customer interests

Being a social bank, we put the interests of our customers first, without losing sight of other stakeholders, including society, our employees and the shareholder. Changes made to laws and regulations in the area of customer interests impact the organisation. Below, we explain the 2020 developments in the field of customer interests.

General data protection regulation (GDPR) / Algemene Verordening Gegevensbescherming (AVG)

Before the GDPR came into effect in 2018, de Volksbank had already taken the necessary steps to safeguard the privacy of customers and employees, while also complying with the law. In the subsequent period, we continuously worked on further improvements to ensure that we were working according to the purpose of the GDPR. A major improvement in 2020 was the strengthening of the Privacy Office, where the Data Protection Officer and a number of Privacy Officers work. The Privacy Office was repositioned last year and now comes under the Compliance department.

Prevention of data breaches

A data breach entails the unintentional release of personal data. The numerous moments of contact between the bank and its customers may mean that personal data are sent to the wrong recipient. We always act on a data breach in order to limit any loss or damage and analyse how it came into being in order to avoid future data breaches. We have set up an internal Data Breach Committee for this purpose, which always gives advice when several people are involved in a data breach.

Payment Services Directive 2 (PSD2)

As de Volksbank sets great store by the protection of its customers' data, we take great care to ensure that the information we provide on PSD2 is precise. This way, customers know exactly what they consent to, and third parties do not inadvertently gain access to customers' current accounts. De Volksbank sticks to the principle of a master switch, which regulates access to the current account and ensures that customers remain in control. In 2020 de Volksbank put a great deal of energy into improving the online authorisation process for granting third parties access to accounts, while also paying attention to the best possible accessible user experience.
Several third parties – holding licences from the supervisory authority – were connected to our PSD2 API channel in 2020, where necessary with support from de Volksbank. Finally, a number of new authentication options (both for the bank's own channels and for the PSD2 API channel) were implemented in 2020; they meet the stringent PSD2 requirements and also facilitate optimum customer convenience.

Guideline on the deposit guarantee scheme

The changes to the Dutch DGS with effect from 1 January 2019 and 1 January 2020 have been implemented. De Volksbank meets the requirements that DNB has set for the growth path towards 2023. The external auditor has assessed the DGS system. Our customers must be able to rely on our ability to provide details to DNB within three working days, after which these customers receive their deposits within fifteen working days (DNB will reduce this period step by step to seven working days).

European Anti-Money Laundering Directives

De Volksbank takes all reasonable measures to prevent the bank and/or the financial system from being misused for money laundering and terrorist financing. We consider the gatekeeper function to be an integral part of our business operations as a social bank.
The fifth EU Anti-Money Laundering Directive (the "5th AMLD") was implemented in Dutch legislation in 2020. The changes to the laws and regulations impact the processes and organisation, such as the verification of customer data with the Ultimate Beneficial Owner (UBO) register as from 2020. De Volksbank is working on the implementation of the requirements ensuing from the 5th AMLD. Furthermore, together with major banks and public parties, such as the Public Prosecution Service, the FIU and the national police, de Volksbank is building a collaboration on several topics, including the action plan 'Effective Together' of Minister Hoekstra and Minister Grapperhaus. De Volksbank considers this a major step forward and gladly contributes to the collaboration.

In 2020, de Volksbank participated in Transaction Monitoring Netherlands (TMNL) with the aim of setting up joint transaction monitoring in concert with ABN AMRO, ING Bank, Rabobank and Triodos. The first phase has commenced, in which monitoring is set up that can only be achieved with shared data. This is how TMNL contributes to a more effective fight against money laundering and terrorist financing.

Foreign Account Tax Compliance Act

At de Volksbank, we comply with procedures and measures for the identification, verification and acceptance of customers in accordance with Dutch and international regulations, including the Common Reporting Standard (CRS) and the Foreign Account and Tax Compliance Act (FATCA). Tax authorities of various countries exchange customer data under the CRS and FATCA.

The FATCA is a U.S. law that combats tax evasion by U.S. taxpayers worldwide. Banks are obliged to provide data, such as the Identification Numbers (TIN) of account holders coming under this act, to the Dutch tax authorities. De Volksbank has not received TINs from a number of account holders, as a result of which they risk losing their current accounts. One option for account holders is to renounce their U.S. citizenship. The United States has changed the rules for this, allowing account holders to go through this procedure without a TIN. De Volksbank is currently exploring whether it may continue to make the current account available in the event of demonstrable action and progress by the customer.

Sustainability

The European Commission presented various parts of the European Green Deal. This is a roadmap to make the EU economy sustainable and climate neutral by 2050. Sustainable finance is an essential part of achieving these policy goals. We closely monitor relevant initiatives and changing laws and regulations. In 2020, for example, we mapped out how changing laws and regulations in the field of sustainable finance will affect various organisational units. Based on this, action points have been defined. In concrete terms, this means further anchoring sustainability throughout the organisation, integrating sustainability into regular processes (such as risk management) and making the contribution of de Volksbank tangible through reporting. The EU has also developed a classification system of economic activities that contribute to and do not harm the environment. Banks are expected to show in 2022 which part of their portfolio or loans is in line with this classification, which de Volksbank would like to comply with.

1.8 Responsible tax policy

De Volksbank and its brands ensure that the laws and rules governing their business operations and activities are complied with. As a social bank, we believe that this also calls for a responsible tax policy that benefits the organisation, our customers and society.

Health, safety, education and other public expenditure are paid for from tax revenues, and we are well aware of that. Being a social bank, we gladly pay our share.

The spirit of law

Naturally, we comply with all relevant tax laws and regulations. In doing so, we not only check whether we comply with the laws and rules in legal terms, but also and above all whether we comply with the underlying intentions of the laws and regulations. With that in mind, it is not appropriate to push the limits as regards taxation. If de Volksbank is granted a tax benefit as intended by tax legislation, we have no objection to this. But we do not devise or set up any aggressive tax structures to obtain an occasional tax benefit. Nor do we let tax considerations play a decisive role.

However, this does not mean that we do not take tax aspects into account. Taxation can, for example, play a role in the products for our customers, such as the deductible interest when providing a mortgage.

Within the context of the Know-Your-Customer principle for corporate customers, we form an opinion on their tax attitude. De Volksbank does not want to invest in or provide loans to companies involved in tax scandals.

Tax rate

We do not aim for the lowest possible tax rate or an artificial tax rate reduction. The level of the effective tax rate is not included in the objectives of our tax department. This does not mean, however, that the effective tax rate is always equal to the nominal tax rate. As there are many differences between accounting rules and tax rules, the result in the financial statements may differ from the taxable result. This sometimes leads to a lower effective tax rate and sometimes to a higher effective tax rate.

The tax and customs administration

De Volksbank maintains a proactive, open relationship with the Dutch Tax and Customs Administration, which is characterised by transparency and mutual trust. This was emphasised in 2017 by signing an agreement in relation to so-called 'Horizontal Monitoring'.
In 2020, the Dutch Tax Authorities started implementing a number of changes in Horizontal Monitoring. De Volksbank's current compliance agreement is subject to a transitional arrangement, which will expire on 31 December 2022 at the latest.

We regularly share information with the Tax Authorities about relevant developments that could be important to de Volksbank's tax position, tax-related points for discussion and positions. In doing so, we not only highlight our own point of view, but we also highlight arguments that may argue against our own position. When we make mistakes, we will discuss them with the tax authorities and try to find a solution. We then pay any taxes due and accept other consequences, thereby learning from our mistakes so they can be prevented in the future. We ensure that our customers experience as few negative effects as possible.

It goes without saying that our tax control measures are intended to minimise errors. These tax control measures are part of de Volksbank's Integrated Control Framework and contribute to the filing of timely, correct and complete tax returns.

International

In recent years, the focus on the tax policies of internationally operating companies and, more specifically, on tax evasion in an international context has increased. De Volksbank endorses the international legislative initiatives in this area, such as that of the Organisation for Economic Co-operation and Development (OECD) on Base Erosion and Profit Shifting (BEPS) and the resulting changes in local legislation, even though not all parts are equally relevant to de Volksbank as we operate mainly in the Netherlands.

Taxes paid in 2020

De Volksbank accounted for € 59 million in corporation tax on the result for 2020. The effective tax rate was 25.2% (2019: 24%), slightly higher than the nominal rate of 25%. The effective tax rate increased due to the introduction of the minimum capital rule (thin cap rule) early this year. This scheme precludes the deduction of some of the interest expenses. On the other hand the effective tax rate decreased due to the cancellation of the corporate tax rate reduction. This tax solely relates to Dutch income tax. As de Volksbank has no foreign branches, it is not subject to foreign income tax and is therefore not required to draw up a country-by-country report.

Apart from income tax, de Volksbank is subject to a number of other taxes. These taxes and amounts for 2020 are as follows:

- Payroll tax and social security contributions: € 97 million. These are withheld from employees' wages but, being part of the salary costs, are for the account of and paid by de Volksbank.
- Non-recoverable VAT: € 38 million. The financial services that de Volksbank provides are mostly exempt from VAT. Consequently, customers are not charged VAT for these services. VAT charged to the bank by suppliers cannot be reclaimed from the Tax and Customs Administration. The non-deductible VAT thus leads to an increase in costs for de Volksbank.
- Just like last year, de Volksbank does not owe any bank tax in 2020 as the taxable amount on which de Volksbank owes bank tax remains below the exemption threshold of the levy.

Tax policy on customers

De Volksbank does not provide direct tax advice to customers, nor does the bank want to facilitate tax-aggressive structures for its customers. De Volksbank does not cooperate in transactions of which tax savings are the main objective. We therefore check if a transaction or position is robust, has sufficient substance and does not have negative effects. By this we mean the following:

- The position or transaction is robust if it is consistent with relevant (tax) laws and regulations and (tax) case law, in which respect prior consultation with the tax authorities will take place.
- The tax position or transaction in question must have sufficient substance from an economic, business, or social perspective, ruling out that taxation is the main reason for the transaction and plays a decisive role.
- Prior to the transaction or the position, we make a considered and reasonable assessment of whether there is a chance of reputational damage or any other material negative (tax) consequences.

Obligation to report potentially aggressive cross-border arrangements

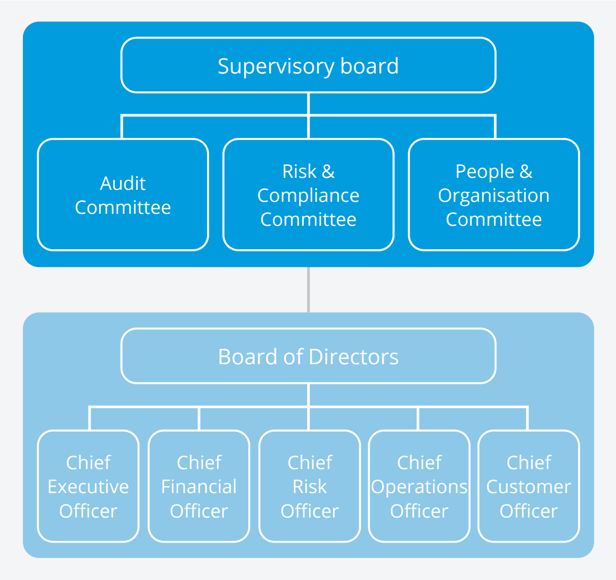
The European Directive on Mandatory Disclosure Rules (MDR)/DAC6 has been implemented in the Netherlands by means of an amendment to the International Assistance (Levying of Taxes) Act (Wet op de internationale bijstandsverlening bij de heffing van belastingen; WIB). As a result, intermediaries and/or taxpayers are obliged to report potentially aggressive cross-border tax arrangements to the Dutch Tax Authorities. These arrangements involve residents of various countries and can potentially be used to avoid tax.

De Volksbank may be regarded as an intermediary or an auxiliary intermediary under certain circumstances, which may result in a reporting obligation for de Volksbank. The number of reports is expected to be limited in view of de Volksbank's product range and customer profiles. Because of the Covid-19 situation, it has been decided that the reporting obligation will enter into effect in the Netherlands on 1 January 2021 rather than 1 July 2020.

2.

GOVERNANCE

2.1 Supervisory Board and Board of Directors



Composition, appointment and functioning of the Board of Directors

The Supervisory Board draws up a profile for the Board of Directors (the Board) in consultation with the Board itself. This profile specifies the required knowledge, suitability, expertise, integrity and availability of the Board and its members. In addition, the profile sets out the relevant aspects of diversity and inclusiveness, such as nationality, age, gender and background with regard to education and professional experience. In essence, the diversity and inclusion policy of de Volksbank is aimed at recognising and valuing (differences between) people, both customers and employees. The aim of the diversity and inclusion policy is to make an optimal contribution to the execution of the bank's strategy. The generic profile for the Board has been approved by NLFI and published on the website of de Volksbank.

Composition of the Board of Directors

After the departure of Maurice Oostendorp as from 1 September 2020, Pieter Veuger as from 5 September 2020 and Mirjam Verhoeven as from 12 November 2020, the Board consisted of the following members as per 31 December 2020:

Martijn Gribnau

1964 - Nationality: Dutch

Martijn Gribnau joined the Board on 17 June 2020 and was appointed Chief Executive Officer with effect from 15 August 2020. He holds one other board position: member of the Board of the Dutch Banking Association. Prior to joining de Volksbank, Martijn was employed at de Postbank, ING Bank and Nationale-Nederlanden, where he held various executive positions in the Netherlands and abroad, including that of General Manager of the Dutch Retail Board and Insurance Board of ING and CEO of ING Insurance Hungary and Bulgaria. At Genworth Financial/Life and Long Term Care Insurance, a US-based financial services provider, Martijn held the positions of CTO and COO.

Jeroen Dijst

1971 - Nationality: Dutch

Jeroen Dijst was appointed to the Board on 1 August 2016 and reappointed on 23 April 2020. Jeroen is Chief Risk Officer and holds no other board positions. Before joining de Volksbank, Jeroen served as Managing Director of ALM/Treasury and member of the Management Group of ABN AMRO. Prior to that, Jeroen served as CRO and member of the Board of Directors of Fortis Bank Nederland. Jeroen started his career at VSB Bank as an Economic Research Treasury/ALM assistant.

Marinka van der Meer

1969 - Nationality: Dutch

Marinka van der Meer was appointed to the Board on 28 September 2018. Marinka is Chief Customer Officer and holds one other position: member of the Consumer Affairs Committee of the Dutch Banking Association. Before joining de Volksbank, Marinka was CEO of Argenta Nederland. Prior to that, she held various positions in the banking and insurance sectors. Before joining Postbank in 1997, she started her career at Centrum voor Marketing Analyses in 1994.

Appointment of the members of the Board of Directors

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

In 2020, the Board experienced differences of opinion. Following a careful consideration by the Supervisory Board and consultation of the shareholder and external supervisory authorities, this resulted in the departure of the CFO and the COO for a variety of reasons. In response to the situation that had arisen, it was agreed with NLFI that an independent survey would be commenced of the Board dynamics at the bank. The survey report was issued in February 2021. One of the researchers' findings was that the dynamics on the Board and the interaction between the Board and the Supervisory Board were not perfect in the period under survey. Measures have been taken that have restored positive dynamics. Marcel Klopper has carried out many of the CFO's duties since 5 September 2020 and will continue to do so until a new CFO is appointed. Martijn Gribnau and Marinka van der Meer have assumed many of the COO's duties since 12 November 2020. They will continue to do so until the Executive Committee, announced on 12 February 2021, to be set up for the successful implementation of the strategy is in place.

Composition of the Board of Directors as at 31 December 2020

Name	Appointed until
Martijn Gribnau	AGM 2024[1]
Jeroen Dijst	AGM 2024[1]
Marinka van der Meer	AGM 2022[1]

1 Annual General Meeting

Functioning of the Board of Directors

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

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

Composition, appointment and functioning of the Supervisory Board

The Supervisory Board is composed in such a way that it has sufficient expertise to properly perform its duties. The Supervisory Board draws up a generic profile for its members, specifying the required knowledge, suitability, integrity and availability of the Supervisory Board and its members. In addition, the profile sets out the relevant aspects of diversity and inclusiveness, such as nationality, age, gender and background with regard to education and professional experience. In essence, the diversity and inclusion policy of de Volksbank is aimed at recognising and appreciating people, both customers and employees and the differences between them. The aim of the diversity and inclusion policy is to make an optimal contribution to the execution of the bank’s strategy. The policy also applies to the Supervisory Board. The generic profile of the Supervisory Board has been approved by NLFI and published on the website of de Volksbank. When a new member is appointed, the Supervisory Board will nominate a candidate to the AGM, taking this profile into account.

Composition of the Supervisory Board

The composition of the Supervisory Board remained unchanged in 2020. The composition of the Supervisory Board is such that its members can operate independently of each other and of the Board within the scope of the Supervisory Board's generic profile. In addition to its role of supervisor, the Supervisory Board also fulfilled the role of employer, adviser and sparring partner to the Board.

In 2020, the Supervisory Board consisted of the following members:

Jan van Rutte

1950 – Nationality: Dutch

Jan van Rutte was appointed as a member of the Supervisory Board of SNS REAAL N.V. and SNS Bank N.V. (predecessor in title of de Volksbank) on 1 November 2013. Jan was appointed Chairman of the Supervisory Board on 30 September 2015, and he was reappointed as such on 19 April 2018. Jan's term of office will expire on 19 April 2022. If, in 2022, a AGM is held between 1 April 2022 and 1 May 2022, Jan van Rutte's term of office will expire on the date of that AGM. Jan van Rutte has decided to step down early as Chairman of the Supervisory Board of de Volksbank. He will stay on until a successor has been appointed. Jan is also a member of the People & Organisation Committee (P&OC).

Other board positions held by Jan as per 31 December 2020 are:

- Member of the Supervisory Board of BNG Bank N.V. / Member of the Audit Committee
- Member of the Supervisory Board of PGGM N.V. / Member of the Audit Committee
- Member of the Board of Stichting ABN AMRO Foundation

Until 2013, Jan served as CFO of the Group Holding of ABN AMRO. From 2001 to 2010, Jan sat on the Board of Fortis Bank Nederland as a member and as from 2006 as CEO. From 1981 Jan held various positions at MeesPierson (and its predecessors in title) including that of Head of Finance and Company Director. He started his career in 1978 at Algemene Bank Nederland.

Monika Milz

1957 – Nationalities: German and Dutch

Monika Milz, was appointed as a member of the Supervisory Board on 1 November 2013 and reappointed as such on 20 April 2017, in accordance with the reinforced right of recommendation of the Works Council of de Volksbank. Monika was appointed Vice Chair of the Supervisory Board on 22 November 2018. Monika is also Chair of the P&OC and a member of the Risk & Compliance Committee (R&CC).

Monika’s term of office will expire at the first AGM after 20 April 2021. However, if the AGM in which the 2020 financial statements of de Volksbank are adopted takes place before 20 April 2021, Monika's term of office will expire on that earlier date.

Other positions held by Monika as per 31 December 2020 are:

- Member of the Supervisory Board of Handelsveem Beheer B.V.
- Chair of the Board of Stichting Arbo Unie
- Member of the Board of Stichting Parnassia

Monika has been working as an independent management consultant since 2010. She started her career at ABN AMRO in 1980, where she held various positions until 2000. From 2000 to 2010, Monika worked for the Rabobank Group. During this period, she held several positions including that of Corporate Clients Director, SME Director and Corporate Communications Director.

Sonja Barendregt-Roojers

1957 – Nationality: Dutch

Sonja Barendregt-Roojers was appointed as a member of the Supervisory Board on 1 September 2017. Her term of office will expire on the first AGM to be held after 1 September 2021. However, if the AGM in which the 2020 financial statements of de Volksbank are adopted takes place before 1 September 2021, Sonja's term of office will expire on that earlier date. Sonja is also Chair of the Audit Committee (AC) and a member of the R&CC.

Other board positions held by Sonja as per 31 December 2020 are:

- Member of the Supervisory Board of ASR Nederland N.V. / Chair of the Audit & Risk Committee
- Member of the Supervisory Board of Robeco Institutional Asset Management B.V. / Chair of the Audit & Risk Committee

Sonja started her career in 1975 at one of PwC's legal predecessors in title and was a partner at PwC between 1 January 1998 and 1 July 2017, with a specialty in the financial services sector.

Aloys Kregting

1967 – Nationality: Dutch

Aloys Kregting was appointed as a member of the Supervisory Board on 24 August 2018. His term of office will expire at the close of the AGM in 2022. Aloys is also a member of the AC and a member of the P&OC.

Other board positions held by Aloys as per 31 December 2020 are:

- Chief Information Officer (CIO) at AkzoNobel N.V
- Member of the Supervisory Board of the University Medical Center Utrecht (UMC)

Aloys started his career as IT Manager at KPN in 1992. From 1999 to 2008, he was employed at Unilever as IT Manager and from 2004 in the role of CIO. From 2008 to 2016, Aloys worked for DSM. During this period he held the positions of CIO and CSO. Aloys has been CIO at AkzoNobel since 2016.

Jos van Lange

1956 – Nationality: Dutch

Jos van Lange was appointed as a member of the Supervisory Board on 1 May 2018. His term of office will expire at the close of the AGM in 2022. Jos is also Chair of the R&CC and a member of the AC.

Other board positions held by Jos as per 31 December 2020 are:

- Chairman of the Supervisory Board of Zuyderland Medisch Centrum
- Member of the Supervisory Board of Bouwinvest N.V. / Chairman Audit, Risk & Compliance Committee
- Member of the Board of Governors of Tilburg University / Chairman of the Audit Committee
- Member of the Investment Advisory Committee of Cooperation DELA (insurance company)

Jos held the position of CEO at Rabo Vastgoedgroep from May 2013 until July 2017 and the position of CFRO from December 2006 until May 2013. From 1980 until 2006, Jos held various financial and business-oriented positions within Rabobank.

2020	Initial appointment date	End date current appointment	Year of birth	Gender
Jan van Rutte	11-2013	04-2022[1]	1950	M
Monika Milz	11-2013	04-2021[2]	1957	F
Sonja Barendregt-Roojers	09-2017	09-2021[3]	1957	F
Aloys Kregting	08-2018	05-2022[4]	1967	M
Jos van Lange	05-2018	05-2022[5]	1956	M

1 Jan van Rutte's term of office will expire on 19 April 2022. If, in 2022, a AGM is held between 1 April 2022 and 1 May 2022, Jan van Rutte's term of office will expire on the date of that AGM. Jan van Rutte has decided to step down early as Chairman of the Supervisory Board of de Volksbank. He will stay on until a successor has been appointed.

2 If the AGM in which the 2020 financial statements of de Volksbank are adopted takes place before or after 20 April 2021, Monika Milz's term of office will expire on that earlier or later date.

3 If the AGM in which the 2020 financial statements of de Volksbank are adopted takes place before 1 September 2021, Sonja Barendregt-Roojers' term of office will expire on that earlier date.

4 Aloys Kregting's term of office will expire on the date of the first AGM in 2022 at the latest.

5 Jos van Lange's term of office will expire on the date of the first AGM in 2022 at the latest.

Profile

2020	Social identity banks	Strategy	Customers	Distribution	People and organisation	Innovation	Sustainability	ITC	Data	Finance	Risk, compliance, audit
Jan van Rutte	•	•	•		•			•		•	•
Monika Milz	•	•	•	•	•		•				•
Sonja Barendregt-Roojers	•	•					•	•	•	•	•
Aloys Kregting	•	•			•	•		•	•		•
Jos van Lange	•	•	•	•					•	•	•

Appointment of members of the Supervisory Board

Members of the Supervisory Board are appointed upon nomination by the Supervisory Board. The AGM suspends and dismisses members of the Supervisory Board.

Functioning of the Supervisory Board

In performing its duties, the Supervisory Board continuously weighs up the interests of all its stakeholders to reflect the Manifesto and shared value ambition as much as possible. The Supervisory Board members operate independently of each other within the meaning of the Dutch Corporate Governance Code and in accordance with DNB's position on the independent functioning of the Supervisory Board. The Articles of Association contain a list of the duties and rules governing the Supervisory Board's functioning. In addition, both the Regulations for the Supervisory Board and the Memorandum of Understanding (MoU) agreed with NLFI, include additional agreements on the way in which the Supervisory Board should exercise its duties and powers and with regard to the appointment of the chairman of the Supervisory Board and CEO.

The Articles of Association and MoU were unchanged in 2020. The Regulations for the Supervisory Board were last amended on 13 February 2020 and were, among others, further aligned with the revised Shareholder Rights Directive (SRD).

The Supervisory Board meets at least six times a year, and takes decisions by a majority of votes.

2.2 Report of the Supervisory Board

The Supervisory Board has formed the following committees from within its own ranks: the Audit Committee (AC), the Risk & Compliance Committee (R&CC) and the People & Organisation Committee (P&OC).

These committees support the preparation of the decision-making of the Supervisory Board and advise the Supervisory Board on various topics. The Supervisory Board has drawn up regulations for each of these committees and appoints the chairs.

Composition of committees on 31 December 2020

	AC	R&CC	P&OC
Jan van Rutte	-	-	Member
Monika Milz	-	Member	Chair
Sonja Barendregt-Roojers	Chair	Member	-
Aloys Kregting	Member	-	Member
Jos van Lange	Member	Chair	-

Audit Committee

The AC assists the Supervisory Board in reviewing (i) the reliability of the financial reporting process, (ii) the structure and functioning of the internal risk management system and internal control system, and (iii) the independence and functioning of the internal and external auditors.

The AC is composed of at least three members. In 2020, the committee comprised the following members: Sonja Barendregt-Roojers (Chair), Jos van Lange and Aloys Kregting. The CEO, CFO, CRO, the Director of Audit and the external auditor (EY) are permanent attendees at every meeting. In addition, the COO is invited to discuss ITC-related issues. The Chair of the AC, the Director of Audit and the external auditor hold a preliminary consultation prior to the meeting. At least once a year, an AC meeting is held at which only the Director of Audit and the external auditor are present.

The AC convened five times in 2020. At each meeting, the AC discusses the reports issued by Audit and receives regular updates, either in writing or verbally, from the external auditor EY. Top risks related to both the internal control risks and financial risks are explicitly addressed. Also, the quarterly results are discussed in depth each quarter. The design, existence and operation of the internal control systems are also regularly on the agenda, with the AC paying specific attention to the improvement programmes that have been put in place to strengthen internal control and to make the reporting processes more robust.

The AC is also informed on a quarterly basis of developments in the field of ITC, including key controls reporting, ITC security and cloud strategy.

It was established in the summer of 2019 that the Arrears Management Service Centre was not correctly registering forbearance measures. A repair action consisting of three workflows was initiated for this purpose. In 2020, the AC paid special attention to these forbearance workflows and steps taken to complete associated actions.

Topics specifically discussed in the AC in 2020 inter alia include:

1. With regard to the reliability of the financial reporting process:
- 2019 Annual Report
- Interim and annual figures, related press releases and Pillar 3 reports
- Dividend policy, ECB recommendation and planned dividend distribution 2019
- Management reports
- Accounting issues
- Operational Plan 2021-2024
- Non-credit risk provisioning and Litigation Statement
- Tax policy and periodic tax updates

2. With regard to the structure and functioning of the internal risk management system and internal control system:
- Quarterly reports drawn up by Audit and EY
- Quarterly reports drawn up by ITC
- Data management
- Risk Review of the Operational Plan 2021-2024
- Joint management letter of EY and Audit
- Audit/EY meeting on the functioning and attitude of the Board of Directors (tone at the top)
- Audit plan 2020
- Quarterly reports drawn up by the Supervisory Office

3. With regard to the independence and functioning of the internal and external auditors:
- 2021 Audit charter
- Performance assessment of Audit
- EY Audit plan, risk assessment and updates
- Risk assessment and 2021-2023 Audit plan
- Performance assessment of the external auditor
- Proposal for the selection process for the EY statutory audit partners

Risk & Compliance Committee

The R&CC assists the Supervisory Board in its role of supervisor of the structure and functioning of the internal risk management system (three lines of defence) and control system of de Volksbank, in conjunction with the bank's overall risk appetite and strategic objectives.

The R&CC is composed of at least three members. In 2020, the R&CC comprised the following members: Jos van Lange (Chair), Sonja Barendregt-Roojers and Monika Milz. The CEO, CRO, CFO, and the Directors of Audit and Compliance are permanent attendees at every meeting. The Chair of the R&CC and the CRO hold a preliminary consultation prior to the meeting. Both the chair of the Supervisory Board and the chair of the R&CC have regular meetings with the Director Compliance.

The R&CC convened four times in 2020. At every regular meeting, the R&CC reflects on the financial, non-financial and strategic risks after having discussed the risk context and the risk management function. In 2020, it specifically discussed the 'Path to Green', consisting of action plans related to Reporting Risk, Data Management Risk, IT Systems Risk and Process Risk. The R&CC devoted special attention to the structure and operation of the broad Compliance function in accordance with EBA guidelines. It also focused on the findings from the DNB study on cash activities at RegioBank and the letter received from the AFM on the Product Approval and Review Process (PARP) of the '*extra ruimte*' mortgage at SNS.

Topics specifically discussed in the R&CC in 2020 inter alia include:

- Impact Covid-19
- Quarterly reports on financial, non-financial and strategic risks
- Path to Green: Reporting Risk, Data Management Risk, IT Systems Risk and Process Risk
- Risk appetite statements (RAS) 2020-2021
- Risk paragraph in the 2019 Report of the Board of Directors
- In-control statements
- Integrated Control Framework (ICF) self-assessment
- 2020 Supervisory Review & Evaluation Process (SREP) operational letter
- 2020 Recovery Plan
- Reverse stress test
- Quarterly reports drawn up by the Supervisory Office
- 2020 Annual Report on whistle-blowers' scheme
- Transaction monitoring and customer integrity
- On-site Inspection (OSI) of the Forbearance and Forbearance repair project
- OSI Targeted Review of Internal Models (TRIM), OSI Compliance and OSI IT Security Management
- Quarterly reports drawn up by Compliance
- Compliance Charter
- Status updates Compliance Enhancement Programme
- Periodic updates of the various loan portfolios
- Data Protection Officer (DPO) and *Charter Functionaris Gegevensbescherming*
- 2020 Risk analysis remuneration

People & Organisation Committee

The P&OC assists the Supervisory Board in matters including the (i) remuneration policy and the terms of employment of the members of the Board, senior management and employees; (ii) appointment policy of the Supervisory Board, the Board and senior management; (iii) organisational changes and internal succession issues; and (iv) supervision of the way in which the Board performs its employer's duties.

The P&OC is composed of at least three members. In 2020, the committee comprised the following members: Monika Milz (Chair), Aloys Kregting and Jan van Rutte. The CEO and the Director of HR are permanent attendees at every meeting. The P&OC convened three times in 2020.

Topics specifically discussed in the P&OC in 2020 inter alia include:

1. With regard to the remuneration policy and terms of employment of the members of the Board, senior management and employees:
- Annual review and risk analysis of the remuneration policy of the Board, senior management, Identified staff and Non-Identified staff
- Adoption list 2020 of Identified staff
- Adoption of the 2019 Remuneration report for Identified staff
- 2019 Remuneration report
- Determination of peer group for Board benchmark
- KPI assessment and achievements of Board and senior management for 2019
- Final KPIs for Board and senior management for 2020
- Proposal on KPIs for the Board for 2021
- Updates on collective labour agreement (CLA) negotiations

2. With regard to the appointment policy of the Supervisory Board, the Board and senior management:
- Succession process and (re)appointment of the members of the Board and senior management
- Effectiveness Assessment of the Board
- Self-assessment and Lifelong Learning of the Board and Supervisory Board

3. With regard to organisational changes and internal succession issues:
- Internal talent review and succession policy for the Board and senior management
- Changes in the top management structure
- Talent management
- 2020-2021 approach to diversity and inclusion
- 2020 Leadership DNA and development
- Future of learning and development

4. With regard to the supervision of the way in which the Board performs its employer's duties:
- Results of the 2020 employee survey
- 2020 annual HR calendar
- Status of strategic HR projects
- Quarterly survey of HR subjects added to the QBR
- Discussion of HR dashboard, including sickness absence, staff turnover and other indicators for the quality of the work environment
- Report on male/female wage differences at de Volksbank

Meetings of the Supervisory Board

The Supervisory Board regularly convened seven times in 2020. All meetings, with the exception of two, were attended by all members of the Supervisory Board. In addition, given the departure of the CFO and COO and the external survey on Board dynamics carried out, many consultations also took place on an ad hoc basis.

Members of the Board and the Company Secretary are permanent attendees at Supervisory Board meetings. For the first hour of each meeting, the Supervisory Board meets in private.

2020	SB	AC	R&CC	P&OC
Jan van Rutte	7/7	-	-	3/3
Monika Milz	7/7	-	4/4	3/3
Sonja Barendregt-Roojers	7/7	5/5	4/4	-
Aloys Kregting	5/7	4/5	-	3/3
Jos van Lange	7/7	5/5	4/4	-
Total attendance	**94%**	**93%**	**100%**	**100%**

In a number of extraordinary Supervisory Board meetings, which the Board did not attend, discussions centred on such topics as the new top management structure, the external survey on Board dynamics and the recruitment and selection process for the new CFO. In the regular Supervisory Board meetings in 2020, the following topics were discussed, inter alia:

FUTURE AND STRATEGIC PLAN OF DE VOLKSBANK 2021-2025

In 2020, de Volksbank engaged in a constructive dialogue with the Ministry of Finance and NLFI about the specific nature of a social bank and how de Volksbank concretely contributes to diversity in the Dutch banking landscape. At the beginning of 2021, the new strategic plan was presented to NLFI and will be included in NLFI's next progress report to the Minister of Finance.
In 2020, the Board closely involved the Supervisory Board in the creation of a new strategy for the bank. The Supervisory Board has discussed in depth inter alia the envisaged further broadening of de Volksbank's role in society, reflected by de Volksbank's targets with respect to a climate-neutral balance sheet in 2025 and in terms of improving the accessibility to the Dutch housing market. In consequence of this and as integrally included in de Volksbank's new strategic plan 2021-2025, the Supervisory Board again discussed and acknowledged the importance of de Volksbank's aim to have a positive societal impact. In this new strategic plan, 'from promise to impact', each brand (SNS, ASN Bank, RegioBank and BLG Wonen) defined its growth priorities for 2021-2025. Also, a number of transformations supporting these growth priorities must be completed. The years 2021 and 2022 are considered years of investment intended to increase customer focus and digitisation.

PROGRESS ON 'HOUSE-IN-ORDER'

'House-in-order' is the collective name for all projects aimed at contributing to controlled business operations. In 2020, steps were once again taken to actually get the 'house' in order. Areas of attention are the data structure and data recording, the model landscape, internal and external reporting, the stability of the IT platform and customer integrity. Apart from that, it is of great importance that the organisation is further simplified. In this context, de Volksbank is currently introducing a single, uniform agile organisational structure and working method.

COMPLIANCE WITH LAWS AND REGULATIONS

New rules that came into force or were announced in 2020 are monitored, assessed in terms of impact on de Volksbank and, if necessary, implemented in internal rules or processes. Compliance with laws and regulations is the responsibility of all employees of de Volksbank and requires a lasting cultural change. Where compliance shortcomings are observed - either internally or by a supervisory authority - action plans are drawn up and implemented. The Supervisory Board ensures that realistic timelines are always used and that agreements are actually fulfilled.

2021-2024 OPERATIONAL PLAN

The Board explained the 2021-2024 Operational Plan to the Supervisory Board in a regular meeting in December 2020. In the same meeting, the plan was also approved by the Supervisory Board. This document was accompanied by detailed and well-substantiated second-line advice, of which the Supervisory Board took due note.

PROCEEDINGS FOLLOWING THE NATIONALISATION

On 26 July 2018, the Enterprise Chamber of the Amsterdam Court of Appeal ordered an investigation into the policy and course of affairs of SNS REAAL (currently SRH) and SNS Bank (currently de Volksbank). The final report of the investigators is expected in summer 2021. For more detailed information please refer to Legal proceedings in note 19 of the consolidated financial statements.

In addition, there are proceedings to which de Volksbank is not a party or in which it is not the direct subject of investigation. This applies to the compensation proceedings against the State before the Enterprise Chamber initiated by former holders of expropriated securities and capital components of SRH and de Volksbank. On 11 February 2021, the Enterprise Chamber ruled that a compensation of € 805 million must be paid by the State to those entitled to certain expropriated securities and assets. Claimants are referred to the website of the Ministry of Finance, which has developed a compensation process. De Volksbank is not a party to these compensation proceedings. For more detailed information please refer to Legal proceedings in note 19 of the consolidated financial statements.

OTHER TOPICS

In 2020 the topics discussed by the Supervisory Board, whether or not after discussion in one of its committees, included inter alia the following:

GENERAL

- Impact Covid-19 and updates
- 2021-2025 Strategic Plan of de Volksbank
- Characteristics of a social bank and diversity in the Dutch banking landscape
- Transaction monitoring and customer integrity
- Quarterly reports drawn up by Audit and EY
- Quarterly reports on financial, non-financial and strategic risks
- Quarterly reports i.a. on programme management (Deltawerken, KWW Lely)

- Follow-up joint management letter of EY and Audit
- 2019 Report of the Board of Directors
- Interim financial report and annual report, related press releases and Pillar 3 reports
- Commercial developments at the brands ASN Bank, BLG Wonen, RegioBank and SNS
- ITC landscape and 2021 ITC policy
- Annual review and risk analysis of the remuneration policy of the Board of Directors
- KPIs of the Board of Directors and senior management for 2021
- Diversity and Inclusivity policy
- Talent management
- Results of the employee surveys 2020

FINANCE AND RISK
- 2021-2024 Operational Plan including risk review
- 2020-2021 Risk Appetite Statement (RAS)
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports
- 2020 Recovery Plan
- Litigation statement and non-credit risk provisioning , including update on inquiry proceedings
- 2020 SREP decision
- Tax updates

Quality assurance of the supervisory function and self-assessment

A lifelong learning (PE) programme contributes to the deepening and broadening of the knowledge of the members of the Supervisory Board. In 2020, the Supervisory Board, together with the Board, attended four lifelong learning sessions in which the following subjects were successively discussed:
- Customers and brands: benefit or burden?
- Internal control, the basis for a simple and agile bank
- Algorithms: inevitably efficient or a weapon of math destruction?
- HR themes and future

The Supervisory Board assesses its own functioning on an annual basis. At least every three years, this evaluation is carried out under the supervision of an external consultant. This evaluation took place in two sessions: mid-December 2020, thus before the Supervisory Board could take note of the results of the external survey of the Board dynamics, and for the second time during the Supervisory Board's off-site meeting at the end of January 2021. The evaluation focused on the important moments and the relevant Supervisory Board decisions that partly determined the progress. The Supervisory Board has been very involved and actively put the interests of the company first. During the evaluation it was agreed that the Supervisory Board will devote more attention to joint reflection with the Board of Directors with the aim of joint learning and making future cooperation agreements. A first meeting about this was held in January 2021, which will be followed up further. In February 2021, de Volksbank took note of the results of the external survey of the Board dynamics. The findings will be evaluated by the Board of Directors and the Supervisory Board and also discussed with the shareholder, in order to pave the way for the focus on the future.

Relationship and consultations with the shareholder

Stichting administratiekantoor beheer financiële instellingen (NLFI) is the sole shareholder of de Volksbank. In addition to the Articles of Association, NLFI and de Volksbank have signed a Memorandum of Understanding (MoU). The MoU contains agreements on the way in which powers ensuing from the Article of Association are exercised in the day-to-day operations. Consultations between the Supervisory Board and NLFI take place periodically in accordance with an annual meeting calendar. In these meetings the chair of the Supervisory Board discusses various topics including the assessment of the Board and the Supervisory Board. In addition, de Volksbank's Annual General Meeting (AGM) is prepared jointly. In 2020, the AGM was held on 23 April. Because of Covid-19, the AGM took place by means of a conference call this year, as opposed to previous years.

As the sole shareholder of de Volksbank, NLFI reports periodically to the Minister of Finance, for example by means of an annual report. This report provides an overview of the extent to which de Volksbank is implementing its strategy and whether de Volksbank is ready for a future independent of the Dutch State. The Minister of Finance then informs the House of Representatives of the state of affairs. At the beginning of 2021, the new strategic plan was presented to NLFI and will be included in NLFI's next progress report to the Minister of Finance.

Employees and employee participation

2020 was a year in which Covid-19 caused hard times with major challenges, not only from the perspective of labour conditions. It was also a year in which the Works Council discussed de Volksbank's new strategy and the intended introduction of an agile way of working with the CEO and with other members of the Board and Supervisory Board. The Works Council is closely involved and heard in these initiatives. And it was a year in which a large number of new members set to work in the Works Council and the divisional committees. The Works Council exercised its right to speak at the AGM of 23 April 2020. During this meeting, the Works Council looked back on the activities it performed in the period from May 2019 to April 2020. Following an initiative proposal from the Works Council, the Board and the Works Council have made a set of agreements about the involvement of the Works Council in the outsourcing or transfer of existing business activities to another company and the consequences under employment law for employees involved.

In 2020, the Works Council, the Board and the Supervisory Board met on a regular basis and in various combinations. The subjects were discussed in these meetings included inter alia:
- Results of the 2020 employee surveys
- Collective labour agreement (CLA) negotiations
- Appointment, reappointment and resignation of members of the Board and top management

- Wage ratios 2020
- Absenteeism
- Strategic Plan 2021-2025
- Transformation to an agile way of working
- Strategic workforce planning
- Long-term housing plan
- Update policy on '*Het Nieuwe Werken*'
- Organic change
- Functions and roles
- Transaction Monitoring Netherlands (TMNL)
- Policy Diversity and Inclusivity
- Volksbank Academy (learning and development)

Financial statements and dividend proposal

Prior to publication, the 2020 financial statements were discussed in meetings of the Board, Audit Committee and Supervisory Board. On 10 March 2021, EY – de Volksbank's external auditor in 2020 - issued an unqualified auditor's report on the 2020 financial statements. On the same date, 10 March 2021, the members of the Supervisory Board approved and signed the financial statements.

During the AGM on 21 April 2021, NLFI will be asked to agree to de Volksbank's proposal to pay out a dividend of € 104 million to NLFI charged to the annual result of de Volksbank for 2020. The profit after dividend distribution for the 2020 financial year will be added to the other reserves. On the recommendation of the ECB in view of the current uncertainty surrounding the Covid-19 crisis, the dividend for the 2020 financial year determined by the AGM will not be paid before 30 September 2021. Also in line with the recommendation of the ECB in relation to the current uncertainty surrounding the Covid-19 crisis, of the dividend payment of € 165 million for the 2019 financial year, as determined at the AGM of de Volksbank on 23 April 2020, an amount of € 20 million will be paid as dividend. The remaining dividend amount of € 145 million for 2019 will not be paid until 1 October 2021 and only if and insofar as the circumstances - including the uncertainties surrounding Covid-19 and the resulting economic uncertainties and their effects on the financial position of de Volksbank - allow full or partial payment in the opinion of the Board of Directors and Supervisory Board of de Volksbank and the capital ratio of de Volksbank will continue to meet the set targets after payment.

2.3 Banking Code

In 2015, the Dutch Banking Association (NVB) introduced a package called 'Future-oriented Banking'. In addition to the Banking Code, this package also contains a Social Charter and rules of conduct for employees.

The Social Charter describes the banking sector's desired social position and shared value vision. The rules of conduct for employees are rules associated with the Banker's Oath. By means of this package, the Dutch banking sector aims to contribute to restoring trust in the financial sector.

The first version of the Banking Code was introduced by the NVB in 2010. This code contains various principles on corporate governance, risk management, audit and remuneration. The Banking Code is a form of self-regulation, and compliance takes place on the basis of the 'comply or explain' principle.

De Volksbank complies with the principles of the Banking Code. We refer to the overview on our website www.devolksbank.nl, in which we explain in detail how de Volksbank applies the Code. Compliance with the Banking Code is a dynamic process. As new developments may occur any time, this overview is regularly updated.

2.4 Dutch Corporate Governance Code

The revised Dutch Corporate Governance Code 2016 (the Code) as drawn up by the Monitoring Committee Dutch Corporate Governance, was published on 8 December 2016. The Code consists of principles and 'best practices' provisions regarding the corporate governance of Dutch listed companies. Compliance with the Code is based on the 'comply or explain' principle pursuant to which listed companies are obliged to state how they apply the Code based on the 'comply or explain' principle.

De Volksbank is not a listed company, as its shares are privately owned by NLFI, but it voluntarily applies the Code in full. De Volksbank only deviates from the Code with respect to the terms of office of the members of the Supervisory Board. The terms of office of such members are linked to the dates of the AGM's and as a consequence these terms of office may be longer than specified in the Code.

We refer to the overview on our website www.devolksbank.nl, in which we explain in detail how de Volksbank applies the Code. Compliance with the Code is a dynamic process. As new developments may occur at any time, this overview is regularly updated.

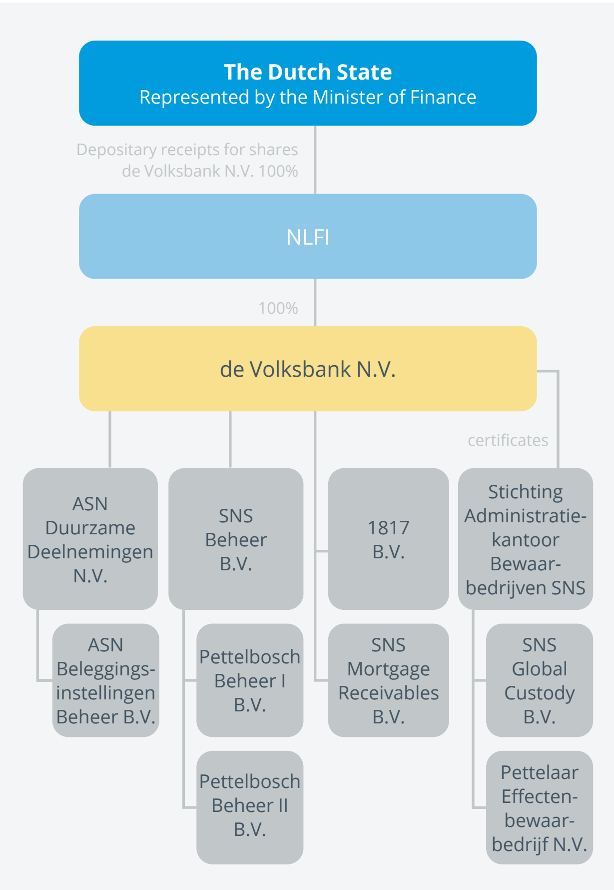
2.5 Legal structure of de Volksbank

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

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

The overview comprises a statement of all wholly-owned subsidiaries as at 31 December 2020.

For more information see www.devolksbank.nl



2.6 Remuneration Report Audited

Introduction

The Remuneration Report covers the remuneration of the Board of Directors of de Volksbank N.V. (the Board) and the compensation of the Supervisory Board of de Volksbank N.V.

As the mission of de Volksbank is 'Banking with a human touch', this means that we also put the human touch into rewarding our employees. In determining the remuneration policy and the actual remuneration, we take account of our stakeholders, i.e. our customers, society, our employees and the shareholder. We like to keep it simple and want to show that our strategy enables us to attract and retain talented employees, without offering them higher pay than the industry average (also see Labour market comparison below). People in equal situations receive equal pay; differences in sex or ethnic background, for example, do not affect their salary and/or performance assessments. The compensation of the Chairman of the Board and the average compensation of the other Board members are in reasonable proportion to the salaries of the other employees (also see Pay ratios below). We do not consider variable pay to be in keeping with the social character of our bank and, for that reason, no variable pay applies.

For more information on the remuneration reports of de Volksbank N.V., please refer to the 'Remuneration Identified Staff' section on the website of de Volksbank.

Remuneration of the Board of Directors

Remuneration elements

Members of the Board have a four-year contract. Their remuneration consists of a fixed annual income, a pension contribution and fringe benefits, such as the supplement as compensation for the loss of pension accrual above € 110,111 and a lease car.

Fixed annual income

On 1 July 2020, the fixed annual income of the Board was increased by 1.75%, as was the case for employees falling within the scope of the collective agreement. Since that date, the fixed annual income of the Chairman of the Board has amounted to € 424,498 and the fixed annual income of the other members of the Board to € 325,779. The remuneration policy includes a higher compensation of € 347,498 for the other members of the Board. Apart from collective agreement salary increases, members of the Board are not entitled to other increases in their fixed annual income. For this reason, the fixed annual income is below the amount included in the remuneration policy.

Labour market comparison (benchmarking)

Once every two years we compare the remuneration of the Board with peer group positions in the general market, consisting of a combination of comparable financial and non-financial corporations. This benchmark analysis was last performed in December 2019. The fixed annual income of the members of the Board and the Chairman of the Board on the basis of the remuneration policy is 14% and 24% below the general market median, respectively. For the fixed and variable remuneration (short and long terms) in the general market, this is 47% and 58% below the median, respectively. This difference is larger because de Volksbank does not apply a variable remuneration scheme.

Pension

Members of the Board participate in the same pension scheme as all other staff of de Volksbank. No additional pension is granted. To compensate for the lack of pension accrual above € 110,111, members of the Board receive a gross supplement of 16.35% of their income above that limit. This is laid down in the collective agreement of de Volksbank and is applicable up to and including 31 December 2021. An evaluation of the possible continuation of this compensation will be carried out before that date.

Other

The fringe benefits of the members of the Board are for the most part equivalent to the fringe benefits of all other employees.

In the event of termination of employment at the initiative of de Volksbank, members of the Board will receive no more than one year's fixed annual income as redundancy compensation.

Performance targets

Each year, the Supervisory Board sets the performance targets for the Board. These are derived from de Volksbank's (long-term) strategic objectives. In setting these objectives, the Supervisory Board takes into account the desired risk profile and sustainability of de Volksbank. These two themes are embedded in the targets every year. In addition, the Supervisory Board takes into account the interests of all of de Volksbank's stakeholders.

As the Board only has a fixed remuneration, there are no undesirable remuneration incentives that could place individual interests in the short term above the collective objectives in the long term.

At the end of each performance period, the Supervisory Board assesses the performance of the Board in meeting the performance targets. The Supervisory Board also evaluates the progress on the long-term objectives.

Performance year 2020

Objectives/ Shared value		KPI	Weight
Customer	1	Net Promoter Score (NPS)	15%
	2	Number of current account customers	10%
Society	3	Climate-neutral balance sheet	12.5%
	4	Financial resilience	12.5%
Employee	5	Genuine attention	25%
Shareholder	6	Return on Equity (excluding the CRO) or CET1 ratio (only the CRO)	25%
			100%

In this context, the Supervisory Board assesses the extent to which the performance targets have been achieved and the way in which de Volksbank is managed in terms of conduct and culture in accordance with banking with a human touch (competencies and critical success factors). The Supervisory Board has assessed the achievement of the various performance targets for 2020 and has concluded that the Board achieved 67% of the targets. For the achievement of these targets, please refer to Chapter 1 Strategy and progress in de Volksbank's annual report. The performance targets for 2021 are shown in the table below.

Performance year 2021

Aspect	Category	Weight
Shared value/ output	Customer	10%
	Society	10%
	Employees	10%
	Shareholder	10%
		40%
Transformations	Digital and Omnichannel dialogue environment	6%
	Well-stocked shelves & new propositions	6%
	Customer bank foundation	6%
	Customer-focused setup	6%
	Efficient and flexible	6%
		30%
Conduct	Customer focused	10.5%
	Cooperation with a focus on results	10.5%
	Continuous improvement and innovation	9%
		30%
		100%

Actual remuneration of the Board of Directors

The table below provides an overview of the actual remuneration of each member of the Board.

Gross remuneration of the Board of Directors

		Fixed Position remuneration[1]		Pension[2]		Other[3]		Severance pay		Total	
in € thousands		**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Martijn Gribnau[4]	CEO	228	--	12	--	62	--	--	--	302	--
Jeroen Dijst	CRO	323	317	22	22	60	58	--	--	405	397
Marinka van der Meer	CCO	323	317	22	22	55	52	--	--	400	391
								--	--		
Maurice Oostendorp[5]		279	413	15	22	63	91	--	--	357	526
Mirjam Verhoeven[6]		277	206	19	14	49	36	--	--	345	256
Pieter Veuger[7]		150	--	11	--	24	--	--	--	185	--
Annemiek van Melick[8]		--	211	--	15	--	40	--	--	--	266
Total Board of Directors		**1,580**	**1,464**	**101**	**95**	**313**	**277**	**--**	**--**	**1,994**	**1,836**
FORMER DIRECTORS											
Mirjam Verhoeven[9]		46	--	3	--	8	--	374	--	431	--
Pieter Veuger[10]		--	--	--	--	--	--	161	--	161	--
Total current and former Board of Directors		**1,626**	**1,464**	**104**	**95**	**321**	**277**	**535**	**--**	**2,586**	**1,836**

1 Includes holiday pay and 13th month bonus.
2 The pension is the employer contribution minus the employee's personal pension contribution.
3 'Other' includes all remaining remuneration, including the supplement as compensation for the loss of the pension accrual in excess of € 110.111, the addition for the use of a company car and social security contributions.
4 Remuneration as from 17-6-2020
5 Remuneration up to 1-9-2020
6 Remuneration up to 10-11-2020
7 Remuneration as from 19-3-2020 up to 5-9-2020
8 Remuneration up to 1-9-2019
9 As from 1-1-2021 exempt from work and will leave the company on 1-5-2021.
10 As from 5-9-2020 exempt from work and left the company on 31-1-2021.

Pay ratio

Our standard is that the Chairman of the Board of Directors does not earn more than ten times the median salary[5] within de Volksbank. De Volksbank also reports on the ratio between the average compensation of the members of the Board (excluding the Chairman) and the median of employees' salaries, and on the ratio between the compensation of the Chairman of the Board and the maximum of the lowest pay grade as at 31 December 2020. No targets have been set for the last two ratios. For the past six years, we see the following:

5 The salary is composed of the following elements: fixed income (including any supplements), pension and social security contributions.

Pay ratio

	2020	2019	2018	2017	2016	2015
Ratio between the compensation of the Chairman of the Board and the median employee salaries at de Volksbank (excl. Chairman)	6:1	7:1	6:1	7:1	7:1	7:1
Ratio between the average compensation of Board members (excl. Chairman) and the median employee salaries (excl. Chairman)	5:1	5:1	5:1	5:1	5:1	5:1
Ratio between the compensation of the Chairman of the Board and the maximum of the lowest pay grade as at 31 December	18:1	20:1	20:1	20:1	19:1	

Share ownership

Members of the Board do not hold any shares in de Volksbank. All shares are held by NLFI, which has issued depositary receipts for shares to the Dutch State in return.

Loans

The table below provides an overview of the loans provided to members of the Board and outstanding on 31 December 2020.

Loans to members of the Board of Directors

	Outstanding 31 December		Average interest rate		Redemption	
in € thousands	2020	2019	2020	2019	2020	2019
Mirjam Verhoeven	27	37	5.4%	5.4%	10	10

Remuneration policy of the Supervisory Board exclusive of 21% VAT

in €	Amount
Annual fixed compensation Chairman of the Supervisory Board	44,000
Annual fixed compensation member of the Supervisory Board	30,800
Chairman Audit Committee	7,000
Member Audit Committee	4,900
Chairman People and Organisation Committee	7,000
Member People and Organisation Committee	4,900
Chairman Risk and Compliance Committee	7,000
Member Risk and Compliance Committee	4,900

Remuneration of the Supervisory Board

Supervisory Board remuneration policy

The table below provides an overview of the annual gross compensation for the members of the Supervisory Board and the compensation for their work in committees.

In January 2019, the compensation for the members of the Supervisory Board was compared with the general market: a combination of comparable financial and non-financial corporations. The benchmark shows that the compensation is 20% below the median of the general market.

Actual compensation of the Supervisory Board

The table below provides an overview of the actual compensation of each member of the Supervisory Board in 2020.

Gross compensation of the Supervisory Board exclusive of 21% VAT

	As a member of the Supervisory Board[1]		As a member of a committee[2]		Total	
in € thousands	2020	2019	2020	2019	2020	2019
Jan van Rutte (Chairman)	44	44	5	5	49	49
Monika Milz	31	31	12	12	43	43
Sonja Barendregt-Roojers	31	31	12	12	43	43
Jos van Lange	31	31	12	12	43	43
Aloys Kregting	31	31	10	10	41	41
Total	**168**	**168**	**51**	**51**	**219**	**219**

1 Annual fixed compensation for the membership/chairmanship of the Supervisory Board.

2 Annual compensation for one or more committees.

Share ownership

Members of the Supervisory Board do not hold any shares in de Volksbank. All shares are held by NLFI, which has issued depositary receipts for shares to the Dutch State in return.

Loans

In 2020, no loans were provided to members of the Supervisory Board and no loans were outstanding on 31 December 2020.

Supervision on remuneration

The Supervisory Board and the Board are responsible for the supervision of de Volksbank's remuneration policy. Also involved are the People and Organisation Committee of the Supervisory Board, the control departments of Risk, Compliance and Audit, and the staff departments of Finance, Legal Affairs and Human Resources. Moreover, the remuneration policy is discussed at least once a year by the Risk and Compliance Committee of the Supervisory Board. This year the remuneration policy was discussed in the People and Organisation Committee and in the Risk and Compliance Committee.

Supervisory Board

The Supervisory Board adopts the Remuneration Report and is responsible for the implementation and evaluation of the remuneration policy for the members of the Board.

The Supervisory Board also approves the remuneration policy for senior management as proposed by the Board, and supervises its implementation. Moreover, the Supervisory Board is responsible for approving the broad lines of the remuneration policy as proposed by the Board for other employees of de Volksbank.

The Supervisory Board will at least once a year arrange for a central and independent internal review by Audit to review the implementation of de Volksbank's remuneration policy in terms of compliance with laws and regulations, the policy and the procedures for remuneration.

The Supervisory Board sees to it that the Board ensures the pay-out of previously granted variable remuneration is in keeping with the adopted remuneration policy of de Volksbank and, more specifically, that the variable remuneration complies with the principles on remuneration policy as set out in the Banking Code. The Supervisory Board also discusses any material retention, signing-on and severance payments and sees to it that they are in keeping with the adopted remuneration policy of de Volksbank and that they are not excessive. Any such fees are granted on very rare occasions only.

The Supervisory Board directly supervises the remuneration of the Directors of Risk, Compliance and Audit who hold overall responsibility. The Supervisory Board may call upon the expertise of independent remuneration experts.

Board of Directors

The Board of Directors is responsible for the remuneration policy of de Volksbank with the exception of the remuneration policy of the Board itself.

In exceptional situations and on good grounds, the Board has the discretionary power (in so far as it does not relate to the members of the Board itself) to deviate from the remuneration policy as adopted, to the extent that laws and regulations permit. Any such deviations are subject to prior review by the Supervisory Board.

The Board is responsible for the application of the reasonableness test for senior management and Identified Staff in general, for the approval of benchmarks on market conformity for senior management and other employees, and for the approval of non-material retention, signing-on and severance payments for all employees (with the exception of the members of the Board itself).

Staff departments

A Remuneration Working Group comprising the staff departments of Risk, Compliance, Finance, Legal Affairs and Human Resources supervises the remuneration policy and compliance with this policy. Audit periodically performs independent audits into the drawing up and implementation of the remuneration policy.

3.

RISK MANAGEMENT

IFRS 7 AND PILLAR 3

To combine disclosures where possible and to reduce duplication, the IAS 1 and IFRS 7 information regarding capital management and risks related to financial instruments have been integrated in this chapter. Only if mentioned in the text or if the label 'Audited' is shown at a table is the information part of the audited financial statements.

In addition, a separate Pillar 3 Report has been published on the website www.devolksbank.nl, containing additional information about the risks, risk management and capital adequacy of the bank. This information is required on the basis of CRD IV and CRR, but is not part of the audit performed by the external auditor.

3.1 Risk management structure

3.1.1 Risk management structure

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

RISK MANAGEMENT MISSION

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

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

RISK MANAGEMENT AND SHARED VALUE

BENEFITS FOR CUSTOMERS

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

RESPONSIBILITY FOR SOCIETY

We are involved in the development of products and services that increase the financial resilience of customers. This includes careful risk considerations and close monitoring of laws and regulations.

GENUINE ATTENTION FOR OUR EMPLOYEES

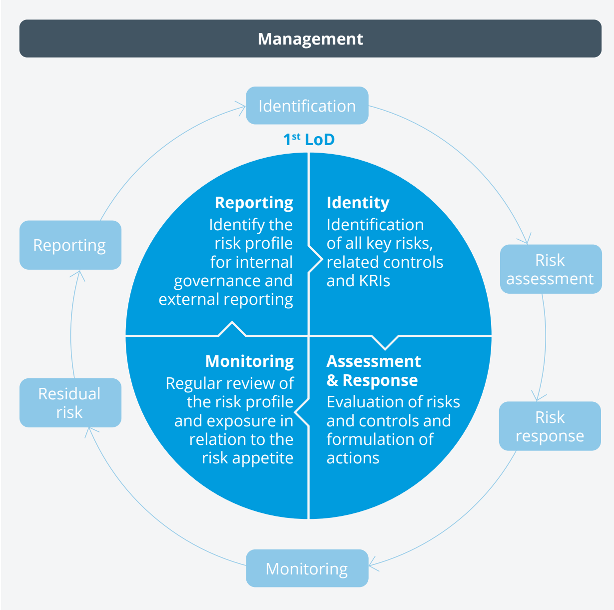
We need motivated and competent people to live up to our mission. We encourage employees' commitment and the development of their expertise by giving them genuine attention.

RETURN FOR THE SHAREHOLDER

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

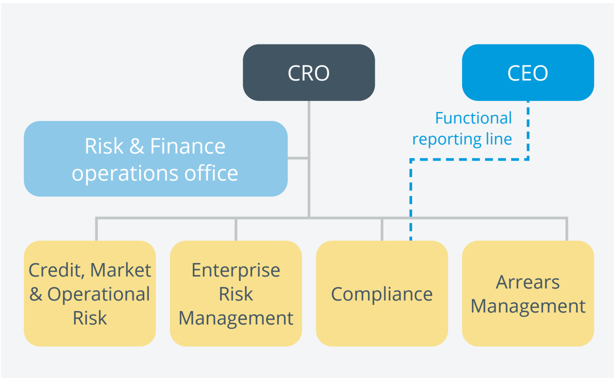
RISK MANAGEMENT FRAMEWORK

De Volksbank applies the COSO Enterprise Risk Management Framework to manage risks. To safeguard a proper application of all COSO ERM elements and the identification, assessment, measurement, monitoring, management and reporting of all risks, a Risk Management Cycle has been designed and set up as a generic tool for both the business and the second line. The Risk Management Cycle promotes consistent terminology and provides a compatible methodology, including forward-looking and backward-looking tools.



RISK GOVERNANCE AUDITED

The risk management organisation is as follows:

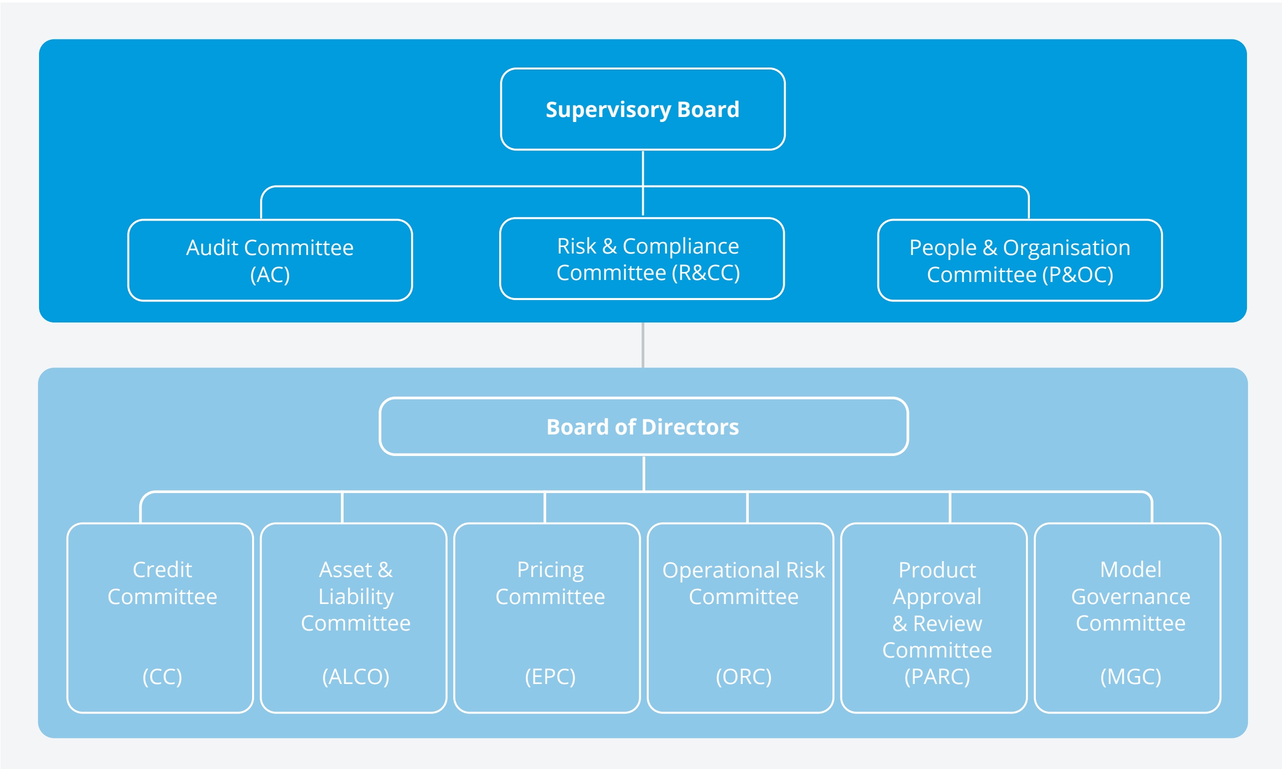


De Volksbank's risk governance is based on the three lines of defence model.

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

The Board of Directors bears ultimate responsibility for risk management. Within the risk management organisation, the Board of Directors acts as an overaching 'Bank Risk Committee (BRC)', supported by risk committees, with representatives from the first and second lines in each committee.

The Supervisory Board is charged with the supervision of the Board of Directors and is advised by the Audit Committee, the Risk and Compliance Committee and the People and Organisation Committee.



Each risk committee is chaired by a member of the Board of Directors. The third line has a standard invitation for committee meetings and is regularly represented in the risk committees, but has no voting rights.

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

A risk committee may present a point of discussion to the Board of Directors if and when necessary.

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

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

CULTURE AND RISK AWARENESS

Risk culture propagation

Culture is a decisive factor in risk management and risk awareness and, as such, is part of the Integrated 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 approves the Integrated Risk Control Policy which includes ICF. The presence of members of the Board of Directors in all risk committees testifies to their commitment to risk management.

Risk guidelines

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

Development of risk awareness

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

Internal code of conduct

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

Remuneration policy

De Volksbank pursues a remuneration policy that is based on our Manifesto, our ambition to create shared value and our profile of a social bank. De Volksbank does not grant any variable remuneration, since this prevents us from taking undesirable risks that might give priority to short-term individual interests over long-term collective objectives (see also Section 2.6 Remuneration report).

RISK PROFILE

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

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

3.1.2 Top risks

De Volksbank operates in a strongly regulated environment with complex and frequent changing legislation and regulations, where developments inside and outside the bank may affect the achievement of our strategic objectives (see also Section Mission, ambition and objectives).

De Volksbank has analysed these developments and has taken measures to align their potential impact with our risk appetite. We evaluates the main risks on an annual basis and adjusts the risk taxonomy where necessary.

In this chapter we describe the top risks of 2020, while also looking ahead to 2021 and considering the most recent developments. The arrows display the trend in the movement of the risks. We do not take into account the effect of mitigating measures limiting the risk.

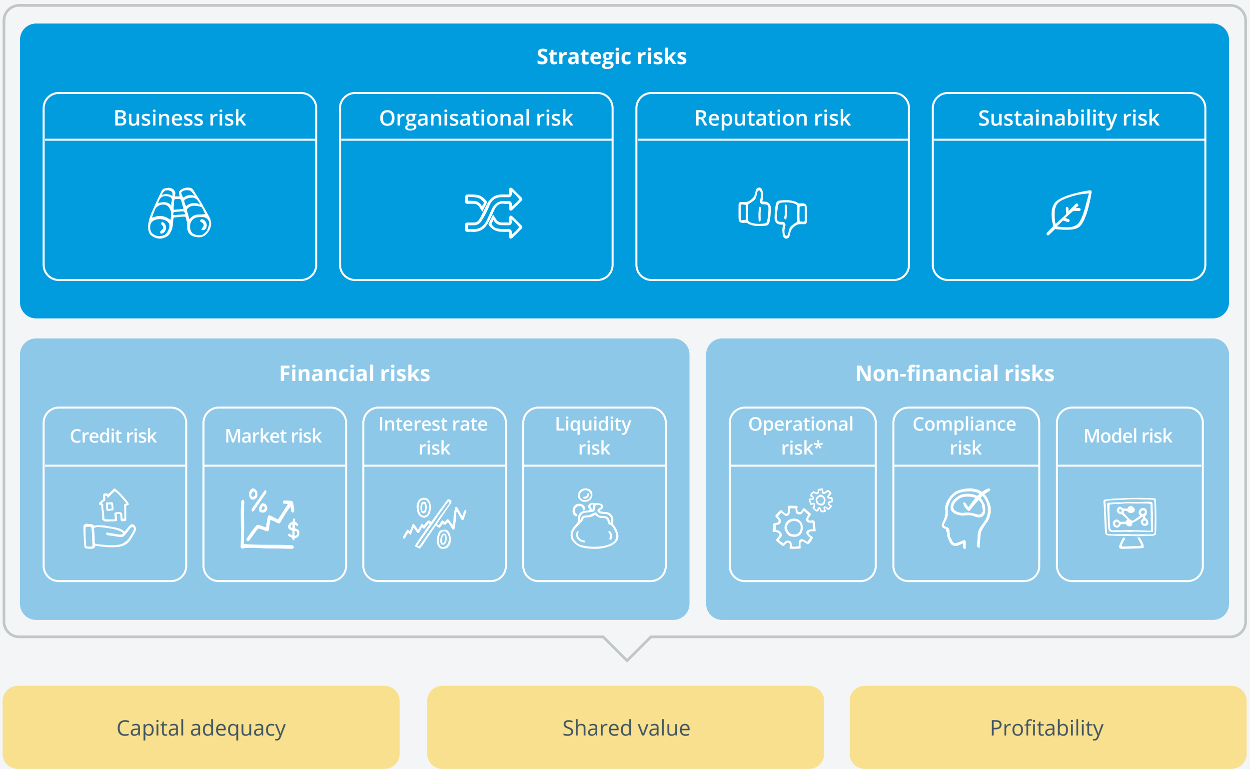
TOP RISKS RESULTING FROM EXTERNAL DEVELOPMENTS

Events	Description of risk and impact	Trend	Measures
Covid-19 pandemic	Due to the Covid-19 pandemic there is a risk that unemployment increases, the economy contracts and house prices decline, leading to a deteriorating quality of our mortgage loan book and mounting loan impairments.	↗	• See Section 3.2 Business Risk and Section 3.3 Credit Risk
Sustained low interest rates	Market rates remain extremely low for a prolonged period of time, thereby consistently reducing net interest income and putting pressure on profitability.	→	• See Section 3.2 Business risk and Section 3.4 Market risk for an explanation of the measures. • Additionally, we aim for cost cuts.
An environment that changes at an increasingly rapid pace with new technologies and competitors	De Volksbank is insufficiently able to adapt rapidly and adequately to market changes and builds an inadequate relationship with customers. As a result, it fails to put Banking with a human touch into practice and, in time, the viability of the business model is impaired and the bank's existence no longer adds any value.	↗	• See Section 3.2 Organisational risk for an explanation of the measures.
A shift of customer expectations towards greater convenience, online and mobile services, etc.	De Volksbank's range of products and services is unattractive to customers and/or new business models are not developed in good time, as a result of which customer satisfaction drops, benefits for customers are not created, the customer relationship is lost, volumes and intended margins lag behind or the viability of the business model is impaired and the bank's existence no longer adds any value.	↗	• See Section 3.2 Organisational risk for an explanation of the measures.
Gearing the strategy towards the (new) shareholder(s)	De Volksbank's future will change dramatically, resulting in an inability to sufficiently achieve the shared value ambition, if at all.	↗	• See Section 3.2 Business risk for an explanation of the measures.

TOP RISKS RESULTING FROM INTERNAL DEVELOPMENTS

Events	Description of risk and impact	Trend	Measures
Insufficiently agile data and IT systems and lack of innovation capabilities	De Volksbank's data and IT systems are not sufficient to monitor and keep up with market developments, the system availability is insufficient, or (customer) data is not reliable or poorly accessible, resulting in lagging agility and capacity for innovation and harm to its reputation.	↗	• See Section 3.2 Organisational risk and Section 3.5 Operational risk for an explanation of the measures.
Shortage of competencies and employability of staff	De Volksbank is unable to attract sufficient knowledge and skills needed to bring about the desired changes, as a result of which the bank's performance and capacity for innovation lag behind and employees cannot be assigned to (new) positions, or at least not for a long period of time, or only to a limited extent.	↗	• See Section 3.5 Operational risk for an explanation of the measures

3.1.3 Risk appetite and risk indicators



* Operational risk includes the subtypes process risk, people risk, IT risk, reporting and data management risk and legal risk

We carry out an annual Strategic Risk Assessment (SRA) to identify and assess risks in relation to the top risks and our strategy. The main risks are ultimately included in the risk taxonomy.

De Volksbank has divided the main types of risk in the risk taxonomy into strategic risks, financial risks and non-financial risks, which are discussed in more detail in Sections 3.2 Strategic risks up to and including 3.5 Non-financial risks.

Based on the risk taxonomy, every year we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives. This is done in what we call the Risk Appetite Statements (RAS). We then use the risk appetite as a basis for determining for each type of risk the level above which we feel comfortable. We do so using specific risk indicators. In addition, we set a risk indicator specific intervention ladder with ranges to be used when follow-up action is required. The ranges are determined based on internal stress tests, economic capital and the recovery plan. See also Section 3.8.2 Management and control.

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

The table below presents the bank's risk appetite and shows how we score with our current risk profile in relation to the risk appetite. Every quarter, the indicators are reported to the risk committee that controls the relevant risk. Please refer to the next chapters in the Risk management section in this Annual Report for the definitions of the different risk types.

Relative score legend

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

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

Strategic Risks

Risk Appetite Statement	Relative score	Note to the score
BUSINESS RISK • Stable profit for the shareholder(s); • Timely adaptation to (market) developments.		• The pressure on our net interest income exerted by the low interest rate environment, combined with increased pressure from competition, remains unchanged.
ORGANISATIONAL RISK • Proactively adapting to changing conditions and transforming into a financial services provider with a sustainable earnings model that contributes to the shared values.		• Management of program portfolio was further strengthened. • Anticipating the major change efforts following the new strategic plan, the ability to organise and manage this change effectively continues to be of the utmost importance.
REPUTATION RISK • Preventing the reputation of the bank and its brands from being adversely affected by internal or external events.		• De Volksbank and its brands boast a strong reputation; • In the fourth quarter of 2020, board dynamics resulted in reputation sensitive publications and reputation issues were managed adequately.
SUSTAINABILITY RISK • Banking in a socially responsible way within the risk appetite of the bank.		• De Volksbank achieved its target of a 45% climate-neutral balance sheet and is on track to achieve its target of a fully climate-neutral balance sheet by 2030; • Men and women in the same positions receive equal remuneration.

Financial risks

Risk Appetite Statement	Relative score	Note to the score
CREDIT RISK • Control is such that it does not threaten our financial position (capital and liquidity).		• Throughout 2020, the credit risk on our portfolios has been impacted by the Covid-19 pandemic. The impact on mid-term affordability of mortgage repayments has been moderate; the outlook is uncertain. The housing market has remained strong, with a positive outlook, although de Volksbank takes into account that a further deterioration of the housing market can occur under stressed conditions.
MARKET RISK • Monitoring risks in the trading book caused by movements of market variables.		• We have a limited market risk appetite in the trading book. The indicators are within our limits.
INTEREST RATE RISK IN THE BANKING BOOK • Protecting and stabilising net interest income, economic values and capital due to interest rate movements and credit spreads.		• The bank's current exposure to interest rate risk is within the limits, with the high demand for long-term mortgages and prepayments posing a risk. That is why the fine-tuning of behavioural models remains a focus area. • Implementation of the Quantitative Risk Management (QRM) system is a main improvement
LIQUIDITY RISK • Preventing the reputation of the bank and its brands from being adversely affected by internal or external events.		• We have a strong liquidity and funding position. Our funding mainly consists of stable customers' savings and long-term wholesale funding.

Non-financial risks

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

Capital adequacy

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

STRESS TESTING

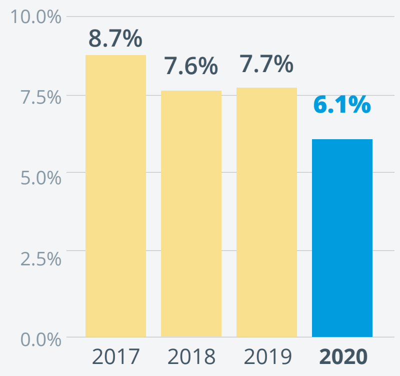
In addition to risk indicators, we use stress tests to gain insight into the sensitivity to changes in the underlying causes and the interrelationship of risks. We calculate an extreme yet plausible macroeconomic scenario several times each year to determine its effects on, for example, our capital and liquidity position. This brings to light any potential vulnerabilities. See also Sections 3.3.2 Management and control, 3.4.3 Figures, ratios and trends, 3.6.2 Management and control, and 3.8.2 Management and control for the use of stress testing in relation to capitalisation, credit, market and liquidity risks.

3.2 Strategic risks

Strategic risks are closely related to the bank's strategy and business model, and can have an impact on the desired and expected value creation.

Strategic risks

Adjusted return on equity



INTRODUCTION

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

Type of risk

BUSINESS RISK

- Business risk is defined as the risk that de Volksbank's profitability may be insufficient to guarantee the viability and sustainability of the bank's earnings model. We define the viability of the earnings model as the extent to which the bank is capable of generating acceptable revenues in the next twelve months. The sustainability of the earnings model is defined as the extent to which the bank is capable of generating acceptable revenues over a three-year horizon.

Developments 2020

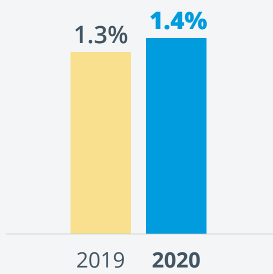
- The low interest rate environment keeps challenging the achievement of financial objectives. Furthermore, the Covid-19 pandemic has increased pressure on the financial performance of de Volksbank. Provisions have been increased. As a consequence, de Volksbank's profit level decreased compared with 2019. A high degree of discipline in cost control is a necessary condition for maintaining profit at an acceptable level. De Volksbank has developed a new strategic plan for the 2021-2025 and is in the transition process towards the implementation of this plan. The plan includes directions for growth and improvement driven by our mission of 'Banking with a human touch'. It also provides a path towards/enables the required level of financial performance.

Type of risk	Developments 2020
ORGANISATIONAL RISK • Organisational risk is the risk that the bank is not able to respond quickly and in a controlled way to changes that may negatively impact the bank's business model with an adequate infrastructure and streamlined management processes. The risk may arise from failure to identify significant changes in a timely manner, no or incorrect decision-making on whether or not to anticipate a change, or failure to make proper adjustments as a result of inadequate design, inadequate execution or incorrect deployment of capacity.	• The bank is aware of its environment, which is changing at an increasingly rapid pace due to new entrants and the implementation of new technologies. Various analyses are conducted to monitor these changes, estimate their relevance to the bank and establish how we wish to respond to them. The analyses have resulted in the identification of the developments that are most important to the bank. This is part of the new strategic plan. In 2020 the central management of the programme portfolio was further strengthened. This enhancement included an improved reporting process and risk management of the portfolio. Anticipating the major change efforts following the new strategic plan, the ability to organise and manage this change effectively continues to be of the utmost importance. Changes and replacements in the Board during 2020, mitigated by backfill and adapted reporting lines, did not lead to less effective or less efficient decision-making and controlling operational or organisational risks, nor to delays in the execution of change programmes and supervisory expectations.
REPUTATION RISK • Reputation risk is the risk that negative publicity ensuing from an internal or external event directly or indirectly diminishes confidence in the integrity of de Volksbank and/or its brand(s), resulting in reputational damage. Reputational damage may be related to our own conduct in crisis situations for example, but also to policy choices and our day-to-day actions, issues regarding products or the behaviour of individual employees. Reputational damage may include financial losses, such as the loss of current or future income, as well as a loss of motivation among employees.	• The speed and impact of (digital and social) media render consistent monitoring and adequate responses necessary; a complaint or adverse publication may eventually grow into a crisis, a crisis may lead to a loss of reputation, and a bad reputation will result in a loss of current or potential customers and income for the bank. De Volksbank actively monitors internal and external events that may potentially result in a loss of reputation and/or reputational damage for the bank and its brands. As regards the organisation, internal decision-making and assessments of events must include a sufficient consideration of the bank's reputation in the outside world (which also includes its customers, counterparties, shareholders and supervisory authorities). In 2020, the brands of de Volksbank were well appreciated, as reflected by the NPS scores. However, the departure of key functionaries and related board dynamics initiated some intense reputation management. As the bank maintains a structure to allow rapid identification of events that potentially threaten its reputation, the follow-up of adverse media exposure has been adequate in preventing further reputational damage. Upcoming related reputation sensitive events are being anticipated upon.
SUSTAINABILITY RISK • Sustainability risk is the risk of financial and/or reputational damage as a result of ecological and/or social developments.	• The developments concerning sustainability risk are elaborated in section 3.9 Sustainability risk

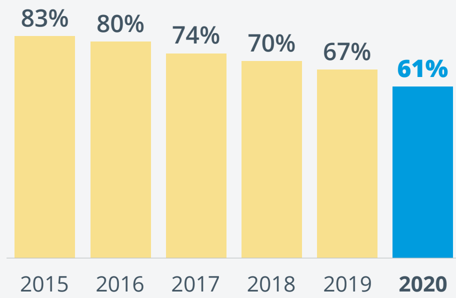
3.3 Credit risk

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

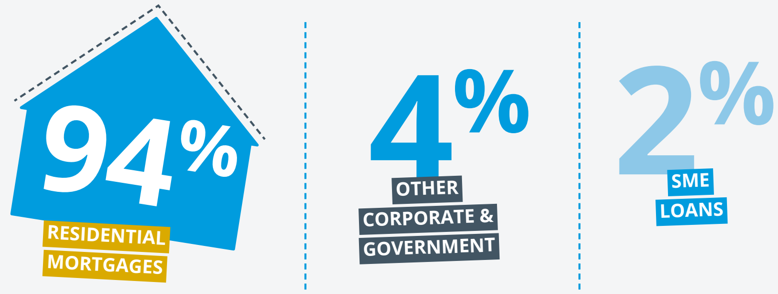
Stage 3 loans expressed as a % of the total loans and advances increased slightly in 2020



Average Loan-to-Value of residential mortgages



Loans and advances to customers[1]



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

Within de Volksbank, credit risk is defined as 'the risk that the bank suffers a financial loss or a material decrease in solvency, due to the fact that a borrower or counterparty does not meet the financial or other contractual obligations to the bank or due to a significant deterioration of the creditworthiness of the specific borrower or counterparty'.

3.3.1 Risk profile

As part of our credit risk management, we cluster loans in portfolios. De Volksbank has a high concentration of residential mortgage loans in the Netherlands. Other loan portfolios on our balance sheet are much smaller in size. We have developed a policy framework to prevent any undesirable concentration risk within portfolio clusters, which is actively monitored.

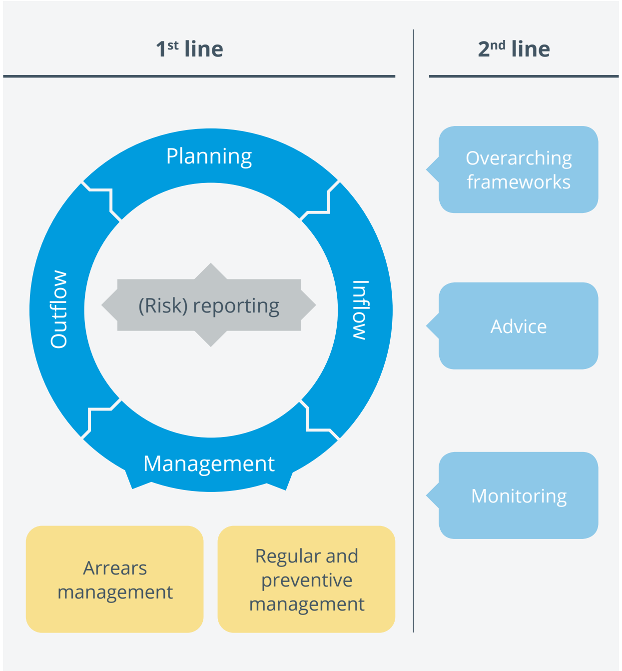
Using specific criteria, we have determined in our policy framework to which portfolios our customers and loans are allocated. One criterion is the type of customer: a natural person, an SME customer, a government authority or a financial institution. We also distinguish secured loans like mortgage loans from unsecured loans such as revolving credits, credit facilities on current accounts or personal loans. Another type of security that may be considered is a government guarantee or a guarantee issued by a fund, such as the National Mortgage Guarantee (NHG). In our policy, we also set the maximum exposure to a single counterparty, in order to avoid excessive losses if the relevant counterparty is no longer capable of meeting its obligations. The exposure limits are regularly reassessed.

Within de Volksbank reports are drawn up in line with the clustering applied, ensuring effective monitoring and the implementation of adjustment measures where necessary. The paragraphs in this chapter subsequently describe how we manage and control the various loan portfolios, how our provisioning methodology works for each portfolio and the underlying risk characteristics per portfolio in more detail.

3.3.2 Management and control Audited

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

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



LOAN PORTFOLIOS

Residential mortgages

When providing a new mortgage loan we put customers' interests first and use internal standards, which are in line with the legal frameworks. We use the acceptance scorecard to predict whether customers are able to comply with their obligations in the long term and ensure that the originated loans meet internal standards regarding the customer's income and the collateral value. See Section 3.3.9 Risk mitigation for more information about risk-mitigating measures.

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

We have adjusted our acceptance policy in order to reduce the impact of the Covid-19 crisis on our current and potential customers, while at the same time keeping the credit risk within the risk appetite defined by de Volksbank. Applicants with business income became subject to greater scrutiny, since they are considered to be hit the hardest by the crisis. The possible impact of Covid-19 is now taken into account when determining the business income.

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

Interest-only and 'Aflossingsblij'

De Volksbank pays special attention to the sub-portfolio of interest-only mortgages. We continuously monitor the credit risk profile of customers with an interest-only mortgage to be able to timely identify and proactively contact those who fall into a high-risk category. This may be, for instance, when the mortgage is nearing its maturity and given the age of the customer it is likely that they will retire, which may cause a drop in income. In the conversations we have with the customers, we attempt to find out to what extent it is likely that the mortgage can be refinanced based on their retirement income and whether they have accumulated sufficient capital to repay their loan in full or in part at the end of the term. De Volksbank is also one of the participants in the *Aflossingsblij* campaign of the Dutch Banking Association (NVB), which seeks to create nationwide awareness of the characteristics of this type of mortgage. The AFM monitors our activities in the context of interest-only mortgages.

Preventive Management and Arrears Management for retail customers

De Volksbank regards a bond of trust with its customers as the basis for a long-term relationship. We manage the credit risk through an active and specific policy for customers who are in arrears or are expected to fall into arrears within 12 months. Preventive Management contacts the customer when there is a reason to doubt the ability of the customer to fulfil his or her commitment towards the bank in accordance with agreed terms. Preventive Management assesses whether a solution needs to be found for the customer and whether such a solution is within the adviser's mandate. If it is not, the customer is transferred to the Arrears Management department.

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

To prevent payment problems from accumulating or situations in which the loan has to be called in early we may apply a forbearance measure. This measure is a non-commercial concession: an arrangement with the customer entailing a temporary or permanent modification of the loan, the terms and conditions of the loan and/or payment conditions.

If customers are truly unable to meet their obligations, we may consult with them and agree on a payment measure or restructuring.

If no solution can be found to resolve the financial difficulties, we support customers in selling their home. De Volksbank stays in touch with the customer, at all times, securing an optimal relationship. We do not engage debt collection agencies and only engage a bailiff if we do not succeed in arriving at a long-term solution together with the customer even though the customer has the financial resources needed. This is because the use of external parties creates more costs for the customer and exacerbates the customer's financial problems.

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

In response to the Covid-19 crisis we have adjusted our approach to customer services in order to support our customers that suffer from the economic consequences of the pandemic.

For our retail customers that foresee payment problems on their mortgage or any of their consumer loans due to Covid-19, we offer the opportunity to take a full or partial payment holiday of up to 6 months (interest and repayments) combined with a default interest reduction to 0% during the payment holiday and a repayment term of no more than 5 years depending on the customer's repayment capacity. The payment holiday may also be granted to customers who are already in arrears but who are temporarily unable to comply with their payment arrangements due to Covid-19. In line with the fiscal policy of the Dutch government, banks may extend this payment holiday until the end of 2021. De Volksbank applies this extension only selectively, since we believe that it does not in all cases contribute to the long-term financial resilience of our customers. The ability to pay the outstanding arrears in full generally diminishes as time progresses and the amount of arrears accumulates. Our aim is to help customers to get a grip on their financial situation as fast as possible.

Consumer loans

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

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

SME loans

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

Preventive Management and Arrears Management for SME customers

We take action as soon as SME customers fall into arrears or state that they anticipate payment problems, and we do so based on the key principles of continuity of the company (the customer) concerned and the potential for recovery. We record our SME customers' payment behaviour, combine this with other data and use this information in risk models to monitor whether our customers are able to meet their obligations in the long term. The models calculate the probability of default – i.e. the failure to make contractually agreed payments, such as interest and any repayments – and the resulting loss expected for the bank. As from 2017, we use the model outcomes to prioritise customers who are to be assisted in recovering from arrears or default. Together with the customer, we explore the options for making the company financially resilient again, focusing on a healthy liquidity and profitability position. If and when a customer has recovered and a stable situation has been achieved, Arrears Management supervision ceases and the customer is transferred back to regular management. If recovery turns out to be impossible, we may support the customer in selling the collateral. In such a situation, the aim is to limit losses for the customer as well as for the bank.

To support our SME customers hit by the Covid-19 pandemic, we offered a repayment and/or interest holiday of up to 6 months. In addition, customers with an active business current account who meet a number of conditions are eligible for the Small Loans Covid Guarantee Scheme (*Kleine Kredieten Corona garantieregeling*; KKC). The Dutch State guarantees these loans for 95%. Entrepreneurs with annual turnover of € 50,000 or more and a funding need between € 10,000 and € 50,000 may apply for this corporate loan.

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

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

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

Other corporate and government loans

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

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

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

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

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

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

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

STRESS TESTING AND SENSITIVITY ANALYSES
As part of its Risk Management Framework de Volksbank evaluates its capital and liquidity position under severe stress conditions. The level of the credit risk has significant impact on stress test results.
In 2020 de Volksbank supplemented its stress test framework with a number of scenarios reflecting the 'worst case' expectations regarding the consequences of the Covid-19 pandemic.

In addition, we examine how sensitive the loan portfolios and the level of the loan loss provisions are to fluctuations of macroeconomic parameters. Just like other banks, we are sensitive to these fluctuations. However, thanks to its strong capital and liquidity position, de Volksbank has proven capable of withstanding the extreme scenarios applied. Further details are included in Section 3.8.2 Management and control.

3.3.3 Provisioning methodology Audited
Under IFRS 9 de Volksbank forms a provision for expected credit losses for every customer with a loan or credit facility. This also includes expected losses on loan commitments and financial guarantee contracts, known as 'off-balance sheet commitments'.

ECL MODELS AND LOAN PORTFOLIOS
At de Volksbank, we distinguish the following specific loan portfolios for which loan loss provisions are determined:
- residential mortgages;
- consumer loans;
- SME loans;
- sustainable and private loans of ASN Bank (the ASN Bank portfolio);
- Financial Markets portfolio.

De Volksbank uses a specific model for every portfolio to establish customers' creditworthiness and the Expected Credit Loss (ECL). The ECL models are Point-In-Time (PIT) and forward-looking, which means that at every reporting date they calculate the expected credit loss for every loan in the portfolio based on internal predictions of the present economic situation in three scenarios (base, up and down), with every scenario being assigned a probability of occurring.

CREDIT RISK MANAGEMENT OF ECL MODELS
Using our credit risk models, we calculate the various risks in the aforementioned portfolios at customer level on a monthly basis. Monitoring the development of the customer and the portfolio is essential if we are to make proper estimates of the loss expected. We have provisions in place for expected losses and we maintain capital for unexpected losses.

MODEL TECHNIQUES
Various techniques are used for the individual portfolios to arrive at the ECL models.

Residential mortgages and SME loans
The survival model technique is used for the residential mortgage loans and SME loans. This is a method for calculating the month-on-month Probability of Default (PD), Probability of Cure and Probability of Foreclosure. These models determine the customer's creditworthiness over two periods: 1) a 12-month period; in other words, we calculate the probability of the customer defaulting on payments in the next 12 months (also known as the '12-month PD'), and 2) the remaining term of the loan; in other words, we calculate the probability of the customer defaulting on payments at any time during the remaining term of the loan (also known as the 'lifetime PD').

In 2020 we reviewed our provisioning methodology for interest-only loans. Both the application of segmentation rules and the provisioning levels were tightened.

The total expected credit loss (ECL) is determined by multiplying customers' PDs with the amount of loss expected in case of default (LGD).

Consumer loans

In the fourth quarter of 2020, an expert based model replaced our previous model to determine stage allocation and provisioning for consumer loans, consisting of personal loans, revolving credit and overdraft facilities (credit limits on current accounts). The expert model is a simplified and more intuitive version of the previous model. Rather than calculating an individual PD at customer level, the model ranks consumer contracts based on risk parameters from low to high risk. Risk parameters include the registered arrears, use of the limit available and the time of origination. Contracts are then allocated to stages based on their credit ranking (rating). Historical observations (default rates) have been used to set an average PD for each stage, and the Loss Given Default (LGD) is a product of the expert judgement based on historical data. We determine the expected loss (ECL) by multiplying the stage-dependent PD and product-specific LGD by the amount of the credit facility.

ASN Bank and Financial Markets portfolio

We use another modelling technique for the ASN Bank portfolio and the Financial Markets portfolio, in which the PD is derived from Credit Default Swap (CDS) curves correlated with the counterparty's creditworthiness (credit rating). Specific CDS curves have been selected for various portfolio components. The credit ratings originate from well-known rating agencies such as S&P and Moody's. For the LGDs to be applied, we use general, sector-related rates that are annually reviewed and therefore up to date and Point-in-Time (PIT). The expected loss (ECL) is determined by multiplying PD and LGD by the predicted Exposure at Default (EAD).

FORWARD-LOOKING INFORMATION

We use three scenarios in our provisions calculations, in which we also make forward-looking information available. The three scenarios describe the expected macroeconomic future (baseline scenario) as well as a downside and upside development. An independent team of macroeconomic experts estimates a forward-looking trends based on various macroeconomic parameters for each scenario. In making these estimates, the experts also look at trend lines and forecasts of external parties, such as Eurostat, Statistics Netherlands (CBS) and the Netherlands Bureau for Economic Policy Analysis (CPB). All three scenarios describe a realistic development of the macroeconomy.

Weights are also assigned to the scenarios based on the probability of the scenario becoming a reality. The development of macroeconomic parameters is predicted four years ahead. After that period, the ECL models extrapolate the values of the macroeconomic variables to a long-term average. A 12-month ECL and a lifetime ECL are calculated for each of the three scenarios and for each customer, on a monthly basis. The scenario weights are used to calculate a weighted average 12-month ECL and a lifetime ECL.

For residential mortgages, we use the following macroeconomic parameters: 1) the relative change in the house price index, 2) the actual house price, and 3) the unemployment rate. For SME loans, we use the unemployment rate and the number of bankruptcies. We only use the unemployment rate as a macroeconomic parameter in the model for consumer loans. All macro-economic parameters of the ECL-models for the residential mortgages, consumer loans and SME loans are related to the developments in the Netherlands. In the Financial Markets and ASN Bank ECL model, the macroeconomic impact is incorporated in the CDS curves that are used.

The Asset Liability Committee (ALCO) approves the scenarios and the corresponding weights. The scenarios that are used to determine the provisions are also used to draw up our Operational Plan. The scenarios and the weights are assessed on a quarterly basis and adjusted where necessary.

The parameters used in the three scenarios are displayed in the tables below.

Macroeconomic scenarios used in credit risk models

2020 has been a turbulent year for the economies worldwide. The economic crisis was unprecedented and the uncertainty macroeconomic outlook is also very high. The macroeconomic expectations at the end of the first quarter of 2020, when the crisis had just started, were adjusted upwards later in the year. Despite the Covid-19 crisis, the upward trend in house prices persisted. Nevertheless, we expect that house prices respond to the economic downturn later in 2021. This is reflected in our base- and down macroeconomic scenario (MES) as at 31 December 2020, which predicts a 1.8% and 5.3% drop in the average house prices in 2021. The increase in house prices is expected to resume in 2022.

In 2020, the unemployment rate deteriorated and we expect the unemployment rate to increase further to 5.8% in 2021 and stabilise around 5% in the following years. We expect small businesses and self-employed persons to be hit hard by the second economic lockdown, and the number of bankruptcies to soar between now and the end of 2021.

Since the outbreak of the Covid-19 pandemic, the Dutch government has introduced (tax) support schemes so as to be able to provide credit facilities and to support incomes of companies and employees whose activities are affected by the crisis. The actual impact that the pandemic will have on the Dutch economy depends on its duration in both the Netherlands and the rest of Europe. Current views lead us to expect that the economy will show a moderate recovery in the years ahead.

Sensitivity to the scenario weights

The tables below show the macroeconomic expectations of de Volksbank for the next four years. They also show how sensitive the provisioning levels are to the up-, base- and down scenarios weights. The sensitivity analysis shown in the table below refers to the residential mortgage portfolio.

Based on the expectations as at 31 December 2020 in case of a 100% weighting of the down scenario, the provision for residential mortgages would increase by € 30 million, from € 111 million to € 141 million. In case of a 100% weighting of the up scenario, the provision would decrease by € 42 million and in case of a 100% weighting of the base scenario by € 7 million. In all three situations, sensitivity of the provisions to changes in scenario weights is higher than it was in 2019, which is mostly attributable to the deteriorated macroeconomic outlook. Also, the dispersion of up and down scenario values in relation to base scenario values increased.

Sensitivity of macroeconomic expectations on the loan loss provisions for SME loans is less significant. In case of a 100% down scenario the provision for SME loans would increase by € 3 million, from € 38 million to € 41 million. For consumer loans and other corporate and government loans the sensitivity to the scenario weights is limited since the provisions in stage 1 en 2 for the consumer loan portfolio are relatively low and other corporate and government loans in general have a low credit risk profile.

Sensitivity to the macroeconomic parameters

The sensitivity of the loan loss provisions of residential mortgages is mostly driven by house prices. The house price values and house price index were chosen for macroeconomic shock since these macroeconomic risk drivers have the largest impact on the PD and LGD of retail customers, affecting mostly stage 1 and stage 2 provisions. For the purpose of sensitivity analysis, de Volksbank estimated the possible impact of a decline in house prices in a range of 5% to 15%. In determining the expert overlay on the provisioning levels the middle of the range has been used in the ECL calculations.

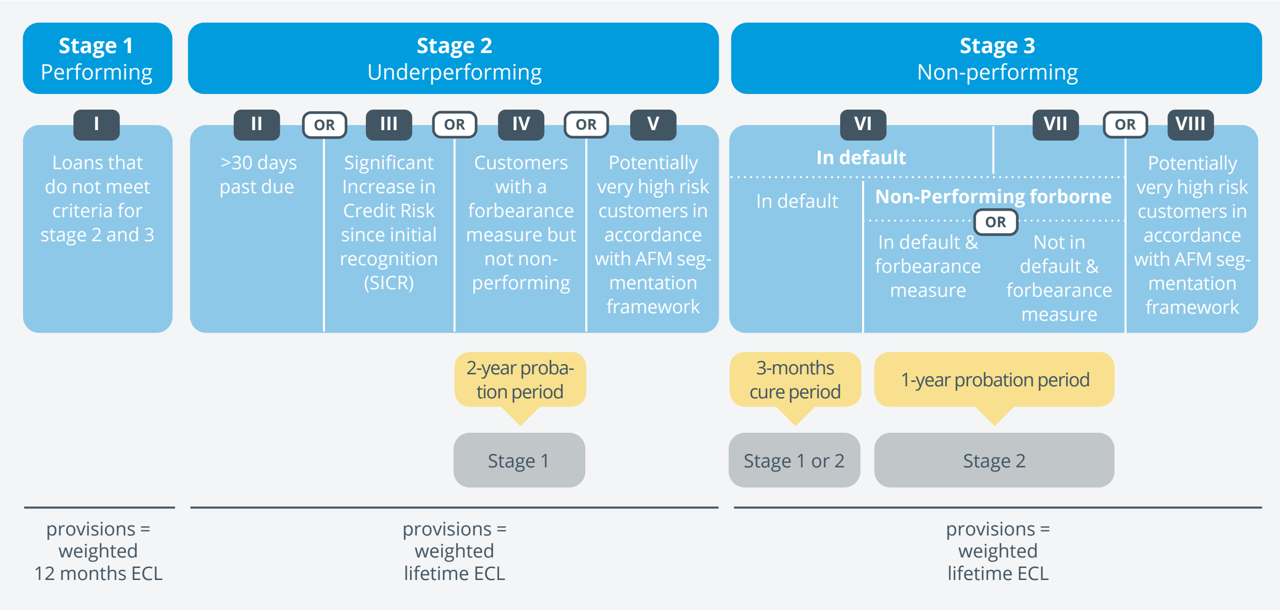
Sensitivity to the scenario weights residential mortgages 31-12-2020

	Macroeconomic Parameter	2021	2022	2023	2024	Long-term average	Weight	Unweighted ECL	Reported (weighted) ECL
Up	Relative change in house price index	7.3%	5.2%	3.7%	3.7%	3.7%	15%	€ 69 million	
	Real house price (in €)	363,100	381,882	396,138	410,927	n.a.			
	Unemployment rate	5.4%	4.2%	4.0%	4.0%	4.0%			
Base	Relative change in house price index	-1.8%	3.2%	3.7%	3.7%	3.7%	50%	€ 104 million	€ 111 million
	Real house price (in €)	328,589	339,183	351,845	364,981	n.a.			
	Unemployment rate	5.8%	5.0%	5.0%	5.0%	5.0%			
Down	Relative change in house price index	-5.3%	1.2%	3.7%	3.7%	3.7%	35%	€ 141 million	
	Real house price (in €)	317,051	320,938	332,919	345,348	n.a.			
	Unemployment rate	8.1%	7.1%	6.8%	6.8%	6.8%			

Sensitivity to the scenario weights residential mortgages 31-12-2019

	Macroeconomic Parameter	2020	2021	2022	2023	Long-term average	Weight	Unweighted ECL	Reported (weighted) ECL
Up	Relative change in house price index	4.7%	4.5%	3.9%	3.9%	3.9%	15%	€ 62 million	
	Real house price (in €)	322,981	337,467	350,662	364,373	n.a.			
	Unemployment rate	3.4%	3.3%	3.3%	3.3%	3.3%			
Base	Relative change in house price index	2.9%	2.9%	3.4%	3.4%	3.5%	50%	€ 68 million	€ 71 million
	Real house price (in €)	317,306	326,428	337,690	349,340	n.a.			
	Unemployment rate	3.6%	3.8%	3.8%	3.9%	4.0%			
Down	Relative change in house price index	0.3%	-0.1%	2.9%	3.4%	3.5%	35%	€ 81 million	
	Real house price (in €)	305,437	305,086	313,857	324,685	n.a.			
	Unemployment rate	3.7%	4.5%	4.7%	4.8%	4.8%			

STAGE ALLOCATION



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

Stage 1: 12-month ECL (category I)

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

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

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

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

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

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

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

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

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

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

Customers who have been subjected to a forbearance measure and who do not meet the prudential non-performing criteria are included in stage 2. This category contains:

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

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

De Volksbank pays special attention to retail customers with fully or partially interest-only mortgage loans. Mortgage loans with a high expected LtV and nearing maturity, retirement or the end of tax deductibility are allocated to stage 2 because of the higher potential risk of these loans. When after contact with the customer there is more certainty about income data and the capacity to refinance the loan in the future, the stage can be revised.

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

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

VI. Customers in default

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

- suspension of payment
- bankruptcy
- fraud
- sale of the collateral by the Arrears Management department
- sale of the collateral with a residual debt

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

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

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

In addition to loans in default, loans to customers who are subject to a forbearance measure, who meet the prudential non-performing criteria and who are not in default (according to the criteria specified in VI) are placed in stage 3. This is the case for forborne loans that were transferred to stage 2 after a one-year probation period in stage 3 and receive a new forbearance measure and/or later fall into arrears of 30 days.

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

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

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

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

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

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

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

at least in stage 2. In other words, in our stage allocation process we do not differentiate between retail customers and customers of ASN Bank with and without a Covid-19 supporting measure.

Expert overlay

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

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

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

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

3.3.4 Figures, ratios and trends Audited

CREDIT RISK EXPOSURE

The following table presents the credit risk exposure based on the Exposure at Default (EAD) from the regulatory report (see also Section 3.8.5 Figures, ratios and trends). The provisions have been deducted from the receivables, but any collateral or other credit risk mitigating instruments have been disregarded.

Credit risk exposure Audited

in € millions	2020	2019
Cash and cash equivalents	4,672	2,026
Loans and advances to banks	5,990	3,791
Loans and advances to customers	50,542	50,461
Investments	5,113	5,350
Derivatives	864	718
Other	151	268
Total financial assets	**67,332**	**62,614**
Fair value adjustments from hedge accounting residential mortgages	-1,590	-1,176
Investments at fair value through P&L	--	-10
Other items that are not subject to credit risk exposure	--	-1
Total items not subject to credit risk exposure	**-1,590**	**-1,187**
On-balance sheet exposure to credit risk (IFRS)	**65,742**	**61,427**
Liabilities from (ir)revocable facilities and guarantees[1]	2,242[2]	1,864
Repurchase commitment	568	684
Off-balance sheet exposure to credit risk	**2,810**	**2,548**
Other assets[3]	152	227
Total maximum exposure to credit risk (CRR)	**68,704**	**64,202**

1 Of which € 428 million conditionally revocable (2019: € 446 million).
2 Net of provisions for credit losses of € 5 million.
3 Assets that are not subject to ECL according to IFRS.

The total credit risk exposure increased over the course of 2020 from € 64.2 billion to € 68.7 billion. Cash and cash equivalents, loans and advances to banks and investments were up from year-end of 2019, mainly driven by liquidity management actions. Representing 75% of the total, the loans and advances to customers category is the largest on the balance sheet.

Cash and cash equivalents concern DNB deposits and loans and advances to credit institutions with a remaining maturity of less than one month. Loans and advances to banks concern loans and advances to credit institutions with a maturity of one month or more. For more information please refer to note 6 Loans and advances to banks.

Investments mainly involves government bonds of EU Member States. The derivatives position mainly ensues from the hedging of the interest rate risk in the banking book, including the securitisation programmes. For more information about investments please refer to note 5 Investments in the financial statements. For more information about derivatives please refer to Section 3.3.9 Risk mitigation and to note 3 Derivatives, note 4 Hedging and hedge accounting and note 23 Offsetting of financial assets and liabilities to the consolidated financial statements.

LOANS AND ADVANCES TO CUSTOMERS BY CATEGORY AND REGION

The tables below provide a further breakdown of the Loans and advances to customers by category and by region.

Loans and advances to customers Audited

in € millions	2020	2019
Residential mortgages	47,697	48,090
Consumer loans	51	73
Exposure retail loans	**47,748**	**48,163**
SME loans	686	673
Other corporate and government loans	2,108	1,625
Total	**50,542**	**50,461**

Loans and advances by region Audited

in € millions	2020	2019
The Netherlands	49,538	49,903
EMU excl. the Netherlands	701	488
Other	303	70
Total	**50,542**	**50,461**

TOTAL LOANS AND ADVANCES TO CUSTOMERS 2020

During 2020, gross loans and advances to customers increased slightly by € 0.1 billion to € 50.7 billion gross (€ 50.5 million after provisions). This growth was attributable to Other corporate and government loans, which grew by € 0.5 billion, and to SME loans, the total outstanding amount of which increased by € 20 million.

Residential mortgages and consumer loans contracted by € 0.4 billion and € 24 million respectively.

Credit loss provisions rose from € 125 million as at 31 December 2019 to € 171 million as at 31 December 2020, predominantly driven by the uncertainty around the impact of the Covid-19 pandemic on the portfolio developments of de Volksbank and macroeconomic prospects. The stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) showed a slight deterioration from 1.3% to 1.4%. The stage 3 coverage ratio (provision for stage 3 loans as a percentage of total stage 3 loans) decreased from 12.9% to 11.4%, mostly driven by the strong increase of house prices despite the Covid-19 crisis.

PROVISIONS FOR CREDIT LOSSES

Changes in credit risk of existing customers may lead to either additions to loan loss provisions or releases of provisions formed earlier. An addition is made to the provision when a customer's credit risk profile deteriorates; the provision is released when the credit risk profile improves. For writing off a loan, a distinction is made between the write-off of a (part of the) mortgage loan and a possible write-off of a residual debt arising from the write-off of a mortgage loan. For more information see note 7 Loans and advances to customers to the consolidated financial statements.

The total amount of provisions for on-balance sheet exposure increased in 2020 by € 47 million, resulting in € 37 million of total impairment charges. This increase was mainly driven by the net addition of € 40 million of provisions in the residential mortgages portfolio. This is explained in Section 3.3.5 Residential mortgages. Total provisions for consumer loans dropped by € 2 million, please refer to Section 3.3.6 Consumer Loans. Increase in provisions for SME and other corporate and government loans together resulted in a € 9 million addition. This is explained in Section 3.3.7 SME loans respectively Section 3.3.8 Other corporate and government loans.

In all portfolios the amount of recognised losses due to write-offs are low. This can be explained by favourable property prices in 2020 and limited number of forced sales.

Loans and advances to customers by stage 31 December 2020 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Residential mortgages	43,154	-24	43,130	93.3%	0.1%
Consumer loans	38	--	38	60.3%	0.0%
SME loans	558	-6	552	77.1%	1.1%
Other corporate and government loans	1,916	--	1,916	90.7%	0.0%
Total loans and advances to customers stage 1	**45,666**	**-30**	**45,636**	**92.9%**	**0.1%**
STAGE 2					
Residential mortgages	2,539	-52	2,487	5.5%	2.0%
Consumer loans	13	-1	12	20.6%	7.7%
SME loans	86	-5	81	11.9%	5.8%
Other corporate and government loans	154	-1	153	7.3%	0.6%
Total loans and advances to customers stage 2	**2,792**	**-59**	**2,733**	**5.7%**	**2.1%**
STAGE 3					
Residential mortgages	543	-35	508	1.2%	6.4%
Consumer loans	12	-11	1	19.0%	91.7%
SME loans	80	-27	53	11.0%	33.8%
Other corporate and government loans	43	-4	39	2.0%	9.3%
Total loans and advances to customers stage 3	**678**	**-77**	**601**	**1.4%**	**11.4%**
TOTAL STAGE 1, 2 AND 3					
Residential mortgages	46,236	-111	46,125		0.2%
Consumer loans	63	-12	51		19.0%
SME loans[1]	724	-38	686		5.2%
Other corporate and government loans	2,113	-5	2,108		0.2%
Total loans and advances to customers excluding IFRS value adjustments	**49,136**	**-166**	**48,970**		**0.3%**
IFRS value adjustments[2]	1,572	--	1,572		
Total loans and advances to customers	**50,708**	**-166**	**50,542**		**0.3%**
Off-balance sheet items stage 1	2,754	-2	2,752		0.1%
Off-balance sheet items stage 2	46	-1	45		2.2%
Off-balance sheet items stage 3	15	-2	13		13.3%
Total off-balance sheet items[3]	**2,815**	**-5**	**2,810**		**0.2%**
Total on- and off-balance sheet items for loans and advances to customers	**53,523**	**-171**	**53,352**		**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 674 million.
2 Consisting of fair value adjustments from hedge accounting and amortisations.
3 Consists of off-balance sheet facilities (of which € 428 million conditionally revocable), guarantees and repurchase commitments.

Loans and advances to customers by stage 31 December 2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Residential mortgages	43,977	-6	43,971	93.6%	0.0%
Consumer loans	62	--	62	71.3%	0.0%
SME loans	566	-1	565	80.4%	0.2%
Other corporate and government loans	1,470	--	1,470	90.3%	0.0%
Total loans and advances to customers stage 1	**46,075**	**-7**	**46,068**	**93.3%**	**0.0%**
STAGE 2					
Residential mortgages	2,446	-22	2,424	5.2%	0.9%
Consumer loans	12	-1	11	13.8%	8.3%
SME loans	67	-5	62	9.5%	7.5%
Other corporate and government loans	137	-1	136	8.4%	0.7%
Total loans and advances to customers stage 2	**2,662**	**-29**	**2,633**	**5.4%**	**1.1%**
STAGE 3					
Residential mortgages	540	-43	497	1.1%	8.0%
Consumer loans	13	-13	--	14.9%	100.0%
SME loans	71	-25	46	10.1%	35.2%
Other corporate and government loans	21	-2	19	1.3%	9.5%
Total loans and advances to customers stage 3	**645**	**-83**	**562**	**1.3%**	**12.9%**
TOTAL STAGE 1, 2 AND 3					
Residential mortgages	46,963	-71	46,892		0.2%
Consumer loans	87	-14	73		16.1%
SME loans[1]	704	-31	673		4.4%
Other corporate and government loans	1,628	-3	1,625		0.2%
Total loans and advances to customers excluding IFRS value adjustments	**49,382**	**-119**	**49,263**		**0.2%**
IFRS value adjustments[2]	1,198	--	1,198		
Total loans and advances to customers	**50,580**	**-119**	**50,461**		**0.2%**
Off-balance sheet items stage 1	2,491	-1	2,490		0.0%
Off-balance sheet items stage 2	22	-1	21		4.5%
Off-balance sheet items stage 3	35	-4	31		11.4%
Total off-balance sheet items[3]	**2,548**	**-6**	**2,542**		**0.2%**
Total on- and off-balance sheet items for loans and advances to customers	**53,128**	**-125**	**53,003**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 638 million.

2 Consisting of fair value adjustments from hedge accounting and amortisations.

3 Consists of off-balance sheet facilities (of which € 446 million conditionally revocable), guarantees and repurchase commitments.

Changes in loans and advances to customers (gross carrying amount) Audited

	Residential mortgages		Consumer loans		SME loans		Other corporate and government		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Opening balance	**48,161**	47,320	**87**	110	**704**	744	**1,626**	2,489	**50,578**	50,663
Reclassifications	-377[1]	--	--	--	-4	--	--	--	-381	--
Originated or purchased	6,100[2]	5,733[2]	--	1	83	1	3,769[3]	3,312[3]	9,952	9,047
Change in current accounts	--	--	-21	-11	1	-6	6	-5	-14	-22
Matured or sold	-6,453[2]	-5,615[2]	-1	-1	-52	-31	-3,280[3]	-4,166[3]	-9,786	-9,813
Write-offs	-4	-9	-2	-12	-4	-4	--	--	-10	-25
Change in fair value as a result of hedge accounting	414	712	--	--	--	--	--	--	414	712
Exchange rate differences	--	--	--	--	--	--	-11	2	-11	2
Other movements	-33	20	--	--	-4	--	1	-4	-36	16
Closing balance	**47,808**	48,161	**63**	87	**724**	704	**2,122**	1,626	**50,717**	50,578

1 Concerns home construction accounts as at 1-1-2020.

2 The advances and redemptions mentioned in this table include conversions of € 232 million for new production (2019: € 237 million) and -/- € 336 million for redemptions (2019: -/- € 305 million).

3 There are short-term deposits with governments and pension funds in particular, with the advances and repayments being administered on a daily basis.

Changes in the provision for credit losses Audited

	Residential mortgages		Consumer loans		SME loans		Other corporate and government		Total		Off-balance[1]	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Opening balance	**71**	58	**14**	24	**31**	41	**3**	3	**119**	126	**6**	5
Reclassification	--	6	--	--	--	--	--	--	--	6	--	--
Change in credit risk	25	12	1	4	9	-1	2	--	**37**	**15**	-2	1
Originated or purchased	18	4	--	--	2	--	--	--	**20**	**4**	1	--
Matured or sold	-7	-11	--	-3	-3	-5	--	--	**-10**	**-19**	--	--
Changes in models and estimates	9	11	-1	--	--	--	--	--	**8**	**11**	--	--
Impairment charges (releases)	**45**	16	**--**	1	**8**	-6	**2**	--	**55**	11	**-1**	1
Write-offs	-5	-9	-2	-11	-1	-4	--	--	**-8**	**-24**	--	--
Closing balance	**111**	71	**12**	14	**38**	31	**5**	3	**166**	119	**5**	6
Impairment charges (releases)	45	16	--	1	8	-6	2	--	55	11	-1	1
Recoveries and other charges trough P&L	-17	-14	-1	-3	--	-2	--	--	-18	-19	--	--
Total impairment charges (releases)[2]	**28**	**2**	**-1**	**-2**	**8**	**-8**	**2**	**--**	**37**	**-8**	**-1**	**1**

1 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments. The provision for credit losses of off balance sheet items is reported in Provisions (see also note 17 to the consolidated financial statements).

2 The total impairment charges (releases) for the period excludes charges (releases) for investments and other financial assets; these amount to € 2 million (2019: release of € 1 million).

COVID-19 SUPPORT MEASURES

Seeking to help mortgage customers who encountered financial problems as a result of the Covid-19 pandemic, from March onwards they were given the opportunity to take a payment holiday of up to six months. At the end of 2020, 1,591 retail customers made use of this scheme, which is slightly less than 1% of our retail customers. More than three quarters of these customers have now resumed their payments[6]. We also set up similar schemes for SME customers with loans.

Of the 342 entrepreneurs who used such a scheme at the end of 2020 (almost 10% of our SME customers), approximately three quarters have now resumed making payments.

For more detailed information on measures taken in response to the Covid-19 pandemic, reference is made to the sections 3.3.5 Residential mortgages and 3.3.7 SME loans.

6 Customers whose payment holiday has expired and whose loans are in stage 2 are assumed to resume the payment on the payment holiday, while customers with loans in stage 3 are not.

Covid-19 measures

		Gross carrying amount				Provision for credit losses			
in € millions	Number of customers	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages	1,502	--	315	84	399	--	6	4	10
Consumer loans	89	--	--	1	1	--	--	--	--
SME loans	339	55	22	31	108	1	1	9	11
Other corporate and government loans	3	--	--	--	--	--	--	--	--
Total loans and advances to customers with Covid-19 measure	**1,933**	**55**	**337**	**116**	**508**	**1**	**7**	**13**	**21**

3.3.5 Residential mortgages

MAIN DEVELOPMENTS IN 2020

The credit loss provision for residential mortgages rose by € 40 million in 2020. This significant increase is explained by several factors. In 2020 we reviewed our provisioning methodology for interest-only loans. Both the application of segmentation rules and the provisioning levels were tightened, resulting in a sharp increase in total exposure as well as in the amount of stage 2 provisions. As a result of these adjustments and the worsened outlook for the unemployment rate, the stage 2 coverage ratio rose to 2.0% in 2020 from 0.9% as at 31 December 2019.

Secondly, the application of the expert overlay significantly levelled up the total provisioning amount for the residential mortgages. This increase was especially pronounced in stage 1 and stage 2.
The amount of stage 3 loans and advances rose by € 3 million to € 543 million. This slight increase was caused partially by the inflow of customers hit by the Covid-19 crisis and was mostly compensated by the regular outflow from the default portfolio due to recoveries and write-offs. The stage 3 provision decreased by € 8 million, mainly driven by the favourable developments in the house prices. This resulted in a lower coverage ratio of stage 3 loans, which dropped from 8.0% as at 31 December 2019 to 6.4%.

The percentage of customers who take out NHG-guaranteed loans has remained stable for a number of years now. The weighted average indexed LtV of the residential mortgages improved to 61%, from 67% at year- end 2019. To determine the LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of mortgages to lower LtV buckets.

KEY FIGURES

Exposure to residential mortgages 31-12-2020 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	43,154	-24	43,130	93.3%	0.1%
Stage 2	2,539	-52	2,487	5.5%	2.0%
Stage 3	543	-35	508	1.2%	6.4%
Total stage 1,2,3	**46,236**	**-111**	**46,125**		**0.2%**
IFRS value adjustments[1]	1,572	--	1,572		
Total residential mortgages	**47,808**	**-111**	**47,697**		
Off-balance sheet items stage 1	1,873	--	1,873		0.0%
Off-balance sheet items stage 2	36	-1	35		2.8%
Off-balance sheet items stage 3	7	--	7		0.0%
Total off-balance sheet items[2]	1,916	-1	1,915		0.1%
Total on- and off-balance sheet items residential mortgages	**49,724**	**-112**	**49,612**		**0.2%**

1 Consisting of fair value adjustments from hedge accounting and amortisations.
2 Off-balance sheet items: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Exposure to residential mortgages 31-12-2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	43,977	-6	43,971	93.6%	0.0%
Stage 2	2,446	-22	2,424	5.2%	0.9%
Stage 3	540	-43	497	1.1%	8.0%
Total stage 1,2,3	**46,963**	**-71**	**46,892**		**0.2%**
IFRS value adjustments[1]	1,198	--	1,198		
Total residential mortgages	**48,161**	**-71**	**48,090**		
Total off-balance sheet items[2]	2,548	-1	2,547		0.0%
Total on- and off-balance sheet items residential mortgages	**50,709**	**-72**	**50,637**		**0.1%**

1 Consisting of fair value adjustments from hedge accounting and amortisations.
2 Off-balance sheet items: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Transfers between stages in the gross carrying amount of residential mortgages

in € millions	2020 Stage 1	Stage 2	Stage 3	Total	2019 Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	871	-824	-47	--	731	-699	-32	--
Transfer to stage 2	-1,173	1,323	-150	--	-1,082	1,256	-174	--
Transfer to stage 3	-112	-162	274	--	-102	-145	247	--

MOVEMENTS IN PROVISIONS AUDITED

The table below shows the movements in the loan loss provision related to residential mortgages.

In 2020 provisions in residential mortgage portfolio increased by € 40 million. This was mostly due to the adjustments in the provisioning methodology for interest-only mortgages and due to the expert overlay introduced to cover the uncertainties surrounding Covid-19 crisis and which smoothed out the positive effect of the rising house prices. The effect of both are especially pronounced in stage 2 caused an increase of stage 2 provisions by € 27 million. The newly originated loans contributed by € 18 million of addition to the residential mortgages provision. All new customers are placed in stage 1 at origination. In the course of the year their credit risk profile may deteriorate resulting in stage 2 or stage 3 reallocation. There was a € 7 million release in provisions due to matured and sold loans and a € 5 million release due to write-offs.

Changes in the provision for credit losses for residential mortgages Audited

in € millions	2020 Stage 1	Stage 2	Stage 3	Total	2019 Stage 1	Stage 2	Stage 3	Total
Opening balance	**6**	**22**	**43**	**71**	**2**	**10**	**46**	**58**
Reclassification	--	--	--	--	--	--	6	6
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	4	-4	--	--	3	-3	--
Transfer to stage 3	--	-2	2	--	--	-1	1	--
Change in credit risk	5	18	2	25	--	-1	13	12
Originated or purchased	13	3	2	18	--	1	3	4
Matured or sold	--	-2	-5	-7	--	-1	-10	-11
Changes in models and estimates	--	9	--	9	4	11	-4	11
Impairment charges (releases)	**18**	**30**	**-3**	**45**	**4**	**12**	**--**	**16**
Write-offs	**--**	**--**	**-5**	-5	--	--	-9	-9
Closing balance	**24**	**52**	**35**	**111**	**6**	**22**	**43**	**71**
Impairment charges (releases)				45				16
Recoveries and other charges trough P&L				-17				-14
Total impairment charges (releases)				**28**				**2**

COVID-19 MEASURES

Since the start of the pandemic we granted a payment holiday to 1,502 residential mortgage customers that contacted us in relation to the anticipated financial difficulties due to Covid-19. Retail customers with a payment holiday are considered forborne and are allocated to stage 2 in accordance with the regular stage allocation rules. Customers are considered to be in default if they are not able to catch up on their payment obligations after the payment holiday. In the course of 2020, the provisions allocated to customers that received a payment holiday support measures, amounted to € 9 million, out of which € 4 million was allocated to customers that despite the support measures got in default.

Covid-19 measures for residential mortgages

	Payment holidays		
	Granted	Active	Expired
Number of customers			
March 2020	418	4	414
2Q 2020	873	11	862
3Q 2020	135	9	126
4Q 2020	76	74	2
Total	**1,502**	**98**	**1,404**
GROSS CARRYING AMOUNT (IN € MILLIONS)			
Stage 1	--	--	--
Stage 2	315	20	295
Stage 3	84	6	78
Total gross carrying amount	**399**	**26**	**373**
PROVISION FOR CREDIT LOSSES (IN € MILLIONS)			
Stage 1	--	--	--
Stage 2	6	1	5
Stage 3	4	--	4
Total provision for credit losses	**10**	**1**	**9**

CREDIT QUALITY BY INTERNAL RATING CLASS

Internal rating classes for residential mortgages

		2020			
Internal rating grade	**PD scaling**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	0,00 to <0,15	9,742	--	--	9,742
2	0,15 to <0,25	11,751	--	--	11,751
3	0,25 to <0,35	9,031	1	--	9,032
4	0,35 to <0,50	7,608	1	--	7,609
5	0,50 to <0,75	4,056	5	--	4,061
6	0,75 to <1,25	225	24	1	250
7	1,25 to <1,50	23	22	--	45
8	1,50 to <1,75	9	24	--	33
9	1,75 to <3,50	118	285	15	418
10	3,50 to <10,0	544	702	36	1,282
11	10,0 to <15,0	43	239	7	289
12	15,0 to <25,0	3	675	28	706
13	25,0 to <100	1	561	81	643
Default	100.00	--	--	375	375
Total		**43,154**	**2,539**	**543**	**46,236**
Provision for credit losses		-24	-52	-35	-111
IFRS value adjustments[1]					1,572
Book value		**43,130**	**2,487**	**508**	**47,697**

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

RESIDENTIAL MORTGAGES BY LOAN-TO-VALUE BUCKET

The LtV is the amount of the (remaining) loan expressed as a percentage of the indexed market value of the collateral. In 2018, the maximum regulatory LtV for new mortgage loans was lowered to 100%. A low LtV is advantageous to both customers and the bank, as it reduces the likelihood of a residual debt.

Hence, the lower the LtV, the lower the risk surcharge in our mortgage rates at origination. We bring this to customers' attention as part of the SNS Mortgage Term Monitoring Service. Customers may request a risk surcharge reduction if their LtV has fallen during the term of the mortgage contract. They can do so by submitting a recent valuation report of the collateral showing that the collateral value increased or by making additional repayments, which reduces the mortgage amount.

The weighted average indexed LtV of the residential mortgages improved to 61%, from 67% at year-end 2019. To determine this LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of mortgages to lower LtV buckets.

If a mortgage is provided with a National Mortgage Guarantee (NHG), this provides additional security to both the customer and the bank. The table below shows the loans outstanding that are fully or partly covered by an NHG. The NHG limit was set at € 310,000 on 1 January 2020, and at € 328,600 in case of investments in energy saving measures. These maximum amounts were raised to € 325,000 and € 344,500, respectively, at the start of 2021.

The percentage of customers who take out NHG-guaranteed loans has remained stable for a number of years now.

Breakdown of residential mortgages by LtV bucket

			2020					2019		
in € millions[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**		**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
NHG[2]	12,039	503	90	12,632	29%	12,664	468	77	13,209	29%
- of which LtV ≤ 75%	8,381	267	52	8,700	20%	6,460	172	29	6,661	15%
- of which LtV >75 ≤ 100%	3,627	215	34	3,876	9%	5,903	254	40	6,197	14%
- of which LtV >100 ≤ 110%	22	11	1	34	0%	242	27	4	273	1%
- of which LtV >110 ≤ 125%	5	5	2	12	0%	42	7	2	51	0%
- of which LtV > 125%	4	5	1	10	0%	17	8	2	27	0%
Non-NHG	29,255	1,975	442	31,672	71%	29,368	1,925	449	31,742	71%
- of which LtV ≤ 75%	22,798	940	221	23,959	54%	20,140	699	163	21,002	47%
- of which LtV >75 ≤ 100%	6,295	869	163	7,327	17%	8,575	902	179	9,656	21%
- of which LtV >100 ≤ 110%	106	66	20	192	0%	507	176	36	719	2%
- of which LtV >110 ≤ 125%	37	43	12	92	0%	103	57	28	188	0%
- of which LtV > 125%	19	57	26	102	0%	43	91	43	177	0%
Principal amounts excluding savings deposits	**41,294**	**2,478**	**532**	**44,304**	**100%**	**42,032**	**2,393**	**526**	**44,951**	**100%**
Provision for credit losses				-111					-71	
IFRS value adjustments[3]				1,572					1,198	
Savings deposits				1,932					2,012	
Total residential mortgages				**47,697**					**48,090**	
Weighted average indexed LtV				**61%**					**67%**	

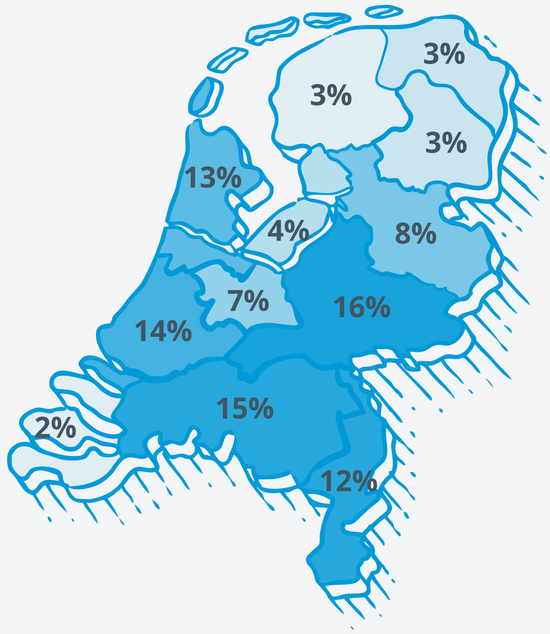
1 LtV based on indexed market value of collateral.

2 The size of guarantees related to NHG-guaranteed mortgages expires on an annuity basis.

3 Consisting of fair value adjustments from hedge accounting and amortisations.

RESIDENTIAL MORTGAGES BY REGION AND BRAND

Breakdown of mortgage portfolio by province



Remaining principal amounts by brand

in € millions	2020		2019	
ASN Bank	211	0%	71	0%
BLG Wonen	21,282	46%	20,366	43%
RegioBank	7,437	16%	7,455	16%
SNS	17,306	37%	19,071	41%
Total remaining principal amounts	**46,236**	**100%**	**46,963**	**100%**
Provision for credit losses	-111		-71	
IFRS value adjustments[1]	1,572		1,198	
Total residential mortgages	**47,697**		**48,090**	

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

RESIDENTIAL MORTGAGE LOANS BY REDEMPTION TYPE, FIXED-RATE PERIOD AND YEAR OF ORIGINATION

In the past few years, the Dutch government has tightened the (tax) policy as regards the maximum percentage that may be provided as an interest-only mortgage and the mortgage interest tax relief. Currently, interest payments on mortgage loans provided after 1 January 2013 are only tax deductible if the mortgage is paid off through an annuity or linear scheme over a maximum period of thirty years. This rule does not, however, apply to the interest-only mortgages originated before 1 January 2013 and that were renegotiated after this date. For these mortgage loans, tax benefits remain applicable if certain conditions are met. De Volksbank applies a policy of financing no more than 50% of the fair value of the collateral by means of an interest-only mortgage. The remainder of the loan must consist of a type of mortgage under which the mortgage debt is repaid during the term.

As a result of these rules, both the gross amount and the share of annuity and linear mortgage loans in the total residential mortgage portfolio are increasing. The share of full or partial interest-only mortgages dropped slightly from 50% as at year-end 2019 to 49%.

De Volksbank is pursuing an active approach to reduce the share of interest-only mortgage loans in the portfolio by means of its interest-only programme entitled *Klant Wil Rustig Blijven Wonen* ('Customer wants to continue to live worry-free in their home') and the national campaign entitled *Aflossingsblij* ('Redemption-happy').

Within the scope of this *Klant Wil Rustig Blijven Wonen* programme we are contacting all customers with an interest-only mortgage to assess their financial situation at maturity date. The *Aflossingsblij* campaign is a joint initiative by the Dutch banks to call on homeowners with interest-only mortgage loans nearing maturity to repay their loan. For customers with an interest-only mortgage, a repayment or refinancing problem may arise regarding the acceptance criteria applicable when the loan expires. When this happens, we will look for a suitable solution.

Residential mortgages with a fixed-rate term of ten years or more grew and mortgages with a fixed-rate term of less than ten years fell. This was driven by persistently low mortgage rates, leading customers to select a longer fixed-rate term for a new mortgage or interest rate renewal. In all, the share of mortgages with a fixed-rate term of ten years or more increased from 86% at the end of 2019 to 89%.

Residential mortgages by redemption type

in € millions	2020		2019	
Interest-only (100%)	10,281	22%	11,016	23%
Interest-only (partially)	12,421	27%	12,706	27%
Annuity	14,472	31%	13,003	28%
Linear	1,209	3%	1,154	2%
(Bank) savings[1]	4,385	9%	5,031	11%
Life insurance/investments	3,106	7%	3,605	8%
Other	362	1%	448	1%
Total	**46,236**	**100%**	**46,963**	**100%**
Provision for credit losses	-111		-71	
IFRS value adjustments[2]	1,572		1,198	
Total residential mortgages	**47,697**		**48,090**	

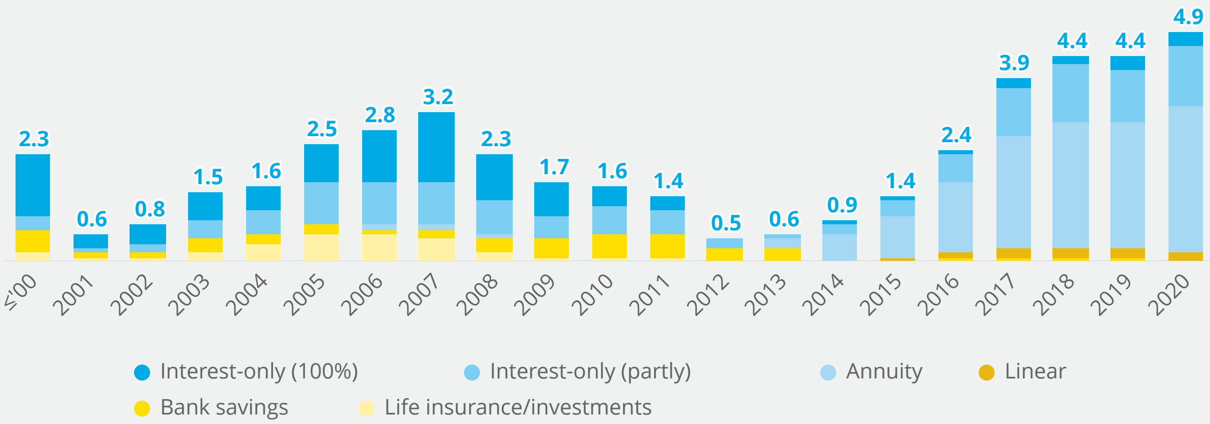
1 The guaranteed savings deposits accrued in a policy with the insurer are accounted for under (Bank) savings.

2 Consisting of fair value adjustments from hedge accounting and amortisations.

Interest-only (100%) mortgages by LtV bucket

In percentages	2020	2019
LtV ≤ 75%	94%	90%
LtV >75 ≤ 100%	6%	9%
LtV >100 ≤ 110%	0%	1%
LtV > 110%	0%	0%
Total	**100%**	**100%**

Residential mortgages by redemption type and latest year of adjustment (in € billions)[1,2]



1 Amounts in this chart do include mortgage renewals. Mortgages that have been executed but have not yet been processed in the system, 'extra ruimte' mortgages and bridging loans are not included.

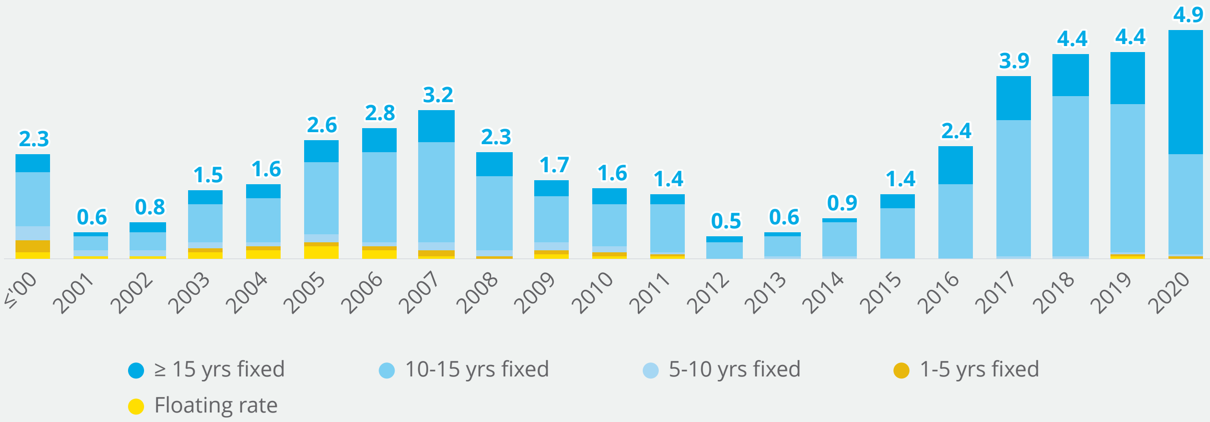
2 The mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.6 billion.

Residential mortgages by fixed-term maturity

in € millions	2020		2019	
Floating rate	1,875	4%	2,246	5%
≥ 1 and < 5-year fixed-rate	1,246	3%	1,338	3%
≥ 5 and < 10-year fixed-rate	1,939	4%	2,770	6%
≥ 10 and < 15-year fixed-rate	29,456	64%	30,960	66%
≥ 15-year fixed-rate	11,356	25%	9,198	20%
Other	364	1%	451	1%
Total remaining principal amounts	**46,236**	**100%**	**46,963**	**100%**
Provision for credit losses	-111	0%	-71	
IFRS value adjustments[1]	1,572		1,198	
Total residential mortgages	**47,697**		**48,090**	

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

Residential mortgages by fixed rate maturity and latest year of adjustment (in € billions)[1,2]



1 Amounts in this chart do include mortgage renewals. Mortgages that have been executed but have not yet been processed in the system, 'extra ruimte' mortgages and bridging loans are not included.
2 The mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.6 billion.

RESIDENTIAL MORTGAGES IN ARREARS

The table below shows the residential mortgages in arrears. The total amount of loans more than 90 days in arrears increase from € 103 million to € 136 million. The total amount of loans in stage 2 rose from € 2,446 million to € 2,538 million, primarily due to adjustments in the provisioning methodology for interest-only mortgages. The total amount of loans in arrears increased from € 484 million to € 552 million. Customers for whom a support measure is extended due to the Covid-19 crisis are not considered to be in arrears for the period the payment relief is granted. If the customer is unable to pay in accordance with the agreed terms after the payment relief period, the customer is considered to be in default. In this case, the customer is reported in stage 3.

Residential mortgages in arrears 31-12-2020 Audited

in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	43,154	43,154	--	--	--	0.0%
Stage 2	2,538	2,279	174	85	--	10.2%
Stage 3	544	251	50	107	136	53.9%
Subtotal	**46,236**	**45,684**	**224**	**192**	**136**	**1.2%**
IFRS value adjustments[1]	1,572	--	--	--	--	
Total	**47,808**	**45,684**	**224**	**192**	**136**	

Residential mortgages in arrears 31-12-2019 Audited

in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	43,977	43,977	--	--	--	0.0%
Stage 2	2,446	2,170	236	39	1	11.3%
Stage 3	540	333	42	64	102	38.5%
Subtotal	**46,963**	**46,479**	**278**	**103**	**103**	**1.0%**
IFRS value adjustments[1]	1,198					
Total	**48,161**	**46,479**	**278**	**103**	**103**	

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

3.3.6 Consumer loans

MAIN DEVELOPMENTS IN 2020

The size of the consumer loan portfolio decreased to € 63 million from € 87 million as at the end of 2019. The amount of loans and advances in stage 3 dropped slightly from € 13 million as at the end of 2019 to € 12 million, primarily driven by the write-down of balances of customers who had been in default for a long period of time.

So far, the Covid-19 crisis has had a limited impact on consumer loans. The credit loss provision dropped by € 2 million to € 12 million primarily as a result of the implementation of a new ECL model. The increase in the coverage ratio to 19.0% was mainly due to the higher unemployment rate in the macroeconomic scenarios in 2020. This resulted in a higher average provision per account or loan.

The consumer loan portfolio is expected to decline further in 2021 mostly driven by the decline in the revolving credits.

KEY FIGURES

Exposure to consumer loans 31-12-2020 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	38	--	38	60.3%	0.0%
Stage 2	13	-1	12	20.6%	7.7%
Stage 3	12	-11	1	19.0%	91.7%
Total consumer loans	**63**	**-12**	**51**		**19.0%**
Off-balance sheet items stage 1	420	-1	419	--	0.2%
Off-balance sheet items stage 2	9	--	9	--	0.0%
Off-balance sheet items stage 3	2	-1	1	--	50.0%
Total off-balance sheet items[1]	431	-2	429		0.5%
Total on- and off-balance sheet items consumer loans	**494**	**-14**	**480**		**2.8%**

1 Consists mainly of conditionally revocable facilities.

Exposure to consumer loans 31-12-2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	62	--	62	71.3%	0.0%
Stage 2	12	-1	11	13.8%	8.3%
Stage 3	13	-13	--	14.9%	100.0%
Total consumer loans	**87**	**-14**	**73**		**16.1%**
Total off-balance sheet items[1]	446	-3	443		-0.7%
Total on- and off-balance sheet items consumer loans	**533**	**-17**	**516**		**3.2%**

1 Consists mainly of conditionally revocable facilities.

Transfers between stages in the gross carrying amount of consumer loans

	2020				2019			
in € millions	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	1	-1	--	--	3	-3	--	--
Transfer to stage 2	-7	7	--	--	-6	6	--	--
Transfer to stage 3	--	--	--	--	-1	-1	2	--

MOVEMENT IN PROVISION

The consumer loan portfolio consists of three products: personal loans, revolving credits and overdraft facility, out of which only the latter one is actively marketed. This explains the gradual decrease in the gross carrying amount and in the provisions.

The main efforts on reducing the default portfolio of consumer loans were made in 2018 and 2019. In 2020, the default portfolio reduced slightly leading to the write-off amount of € 2 million. The implementation of a new ECL model resulted in a € 1 million release.

Changes in the provision for credit losses for consumer loans Audited

	2020				2019			
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**--**	**1**	**13**	**14**	**--**	**2**	**22**	**24**
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	--	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--
Changes in credit risk	--	1	--	1	--	-1	5	4
Originated or purchased	--	--	--	--	--	--	--	--
Matured or sold	--	--	--	--	--	--	-3	-3
Changes in models and estimates	--	-1	--	-1	--	--	--	--
Impairment charges (releases)	**--**	**--**	**--**	**--**	**--**	**-1**	**2**	**1**
Write-offs	--	--	-2	-2	--	--	-11	-11
Closing balance	**--**	**1**	**11**	**12**	**--**	**1**	**13**	**14**
Impairment charges (releases)				--				1
Recoveries and other charges trough P&L				-1				-3
Total impairment charges (releases)				**-1**				**-2**

CONSUMER LOANS IN ARREARS

Consumer loans in arrears 31-12-2020 Audited

in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	38	38	--	--	--	0.0%
Stage 2	13	12	1	--	--	7.7%
Stage 3	12	1	--	1	10	91.7%
Total	**63**	**51**	**1**	**1**	**10**	**19.0%**

Consumer loans in arrears 31-12-2019 Audited

in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	62	62	--	--	--	0.0%
Stage 2	12	11	1	--	--	8.3%
Stage 3	13	1	--	1	11	92.3%
Total	**87**	**74**	**1**	**1**	**11**	**14.9%**

3.3.7 SME loans

MAIN DEVELOPMENTS IN 2020

In 2020, SME loans increased by € 20 million to € 724 million as the new production (€ 117 million) exceeded repayments. The credit loss provision grew by € 7 million to € 38 million. The consequences of the Covid-19 crisis are reflected in the increase in the stage 2 ratio, which grew to 12.4% from 9.5% in 2019. Furthermore, the total volume of stage 3 exposure grew by € 12 million. The effects of the Covid-19 crisis are expected to have a pronounced impact on the portfolio developments in the course of 2021.

KEY FIGURES

Exposure to SME loans 31-12-2020 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	558	-6	552	77.1%	1.1%
Stage 2	86	-5	81	11.9%	5.8%
Stage 3	80	-27	53	11.0%	33.8%
Total SME loans	**724**	**-38**	**686**	**0.0%**	**5.2%**
Off-balance sheet items stage 1	52	-1	51	--	--
Off-balance sheet items stage 2	1	--	1	--	--
Off-balance sheet items stage 3	1	--	1	--	--
Total off-balance sheet items[1]	**54**	**-1**	**53**	**--**	**1.9%**
Total on- and off-balance sheet items SME loans	**778**	**-39**	**739**	**--**	**5.0%**

1 Off-balance sheet: liabilities from irrevocable facilities and guarantees.

Exposure to SME loans 31-12-2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	566	-1	565	80.4%	0.2%
Stage 2	67	-5	62	9.5%	7.5%
Stage 3	71	-25	46	10.1%	35.2%
Total SME loans	**704**	**-31**	**673**		**4.4%**
Total off-balance sheet items[1]	40	--	40		--
Total on- and off-balance sheet items SME loans	**744**	**-31**	**713**		**4.2%**

1 Off-balance sheet: liabilities from irrevocable facilities and guarantees.

Transfers between stages in the gross carrying amount of SME loans

	2020				2019			
in € millions	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	16	-11	-5	--	32	-25	-7	--
Transfer to stage 2	-32	37	-5	--	-5	14	-9	--
Transfer to stage 3	-23	-9	32	--	-1	-13	14	--

MOVEMENT IN PROVISION

The total amount of provisions for the SME portfolio increased by € 7 million, which was mostly a result of the expert overlay introduced to cover the uncertainties surrounding the Covid-19 crisis. The total write-offs continued to be limited primarily due to the favourable developments in the real estate prices. The release in provisions due to mutured or sold loans amounted to € 3 million. Loans originated in 2020 contributed to a total amount of provisions of € 2 million.

Changes in the provision for credit losses for SME loans Audited

in € millions	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance	**1**	**5**	**25**	**31**	**1**	**7**	**33**	**41**
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	1	-1	--
Transfer to stage 3	--	-1	1	--	--	-1	1	--
Change in credit risk	4	1	4	9	--	-2	1	-1
Originated or purchased	1	--	1	2	--	--	--	--
Matured or sold	--	--	-3	-3	--	--	-5	-5
Changes in models and estimates	--	--	--				--	
Impairment charges (releases)	**5**	**--**	**3**	**8**	**--**	**-2**	**-4**	**-6**
Write-offs	--	--	-1	-1	--	--	-4	-4
Closing balance	**6**	**5**	**27**	**38**	**1**	**5**	**25**	**31**
Impairment charges (releases)				8				-6
Recoveries and other charges trough P&L				--				-2
Total impairment charges (releases)				**8**				**-8**

COVID-19 MEASURES

We supported our SME customers having financial difficulties due to Covid-19 by granting, amongst others, payment holidays. In total we supported 342 customers. Most of the payment holidays granted under moratoria, expired by the end of 2020. There were no supporting measures granted after September 2020 qualifying as general payment moratoria. After the moratoria and the payment holidays expire, the customer's situation is thoroughly assessed in order to determine whether the customer can keep fulfilling its payment obligations. As a result of this assessment a customer may be declared unlikely-to-pay and be placed in default. The total provisions for these loans amounted to € 8 million at the end of 2020.

The Small Loans Covid Guarantee Scheme, announced on May 7 2020 and with an original expiration date on 31 December 2020, which has been extended by the Dutch state to 30 June 2021, was used by 56 customers for a total exposure of less than € 1 million.

Covid-19 measures for SME loans

	Payment holidays		
	Granted	Active	Expired
Number of customers			
March 2020	26	--	26
2Q 2020	273	22	251
3Q 2020	26	26	--
4Q 2020	17	17	--
Total	**342**	**65**	**277**
GROSS CARRYING AMOUNT (IN € MILLIONS)			
Stage 1	55	2	53
Stage 2	22	--	22
Stage 3	31	3	28
Total gross carrying amount	**108**	**5**	**103**
PROVISION FOR CREDIT LOSSES (IN € MILLIONS)			
Stage 1	1	--	1
Stage 2	1	--	1
Stage 3	9	1	8
Total provision for credit losses	**11**	**1**	**10**

CREDIT QUALITY

Internal rating classes of SME loans

	2020				2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	261	2	--	263	346	4	--	350
2	139	0	--	139	131	--	--	131
3	78	1	--	80	48	--	--	48
4	58	4	--	63	25	--	--	25
5	15	24	--	39	12	17	--	29
6	--	33	--	33	4	27	--	31
7	--	20	--	20	--	19	--	19
8 (default)	7	1	80	88	--	--	71	71
Total	**558**	**86**	**80**	**724**	**566**	**67**	**71**	**704**
Credit provision	-6	-5	-27	-38	-1	-5	-25	-31
Carrying amount	**552**	**81**	**53**	**686**	**565**	**62**	**46**	**673**

SME loans in stage 3 by LtV bucket

in € millions[1]	**2020**	**2019**
LtV ≤ 75%	17%	20%
LtV >75 ≤100%	15%	13%
LtV >100 ≤110%	9%	3%
LtV >110 ≤125%	8%	9%
LtV > 125%	51%	55%
Total gross amount	**100%**	**100%**

1 LtV based on foreclosure value of collateral.

SME loans by sector[1]

	2020		2019	
in € millions	**Gross carrying amount**	**Provision for credit losses**	**Gross carrying amount**	**Provision for credit losses**
Agriculture, forestry and fishing	12	--	11	--
Manufacturing	42	-4	38	-3
Construction	42	-2	35	-1
Wholesale and retail trade	127	-5	115	-3
Transport and storage	7	--	7	--
Accommodation and food service activities	40	-3	38	-2
Information and communication	5	--	5	--
Financial and insurance activities	147	-8	147	-6
Real estate activities	176	-12	187	-13
Professional, scientific and technical activities	54	-3	48	-3
Administrative and support service activities	13	--	13	--
Education	5	--	5	--
Human health services and social work activities	19	--	21	--
Arts, entertainment and recreation	18	--	17	--
Other	17	-1	17	--
Total SME loans	**724**	**-38**	**704**	**-31**

1 Based on the activity classification of the European Union (Nomenclature statistique des activités économiques dans la Communauté Européenne, NACE).

SME LOANS IN ARREARS

SME loans in arrears 31-12-2020 Audited

IFRS 9 in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	558	558	--	--	--	0.0%
Stage 2	86	83	2	1	--	3.5%
Stage 3	80	57	2	11	10	28.8%
Total	**724**	**698**	**4**	**12**	**10**	**3.6%**

SME loans in arrears 31-12-2019 Audited

IFRS 9 in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	566	566	--	--	--	0.0%
Stage 2	67	64	3	--	--	4.7%
Stage 3	70	48	4	3	16	32.0%
Total	**704**	**678**	**7**	**3**	**16**	**3.6%**

3.3.8 Other corporate and government loans

MAIN DEVELOPMENTS IN 2020

Other corporate and government loans consist almost entirely of the loan portfolio of ASN Bank. This portfolio is hardly directly affected by the Covid-19 crisis, as 45% consists of private loans to local authorities and loans to housing associations and hospitals guaranteed by guarantee funds. The other 55% consists of loans contributing to a more sustainable world. These loans are predominantly based on government incentives (subsidies and price guarantees). Only a limited portion of the portfolio is hit directly. Customers from this portfolio therefore made little use of the Covid-19 related support measure (suspension of repayment and interest payments).

Most of the loans in the other corporate and government portfolio are found in stage 1 (91%), as was the case at the end of 2019, € 154 million has been classified as stage 2, for which a provision of € 1 million has been made. There are no loans in arrears, not even those in stage 3.

In 2019, one customer in the portfolio was allocated to stage 3. This was continued in 2020. It concerns a loan of € 43 million, for which € 4 million was provided for credit losses. Collateral for this loan include, among others, a first mortgage on the right of superficies and a first right of pledge on all movable property and receivables.

KEY FIGURES

Exposure to other corporate and government loans 31-12-2020 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	1,916	--	1,916	90.7%	0.0%
Stage 2	154	-1	153	7.3%	0.6%
Stage 3	43	-4[1]	39	2.0%	9.3%
Total other corporate and government loans	**2,113**	**-5**	**2,108**		**0.2%**
Off-balance sheet items stage 1	409	--	409	--	--
Off-balance sheet items stage 2	--	--	--	--	--
Off-balance sheet items stage 3	5	-1	4	--	--
Total off-balance sheet items[2]	**414**	**-1[1]**	**413**		**0.2%**
Total on- and off-balance sheet items other corporate and government loans	**2,527**	**-6**	**2,521**		**0.2%**

1 The provision made for one specific loan in stage 3 and the corresponding irrevocable facility is made on an individual basis.

2 Off-balance sheet: liabilities from irrevocable facilities and guarantees.

Exposure to other corporate and government loans 31-12-2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	1,470	--	1,470	90.3%	0.0%
Stage 2	137	-1	136	8.4%	0.7%
Stage 3	21	-2[1]	19	1.3%	9.5%
Total other corporate and government loans	**1,628**	**-3**	**1,625**		**0.2%**
Total off-balance sheet items[2]	457	-2[1]	455		0.4%
Total on- and off-balance sheet items other corporate and government loans	**2,085**	**-5**	**2,080**		**0.2%**

1 The provision made for one specific loan in stage 3 and the corresponding irrevocable facility is made on an individual basis.

2 Off-balance sheet: liabilities from irrevocable facilities and guarantees.

Transfers between stages in the gross carrying amount of other corporate and government loans

	2020				2019			
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Transfer to stage 1	6	-6	--	--	41	-41	--	--
Transfer to stage 2	-36	36	--	--	-10	10	--	--
Transfer to stage 3	--	--	--	--	-21	--	21	--

MOVEMENT IN PROVISION

The ASN portfolio consists for the larger part of loans backed by public sector institutions. This makes the portfolio very secure, ensuring low credit risk which is reflected in the low level of provisions. There is one customer in default since 2019 which results in a stage 3 provision.

Changes in the provisions for credit losses for other corporate and government loans Audited

	2020				2019				Off-balance	
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**2020**	**2019**
Opening balance	**--**	**1**	**2**	**3**	1	2	--	3	**2**	--
Changes in credit risk	--	--	2	2	-1	-1	2	--	-1	2
Impairment charges (releases)	**--**	**--**	**2**	**2**	**-1**	**-1**	**2**	**--**	**-1**	**2**
Write-offs	--	--	--	--	--	--	--	--	--	--
Closing balance	**--**	**1**	**4**	**5**	**--**	**1**	**2**	**3**	**1**	**2**

Breakdown of other corporate and government loans Audited

in € millions	**2020**	**2019**
Government	**665**	**287**
of which cash loans	*417*	*13*
of which other private loans ASN	*248*	*274*
Other financial corporations	**394**	**396**
of which private loans securitisation programme	*257*	*254*
of which sustainable funds ASN	*126*	*142*
of which other loans	*11*	*--*
Non-financial corporations	**1,054**	**945**
of which other private loans ASN	*391*	*445*
of which sustainable project funding ASN	*638*	*500*
of which cash loans	25	--
Gross other corporate and government loans	**2,113**	**1,628**
Provision for credit losses	-5	-3
Total other corporate and government loans	**2,108**	**1,625**

Government loans

Loans and advances to the public sector are mostly loans provided to Dutch municipalities and provinces and government-guaranteed loans to institutions. The credit risk on these loans and advances is very low. The majority of the portfolio of loans and advances to the public sector are found in stage 1 (94%), as was the case at the end of 2019. An amount of € 38 million (6%) of the loans is classified as stage 2; a provision of less than € 100,000 has been made for this. This portfolio does not contain any loans and advances in stage 3.

Loans to the government Audited

in € millions	**2020**	**2019**
The Netherlands	258	287
EMU excl. the Netherlands	163	--
Switzerland	244	--
Total	**665**	**287**

Loans to non-financial corporations by sector[1]

in € millions	2020 Gross carrying amount	2020 Provision for credit losses	2019 Gross carrying amount	2019 Provision for credit losses
Manufacturing	3	--	4	--
Electricity, gas, steam and air conditioning supply	520	-4	385	-2
Construction	13	--	14	--
Transport and storage	25	--	--	--
Financial and insurance activities	13	--	13	--
Real estate activities	273	--	310	--
Professional, scientific and technical activities	24	--	16	-1
Human health services and social work activities	152	--	169	--
Arts, entertainment and recreation	5	--	6	--
Other	26	--	28	--
Total non-financial corporations	**1,054**	**-4**	**945**	**-3**

1 Based on the activity classification of the European Union (Nomenclature statistique des activités économiques dans la Communauté Européenne, NACE).

Private loans securitisation programme

A private loan has been provided to insurer Athora Netherlands. Mortgages are securitised as part of de Volksbank's securitisation programme, in which respect the savings policy is issued by Athora Netherlands and the mortgage is provided by de Volksbank. Athora Netherlands receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. The loan carries no credit risk for de Volksbank, as – in the event of default – it will be set off against the savings premiums that customers have deposited with de Volksbank; these are of the same size. The loan must be considered encumbered. At year-end 2020, the loan amounted to € 257 million (year-end 2019: € 254 million). Please refer to note 12 Other amounts due to customers to the consolidated financial statements for more information.

ASN Bank sustainable loans

ASN Bank's sustainable loans comprise project loans to mainly organisations in the renewable energy sector. We mitigate concentration risk by a thorough knowledge of the sector, geographical distribution of investments and diversification by type of energy production (solar, wind, and thermal storage) and underlying suppliers (solar panels and wind turbines). A major part of the loans we provide involve government-guaranteed electricity prices and purchase contracts.

Rates are under pressure and returns are low in the sustainable loans market. In addition to our internal return targets, we also consider social relevance (CO_2 reduction) in our decisions on the relevant loan. The bank only funds the project if it satisfies the targets set.

Other private loans

Other private loans are mostly ASN Bank loans provided to housing corporations, healthcare institutions and companies owned by or affiliated with the government. Such organisations align well with the social objectives of the ASN Bank brand and de Volksbank.

Most of these loans are secured by a government guarantee, a guarantee issued by the Social Housing Guarantee Fund (WSW) or a guarantee issued by the Guarantee Fund for the Health Care Sector (WfZ). As a result of the guarantees issued, this portfolio has an extremely low risk. Scheduled repayments translate into a year-on-year decline of the portfolio.

3.3.9 Risk mitigation

COLLATERAL

The table below shows how exposures were collateralised as at year-end 2020 and 2019.

Exposure secured by collateral, guarantees and credit derivatives

	Exposure at default		Secured by guarantees[1]		Secured by collateral	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
STANDARDISED EXPOSURE CLASSES						
Central governments and central banks	8,857	6,650	--	--	--	--
Regional governments or local authorities	3,333	1,659	--	--	--	--
Public sector entities	798	489	29	31	--	--
Multilateral development banks	416	383	--	--	--	--
International organisations	38	47	--	--	--	--
Financial institutions	2,165	1,518	2,651	1,464	1,497	1,293
Corporates	929	1,028	484	510	265	257
Retail excl. mortgages	140	114	--	--	10	8
Secured by mortgages immovable property	546	580	--	--	--	--
Exposures in default	95	78	--	--	--	--
Items associated with particular high risk	--	--	--	--	--	--
Covered bonds	164	102	--	--	--	--
Equity exposures	11	9	--	--	--	--
Other items	211	370	--	--	--	--
Total standardised approach	**17,703**	**13,029**	**3,164**	**2,005**	**1,772**	**1,558**
IRB EXPOSURE CLASSES						
Residential mortgages	46,429	46,131	12,566[2]	12,892[2]	44,819[3]	44,129[3]
Securitisation	95	72	--	--	--	--
Total IRB approach	**46,524**	**46,203**	**12,566**	**12,892**	**44,819**	**44,129**
Total exposure	**64,227**	**59,232**	**15,730**	**14,897**	**46,591**	**45,687**

1 The guarantees in the Standardised exposure classes have been transferred for the benefit of the EAD exposures to the counterparty type that issued the guarantee (in particular to counterparties central and regional governments).

2 The amount of an NHG guarantee on residential mortgages decreases on an annuity basis.

3 This collateral concerns the market value of the mortgage collateral to the maximum of the mortgage loan. The amount does not include collateral value regarding off-balance exposures that are included in the EAD.

The standardised exposure classes concern the book values increased by off-balance sheet commitments. The IRB exposure class Residential mortgages concerns the Exposure at Default (EAD) of on-balance sheet mortgages increased by off-balance sheet commitments.

The guarantees for Financial institutions are guarantees issued by regional or central governments. The collateral is mainly collateral under derivative transactions.

Guarantees for Corporates are government-issued guarantees for, for example, healthcare institutions or housing corporations. The collateral of loans and advances to banks predominantly consists of financial collateral. The collateral of corporate loans predominantly consists of property. We do not use credit derivatives as collateral.

Residential mortgages

For residential mortgages, we ensure that the inflow of loans meets adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a National Mortgage Guarantee (NHG). Of the Internal Ratings-Based (IRB) exposure class residential mortgages, € 12.6 billion (2019: € 12.9 billion), i.e. 29%, of the gross carrying amount of the exposure comes under the NHG guarantee scheme (see also table Breakdown of residential mortgages by LtV in section 3.3.5 Residential mortgages).

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

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

Corporate portfolio

We verify the value of collateral in the corporate SME portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform checks more frequently. The revaluation frequency for property depends on the amount of debt. If the debt (the exposure) exceeds € 3 million or the exposure exceeds € 1 million and the LtV is above 80%, the property must be revalued once every three years. No revaluation is required if the debt is lower since we monitor the development of the value of the collateralised property based on market information.

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

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

COUNTERPARTY RISK ON DERIVATIVE POSITIONS

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

In order to reduce this counterparty risk on derivative transactions, the bank applies the following order when entering into such transactions:

- Where possible, the bank concludes derivative transactions with financial institutions using clearing via a central counterparty (CCP). Exceptions are transactions that are not supported by a CCP or very short-term transactions entailing extremely high costs of central clearing. Of the eligible derivatives, 96% are CCP cleared, based on par value;
- If central clearing is not possible, the bank subjects derivative transactions with financial institutions to collateral agreements. These are International Swaps and Derivatives Association (ISDA) standardised contracts with a Credit Support Annex (CSA) agreed in advance with each counterparty, laying down the collateral arrangements. In this respect, the bank limits the credit risk on counterparties by means of the provision and acquisition of collateral in the form of cash and/or marketable securities that covers the value of the derivatives. If a counterparty remains in default, the bank will terminate the transactions and the collateral in the amount of the replacement value of the transactions will be available to the bank on the basis of the CSA collateral agreement.

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

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

It has been agreed in a number of ISDA/CSA agreements with the counterparty that de Volksbank will provide more collateral if de Volksbank's credit rating deteriorates.

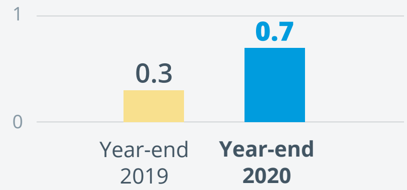
3.4 Market risk

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

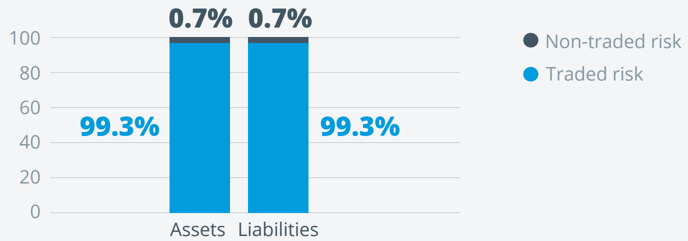
Volume of Earnings at Risk year-end 2020

€58 MILLION

Duration of equity



Exposure market risk year-end 2020



Market risk may arise because de Volksbank concludes contracts and enters into obligations with customers and professional counterparties. Market risk occurs in the banking book and the trading portfolio.

3.4.1 Risk profile

The market risk in the banking book mainly comprises market interest rate risk, i.e. the risk that the bank's future interest income deteriorates if market rates change. This risk is part and parcel of a bank that provides mortgage and savings products. In addition, tradable securities in the liquidity portfolio are sensitive to value decreases as a consequence of credit spread risk. Other risks that may be qualified as market risk are very limited for de Volksbank. With equity holdings in other companies of € 8 million (2019: € 7 million), the equity (price) risk is small. Moreover, the banking book does not contain any exposure to commodities. De Volksbank has a limited trading portfolio that includes interest rate, credit spread and foreign currency exposures. In 2020, migration to the €STR-benchmark rates has taken place.

3.4.2 Management and control Audited

INTEREST RATE RISK IN THE BANKING BOOK

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

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

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

Short-term interest rate risk: EaR

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

Long-term interest rate risk: EVE

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

CURRENCY RISK

We minimise currency risk by effecting most of our foreign currency exposures through the trading book, where currency risk is managed on a day-to-day basis. The portfolios that contain currency risk are part of the set of portfolios where a 1-day VaR is calculated on. These portfolios all have approved limits and are managed as such. We have hedged the remaining foreign currency risk in the banking book almost entirely with FX swaps. The equivalent of the total net foreign currency exposure of the bank book and trading book combined at the end of 2020 was € 6 million (2019: € 5 million).

In 2020 economic uncertainty related to the pandemic have amongst others led to high liquidity positions at de Volksbank. This was mainly driven by retail clients who deposited more savings to the bank. De Volksbank holds its surplus liquidity on its account at the European Central Bank at a rate of -0.50%. At the same time de Volksbank continuously investigates opportunities to optimise the return of its excess liquidity. The aforementioned economic uncertainty caused volatility in the short-term interest rates of currencies other than that of the euro. The use of short-term currency swaps to manage excess liquidity resulted in a more positive return compared to the rate of the ECB. The volume of the currency swaps are strongly related to the excess liquidity position. The short swap transaction falls within our risk parameters (VaR, Stress and Expected Shortfall) set for such activities by the ALCO. Transactions are only executed by counterparties approved by the bank's risk department and its Credit Committee. Controls are carried out instantly and reported on a daily basis. All transactions related to cash management are settled through the CLS system (CLS; continuously linked settlements).

MARKET RISK IN THE TRADING BOOK

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

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

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

3.4.3 Figures, ratios and trends

MARKET RISK PROFILE IN THE BANKING BOOK

Breakdown of interest rate risk

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

Duration of equity

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

Earnings-at-Risk

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

Credit spread risk

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

MARKET RISK EXPOSURE TRADING AND NON-TRADING RISK AUDITED

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

Market risk exposure trading and non-trading risk

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

SENSITIVITY ANALYSIS

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

Sensitivity interest rates Audited

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

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

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

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

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

Market value of equity

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

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

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

Net interest income

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

IFRS Equity

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

MARKET RISK PROFILE IN THE TRADING BOOK AUDITED

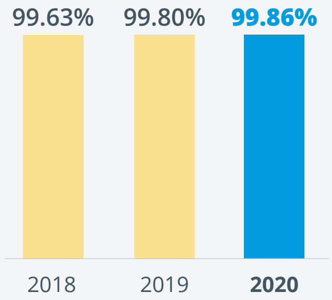
De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the year, the total VaR limit for the trading book remained stable at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

3.5 Non-financial risks

The impact of non-financial risks can be great. We recognise the importance of this and continually measure the results of process and system control for the purpose of further improvements.

Non-financial risks

Average availability of iDEAL



Besides financial risks, de Volksbank also runs non-financial risks caused by both internal and external factors and developments. These developments are described in Section 3.1.2 Top risks.

The impact of non-financial risks is becoming more and more material, partly as a result of technological developments, a changing market that is getting harder to predict, political developments and increasingly stringent laws and regulations.

Non-financial risks arise from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, from incorrect data or the use of such data, or from external events. They manifest themselves in, for instance, fraud, damage to property, system failure, process errors or a failure to comply with laws and regulations. Since the damage ensuing from these events may affect our customers and the bank financially or harm our reputation, it is essential that we have a timely and adequate understanding of the risks we run, that we respond to these risks and implement appropriate control measures.

3.5.1 Risk profile

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

3.5.2 Types of risk and areas of focus

Non-financial risks cover those actual or potential events in the operational execution of de Volksbank's strategy that have a negative impact on the achievement of our objectives. We have categorised the non-financial risk into three risk types: operational risk, compliance risk and model risk. Operational risk comprises the subtypes of process risk, people risk, IT risk, legal risk and reporting and data management risk. The term non-financial risk is fully in line with the term Operational Risk as defined in the Basel regulations.

In this section we address important developments in 2020.

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

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

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

3.6 Liquidity management and funding strategy

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

Liquidity buffer year-end 2020

€19.1 BILLION

Capital market funding maturing in 2021

€0.3 BILLION

Funding mix

- Savings and other amounts due to customers
- Debt instruments (incl. subordinated)
- Other
- Shareholders' equity
- Amounts due to banks

Long-term senior unsecured credit rating

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

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

3.6.1 Risk profile

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

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

3.6.2 Management and control Audited

The risk management cycle as defined in 3.1.1 Risk Management Structure applies to liquidity risk management in the following way:

1. Identification of liquidity risks. We continuously aim to identify all potential risks within the scope of liquidity management. As an example, we perform an independent risk review of all relevant proposals related to liquidity management.
2. Assessment of liquidity risks. The continuous (internal) assessment of the adequacy of our liquidity position and liquidity risk management is part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which constitutes input for the Supervisory Review & Evaluation Process (SREP) of the European Central Bank (ECB). We present the outcome of the assessment in the annual ILAAP liquidity adequacy statement (LAS) report. We compare the current and expected risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity position, risk appetite, policy or guidelines and to improve the risk management process. The assessment of liquidity risks within the liquidity risk management lifecycle further comprises:
   - Annual recalibration of the liquidity management strategy. We lay down guidelines for a balance sheet structure with maximum efficiency from a liquidity risk perspective. In this process, we take account of the liquidity management objective: an adequate liquidity and funding profile.
   - Definition of actions in the capital and liquidity plan. We do this at least once a year, giving substance to the anticipated funding and liquidity needs ensuing from the operational plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal thresholds and work out various scenarios.
   - Update of forecasts in the monthly Liquidity Adequacy Assessment Report (LAAR). Based on a revised liquidity plan when appropriate, the forecasts are updated every month based on

the most recent insights and reported to the ALCO. The LAAR includes a LAS based on the current risk profile versus the risk thresholds and a forward-looking assessment.
   - Regular stress testing to provide insight into the key vulnerabilities and to assess the resilience of the liquidity position to severe but plausible adverse (economic) conditions. The results are included in the LAAR.
   - Drawing up of a recovery plan for adverse circumstances. This plan contains possible measures to strengthen the liquidity position. By updating the recovery plan annually, we contribute to the bank's continuity (also see Section 3.8.2 Management and control).
3. Risk response to liquidity risks. Every year, we determine the risk appetite statement (RAS) for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives. To monitor liquidity risk, we use specific risk indicators and determine the level above which we feel comfortable on the basis of the appetite for liquidity risk. We also establish an intervention ladder with specific ranges per risk indicator in case follow-up is required.
4. Monitoring of liquidity risks. We monitor early warning indicators defined in the RAS for liquidity risk on a regular basis in the Treasury Committee. The ALCO monitors the RAS indicators in the LAAR on a monthly basis.
5. Residual risk. Because of (unexpected) balance sheet or regulatory developments, it is possible that not all liquidity risks are identified or fully managed at all times. By following the liquidity risk management life cycle, we intend to identify these risks and formulate a risk response.
6. Reporting of liquidity risk indicators. We prepare regulatory and internal reports to measure, monitor and manage the bank's liquidity position on an ongoing basis.

MANAGEMENT INSTRUMENTS

Cash position

Under normal circumstances, the cash position is the source of liquidity that we use to meet regular obligations. The cash position as defined by de Volksbank comprises:
- Central Bank reserves;
- account balances with correspondent banks;
- contractual cashflows of counterparties in money and capital markets taking place within ten days.

Liquidity buffer

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

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

Liquidity stress testing

We test the robustness of the liquidity position by means of stress tests. We have defined various scenarios, of which the so-called combined severe stress test has the highest impact. In this scenario we, inter alia, take the following into account:
- a strong outflow of savings and current account balances;
- a lack of funding options in money and capital markets;
- a decline in the fair value of bonds in the liquidity buffer;
- additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating;
- a decline in the fair value of derivatives;
- a possible liquidity outflow in the event that committed credit lines are drawn.

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

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

Key liquidity ratios

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

In addition to the LCR and NSFR, we manage the Loan-to-Deposit ratio and the degree of asset encumbrance. We also monitor the liquidity that can potentially be generated from our assets. On this basis, we assess the extent to which we can absorb certain stress and extreme outflows of funding.

3.6.3 Covid-19 related measures

In response to Covid-19 the following supervisory and regulatory measures have been taken, which affect de Volksbank's liquidity position to a greater or lesser extent:
- The ECB has allowed banks to operate temporarily below the required Liquidity Coverage Ratio (LCR).
- The ECB has eased the conditions for targeted longer-term refinancing operations (TLTRO-III).
- The ECB has adopted a temporary general reduction of collateral valuation haircuts by 20%.

3.6.4 Figures, ratios and trends

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

Liquidity indicators

	2020	2019
LCR	233%	182%
NSFR	>100%	>100%
Loan-to-Deposit ratio	92%	102%
Liquidity buffer (in € millions)	19,121	16,897

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum of 100%. As at 31 December 2020, the LCR stood at 233% (year-end 2019: 182%).

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio[7], dropped to 92%, from 102% at year-end 2019. This drop was caused by a growth in deposits, of which € 3.7 billion was driven by an increase in savings of retail customers, and there also was a limited decline in loans.

Liquidity buffer Audited

Liquidity buffer composition

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

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

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

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

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

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

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

7 Loan-to-Deposit ratio: loans and advances to retail customers / amounts due to retail customers

3.6.5 Encumbered and unencumbered assets Audited

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 2020 Audited

	Four-quarter median				Year-end			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
in € millions	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Equity instruments	--	--	8	8	--	--	8	8
Debt securities	750	765	4,575	4,605	683	697	4,420	4,451
Other assets	9,693		50,612		9,623		52,750	
- of which mortgage loans	7,476		39,353		7,441		39,050	
Assets of the reporting institution	10,409		55,210		10,305		57,178	

Encumbered and unencumbered assets 2019 Audited

	Four-quarter median				Year-end			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
in € millions	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Equity instruments	--	--	7	7	--	--	7	7
Debt securities	1,422	1,443	3,512	3,564	697	715	4,644	4,685
Other assets	9,965		48,924		9,617		47,876	
- of which mortgage loans	7,742		39,748		7,715		39,618	
Assets of the reporting institution	11,499		52,803		10,314		52,527	

TOTAL ENCUMBERED ASSETS

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

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

The limited change in 2020 was primarily the result of a decrease in outstanding covered bonds that was offset by the encumbrance of collateral related to the TLTRO-III participation and a higher volume of collateral deposited in relation to derivative positions.

The total encumbered assets mainly consist of pledged mortgages related to bonds issued under the covered bond programme. The total amount of liabilities related to total encumbered assets is € 8.6 billion (2019: € 8.4 billion).

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

UNENCUMBERED ASSETS

The unencumbered part of the assets amounts to € 57.2 billion and may partly be converted into cash, for example by securitisation. Securitised mortgages of which the bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral, for instance in a repurchase transaction.

POTENTIAL COLLATERAL DEPOSIT

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 218 million with counterparties. We include this potential collateral deposit as outflow in the LCR and the combined severe liquidity stress test.

COLLATERAL RECEIVED

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

3.6.6 Funding strategy

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

Retail savings are de Volksbank's main source of funding. Through our brands, we attract term deposits, demand deposits and current account balances from retail customers. In addition, funding takes place through savings deposits and current account balances from SME customers. In 2020, customer deposits increased to € 53.0 billion, from € 48.1 billion at year-end 2019.

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

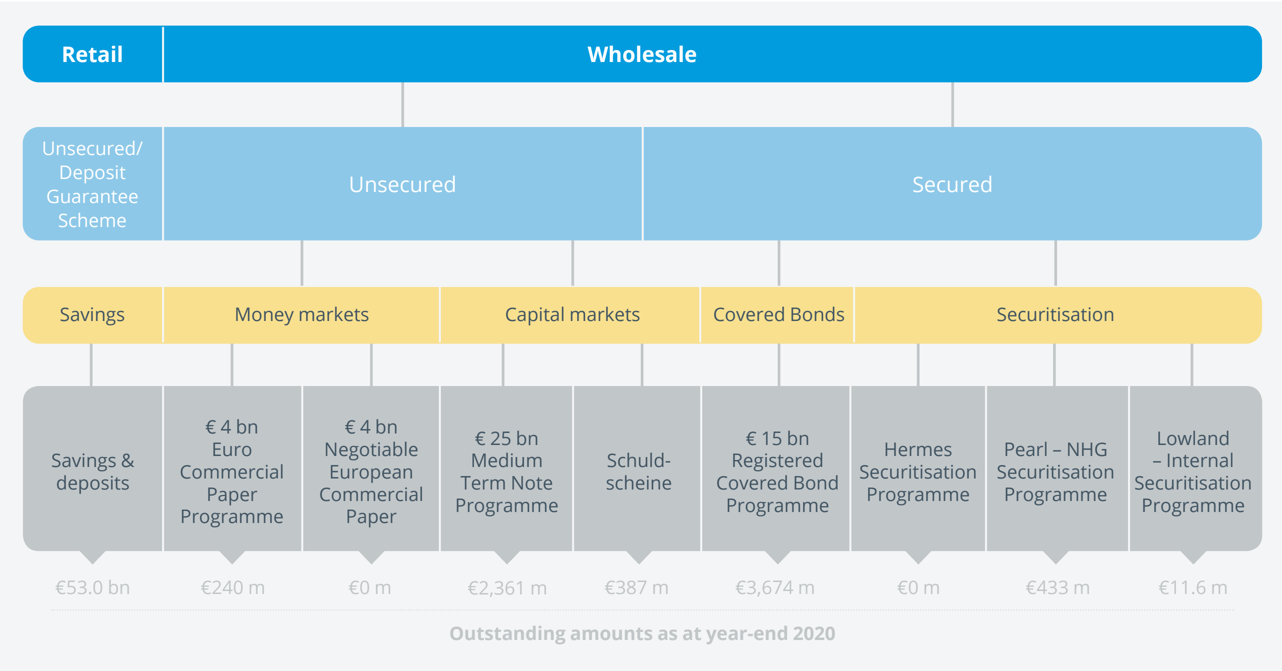
The bank issues capital market funding with a term in excess of one year by means of:

- senior (unsubordinated) unsecured debt;
- (mortgage) securitisations (RMBS);
- covered bonds;
- subordinated debt.

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

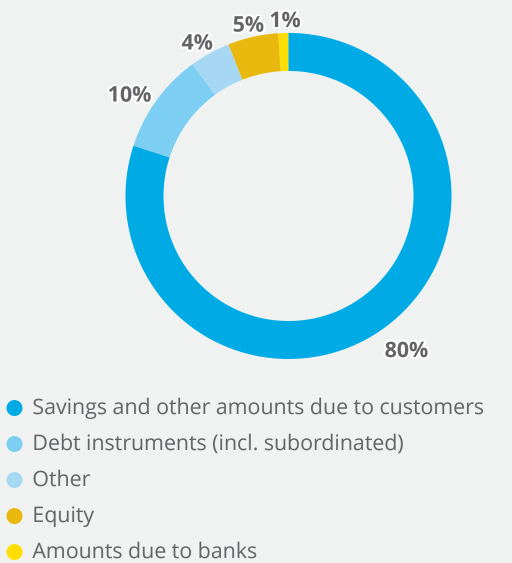
The bank issues funding with a term of less than one year in the money markets via its Euro Commercial Paper (ECP) and Negotiable European Commercial Paper (NEUCP) programmes.

The overview below presents the various public funding programmes (including maximum amounts and outstanding nominal value) available to the bank at year-end 2020. In addition, the overview includes other important funding sources.

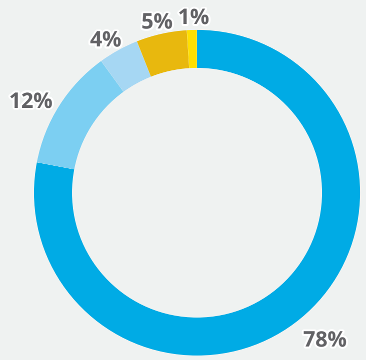


The figures below provide an overview of the book value-based composition of the total liabilities as at year-end 2020 and year-end 2019. The percentage of our funding that is made up of savings and other amounts due to customers rose to 80%, from 78% at year-end 2019.

Equity and liability mix 2020: € 67.5 billion
(Book value)

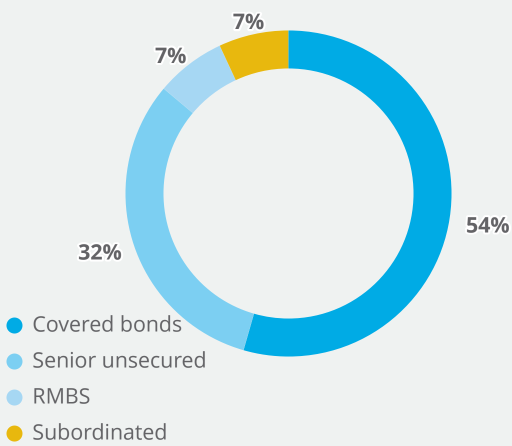


Equity and liability mix 2019: € 62.8 billion
(Book value)

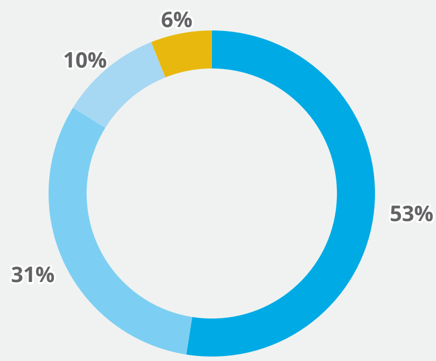


The figures below provide an overview of the outstanding capital market funding with an original term of more than one year at year-end 2020 and 2019.

Capital market funding mix 2020: € 6.9 billion
(Nominal value)



Capital market funding mix 2019: € 7.9 billion
(Nominal value)



In 2020, de Volksbank successfully executed a number of capital market funding transactions:

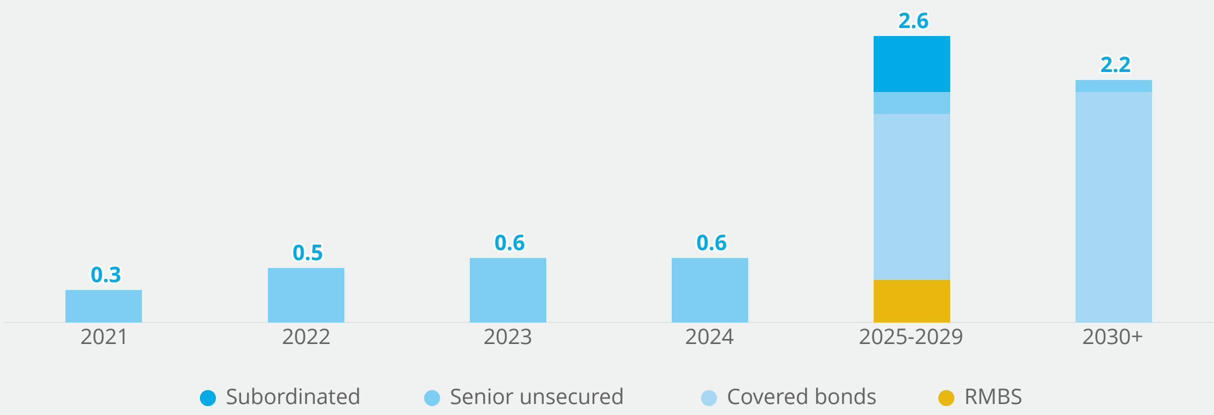
- € 0.5 billion in a green Tier 2 capital instrument with a call option during the three-months period starting on 22 July 2025;
- € 0.5 billion in covered bonds with a maturity of twenty years;
- € 0.5 billion in green unsecured bonds with a maturity between 18 months and two years.

The new Tier 2 capital instrument has replaced the Tier 2 capital instrument that was called on 5 November 2020.

In addition to the € 0.5 billion Tier 2 capital replacement, the € 0.5 billion covered bond transaction and € 0.5 billion in unsecured funding transactions, the capital market funding mix changed in 2020 (with the total amount of capital market funding decreasing from € 7.9 billion to € 6.9 billion), primarily due to the repayment of:

- covered bonds (€ 1.2 billion);
- senior unsecured funding (€ 0.7 billion);
- certificates issued under securitisation programmes (€ 0.1 billion).

Capital market funding maturity calendar
(in € billions)



The figure above presents an overview of the maturity calendar of the capital market funding outstanding with an original maturity of more than one year. In the graph it is assumed that this funding will be redeemed at the first possible dates. In 2021, we expect to issue covered bonds and senior non-preferred debt to strengthen our layer of subordinated debt.

MATURITIES OF ASSETS AND LIABILITIES AUDITED

We can break down the assets and liabilities according to the remaining contractual term. The net (assets minus liabilities) maturing nominal amounts per maturity are an indication of:

- the liquidity risk;
- obligations that may not be met in time from inflows.

The table below represents the bank's liquidity profile at year-end on the basis of the remaining contractual maturity. Demand deposits and current account balances are presented in the '<1 month' column.
In the tables, we maintain the contractual maturity without taking behavioural aspects such as mortgage prepayments into account.

The bank's asset & liability management does take behavioural aspects into account. A shorter term to maturity is used for mortgages due to anticipated prepayments. A longer term to maturity is used for demand deposits and balances in customers' current accounts as customers, under normal circumstances, tend to keep such products for a longer period of time.

Loans and advances to banks and amounts due to banks also include collateral delivered and received related to derivative transactions. This collateral is allocated to the maturity buckets in accordance with the maturity classification of the derivative contracts.

The bottom tables on the next pages provide a breakdown of the liquidity profiles for financial liabilities and derivatives on the liability side of the balance sheet at year-end shown in the tables above them. The tables also present the related future undiscounted contractual cashflows.

Remaining contractual maturity of assets and liabilities 2020 Audited

in € millions cashflows discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments	34	9	115	2,617	2,336	--	5,111
Derivatives	272	74	51	226	240	--	864
Loans and advances to customers	684	268	801	3,261	45,693	-164[1]	50,542
Loans and advances to banks	1,606	1,978	1,175	259	972	--	5,990
Other	4,673	2	10	217	7	67	4,976
- of which right of use of lease contracts	1	2	9	43	7	--	63
Total assets	**7,269**	**2,331**	**2,153**	**6,579**	**49,249**	**-98**	**67,484**
LIABILITIES							
Shareholders' equity	--	--	--	--	--	3,450	3,450
Subordinated debts	--	--	--	500	--	--	500
Debt certificates	50	100	308	1,529	4,133	--	6,119
- of which senior unsecured	*--*	*--*	*218*	*1,529*	*168*	*--*	*1,915*
- of which covered bonds	*--*	*--*	*--*	*--*	*3,531*	*--*	*3,531*
- of which RMBS	*--*	*--*	*--*	*--*	*433*	*--*	*433*
- of which CP/CD (short term)	*50*	*100*	*90*	*--*	*--*	*--*	*240*
Derivatives	268	86	37	372	1,399	--	2,163
Savings[2]	39,916	16	128	727	1,324	--	42,111
- of which due on demand	*39,874*	*--*	*--*	*--*	*--*	*--*	*39,874*
Other amounts due to customers	8,735	8	32	642	2,123	--	11,541
- of which senior unsecured	*--*	*--*	*21*	*327*	*52*	*--*	*399*
- of which covered bonds	*4*	*--*	*--*	*54*	*113*	*--*	*171*
Amounts due to banks	72	18	739	54	63	--	945
- of which senior unsecured	*--*	*--*	*31*	*--*	*5*	*--*	*36*
- of which secured (short term)	*--*	*--*	*695*	*--*	*--*	*--*	*695*
- of which other	*72*	*18*	*12*	*54*	*58*	*--*	*214*
Other	485	3	10	98	6	52	654
- of which lease liabilities	--	3	10	47	6	--	65
Total equity and liabilities	**49,527**	**230**	**1,254**	**3,922**	**9,047**	**3,502**	**67,484**

1 This relates to the provision on loans and advances to customers.

2 In 2020, the break down of Savings has been revised. Savings that are callable are now presented as < 1 month. Comparative figures have been adjusted.

Maturity schedule for financial liabilities 2020 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	9	535	--	544
Debt certificates	53	126	378	1,848	4,075	6,479
Savings	41,188	13	87	394	429	42,111
Other amounts due to customers	8,787	16	122	1,090	1,849	11,864
Amounts due to banks	72	18	733	54	64	941
Lease obligations	1	2	9	43	7	63
Total	**50,102**	**175**	**1,338**	**3,964**	**6,424**	**62,002**
DERIVATIVES						
Interest rate derivatives	14	70	225	1,007	440	1,756
Currency contracts	265	79	26	2	0	372
Total	**280**	**149**	**251**	**1,009**	**440**	**2,129**
OFF-BALANCE SHEET COMMITMENTS						
Liabilities from pledges and guarantees given	12	--	--	--	--	12
Liabilities from irrevocable facilities	288	--	--	--	--	288
Repurchase commitments	568	--	--	--	--	568
Total off-balance sheet commitments	**868**	**--**	**--**	**--**	**--**	**868**

Remaining contractual maturity of assets and liabilities 2019 Audited

in € millions cashflows discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments	216	237	188	2,285	2,425	-2[1]	5,350
Derivatives	96	36	64	281	242	--	718
Loans and advances to customers	723	118	576	2,933	46,230	-119[2]	50,461
Loans and advances to banks	2,294	144	151	183	1,020	--	3,791
Other	2,077	2	9	317	14	101	2,521
- of which right of use of lease contracts	*1*	*2*	*9*	*42*	*16*	--	*71*
Total assets	**5,406**	**537**	**988**	**5,999**	**49,932**	**-20**	**62,841**
LIABILITIES							
Shareholders' equity	--	--	--	--	--	3,435	3,435
Subordinated debts	--	--	502	--	--	--	502
Debt certificates	80	162	1,705	1,246	3,713	--	6,906
- of which senior unsecured	--	--	*673*	*1,246*	*162*	--	*2,082*
- of which covered bonds	--	--	*951*	--	*3,029*	--	*3,980*
- of which RMBS	--	--	--	--	*522*	--	*522*
- of which CP/CD (short term)	*80*	*162*	*80*	--	--	--	*322*
Derivatives	102	33	17	257	1,433	--	1,841
Savings[3]	36,248	17	130	735	1,274	--	38,404
- of which due on demand	*33,931*	--	--	--	--	--	*33,931*
Other amounts due to customers	7,415	52	307	401	2,467	--	10,641
- of which senior unsecured	--	*45*	*31*	*252*	*155*	--	*483*
- of which covered bonds	--	--	*243*	*4*	*172*	--	*420*
Amounts due to banks	372	8	14	94	53	--	541
- of which senior unsecured	--	--	--	*33*	--	--	*33*
- of which secured (short term)	--	--	--	--	--	--	--
- of which other	*372*	*8*	*14*	*61*	*53*	--	*508*
Other	418	3	13	53	15	70	572
- of which lease liabilities	1	3	8	43	15	--	70
Total equity and liabilities	**44,635**	**273**	**2,688**	**2,786**	**8,955**	**3,505**	**62,842**

1 This relates to the provision on investments
2 This relates to the provision on loans and advances to customers.
3 In 2020, the break down of Savings has been revised. Savings that are callable are now presented as < 1 month. Comparative figures have been adjusted.

Maturity schedule for financial liabilities 2019 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	519	--	--	519
Debt certificates	86	171	1,738	1,389	3,955	7,338
Savings	33,742	52	481	2,520	1,859	38,654
Other amounts due to customers	7,269	65	384	795	2,341	10,854
Amounts due to banks	372	8	15	94	53	542
Lease obligations	1	2	9	42	16	71
Total	**41,471**	**298**	**3,146**	**4,841**	**8,223**	**57,979**
DERIVATIVES						
Interest rate derivatives	21	63	238	958	410	1,690
Currency contracts	97	27	13	7	--	144
Total	**118**	**90**	**251**	**965**	**410**	**1,834**
OFF-BALANCE SHEET COMMITMENTS						
Liabilities from pledges and guarantees given	12	--	--	--	--	12
Liabilities from irrevocable facilities	1,406	--	--	--	--	1,406
Repurchase commitments	4	1	12	32	635	684
Total off-balance sheet commitments	**1,422**	**1**	**12**	**32**	**635**	**2,102**

3.7 Credit ratings

Credit ratings as at 31-12-2020

	Long-term rating	Short-term rating	Outlook
S&P	A-	A2	Stable
Moody's[1]	A3	P-2	Stable
Fitch[2]	A-	F1	Stable

1 On 15 January 2021, Moody's upgraded de Volksbank´s long term senior unsecured debt rating from A3 to A2, with a stable outlook. The short-term rating was upgraded from P-2 to P-1.

2 On 2 March 2021, Fitch upgraded de Volksbank´s long term senior preferred debt rating from A- to A, with a stable outlook.

MAIN DEVELOPMENTS IN 2020

In 2020, the long-term and short-term credit ratings for senior unsecured debt of de Volksbank were affirmed by S&P, Moody's and Fitch. S&P revised its positive outlook on the ratings of de Volksbank to stable. In response to the outbreak of the coronavirus, Fitch revised its stable outlook on de Volksbank's credit ratings to negative in April. Later, in September, Fitch revised the outlook back to stable.

RATING AMBITION

De Volksbank strives for solid long-term stand-alone ratings that are in keeping with its business profile, where possible supported by additional increases as a result of a strong and improving balance sheet structure. To achieve this, de Volksbank intends to further diversify its capital base. A stable development of the mortgage portfolio and adequate profitability are prerequisites for solid stand-alone ratings. Although rating agencies generally regard de Volksbank's focus on Dutch mortgages as a concentration risk, its strong capital position sufficiently compensates for this.

DEVELOPMENTS IN CHRONOLOGICAL ORDER

On 31 March 2020, Moody's published a report with an update of de Volksbank's credit ratings, affirming the ratings and maintaining the stable outlook. According to Moody's, the credit ratings reflect de Volksbank's very low risk profile, strong capital base and resilient profitability, although constrained by a lack of diversification.

On 1 April 2020, in light of the coronavirus outbreak, Fitch took rating actions on seven Dutch banks, including de Volksbank. Fitch affirmed the credit ratings of de Volksbank and revised its outlook from stable to negative, as it believed the economic fallout from the coronavirus crisis would pose risks to the bank's ratings in the medium term.

On 23 April 2020, S&P published a report affirming de Volksbank's credit ratings and revising the outlook from positive to stable. The rating affirmation balanced S&P's more positive view of de Volksbank's high loss-absorbing capacity buffers, which resulted in a second notch uplift from ALAC support (Additional Loss-Absorbing Capacity), with the additional pressure on the bank's profitability as perceived by S&P, reflected in a negative adjustment of one notch.

On 15 September 2020, Fitch revised its outlook on de Volksbank's credit ratings from negative to stable, and affirmed the ratings. The outlook revision reflected Fitch's view that de Volksbank's rating has sufficient headroom to absorb significant shocks under their updated assessment of various downside scenarios to its baseline economic forecast.

On 15 January 2021, Moody's upgraded de Volksbank's long term senior unsecured debt rating from A3 to A2, with a stable outlook. The upgrade reflected the application of Moody´s Advanced Loss Given Failure (LGF) analysis, which resulted in a low loss-given-failure and one notch uplift on senior unsecured debt instruments. The upgrade did not only reflect the current liability structure of de Volksbank, but also took into account our public statement regarding the issuance of SNP notes in the coming years, to fill our MREL requirement with subordinated debt instruments.

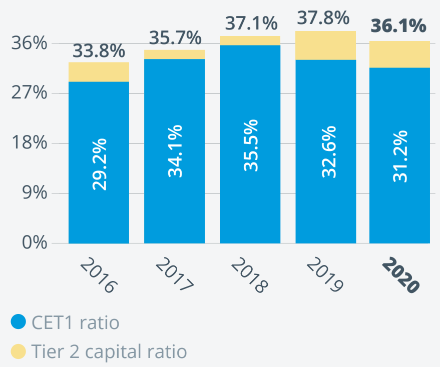
On 2 March 2021, Fitch upgraded de Volksbank's long term senior preferred debt rating from A- to A. The outlook remained stable. The upgrade of the senior preferred debt rating reflected the protection that could accrue to these liabilities from the bank's junior bank resolution debt and equity buffers and the bank's first issue of senior non-preferred debt.

The S&P, Moody's and Fitch rating reports are available on de Volksbank's website.

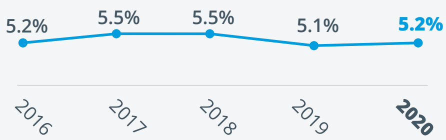
3.8 Capital management

Based on the balance sheet position at year-end 2020, we estimate that we will still meet our external requirements and internal standards if Basel IV were to be implemented in its entirety and fully phased into European legislation.

Total capital ratio



Leverage ratio



Common Equity Tier 1 ratio year-end 2020

31.2%

Risk-weighted assets

The primary objective of capital management is to ensure that the amount of de Volksbank's available capital is sufficient to support our strategy. Our capital requirements are determined on the basis of the bank's strategy, risk appetite and exposures now and in the future. Considering our ambition of optimising shared value, we take into account the requirements of the supervisory authorities, the expectations of rating agencies and the interests of customers and investors, with an adequate return for the shareholder. We must also meet internal targets that are consistent with our aim of being a stable bank with a moderate risk profile and low-risk activities.

3.8.1 Capital requirements

REGULATORY REQUIREMENTS

With effect from 12 March 2020, de Volksbank is required to meet a minimum total Overall Capital Requirement (OCR) of 14.0%, of which at least 9.41% (previously: 10.5%) needs to be composed of CET1 capital. This obligation stems from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2019, and the SREP decision applicable from 1 January 2020. As a measure to support the banks' capital position in response to the Covid-19 crisis, the ECB announced that, as from 12 March 2020, the Pillar 2 requirement need not be entirely composed of CET1 capital, but may partially consist of Additional Tier 1 and Tier 2 capital. In doing so, it brought forward Article 104(a) of CRD V, which was scheduled to come into effect in January 2021.

The OCR is defined as the level at which the maximum distributable amount of dividend (Maximum Distributable Amount, MDA) is curtailed by regulations. The OCR includes the Pillar 1 capital requirement of 8.0%, the Pillar 2 capital requirement of 2.5% – together the Total SREP Capital Requirement, TSCR – and the Combined Buffer Requirement (CBR).

CRR/CRD IV requirements as from 12 March 2020

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

The CBR, to be held in the form of CET1 capital, consists of a capital conservation buffer, a capital buffer for Other Systemically Important Institutions (O-SII buffer) and a 'countercyclical capital buffer'. The capital conservation buffer equalled 2.50% as from 1 January 2020 and the O-SII buffer for de Volksbank equalled 1.0% on 1 January 2020. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising in case of excessive credit growth. Each quarter DNB sets the level of the buffer for the Netherlands, which, in principle, may vary from 0% to 2.5%. DNB has the discretion to set the countercyclical capital buffer above 2.5%.

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 from 12 March 2020. The Common Equity Tier 1 capital ratio and total capital ratio are well above these minimum capital requirements.

COVID-19 RELATED MEASURES

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

- The ECB has allowed banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer (CCB).
- The ECB has recommended that banks do not pay dividends for the financial years 2019 and 2020 until at least 1 January 2021 and exercise extreme prudence until 30 September 2021 when deciding on or paying out dividends.
- The ECB has announced that banks under its direct supervision may exclude certain central bank exposures from the LR calculation until 27 June 2021.
- The BCBS has postponed the introduction of Basel IV, including the phasing of the output floor on revised standardised approaches, to 1 January 2023 and has extended the accompanying transitional period for the output floor to 1 January 2028.
- DNB has postponed the introduction of the new floor for mortgage loan risk weighting, initially scheduled for the autumn of 2020.

INTERNAL MINIMUM LEVEL

De Volksbank has adjusted its target for the leverage ratio to at least 4.50% (previously: at least 4.75%). The CET1 capital ratio target remains unchanged at a level of at least 19.0% based on the fully phased-in Basel IV rules. Our leverage ratio target of at least 4.50% is in line with the leverage ratio of comparable European banks and includes an ample management buffer to withstand severe stress situations involving unfavourable conditions that may greatly impact income, costs and impairments.

On top of the SREP requirement of 9.41% and the Pillar 2 Guidance, we also have an ample management buffer to withstand severe stress situations. With respect to our minimum risk-weighted target the management buffer also factors in uncertainties that are not relevant for the leverage ratio, such as the impact of future regulatory requirements, including Basel IV.

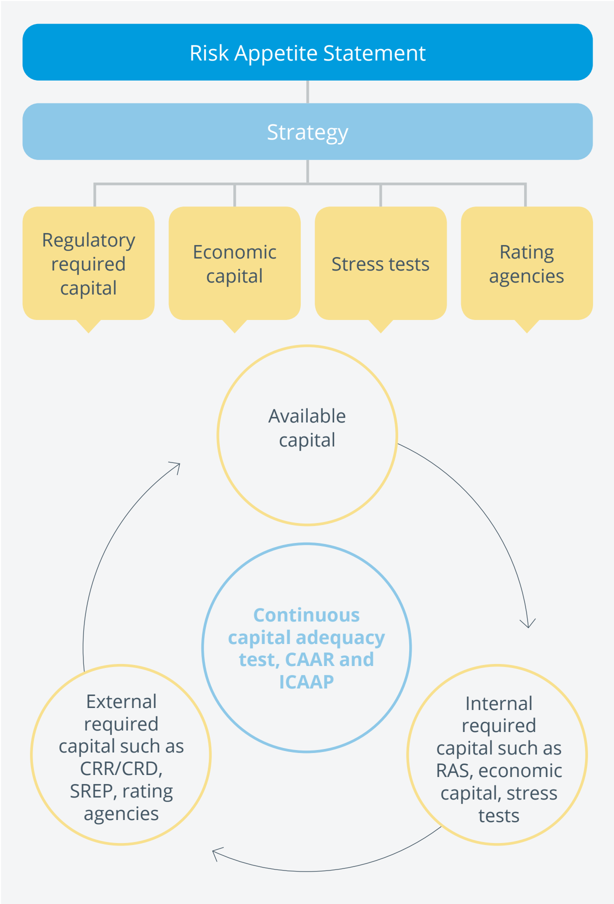
In time, management buffers – and thus the capital targets – may be revised, for example when the final impact of Basel IV has become clear. Capital expected to sustainably exceed our minimum targets is available for distribution, subject to regulatory approval.

3.8.2 Management and control Audited

CAPITAL MANAGEMENT STRATEGY

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

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



REGULATORY CAPITAL AND MREL

The minimum amount of capital required by law (regulatory capital) is based on risk-weighted capital ratios (CET1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required (leverage ratio). As described in Section 3.8.1 Capital requirements, the minimum risk-weighted capital ratios follow from the SREP. In addition to the capital ratios required by law, de Volksbank calculates and reports the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) on both a risk-weighted and non-risk-weighted basis.

ECONOMIC CAPITAL

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

1. Our calculations of economic capital include all risks from which material losses may ensue within a one-year horizon according to internal insight. This means that we consider more types of risk than in the calculations for regulatory capital.
2. Using our own insight, we translate our risk appetite into internal capital requirements, partly on the basis of the desired credit rating (see also Section 3.7 Credit ratings).

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

STRESS TESTING

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

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

For the scenarios whose impact is calculated in a stress test, the development of unemployment, economic growth, interest rates and other factors is estimated. In the stress test, these macroeconomic variables adversely impact, for example, the net interest margin, the creditworthiness of the outstanding loan portfolio and the fair value of the interest-bearing investment portfolio.

This subsequently results in a deterioration of the bank's capital position. The stress test results are used to analyse the bank's sensitivity to various types of stress. The results are also used as input for setting limits as part of the risk appetite and for determining the management buffers that we use to set the internal minimum levels of the capital ratios. Finally, they are used as input for de Volksbank's recovery plan.

RATING AGENCIES

The bank's creditworthiness is assessed by rating agencies S&P, Moody's and Fitch. When determining a credit rating, rating agencies look at aspects such as our capital position. To ensure that our capital ratios are in line with our rating ambition, we include the corresponding capital requirements in our capital planning. Please refer to Section 3.7 Credit ratings for more information about our credit ratings.

CAPITAL ADEQUACY LIFECYCLE

The risk management lifecycle as defined in 3.1.1 Risk Management Structure applies to capital management in the following way:

1. Identification of risks within the scope of capital adequacy. We continuously aim to identify all potential, material individual, aggregate and emerging risks within the scope of capital adequacy. As an example, we perform an independent risk review of all relevant proposals related to capital adequacy.
2. Assessment of the risk profile against the risk thresholds, by comparing the risk exposure with the available capital from own funds and bail-in eligible liabilities. The continuous (internal) assessment of the adequacy and effectiveness of the risk management framework regarding capital adequacy and its compliance with internal policies and the risk appetite framework is part of the Internal Capital Adequacy Assessment Process (ICAAP), which constitutes input for the Supervisory Review & Evaluation Process (SREP) of the European Central Bank (ECB). We present the outcome of the assessment in the annual ICAAP capital adequacy statement (CAS) report. The assessment of (expected future) capital exposure and developments further comprises:
   - Annual recalibration of the capital management strategy.
   - Definition of actions in the capital and liquidity plan. We do this at least once a year, giving substance to the anticipated capital needs ensuing from the operational plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal thresholds and work out various scenarios, taking into account the anticipated effects of future regulations.
   - Update of forecasts in the monthly Capital Adequacy Assessment Report (CAAR). Based on a revised capital plan when appropriate, the forecasts are updated every month based on the most recent insights and reported to the ALCO. The CAAR includes a CAS based on the current risk profile versus the risk thresholds and a forward-looking assessment.
   - Regular stress testing to provide insight into the key vulnerabilities and to assess the resilience of the capital position to severe but plausible adverse (economic) conditions. The results are used to set the risk appetite thresholds.

3. Risk response to capital adequacy. Every year, we determine the risk appetite statement (RAS) for capital adequacy in conjunction with the bank's general risk appetite and strategic objectives. To monitor capital adequacy, we use specific risk indicators and determine the level above which we feel comfortable on the basis of the risk appetite for capital adequacy. We also establish an intervention ladder with specific ranges per risk indicator in case follow-up is required.
4. Monitoring of capital adequacy. We monitor early warning indicators defined in the RAS for capital adequacy in the Treasury Committee on a regular basis. The ALCO monitors the RAS indicators in the CAAR on a monthly basis.
5. Residual risk. Because of (unexpected) balance sheet or regulatory developments, it is possible that not all capital risks are identified or fully managed at all times. By following the capital adequacy lifecycle, we intend to identify these risks and formulate a risk response.
6. Reporting of capital adequacy indicators. We prepare regulatory and internal reports to measure, monitor and manage the bank's capital adequacy on an ongoing basis.

RECOVERY PLAN AND CONTINGENCY PLANNING

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

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

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

In addition to a description of the available measures and the conditions to be satisfied before they can be implemented, the recovery plan also contains an analysis of the expected recovery. The analysis is supported by a number of (severe) stress scenarios in which the effectiveness of these measures has been assessed ('recoverability assessment').

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

3.8.3 Developments in capital requirements

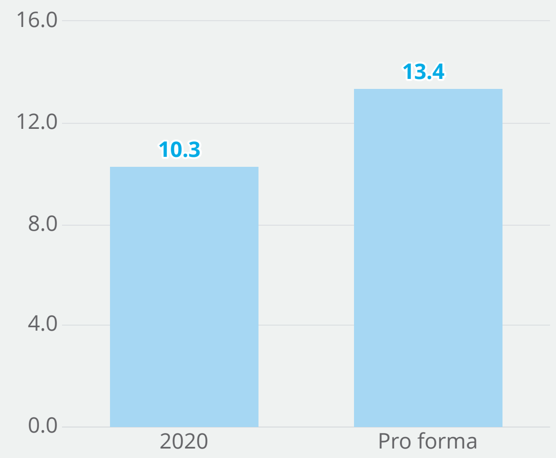
BASEL IV

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV.

As at year-end 2020, we estimate that as a result of Basel IV, fully phased in, our risk-weighted assets (RWA) will grow by approximately 30%[8], and that our CET1 capital ratio will decrease by approximately 7 percentage points. The largest effect comes from the output floor on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM[9]. To give banks more time to prepare for Basel IV following the Covid-19 pandemic, the BCBS has postponed the introduction of Basel IV by one year, phasing in the output floor from 50% in 2023 to 72.5% in 2028. The anticipated changes in internal modelling approaches and the SA for operational risk under Basel IV are expected to have only a limited effect on the RWA of de Volksbank.

Basel IV impact after 72.5% floor

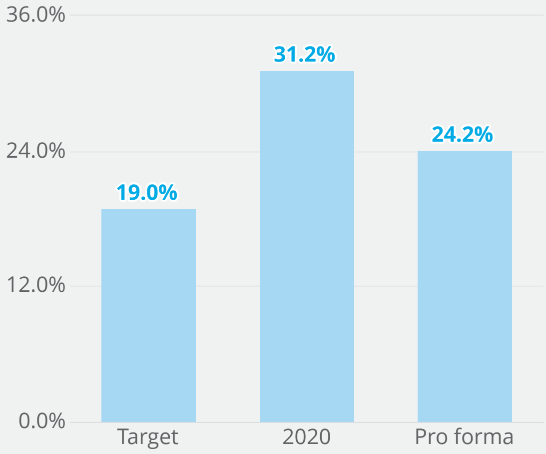
RWA in € billions



8 Starting from (1) loan-splitting for residential mortgages, and (2) the assumption that 93% of the residential mortgages meet the document requirements.

9 Particuliere Hypotheken Interne Rating Model (Internal Rating Model for Retail Mortgages).

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



The next step is the translation of Basel IV into European laws and regulations. De Volksbank closely monitors the developments, paying particular attention to new rules for residential mortgages (see also section 1.7 Compliance and de Volksbank) . We will adjust our capital planning if necessary.

We estimate that our CET1 capital ratio under full phase-in of Basel IV will still exceed our target of at least 19%[10]. This will allow us to both continue our growth path and pay out dividend.

MINIMUM FLOOR FOR RISK WEIGHTING OF MORTGAGES LOANS

In anticipation of the implementation of Basel IV, DNB announced in October 2019 that it would increase the minimum risk weighting for mortgage portfolios of Dutch banks, with the exception of mortgages with (partial) National Mortgage Guarantee (NHG) coverage. This measure applies to banks that use internal risk models to calculate capital requirements for their mortgage portfolios, such as de Volksbank. To support the banks' capital position in response to the Covid-19 crisis, DNB has temporary postponed the introduction of this minimum floor. This measure will not enter into force before the end of 2021.

PROVISION FOR NON-PERFORMING EXPOSURES

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

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

De Volksbank will deduct any insufficient coverage for NPEs under the CRR statutory backstop from its CET1 capital. As at year-end 2020 this did not result in a deduction of CET1 capital. The prudential provisions for outstanding NPEs according to the ECB expectation and SREP recommendation are not included in CET1 capital, but are taken into account in setting our capital targets. De Volksbank is developing an NPL strategy which will provide adequate substantiation of effective management and a reduction of credit risk in non-performing exposures. The supervisory dialogue concerning the ECB's expectations and the SREP recommendation may have an impact on the CET1 capital ratio and the leverage ratio of de Volksbank in the coming years.

GONE-CONCERN CAPITAL: MREL

On 6 June 2018, the Single Resolution Board (SRB) set the Minimum Requirement for own funds and Eligible Liabilities (MREL) for de Volksbank at 8.0% of total liabilities and own funds. By its resolution of 27 May 2019, the SRB confirmed this. In the same resolution, the SRB determined that the transition period ceased to apply to de Volksbank since de Volksbank already met this requirement.

In May 2020, the SRB published its final MREL Policy under the Banking Package. Based on this policy and assuming that the SRB will classify de Volksbank as an Other Pillar 1 bank, in its capital planning de Volksbank starts from the assumption that the minimum non risk-weighted MREL requirement of 8% must be fully composed of subordinated liabilities (Tier 1 capital, Tier 2 capital and SNP notes[11]) as from 1 January 2024. Based on its current capital position, de Volksbank expects to issue SNP notes totalling € 2.0 to € 2.5 billion up to 2024. De Volksbank is closely monitoring developments regarding (intermediate) MREL subordination requirements and will adjust its capital planning if necessary.

3.8.4 Capital structure Audited

In 2020, shareholders' equity increased by € 15 million to € 3,450 million. On the one hand, the shareholders' equity decreased as a result of the 2019 dividend declaration of € 165 million, on the other hand it increased mainly as a result of the € 174 million net profit for 2020.

10 Based on our balance sheet position as at 31 December 2020 and assuming the implementation of Basel IV rules in European legislation remains unchanged.

11 Senior Non-Preferred notes

Capitalisation Audited

In € millions	2020	2019
Capital instruments	381	381
Share premium	3,537	3,537
Retained earnings	174	275
Accumulated other comprehensive income (OCI)	53	52
Other reserves	-695	-810
Shareholders' equity	**3,450**	**3,435**
Non-eligible interim profits	-131	-214
Non-eligible previous years' retained earnings	--	--
Shareholders' equity for CRD IV purposes	**3,319**	**3,221**
Cashflow hedge reserve	-22	-26
Other prudential adjustments	-4	-6
Total prudential filters	**-26**	**-32**
Intangible assets	--	-2
IRB shortfall[1]	--	-31
Additional deductions of CET1 Capital due to Article 3 CRR	-70	-3
Total capital deductions	**-70**	**-33**
Total regulatory adjustments to shareholders' equity	**-96**	**-65**
CRD IV CET 1 capital	**3,223**	**3,156**
Additional Tier 1 capital	--	--
Tier 1 capital	**3,223**	**3,156**
Eligible Tier 2	500	500
IRB Excess	11	--
Tier 2 capital	**511**	**500**
Total capital	**3,734**	**3,656**

1 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS residential mortgages provision.

Tier 2 capital instruments Audited

in € millions	Maturity date	First possible call date	Nominal amount 2020	Nominal amount 2019
Bond loan (subordinated)	5-11-2025	5-11-2020	--	500
Bond loan (subordinated)	22-10-2030	25-10-2025	500	--
Total			**500**	**500**

To determine shareholders' equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders' equity. After profit appropriation by the General Meeting of Shareholders in April 2020, € 49 million was added to CET1 capital from the non-eligible (interim) profits as at year-end 2019 of € 214 million, in addition to the deduction of € 165 million allocated for dividend.

The profit not yet eligible as CRD IV equity for 2020 (€ 131 million) is the dividend declaration on the net profit for the first half and the full net profit for the second half of 2020.

To determine CET1 capital, shareholders' equity is subsequently subjected to a number of regulatory adjustments. Total regulatory adjustments amounted to € 96 million negative at the end of December 2020 (2019: € 65 million negative) and consisted mainly of a deduction of € 70 million related to the expected impact of the update of our Advanced Internal Ratings Based (Advanced IRB or AIRB) model and a prudential adjustment for the cashflow hedge reserve.

De Volksbank avails itself of an AIRB model called PHIRM to determine the credit risk in its residential mortgage portfolio. The model is continuously being redeveloped to comply to new rules and regulations. A current update of PHIRM addresses the EBA guidelines on Definition of Default being effective from 2021 and includes some model improvements as identified during the Targeted Review of Internal Models (TRIM), also to comply with updated CRR/CRD IV regulation for IRB portfolios.

The ECB has performed an internal model investigation (IMI) on the updated model in the fourth quarter of 2020 and reported draft results. Based on the further development of the PHIRM model, an impact of the new model has been taken into account in de Volksbank's capital planning. Consequently de Volksbank has chosen, also pending completion of the IMI, to include an impact resulting from the model improvements in the 31 December 2020 figures through an add-on on RWA and a shortfall deduction of Own funds.

Further development of PHIRM is ongoing, to include the remaining parts to reach full compliance with regulation and to address almost all TRIM obligations.

On balance, CRD IV CET1 capital was up by € 67 million to € 3,223 million.

In July 2020, de Volksbank successfully issued a green Tier 2 capital instrument of € 0.5 billion with a call option during a three-month period starting on 22 July 2025. The new Tier 2 capital instrument has replaced the Tier 2 capital instrument issued in 2015 that was called on 5 November 2020.

3.8.5 Figures, ratios and trends

RISK-WEIGHTED ASSETS (RWA)

Pillar 1 sets the minimum capital requirements on the basis of the risk-weighted assets (RWA) for three types of risk: credit risk, market risk and operational risk.

In addition to the AIRB model PHIRM, to determine the credit risk in our residential mortgage portfolio, we use the Standardised Approach (SA) – rather than internal models – to calculate the credit risk of other portfolios (including non-residential mortgages and loans to governments, businesses and financial institutions) and to calculate market risk and operational risk. Please refer to Section 3.4 Market risk for more information on market risk and to Section 3.5 Non-financial risks for Operational risk.

The table below shows the RWA per type of risk, exposure category and method of calculation.

Risk-weighted assets (RWA) and capital requirement Audited

	EAD[1]		RWA		8% Pillar 1 capital requirement	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
CREDIT RISK IRB APPROACH						
Residential mortgages[2]	46,429	46,131	5,897	5,932	472	475
Total credit risk IRB approach	**46,429**	**46,131**	**5,897**	**5,932**	**472**	**475**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	8,857	6,650	3	70	--	6
Regional governments and local authorities	3,333	1,659	--	--	--	--
Public sector entities	798	489	31	1	2	--
Multilateral development banks	416	383	--	--	--	--
International organisations	38	47	--	--	--	--
Financial institutions	2,164	1,518	699	330	56	26
Corporates	929	1,028	855	895	69	72
Retail excl. mortgages	140	114	89	78	7	6
Immovable property secured by mortgages	546	580	274	362	22	29
Exposures in default	95	78	119	97	10	8
Covered bonds	164	102	16	10	1	1
Shares	11	9	11	9	1	1
Other Items	211	370	199	276	16	22
Total credit risk standardised approach	**17,703**	**13,028**	**2,296**	**2,128**	**184**	**171**
Securitisation positions	95	72	17	8	1	1
Total credit risk	**64,227**	**59,231**	**8,210**	**8,068**	**657**	**647**
MARKET RISK STANDARDISED APPROACH						
- Traded debt instruments	--	10	--	5	--	--
OPERATIONAL RISK						
- Standardised approach	--	--	1,451	1,503	116	120
Total market- and operational risk	**--**	**10**	**1,451**	**1,508**	**116**	**120**
Credit Valuation Adjustment (CVA)	--	--	70	104	6	8
Additional risk exposure amounts due to Article 3 CRR	--	--	600	--	48	--
Total	**64,227**	**59,241**	**10,331**	**9,680**	**827**	**775**

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.

2 To determine the RWA of residential mortgages a regulator-approved model is used.

In 2020, RWA increased by € 651 million to € 10.3 billion. This increase is mainly due to an upcoming update of our internal model to assess residential mortgages (PHIRM). The estimated impact of this on the RWA of € 600 million is already included in the capital figures at year-end 2020. The remaining increase was mainly attributable to a € 369 million increase related to the increased short-term exposures to other financial institutions, partly offset by a € 120 million reduction due to an adjusted weighting of the credit facility granted to the Deposit Guarantee Fund (DGF) and a reduction of € 89 million for SME loans, mainly related to increased loan-splitting for these exposures in 2020.

Furthermore, RWA for the credit risk of the residential mortgage portfolio, calculated according to the AIRB approach, was € 35 million lower. Despite deteriorated economic conditions the credit quality of the portfolio improved, partly due to the strong development of the housing market. As a result the average risk weighting of residential mortgages in 2020 went down from 12.9% at year-end 2019 to 12.7%. The RWA for operational risk, market risk, the Credit Valuation Adjustment and the revised securitisation framework decreased by € 81 million to € 1.5 billion in total.

EXPOSURE AT DEFAULT AUDITED

The Exposure at Default (EAD) has increased from € 59.2 billion at year-end 2019 to € 64.2 billion at the end of 2020. The EAD of the residential mortgage portfolio grew from € 46.1 billion to € 46.4 billion. Other major changes in 2020 were attributable to a € 2.2 billion decrease in loans to the central bank and central governments, an increase in loans to regional and local authorities of € 1.6 billion and an increase in loans to financial institutions of € 0.7 billion.

The EAD for market risk decreased from € 10 million to nil as trading positions in debt instruments were fully unwound in December 2020.

The exposure to credit risk included below is based on the EAD from the regulatory report using the balance sheet based on IFRS standards. The table shows which adjustments need to be made to arrive at the EAD.

Total Exposure at Default (EAD) Audited

in € millions	2020	2019
Total assets (IFRS balance sheet total)	67,484	62,841
Fair value adjustment hedge accounting	-1,590	-1,176
Items that are not subject to credit risk exposure	--	-11
On-balance sheet exposure to credit risk	65,894	61,654
OFF-BALANCE SHEET COMMITMENTS		
Credit facilities and guarantees	2,242	1,864
Repurchase commitment	568	684
Total maximum exposure to credit risk	**68,704**	**64,202**
Valuation adjustments[1]	-3,816	-3,588
Recalculation off-balance credit facilities and guarantees to EAD[2]	-661	-1,383
Total Exposure at Default	**64,227**	**59,231**
Credit risk risk-weighted assets/total exposure at default	12.8%	13.6%

1 Under 'Valuation adjustments' adjustments are made for hedge accounting, the balance of netting derivative positions and an add-on for potential future exposure and credit risk mitigating items (particularly collateral).

2 Off-balance commitments are converted into EAD using a conversion factor.

BREAKDOWN OF RESIDENTIAL MORTGAGES BY RATING GRADE

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

The table below presents the breakdown of our mortgage portfolio by PD class.

PD-Risk category residential mortgages[1]

		Average LGD		Obligor grade		EAD		RWA	
Internal rating grade	**PD scalling**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
1	0.00 to <0.15	6.58%	8.79%	0.08%	0.08%	11,722	11,210	171	219
2	0.15 to <0.25	9.78%	10.19%	0.23%	0.23%	8,628	7,857	404	383
3	0.25 to <0.50	12.60%	12.66%	0.35%	0.35%	10,210	10,688	822	865
4	0.35 to <0.50	18.16%	17.43%	0.51%	0.51%	7,467	7,846	1,141	1,152
5	0.50 to <0.75	18.38%	18.93%	0.80%	0.80%	2,825	3,100	592	669
6	0.75 to <1.25	18.97%	20.14%	1.16%	1.16%	620	758	172	224
7	1.25 to <1.50	16.95%	16.95%	1.42%	1.42%	2,432	2,034	690	577
8	1.50 to <1.75	21.36%	21.96%	1.94%	1.94%	567	789	246	352
9	1.50 to <3.50	14.48%	17.01%	3.70%	3.70%	481	558	207	282
10	3.50 to <10.0	15.20%	16.26%	7.72%	7.72%	572	541	375	379
11	10.0 to <15.0	16.16%	17.36%	15.19%	15.19%	222	181	200	175
12	10.0 to <25.0	15.77%	14.03%	26.04%	26.04%	254	193	248	167
13	25.0 to <100	17.58%	16.22%	49.14%	49.14%	135	163	128	143
Default	**100.00**	11.66%	16.16%	100.00%	100.00%	293	213	500	345
Total						**46,429**	**46,131**	**5,897**	**5,932**

1 Based on the CRR IRB model

Development RWA

in € millions	**2020**	**2019**
Opening amount	9,680	9,341
CREDIT RISK STANDARDISED APPROACH		
Development portfolio	166	-29
Movements in credit risk CVA	-34	-43
Total movement Credit risk standardised approach	**132**	**-72**
CREDIT RISK IRB		
Limitation impact	--	791
Development portfolio (including PD and LGD migrations)	-34	-346
Additional risk exposure amounts due to Article 3 CRR	600	--
Total movement IRB approach	**566**	**445**
Movement securitisation credit risk	9	2
Market risk development	-5	5
Operational risk	-51	-41
Total movement	**651**	**339**
Closing amount	**10,331**	**9,680**

CAPITAL RATIOS

The table below presents the development of capital ratios in 2020:

Capital ratios

in € millions	**2020**	**2019**
CRD IV common equity Tier 1 capital	3,223	3,156
Tier 1 capital	3,223	3,156
Total capital	3,734	3,656
Risk-weighted assets	**10,331**	**9,680**
Exposure measure as defined by the CRR	62,494	62,006
Common equity Tier 1 ratio	31.2%	32.6%
Tier 1 capital ratio	31.2%	32.6%
Total capital ratio	36.1%	37.8%
Leverage ratio	5.2%	5.1%

De Volksbank's CET1 capital ratio decreased to 31.2% from 32.6% at year-end 2019, primarily due to an increase in RWA. The CET1 capital ratio thus remained well above our target of at least 19%.

LEVERAGE RATIO

The leverage ratio is the ratio between a bank's amount of Tier 1 capital and its total risk exposure. A minimum level for the leverage ratio is to prevent banks from building up excessive debts. As from June 2021 a leverage ratio requirement of 3% will apply to de Volksbank.

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

Leverage ratio

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

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

The 5.2% leverage ratio is well above the regulatory requirement of 3.0% and our target of at least 4.5%. Based on our capital targets, the amount of capital required to meet the leverage ratio requirement is higher than the amount required to meet risk-weighted capital requirements. This is the consequence of the bank's focus on residential mortgages, a low-risk activity with a correspondingly low risk weighting.

MREL

The table below presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank N.V. as a resolution entity.

MREL

in € millions	2020	2019
CET1 capital	3,223	3,156
Tier 2 capital	511	500
Total capital	**3,734**	**3,656**
Other eligible unsecured liabilities with remaining maturity > 1 year	1,859	1,748
Total capital including other eligible liabilities	**5,593**	**5,404**
Risk exposure measure as defined by the BRRD (MREL)	65,406	60,738
Risk-weighted assets	10,331	9,680
MREL BRRD		
MREL (Total capital)	5.7%	6.0%
MREL (Total capital including other eligible liabilities)	8.6%	8.9%
MREL RISK-WEIGHTED ASSETS		
MREL (Total capital)	36.1%	37.8%
MREL (Total capital including other eligible liabilities)	54.1%	55.8%

At year-end 2020 the non-risk-weighted MREL ratio stood at 8.6% (2019: 8.9%). This includes the total capital and all other unsecured liabilities eligible for MREL according to the current BRRD.

In 2020, total capital and eligible liabilities rose by € 189 million to € 5,593 million. This increase is the result of the € 78 million increase in total capital and the issuance of senior unsecured debt of € 500 million in 2020. On the other hand, de Volksbank decided on the instructions of the Single Resolution Board (SRB) that € 121 million in outstanding structured unsecured debts would be disregarded in the determination of MREL-eligible liabilities, since these are no longer eligible for MREL under new regulatory requirements applicable after 28 December 2020 (BRRDII). Furthermore, during 2020 an amount of outstanding senior unsecured debt of € 267 million was no longer eligible for MREL due to a remaining maturity shorter than one year. The risk exposure measure as defined by the BRRD rose by € 4.9 billion to € 65.4 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,734 million), that are both subordinated to other liabilities outstanding, amounted to 36.1% (year-end 2019: 37.8%). Based on the balance sheet position as at the end of 2020, we estimate that the risk-weighted MREL ratio met with CET1 capital and subordinated instruments would be approximately 8 percentage points lower under a full phase-in of Basel IV.

3.8.6 Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the net adjusted profit. In line with this policy, de Volksbank decided in its General Meeting of Shareholders in April 2020 to declare a dividend of € 165 million for 2019 in April 2020. This is equal to a pay-out ratio of 60%.

On 28 July 2020, the ECB requested banks not to pay out dividends for 2019 and 2020 until at least 1 January 2021 on account of the Covid-19 pandemic. On 27 March 2020, the ECB had already requested banks not to pay out dividends for these years until at least 1 October 2020. De Volksbank has, therefore, temporarily postponed the planned dividend payment for 2019. On 15 December 2020, the ECB recommended that until 30 September 2021 de Volksbank exercises extreme prudence when deciding on or paying out dividends. The ECB considers that it would not be prudent to consider making a distribution amounting to more than 15% of accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the CET1 capital ratio, whichever is lower. In accordance with this recommendation, de Volksbank intends to pay € 20 million of the dividends over 2019 before 30 September 2021. The remaining dividend for 2019 will be paid out as soon as the ECB recommendation is no longer restrictive.

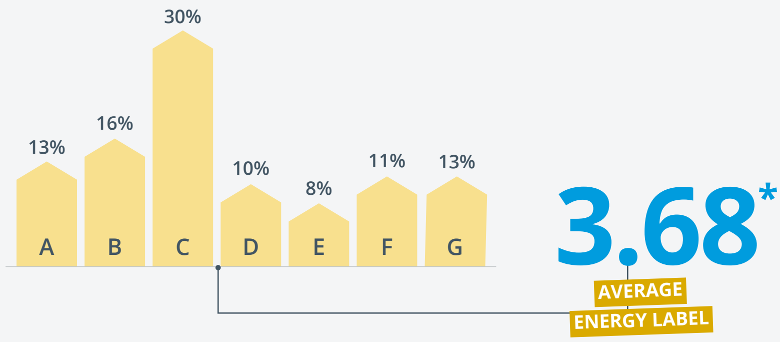
Although the dividend for 2019 has not yet been paid out, the amount has already been reserved for distribution, as a result of which it is no longer part of the bank's CET1 capital. Following the General Meeting of Shareholders in April 2020, the dividend determined for 2019 was declared and recognised as a liability in the balance sheet. If the deferred dividend was to be added to capital, it would require a shareholders' resolution to pay up the capital.

For 2020, we propose to pay out a dividend of € 104 million. This implies a pay-out ratio of 50% of the 2020 net adjusted profit, and 60% of the net profit. The proposed dividend for 2020 will be paid out as soon as it is in accordance with the ECB recommendation to make such payment.

3.9 Sustainability risk

Sustainability has a double materiality. Sustainability can have a financial or reputational impact on the bank. However we can also have an impact on society. We see it as an opportunity to make a positive impact.

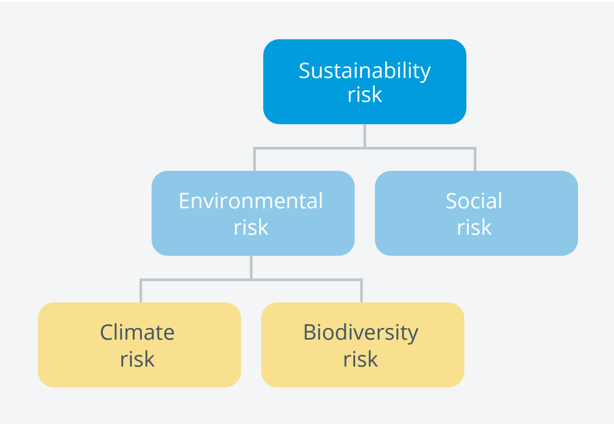
Average energy label residential mortgage portfolio



* Label A=1, B=2, etc.

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

Sustainability risk and sub-risk types



Sustainability risk is incorporated in the risk taxonomy as a stand-alone risk type with the aim of developing a holistic view on the impact of sustainability risk on de Volksbank and each of its stakeholders. Sustainability risk is a strategic risk for de Volksbank and has been cascaded down into the sub-risk types environmental risk and social risk.

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

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

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

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

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

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

Core elements of TCFD disclosures

3.9.1 Governance

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

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

3.9.2 Strategy

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

Climate

A 100% climate-neutral balance sheet in 2030.

Biodiversity

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

Human rights (social)

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

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

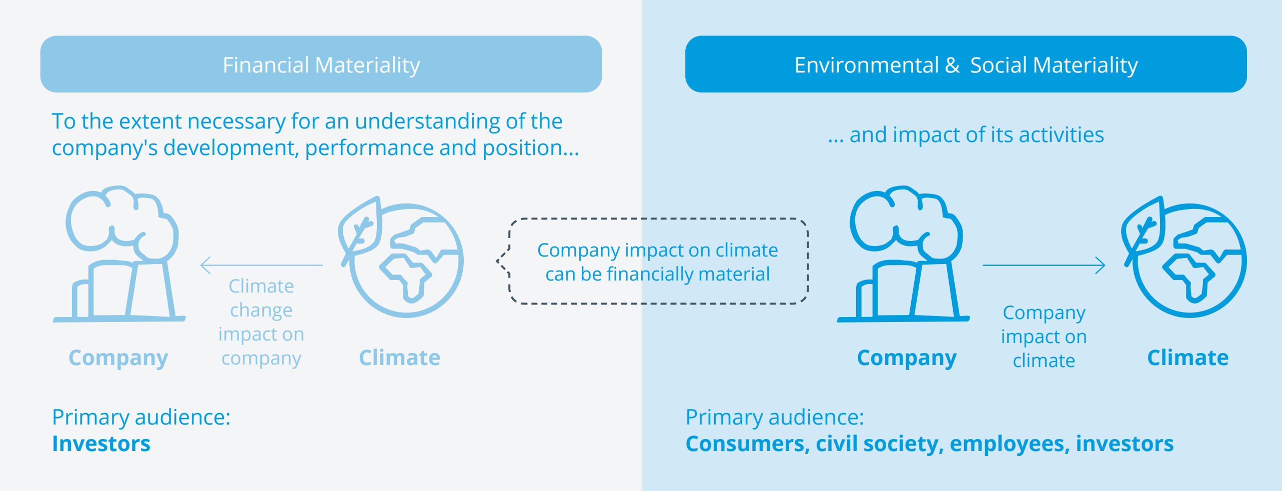
These targets give substance to the outcome of the materiality assessment. We consult our four groups of stakeholders regularly to discuss which topics they consider to be a priority. In these discussions responsible investing, a climate-neutral balance sheet and a diverse and inclusive organisation are determined as topics with the highest priority (see also to the Integrated Annual Review section 2.3 materiality subject 2, 3 and 8).

These targets also connect to the Sustainable Development Goals 13- Climate action and 8- Decent work and economic growth (see also to the Integrated Annual Review section 2.7).

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

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

Double materiality of sustainability risk



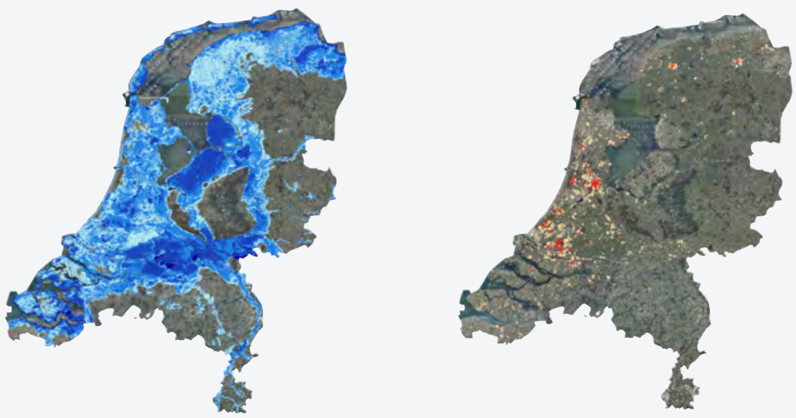
SCENARIO ANALYSIS AND STRESS TEST

In 2020, de Volksbank performed a climate risk scenario analysis and stress test to gain more insight into the impact of sustainability opportunities and risks, in particular climate risk.
According to the United Nations Environmental Programme (UNEP) there is still a gap between the plans for fossil fuel production and the Paris climate agreement. As a result, temperatures are expected to have risen by more than 2 degrees by the year 2100. The temperature rise is therefore expected to entail more extreme weather events that take place on a more frequent basis. This is similar to the view of the Dutch Meteorological Institute (KNMI), which anticipates an increase in the frequency and severity of climate events.

IPCC scenarios

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

Effects of floods and pile rot



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

Stress test

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

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

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

Next steps

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

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

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

3.9.3 Risk management

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

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

In order to manage sustainability risks, it is important to elaborate the responsibilities for the business and independent control functions based on the 'Three Lines of Defence' model.

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

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

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

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

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

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

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

Potential impact of sustainability on financial risk types

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

Financial risk

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

Financial risk (continued)

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

Non-financial risk

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

Strategic risk

Risk type	Risk driver Environmental event (physical risk)	Environmental event (transition risk)	Social event
Business risk	Low potential impact • A climate-related event might negatively impact the profitability of de Volksbank. The size of the impact strongly depends on the kind of event, relative to the activities of de Volksbank.	Medium potential impact • Changing regulation in the area of sustainability is significant for the profitability of the bank. Different portfolios may have different sensitivities towards a changing regulatory landscape.	--
Organisa-tional risk	Low potential impact • Not responding promptly and in a controlled manner with an appropriate range of products and governance to physical risks that may negatively impact the viability and sustainability of the bank's business model.	Medium potential impact • Not responding promptly and in a controlled manner to transition risks that may negatively impact the viability and sustainability of the bank's business model.	Medium potential impact • Not responding promptly and in a controlled manner to changes in and expectations of society that may negatively impact the viability and sustainability of the bank's business model.
Reputation risk	Low potential impact • Not responding promptly and in a controlled manner with an appropriate range of products to physical risks, as a result of which the expectations of customers and society are not met.	Low potential impact • We do not meet the expectations or keep our promise to customers and society when it comes to informing and financing CO_2-neutral targets.	Medium potential impact • Involvement in projects that violate human rights and insufficient implementation of diversity in staffing and Human Resources Management.

Capital adequacy

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

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

Next steps

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

3.9.4 Targets and metrics

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

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

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

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

De Volksbank's climate-neutral goal comes down to equalising the CO_2 emissions and avoided CO_2 emissions of all balance sheet items (except for cash & cash equivalents and derivatives). The PCAF methodology for calculating the CO_2 emissions of mortgages is based on an average energy consumption per energy label.

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

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

The business operations of de Volksbank are net climate neutral (see also to the ESG Report). We achieve this by purchasing as much green energy as possible. The Greenhouse Gas (GHG) Protocol splits greenhouse gas emissions into three scopes:

- Scope 1: all direct CO_2 emissions caused by fuels that we ourselves purchase and consume (natural gas for office heating and the fuel for our company cars).
- Scope 2: indirect CO_2 emissions from our operations (electric energy consumption).
- Scope 3: other indirect CO_2 emissions from energy we did not personally purchase or emit directly, including commuting by our employees who have no company car and consumption by third parties from which we obtain services (such as air travel).

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

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

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

Next steps

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

3.10 Management statement

IN-CONTROL STATEMENT

The Board of Directors of de Volksbank is responsible for the set-up, presence and operation of the (risk) management and control system. This system is designed to manage risks, to ensure that de Volksbank is not prevented from achieving its strategic operational and financial objectives, that reporting on financial and non-financial performance indicators is reliable and that laws and regulations are complied with. This makes an important contribution to the realisation of de Volksbank's ambition: to optimise shared value by creating benefits for customers, taking responsibility for society, giving genuine attention to its employees and achieving returns for the shareholder.

De Volksbank applies the 'three lines of defence' model with a clear organisational structure and accompanying accountability structure, as laid down in governance and risk committees (see also Section 3.1.1 Risk management structure).

De Volksbank's risk management is also further refined in the annual Operational Plan (OP) cycle, which translates strategic objectives and risk appetite into key risk indicators and operational objectives for the years ahead. The main risks associated with the OP implementation are identified. This cycle is carried out in all parts of the organisation. The business units report on their performance and any need to adjust risks. The effectiveness of the essential control measures and controls is regularly examined and tested. De Volksbank has a structured process of completing internal In-Control Statements at department level, which are then weighted, tested and aggregated at board level for de Volksbank as a whole.

In 2020, the Board of Directors assessed the strategic, operational, financial, reporting and compliance risks, as included in Section 3.1.2 Top risks. In addition, the Board of Directors periodically tested the effectiveness of the design and operation of the risk management and control system, as included in Section 3.1.1. Risk management structure. The Board of Directors manages a portfolio of House in Order projects that further improve the operation of the risk management and control system. The results were shared with the Audit Committee and the Supervisory Board, and discussed with the external auditor.

Based on the above, the Board of Directors declares that:

- The risk management and control system functioned properly in 2020;
- The risk management and control system provides a reasonable degree of certainty that the material risks to which de Volksbank is exposed are actually identified and that these risks are adequately monitored and controlled; and
- There are no known indications to assume that the internal risk management system will not continue to function properly in 2021.

However, the internal risk management system does not provide absolute assurance that inaccuracies, fraud or non-compliance with laws and regulations have been or can be prevented at all times.

RELEVANT DEVELOPMENTS

In 2020, as a result of the pandemic outbreak of Covid-19 working from home became standard for most of the employees of de Volksbank. There is no indication that this situation has led to a weaker control framework or a higher non-financial risk profile. The number of external fraud cases in payment transactions has increased, in line with national trend figures. De Volksbank is continuously investigating these cases and has a strategy for reimbursing clients who are eligible for compensation.

CONTROL OVER FINANCIAL REPORTING

The management and control systems for financial reporting form an integral part of the risk management and control systems of de Volksbank. The most important elements for the management of financial reporting are:

- Management Team of Finance, which sets the framework for the policy and organisation of financial accounting systems and processes;
- Accounting Manual of de Volksbank, which describes the principles in the field of financial reporting;
- Business units, which are responsible for the execution of the activities and therefore for recording transactions and reports accurately and faithfully;
- System of financial key controls within the administrative and reporting departments to monitor the proper functioning of the management and control system for financial reporting;
- Assessment, partly based on the results of the key controls, of periodic management reports and KPI dashboards with an analysis of financial and non-financial figures by the Management Team of Finance;
- Subsequent approval by the Board of Directors, after which the findings on the reporting process, together with the financial reporting itself, are discussed in the Audit Committee;
- Internal Audit department that examines the operation of this system;
- External auditor who reports on the system of financial key controls insofar as this results from his activities for the audit of the financial statements; the key issues of this audit are included in the Report of the external auditor. The findings are discussed with de Volksbank's financial and risk committees, the Audit Committee and the Supervisory board.

We declare that it can be stated with a reasonable degree of certainty that in 2020 the internal management and control systems for financial reporting functioned at an adequate level and that de Volksbank's financial reporting does not contain any material inaccuracies.

DECLARATION STATING THAT THE FINANCIAL STATEMENTS GIVE A TRUE AND FAIR VIEW

The members of the Board of Directors declare that:

- the consolidated and company financial statements 2020 of de Volksbank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and give, to the best of our knowledge, a true and fair view of the assets, liabilities, the size and composition of the equity, the financial position as at 31 December 2020, the result and cash flows, and companies included in the consolidation;
- the 2020 Annual Report, to the best of our knowledge, gives a true and fair view of the situation as at the balance sheet date and the course of events during the financial year; and
- the 2020 Annual Report describes the main risks de Volksbank is facing.

Utrecht, 10 March 2021

BOARD OF DIRECTORS

Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

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Consolidated financial statements

Consolidated statement of financial position

Before result appropriation and in € millions	**Notes[1]**	**31-12-2020**	**31-12-2019**
ASSETS			
Cash and cash equivalents	2	4,672	2,026
Derivatives	3	864	718
Investments	5	5,113	5,350
Loans and advances to banks	6	5,990	3,791
Loans and advances to customers	7	50,542	50,461
Tangible and intangible assets	8	110	128
Tax assets	9	42	99
Other assets	10	151	268
Total assets		**67,484**	**62,841**
EQUITY AND LIABILITIES			
Savings	11	42,111	38,404
Other amounts due to customers	12	11,541	10,641
Amounts due to customers		**53,652**	**49,045**
Amounts due to banks	13	945	541
Debt certificates	14	6,119	6,906
Derivatives	3	2,163	1,841
Tax liabilities	9	17	15
Other liabilities	15	558	492
Provisions	17	80	64
Subordinated debts	18	500	502
Total other liabilities		**10,382**	**10,361**
Share capital		381	381
Reserves		2,895	2,779
Net profit for the period		174	275
Shareholders' equity		**3,450**	**3,435**
Total equity and liabilities		**67,484**	**62,841**

1 The references next to the balance sheet items relate to the notes to the consolidated balance sheet.

Consolidated income statement

in € millions	Notes[1]	2020	2019
INCOME			
Interest income	25	1,148	1,263
Interest expense	25	298	388
Net interest income		**850**	**875**
Fee and commission income	26	121	118
Fee and commission expenses	26	75	67
Net fee and commission income		**46**	**51**
Investment income	27	17	12
Other result on financial instruments	28	9	-10
Other operating income	29	1	1
Total income		**923**	**929**
EXPENSES			
Staff costs	30	427	373
Depreciation and amortisation of tangible and intangible assets	8	29	36
Other operating expenses	31	196	165
Impairment charges of financial assets	32	38	-7
Total expenses		**690**	**567**
Result before taxation		**233**	**362**
Taxation	33	59	87
Net profit attributable to shareholder		**174**	**275**

1 The references next to the income statement items relate to the notes to the consolidated income statement.

Comprehensive income

Other comprehensive income

in € millions	2020	2019
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Unrealised revaluations of property and equipment	--	1
Change in other reserves	--	1
Total items never reclassified to profit or loss	**--**	**2**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-4	-5
Change in fair value reserve	10	5
Total items that are reclassified to profit or loss	**6**	**--**
Other comprehensive income (after tax)	**6**	**2**

Total comprehensive income

in € millions	2020	2019
Net profit	174	275
Other comprehensive income (after tax)	6	2
Total comprehensive income for the period	**180**	**277**

Consolidated statement of changes in equity

Consolidated statement of changes in equity 2020

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Net profit for the period	Total equity
Balance as at 1 January 2020	**381**	**3,537**	**6**	**26**	**19**	**-809**	**275**	**3,435**
Transfer of net result 2019	**--**	**--**	**--**	**--**	**--**	**110**	**-110[3]**	**--**
Unrealised revaluations	--	--	--	--	22	--	--	22
Realised revaluations through P&L	--	--	--	-4	-12	--	--	-16
Realised revaluations through equity	--	--	-4	--	--	4	--	--
Other comprehensive income	**--**	**--**	**-4**	**-4**	**10**	**4**	**--**	**6**
Net result 2020	--	--	--	--	--	--	174	174
Total result 2020	**--**	**--**	**-4**	**-4**	**10**	**4**	**174**	**180**
Dividend to be paid	--	--	--	--	--	--	-165[4]	-165
Transactions with shareholder	**--**	**--**	**--**	**--**	**--**	**--**	**-165**	**-165**
Total changes in equity 2020	**--**	**--**	**-4**	**-4**	**10**	**114**	**-101**	**15**
Closing balance	**381**	**3,537**	**2**	**22**	**29**	**-695**	**174**	**3,450**

1 The issued share capital is fully paid up and comprises 840,008 ordinary shares with a nominal value of € 453.79 per share.
2 The revaluation reserve consists of revaluations of property in own use.
3 This is the result after deduction of the dividend payable.
4 Dividend to be paid out to NLFI included under the other liabilities.

Consolidated statement of changes in equity 2019

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Net profit for the period	Total equity
Balance as at 1 January 2019	**381**	**3,787**	**6**	**31**	**14**	**-918**	**268**	**3,569**
Transfer of net result 2018	**--**	**--**	**--**	**--**	**--**	**107**	**-107[3]**	**--**
Unrealised revaluations	--	--	1	--	13	--	--	14
Realised revaluations through P&L	--	--	--	-5	-8	--	--	-13
Realised revaluations through equity	--	--	-1	--	--	1	--	--
Other movements	--	--	--	--	--	1	--	1
Other comprehensive income	**--**	**--**	**--**	**-5**	**5**	**2**	**--**	**2**
Net result 2019	--	--	--	--	--	--	275	275
Total result 2019	**--**	**--**	**--**	**-5**	**5**	**2**	**275**	**277**
Dividend pay-out	--	--	--	--	--	--	-161[4]	-161
Capital distribution	--	-250	--	--	--	--	--	-250
Transactions with shareholder	**--**	**-250**	**--**	**--**	**--**	**--**	**-161**	**-411**
Total changes in equity 2019	**--**	**-250**	**--**	**-5**	**5**	**109**	**7**	**-134**
Closing balance	**381**	**3,537**	**6**	**26**	**19**	**-809**	**275**	**3,435**

1 The issued share capital is fully paid up and comprises 840,008 ordinary shares with a nominal value of € 453.79 per share.
2 The revaluation reserve consists of revaluations of property in own use.
3 The result after deducting the dividend payment of € 161 million.
4 Dividend paid out to NLFI

Consolidated cashflow statement

in € millions	Notes[1]	2020	2019
CASHFLOW FROM OPERATING ACTIVITIES			
Result before taxation		233	362
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible and intangible assets	8	15	20
Changes in other provisions and deferred tax	9, 17	38	-7
Impairment charges and reversals	32	38	-7
Unrealised results on investments through profit or loss	28	-84	-60
Tax paid		-2	-51
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances to customers	7	-81	75
Change in liabilities to customers	12	900	-200
Change in derivatives assets	3	-146	13
Change in derivatives liabilities	3	322	722
Change in advances to banks	6	-2,199	-202
Change in liabilities to banks	13	404	-575
Change in savings	11	3,707	1,028
Change in trading portfolio	5	10	-10
Change in other operating activities		181	-51
Net cashflow from operating activities		**3,336**	**1,057**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment and intangible assets	8	6	3
Sale and redemption of investments	5	2,933	4,806
Purchase of intangible assets	8	--	--
Purchase of property and equipment	8	-12	-11
Purchase of investments	5	-2,675	-5,318
Net cashflow from investment activities		**252**	**-520**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	18	498	--
Issues of debt certificates	14	1,828	2,191
Redemption of subordinated loans	18	-498	--
Redemption of debt certificates	14	-2,591	-1,093
Redemption of lease liabilities	16	-14	-13
Paid dividends		-165	-161
Paid capital distribution		--	-250
Net cashflow from financing activities		**-942**	**674**
Net decrease of cash and cash equivalents		**2,646**	**1,211**
Cash and cash equivalents as at 1 January	2	2,026	815
Change in cash and cash equivalents	2	2,646	1,211
Cash and cash equivalents as at 31 December		**4,672**	**2,026**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		1,418	1,553
Dividends received		--	--
Interest paid		374	643

1 The references next to the items relate to the notes to the consolidated financial statements.

Notes to the consolidated financial statements

Accounting principles for the consolidated financial statements

This section describes de Volksbank's significant accounting policies and critical accounting estimates or judgments relating to the consolidated annual financial statements. If an accounting policy or a critical accounting estimate relates to a specific note, it is included within the disclosures of the relevant note.

To combine disclosures where possible and to reduce duplication, the IAS 1 Risk and Financial instrument disclosures and IFRS 7 Risk disclosures regarding capital management and risks related to of financial instruments have been integrated in Chapter 3 Risk management. These disclosures are an integral part of the Consolidated Annual Financial Statements and as such, support the compliance to these IFRS requirements

General information

De Volksbank N.V. (referred to as 'de Volksbank'), is a public limited liability company incorporated under the laws of the Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht (CC 16062338). All shares of de Volksbank are held by Stichting administratiekantoor beheer financiële instellingen (NLFI).

Adoption of the financial statements

The consolidated financial statements of de Volksbank for the year ended 31 December 2020 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 10 March 2021. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 21 April 2021. The General Meeting of Shareholders has the possibility to amend the financial statements.

Basis of preparation

Statement of IFRS compliance

De Volksbank prepares the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, de Volksbank prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements. The presentation and notes in the company financial statements are based on Title 9, Book 2 of the Dutch Civil Code.

Changes in published Standards and Interpretations effective in 2020

In 2020, the following standards and interpretations issued by the International Accounting Standards Board (IASB and the IFRS Interpretations Committee (IFRIC) respectively, became mandatory, and are adopted by the European Union:

- Amendments to IFRS 3 Business Combinations: Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (when early adopted).

None of the above publications have a material effect on the consolidated financial statements.

Interpretations of existing standards or amendments to standards, not yet effective in 2020

The following new standards, amendments to existing standards and interpretations, published prior to 1 January and effective for accounting periods beginning on or after 1 January 2021 were not early adopted by de Volksbank.

- IFRS 17 Insurance Contracts;
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IAS 16 Property, Plant and Equipment;
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
- Annual Improvements 2018-2020;
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 ; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

The changes that are most relevant or may have a material impact on the financial statements of de Volksbank are discussed below.

INTEREST RATE BENCHMARK REFORM

As of 1 January 2020 the bank adopted Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7, which provides relief for specific hedge accounting requirements to address uncertainties in the period arising from the phase out of interest rate benchmarks. The amendment did not have a material impact on the bank's total equity and net income. Furthermore, IASB issued Interest Rate Benchmark Reform—Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, addressing issues that might affect financial reporting when an existing interest rate benchmark is actually replaced. It is expected that the amendment, which is adopted as of 1 January 2021, will not have a material impact on the valuation of financial instruments or hedging relationships and thereby have no material impact on the bank's total equity and net income.

Changes in accounting policies, estimates and presentation

Change in estimates

In 2020 de Volksbank further enhanced its provisioning methodology for certain interest-only mortgage loans which are allocated to stage 2 ("significant increase in credit risk"). These mortgages are characterised by a high expected Loan-to-Value (LtV) on maturity date and a short term to event (e.g. maturity, retirement or lapse of tax deductibility). Due to the high degree of uncertainty surrounding the effect of the current pandemic on house prices and payment capacity of customers, the methodology has been adjusted and aligned with the interest-only methodology in stage 3. More specifically, this results in the interest-only credit provisions in stage 2 to be determined according to LtV and their corresponding stage 2 coverage ratio. Previously, the model-based lifetime expected credit loss was applied. This change in methodology results in an increase of EUR 9.5 million in stage 2 provisions.

Change in presentation

In 2020, de Volksbank concluded that the accounting treatment of home construction accounts needed to be revised. Due to this revision, these accounts are no longer recognised as a financial liability in the IFRS balance sheet, but as off-balance sheet commitments. As a result, both loans and advances to customers and other amounts due to customers decreased by approximately € 0.4 billion in the IFRS balance sheet. The comparative figures have not been adjusted.

Accounting principles for the consolidated financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All subsidiaries have applied the accounting principles consistently, for the purposes of these consolidated financial statements.

Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional and reporting currency of de Volksbank. All financial data presented in euros are rounded to the nearest million, unless stated otherwise. Counts are based on unrounded figures.

Significant accounting policies

The use of judgements, estimates and assumptions in the preparation of the financial statements

The preparation of the consolidated financial statements requires de Volksbank to make judgements, estimations and assumptions based on complex and subjective opinions and best estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Hereby, management judges situations on the basis of available information and financial data which could potentially change going forward. Although the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Judgements, estimations and underlying assumptions are reviewed on a regular basis. The impact of changes in estimates on the accounting outcome is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods.

Valuation of certain balance sheet items is highly dependent on the use of judgements, estimations and assumptions. Further disclosure is made on the use of judgements, estimations and assumptions in the specified accounting principles of these balance sheet items. The use of judgments, estimates and assumptions in determining the fair value of financial instruments, for both balance sheet valuations and disclosures, relates to the items below. For detailed information and disclosure of the accounting judgements, estimates and assumptions reference is made to the next sections and the notes to the financial statements items.

- Impairment losses on loans and receivables – refer to chapter 3 Risk management;

- Valuation of fair value of financial instruments (including prepayment assumption mortgages and amortisation hedge accounting) – refer to note 20 Specific disclosures of financial instruments;
- Employee commitments, restructuring provisions and other provisions– refer to note 17 Provisions.
- Outcome of legal and/or arbitration proceedings - refer to note 19 Off-balance sheet commitments.

IMPACT OF COVID-19 ON THE USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Covid-19 has led to a revision of the judgements, estimates and underlying assumptions used in this reporting period and future periods for the item Impairment charges on loans and receivables in the consolidated financial statements. These changes mostly relate to the stage allocation process, management overlay and macro-economic scenario's used for calculating the provisions. For detailed information and disclosure of the accounting judgements, estimates and assumptions used, reference is made to section 3.3.3 Provisioning methodology.

Basis for consolidation

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksbank, are consolidated in accordance with IFRS 10 Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which control is transferred to de Volksbank. They are de-consolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of de Volksbank's financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksbank.

Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between de Volksbank and its associates are eliminated to the extent of de Volksbank’s interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currencies are recorded in the income statement under ‘investment income’ or ‘result on financial instruments’, depending on the balance sheet item to which they relate.

Government grants

Government grants that are related to income are recognised in the income statement on a systematic basis over the periods that the related expenses, for which it is intended to compensate, are recognised. In the case of an income-related grant, the grant is deducted from the related expense. For instance, if the related expense consist of interest due on specific funding, the government grant will be recognised as a deduction from the related interest expense.

Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, more specifically, the date on which de Volksbank commits itself to buy or sell the asset or liability. For "loans and advances to customers" and "amounts due to customers" settlement date accounting is used.

Derecognition

A financial asset is derecognised when the rights to receive cashflows from the asset have expired. De Volksbank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition. A transfer only qualifies for derecognition if either:

- De Volksbank has transferred substantially all the risks and rewards of the asset; or
- De Volksbank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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

Cashflow statement

The cashflow statement is prepared according to the indirect method, and distinguishes between cashflows from operational, investment and financing activities. Cashflows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cashflow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cashflow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cashflow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

Acquisitions and disposals

In 2020 and 2019 there were no acquisitions or disposals of businesses.

1 Financial assets and liabilities

Overview of financial assets and liabilities by measurement base 2020

in € millions	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Cash and cash equivalents	4,672	--	--	4,672
Derivatives	--	--	864	864
Investments	3,082	2,025	6	5,113
Loans and advances to banks	5,990	--	--	5,990
Loans and advances to customers	50,542	--	--	50,542
Other assets	151	--	--	151
Total financial assets	**64,437**	**2,025**	**870**	**67,332**
Savings	42,111	--	--	42,111
Other amounts due to customers	11,541	--	--	11,541
Amounts due to banks	945	--	--	945
Debt certificates	6,119	--	--	6,119
Derivatives	--	--	2,163	2,163
Subordinated debt	500	--	--	500
Other liabilities	558	--	--	558
Total financial liabilities	**61,774**	**--**	**2,163**	**63,937**

Overview of financial assets and liabilities by measurement base 2019

in € millions	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Cash and cash equivalents	2,026	--	--	2,026
Derivatives	--	--	718	718
Investments	3,309	2,027	4	5,350
Loans and advances to banks	3,791	--	--	3,791
Loans and advances to customers	50,461	--	--	50,461
Other assets	268	--	--	268
Total financial assets	**59,855**	**2,027**	**722**	**62,614**
Savings	38,404	--	--	38,404
Other amounts due to customers	10,641	--	--	10,641
Amounts due to banks	541	--	--	541
Debt certificates	6,906	--	--	6,906
Derivatives	--	--	1,841	1,841
Subordinated debt	502	--	--	502
Other liabilities	223	--	--	223
Total financial liabilities	**57,217**	**--**	**1,841**	**59,058**

2 Cash and cash equivalents

ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash, the non-restricted demand deposits with the Dutch Central Bank (DNB) and advances from the activities to credit institutions with an original remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairments.

Specification cash and cash equivalents

in € millions	2020	2019
Non-restricted demand deposits at Dutch Central Bank[1]	4,539	1,797
Short-term bank balances	121	185
Cash	12	44
Total	**4,672**	**2,026**

1 The restricted demand deposits at Dutch Central Bank are reported in the note 'Loans and advances to banks'.

As at the end of December 2020, € 21 million of the short-term bank balances was encumbered on account of securitisations (2019: € 17 million).

3 Derivatives

ACCOUNTING POLICY FOR DERIVATIVES

General

Derivatives are recognised at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed prices.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a discounted cashflow model or an option valuation model. De Volksbank recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Specification derivatives

	2020			2019		
	Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative
Macro fair value hedge - interest rate contracts	28,518	224	1,479	24,990	262	1,392
Micro fair value hedge - interest rate contracts	4,495	90	183	5,672	136	159
Micro fair value hedge - currency contracts	21	--	--	23	--	2
Total micro fair value hedge	**4,516**	**90**	**183**	**5,695**	**136**	**161**
Total fair value hedge	**33,034**	**314**	**1,662**	**30,685**	**398**	**1,553**
Cash flow hedge - currency contracts	**115**	**10**	**--**	**118**	**2**	**2**
Economic hedge - interest rate contracts	4,338	83	44	6,070[1]	98	63
Economic hedge - currency contracts[2]	34,731	378	371	24,730	140	143
Total economic hedge	**39,069**	**461**	**415**	**30,800**	**238**	**206**
Trading- interest rate contracts	1,784	79	80	2,192	78	80
Trading- currency contracts	84	--	6	122	2	--
Total trading	**1,868**	**79**	**86**	**2,314**	**80**	**80**
Total	**74,086**	**864**	**2,163**	**63,917**	**718**	**1,841**

1 Including € 180 million concerning derivatives from discontinued cash flow hedges. The fair value of these derivatives is < € 1 million).

2 Please refer to Section 3.4.2 Currency risk for more information.

Most derivatives are held to hedge against undesired markets risks. This is explained in note 4 Hedging and hedge accounting.

Economic hedges relate to the hedges that are held for balance sheet management, for which no hedge accounting is applied.

The nominal amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These nominal amounts provide no indication of the size of the cashflows, the market and credit risks related to the transactions.

4 Hedging and hedge accounting

ACCOUNTING POLICY FOR HEDGING AND HEDGE ACCOUNTING

De Volksbank uses derivatives as part of its asset and liability management and risk management. Derivatives are used for hedging interest rate and foreign currency risks in assets, liabilities and future transactions. The accounting treatment of the hedged item and the hedging instrument depends on whether the hedge relationship qualifies for hedge accounting in accordance with the EU carve out version of IAS 39 Financial Instruments: Recognition and Measurement.

Under IFRS, derivatives are measured at fair value in the balance sheet and any change in the fair value is accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, causing volatility in the results. In these cases, hedge accounting is applied to mitigate as much as possible the accounting mismatch and volatility. The IFRS 9 standard provides users with the option of starting to apply the IFRS 9 hedge accounting rules or to continue to apply the (EU carve out version of) IAS 39 hedge accounting rules. De Volksbank has decided to continue to apply the EU carve out version of IAS 39 hedge accounting requirements.
De Volksbank can designate certain derivatives as either:

1. A hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
2. A hedge of the variability of future cashflows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cashflow hedge).

Both at the inception of the hedge and on an ongoing basis, de Volksbank assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or variability of the cashflows of the hedged item, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome. Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in the income statement in the line item Other result on financial instruments. Hedge ratios follow from the choices made for hedging of interest and currency risks. Ineffectiveness in hedge relationships might be caused by differences in maturities of the swap and the hedged item; and by the fair value of the floating leg of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate.

De Volksbank discontinues hedge accounting when the hedge relationship ceased to be effective or when the derivative or hedged item is sold or otherwise terminated.

The changes in fair value for derivatives that hedge economic risks and do not comply with the conditions of the EU carve out version of IAS 39 for hedge accounting or for which it is not cost-efficient to apply hedge accounting, are recognised directly in the income statement.

Fair value hedge accounting

Derivatives that are designated as hedging the fair value of recognised assets, liabilities or future transaction are recognised as a fair value hedge. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the Income statement within Other result on financial instruments.

The same goes for the corresponding adjustment of the fair value of the hedged asset or hedged liability attributable to the specific hedged risk. Hedge effectiveness for fair value hedges is measured as the amount by which the changes in fair value of the derivatives compensates the changes in the fair value of the hedged item.

When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged item is amortised to the income statement. The approach determines the amortisation period on the underlying remaining interest rate maturity of the hedged item. As a result, value adjustments for individual contracts are amortised over the respective maturity bucket. The moment the hedged position is no longer recognised, i.e. is sold or redeemed, the non-amortised part of the fair value adjustment of the hedged asset is recognised directly in the profit and loss account.

De Volksbank applies fair value hedge accounting for portfolio hedges of interest rate risk as allowed under the EU carve out version of IAS 39. Amongst others the EU carve out enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument in the bank's macro fair value hedging model and removes some of the limitations in macro fair value hedge accounting with respect to underhedging strategies. In addition, some restrictions on under-hedging strategies for fair value macro hedge accounting do not apply. De Volksbank applies micro fair value hedging to hedge separate hedged positions, which may be assets or liabilities. The carved out version of IAS 39 as adopted by the EU is used, which permits to exclude negative credit spreads in the hedge relationship for hedging micro fair value hedging.

Cashflow hedge accounting

Derivatives can be designated to hedge the risk of variability of future cashflows of a recognised asset or liability or highly probable forecast transaction. Hedge ineffectiveness for cashflow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cashflow in the cashflow hedge. The effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in the cashflow hedge reserve as a separate component of shareholders' equity. Any ineffective part of the cashflow hedge is recognised in Other result on financial instruments immediately. The valuation of the hedged item included in the cashflow hedge relationship, remains unchanged.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cashflow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cashflow hedge reserve fully remains in the cashflow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

Hedging

De Volksbank uses derivatives for the following objectives:
- To manage the duration of the shareholders' equity;
- To convert fixed-rate funding into floating-rate funding;
- To hedge foreign exchange risks by converting non-euro funding into euro funding; and
- To hedge risks associated with investment portfolios.

For an total overview of the derivatives, see note 3 Derivatives.

HEDGE ACCOUNTING

In most of the hedging strategies explained above, de Volksbank applies hedge accounting. In addition to the main distinction between fair value hedges and cashflow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. Micro hedging is a technique used to hedge individual contracts. Macro hedging is a technique used to hedge the risk on a portfolio of contracts. De Volksbank applies the following types of hedge accounting:

FAIR VALUE HEDGES

Hedging the interest rate risk in the banking book (macro hedge)

The portfolio hedged comprises fixed-rate mortgages of de Volksbank. The hedging instruments are interest rate swaps entered into as part of the interest rate risk management in the ALM process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a prospective and retrospective basis and are measured using the dollar offset method.

Hedging the interest rate risk on funding (micro hedge)

De Volksbank conducts micro hedging to convert fixed-rate funding into floating interest rates by means of interest rate swaps. If such funding is denominated in a foreign currency, cross-currency swaps are entered into. The hedge is set up once and will not be terminated. Effectiveness assessments are performed on a prospective and retrospective basis and are measured using the dollar offset method.
In addition to converting foreign currencies into euros and fixed-rate funding into floating-rate funding, de Volksbank also uses derivatives to convert structured funding into floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. The funding programme

also includes interest rate structures such as floating-rate coupons with a multiplier or a leverage factor. De Volksbank fully hedges the interest rate risk on these structures.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating interest rate with interest swaps. The country or credit spread risk component is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a prospective and retrospective a basis and are measured using the dollar offset method.

CASHFLOW HEDGES

Hedging floating interest rate cashflows

To reduce the variable interest rate cashflow risk arising from some specific investments or loans, de Volksbank applies micro cashflow hedge accounting by means of interest rate swaps and, if such investment or loan is denominated in a foreign currency, cross-currency interest rate swaps. By using these cross currency interest rate swaps not only the variability in cashflows but also the foreign exchange risk that arise from the investments or loans is fully hedged, all together resulting in floating rate euro investments or loans. To apply micro hedge accounting, the hedged item (investment or loan) and the hedging instrument (derivative) are linked together in specific hedge relationships. Prospective effectiveness testing consists of matching the critical terms at inception of the hedge, retrospective effectiveness testing consists of a monthly comparison of the change in the fair value of the hedged cashflows and the fair value of the hedging instrument.
The accrued value of the derivatives is included in shareholders' equity over the remaining term of the hedge. The value accrued in shareholders' equity was less than € 1 million as at 31 December 2020 (2019: also less than € 1 million).

In the years prior to 2019, de Volksbank also applied macro cashflow hedge accounting to hedge the risk of floating interest rate cashflows on the cash position, floating interest rate mortgages, quotations and floating-rate funding by entering into interest rate swaps and basis swaps. These hedges no longer exist. The value of this former hedges accrued in shareholders' equity was € 30 million positive (gross) as at 31 December 2020 (2019: € 35 million positive (gross)).

Hedged items in fair value hedges

in € millions	2020 Carrying amount of the hedged item	2020 Accumulated amount of fair value hedge adjustments on the hedged item	2019 Carrying amount of the hedged item	2019 Accumulated amount of fair value hedge adjustments on the hedged item
ASSETS				
MACRO FAIR VALUE HEDGES				
Loans and advances - interest rate risk	45,332	1,590[1]	44,450	1,176[2]
MICRO FAIR VALUE HEDGES				
Investments FVOCI - interest rate risk	1,108	44	1,111	32
Investments AC - interest rate risk	2,918	118	2,731	104
Loans and advances - interest rate risk	21	--	23	1
LIABILITIES				
MICRO FAIR VALUE HEDGES				
Issued debt - interest rate risk	852	79	2,216	107
Issued debt - foreign exchange risk	--	--	2	--

1 The macro hedge adjustment of € 1.590 million consists of € 1.181 million active hedges and € 409 million for discontinued hedges which are amortised.
2 The macro hedge adjustment of € 1.176 million consists of € 1.046 million active hedges and € 130 million for discontinued hedges which are amortised.

Effectiveness fair value hedges

in € millions	2020	2019
Fair value movements hedging instruments	-455	-755
Fair value movements hedged item attributable to hedged risks	459	746
Ineffectiveness macro fair value hedges	**4**	**-9**
Fair value movements hedging instruments	-45	-99
Fair value movements hedged item attributable to hedged risks	41	98
Ineffectiveness micro fair value hedges	**-4**	**-1**

The ineffectiveness of fair value hedges is recognised in the income statement within Other result on financial instruments. The ineffectiveness of cash flow hedges was less than € 1 million as at the end of 2020 and 2019.

Nominal amount hedging instruments in micro fair value hedges 2020

	Maturity				Fair value	
in € millions	≤1 year	> 1 year - 5 years	> 5 years	Total	Positive	Negative
Investments	110	2,204	1,401	3,715	2	181
Issued debt	39	169	572	780	88	2
Interest rate risk micro hedges	**149**	**2,373**	**1,973**	**4,495**	**90**	**183**
Loans and advances	--	21	--	21	--	--
Issued debt	--	--	--	--	--	--
Foreign exchange risk micro hedges	**--**	**21**	**--**	**21**	**--**	**--**
Total micro hedge instruments	**149**	**2,394**	**1,973**	**4,516**	**90**	**183**

Nominal amount hedging instruments in micro fair value hedges 2019

	Maturity				Fair value	
in € millions	≤1 year	> 1 year - 5 years	> 5 years	Total	Positive	Negative
Investments	145	1,852	1,576	3,573	6	157
Issued debt	1,510	194	395	2,099	130	2
Interest rate risk micro hedges	**1,655**	**2,046**	**1,971**	**5,672**	**136**	**159**
Loans and advances	--	21	--	21	--	2
Issued debt	2	--	--	2	--	--
Foreign exchange risk micro hedges	**2**	**21**	**--**	**23**	**--**	**2**
Total micro hedge instruments	**1,657**	**2,067**	**1,971**	**5,695**	**136**	**161**

5 Investments

ACCOUNTING POLICY FOR INVESTMENTS

Amortised cost

An investment is measured at amortised cost less any impairment losses if it is held as part of a portfolio with an underlying business model to collect contractual cash flows until maturity (hold to collect (HTC)). The cash flows of the investment shall solely consist of interest payments and principal repayments (Solely Payments of Principal and Interest, or SPPI).

Fair value through other comprehensive income (OCI)

An investment is measured at fair value through OCI less any impairment losses if it is held as part of a portfolio with an underlying business model to collect contractual cash flows and to sell in the interim (hold to collect and sale (HTCS)). The cash flows of the investment shall solely consist of interest payments and principal repayments. When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as Investment income. De Volksbank applies the average cost method to determine these results, where necessary.

Fair value changes of equity investments are recognised in OCI or in profit or loss. This choice is made for each equity investment separately.

Fair value through profit or loss

An investment is measured at fair value through profit or loss if it is held as part of a portfolio with an underlying business model that qualifies as 'other' and/or the investment does not meet the IFRS 9 criteria that the cash flows of the investment solely consist of interest payments and principal. The business model 'other' is a business model that does not qualify as HTC or HTCS and may consist of trading portfolios. Realised and unrealised gains and losses are recognised directly in the income statement under Investment income. Interest income earned on securities is recognised as interest income. Dividend received is recorded under Investment income.

Impairment losses investments

An expected credit loss (ECL) model is applied to financial assets valued at amortised cost and to financial assets valued at fair value through the other comprehensive income. Under the ECL model, de Volksbank calculates the probability that a default (PD) occurs at different moments in time. This is multiplied by the difference between contractual cash flows due and the expected cash flows to be received (i.e. cash shortfall). The provision is the sum of all cash shortfalls multiplied by the probability of default at the different moments in time. The ECL calculations contain information about the past, present and future. In order to calculate the ECL, the applicable PD, EAD and LGD are multiplied and discounted.

Impairment losses for interest bearing investments measured at amortised cost or fair value through OCI are determined based on expected credit losses. Impairment losses are recognised directly in the income statement under Impairment charges (reversals) of financial assets. For further information on impairments losses on financial assets and the model-based assumptions for the determination of expected credit losses, please refer to 3.3.3 Provisioning methodology.

Overview Investments

	Equity securities		Debt securities		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Amortised cost	--	--	3,082	3,308	3,082	3,308
Fair value through other comprehensive income	4	5	2,021	2,023	2,025	2,028
Fair value through P&L	6	4	--	10	6	14
Total	**10**	**9**	**5,103**	**5,341**	**5,113**	**5,350**

In 2020, the total value of investments decreased from € 5,350 million in 2019 to € 5,113 million, mainly due to a lower position of the HTC-portfolio as a result of amortisation. All debt securities were, as well as in 2019, allocated to stage 1. The provision for credit losses on debt securities remained stable at € 2 million compared to year-end 2019.

At the end of 2020 de Volksbank invested in certain debt securities issued by securitisation vehicles set up by other parties, and outside the scope op consolidation of de Volksbank, amounting to € 85 million (2019: € 87 million). The debt securities concern mortgage-backed investments with an investment grade rating, which expose the bank to limited credit risk by being senior in the payment waterfall of the securitisation vehicles.

Statement of changes in investments

	Amortised cost		Fair value through OCI				Fair value through P&L				Total	
	Debt securities		Equity securities		Debt securities		Equity securities		Debt securities			
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Opening balance	3,308	2,867	5	5	2,023	1,908	4	3	10	--	5,350	4,781
Reclassifications	--	--	--	--	--	--	--	--	--	--	--	--
Purchases and advances	1,626	4,361	--	--	1,049	956	--	--	--	--	2,675	5,318
Disposals	-878	-434	--	--	-926	-704	--	--	--	--	-1,804	-1,138
Redemptions	-987	-3,516	--	--	-142	-153	--	--	--	--	-1,129	-3,668
Revaluations	24	42	-1	--	24	23	2	1	--	--	50	66
Change in trading portfolio	--	--	--	--	--	--	--	--	-10	10	-10	10
Impairments	--	1	--	--	--	--	--	--	--	--	-1	1
Amortisation	-11	-13	--	--	-7	-7	--	--	--	--	-18	-20
Closing balance	**3,082**	**3,308**	**4**	**5**	**2,021**	**2,023**	**6**	**4**	**--**	**10**	**5,113**	**5,350**
(Amortised) cost price	3,083	3,309	9	9	1,943	1,970	6	3	--	10	5,041	5,301
Provision for credit losses	-1	-1	--	--	-1	-1	--	--	--	--	-2	-2
Unrealised gains in value	--	--	-5	-4	79	54	--	1	--	--	74	51
Total	**3,082**	**3,308**	**4**	**5**	**2,021**	**2,023**	**6**	**4**	**--**	**10**	**5,113**	**5,350**

Breakdown of Investments (counterparty)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
EQUITY SECURITIES								
Financial institutions	--	--	4	5	6	4	10	9
DEBT SECURITIES								
Government bonds	1,674	2,076	1,524	1,587	--	10	3,198	3,673
Local authorities	47	27	99	51	--	--	146	78
Other (corporate) bonds	1,361	1,205	398	385	--	--	1,759	1,590
of which: green and sustainable bonds	1,076	*927*	416	*272*	--	--	1,492	*1,199*
Total debt securities	**3,082**	**3,308**	**2,021**	**2,023**	--	10	**5,103**	**5,341**
Total investments	**3,082**	**3,308**	**2,025**	**2,028**	**6**	**14**	**5,113**	**5,350**

Breakdown of Investments (rating)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
AAA	1,662	1,546	1,165	1,364	--	--	2,827	2,912
AA	1,201	1,196	620	530	--	--	1,821	1,727
A	164	566	163	129	--	10	327	707
BBB	55	--	73	--	--	--	128	--
< BBB	--	--	--	--	--	--	--	--
No rating	--	--	4	5	6	4	10	4
Total	**3,082**	**3,308**	**2,025**	**2,028**	**6**	**14**	**5,113**	**5,350**

Breakdown of Investments (countries)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Germany	817	740	694	799	--	--	1,511	--
Netherlands	768	755	411	393	--	--	1,179	--
France	550	494	213	199	--	--	763	--
Belgium	272	270	248	228	--	--	520	--
Austria	185	187	92	69	--	--	277	--
Luxembourg	141	139	134	159	--	--	275	--
Ireland	133	133	27	27	--	--	160	--
Finland	138	124	--	-	--	--	138	--
Spain	55	--	203	96	--	10	258	10
Japan	--	407	--	--	--	--	--	--
Other countries	23	59	3	58	6	4	32	4
Total	**3,082**	**3,308**	**2,025**	**2,028**	**6**	**14**	**5,113**	**5,350**

6 Loans and advances to banks

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO BANKS
Loans and advances to banks are measured at amortised cost using the effective interest method, less any impairment losses based on an expected credit loss (ECL) model. This item includes receivables to banks with a remaining maturity of one month or more.
This item relates to loans and advances to banks, excluding interest-bearing securities, and restricted demand deposits with the Dutch Central Bank (DNB).

in € millions	**2020**	**2019**
Deposits	5,527	3,368
Restricted demand deposits at Dutch Central Bank[1]	463	423
Total	**5,990**	**3,791**

1 This concerns the restricted demand deposits at Dutch Central Bank.

The loans and advances to banks are classified in stage 1. The expected credit loss is negligible.
The loans and advances to banks amount for € 1,503 million of the total deposited collateral on derivative transactions (2019: € 1,310 million).

7 Loans and advances to customers

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO CUSTOMERS
Loans and advances to customers are measured at amortised cost using the effective interest method less any impairment losses.

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 (PD) occurs at different moments in time. This is multiplied by the difference between contractual cash flows due and the expected cash flows to be received (i.e. 'cash shortfall'). The provision is the sum of all cash shortfalls multiplied by the probability of default at the different moments in time. The ECL calculations contain information about the past, present and future. In order to calculate the ECL, the applicable PD, EAD and LGD are multiplied and discounted.

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant increase of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant increase of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected credit loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected credit 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. For more information about the stage allocation process, please refer to section 3.3.3 Provisioning methodology.

Write-off

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

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

Specification loans and advances to customers

	Gross carrying amount		Provision for credit losses		Book value	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Residential mortgages	47,808[1]	48,161[1]	-111	-71	47,697	48,090
Consumer loans	63	87	-12	-14	51	73
SME loans	724	704	-38	-31	686	673
Other corporate and government loans	2,113	1,628	-5	-3	2,108	1,625
Total	**50,708**	**50,580**	**-166**	**-119**	**50,542**	**50,461**

1 Including IFRS value adjustments of € xx million (2019: € 1,198 million), consisting of fair value adjustments from hedge accounting and amortisations.

De Volksbank has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 12.7 billion (2019: € 12.7 billion), of which € 11.7 billion (2019: €11.7 billion) is on own book. There is a limited transfer of risks and benefits for the securitised mortgage loans. Therefore, they are not derecognised from the balance sheet. Further information on securitisation transactions is provided under note 14 Debt certificates and for more information about intragroup transactions see note 21 Related parties. More information regarding asset encumbrance can be found in note 22 Transferred and encumbered assets

Under the other loans and advances, € 257 million (2019: € 254 million) relates to loans and advances to Athora Netherlands. Athora Netherlands is participating in securitisation programmes in which savings-based mortgages have been securitised, with the savings policies being administered by Athora Netherlands. In relation to this, Athora Netherlands receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. The same amount is recognised as financing from Athora Netherlands in note 12 Other amounts due to customers.

The total provision for loans and advances amounted to € 166 million as at 31 December 2020 (end of 2019: € 119 million). The increase in provisions was mainly visible in the residential mortgage and SME loan portfolios.

Please refer to section 3.3 Credit risk for more information about loans and advances to customers. Section 3.3.2 Management and control includes information about how the loan portfolio is subdivided and how it is managed. Section 3.3.3 Provisioning methodology describes the breakdown of the stages and gives information on the models used. Quantitative and qualitative information about the portfolios is provided in Section 3.3.4 Figures, ratios and trends up to and including Section 3.3.8 Other corporate and governmental loans.

8 Property, equipment and intangible assets

ACCOUNTING POLICY FOR PROPERTY AND EQUIPMENT

Land and buildings in own use

Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based on yearly valuations, performed by external, independent valuators.

Increases in the fair value exceeding the cost price are recognised in the revaluation reserve in shareholders' equity. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are recognised in the income statement under depreciations.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. In the case of depreciations, a transfer takes place within equity from the revaluation reserve to the other reserve. Land is not depreciated. Regular impairment tests are performed on land and buildings.

Upon the sale of a property, the part of the revaluation reserve related to the sold property, within equity, is transferred to 'other reserves'.

IT equipment and other assets

All other tangible assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the assets and is depreciated on a straight- line basis over the useful life, taking into account any residual value. The estimated useful life can vary from 3 to 10 years.

Results on the sale of property and equipment are recognised as part of 'other operating income'.

ACCOUNTING POLICY FOR INTANGIBLE ASSETS

General

Intangible assets are measured at cost net of accumulated amortisation and, if applicable, accumulated impairment losses.

Software

Costs that are directly related to the development of identifiable software products that de Volksbank controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible assets. The direct costs comprise external costs and staff costs directly attributable to software development. All other costs associated with the development or maintenance of software are included as an expense in the period during which they are incurred.

The capitalised development costs for software are amortised on a straight-line basis over the useful life, with a maximum of five years. Every reporting date an assessment is carried out for possible impairments.

Other intangible assets

The other intangible assets of de Volksbank consist of the distribution network of former Regiobank and are amortised in accordance with the straight-line method over their useful life or amortised on the basis of the profit flows from the underlying portfolios, which is in general between five and fifteen years. If objective indications require so, an impairment test will be performed.

ACCOUNTING POLICY FOR IMPAIRMENTS OF INTANGIBLE ASSETS

General

An intangible asset is subject to impairment if its book value exceeds the recoverable amount from continued use (value-in-use) or sale of the asset. The recoverable amount is the highest value of the fair value less costs of disposal and the value in use. The recoverable amount of assets is estimated if there are indications of impairment of the asset. Intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Software and other intangible assets
On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indicators of possible impairments.

Reversal of impairments on intangible assets
Impairment losses on intangible assets are reversed if there is proof that a change in the estimates used to determine the recoverable amount occurred after the impairment loss was recognised. The reversal is included under depreciations in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Specification tangible and intangible assets

in € millions	2020	2019
Land and buildings in own use	11	17
IT equipment	9	11
Other tangible assets	27	26
Right of use of lease contracts	63	71
Total property and equipment	**110**	**125**
Internally developed software	--	1
Distribution channel RegioBank	--	1
Total intangible assets	**--**	**2**
Total	**110**	**127**

For a more detailed explanation on right of use of lease contracts, see 16 Lease contracts.

Statement of changes in property and equipment

	Land and buildings		IT equipment		Other tangible assets		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Accumulated acquisitions costs	12	21	36	34	86	75	134	130
Accumulated revaluations	3	1	--	--	--	--	3	1
Accumulated amortisation and impairments	-5	-5	-27	-22	-59	-50	-91	-77
Closing balance	**10**	**17**	**9**	**12**	**27**	**25**	**46**	**54**
Opening balance	17	16	11	14	26	33	54	63
Revaluations	1	1	--	--	--	--	1	1
Investments	--	--	3	6	9	5	12	11
Divestments	-6	--	--	-2	--	-1	-6	-3
Depreciation	--	-1	-5	-6	-8	-9	-13	-16
Impairments	-1	1	--	-1	--	-2	-1	-2
Closing balance	**11**	**17**	**9**	**11**	**27**	**26**	**47**	**54**

At year-end 2020 the renovations to the leased office premises, which are not yet in use, amount to € 0.9 million (2019: € 1.1 million).

For more details about the sale and leaseback of the property in own use in Den Bosch reference is made to note 16 Lease contracts.

Statement of changes in intangible assets

in € millions	Internally developed software 2020	Internally developed software 2019	Distribution channel RegioBank 2020	Distribution channel RegioBank 2019	Total 2020	Total 2019
Accumulated acquisition costs	14	15	21	21	35	36
Accumulated amortisation and impairments	-14	-14	-21	-20	-35	-34
Closing balance	--	1	--	1	--	2
Opening balance	1	4	1	2	2	6
Depreciation capitalised costs	-1	-3	--	--	-1	-3
Depreciation purchases	--	--	-1	-1	-1	-1
Closing balance	**--**	**1**	**--**	**1**	**--**	**2**

Valuation of land and building in own use

Land and buildings in own use with a fair value of more than € 1 million are valued by an external surveyor every year. Other land and buildings in own use are valued once every three years.

Valuation of land and buildings in own use

in € millions	Appraised book value	Total book value	% Appraised book value
2020	**10**	**11**	**91%**
2019	12	17	71%
2018	12	16	77%

Determination of the fair value of property and equipment hierarchy

De Volksbank classifies land and buildings in own use, as in previous years, as level 3. These assets are measured based on yearly valuations. The main parameters for these valuations are the market rental value and the expected return. As these parameters are not directly observable in the market, we classify land and buildings in own use as level 3.

Depreciation and amortisation

Depreciation and amortisation

in € millions	2020	2019
Depreciation on tangible assets	13	16
Impairments on tangible assets	1	3
Depreciation of right of use assets (leases)	13	13
Amortisation on intangible assets	2	4
Impairments on intangible assets	--	--
Total	**29**	**36**

Depreciations of tangible and intangible assets were € 7 million lower as part of these assets had already been written off at year-end 2019. The lower depreciations mainly related to software developed, information processing equipment and office equipment. The year 2019 also included an impairment charge of ATMs.

9 Tax assets and liabilities

ACCOUNTING POLICY FOR TAX ASSETS AND LIABILITIES

Corporate tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any Corporate income tax includes dividends withholding tax, which is settled through the corporate income tax return. Current tax recove12rables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

Accounting policy for deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless de Volksbank can determine the time at which these temporary differences will end and if it is probable that these differences will not end in the near future. Deferred tax assets are assessed at the balance sheet date.

The most significant temporary differences arise from the revaluation of property and equipment, certain financial assets and liabilities, including derivative contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value of the acquired net assets and (b) the tax value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realisation included in the income statement together with the deferred revaluations.

Specification tax assets and liabilities

	Tax assets		Tax liabilities	
in € millions	**2020**	**2019**	**2020**	**2019**
Corporate income tax	24	56	--	--
Deferred taxes	18	43	17	15
Total	**42**	**99**	**17**	**15**

CORPORATE INCOME TAX

Corporate income tax recovarable and payable for the years up to and including 2018 is irrevocable. The return for 2018 was filed in December 2019 and definitively assessed in April 2020. The corporate income tax due by the various subsidiaries of the fiscal unity for corporate income tax purposes based on the final assessment as well as the return filed has been settled with the head of the fiscal unity, i.e. de Volksbank N.V. The corporate income tax return for 2019 must be filed before 1 May 2021.

Origin of deferred tax assets and liabilities 2020

in € millions	Balance as at 1 January 2020	Change through P&L	Change through OCI	Other movements	Closing balance
Intangible assets	--	--	--	--	--
Property and equipment	2	3	-2	--	3
Investments	-6	--	-3	--	-9
Derivatives	-9	--	1	--	-8
Loans and advances to customers	36	-26	--	2	12
Provisions	4	-1	--	--	3
Other	1	-1	--	--	--
Total	**28**	**-25**	**-4**	**2**	**1**

Origin of deferred tax assets and liabilities 2019

in € millions	Balance as at 1 January 2019	Change through P&L	Change through OCI	Other movements	Closing balance
Intangible assets	-1	1	--	--	--
Property and equipment	2	--	--	--	2
Investments	-4	--	-2	--	-6
Derivatives	-10	--	1	--	-9
Loans and advances to customers	58	-25	--	3	36
Provisions	8	-4	--	--	4
Other	2	-1	--	--	1
Total	**55**	**-29**	**-1**	**3**	**28**

Specification tax-effect changes shareholders' equity

in € millions	2020	2019
Change in revaluation reserve	-2	--
Change in cashflow hedge reserve	1	1
Change in fair value reserve	-3	-2
Total	**-4**	**-1**

Tax-deductible losses

in € millions	2020	2019
Total tax-deductible losses	--	--
Deferred tax assets calculated on tax-deductible losses	--	--
Average tax rate	25.0%	25.0%

Deferred tax assets (DTA) as at year-end 2020 mostly related to a temporary valuation difference in loans and advances to customers. The remaining term of this temporary valuation difference is 0,5 years.

The financial instruments in the tax return are valued on the basis of the same accounting principles as those that apply to the financial statements for reporting purposes.

10 Other assets

ACCOUNTING POLICY FOR OTHER ASSETS
The other assets consist of amounts to be settled, accrued assets and other, including other taxes. The other taxes are recognised at nominal value. The remaining amounts to be settled, accrued assets and other are recognised at amortized cost. The net amount of claims and provisions in relation to the Deposit Guarantee Scheme (DGS) is recorded under other.

Specification other assets

in € millions	2020	2019
Trade and other receivables	64	107
Amounts to be settled	9	84
Other	76	77
Sublease	2	--
Total	**151**	**268**

TRADE AND OTHER RECEIVABLES
Trade and other receivables relates to various receivables in the normal course of business, amongst others, short term receivables relating to mortgage and other amounts receivables from customers.

AMOUNTS TE BE SETTLED
Amounts to be settled include primarily transactions not settled at the balance sheet date. The nature of these transactions is short term and are expected to settle shortly after the closing date of the balance sheet.

OTHER
Other include the advanced contribution of de Volksbank to the Dutch Central Bank of € 59 million (2019: € 58 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank in 2009.

11 Savings

ACCOUNTING POLICY FOR SAVINGS
Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of households. At initial recognition savings are measured at fair value. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under ‘interest expense’ in the income statement during the term of these savings by using the effective interest method.

Specification savings

in € millions	2020	2019
Due on demand	39,874	33,931
Other savings	2,237	4,473
Total	**42,111**	**38,404**

The bank savings accounts amount to € 3,600 million (2019: € 3,542 million). The life-course savings accounts amount to € 116 million (2019: € 158 million).

12 Other amounts due to customers

ACCOUNTING POLICY FOR OTHER AMOUNTS DUE TO CUSTOMERS
Other amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits, cash and home construction accounts.

At initial recognition other amounts due to customers are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under interest expense in the income statement during the term of these amounts owed by using the effective interest method.

Specification other amounts due to customers

in € millions	2020	2019
Private loans	570	917
Private loans securitisation programme	257	254
Due on demand	8,612	6,951
Home construction accounts[1]	--	381
Savings deposits	2,102	2,138
Total	**11,541**	**10,641**

1 In 2020, the accounting treatment of home construction accounts has been revised. These accounts are no longer recognised as a financial liability but as off-balance sheet commitments. The comparative figures have not been adjusted.

Under private loans, € 395 million relates to the placement of debt instruments (Schuldscheine) at pension funds and insurance companies (2019: € 478 million).

A part of the private loans is issued under the covered bond programme of de Volksbank. The book value of the private loans amounts to € 176 million (2019: € 430 million). Additional repayment security was given by the Covered Bond Company for these private loans. For more information about the covered bond programme, reference is made to note 14 Debt certificates .

The private loans under the securitisation programme of € 257 million (2019: € 254 million) relate to the amount for which Athora Netherlands participates in securitisation programmes in which savings-based mortgages have been securitised, with the savings policies being administered by Athora Netherlands. For securitised savings-based mortgages, account is taken of the savings part accrued by means of a sub-participation of Athora Netherlands in the securitisation entity. Athora Netherlands receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. This means that the amount in private loans recognised under loans and advances to customers is the same amount as the loan that de Volksbank has provided to Athora Netherlands.

As part of an savings mortgage arrangement, de Volksbank and insurer Athora Netherlands have agreed that the savings premiums the insurer receives from the customer will be held with the bank. These savings premiums and the interest credited (the savings capital designated for mortgage redemption) mean that, in principle, the insurer has an unsecured claim against the bank. To spread the insurer’s default risk, a cession/retrocession agreement has been concluded under which the insurer transfers the savings capital to the bank in exchange for a partial and joint right to the savings-based mortgage claims. In 2020, the savings capital accrued totalled € 1,388 million (2019: € 1,468 million).

13 Amounts due to banks

ACCOUNTING POLICY FOR AMOUNTS DUE TO BANKS
Amounts due to banks comprise unsubordinated debts to credit institutions. Amounts due to banks include private loans, current accounts and repos.

At initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under interest expense in the income statement during the term of these amounts owed by using the effective interest method.

Specification amounts due to banks

in € millions	2020	2019
Due on demand	214	159
Deposits and certificates	695	349
Private loans	36	33
Total	**945**	**541**

Amounts due to banks includes de Volksbank's participation in 2020 in the targeted longer-term refinancing operations III (TLTRO III) programme set up by the ECB of € 0.7 billion (2019: nil). The charged interest rate under the TLTRO III programme contains a discount which is linked to the amount of loans granted to non-financial corporations and households (excluding mortgages) and a positive net growth of these loans during a reference period. In the assessment whether or not de Volksbank would qualify for the interest rate discount under TLTRO III, de Volksbank took into account the amount of its outstanding eligible loans as well as the business forecasts of expected net growth of these particular loans. De Volksbank determined that by participating in TLTRO III to the amount of € 0.7 billion, it is likely to qualify for the interest rate discount. As the interest rate discount on TLTRO III is considered to be a below-market interest rate, the discount qualifies as an income related government grant according to IAS 20. The related negative interest expenses amount to € 1.8 million and are presented as interest income on liabilities. The TLTRO III programme has a legal maturity of three years though there is a voluntary repayment option as of June 2021.

Under private loans, € 31 million (2019: € 33 million) relates to the placement of debt instruments (Schuldscheine) with banks.

14 Debt certificates

ACCOUNTING POLICY FOR DEBT CERTIFICATES
Debt certificates include the non-subordinated bonds and other debt certificates with a fixed or variable interest rate. At initial recognition outstanding debt certificates are measured at fair value, which ordinarily corresponds to the issue proceeds (the fair value of the payment received) net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

When de Volksbank purchases its own debt securities, these debt securities are derecognised.

Specification debt certificates

in € millions	2020	2019
Medium-term notes (MTN)	5,446	6,062
Certificates of deposits	240	322
Debt certificates issued under Pearl and Lowland Securitisation programmes	433	522
Balance as at 31 December	**6,119**	**6,906**

Statement of changes debt certificates

in € millions	Medium Term Notes 2020	Medium Term Notes 2019	Certificates of Deposit 2020	Certificates of Deposit 2019	Issued under securitisation programmes 2020	Issued under securitisation programmes 2019	Holland Homes 2020	Holland Homes 2019	Total 2020	Total 2019
Opening balance	6,062	4,937	322	225	522	609	--	51	6,906	5,822
Issues	997	1,212	831	979	--	--	--	--	1,828	2,191
Redemptions	-1,590	-72	-912	-883	-89	-87	--	-51	-2,591	-1,093
Revaluations	6	--	--	--	--	--	--	--	6	--
Amortisation	3	4	-1	1	--	--	--	--	2	5
Change accrued interest	-9	3	--	--	--	--	--	--	-9	3
Change in fair value as a result of hedge accounting	-23	-22	--	--	--	--	--	--	-23	-22
Closing balance	**5,446**	**6,062**	**240**	**322**	**433**	**522**	**--**	**--**	**6,119**	**6,906**

Medium Term Notes

Specification Medium Term Notes

in € millions[1]	Coupon rate	Book value 2020	Nominal value 2020	Book value 2019	Nominal value 2019
De Volksbank N.V.	Fixed	4,616	4,587	5,540	5,489
De Volksbank N.V.	Structured	130	93	124	93
De Volksbank N.V.	Floating	700	697	398	397
Total		**5,446**	**5,377**	**6,062**	**5,979**

1 MTN's before 2017 were issued under the name SNS Bank N.V.

The Medium Term Notes comprise both private loans and public loans that are issued under the EMTN programme.

Under the line item Medium Term Notes, € 3.5 billion (2019: € 4.0 billion) bonds were issued under the Covered Bond programme by de Volksbank. Payment of interest and principal is guaranteed by a structured entity SPV, SNS Covered Bond Company BV ('CBC'). To enable CBC to fulfil its guarantee, de Volksbank legally transferred Dutch mortgage loans originated by de Volksbank to CBC. Furthermore, de Volksbank offers protection against the increase of credit risk of the mortgage loans. CBC is fully consolidated by de Volksbank.

With regards to the covered bond programme de Volksbank undertakes upon request of the CBC, to offer to transfer eligible assets to the CBC, provided that the CBC shall only request a transfer of eligible assets if it determines that the Asset Cover Test has been breached. The Asset Cover Test is an arithmetic test that determines the minimum amount of assets needed to cover the liabilities guaranteed by the CBC.

All the Medium Term Notes issued in 2020 (total € 1,0 billion) were issued in a public transaction, € 0,5 billion with an interest rate of 0.125% and a maturity of 20 years and € 0,5 billion as FRN Greenbond with a maturity of 2 years.

Certificates of Deposit
Certificates of Deposit are debt securities with a fixed interest rate and a short-term maturity. At the end of 2020, de Volksbank issued € 240 million (2019: € 322 million) in Certificates of Deposit.

Securitisation programmes
De Volksbank entered into securitisation programmes to obtain funding and to improve liquidity. Within the programme de Volksbank sells mortgage receivables originated by itself to a Special Purpose Vehicle (SPV). The SPV issues securitised notes which are eligible collateral for the European Central Bank. In most programmes, de Volksbank acts as investor of the securitised notes. As the SPVs are set up for the benefit of de Volksbank and there is limited transfer of risks and rewards, de Volksbank continues to consolidate the SPVs.

Debt certificates issued under Pearl and Lowland securitisation programmes

De Volksbank has securitised part of the mortgage loans. In these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans were transferred at nominal value plus a deferred purchase price. A positive result within the special purpose vehicles leads to the creation of a positive value of the deferred purchase price. De Volksbank thus retains an economic interest in these companies. On the basis of this economic interest and other criteria established by IFRS for dominant control, de Volksbank has these companies fully consolidated in the financial statements.

Securitisation transactions have a so called call + step-up structure. This means that after a specific call date, the company will have the right to redeem the bonds early. Additionally, at this specific date, the coupon on the bonds will be subject to a rise in interest rate (step-up). Under normal market conditions, this will create an economic incentive to redeem the bonds early. An overview of the securitisations as at 31 December is provided below:

Overview debt certificates issued under Pearl and Lowland securitisation programmes

	Initial principal	Start of securitisation	Book value		First call-option date	Contractual expiration
in € millions			**2020**	**2019**		
Pearl 1	1,014	09-2006	511	600	18-09-2026	18-09-2047
Lowland 4	4,114	02-2017	4,098	4,083	18-02-2022	18-02-2054
Lowland 5	5,027	05-2018	5,016	5,012	18-05-2023	18-05-2055
Lowland 6	2,500	10-2018	2,496	2,494	18-10-2023	18-10-2055
Total	**12,655**		**12,121**	**12,189**		
On own book			-11,688	-11,667		
Total			**433**	**522**		

At year-end 2020, de Volksbank held securitisation programme bonds on its own book at an amortised cost of € 11.7 billion (2019: € 11.7 billion).

Part of the senior tranches of Pearl 1 and Lowland 4 and Lowland 5 and 6 as a whole are held for own account and qualify as eligible assets at the European Central Bank.

15 Other liabilities

ACCOUNTING POLICY FOR OTHER LIABILITIES

Other liabilities consist of other taxes, other liabilities and lease liabilities. Other taxes are recognised at nominal value. Other liabilities are recognised at amortised cost.

Specification other liabilities

in € millions	2020	2019
Other taxes	16	16
Other	262	155
Accruals	215	251
Lease liabilities	65	70
Total	**558**	**492**

For the accounting principles and a more detailed explanation to the lease liabilities, see note 16 Lease contracts.

Other relates mainly to amounts payable to customers and suppliers.

16 Lease contracts

A lease contract exists if control over the use of an identified asset for a certain period has been obtained in exchange for consideration. The main lease contracts entered into by de Volksbank concern the leases for properties.

De Volksbank recognises a lease liability if it has control over the underlying asset. The lease obligation is valued at the present value of the lease payments that have not yet been made at that time. Because the implicit interest rate of the lease contracts cannot be easily determined, the marginal interest rate of de Volksbank is used. The lease payments are discounted using this marginal interest rate. During the term of a contract, the lease liability is increased with accrued interest and reduced with lease payments. The lease liability is adjusted for indexations of the lease payments, any changes to the contract or a modified estimate of any extension or termination options.

The right-of-use asset is measured at cost minus cumulative depreciation and impairment. The processed lease payments, initial direct costs and advance payments form part of the cost price. Any corrections to the lease liability are accordingly processed in the right-of-use asset. The right-of-use asset is depreciated on a straight-line basis over the remaining duration of the contract.

Lease contracts for buildings are usually entered into for a contractual period of 5 years. Extension and termination options that are outside the 5-year period are not included in the determination of the lease liability, because installments outside this period are not reasonably certain to be effected.

De Volksbank uses the option not to include short-term lease contracts and low-value lease contracts on the balance sheet but to include them in the result as an expense.

SUBLEASES

A number of store locations are subleased to franchisees. In addition, part of the head office is sublet to third parties. As not all of the risks and rewards associated with the right to use the underlying asset have been transferred to the sublessee, they are qualified as operational sublease contracts. Lease income is processed through the result.

Statement of changes in right-of-use assets related to lease contracts

in € millions	2020	2019
Opening balance	71	79
Additions	8	5
Net investment in sublease	-3	--
Depreciation expense	-13	-13
Impairments	--	--
Closing balance	**63**	**71**

On 12 June 2020, the complex of buildings in own use in Den Bosch was sold to third parties. Immediately upon sale, one building and part of the car park were leased back for a period of 5 years. This event has been accounted for as a sale-and-leaseback transaction. The book value of the property and the car park amounted to € 4.7 million and was sold for € 7.2 million. The total lease liability included in the balance sheet is € 4.3 million and the associated right-of-use asset is € 2.3 million. The sales result is € 0.5 million. The financing of the building by the buyer is still a resolutive condition and is expected be settled in the first half of 2021.

Statement of changes in lease liabilities

in € millions	2020	2019
Opening balance	70	76
Additions	8	6
Interest expenses	1	1
Lease payments	-14	-13
Closing balance	**65**	**70**

Expenses relating to short-term lease contracts and expenses relating to low-value assets both were nil (2019: nil).

The total cash flow from leases during the financial year amounts to € 12 million (2019: € 9 million). For an overview of the future cash flows from lease contracts, refer to Section 3.6.6 Funding strategy. Income from property sublease amounts to € -3 million (2019: € -3 million).

Future lease payments to be received

in € millions	2020	2019
1 year	4	3
2 years	4	3
3 years	3	1
4 years	3	--
5 years	2	--
> 5 years	1	--
Total	**17**	**7**

17 Provisions

ACCOUNTING POLICY FOR PROVISIONS

General

Provisions are made if de Volksbank has a present obligation, legally or constructive, arising from events in the past, and to which it is more likely than not that the settlement of the obligation requires an outflow of assets, and a reliable estimate of the size of the obligation can be made. Provisions are measured at the present value of the expected future cashflows. Additions and any subsequent releases are recorded in the income statement.

Provision for employee benefits

De Volksbank recognises a provision for pension obligations and other employee commitments including various forms of employee benefit plans such as health insurance, savings, mortgages and jubilee benefits schemes. The measurement is based on the net present value taking into account actuarial assumptions.

Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or constructive obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

De Volksbank recognises severance payments if de Volksbank has demonstrably committed itself, to:
- the termination of the employment contracts of current employees in accordance with an announced detailed formal plan without the option of the plan being withdrawn; or
- the payment of termination benefits as a result of an offer to encourage voluntary redundancy that cannot be withdrawn. Termination benefits that are due after more than twelve months after the balance sheet date are discounted.

Other provisions

The other provisions consists among others of legal provisions. De Volksbank recognises a provision for legal proceedings at the balance sheet date for the estimated liability. The provision comprises an estimate of the payments due during the course of the legal proceedings, where relevant, any possible external coverage of the legal claim will result in the recognition of an asset if and when payment to de Volksbank becomes virtually certain.

Specification provisions

in € millions	2020	2019
Employee commitments	14	16
Restructuring provision	52	15
Other provisions	9	27
Provision for credit losses off-balance sheet items	5	6
Total	**80**	**64**

See note 19 Legal proceedings for a more detailed explanation of the main pending legal proceedings against de Volksbank.

In 2020 a restructuring provision of € 45 million has been made in connection with the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation.

The employee commitments and other provisions are predominantly long-term in nature.

The other provisions decreased mainly due to a payment and a release on a provision for compensation of bought-back mortgages.

Statement of changes in other provisions

	Employee commitments		Restructuring provision		Other provisions	
in € millions	2020	2019	2020	2019	2020	2019
Opening balance	16	16	15	42	27	35
Additions	1	3	46	6	2	6
Withdrawals	-1	-1	-9	-33	-10	-5
Releases	-2	-2	--	--	-10	-9
Closing balance	**14**	**16**	**52**	**15**	**9**	**27**

Movements in the loan loss provision related to off-balance sheet items are shown in section 3.3.4 Credit Risk-Figures, ratios and trends.

18 Subordinated debts

ACCOUNTING POLICY FOR SUBORDINATED DEBTS
Subordinated debt is measured at fair value upon initial recognition, which ordinarily corresponds to the proceeds net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

The subordinated debts of de Volksbank form part of the eligible own funds which is used in determining the solvency position of de Volksbank.

Statement of changes subordinated debts

in € millions	2020	2019
Opening balance	502	502
Issues	498	--
Redemptions	-498	--
Revaluations	-1	--
Movement in accrued interest	-1	--
Closing balance	**500**	**502**

The (Tier 2) bonds have a book value of € 500 million (2019: € 502 million).

In july 2020, de Volksbank issued a green Tier 2 capital instrument for a total amount of € 500 million. These bonds, with a maturity of 10.25 years and a fixed coupon rate of 1,75%, have a call option during a three-month period starting on 22 July 2025. The new Tier 2 capital instrument has replaced the Tier 2 capital instrument issued in 2015 thas was called on 5 November 2020.

19 Off-balance sheet commitments

ACCOUNTING POLICY FOR CONTINGENT LIABILITIES AND COMMITMENTS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of de Volksbank; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

The contingent liabilities are stated based on the maximum potential credit risk. In determining the maximum potential credit risk it is assumed that all the counterparties will no longer fulfil to their contractual obligations and that all the existing collateral is without value.

Impairment losses for off-balance sheet items

Impairment losses for off-balance sheet items such as loan commitments and financial guarantee contracts are recognised in line item 17 Provisions. For further information on impairment losses, please refer to note 7 Loans and advances to customers.

Contingent liabilities

Specification contingent liabilities

in € millions	2020	2019
Liabilities from pledges and guarantees given	12	12
Liabilities from irrevocable facilities	1,807	1,406
Of which: contribution Deposit Guarantee Fund	*300*	*300*
Of which: home construction accounts[1]	*499*	--
Repurchase commitments	568	684
Total	**2,387**	**2,102**

1 In 2020, the accounting treatment of home construction accounts has been revised. These accounts are no longer recognised as a financial liability but as off-balance sheet commitments. The comparative figures have not been adjusted.

The irrevocable facilities mainly consist of credit facilities pledged to customers, but against which no claim has yet been made. These facilities are pledged for a fixed term and at a variable interest rate. Collateral has been secured for the majority of the irrevocable credit facilities.

Recently, there have been various rulings on the interpretations and use of variable interest clauses in revolving credits for consumer loans at other Dutch banks, concluding that customers may expect that the interest rate on their revolving loans remains in line with the relevant market interest rate during the term of a revolving loan. De Volksbank will continue to carefully analyse the ongoing developments on this matter and to assess the possible impact for its customers. At the current stage of the developments and assessment, a further indication of the impact is not practicable available.

Some of the collateralised loans and advances of € 446 million (2019: € 527 million) were sold in the past by a legal predecessor of de Volksbank. This sales transaction entails that, as legal successor, de Volksbank has a repurchase obligation on the interest repricing date and/or is obliged to convert the form of repayment of the loans and advances. The repurchase price is equal to the outstanding principal adjusted for accrued savings capital that is intended for mortgage repayments.

In addition, de Volksbank and SRLEV agreed in 2015 that de Volksbank would (re)purchase a mortgage portfolio from SRLEV. The value of the mortgage portfolio to be repurchased was € 122 million as at 31 December 2020

(2019: € 157 million). The mortgages are repurchased on a monthly basis if a loan component meets certain conditions, such as interest repricing date and conversion of the form of redemption. The repurchase price is equal to the outstanding principal adjusted for accrued savings capital that is intended for mortgage repayments.

Maturity calendar repurchase commitments

in € millions	2020	2019
< 1 year	11	17
1 - 5 year	48	32
> 5 year	509	635
Total	**568**	**684**

Guarantee and compensation systems

The European Deposit Guarantee Scheme Directive was implemented in Dutch legislation on 26 November 2015. The Deposit Guarantee Scheme Directive establishes common standards across the EU and aims to strengthen the protection of depositors. It ensures that depositors will continue to benefit from a guaranteed coverage up to € 100,000 in case of bankruptcy. This will be backed by funds that will be collected from the banking sector. A significant component of the rules is a pre-funded Deposit Guarantee Scheme (DGS). In the new DGS, banks will pay quarterly contributions into a new Deposit Guarantee Fund (DGF). The level of the contribution paid by de Volksbank depends on the amount of guaranteed deposits at de Volksbank and the risk profile, partly in relation to the other banks that are part of the Scheme. The target size of the Fund is equal to 0.8% of the total guaranteed deposits of the banks collectively, a target that needs to be reached by 2024. De Volksbank paid € 42 million to the DGS in 2020 (2019: € 34 million).

In order to finance an orderly winding up of failing banks, a National Resolution Funds (NRF) was established in 2015, which is ex-ante financed by contributions raised from the banks. The NRF will be replaced by the Single Resolution Fund (SRF) as of 2016. The SRF will be built up over eight years, reaching a target level of at least 1% of the amount of covered deposits of all credit institutions of all the participating member states. De Volksbank contributed € 8 million (2019: € 7 million) to the NRF in 2020.

Future commitments

De Volksbank concluded some large long-term IT support contracts in the amount of € 32 million (2019: € 43 million).

Maturity calendar future IT commitments

in € millions	2020	2019
< 1 year	13	17
1 - 5 year	19	26
> 5 year	--	--
Total	**32**	**43**

Legal proceedings

De Volksbank and its subsidiaries are and may become from time to time involved in legal and/or arbitration proceedings that relate to claims by and against it which ensue from its normal business operations. The most important proceedings are described below.

Madoff

Madoff In 2010, liquidators of three Madoff-feeder funds (the "Feeder Funds") initiated legal proceedings in New York against, amongst others, the custody entity of de Volksbank, SNS Global Custody, and its clients as former beneficial owners of investments in these funds. They claim repayment of payments made by the Feeder Funds for redemptions of investments by these beneficial owners. A similar proceeding was initiated by the liquidators against SNS Global Custody and other defendants in the British Virgin Islands (BVI), which proceedings have ended in favour of de Volksbank. In line with these lawsuits, Bernard Madoff's trustee has also initiated proceedings in New York against, amongst others, de Volksbank and SNS Global Custody.

The status of the aforementioned proceedings in New York (in which many financial institutions worldwide are sued in similar proceedings) is as follows:

- Fairfield Funds. In April 2019, the New York bankruptcy court dismissed all claims brought by the Fairfield Funds liquidators against SNS Global Custody except for claims under the BVI Insolvency Act. The Fairfield Funds liquidators have appealed that ruling to the New York district court. . A decision by the district court is expected in the coming months. In the meantime, the Fairfield Funds liquidators have filed an amended complaint against SNS Global Custody in the New York bankruptcy court with respect to their BVI Insolvency Act claims. On 14 December 2020 the New York bankruptcy court issued a decision in favour of SNS Global Custody . However, Fairfield can appeal this decision.

- Madoff Trustee. In November 2016, the New York bankruptcy court issued a decision that resulted in the dismissal of all claims asserted by the Madoff trustee against de Volksbank and SNS Global Custody. The Madoff trustee appealed this decision to the Second Circuit Court of Appeals, which overturned the bankruptcy court's decision in February 2019. A request by a group of defendants, including de Volksbank and SNS Global Custody, to the U.S. Supreme Court to hear an appeal of the Second Circuit's decision has been declined. The case will be referred back to the bankruptcy court for further proceedings. When these proceedings will continue in the bankruptcy court is not known at this time.

De Volksbank defends itself in each of these proceedings. In view of the complexity of the Madoff cases and the various procedural possibilities that are still open or in the initial phase, it is not possible at this moment to make a reliable assessment as to whether de Volksbank is ultimately obliged to actually pay any amounts.

Proceedings following the nationalisation

General

Various former holders of the securities and capital components expropriated in 2013 have initiated legal proceedings to seek compensation for damages. At the time that the financial statements were drawn up, no court proceedings had (yet) been initiated against de Volksbank other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of former holders or other parties affected by the nationalisation may result in a liability, or the level of the financial impact on de Volksbank. For this reason, at year-end 2020 no provisions were made in respect of possible legal actions by former holders and other affected parties.

As the outcomes of possible legal proceedings cannot be predicted with certainty, it cannot be ruled out that a negative outcome may have a material negative financial impact on the capital position, results and/or cashflows of de Volksbank.

Inquiry proceedings by Dutch Investors' Association

In November 2014 the Dutch Investors' Association (Vereniging van Effectenbezitters; 'VEB') and other investors filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (the 'Enterprise Chamber') for an inquiry into the management of SNS REAAL, currently SRH, SNS Bank, currently de Volksbank, and the former SNS Property Finance, currently Propertize. Other parties concerned have joined these proceedings. SRH, de Volksbank and Propertize disputed the authority to file a petition for an inquiry. The Enterprise Chamber rejected the request related to Propertize and granted (after remission by the Supreme Court) the request related to SRH and the Volksbank.

The Enterprise Chamber also ordered an inquiry on eight topics into the management and course of events at SRH and de Volksbank for the period from 1 January 2006 to 1 February 2013. The three appointed investigators expressed an expectation that the inquiry will last until summer 2021. De Volksbank has stated that they will cooperate with the investigation. De Volksbank has formed a provision for the investigation costs to be incurred. Furthermore, on 26 October 2018, SRH and de Volksbank brought an appeal to the Supreme Court against the petition for awarding the inquiry. In April 2020 the Supreme Court ruled that de Volksbank (next to SRH) will not be excluded from the inquiry. The final report of the investigators is expected in summer 2021.

Guarantees pursuant to section 2:403, Volume 2 of the Dutch Civil Code for Propertize et al.

In the context of the transfer of Propertize et al., SRH and de Volksbank have withdrawn the 403 Guarantees issued for Propertize et al. in the past. This withdrawal has become irrevocable for all creditors, with the exception of Commerzbank. Commerzbank raised an objection to the withdrawal of the 403 Guarantees. This objection was declared well-founded up to the highest instance in a Supreme Court decision of 31 March 2017.

Other proceedings relevant to de Volksbank

In addition, there are proceedings to which de Volksbank is not a party or in which it is not the direct subject of investigation but the course and results of which may have a material impact on de Volksbank's.

This applies to the compensation proceedings against the State before the Enterprise Chamber initiated by former holders of expropriated securities and capital components of SRH and de Volksbank. Following initial proceedings leading to a Supreme Court ruling on the basic principles for the assessment of the value of the expropriated securities and capital components, the Enterprise Chamber has appointed three experts. The experts presented their first report on 27 April 2018. Following comments from the parties to the proceedings and a new ruling by the Enterprise Chamber, the experts produced an additional report in September 2019 to which parties to the proceedings were entitled to respond until the beginning of November 2019 at the latest, after which the experts filed their final report on 21 November 2019 with the Enterprise Chamber. The parties in the legal proceeding submitted their comments on the latest expert report before 19 March 2020. On 11 February 2021, the Enterprise Chamber ruled that a compensation of € 804,810,000 increased with legal interest from 1 February 2013 (nationalisation date) must be paid by the State to those entitled to certain expropriated securities and assets. The parties, including the State, can appeal against the decision of the Enterprise Chamber to the Supreme Court.

Other

The former CFO of de Volksbank instigated interim relief proceedings against de Volksbank in connection with his dismissal as CFO and his objections to the independent survey being carried out as regards the Board dynamics of de Volksbank. On 16 February 2021, a judgment was given by the court in which the claims made by the former CFO were rejected.

20 Specific disclosures of financial instruments

ACCOUNTING POLICY FOR FAIR VALUE FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined on the basis of quoted prices where available. Such quoted prices are primarily derived from transaction prices for listed instruments. If quoted prices are not available, market prices from independent market participants or other experts are used. De Volksbank applies an exit price when determining fair value, therefore financial assets are recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain financial instrument. Selecting the most appropriate price requires management judgement.

For certain financial assets and liabilities, no market price is available. The fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from discounted cashflow calculation to valuation models that use generally accepted economic methodologies. Observable market information, where available, is used as input for the valuation models. All valuation methods used are assessed and approved in-house according to de Volksbank's governance procedures.

De Volksbank determines the fair value hierarchy for all financial instruments at each reporting moment.

NOTES TO THE VALUATION FINANCIAL ASSETS AND LIABILITIES

The following techniques and assumptions have been used to determine the fair value of financial instruments.

Investments

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, creditworthiness and maturity of the relevant investment.

Loans and advances to customers

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, Loan-to-Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

Derivatives

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model to determine their fair value. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

Loans and advances to banks
Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

Other assets
Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents
The book value of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Subordinated debt
The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by de Volksbank differentiated to maturity and type of instrument.

Debt certificates
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, determined by maturity and type of instrument.

Amounts due to customers
The fair value of readily available savings and term deposits differs from the nominal value because the interest is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. De Volksbank's Funds Price-curve (FTP) was used for savings not covered by the DGS.

Amounts due to banks
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other liabilities
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

HIERARCHY IN DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

More detailed explanation of the level classification
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair value based on published stock prices in an active market
For all financial instruments in this valuation category, stock prices are observable and publically available from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds, including investment funds for the account of policyholders whose underlying investments are listed.

Level 2 – Fair value based on observable market data
The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have

been issued by brokers, but which are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

Level 3 – Fair value not based on observable market data
A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

Hierarchy financial assets and liabilities 31 December 2020

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through OCI	2,025	2,021	--	4	2,025
Investments - fair value through P&L	6	--	--	6	6
Derivatives	864	--	827	37	864
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised costs	3,082	3,042	85	--	3,127
Loans and advances to customers	50,542	--	--	53,596	53,596
Loans and advances to banks	5,990	--	--	--	5,990
Other assets	151	--	--	--	151
Cash and cash equivalents	4,672	--	--	--	4,672
Total financial assets	**67,332**	**5,063**	**912**	**53,643**	**70,431**
Financial liabilities measured at fair value					
Derivatives	2,163	--	2,126	37	2,163
Financial liabilities not measured at fair value					
Subordinated debts	500	528	--	--	528
Debt certificates	6,119	--	--	6,529	6,529
Savings	42,111	--	39,358[1]	3,218[1]	42,576
Other amounts due to customers	11,541	--	9,471[1]	2,135[1]	11,606
Amounts due to banks	945	--	945	--	945
Other liabilities	558	--	--	--	558
Total financial liabilities	**63,937**	**528**	**51,900**	**11,919**	**64,905**

1 In 2020 de Volksbank improved its fair value hierarchy for financial liabilities, comparative figures have been adjusted accordingly.

The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. This table only includes financial assets and liabilities. Balance sheet items that do not meet the definition of a financial asset or liability are not included. The total of the fair value presented above does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

Hierarchy financial assets and liabilities 31 December 2019

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through OCI	2,028	2,023	--	5	2,028
Investments - fair value through P&L	14	10	--	4	14
Derivatives	718	--	663	55	718
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised costs	3,308	3,238	127	--	3,365
Loans and advances to customers	50,461	--	--	53,855	53,855
Loans and advances to banks	3,791	--	--	--	3,791
Other assets	268	--	--	--	268
Cash and cash equivalents	2,026	--	--	--	2,026
Total financial assets	**62,614**	**5,271**	**790**	**53,919**	**66,065**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,841	--	1,785	56	1,841
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	502	515	--	--	515
Debt certificates	6,906	--	--	7,153	7,153
Savings	38,404	--	36,185[1]	2,707[1]	38,892
Other amounts due to customers	10,641	--	8,734[1]	1,973[1]	10,707
Amounts due to banks	541	--	541	--	541
Other liabilities	492	--	--	--	492
Total financial liabilities	**59,327**	**515**	**47,245**	**11,889**	**60,141**

1 In 2020 de Volksbank improved its fair value hierarchy for financial liabilities, comparative figures have been adjusted accordingly.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the fair value hierarchy, which is discussed in the beginning of the paragraph. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below.

Change in level 3 financial instruments 2020

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	4	5	55	56
Purchases/advances	--	--	--	--
Revaluations	--	-1	--	--
Unrealised gains or losses recognised in P&L[1]	2	--	-18	-19
Closing balance	**6**	**4**	**37**	**37**

1 These are included in the line item Result on financial instruments.

Change in level 3 financial instruments 2019

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	3	5	68	70
Purchases/advances	--	--	--	--
Unrealised gains or losses recognised in P&L[1]	1	--	-13	-14
Closing balance	**4**	**5**	**55**	**56**

1 These are included in the line item Result on financial instruments.

Breakdown level 3 financial instruments

in € millions	2020	2019
Equity	10	9
Derivatives	37	55
Total assets	**47**	**64**
Derivatives	37	56
Total liabilities	**37**	**56**

SENSITIVITY OF LEVEL 3 VALUATIONS OF FINANCIAL INSTRUMENTS

Level 3 financial instruments are largely valued using a net discounted cashflow method in which expectations and projections of future cashflows are discounted to a present value on the basis of market data. The models use market observable information, such as yield curves, or information that is not observable in the market, such as assumptions about certain credit risk surcharges or assumptions about customer behaviour. The valuation of a level 3 instrument may change significantly as a result of changes in these assumptions.

Sensitivity non-market observable parameters financial instruments level 3 2020

in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflow	Discount curve	37	-0,5% of +0,5%	2	2
		Pre-payment rate	37	-1% of +1%	1	1
LIABILITIES						
Derivatives	Discounted cashflow	Discount curve	37	-0,5% of +0,5%	1	1
		Pre-payment rate	37	-1% of +1%	1	1

Sensitivity non-market observable parameters financial instruments level 3 2019

in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflow	Discount curve	55	-0,5% of +0,5%	4	4
		Pre-payment rate	55	-1% of +1%	2	2
LIABILITIES						
Derivatives	Discounted cashflow	Discount curve	56	-0,5% of +0,5%	2	2
		Pre-payment rate	56	-1% of +1%	2	2

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to adjustments. The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve.

The level 3 derivatives relate to securitisation transactions. Here there is a relationship between the fair values this is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programme Pearl, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite.

TRANSFERS BETWEEN CATEGORIES

No significant movements occurred in 2019 and 2020.

21 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. As a part of its ordinary business operations, de Volksbank maintains various forms of ordinary business relationships with related companies and parties. Related parties of de Volksbank could be associated companies, joint ventures, SNS REAAL Pensioenfonds, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administration.

Transactions with related parties have been conducted under normal market terms and conditions ('at arm’s length'), except where stated otherwise. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

Positions and transactions with related parties

FISCAL UNITY

De Volksbank and its subsidiaries and/or group companies formed a fiscal unity for corporate income tax and VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

For more information about the current corporate income tax recovarables and payables reference is made to note 9 Tax assets and liabilities of the consolidated financial statements.

OTHER TRANSACTIONS

De Volksbank pays pension premiums for its employees to the SNS REAAL pension fund in the amount of € 39 million (2019: € 38 million).

Positions and transactions with managers in key positions

In 2020, de Volksbank's top management consists of the Board of Directors under the Articles of Association ('*statutaire Directie*') and members who are not a member of the Board of Directors under the Articles of Association ('*niet-statutair lid*'). This concerns the period of members of the Board from the date of the intention to appoint until the date on which the formal appointment has taken place.
During 2020, 3 board members resigned and 2 board members were appointed. At the end of 2020, three persons were regarded as managers in key positions (year-end 2019: 4 members).

Specification remuneration managers in key positions

in € thousands	2020	2019
Fixed annual income	2,027	1,871
Pension contribution	109	103
Termination benefits	535	--
Total	**2,671**	**1,974**

Fixed annual income includes all remuneration components paid by the employer with the exception of pension accrual and any termination benefits recorded separately in the table.

Pension contribution means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee. Extra payments to compensate for the loss of pension above € 110,111 are included in the table under fixed annual income.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate		Redemptions		Advances	
in € thousands	2020	2019	2020	2019	2020	2019	2020	2019
Mortgage loans	27	37	5.40%	5.40%	10	10	--	--

The table above provides an overview of the loans granted to managers in key positions that were outstanding on 31 December 2020. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

The remuneration of individual members of the Board of Directors and members of the Supervisory Board are explained in more detail in Section 2.6 Remuneration report which is part of the financial statements.

Subsidiaries de Volksbank N.V.

Overview subsidiaries de Volksbank N.V.

	Place of business	Proportion of ordinary shares
SNS Beheer B.V.	Utrecht	100%
Pettelbosch Beheer I B.V.	Utrecht	100%
Pettelbosch Beheer II B.V.	Utrecht	100%
SNS Mortgage Receivables B.V.	Utrecht	100%
1817 B.V.	Utrecht	100%
ASN Beleggingsinstellingen B.V.	The Hague	100%
Stichting Administratiekantoor Bewaarbedrijven SNS	Utrecht	100%
SNS Global Custody B.V.	Utrecht	100%
Pettelaar Effectenbewaarbedrijf N.V.	Utrecht	100%
ASN Duurzame Deelnemingen N.V.	Utrecht	100%

Above mentioned subsidiaries are consolidated in the annual report of de Volksbank.

Consolidated structured entities

According to IFRS standards, the structured entities over which de Volksbank can exercise control are consolidated. De Volksbank's activities involving structured entities are broken down into the following categories:

- Securitisation programme
- Covered bond programme

De Volksbank does not have a contractual obligation to provide financial support other than liquidity facilities to its consolidated structured entities. Neither of the consolidated structured entities have taken benefit of the liquidity facilities, nor has de Volksbank provided voluntary non-contractual financial support to the Loan Loss Provision (LLP) over the reported periods.

	Place of business	Proportion of ordinary shares
PEARL Mortgage Backed Securities 1 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 3 B.V	Amsterdam	0%
Lowland Mortgage Backed Securities 4 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 5 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 6 B.V.	Amsterdam	0%
Volks Covered Bond Company B.V.	Amsterdam	0%

For more information regarding the consolidated structured entities see Section 14 Debt certificates.

22 Transferred and encumbered assets

ACCOUNTING POLICY FOR TRANSFERRED AND ENCUMBERED ASSSETS

Transferred financial assets are transactions for which de Volksbank has:
- transferred the contractual rights to receive the cashflows of the financial asset to a third party or parties, or;
- retained the contractual rights to receive the cashflows of that financial asset, but assumes a contractual obligation to pay the cashflows to a third party or parties.

Depending on the circumstances, these transfers may either result in financial assets that are not derecognised in their entirety or in assets that are derecognised in their entirety. If transferred financial assets continue to be recognised on the balance sheet, de Volksbank is still exposed to changes in the fair value of the assets.

Encumbered assets are assets that can be used as collateral for funding, for example mortgages used as collateral for covered bond programs, securitized assets and collateral for certain repurchase agreement (repo) transactions. In addition, the mandatory cash reserve is also included in encumbered assets. Assets that are committed to undrawn credit facilities are not regarded as encumbered, for example, securitisation notes held by the bank itself which qualify as eligible collateral for the European Central Bank.

The next table shows the transferred assets from which the contractual rights to receive a cashflow have been transferred. The transferred assets mainly consist of securitised mortgages that have been transferred to a third party. The related liabilities are also presented in this table. The structured entities for the securitisations are consolidated.

Transferred assets

	Securitisations		Repurchase transactions	
in € millions	**2020**	**2019**	**2020**	**2019**
TRANSFERRED ASSETS				
Debt certificates	--	--	--	--
Loans and advances	491	585	--	--
Total transferred assets as per year-end	**491**	**585**	**--**	**--**
Amounts due to banks	--	--	--	--
Debt certificates	433	522	--	--
- Issued under securitisation programmes Hermes, Pearl and Lowland	433	522	--	--
- Issued under securitisation programme Holland Homes	--	--	--	--
Total transferred liabilities as per year-end	**433**	**522**	**--**	**--**

In 2020, the transferred assets amounted to € 491 million (2019: € 585 million).

For more information see note 14 Debt certificates - Medium Term Notes and 14 Debt certificates - Securitisation programmes of the consolidated financial statements.

Encumbered assets

in € millions	**2020**	**2019**
Other investment instruments - debt securities	683	697
Loans and advances	9,123	9,177
Cash and cash equivalents	36	17
Loans and advances to banks	463	423
Closing balance	**10,305**	**10,314**

The encumbered assets consist of the assets put up as collateral and the mandatory cash reserve at DNB. The encumbered assets are shown at book value at the end of the year. On the balance sheet date, there were no significant restrictions accompanying financial assets from minority interests.

COLLATERAL RECEIVED

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

23 Netting of financial assets and liabilities

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

The following table discloses the potential effect of netting arrangements and collateral agreements on the financial position of de Volksbank. We included the potential effect of rights of set-off associated with de Volksbank's recognised financial assets and recognised financial liabilities.

The amounts eligible for offsetting pursuant to the International Swaps and Derivatives Association (ISDA) contracts are related to derivatives amounting to € 593 million (2019: € 472 million).

At the end of 2019 there were no repurchase transactions and therefore no other financial collateral for amounts due to banks (2018: € 484 million with government bonds as collateral).

Financial assets and liabilities 2020

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	864	--	864	593	171	--	100
Total financial assets	**864**	**--**	**864**	**593**	**171**	**--**	**100**
Derivatives	2,163	--	2,163	593	1,502	--	68
Total financial liabilities	**2,163**	**--**	**2,163**	**593**	**1,502**	**--**	**68**

1 Related amounts not set off in the balance sheet value.

Financial assets and liabilities 2019

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	718	--	718	472	125	--	121
Total financial assets	**718**	**--**	**718**	**472**	**125**	**--**	**121**
Derivatives	1,841	--	1,841	472	1,273	--	96
Total financial liabilities	**1,841**	**--**	**1,841**	**472**	**1,273**	**--**	**96**

1 Related amounts not set off in the balance sheet value.

24 Post balance sheet events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2020 financial statements.

25 Net interest income

ACCOUNTING POLICY FOR NET INTEREST INCOME

Interest income

Interest income comprises interest income on financial assets that is attributable to the period. Interest on financial assets is almost completely accounted for using the effective interest method. A limited part of the interest income relates to financial assets, mainly derivatives in a hedge relationship and trading positions, measured at fair value through profit or loss and is recognised based on nominal interest rates.

The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, de Volksbank calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with the related direct costs, are included in the net interest income and accounted for using the effective interest method.

For credit-impaired assets valued at amortised cost (i.e. less any impairment losses) interest income consists of the time-value of money.

Interest expenses

Interest expenses comprise interest expenses arising from financial liabilities. Interest expenses on financial liabilities that are valued at amortised cost are accounted for using the effective interest method whereas interest expenses on financial liabilities that are classified at fair value through profit or loss are accounted for based on nominal interest rates.

Specification net interest income

in € millions	2020	2019
Interest income	1,148	1,263
Interest expenses	298	388
Net interest income	**850**	**875**

At year-end the interest income includes € 16 million (2019: € 17 million) interest income on impaired assets (stage 3).

Specification interest income

	2020			2019		
in € millions	Gross interest income	Hedging expenses	Total interest income	Gross interest income	Hedging expenses	Total interest income
Residential mortgages	1,219	-158	1,061	1,318	-179	1,139
Other loans and advances to customers	70	-1	69	104	-4	100
Loans and advances to banks	6	--	6	8	--	8
Investments	37	-36	1	40	-36	4
Negative interest on liabilities	7	--	7	8	--	8
Other	4	--	4	4	--	4
Total	**1,343**	**-195**	**1,148**	**1,482**	**-219**	**1,263**

The negative interest expenses on liabilities are driven by the negative short-term EURIBOR interest rates. This includes an amount of € 1.8 million related to de Volksbank's participation in the targeted longer-term refinancing operations III (TLTRO III) programme.

Specification interest expenses

	2020			2019		
in € millions	**Gross interest expenses**	**Hedging income**	**Total interest expenses**	**Gross interest expenses**	**Hedging income**	**Total interest expenses**
Debt certificates	69	-29	40	80	-62	18
Subordinated debt	20	-2	18	19	--	19
Savings	135	--	135	182	--	182
Other amounts due to customers	95	-15	80	138	--	138
Amounts due to banks	4	-1	3	6	--	6
Negative interest on assets	22	--	22	25	--	25
Other	--	--	--	--	--	--
Total	**345**	**-47**	**298**	**450**	**-62**	**388**

The negative interest income on assets is driven by the negative short-term EURIBOR interest rates and mainly concerns current account balances with central banks, deposited collateral at other banks and deposits.

26 Net fee and commission income

ACCOUNTING POLICY FOR NET FEE AND COMMISSION INCOME

Fee and commission income

Fee and commission income consists of income from securities transactions of clients, asset management and other related services offered by de Volksbank. Fee and commission income is recognised in the reporting period in which the services are rendered.

Fee and commission expenses

Commission expenses and management fees are accounted for as 'fee and commission expense' to the extent services are acquired in the reporting period.

Specification net fee and commission income

in € millions	**2020**	**2019**
FEE AND COMMISSION INCOME		
Money transfer and payment charges	42	41
Advice and agency activities	15	13
Management fees	44	46
Insurance agency activities	16	15
Other activities	4	3
Total fee and commission income	**121**	**118**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	1
Money transfer and payment charges	5	6
Management fees	21	19
Securities activities	1	1
Fee franchise	47	40
Total fee and commission expenses	**75**	**67**
Total	**46**	**51**

Net fee and commission income decreased by € 5 million to € 46 million, mainly due to a changed classification of distribution fees paid by RegioBank. Excluding this classification change, net fee and commission rose by

€ 2 million, mainly driven by higher fees received for mortgage advice and insurance, partly compensated by a one-off termination payment.

As from 1 October 2020 RegioBank changed its commission fee model from a partly savings balance model to a fully customer model. As a result, distribution fees paid is entirely classified as fee and commission expenses (Fee franchises) and no longer as interest expenses. Impact on 2020 amounts to € 6 million (higher NII and lower net fee income, no impact on net result 2020).

27 Investment income

ACCOUNTING POLICY FOR INVESTMENT INCOME

Investment income consists of dividend income and unrealised and realised gains.

Dividend income

Dividend income is recognised in the income statement when entitlement is established. For listed securities, this is the date on which these securities are quoted ex-dividend.

Unrealised and realised gains

This includes the unrealised and realised gains for investments in the following categories:

- Amortised cost (realised);
- Fair value through other comprehensive income (realised);
- Fair value through profit or loss (unrealised and realised).

Investments included in a fair value hedge accounting relationship are reported in Other result on financial instruments.

Breakdown of investment income

	Debt securities - amortised cost		Debt securities - fair value through OCI		Equity securities - fair value through P&L		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Realised gains	--	--	15	11	--	--	15	11
Other result on investments	--	--	--	--	2	1	2	1
Total	**--**	**--**	**15**	**11**	**2**	**1**	**17**	**12**

Investment income rose by € 5 million to € 17 million, driven by higher realised results on fixed-income investments sold as part of asset and liability management and optimisation of the investment portfolio.

28 Other result on financial instruments

ACCOUNTING POLICY FOR OTHER RESULT ON FINANCIAL INSTRUMENTS

This line item includes revaluation results on derivatives and other financial instruments classified as fair value through profit and loss. Derivatives are recognised at fair value. The profit or loss from revaluation at fair value is immediately recognised in the profit and loss account in the item Other result on financial instruments. For derivatives that are designated as a hedging instrument, the recognition of a resulting revaluation gain or loss depends on the nature of the hedge relationship (reference is made to note 4 Hedging and hedge accounting). Fair value movements in the hedged item attributable to hedged risk are also included in this line item as well as the ineffective portion of any gains or losses of hedge relations.

Furthermore, this line item includes realised results from buy backs of own debt certificates.

Specification other result on financial instruments

in € millions	2020	2019
Ineffectiveness fair value hedge accounting	--	-10
Ineffectiveness cash flow hedge accounting	--	--
Trading results derivatives, investments and other financial instruments	3	--
Foreign exchange transactions results	10	2
Result on buy back of debt instruments	-4	-2
Total	**9**	**-10**

Other results on financial instruments amounted to € 9 million (2019: € 10 million negative). This was due to a higher result on ineffectiveness of fair value hedge accounting, among others related to mortgages. In 2020, this result was almost nil, and in 2019 it was € 10 million negative. Furthermore, treasury results increased, which is shown in the line items Trading results and Foreign exchange transactions results.

29 Other operating income

ACCOUNTING POLICY FOR OTHER OPERATING INCOME
This comprises all other income that cannot be accounted for under the aforementioned line items of the income statement. Income is recognised at nominal value in the reporting period to which it relates.

The total other operating income in 2020 amounted to € 1 million (2019: € 1 million).

30 Staff costs

ACCOUNTING POLICY FOR STAFF COSTS
These costs comprise all costs related to personnel. This includes, inter alia, salaries, social security costs, pension costs and other salary-related costs. Staff costs are recognised in the period in which the employees provide the services to which the payments relate. The accounting policies for employee benefits are included in note 17 Provisions.

Specification staff costs

in € millions	2020	2019
Salaries	192	175
Pension costs	39	38
Social security	30	33
Other staff costs	166	127
Total	**427**	**373**

The increase in staff costs is largely due to a addition to the restructuring provision of € 45 million (2019: € 6 million), which is included in the Other staff costs. Please refer to note 17 Provisions for more information.

The rise in salaries was due to wage inflation and an increase in the number of internal employees. The number of internal employees rose by 180 to 3,171 FTEs. This increase was mainly in the areas of IT, compliance, customer integrity and in connection with the SME finance proposition.

Other staff costs consist largely of the costs of temporary staff (€ 102 million, 2019: € 96 million) and the addition to the restructuring provision.

The pension rights of the majority of employees of de Volksbank are included in the defined contribution plan of the independent Stichting Pensioenfonds SNS REAAL. De Volksbank pays a fixed annual contribution for the accrual of new rights; a fixed percentage of 24% of gross wages was paid in 2020 (2019: 24%). As there is no commitment either enforceable by law or otherwise to pay additional contributions, pension benefits and related investments have not been included in the balance sheet. Employees pay an employee contribution of 5% (2019: 5%) of pensionable earnings (after deduction of the contribution-free amount). The existing administration agreement with Stichting Pensioenfonds SNS REAAL was extended by one year until 31 December 2021. The yearly contribution of de Volksbank is set within a range between 22% and 24%. The premium for 2020 is 24%.

Number of FTEs

in numbers	2020	2019
Number of FTEs	3,171	2,991

The variable remuneration for senior management was abolished and no variable remuneration has been paid out as from 2018. Before the abolition of the variable remuneration, the revised Regulation on Sound Remuneration Policies (*RBB*) came into force as from 1 January 2012. Under this regulation, a possible variable remuneration awarded to de Volksbank staff was partly awarded in phantom shares. The fair value per phantom share is obtained by comparing the equity at the end of the year of performance against the number of outstanding ordinary shares (initial value). Subsequently, the share will annually be revalued with the results of the current year.

The value development of the phantom shares is based on the development of de Volksbanks' results, possibly adjusted for non-recurring income or expenses. The value of the phantom shares is paid in phases in cash, one part after 1 year and the remaining part after the 4-year time period. The last phantom shares were awarded in 2017. At year-end 2020, the total amount of liabilities arising from the phantom shares is € 117,254 (2019: € 269,004). This decrease is the result of distributions made in 2020.

31 Other operating expenses

ACCOUNTING POLICY FOR OTHER OPERATING EXPENSES
Costs are recognised at nominal value in the period in which services have been provided and to which the payments relate. The other operating expenses comprise costs for housing, information technology, marketing, consultancy and other operating costs and prudential costs.

Specification other operating expenses

in € millions	2020	2019
Housing costs	5	6
Information technology costs	35	32
Marketing and public relations costs	29	28
Consultancy costs	26	14
Regulatory levies	50	41
Other costs	49	44
Total	**196**	**165**

Other operating expenses, excluding regulatory levies, were € 22 million higher. Of this amount, € 6 million was related to a positive revaluation for a previous contribution made under the DGS in relation to the insolvency of DSB. This revaluation totalled € 1 million in 2020, against € 7 million in 2019 in Other costs. In addition, particularly consultancy costs rose, for example in connection with the new strategic plan and for regulatory projects.

Other costs comprise costs for payment transactions, securities management and printed matter.

Regulatory levies

in € millions	2020	2019
Deposit Guarantee Scheme	42	34
Single Resolution Fund	8	7
Bank tax	--	--
Total	**50**	**41**

The increased Deposit Guarantee Scheme contribution was mainly caused by growth in covered deposits.

32 Impairment charges (reversals) of financial assets

ACCOUNTING POLICY FOR IMPAIRMENT CHARGES (REVERSALS) OF FINANCIAL ASSETS
Financial assets measured at amortised cost and fair value through OCI, including loan commitments and financial guarantee contracts (off-balance sheet positions) are subject to impairments. An impairment is recognised in the income statement. The accounting principles for impairment are explained in more detail in the accounting principles of the balance sheet items that are subject to impairments.

Specification impairment charges of financial assets

in € millions	2020	2019
Residential mortgages	29	2
Consumer loans	-1	-2
SME loans	8	-8
Other corporate and government loans	--	2
Investments	--	-1
Other	2	--
Total impairments financial assets	**38**	**-7**

Impairment charges of financial assets amounted to € 38 million; in 2019 there was a reversal of € 7 million. The swing was caused by substantial additions to the credit loss provision in connection with the Covid-19 pandemic.

A detailed description of the credit loss provisioning is set out in the chapter 3.3 Credit risk.

33 Taxation

ACCOUNTING POLICY FOR TAXATION
Income tax consists of current and deferred tax. Income tax is recognised in the income statement in the period in which profits arise and measured using tax rates enacted at the balance sheet date.

Specification Tax

in € millions	2020	2019
In financial year	34	64
Prior year adjustments	1	--
Corporate income tax due	**35**	**64**
Due to temporary differences	24	23
Deferred tax	**24**	**23**
Total	**59**	**87**

Reconciliation between the statutory and effective tax rate

in € millions	2020	2019
Statutory income tax rate	25.0%	25.0%
Result before tax	233	362
Statutory corporate income tax amount	**57**	**90**
Exemptions	2	--
Prior year adjustments (including tax provision release)	1	--
Impact deferred corporate tax rate reduction	-1	-3
Total	**59**	**87**
Effective tax rate	25.2%	24.0%

Country by country reporting

On the basis of Article 89 (1) of CRD IV, financial institutions are required to disclose the Member States and third countries where they operate. De Volksbank is not active abroad and does not have any subsidiaries abroad. All its activities take place in the Netherlands.

Name	De Volksbank
Nature of activities	Credit institution
Geographical location	The Netherlands
Turnover	€ 923 million
Number of FTEs on a full-time basis	3.819
Profit before tax	€ 233 million
Tax on profit	€ 59 million
Public subsidies received	n.a.

Dividend

The Board of Directors of de Volksbank proposes to pay out a dividend of € 104 million (2019: € 165 million) to the shareholder NLFI. A dividend of € 124 (2019: € 196) per share can be paid for 2020.

Utrecht,10 March 2021

BOARD OF DIRECTORS
Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

SUPERVISORY BOARD
Jan van Rutte (Chair)
Sonja Barendregt-Roojers
Aloys Kregting
Jos van Lange
Monika Milz

Company financial statements

Company statement of financial position

Before result appropriation and in € millions	Notes	31-12-2020	31-12-2019
ASSETS			
Liquid assets	1	4,626	1,991
Government paper eligible at the central bank		669	349
Loans and advances to banks	2	5,990	3,791
Loans and advances to customers	3	50,542	50,461
Derivatives	4	864	718
Debt securities		4,434	4,994
Equity securities		8	5
Subsidiaries	5	63	92
Intangible assets	6	--	2
Tangible assets	7	107	118
Other assets	8	467	613
Total assets		**67,770**	**63,134**
EQUITY AND LIABILITIES			
Amounts due to banks	9	945	541
Amounts due to customers	10	53,394	48,791
Debt certificates	11	5,686	6,384
Derivatives	4	2,125	1,786
Other liabilities	12	1,590	1,631
Other provisions[1]		80	64
Subordinated debts[1]		500	502
Total liabilities		**64,320**	**59,699**
Share capital	13	381	381
Share premium reserve	13	3,537	3,537
Revaluation reserve	13	2	6
Cashflow hedge reserve	13	22	26
Fair value reserve	13	29	19
Statutory reserve	13	--	--
Other reserves	13	-695	-809
Net profit for the period	13	174	275
Total equity		**3,450**	**3,435**
Total equity and liabilities		**67,770**	**63,134**

1 Where amounts in the company financial statements are equal to the amounts in the consolidated financial statements no separate disclosure is included, however reference is made to the notes to the consolidated financial statements.

Company income statement

in € millions	Notes	2020	2019
Interest income	16	938	869
Interest expense	16	289	345
Net interest income		**649**[1]	**524**[1]
Fee and commission income	17	105	112
Fee and commission expenses	17	58	50
Net fee and commission income		**47**	**62**
Investment income	18	17	12
Result subsidiaries	19	198	344
Other result on financial instruments	20	-9	-24
Other operating income		--	--
Total income		**902**	**918**
Salaries	21	394	338
Social security	21	30	33
Staff costs		**424**	**371**
Depreciation and amortisation of tangible and intangible assets		30	36
Other operating expenses	22	189	159
Impairment charges of financial assets	23	28	-8
Total expenses		**671**	**558**
Result before taxation		**231**	**360**
Taxation	24	57	85
Net profit attributable to shareholder		**174**	**275**

1 The interest income on securitised mortgages and the related interest expense on these mortgages is presented on a net basis in the net interest income.

Principles for the preparation of the company financial statements

When preparing the company financial statements, de Volksbank N.V. makes use of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code of applying the same principles for valuation and the determination of the results as are used in the consolidated financial statements for the company financial statements. Reference is made to the accounting principles for the consolidated financial statements. The presentation and notes in the company financial statements are based on Title 9, Book 2 of the Dutch Civil Code.

For additional information on items not explained further in the notes to the company statement of financial position, reference is made to the notes to the consolidated financial statements.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

De Volksbank N.V. is as a public interest entity in accordance with Book 2, Section 398 (7) of the Dutch Civil Code. The company financial statements fully comply with the Dutch Annual Accounts Formats Decree (Besluit modellen jaarrekening) (model K for the statement of financial position and model L for the income statement).

Subsidiaries are all companies and other entities in respect of which de Volksbank N.V. has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by de Volksbank N.V. The subsidiaries are accounted for using the equity method. The subsidiaries are regarded as an asset and liability combination and not as an indivisible asset. The expected credit losses as prescribed in IFRS 9 on receivables from subsidiaries in the company financial statements are eliminated and included in the carrying amount of the receivables.

The revaluation, cashflow and fair value reserve qualify as statutory revaluation reserves.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the other statutory reserve.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with de Volksbank N.V. accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

Receivables from and amounts due to subsidiaries are intercompany balances, and are valued at amortised cost.

Liquid assets include the non-restricted demand deposits with the Dutch Central Bank and advances to credit institutions with a remaining maturity of less than one month.

De Volksbank changed the presentation of its company financial statements to better reflect model K of the Dutch Annual Accounts Formats Decree. Comparative figures have been adjusted accordingly.

Notes to the company financial statements

1 Liquid assets

Specification liquid assets

in € millions	2020	2019
Non-restricted demand deposits at Dutch Central Bank[1]	4,539	1,797
Short-term bank balances	75	150
Cash	12	44
Total	**4,626**	**1,991**

1 The mandatory cash reserve held at DNB is accounted for in line item 'Loans and advances to banks'.

2 Loans and advances to banks

Specification loans and advances to banks

in € millions	2020	2019
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	3,584	2,438
> 3 months ≤ 1 year	1,175	150
> 1 year ≤ 5 years	259	183
> 5 years	972	1,020
Total	**5,990**	**3,791**

3 Loans and advances to customers

Specification loans and advances to customers

in € millions	2020	2019
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	949	839
> 3 months ≤ 1 year	799	574
> 1 year ≤ 5 years	3,250	2,926
> 5 years	45,544	46,122
Total	**50,542**	**50,461**

4 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Derivatives held for fair value hedge accounting	314	398	1,662	1,553	-1,348	-1,155
Derivatives held for cashflow hedge accounting	10	2	--	2	10	--
Derivatives held for economic hedges	461	238	383	151	78	87
Derivatives held for trading	79	80	80	80	-1	--
Total	**864**	**718**	**2,125**	**1,786**	**-1,261**	**-1,068**

Statement of changes in derivatives

in € millions	**2020**	**2019**
Opening balance	**-1,068**	**-319**
Purchases	-26	100
Settlements	321	92
Revaluations	-503	-949
Exchange rate differences	15	8
Closing balance	**-1,261**	**-1,068**

5 Subsidiaries

Statement of changes in subsidiaries

in € millions	**2020**	**2019**
Opening balance	**92**	**42**
Revaluations	--	1
Result subsidiaries	198	344
Adjustment equity value subsidiaries	-18	-14
Payments	-209	-358
Other movements	--	77
Closing balance	**63**	**92**

The line item payments includes the advances paid on the deferred purchase price of mortgage receivables by the SPVs. Insofar as the balance of the retained results in these SPVs exceed the contractual minimum buffer requirements they will, in anticipation of the final settlement, be paid out early.

6 Intangible assets

Statement of change in intangible assets

in € millions	Internally developed software 2020	Internally developed software 2019	Distribution channel RegioBank 2020	Distribution channel RegioBank 2019
Accumulated acquisition costs	14	15	21	21
Accumulated amortisation and impairments	-14	-14	-21	-20
Closing balance	**--**	**1**	**--**	**1**
Opening balance	1	4	1	2
Depreciation	-1	-3	-1	-1
Closing balance	**--**	**1**	**--**	**1**

7 Tangible assets

Specification property and equipment

in € millions	2020	2019
Land and buildings in own use	8	10
IT equipment	9	11
Other assets	27	26
Right of use of lease contracts	63	71
Total	**107**	**118**

For a more detailed explanation to the Right of use of lease contracts, refer to note 16 Lease contracts in the Notes to the consolidated financial statements.

Statement of change in property and equipment

in € millions	Land and buildings 2020	Land and buildings 2019	IT equipment 2020	IT equipment 2019	Other assets 2020	Other assets 2019	Total 2020	Total 2019
Accumulated acquisitions costs	9	17	36	34	86	76	131	127
Accumulated revaluations	1	-2	--	--	--	--	1	-2
Accumulated amortisations and impairments	-2	-5	-27	-23	-59	-50	-88	-78
Closing balance	**8**	**10**	**9**	**11**	**27**	**26**	**44**	**47**
Opening balance	10	8	11	14	26	33	47	55
Revaluations	1	--	--	-1	--	--	1	-1
Investments	--	1	3	7	9	5	12	13
Divestments	-2	--	--	-3	--	-1	-2	-4
Depreciation	--	--	-5	-6	-8	-9	-13	-15
Impairments	-1	1	--	--	--	-2	-1	-1
Closing balance	**8**	**10**	**9**	**11**	**27**	**26**	**44**	**47**

8 Other assets

Specification other assets

in € millions	2020	2019
Receivables from subsidiaries	289	296
Tax assets	45	99
Trade and other receivables	55	63
Amounts to be settled	1	75
Other	75	80
Sublease	2	--
Total	**467**	**613**

Other include the advanced contribution of de Volksbank to the Dutch Central Bank of € 59 million (2019: € 58 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank in 2009.

9 Amount due to banks

Specification amounts due to banks

in € millions	2020	2019
BREAKDOWN BY REMAINING MATURITY		
≤ 3 months	90	380
> 3 months ≤ 1 year	738	14
> 1 year ≤ 5 years	54	94
> 5 years	63	53
Total	**945**	**541**

The interest rate of loans with a maturity of more than one year is on average 4.7% (2019: 4.7%).

10 Amounts due to customers

Specification amounts due to customers

in € millions	2020	2019
Savings	42,111	38,404
Other amounts due to customers	11,283	10,387
Total	**53,394**	**48,791**

Time to maturity amounts due to customers

in € millions	2020	2019
BREAKDOWN BY REMAINING MATURITY:		
Payable on demand	48,456	41,251
Not payable on demand:		
≤ 3 months	23	117
> 3 months ≤ 1 year	160	527
> 1 year ≤ 5 years	1,355	2,827
> 5 years	3,400	4,069
Total	**53,394**	**48,791**

11 Debt certificates

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Holland Homes		Total	
in € millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Opening balance	6,062	4,937	322	225	--	51	6,384	5,213
Issues	997	1,212	831	979	--	--	1,828	2,191
Redemptions	-1,590	-72	-912	-883	--	-51	-2,502	-1,006
Revaluations	6	--	--	--	--	--	6	--
Amortisation	3	4	-1	1	--	--	2	5
Change accrued interest	-9	3	--	--	--	--	-9	3
Other adjustments	-23	-22	--	--	--	--	-23	-22
Closing balance	**5,446**	**6,062**	**240**	**322**	**--**	**--**	**5,686**	**6,384**

Time to maturity debt certificates

in € millions	**2020**	**2019**
BREAKDOWN BY REMAINING MATURITY		
> 1 month ≤ 3 months	150	242
> 3 months ≤ 1 year	308	1,705
> 1 year ≤ 5 years	1,529	1,246
> 5 years	3,699	3,191
Total	**5,686**	**6,384**

12 Other liabilities

Specification other liabilities

in € millions	**2020**	**2019**
Amounts due to subsidiaries	1,021	1,128
Deferred tax liabilities	17	15
Other taxes	16	16
Accruals	209	247
Other	262	155
Lease liabilities	65	70
Total	**1,590**	**1,631**

For a more detailed explanation to the Lease liabilities, refer to note 16 Lease contracts in the Notes to the consolidated financial statements.

Other relates mainly to amounts payable to customers and suppliers.

13 Equity

Statement of changes in equity 2020

in € millions	Issued capital	Share premium reserve	Revaluation reserve	Cashflow hedge-reserve	Fair value reserve	Statutory reserves	Other reserves	Net profit for the period	Total Equity
Balance as at 1 January 2020	**381**	**3,537**	**6**	**26**	**19**	**--**	**-809**	**275**	**3,435**
Transfers 2019	--	--	--	--	--	--	110	-110	--
Unrealised revaluations	--	--	--	--	22	--	--	--	22
Realised revaluations through equity	--	--	--	-4	-12	--	--	--	-16
Realised revaluations through P&L	--	--	-4	--	--	--	4	--	--
Amounts charged directly to equity	**--**	**--**	**-4**	**-4**	**10**	**--**	**4**	**--**	**6**
Net result 2020	--	--	--	--	--	--	--	174	174
Total result 2020	**--**	**--**	**-4**	**-4**	**10**	**--**	**4**	**174**	**180**
Dividend pay-out	--	--	--	--	--	--	--	-165	-165
Transactions with shareholder	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**-165**	**-165**
Total changes in equity 2020	**--**	**--**	**-4**	**-4**	**10**	**--**	**114**	**-101**	**15**
Closing balance	**381**	**3,537**	**2**	**22**	**29**	**--**	**-695**	**174**	**3,450**

The revaluation reserve, cashflowhedge reserve and fair value reserve are statutory reserves.

The statutory reserves concerns own developed software.

Statement of changes in equity 2019

in € millions	Issued capital	Share premium reserve	Revaluation reserve	Cashflow hedge-reserve	Fair value reserve	Statutory reserves	Other reserves	Net profit for the period	Total Equity
Balance as at 1 January 2019	381	3,787	6	31	14	2	-920	268	3,569
Transfers 2018	--	--	--	--	--	--	107	-107	--
Unrealised revaluations	--	--	1	--	13	--	--	--	14
Realised revaluations through equity	--	--	--	-5	-8	--	--	--	-13
Realised revaluations through P&L	--	--	-1	--	--	--	1	--	--
Other movements	--	--	--	--	--	-2	3	--	1
Amounts charged directly to equity	--	--	--	-5	5	-2	4	--	2
Net result 2019	--	--	--	--	--	--	--	275	275
Total result 2019	--	--	--	-5	5	-2	4	275	277
Dividend pay-out	--	--	--	--	--	--	--	-161	-161
Capital distribution	--	-250	--	--	--	--	--	--	-250
Transactions with shareholder	--	-250	--	--	--	--	--	-161	-411
Total changes in equity 2019	--	-250	--	-5	5	-2	111	7	-134
Closing balance	381	3,537	6	26	19	--	-809	275	3,435

ISSUED SHARES

The issued share capital is fully paid up and solely comprises ordinary shares. The nominal value of the ordinary shares is € 453.79

Specification issued shares

In numbers	Number of shares 2020	Number of shares 2019	Amount of shares in € millions 2020	Amount of shares in € millions 2019
Authorised share capital	4,200,040	4,200,040	1,906	1,906
Share capital in portfolio	3,360,032	3,360,032	1,525	1,525
Issued share capital as at 31 December	**840,008**	**840,008**	**381**	**381**

14 Off-balance sheet commitments

De Volksbank N.V. has provided guarantees as referred to in Book 2, section 403 of the Dutch Civil Code for Pettelaar Effectenbewaarbedrijf N.V., SNS mortgage Receivables B.V., SNS Global Custody B.V. and ASN Duurzaame Deelnemingen N.V.

For more information about the other contingent liabilities reference is made to note 19 Off-balance sheet commitments of the consolidated financial statements.

15 Related parties

Positions and transactions between de Volksbank N.V. and subsidiaries

in € miljoenen	Securitisation entities 2020	Securitisation entities 2019	Other 2020	Other 2019	Total 2020	Total 2019
Income received	6	9	4	6	10	15
Expenses paid	--	15	--	--	--	15

For more information about the related parties reference is made to note 21 Related parties of the consolidated financial statements.

The receivables from the subsidiaries and the amounts due to subsidiaries are included in note 8 Other assets and note 12 Other liabilities.

16 Net interest income

Specification net interest income

in € millions	2020	2019
Interest debt securities	1	4
Interest income residential mortgages	844	755
Interest income other	93	110
Interest expense banking activities	289	345
Net interest income	**649**	**524**

Due to the merger between Woonhuishypotheken B.V. and de Volksbank N.V. at the end of 2019, the mortgages of Woonhuishypotheken B.V. are included in the company balance sheet and as a result the interest income from mortgages has increased in 2020.

17 Net fee and commission income

Specification net fee and commission income

in € millions	2020	2019
FEE AND COMMISSION INCOME		
Money transfer and payment charges	42	41
Advice and agency activities	15	12
Management fees	29	40
Insurance agency activities	16	15
Other activities	3	4
Total fee and commission income	**105**	**112**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	1
Money transfer and payment charges	5	6
Management fees	4	2
Securities activities	1	1
Fee franchise	47	40
Total fee and commission expenses	**58**	**50**
Total	**47**	**62**

18 Investment income

Realised gains and losses on equities in the amount of € 17 million (2019: € 12 million) are recognised under investment income.

19 Result subsidiaries

The result subsidiaries amounted to € 198 million (2019: € 344 million) and consists for the largest part of receivables from the SPV's that are not part of the company's financial statements.

20 Other result on financial instruments

Specification other result on financial instruments

in € millions	2020	2019
Ineffectiveness fair value hedge accounting	--	-10
Ineffectiveness cash flow hedge accounting	--	--
Trading results derivatives, investments and other financial instruments	-15	-14
Foreign exchange transactions results	10	2
Result on buy back of debt instruments	-4	-2
Other	--	--
Total	**-9**	**-24**

21 Staff costs

Specification staff costs

in € millions	**2020**	**2019**
Salaries	190	174
Pension costs	39	38
Social security	30	33
Other staff costs	165	126
Total	**424**	**371**

22 Other operating expenses

Specification other operating expenses

in € millions	**2020**	**2019**
Housing costs	5	6
Information technology costs	35	31
Marketing and public relations costs	29	28
Consultancy costs	25	13
Prudential costs	50	41
Other costs	45	40
Total	**189**	**159**

23 Impairment charges (reversals) of financial assets

Specification impairment charges of financial assets

in € millions	**2020**	**2019**
Residential mortgages	19	1
Consumer loans	-1	-2
SME loans	8	-8
Other corporate and government loans	--	2
Investments	--	-1
Other	2	--
Total impairment charges financial assets	**28**	**-8**

24 Taxation

Specification taxation

in € millions	**2020**	**2019**
In financial year	32	62
Prior year adjustments	1	--
Corporate income tax due	**33**	**62**
Due to temporary differences	24	23
Deferred tax	**24**	**23**
Total	**57**	**85**

The effective tax rate over 2020 amounts to 25.2% (2019: 24.0%).

25 Audit fees

Notes to the audit fees

in € thousands, excluding applicable VAT	EY Accountants 2020	EY Accountants 2019
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,882	1,665
Other assurance services	1,085	1,040
Tax advisory services	--	--
Other non-audit services	--	--
Total	**2,967**	**2,705**

The audit fees relate to the financial year to which the financial statements pertain, regardless of whether the external auditor and the audit firm performed the work during the financial year.

In addition to the statutory audit and the performance of other statutory audits, the auditor also provides a number of other assurance services. These other assurance services consist of the assessment of interim financial information, the assessment of the non-financial information as included in this annual report and activities relating to separation of assets, prospectuses and bond issues. Furthermore, these activities include reporting activities to the regulatory authority and securitisations and the covered bond programme in relation to mortgage pools within the context of outsourcing.

Profit or loss appropriation

De Volksbank proposes to pay a € 104 million (2019: € 165 million) dividend from the retained earnings for 2020. The profit after dividend payment for the financial year 2020 will be added to the other reserves.

Utrecht, 10 March 2021

BOARD OF DIRECTORS
Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

SUPERVISORY BOARD
Jan van Rutte (Chair)
Sonja Barendregt-Roojers
Aloys Kregting
Jos van Lange
Monika Milz

PROVISIONS REGARDING PROFIT OR LOSS APPROPRIATION

Provisions of the Articles of Association regarding profit or loss appropriation

ARTICLE 33

1. The net result shall be at the free disposal of the General Meeting of Shareholders.
2. The company may only make distributions to shareholders and other persons entitled to the distributable profits in so far as its equity exceeds the total amount of its issued share capital plus the reserves required to be held by law.
3. Distribution of profits shall only take place upon adoption of the financial statements from which it appears that such distribution is allowed.

ARTICLE 34

1. Dividends shall be made payable fourteen days of declaration of dividend, unless the General Meeting of Shareholders determines another on a motion by the Board of Directors.
2. Dividends that have not been collected within five years after having been made payable shall revert to the company.
3. If the General Meeting of Shareholders so determines on a motion by the Board of Directors, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of the provisions in article 2:105, paragraph 4 of the Dutch Civil Code.
4. A deficit may only be offset against reserves required by law in so far as permitted by law.

INDEPENDENT AUDITOR'S REPORT

To: the shareholders and supervisory board of de Volksbank N.V.

Report on the audit of the financial statements 2020 included in the annual report

To: the shareholder and supervisory board of de Volksbank N.V.

Our opinion

We have audited the financial statements 2020 of de Volksbank N.V. (the ‘company'), based in Utrecht. The financial statements comprise the consolidated and company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of de Volksbank N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of de Volksbank N.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the following statements for 2020: the consolidated income statement, comprehensive income, consolidated statement of changes in equity and the consolidated cashflow statement;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2020;
- the company income statement for 2020;
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the *Our responsibilities for the audit of the financial statements* section of our report.

We are independent of de Volksbank N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta, Audit firms supervision act), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

De Volksbank N.V. is a bank with a focus on mortgages, payments and savings as its most important products for Dutch retail clients. We paid specific attention in our audit to a number of areas driven by these operations and our risk assessment.
In order to obtain sufficient and appropriate audit evidence to provide an opinion about the consolidated financial statements, we have performed a full-scope audit on the consolidated financial information of de Volksbank N.V. as a whole (no components) and by one audit team.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We were forced to perform our procedures related to the audit of the 2020 financial statements to a great extent remotely due to the Covid-19 measures. In order to compensate for the limitations related to physical presence and direct observation, we more extensively used communication technologies and written information exchange to obtain the audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	EUR 17 million (2019: EUR 18 million)
Benchmark applied	0.5% of shareholder's equity (2019: 5% of result before taxation)
Explanation	Based on our professional judgment, a benchmark of 0.5% of shareholder's equity is an appropriate quantitative indicator of materiality as it best reflects the financial position of de Volksbank N.V. Last year's materiality was based on result before taxation. Due to the impact of Covid-19 on the financial performance and particularly the loan loss provisions of de Volksbank N.V. in 2020, we considered result before taxation a less representative benchmark. The benchmark of 0.5% of shareholder's equity provides a similar materiality (amount) as in the previous years.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 0.8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Teaming, use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a bank. We included specialists in the areas of IT audit, forensics, legal and income tax. Furthermore, we have made use of our own experts in the areas of the loan loss provisioning, valuations of derivatives, hedge accounting, employee benefits, fair value disclosures and capital ratios.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud , we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit, and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including risk, compliance, internal audit and legal) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. In our risk assessments we considered the potential impact of among others developments of key financial ratio's, the business development, organizational changes and board dynamics. We also considered whether the Covid-19 pandemic gives rise to specific fraud risk factors with remote working or illness possibly diluting the effectiveness of internal controls.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in note 'the use of judgements, estimates and assumptions in the preparation of the financial statements' to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

Our audit procedures to address the assessed fraud risks did not result in a key audit matter. However, we describe the audit procedures responsive to the assessed fraud risk related to the risk of management override of controls in the description of our audit approach for the key audit matter on estimation of expected credit losses on residential mortgages.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general banking industry experience, through discussions with the board of directors, reading minutes, inspection of reports from risk, compliance and internal audit, and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations from the board of directors that all known instances of non-compliance with laws and regulations have been disclosed to us. In cases of instances of non-compliance with laws and regulations (with the potential of having a material effect) we assessed whether the company has a process in place to evaluate the impact of non-compliance for its operations and financial reporting and, where relevant, the company implemented remediation plans amongst which for client integrity. We make reference to the key audit matter on estimate of other, non-credit, provisions and related disclosures.

Going concern

We performed procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue its operations as a going concern for at least the next 12 months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focused on the process followed by management to make the assessment, management bias that could represent a risk, the impact current events and conditions may have on the company's operations and forecasted cash flows, particularly whether the company will have sufficient liquidity to continue to meet its obligations as they fall due and will continue to comply with prudential requirements.

Based on the audit evidence obtained, we consider whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed. Following the Covid-19 pandemic, a new key audit matter has been identified.

The key audit matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The impact of the Covid-19 pandemic

Risk	The developments around the Covid-19 pandemic have a profound impact on society and the economy. This also effects the operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The situation continues to evolve giving rise to inherent uncertainty. Therefore, we consider the impact of Covid-19 a key audit matter. De Volksbank N.V. is confronted with this uncertainty and disclosed this in the notes to the consolidated financial statements in the section accounting principles ('impact of Covid-19 on the use of judgments, estimates and assumptions in the preparation of the consolidated financial statements') and in the risk management paragraph sections of the annual report, particularly concerning the expected credit losses on loans and receivables and the operational risks.
Our audit approach	We discussed and evaluated the impact of the Covid-19 pandemic on the operational and financial performance of de Volksbank N.V. and focused particularly on the effectiveness of internal controls while most staff of the company is working remote and the increased estimation uncertainty with regard to the measurement of expected credit losses. We also evaluated management's assessment for going concern under the current circumstances. Accordingly, we designed and performed specific audit procedures responsive to this assessment. For the internal controls testing we inspected the monitoring conducted by the second and third line functions of de Volksbank N.V. and through data-analyses performed incremental procedures especially on outgoing payments. We analyzed events subsequent to 31 December 2020 and reviewed management's projections on financial performance and liquidity and solvency ratios for the next 12 months. Finally, we evaluated the overall view of the annual report and the financial statements related to the impact of the Covid-19 pandemic.
Key observations	Based on our procedures performed we consider that the main issues, elaborations and assumptions in respect of the impact of Covid-19 on the operational and financial performance of de Volksbank N.V. have been properly presented in the risk management paragraph of the annual report and in the disclosures to the financial statements in accordance with EU-IFRS.

Estimation of expected credit losses on residential mortgages

Risk	Residential mortgages are measured at amortized cost, less a provision for impairment. Impairment allowances represent the company's best estimate of expected losses. At 31 December 2020 the total gross mortgage loan portfolio amounts to EUR 47.8 billion (2019: EUR 48.2 billion) and expected credit loss provisions of EUR 111 million (2019: EUR 71 million) are reported and disclosed in note 7 to the financial statements. The notes to the financial statement also disclose the 'Changes in accounting policies, estimates and presentation' related to the provisioning methodology for certain interest-only mortgage loans. The provision for impairment is based on expected credit losses which includes assumptions such as the probability of default, the loss given default, the allocation of loans to stages and the use of macro-economic scenarios and forward looking information. Following the granting of Covid-19 relief measures to certain clients changes to the stage allocation have been made, and in response to the higher estimation uncertainties under the current economic situation a number of expert overlays have been recognized. The appropriateness of loan loss provisions is a key area of judgment for the board of directors. The identification of expected credit losses and the determination of the recoverability of residential mortgages are inherently uncertain processes involving assumptions and factors including scenarios for unemployment and housing prices. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Given the relative size of the residential mortgages of de Volksbank N.V., the complex accounting requirements with respect to calculating provisions for expected credit losses and the subjectivity involved in the judgments made, we considered this to be a key audit matter.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of the Volksbank's accounting policies related to expected credit losses according to IFRS 9 "Financial Instruments". We have obtained an understanding of the loan loss provisioning process and tested the design and operating effectiveness of internal controls across the processes relevant to the expected credit loss calculations, and performed substantive procedures as well. This included the allocation of loans into stages, model governance, data accuracy and completeness, arrears management, multiple economic scenarios, post model adjustments, journal entry testing and disclosures. With the support of our internal modelling specialists, we assessed the adequacy of the provisioning models used by de Volksbank N.V. and verified whether the models were adequately designed and implemented. We performed an overall assessment of the provision levels by stage to determine if they were reasonable considering the risk profile of the mortgage portfolio, arrears management and credit risk management practices and the macroeconomic environment. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of loans on appropriate staging. We tested the data used in the ECL calculation by reconciliation to source systems. With the assistance of our real estate valuation experts we tested the collateral values as this is an important factor for the expected credit loss, in particular for stage 3 loans. We have assessed the indexation methodology for the collateral valuation, checked the correct application thereof, and performed an independent valuation test for a selection of collaterals. With the support of our internal economic specialists, we assessed the base case and alternative economic scenarios including the impact of Covid-19 and the recognition and documentation of expert overlays. This included challenging probability weights and the severity and magnitude of modelled downside scenarios, as well as assessing the sensitivity of primary drivers in the model calculations. We tested the appropriateness and the associated considerations of post model adjustments and recalculated a sample of these amounts. We also assessed completeness of the adjustments based on industry sector information, portfolio characteristics and considering inherent model uncertainties. Finally, we assessed the completeness and accuracy of the disclosures relating to the provision for impairment losses, as disclosed in note 7 to the financial statements and by reference in the risk management paragraph of the annual report, to evaluate compliance with disclosure requirements included in EU-IFRS.
Key observations	Based on our procedures performed we consider the provision for expected credit losses on residential mortgages to be reasonable and in compliance with EU-IFRS. The disclosures relating to the provision for expected credit losses meet the requirements of EU-IFRS.

Estimation of other, non-credit, provisions and related disclosures

Risk	In accordance with IAS 37 Provisions, contingent liabilities and contingent assets, de Volksbank N.V. provides for liabilities related to, among others, restructuring, legal claims and compliance matters. At 31 December 2020, a total of EUR 80 million (2019: EUR 64 million) for these non-credit related provisions is recognized and detailed in note 17 of the financial statements. In note 19 the off balance sheet commitments, including legal proceedings, are presented. Furthermore, in the risk management paragraph developments with regard to legal and compliance risk are disclosed. Developments at de Volksbank N.V. with regard to the internal organization, services to customers and the range of products, as well as heightened regulatory scrutiny, give rise to increased attention from the board of directors when estimating the provisions, specifically in the determination of whether outflows in respect of identified matters are probable and can be estimated reliably and the appropriateness of assumptions and judgments used in the estimation of the provisions. Therefore, we consider this a key audit matter.
Our audit approach	We obtained an understanding of the entity level controls and the legal and regulatory framework of the company. Further, we evaluated the design and implementation of controls by de Volksbank N.V. to identify, monitor and disclose provisions for liabilities and claims, and to assess the completeness and accuracy of data used to estimate provisions. For significant provisions we challenged the provisioning methodology and tested the underlying data and assumptions used. Specifically, for the restructuring related to the new strategy, we assessed whether the IAS 37 criteria are met to record a reorganization provision per 31 December 2020. For cases which were settled during 2020 we verified the actual outflows and considered any remaining residual risk. On a regular basis, we inquired with the risk, compliance, internal audit and legal departments of de Volksbank N.V. to understand and discuss the existing and potentially new obligations and regulatory matters. We examined the relevant internal reports as well as regulatory and legal correspondence to assess developments and we performed follow-up procedures to examine the company's assessment of the impact on the financial statements and the adequacy of risk management disclosures. Where appropriate, we involved our legal and compliance specialists. Furthermore, we assessed whether the disclosures provided on the other provisions and off balance sheet commitments with regard to restructuring, legal claims and compliance matters in note 17 and note 19 of the financial statements are in compliance with the EU-IFRS requirements. Finally, we evaluated the appropriateness of the compliance and legal risk disclosures in the risk management paragraph.
Key observations	Based on our procedures performed we consider the provisions to be reasonable and in compliance with EU-IFRS. The disclosure on provisions and off-balance sheet commitments is considered adequate and appropriate and meets the requirements under EU-IFRS.

Reliability and continuity IT environment

Risk	The activities and financial reporting of de Volksbank N.V. are highly dependent on the reliability and continuity of the IT environment. Effective general IT controls with respect to change management, logical access, infrastructure and operations, secure to a large extent the integrity and continuity of the IT systems as well as the operating effectiveness of the automated controls. As described in the risk management section 3.5.2 in the annual report, the IT environment and the IT organization of de Volksbank N.V. are subject to process improvements. There is a risk that the general IT control measures may not always operate as intended. Therefore we identified the reliability and continuity of the IT environment as a key audit matter.
Our audit approach	IT audit specialists are an integral part of the engagement team and assess the reliability and continuity of the IT environment to the extent necessary for the scope of our audit of the financial statements. In this context, we evaluated the design of the IT processes and tested the operating effectiveness of general IT controls. Following certain observations related to the demonstrability of controls related to among others change management and logical access, we performed additional substantive procedures to mitigate the risks.
Key observations	Our testing of the general IT controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the adequate and continued operation of the IT systems relevant for our audit of the financial statements.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- The report of the board of directors, comprising Key figures, Strategy and Progress (1), Governance (2) - excluding the report of the supervisory board (2.2) - and Risk Management (3)
- The report of the supervisory board;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Foreword of the CEO and Additional information.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the report of the board of directors and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement
We were engaged by supervisory board as auditor of de Volksbank N.V. on 12 October 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of the Board of Directors and the Supervisory Board for the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board of directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam,10 March 2021

Ernst & Young Accountants LLP

signed by A.B. Roeders

DEFINITIONS AND ABBREVIATIONS

Definitions

Term	Definition
AC	Audit Committee of the supervisory board of de Volksbank N.V.
Advanced Internal Ratings Based (AIRB)	The highest and most detailed method for calculating the capital requirements for credit risk under Basel II on the basis of internal credit risk models.
AGM	Annual general meeting of shareholders of de Volksbank N.V.
Asset & Liability Comittee (ALCO)	Risk committee that takes decisions on how to optimally control interest income, capital and the liquidity position. The ALCO is also responsible for identification, controlling and management of these risks with a view to achieving long-term growth.
Arrears Management	Service centre that deals with files of customers in arrears
Basel III	The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards prescribe higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.
Basis point (bps)	One hundredth of 1 percentage point.
Business risk	The risk that business earnings and franchise value decline and/or deviate from expectations because of uncertainty in business income or in the expenses incurred to generate business income.
Capital adequacy	Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.
Capital adequacy risk	The risk that the capital position is insufficient to serve as a buffer for the occurrence of unexpected losses that may arise if one or more risks to which the Company is exposed manifest themselves.
CO_2	A greenhouse gas that is produced primarily through the burning of fossil fuels and that contributes to climate change. Also known as carbon dioxide.
Compliance risk	The risk that the Company and / or its employees do not completely or accurately comply with the (ratio) of written and unwritten rules of corporate integrity and conduct and may be held responsible for such conduct, which may lead to loss of reputation and / or financial loss.
Concentration risk	The risk arising from large individual exposures or accumulation of similar individual exposure (s) within or between categories of risks
Cost/income ratio / Adjusted cost/income ratio	Total operating expenses adjusted for the impact of regulatory levies divided by total income / Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) divided by total income adjusted for the impact of incidental items.
Cost/assets ratio as a % of average assets / Adjusted cost/ assets ratio as a % of average assets	Operating expenses adjusted for regulatory levies divided by average month-end total assets for the reporting period / Operating expenses adjusted for regulatory levies and incidental items divided by average month-end total assets for the reporting period.
Core Tier 1-ratio	The bank's core capital, excluding preference shares, expressed as a percentage of total risk exposure amount.
Coverage ratio	The coverage ratio gives the coverage of the IFRS loan loss provision formed in relation to the gross carrying amount of the loans, expressed as a percentage.
Covered bonds (CB)	Covered bonds (CB) are secured long-term funding Instruments (bonds). This type of bond differs from a standard bond by recourse to a pool of assets (cover assets). In a default event, the bondholder has recourse to the issuer and this pool of assets.
Cost of risk	Impairment charges divided by average month-end portfolio exposure for the reporting period.
Credit Comittee	Risk committee that is responsible for controlling credit risks within the frameworks and within the planning and budgeting cycle. The CC controls and monitors the development of credit risk in the portfolios.
Credit rating	Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the creditworthiness of a country, company or institution.
Credit risk	The risk that the Company suffers a financial loss or a material decrease in solvency, due to the fact that a borrower/counterparty does not meet a financial or other contractual obligation to the Company or due to a material detoriation of the creditworthiness of that borrower/counterparty.
Credit Valuation Adjustment (CVA)	The market value of counterparty credit risk compared to the (total) market value of a derivative.
de Volksbank	de Volksbank N.V.
Duration of equity	The duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve.

Term	Definition
Economic capital	An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.
Encumbered assets	Assets that were pledged or subject to an arrangement, either explicitly or implicitly, in any way to secure, collateralise or credit enhance a transaction.
Executive Pricing Comittee (EPC)	Risk committee that aims for a sustainably profitable portfolio by weighing volume, risk and return within the frameworks of external regulations, risk policy and our Manifesto.
Exposure at Default (EAD)	The EAD is the expected counterparty credit exposure at the time of default.
Forbearance	Forbearance exist if a debtor is having difficulty or is about to encounter difficulties complying with their financial obligations and their contract terms have been changed or the loan has been refinanced as a result.
Hedging	Complete or partial hedging of a financial position by entering into a transaction of which the change in value moves in the opposite direction of the change in value of the original position, often through derivatives.
In arrears	A customer is in arrears if the payment of any interest and/or redemption amount is past due one day after the agreed payment date.
In default	A customer is in default once three monthly instalments have not been paid and the past-due amount exceeds a threshold value. A customer also goes into default if we consider it unlikely that the customer will be able to comply with his or her obligations in the future.
Interest rate risk banking book	The current or prospective risk to the economic value, capital and earnings of the banking book arising from adverse movements in interest rates.
International Financial Reporting Standards (IFRS)	The IFRS, formerly known as International Accounting Standards (IAS), are drawn up and recommended by the International Accounting Standards Board. With effect from the financial year 2005, all listed companies in the EU are required to report under IFRS.
Legal risk	The risk related to a failure to adhere to (i) applicable laws and regulations or unexpected interpretation thereof, (ii) agreements; and related to (iii) non-contractual liability, resulting in financial loss, regulatory sanctions or damage to the Company's reputation. As a result, the Company may be held liable for any current and future claims or may incur damages itself, for example as a result of incorrectly drawn up contracts or incorrect product documentation
Liquidity Coverage Ratio (LCR)	The Liquidity Coverage Ratio (LCR) is an indicator that provides insight into whether sufficient liquid assets are available to absorb a 30-day stress scenario.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses. In addition, liquidity risk is understood to mean the likelihood that the balance sheet structure will develop in such a way that the Company is excessively exposed to disruptions in its funding sources.
Loan-to-Deposit ratio	Loans and advances to retail customers divided by amounts due to retail customers.
Market risk	The risk that equity, the result or continuity is threatened by movements in the level and/or volatility of market prices to which the Company is exposed.
Model Governance Comittee (MGC)	Risk committee that monitors the quality and uniformity of all financial risk and valuation models.
Model risk	The risk of making decisions based on inadequate or erroneous model output, caused by improper implementation, application or interpretation of the models.
MoU	Memorandum of Understanding as mutually agreed upon by NLFI and de Volksbank N.V.
Net interest margin (bps)	Net interest income divided by average month-end total assets for the reporting period.
Net Stable Funding Ratio (NSFR)	The NSFR aims to determine the extent to which longer-term assets are funded with stable forms of funding.
NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, from human failures or errors, or external events such as fraud or criminal acts.
Options	The contractual right, during a certain period or on a specified date, to purchase (call option) or to sell (put option) a certain number of underlying shares or currency at an agreed price.
P&OC	People and Organisation Committee of the supervisory board of de Volksbank N.V.
Preventive management	A joint project of SNS, RegioBank and BLG Wonen that provides customers with looming payment problems with preventive assistance.

Term	Definition
Product Approval & Review Comité (PARC)	Risk committee that is charged with the approval and periodic evaluation of new and existing products and services that we offer to our customers. The risk profile of existing and new products and services is controlled on the basis of legislation and regulations, customers' interests and our Manifesto.
R&CC	Risk and Compliance Committee of the supervisory board of de Volksbank N.V.
Repo	A repo, also known as a repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a certain date.
Reporting risk	The risk that the financial and / or non-financial reporting of the institution contains incorrect or incomplete information of substantial importance, or that internal and external stakeholders cannot take note of in a timely manner.
Reputation risk	The risk that the institution's reputation is tarnished and targets are not met because insufficient account is taken of the Company's image and opinion shared by the outside world (including customers, counterparties, shareholders and regulators).
Residential Mortgage Backed Securities (RMBS)	RMBS, or mortgage securitisations, are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cashflows to bondholders.
Return on equity (ROE) / adjusted ROE	Net result divided by average month-end total equity for the reporting period. / Net result adjusted for incidental items divided by average month-end total equity for the reporting period.
Stage ratio	The gross carrying amount of loans in a certain stage as a percentage of by the total gross carrying amount of loans.
(Bank)savings mortgages	Savings-based mortgages are mortgages with an insurance-linked savings scheme whereby the accumulated capital will be used to repay the principal at maturity. A bank savings-based mortgage operates on the same principle, except it is linked to a bank savings account.
Securitisation	Structuring and bundling debts and trading them in the form of securities.
Standardised approach	The standardised approach for credit risk calculates the credit risk according to a standardised methodology, using external credit assessments.
Stress test	A method of testing a system's or entity's stability when exposed to exceptional conditions by means of a simulation.
the Board	the Board of Directors of de Volksbank N.V.
the Code	The Dutch Corporate Governance Code
the Code of Conduct	the 'Common Sense, Clear Conscience' code of conduct of de Volksbank N.V.
the SB	the Supervisory Board of de Volksbank N.V.
the Secretary	the Company Secretary of de Volksbank N.V.

Abbreviations

Abbreviations	Description	Abbreviations	Description
AC	Audit Committee of the SB	EC	European Commission
AFM	The Netherlands Authority for the Financial Markets	ECB	European Central Bank
AGM	Annual General Meeting	ECL	Expected Credit Loss
AI	Artificial Intelligence	ECP	Euro Commercial Paper
AIRB	Advanced Internal Rating Based-model[1]	EMTN	European Medium Term Note
ALCO	Asset & Liability Committee[1]	EPC	Executive Pricing Comittee[1]
ALM	Asset Liability Management	ES	Expected Shortfall
AMLD	Anti-Money Laundering Directive	ESG	Environmental, Social and Governance
BCBS	Basel Committee for Banking Supervision	EU	European Union
BEPS	Base Erosion and Profit Shifting	EVE	Economic Value of Equity
BoD	Board of Directors of de Volksbank N.V.	FATCA	Foreign Account and Tax Compliance Act
Bps	Basispoints	FTE	Full Time Equivalent
BRC	Bank Risk Committee	GDP	Gross Domestic Product
BRRD	Bank Recovery and Resolution Directive	GDPR	General Data Protection Regulation (AVG)
CAAR	Capital Adequacy Assessment Report	GRI	Global Reporting Initiative
CAS	Climate Adaptation Services	IAS	International Accounting Standard
CAS	Capital Adequacy Statement	ICAAP	Internal Capital Adequacy Assessment Process
CBR	Combined Buffer Requirement	ICF	Integrated Control Framework
CBS	Statistics Netherlands	IFRS	International Financial Reporting Standards[1]
CC	Credit Committee[1]	ILAAP	Internal Liquidity Adequacy Assessment Process
CCB	Capital Conservation Buffer	IMI	Internal Model Investigation
CCO	Chief Customer Officer	IPCC	Intergovernmental Panel on Climate Change
CCP	Central counterparty	IRB	Internal Rating Based (approach)
CD	Certificates of Deposit	ISDA	International Swaps and Derivatives Association
CDS	Credit Default Swap	IT	Information Technology
CEO	Chief Executive Officer	JST	Joint Supervisory Team
CFO	Chief Financial Officer	KNMI	Dutch Meteorological Institute
CIO	Chief Information Officer	KKC	Small Loans Covid Guarantee Scheme
CLA	Collective Labour Agreement	KPI	Key Performance Indicator
CMU	Capital Markets Union	KRI	Key Risk Indicator
CO_2	Carbon dioxide[1]	LAAR	Liquidity Adequacy Assessment Report
COO	Chief Operations Officer	LCR	Liquidity Coverage Ratio[1]
CPB	Netherlands Bureau voor Economic Policy Analysis	LGD	Loss Given Default
CRD	Capital Requirements Directive	LGF	Loss Given Failure
CRO	Chief Risk Officer	LtV	Loan to value
CRR	Capital Requirements Regulation	MBS	Mortgage Backed Securities
CRS	Common Reporting Standard	MGC	Model Governance Committee[1]
CSA	Credit Support Annex	MoU	Memorandum of Understanding
CSO	Chief Strategy Officer	MREL	Minimum Requirement for own funds and eligible liabilities
CVA	Credit Valuation Adjustment[1]	NEU	Negotiable European Commercial Paper
DGF	Desposit Guarantee Fund	NHG	National Mortgage Guarantee
DNB	Dutch Central Bank	NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
DPG	Deposit Guarantee Scheme	NPE	Non-performing exposures
EAD	Exposure at Default[1]	NPS	Net Promoter Score
EaR	Earnings at Risk	NRF	National Resolution Fund
EBA	European Banking Authority	NSFR	Net Stable Funding Ratio[1]

1 See for further information the definition list.

Abbreviations	Description
NVB	Dutch Banking Association
OCR	Overall Capital Requirement
OECD	Organisation for Economic Co-operation and Development
ORC	Operational Risk Committee
PARC	Product Approval and Review Committee[1]
PARP	Product Approval and Review Process
PCAF	Partnership for Carbon Accounting Principles
PD	Probability of Default
PELTROs	Pandemic Emergency Longer-Term Refinancing Operations
PIT	Point-in-Time
P&OC	People and Organisation Committee of the SB
QRM	Quantitative Risk Management
RAS	Risk Appetite Statement
RBB	Regulation on Sound Remuneration Policies
R&CC	Risk and Compliance Committee of the SB
RMBS	Residential Mortgage Backed Securities[1]
ROE	Return on Equity
RRE	Residential Real Estate
RWA	Risk Weighted Assets
SA	Standardised Approach
SB	Supervisory Board of de Volksbank N.V.
SDG	Sustainable Development Goal
SEC	Sustainability Expertise Centre
SIC	Social Impact Committee
SICR	Significant Increase in Credit Risk since initial recognition
SME	Small and medium-sized enterprises
SPV	Special Purpose Vehicle
SRA	Strategic Risk Assessment
SRB	Single Resolution Board
SRD	Shareholder Rights Directive
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRMR	Single Resolution Mechanism Regulation
€STR	Euro Short-term Rate
TCFD	Task Force on Climate Related Financial Disclosures
TLAC	Total Loss-Absorbing Capacity
TMNL	Transation Monitoring Netherlands
TRIM	Targeted Review of Intern Models
UtP	Unlikely-to-Pay
VaR	Value at Risk
VAT	Value Added Tax
Wft	Financial Supervision Act
WfZ	Guarantee fund for the health care
WSW	Social Housing Guarantee Fund
Wwft	Money Laundering and Terrorist Financing (Prevention) Act

1 See for further information the definition list.

DISCLAIMER

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