Annual Report 2019

de volksbank beter voor elkaar

SNS asn bank RegioBank BLGwonen

Presentation of information

De Volksbank's annual report informs its stakeholders about its financial and non-financial results for 2019. In our annual report, we provide a full account of how we want to create value for our stakeholders and how we deal with opportunities and threats.

The annual report begins with the key figures and the interview with the Chairman of the Board of Directors. Following this introduction, the annual report is structured as follows:

- Report of the Board of Directors, comprising:
  - The world around us
  - Our strategy
  - Banking with a human touch
  - Risk management
- Report of the Supervisory Board
- Corporate governance
- 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.

The non-financial information in this report has been prepared in accordance with the GRI Standards (Sustainability Reporting Guidelines of the Global Reporting Initiative) and complies with the EU-directive. Information on the basis of preparation for non-financial reporting can be found in the appendix About the non-financial information in this report.

Capital metrics and risk positions for 2019 and comparative figures for 2018 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 5 March 2020 and is available on our website to browse or as a PDF download.

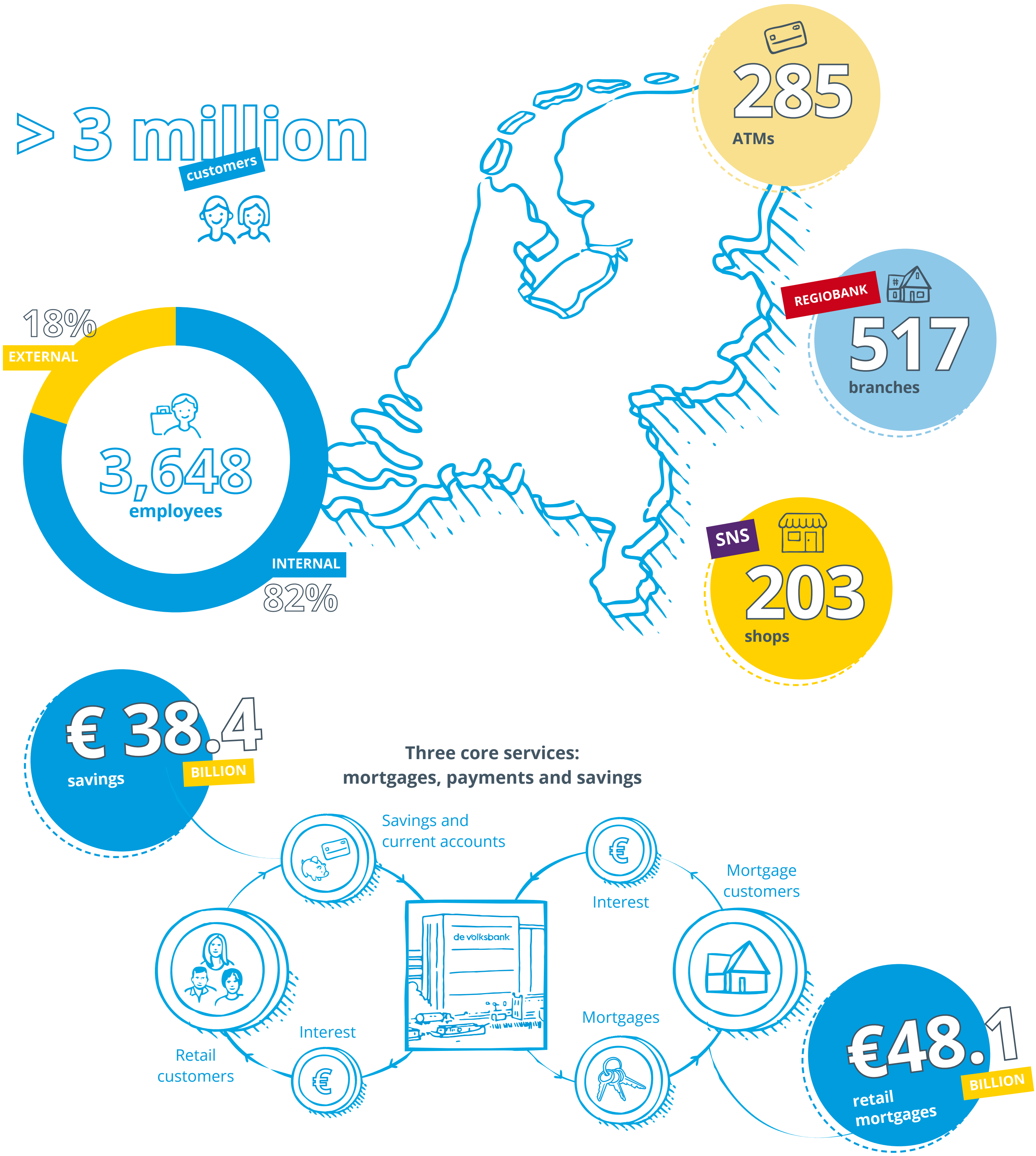
The annual report 2018 was published on 7 March 2019 and is also available on our website to browse or as PDF download.

'We gladly welcome you to de Volksbank's annual report for 2019!'

Jan Hemmen and Siebe Oomkens
Receptionists at de Volksbank

Better for each other

De Volksbank is the fourth-largest retail bank operating in the Dutch market, with a focus on mortgages, payments and savings. De Volksbank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner with its mission 'Banking with a human touch'.



Four brands, one promise

De Volksbank invests in Dutch society with four bank brands. Each brand contributes to our joint promise of being 'better for each other' based on its own distinctive and social profile.

It is not all about money at de Volksbank; we also care about a better society. De Volksbank has four bank brands, each having its own identity and positioning: SNS, ASN Bank, RegioBank and BLG Wonen. Each brand acts as a driver of one of the four social themes to which de Volksbank – as the parent company – wants to make a contribution. Together, these strong brands make up de Volksbank. Together, these brands are greater than the sum of the parts.

'Together, we are de Volksbank.
Together, we are better off'

Ton Timmerman
Director SNS

Arie Koornneef
Director ASN Bank

Rein Wispelweij
Director RegioBank

Frank Soede
Director BLG Wonen

SNS · asn bank · RegioBank · BLGwonen

'SNS helps people with their financial affairs, in good times and in bad'

Ton Timmerman
Director SNS

Ronald Pieters
Director SNS

SNS is for anyone looking to manage their financial affairs with an accessible, straightforward and humane bank. Whether we are talking about savings, payments, housing, investments or insurance, we like to keep things simple and smart. Personal advice and direct contact increase our customers' financial resilience.

The Dutch Consumers' Association declared us the bank with the best customer service in 2019. Opiness presented us with the Best Service Award. We opened a new meeting place in Maastricht, where everyone is welcome to drop by for a cup of coffee, Wi-Fi and a better understanding of money matters.

ASN Bank customers make a difference by contributing to sustainable progress and a liveable world, now and in the future. The money they entrust to our bank is invested in a way that respects human rights, the climate and biodiversity.

We are proud of our customers' appreciation; consumers voted us the most sustainable brand in the Netherlands for the second time in a row during the 2019 Sustainable Brand Index Awards in the 'banks category'.

'ASN Bank invests in sustainable progress'

Joyce van der Est
Director ASN Bank

Arie Koornneef
Director ASN Bank

'RegioBank's heart is in the neighbourhood'

Rein Wispelweij
Director RegioBank

RegioBank

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

In a survey conducted by the Dutch Consumers' Association in June 2019, customers give RegioBank a rating of 9.3 for general satisfaction. RegioBank was also awarded the highest marks of all Dutch banks for service as well as for internet & mobile banking. In 2019, RegioBank and Oranje Fonds started collaborating in the fund Voordebuurt Fonds. Through this fund, RegioBank finances local projects that promote cohesion in local communities and help increase the quality of life there.

BLGwonen

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.

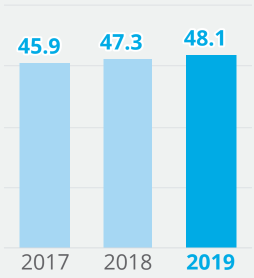
BLG Wonen won the 2019 Positive Finance Award with the 'Rent Statement' pilot project. This award is presented to financial organisations that make a positive contribution with their sustainability policy, social impact and innovation. Over 1,400 tenants registered for our pilot project to find out whether they could buy their own home.

'BLG Wonen is committed to a fair housing market'

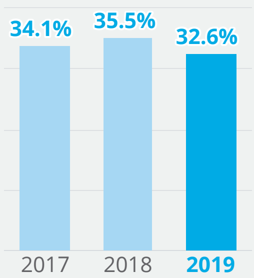
Frank Soede
Director BLG Wonen

Key figures

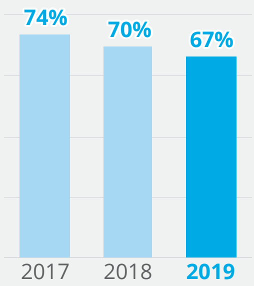
Retail mortgages
(in € billions)



CET 1 ratio



Loan-to-Value mortgage portfolio



Balance Sheet

in € millions	2019	2018	2017	2016	2015
Balance sheet total	62,841	60,948	60,892	61,588	62,690
Loans and advances to customers	50,461	50,536	49,459	48,620	49,217
- of which retail mortgages	48,090	47,262	45,934	44,824	44,787
Amounts due to customers	49,045	48,217	47,062	47,428	47,440
- of which savings	38,404	37,376	36,756	36,593	36,860
Debt instruments	6,906	5,822	4,920	5,696	6,941
Equity	3,435	3,571	3,714	3,561	3,302

Capital and funding

in € millions	2019	2018	2017	2016	2015
Tier 1 core capital	3,155	3,313	3,339	3,164	2,916
Risk Weighted Assets (RWA)	9,680	9,341	9,781	10,824	11,513
RATIOS					
CET 1 ratio	32.6%	35.5%	34.1%	29.2%	25.3%
Tier 1 ratio	32.6%	35.5%	34.1%	29.2%	25.3%
Total capital ratio	37.8%	37.1%	35.7%	33.8%	29.5%
Leverage ratio	5.1%	5.5%	5.5%	5.2%	4.7%
Leverage ratio (fully loaded)	5.1%	5.5%	5.6%	5.3%	4.8%
Loan-to-deposit ratio	102%	106%	107%	103%	105%

Quality loan porfolio

	2019	2018	2017	2016	2015
Loan-to-Value mortgage portfolio	67%	70%	74%	80%	83%
Loans in arrears (%)	1.0%	1.1%	1.4%	1.8%	3.1%
Stage 3 ratio	1.3%	1.3%	0.8%	1.3%	2.3%
Stage 3 coverage ratio retail mortgages	8%	8%	16%	19%	23%

Market shares

	2019	2018	2017	2016	2015
New current accounts	21%	24%	20%	21%	25%
Retail savings	10.4%	10.6%	10.7%	10.8%	10.9%
Mortgage portfolio (in €)	6.5%	6.5%	6.5%	6.4%	6.5%
New mortgages (in #)	6.1%	7.2%	6.8%	5.7%	4.1%

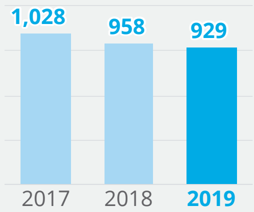
Other key figures

	2019	2018	2017	2016	2015
Number of SNS Shops	203	202	197	196	189
Number of independent advisers RegioBank	517	515	528	536	538
Number of ATMs	285	293	320	393	438

Profit and loss account

in € millions	2019	2018	2017	2016	2015
Net interest income	875	908	924	938	994
Net fee and commission income	51	44	49	57	48
Other income	3	6	55	39	83
Total income	**929**	**958**	**1,028**	**1,034**	**1,125**
Operating expenses excluding regulatory levies	533	562	560	596	575
Regulatory levies	41	47	43	46	15
Total operating expenses	**574**	**609**	**603**	**642**	**590**
Other expenses	-	-	-	1	22
Total expenses	**574**	**609**	**603**	**643**	**612**
Impairment charges	(7)	(12)	(24)	(68)	37
Result before tax	**362**	**361**	**449**	**459**	**476**
Taxes	87	93	120	110	128
Net result for the period	**275**	**268**	**329**	**349**	**348**
- Incidental items	-	-	13	(25)	13
Adjusted net result for the period	**275**	**268**	**316**	**374**	**335**

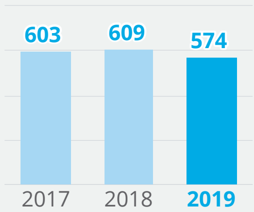
Total income
(in € milions)



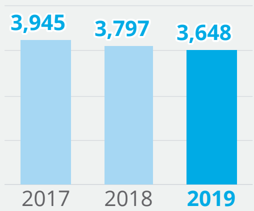
Shared value

	2019	2018	2017	2016	2015
CUSTOMERS					
Customer weighted average NPS[1]	0	-1	-3	-8	-12
Current account customers (in 1.000)	1,568	1,488	1,409	1,328	1,240
SOCIETY					
Climate-neutral balance sheet[1]	44%	37%	27%	22%	20%
Financial confidence barometer	48[2]	49[2]	40[3]	n.a.	n.a.
EMPLOYEES					
Genuine attention[1]	7.7	n.a.	n.a.	n.a.	n.a.
Commitment	8.0	7.4	7.6	8.1	8.2
Engagement	7.4	7.2	7.4	7.4	7.5
SHAREHOLDER					
Return on Equity[4]	7.7%	7.6%	9.1%	10.1%	11.1%
Adjusted Return on Equity	7.7%	7.6%	8.7%	10.8%	10.7%

Total operating expenses
(in € millions)



Number of employees
(FTE)



Other performance indicators

	2019	2018	2017	2016	2015
Cost/income ratio[5]	57.3%	58.7%	54.5%	57.6%	51.2%
Adjusted cost/income ratio	57.3%	58.7%	55.4%	54.5%	53.4%
Net interest margin (bps)	1.37%	1.5%	1.50%	1.48%	1.52%
Cost of risk total loans	-0.01%	0.0%	-0.05%	-0.14%	0.07%

1 For the measurement methodology of these KPIs reference is made to the appendix About the non-financial information in this report .

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

3 Baseline measurement January 2018.

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

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

INTERVIEW

Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank

"De Volksbank expressly chooses to act on its responsibility for the joint interest of society, customers, employees and the shareholder. In 2019, we enthusiastically worked on putting our mission, Banking with a human touch, further into practice. This is increasingly recognised and appreciated. At the same time, our core activities – mortgages, savings and payments – grew. And thanks to a drop in operating expenses, our net profit rose slightly in the past year."

Could you give some examples of initiatives taken in 2019 to put the bank's social role further into practice?
Then I'd like to start with the brands: ASN Bank completed the method for calculating its biodiversity impact, and set itself the goal that all its investments and loans together are to have a net positive impact on biodiversity by 2030. BLG Wonen launched a pilot project in September 2019 to provide mortgages to so-called 'high-rent tenants' on the basis of a rent statement, allowing them to buy a home. This pilot yielded BLG Wonen the Positive Finance Award. RegioBank, together with *Oranje Fonds*, launched the *VoordeBuurt* Fonds that supports initiatives that contribute to social cohesion in villages and small towns. And SNS reallocated customer communication to fixed teams of employees in the SNS shops.
But initiatives were also taken by de Volksbank, the parent company. In September for example, we issued our first 'green senior preferred bond' in the amount of € 500 million. There was a great deal of interest: investors had subscribed for € 1.7 billion. The proceeds of the bond are used to fund activities that contribute to lower CO2 emissions. Another example: along with 130 other banks, de Volksbank signed the United Nations Principles for Responsible Banking. These principles, officially launched on 22 September, are aimed at sustainability and tackling climate change. De Volksbank also joined the 'Hack_Right' programme, a pilot project in which the police and the Public Prosecutions Service collaborate with businesses to bring young hackers back on the rails *and* keep them there.

Maurice Oostendorp
Chairman of the Board of Directors of de Volksbank

Mortgage and savings rates have shown a downward trend for some years now as a result of the ECB's monetary policy. How does de Volksbank respond to this?
We try to strike a fair balance between the interests of our customers and the profitability of the bank. On the mortgage market we are generally not a price fighter, but we do of course follow market developments. And we also proactively inform customers of opportunities to remortgage their house if that would be beneficial to them. So that puts pressure on our interest income. In 2019, our savings interest rates fell, but not enough to absorb the drop in our interest income. We entered into dialogue with customers about their view of the low and possibly negative savings rates. Partly on this basis, we adopted our policy for the ASN Bank, RegioBank and SNS retail savings rates in December. Seeking to encourage the build-up and retention of a financial buffer, our brands will continue to offer retail customers with savings balances of up to € 25,000 an interest rate of at least 0.01% in 2020, and preferably longer. Also, we will not reduce the savings rates to below zero per cent for retail customers with savings balances of up to € 100,000 in 2020.
Of course, our vision of the bank's role in society also plays a role in our savings rate policy. If interest income continues to fall in 2020, as we expect it will, and there is virtually no longer any possibility of offsetting this with lower interest expenses, our profitability will come under pressure. The decision not to introduce a negative savings does, therefore, have consequences. This is something we accept.

Interest income fell by 4% in 2019. Nevertheless, profit showed a slight increase due to a 6% decrease in operating expenses. What is the reason for this decline and do you see opportunities to further reduce costs in 2020?
The decrease was mainly driven by lower staff costs. Restructuring expenses were substantially lower and the number of employees, measured in FTE, reduced by 149. For the first time since 2016, the reduction consisted almost exclusively of external employees. In addition, regulatory levies were lower thanks to a lower contribution to the resolution fund.
We do not expect any further decline in operating expenses in 2020, but we will certainly continue to look for further efficiency improvements.

The return on equity was 7.7%, marginally above the 7.6% of 2018, but below the target of 8%. Can you explain this?
We want to be a safe bank with a strong capital position. In 2019, we even raised our capital targets a little higher. Our target is a CET1 ratio of at least 19%, taking full account of the raised capital requirements of Basel IV regulations, and a minimum leverage ratio of 4.75%. We feel comfortable with this, but it does limit the return on equity.
Capital that sustainably exceeds our targets is available for distribution. Therefore, we made a one-off capital distribution of €250 million to our shareholder NLFI in 2019, in addition to the regular dividend. Even after this capital distribution, our capital position remained strong: at the end of 2019, the CET1 capital ratio was 32.6%, and the leverage ratio 5.1%. This means that de Volksbank continues to be one of the best capitalised retail banks in Europe.
A second element is that at all banks, including ours, interest income - and hence profitability - is under structural pressure due to the sustained low interest rate environment. Our objective is not to maximise profits but to make a return that is adequate to remain a safe and sound bank. Fortunately, this is also the case for returns that are slightly below our target.

What were the most important developments in mortgages, savings and payments?
Our mortgage portfolio and retail savings balances held by our brands both grew by around € 1 billion, with growth occurring entirely in the first half of the year. Market shares declined slightly, however. Net growth in the number of current accounts in 2019 totalled 80,000, marginally higher than in 2018, which means that we have now exceeded our 2020 target of 1.5 million current account customers. Measured by the Net Promoter Score, customer appreciation showed a limited increase.

In his letter to the House of Representatives on the future of de Volksbank in November 2019, the Minister of Finance wrote that a decision on de Volksbank's future could not yet be made. What is your view on this?
In 2019, we experienced widespread political support for our ambition to continue to develop ourselves as a social bank. In his letter to the House of Representatives, the minister indicated that he would like to investigate how de Volksbank's social character can be preserved in any form of privatisation. We are sincerely pleased with this.
At the same time, the Minister indicated that de Volksbank should be and remain resilient, agile and shockproof. Given the developments in the banking sector such as persistent low interest rates, increasing pressure on costs to comply with laws and regulations and new entrants in line with technological innovations in financial services, this also implies we have to make some adjustments to our business model. To this end, we are now developing a new strategic plan. Further consultations on the future of de Volksbank will be held on the basis of this plan. In the meantime, the minister will, in consultation with us and NLFI, explore a number of options for the future.

What is the outlook for 2020?
Banks are increasingly faced with the consequences of the 'low-for-long' interest rate environment. So are we. As a result, we expect further pressure on interest income from our mortgage portfolio in 2020. Given our savings interest rate policy mentioned earlier, lower interest expenses will not be able to fully compensate for this decline, which is why we expect a lower net profit for 2020.
Having said that, we will continue our mission to bank with a human touch in the period ahead. To boost awareness for this mission, we launched a campaign in January 2020 in which we show the connection between de Volksbank and its brands to the Dutch public. Key in this campaign is the 'Better for each other' promise, an umbrella of our mission, Banking with a human touch, and our Shared Value ambition. In 2020 we will continue to deliver on this promise with full commitment and pleasure".

1. The world around us

Introduction

De Volksbank is a bank at the heart of society. Developments and trends in society, the financial sector and our own organisation are taken into account in our strategy. How do we view the world around us? An overview of the most important factors that affect de Volksbank and society are politics, economics, social demographics, technology and laws and regulations. We respond to opportunities, and where we see or expect risks, we take appropriate measures (see Chapter 4 Risk management).

1.1 Political developments

2019 will go down as a year of global protest. The global debate on themes such as climate, liveability, poverty and justice gained momentum, and are now higher than ever before on the international and national political agenda.

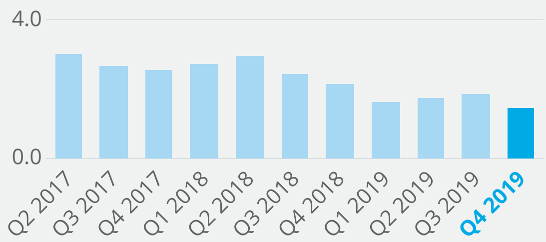
The trend is clear that citizens and companies feel and take up an ever-greater social mission. Take the lack of progress at the Climate Summit in Madrid last December. This underlines once again that not only countries, but companies, financial institutions and concerned citizens also play an important role in achieving social goals.

What other contributions are financial institutions making, or could they make, is the question that will be on the agenda in the immediate years ahead. Politicians, for example, are now also looking at the financial sector when it comes to protecting human rights. At the end of 2019, the IMVO Banking Sector Covenant, in which banks agreed to investigate the impact of their financing activities on human rights, expired. A follow-up is expected this year.

In addition to international themes such as climate, poverty and human rights, more local social issues, like gender equality and diversity, also play a role. On 1 January 2020, the new rules on quota for women on company boards came into force. The voluntary character is gone. In other areas too, politicians expect organisations to have their policies in order, such as for the creation of jobs for people at a distance from the labour market.

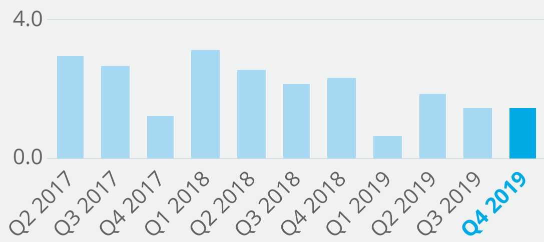
As initiator of Partnership for Carbon Accounting Financials (PCAF), de Volksbank contributes to making the climate impact of investments transparent. Dozens of international institutions are now using this standard

Gross domestic product[1]
(YoY change in %)



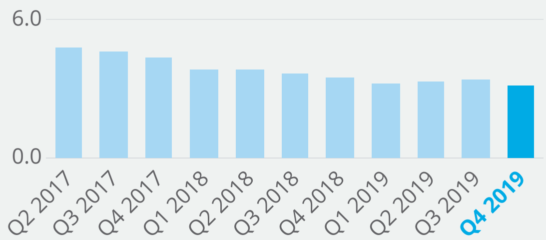
1 Source: CBS

Household consumption[1]
(YoY change in %)



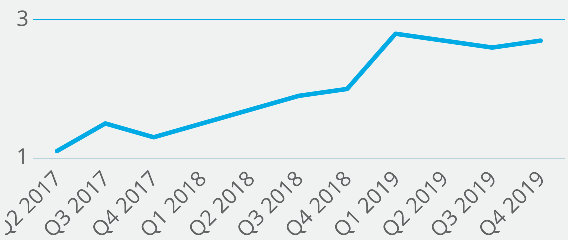
1 Source; CBS

Unemployment[1]
(Seasonally adjusted in %)



1 Source: CBS

Inflation[1]
(YoY change in %)



1 Source: CBS

1.2 Economic developments

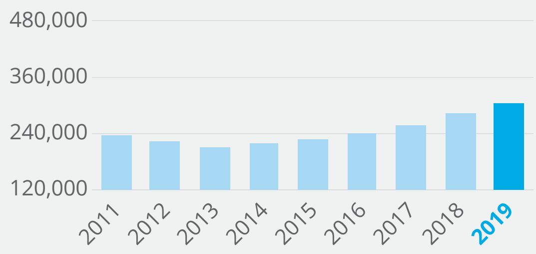
Dutch economy

In 2019, the Dutch economy lost momentum for the second year in a row, although it did outperform most other eurozone countries. Consumption was the stable positive factor, while net exports and investments fluctuated strongly quarter-on-quarter. At 2.5%, job growth was high at the beginning of the year, but levelled off after that. This brought an end to the trend of falling unemployment: by the end of 2019, the unemployment rate was virtually unchanged at 3.2% compared with the year before. The long-term low unemployment rate did, however, result in a steady average wage growth to more than 2.5%. Due to the introduction of a higher VAT rate and an energy tax, inflation in the Netherlands was higher than in other EU countries. In January inflation rose to 2.2% and the year ended at 2.7% (source: Statistics Netherlands).

European monetary policy

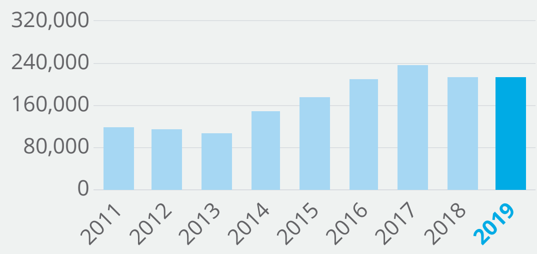
At the end of 2018, the European Central Bank (ECB) was still determined to implement the first interest rate increase in 2019. Due to disappointing macroeconomic figures in the eurozone, not least in Germany, and sharply declining inflation expectations, the ECB backtracked on this. The monetary policy was relaxed again in three stages. The deposit interest rate was lowered to -0.5% in September, while no longer being tied to a fixed term. As of November, € 20 billion in securities was also purchased again on a monthly basis. In order to ease the pain of the negative interest rate for the banking sector, it was decided to introduce a 'two-tier' system. This allowed banks to deposit an amount equal to seven times the minimum reserve requirements at the ECB at a rate of 0%.
In anticipation of these interventions, the German 10-year yield fell sharply to -0.7%. When the final measures fell somewhat short of expectations, interest rate levels recovered slightly. The absence of a hard Brexit and the tentative easing of concerns about the Chinese-American trade tensions certainly also influenced this recovery. The year ended with a German 10-year yield of -0.2%. Interest rates on the short end of the yield curve rose somewhat faster as a result of the introduction of the two-tier system. This was caused by transactions between banks with larger quantities of reserves and banks with smaller quantities of reserves. On balance, the yield curve dropped sharply, especially on the long end of the curve.

Mean salesprice homes[1]



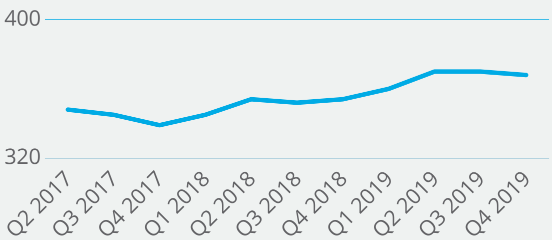
1 Source: CBS

Number of homes sold[1]



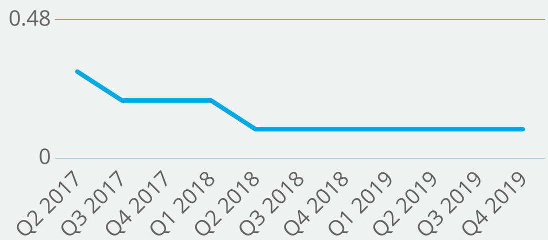
1 Source: CBS

Total savings[1]
(in € billions)



1 Source: DNB

Mean savings interest rate[1]
(in %, redeemable at notice < 3 months)



1 Source: DNB

Housing and mortgage market

The slight increase in the number of houses for sale that occurred at the end of 2018 did not continue in 2019. The number declined in all regions. Despite the tight market, the number of transactions remained unchanged compared with 2018. At the beginning of the year, there seemed to be a decline, but later in the year the number of transactions was again slightly higher than in the corresponding period a year earlier. Prices in the housing market continued to rise and stood at 6.9%, after an increase of 9.0% in 2018. The Dutch mortgage market saw growth compared with 2018, largely due to strong remortgage growth. Measured in terms of new mortgage lending, the market grew by 9%, and measured in euros by 16% to € 123 billion. The increase in euros was larger than the increase in numbers as the average principal showed an increase. Demand for mortgages with a fixed-rate term of 15 years or more continued to grow; their share of the total market increased to 59% compared with 56% in 2018.

Savings market

In 2019, the Dutch retail savings market grew to € 368 billion, an increase of 4% (year-end 2018: € 354 billion). The interest rate cuts for savings continued in 2019. At current interest rate levels, savers' savings behaviour is no longer determined by interest income, but by the need for buffers.

1.3 Social demography

The Netherlands now has more than 17.4 million inhabitants. In 2019, the Dutch population is estimated to have grown by 132,000 people. This is a larger increase than in the past three years. According to data from Statistics Netherlands, in particular more people from abroad settled in this country.
For the time being, however, the Netherlands still faces ageing and dejuvenation. Both developments affect our economic growth potential and the affordability of the welfare state. We monitor these developments and their impact on the financial resilience of our customers and the country in general. Urbanisation is another major development, which is putting particular pressure on the accessibility of the housing market in the Randstad conurbation and other big cities across the country. This is accentuated by the growth in the number of households, single-person households in particular. Regional differences will increase. This may put pressure on the quality of life in local communities. We try to respond to this development through our brand RegioBank.

These demographic trends come with the challenge of tackling social inequality and social tensions: between older and younger people, rich and poor, newcomers and the current population. Together with emerging economies worldwide and the decline of the middle class here, this may lead to tensions that politicians, companies and citizens will have to face.

1.4 Technology

For de Volksbank it is essential to closely follow technological developments, as they can have a major impact on our organisation and society now and in the future. De Volksbank continuously keeps a close eye on opportunities to improve its customer service and its business operations, as well as on potential practical and ethical dilemmas and concerns. Read more about our policies, technological innovations and concrete actions in the field of cyber security and privacy in 3.1.3 Privacy and security of customer data.

Artificial intelligence

De Volksbank sees artificial intelligence (AI) as one of the most important technological developments of our time. While there are many benefits and even more promises for the future, we pay continued close attention to what is needed to develop and use responsible, ethical and relevant applications for our customers. The use of AI should strengthen Banking with a human touch, not replace it. De Volksbank welcomes the wider public debate on ethical use of AI and data privacy, and sets its own requirements for the use of data and AI models by means of self-developed ethical frameworks that are stricter than the General Data Protection Regulation (GDPR). We therefore see the increasing awareness in society around the importance of safe and proper handling of personal data as an opportunity rather than a threat.

Augmented reality & virtual reality

Some sectors already benefit from the possibilities of augmented reality and virtual reality (AR/VR). For banking products and services, we see few concrete applications in the short term, but we do keep a close eye on progress.

Biometrics

Biometrics measure and collect a person's physical, physiological or behavioural data. It offers great potential for identification and authorisation purposes, and in the longer term for fraud detection. Many developments are currently in the experimental phase, and we are following this closely. We use biometrics where possible and secure; the possibility of logging into the mobile app with your fingerprint is a good example.

Blockchain

The hype around blockchain is over by now and the first real applications are being launched. Besides the well-known applications around Crypto currency and tokens, most initiatives now mainly focus on the (distributed) storage and safe sharing of data. For consumer products, however, identification and authentication is still a bottleneck. We expect this to drive further digitisation of services.

Voice recognition

The use of devices such as Google Home, Amazon Alexa and Apple Home is not yet extensive in the Netherlands, but we expect an acceleration now that the Amazon Alexa is formally available here and Google has added the Dutch language. Organisations will have more and more contact with customers via this kind of 'voice device'. However, concerns about the privacy and security of personal data still curb the full execution of all financial transactions based on voice recognition. If the privacy issues are resolved, we expect that financial services and transactions will increasingly be initiated in this way.

Quantum computing

Quantum computing technologies are not yet very mature, but they can certainly have a major impact on cyber security in the long run, because quantum computers can easily crack certain encryption methods.

1.5 Laws and regulations

De Volksbank complies with the applicable laws and regulations. In doing so, we not only check that we comply with them from a legal point of view, but also that we comply with the meaning and the purpose of any such laws and regulations.

Supervisory authorities, the government and the European Union are imposing an ever-increasing number of laws and regulations on banks, not only with respect to capital and liquidity, but also with respect to consumer protection and fraud prevention. On the one hand, banks are compelled to keep working on their own resilience and, on the other hand, on the stability of the entire financial sector without losing sight of customer interests. Examples of such laws and regulations include the European General Data Protection Regulation (GDPR) that regulates privacy, the Payment Services Directive 2 (PSD2) that lays down rules for the payments of consumers and businesses, and the Anti-Money Laundering Directive. At de Volksbank, we apply strict procedures and measures for the identification, verification and acceptance of customers in accordance with Dutch and international regulations, such as the Common Reporting Standards (CRS) and the Foreign Account and Tax Compliance Act (FATCA). On the basis of CRS and FATCA, customer data is exchanged with other countries' tax authorities.

Section 3.2.5 Compliance and de Volksbank sets out how de Volksbank deals with laws and regulations related to prudential supervision and customer interest.

PRUDENTIAL SUPERVISION

- EC Banking package
- Capital Markets Union

CUSTOMER INTEREST

- General Data Protection Regulation (GDPR)
- Mortgage Credit Directive (MCD) and Netherlands Authority for the Financial Markets (AFM) Guideline
- Deposit Guarantee Schemes Directive (DGSD)
- Payment Service Directive 2 (PSD2)
- Anti-Money Laundering Directive (AMLD 4)
- Foreign Account Tax Compliance Act (FATCA)

1.6 Opportunities and risks

The world around us offers de Volksbank plenty of changes and opportunities, though there are threats and risks too. We list below the most important opportunities and risks. We constantly take these topics into account in our strategic considerations, policies and our business activities.

OPPORTUNITIES

1. Consumers attach increasing importance to social banking. Comprehensible banking, as well as sustainability and a responsible investment policy score highly. Being a social bank, this gives de Volksbank an opportunity to appeal to a larger audience.
2. De Volksbank aims for a proper balance in value creation for their stakeholders, i.e. customers, society, employees and the shareholder(s). This approach offers an opportunity to avoid mistakes and gain trust.
3. Large banks are withdrawing from sparsely populated areas. Our extensive physical presence offers opportunities to grow in villages and small towns.
4. Artificial Intelligence is advancing rapidly and offers opportunities to provide better and faster customer service. In this respect, de Volksbank will always put the privacy and security of customers first.
5. The use of online and mobile services is increasing. By responding to such developments, we can have even more frequent and easier contact with our customers, strengthening our relationship accordingly.

RISKS

1. Interest margins are under pressure due the negative interest rate at the European Central Bank and the decision not to charge negative interest rates to our retail savings customers[1]. This threatens our earnings model, which largely depends on the interest margin between mortgages and savings. Under pressure from low mortgage rates, we are also seeing a shift to fixed-rate terms of 20 years and more. Banks generally focus primarily on shorter maturities, so this shift poses a risk to banks' share in the mortgage market.
2. Growing regulatory pressure increases costs and demands a great deal of our change capacity. This may undermine the continuous improvement of our customer services and enhancement of our social impact.
3. New (non-financial) providers of banking services, thanks in part to PSD2, may reduce our ability to keep in touch with customers.
4. Low cost levels from other providers of banking products put pressure on de Volksbank's relative cost position. This is a risk to our return on equity.
5. Contemporary consumers are making ever higher demands on services. Long waiting times, overly complex (online) products and other bad customer experiences may be a reason for them to switch banks.

1 Savings up to € 100,000

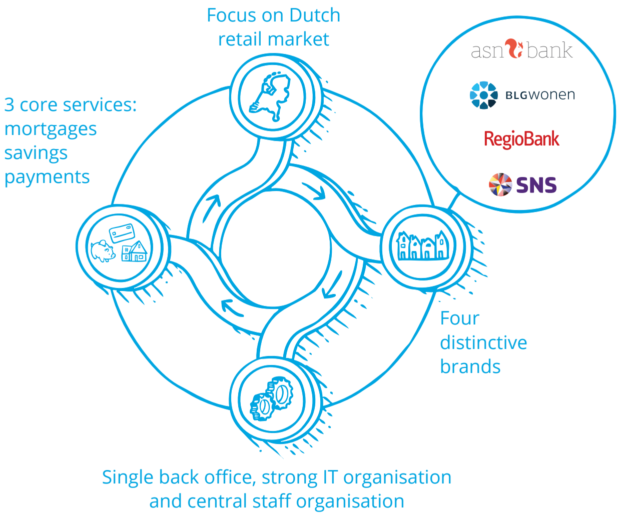
2. Our strategy

Four brands

De Volksbank is a family of several bank brands: ASN Bank, BLG Wonen, RegioBank and SNS. Each of them has its own way to address customers and ensure that they feel at home with us.

These days, people are choosing their financial services provider more and more consciously. In addition to practical considerations, they are increasingly influenced by their bank's social course and principles.

ASN Bank has a particular focus on the world of tomorrow, with its climate-conscious banking and highly involved customers. BLG Wonen places its emphasis on justice and modernisation of the mortgage market. It seeks to achieve this modernisation by making mortgage loans accessible to people who need a custom-made solution to acquire their own home. RegioBank has a strong local presence and is committed to improving the quality of life in the neighbourhood. Especially in small villages and urban districts does RegioBank give an opportunity for a personal conversation, lending a hand to help people find their way in the digital world. SNS supports its customers in managing their financial lives and makes them financially resilient by being close to them, in a simple and humane way.



2.1 A human touch

De Volksbank is a bank at the heart of society. Its history stretches back to 1817 and virtually all of its legal predecessors were savings banks for the common good (*nutsspaarbanken* or *bondsspaarbanken*) – banks that were close to their customers, with a local character and social objectives. Their history is decisive for the unique profile and strength of de Volksbank as it stands now. We have four groups of stakeholders: customers, employees, society and the shareholder. Banking with a human touch is the recurring theme connecting all our activities. What we offer customers must be beneficial to them and add to their trust in us. Employees must be given the opportunity to contribute to the company's objects to the best of their ability. Training and development and genuine attention from managers and colleagues among themselves are preconditions for this.

For society, our aim is to increase people's financial resilience and to make a climate-neutral contribution to a sustainable future. The shareholder receives healthy returns from an efficient company, without bonuses but making a major contribution to the diversity of the financial landscape.

MANIFESTO: BANKING WITH A HUMAN TOUCH

A society that allows people to live confidently and full of optimism and to do the things that benefit the next generation – that is the kind of society we wish to build. It is our raison d'être: to help every single individual – in a personal way – to be financially resilient, each in his own way.

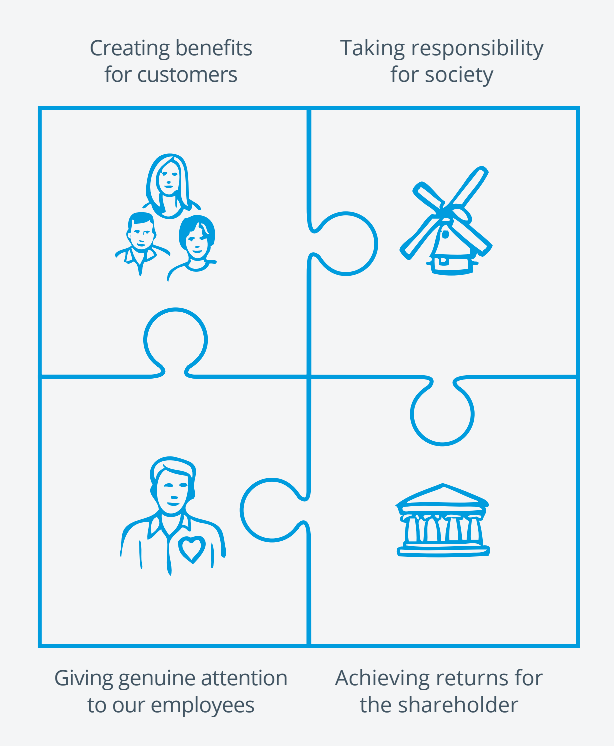
Accordingly, reaching back to our social roots, we are taking our responsibility to shape the banking trade based on what people really need. It means that our financial services are about benefit rather than return – about value rather than money. It particularly means that we are sincere in putting our customers' interests first in order to safeguard fundamental things in life such as housing, education and a buffer for unexpected expenses, now and in the future.

We also understand that the Netherlands today is very diverse and that every individual wants to be 'financially resilient' in his own way. That is why de Volksbank is a diverse family of brands: ASN Bank, BLG Wonen, RegioBank and SNS. Together, yet each in its own way, we choose to build a future based on the principle of sustainability. We choose to offer people insight, clarity and prospects in finance, to make 'good housing' accessible and to reinstate sincere personal contact as the cornerstone of banking. We are continuously inspired to work closely with our customers and develop simple services that bring the human touch back into banking.

2.2 Mission, ambition and objectives

Our mission – Banking with a human touch – is described in our Manifesto (see box). To live up to this mission, de Volksbank has the ambition to optimise shared value. This means that we serve the joint interests of customers, society, employees and the shareholders. To this end, we formulated concrete objectives for our four stakeholder groups in 2016. We measure the progress made on our mission and the achievement of our shared value ambition by monitoring the headway we make on those stakeholder objectives.

OUR AMBITION



Benefits for customers

Customer needs are at the heart of de Volksbank's operations. That is why we listen to what customers want, recognise their underlying emotions and see our products as means to an end rather than ends in themselves. If we succeed in being relevant to customers, each of our brands will enjoy a greater appreciation of its services and a stronger relationship with customers. Translated into measurable objectives and key performance indicators (KPIs), this means that:

- we aim to improve the customer-weighted average Net Promoter Score (NPS) to +10 in 2020. The NPS is a management instrument for measuring customers' likelihood to recommend a brand. Other KPIs we use to measure our benefits for customers include: the customer's effort required to manage financial affairs (Customer Effort Score) and the grades that intermediary advisers assign to us;
- we increase our customer base to 1.5 million current account customers by 2020, with a focus on active current accounts. We regard the development of the number of active current accounts as an important indicator for the quality of our brands' customer relationship. We also measure the number of active customers who have multiple products and the duration of the relationship.

Responsibility for society

We want to make a positive contribution to society on four themes: financial resilience, sustainability, quality of life in the region and good housing for everyone. Translated into (measurable) objectives and KPIs, this means that:

- we use the Financial Confidence Barometer to measure in qualitative and objective terms our success in contributing to the financial resilience of our customers. Our target for 2020 is that our customers give an average score of 50 on a scale from 1 (totally disagree) to 100 (totally agree) in response to the question whether the bank is ready to help them when they have financial stress;
- in the area of sustainability, we aim for a 45% climate-neutral balance sheet by 2020, rising to 100% by 2030.

We have not defined any KPIs for the social themes 'quality of life in the region' and 'good housing for everyone' at this time. These will be addressed when we update our strategic plan.

Genuine attention for our employees

Our way of banking creates value for our stakeholders, including our employees. In 2019, we started redefining the shared value for employees to align it with our mission, banking with a human touch. We want to enable our employees to make a meaningful contribution to our mission and strategy by giving genuine attention to autonomy, personal growth and professionalism. We firmly believe that genuine attention results in colleagues who are committed to the organisation and who are enthusiastic about their work ('engaged'), thereby adding value for themselves and for the organisation.

We set great store by employees feeling at home, being themselves and being given the freedom to come up with new initiatives. Genuine attention also means that we offer our employees the option of developing their potential. We challenge them to use their talents and skills to improve our services. We invest in the professionalism and personal growth of our employees and managers through, for example, the de Volksbank Academy and talent and leadership development. Translated into (measurable) objectives and KPIs, this means that:

- in 2019, we replaced the KPI employee Net Promoter Score (eNPS) with a new KPI that is more in line with de Volksbank's intentions with the new definition of shared value for employees: 'Genuine attention for our employees';
- we aim for a score of 7.5 or more (on a scale of 1-10) in 2020 for the KPI 'Giving genuine attention to our employees';
- we aim for a score of 8 or more in 2020 for commitment and engagement.

Returns for the shareholder

De Volksbank is a retail bank with activities that have a low risk profile. Our focus is on the Dutch retail and SME customers, whom we offer simple and transparent products.

In this respect, we aim to be a financially sound and stable bank and to provide matching returns to our shareholder(s).

Translated into (measurable) objectives and KPIs, this means that:

- we use a target Return on Equity (RoE) of 8%;
- we intend to pay out a dividend of between 40% and 60% of the adjusted profit to the shareholder.

Other objectives

We have also set objectives for ourselves in terms of capitalisation and efficient business operations.

Translated into (measurable) objectives and KPIs, this means that:

- we aim for a CET1 capital ratio of at least 19% (based on fully phased-in Basel IV rules) and a leverage ratio of at least 4.75% in 2020. The objective for the CET1 capital ratio includes Pillar 2 Guidance and an ample management buffer, on top of the SREP requirement of 10.5%. This underlines that we want to be a safe bank. We adjusted these targets in 2019. The previous target for the CET1 capital ratio was at least 15%; the previous leverage ratio target was at least 4.25%;
- we aim for a range for the cost/income ratio (operating expenses excluding regulatory levies divided by total income) of 50% to 52% for 2020. We need a significant recovery of net interest income or a substantial further drop in costs to achieve this target; neither is expected at this time.

2.3 Three strategic pillars

We seek to achieve our ambition by focusing on three pillars: a distinct position as a social bank, simple and efficient business operations, and a smart adopter's innovation profile.

1. *Strengthening our identity*
   De Volksbank continues to strengthen its social identity. We refine our brand positioning and continue to develop new customer propositions dovetailing with customer needs.
2. *Simplicity and efficiency*
   De Volksbank continues to make its business operations simpler and more efficient. Simple and digitised processes and products will make the services provided to customers easier, more efficient and more transparent. They also ensure a low cost level and a future-proof organisation.
3. *Smart adopter*
   De Volksbank keeps up with technological developments by continuing its transformation into an agile organisation that brings about innovation as a smart adopter. We closely monitor innovations in core banking functions, allowing us to serve our customers better and faster in a way that meets their expectations and needs. We aim to create an open innovation process characterised by multidisciplinary external collaboration and partnering.

For every shared value segment and the material topics it covers, these pillars form the basis for the progress we make.

STRATEGY UPDATE IN 2020

De Volksbank's current strategic plan covers the period up to and including 2020. We are presently updating our strategy, which may result in adjusted or new strategic pillars and objectives. We expect to complete the analyses required and the strategy update in 2020. In the process, we also consider the findings from the report of NL Financial Investments (NLFI) published in November 2019 (see also Section 2.6).

2.4 How we create value

Being a social bank, de Volksbank aims for a sustainable and fair society where people are free to live their lives as they wish, while being mindful of others. 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.

This is based on the principle that we aim to optimise the value for our four stakeholders rather than to put the interest of a single stakeholder first. That is why our decision-making process is not based exclusively on financial considerations; instead, at de Volksbank we expressly assess whether a decision is in line with the bank's social character and the corresponding objectives.

The overview below is inspired by guidelines for proper reporting of financial, social and sustainable efforts of the International Integrated Reporting Council (IIRC). The value creation model indicates which goals de Volksbank has set itself and how we intend to reach them. We continue to work towards the practical implementation of these objectives.

The model shows our main inputs on the left-hand side, divided into the six capitals as defined by the IIRC. This section describes the main competencies and resources that we use for our activities. The business model reflects our main activities, also showing our mission, ambition and brands. In the Output/outcome column, the concrete results for each stakeholder can be found in the form of our main KPIs. Next to it the corresponding sustainable development goals (SDGs) phrased by the United Nations.

Value creation model

INPUT

Social
- Relationships with our key stakeholders: customers, society, employees and shareholder
- Collaborations and partnerships with other parties
- Reputation of or brands

Human
- More than 3,000 employees with ambitions that match our mission
- Relevant study and training programmes
- More than 200 years of experience in retail banking
- HR policy starting from genuine attention for employees

Intellectual
- Expertise on 4 social themes of our brands
- Vision on data and privacy of our customers
- IT systems, including payments infrastructure
- Responsible financial and risk management
- Sustainability policy

Financial
- Shareholders' equity
- Retail savings deposits
- Capital market debt

Manufactured
- Offices, buildings and other workplaces
- Nationwide network of shops
- Datacentres
- Vehicle fleet, starting from electric transport
- Equipment, such as laptops and telephones

Natural
- Consumption of energy and other natural resources required for our business operations

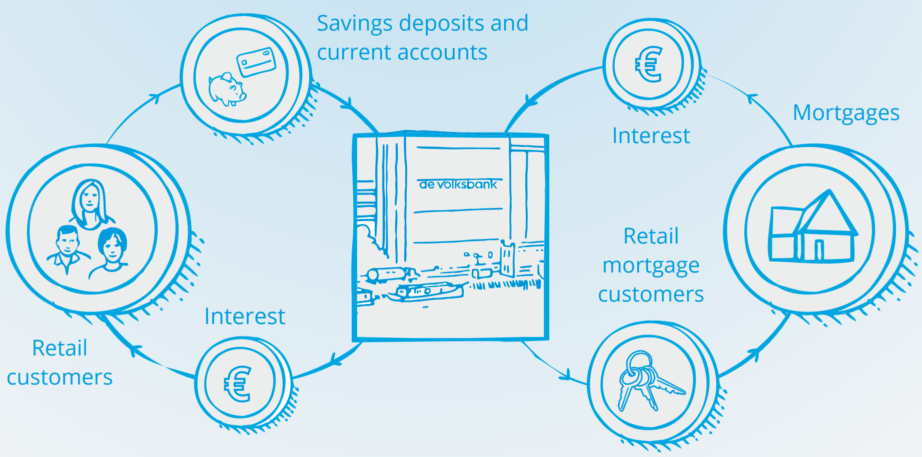
Banking with a human touch

Our ambition

Optimising shared value through:

- **creating benefits for customers**
- **achieving returns for our shareholder(s)**
- **giving genuine attention to employees**
- **taking responsibility for society**

Business model



The four brands of de Volksbank focus on the Dutch retail market, offering simple and transparent mortgage, savings and payment products to private individuals and smaller businesses. We also offer insurance and investment products. De Volksbank will always maintain its strong liquidity profile and capital structure.

Each brand has its own distinctive brand positioning and focuses on a specific social theme, i.e.:
- Financial resilience
- Sustainability
- Quality of life in the neighbourhood
- Comfortable housing for everyone

OUTPUT/OUTCOME

Customer

1.57 m
Current account customers

€5.5 bn
New mortgage production

0
Customer-weighted average NPS

Society

48
Financial Confidence Barometer

44%
Climate-neutral balance sheet

Employee

8.0
Commitment

7.4
Engagement

7.7
Genuine attention for employees

Shareholder

€275 m
Net profit

7.7%
Return on Equity

IMPACT (SDG'S)

1 NO POVERTY

Contribute to financial resilience of customers and society

Contribute to living wages all over the world

5 GENDER EQUALITY

Contribute to gender equality

8 DECENT WORK AND ECONOMIC GROWTH

Contribute to a healthy economy

Contribute to being a good employer

11 SUSTAINABLE CITIES AND COMMUNITIES

Contribute to making homes in the Netherlands more sustainable

Contribute to quality of life in the neighbourhood

13 CLIMATE ACTION

Contribute to a more sustainable world

17 PARTNERSHIPS FOR THE GOALS

Collaborations and partnerships to increase our social impact

Contribution to social and sustainable goals

The United Nations drafted seventeen social and sustainable goals in 2015. Known as SDGs, these goals cover issues such as poverty, climate and working conditions and constitute a guideline for our policy as a social bank.

A big step having great impact is de Volksbank's adoption of ASN Bank's sustainability policy a few years ago based on this policy. This affects all seventeen SDGs to a greater or lesser extent. De Volksbank places additional emphasis on six social and sustainable development goals that allow us to have an immediate impact.

SDG	IMPACT AND CONTRIBUTION
1 NO POVERTY	• Since a sound approach towards financial affairs promotes people's well-being, financial resilience is a major criterion when assessing and improving all our products and services. • The Platform Living Wage Financials (PLWF) is a joint initiative of de Volksbank and a few other Dutch financial institutions. ASN Investments seeks to achieve a living wage for every citizen in the world through PLWF.
5 GENDER EQUALITY	• De Volksbank is committed to equality between men and women. This means that, at de Volksbank, men and women who perform the same work receive equal pay in equal situations. • Our goal is to appoint women to at least 35% of all management positions and for at least 40% of the executive positions to be held by women. • ASN Beleggingsinstellingen Beheer has decided to adjust the standard for the ratio of men to women from 70-30 to 60-40. This means that the appointment of a board member will be voted against if it will result in more than 60% of the members being of a particular sex. This way, we intend to send a message that greater diversity is important.
8 DECENT WORK AND ECONOMIC GROWTH	• Being a financial services provider, we contribute to a healthy economy by providing responsible financial products and services, developing social initiatives and entering into partnerships. • As stated at SDG 1, de Volksbank is committed to a living wage for every citizen in the world. • In our *Eurowijs* initiative, we teach children financial skills and provide free teaching materials for primary and secondary education groups as well as for special education.
11 SUSTAINABLE CITIES AND COMMUNITIES	• De Volksbank is working to increase the sustainability of the mortgage portfolio, thereby contributing to climate-resilient homes and communities. • We introduced the sustainable ASN mortgage in 2019. • We are committed to enhancing the quality of life in neighbourhoods by means of our RegioBank brand. We do so through local bank branches and by encouraging entrepreneurship in small municipalities.
13 CLIMATE ACTION	• De Volksbank's goal is to be a climate-neutral bank by 2030. • As the initiator of the Partnership for Carbon Accounting Financials (PCAF), de Volksbank contributes to making the climate impact of investments more transparent. Dozens of international institutions have now adopted this standard. • We regularly inform our customers of sustainability and the options they have of making their homes more sustainable. • We issued our first 'green bond' in 2019 to finance climate and environmental projects.
17 PARTNERSHIPS FOR THE GOALS	• De Volksbank and its brands regularly enter into social collaborative ventures and partnerships, such as with PCAF, PLWF, the Climate Working Group of the Dutch Banking Association and the Biodiversity and Climate Risks Working Group of the Dutch Central Bank. • In 2019, de Volksbank signed the Principles for Responsible Banking, a global initiative of the United Nations Environment Programme Finance Initiative (UNEP FI). • We also signed the national Climate Commitment in 2019, which aims to reduce the CO2 emissions of investments.

Stakeholder engagement

If we are to deliver on our promise of being 'better for each other', de Volksbank needs to know what makes customers, employees, shareholders and several civil society organisations tick and which non-financial topics they value. To discover this, we consult our stakeholders in a personal and open way. De Volksbank applies various standards when recording the results. The GRI Sustainability Reporting Standards (Core) form the basis for our reporting of non-financial material topics. These are also based on value creation model described above, which is inspired by guidelines of the IIRC.

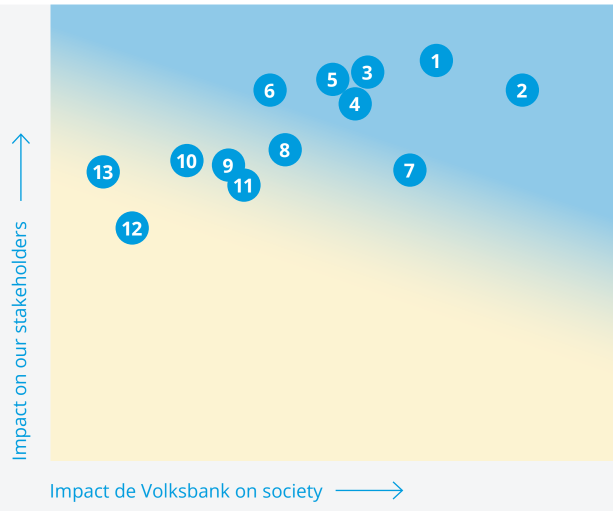
We consulted with our four stakeholder groups in the autumn of 2019 to discuss the topics stated in the materiality matrix below. We reduced the number of topics from 22 in 2018 to 13. We believe that we can have a more positive impact on society with these topics, than with the previous 22. The section 'About the non-financial information in this annual report' extensively discusses how we arrived at these 13 topics, which topics have been combined, the changes of priority, and how we carried out the survey.

Topics 1 to 6 have emerged from our survey as being the most material (see the materiality matrix below). This means that our stakeholders set great store by our commitment to these topics and that an internal consultation has shown that these topics enable us to have the greatest impact on society.
The various suggestions for adjustments of definitions and other tips brought up during the conversations will be discussed internally.

Stakeholder engagement

In addition to our annual materiality survey, we regularly have meetings and act as guest speakers at conferences and events. Delivering on our promise of being 'better for each other', in 2020 we will start identifying our stakeholder engagement in more detail and summarising it in our annual report. We will indicate what our stakeholders expect, how we engage with them and how we deal with the points of concern brought up.

Materiality matrix



1 Simple and transparent products
2 Responsible investing
3 Climate-neutral balance sheet
4 Financial resilience
5 Privacy and safety customer data
6 Genuine attention for employees
7 Responsible financial and risk management
8 Diversity and inclusiveness in the workplace
9 Collaboration with stakeholders
10 Social innovation
11 Responsible tax policy
12 Responsible remuneration policy
13 Distribution and coverage

Advisory Council

De Volksbank has an Advisory Council that considers the future plans, dilemmas and issues we face from a social perspective. The members of our Advisory Council originate from various segments of society, thus creating additional critical power and advice that help de Volksbank improve its social positioning. The composition of the Advisory Council remained unchanged in 2019: Gerhard van den Top (Chair), Giuseppe van der Helm, Henriëtte Prast, Jaap Smit, Melek Usta, Peter Verhaar and Fokko Wientjes. The Advisory Council met three times in 2019. Topics that the Advisory Council discussed with the Board of Directors included the status of the privatisation process and de Volksbank's future governance, the *Geld en Schuld* ('Money and Debt') report of the Scientific Council for Government Policy (WRR), and the use of artificial intelligence. In addition to the meetings with the Board of Directors, there were individual consultations with some members of the council.

Connectivity

The next step needed to arrive at an integrated report is to define KPIs and objectives and link these to results, risks. We have done this for a number of material topics, others are still being developed. To provide an insight into the cohesion, we have visualised our shared value, material topics, KPIs, objectives and risks in the connectivity matrix below.

The material topics described in this matrix can also be found in our materiality matrix on the previous page and are among the 6 most material topics, with the exception of responsible financial and risk management. You can also find these topics in our value creation model, although not always in the same terms.

Connectivity matrix

Stake-holder	Material topic[1]	Explanation	Realisation 2019 (Objective 2020)	Risks[2]
Customers	**Privacy and safety customer data (no. 5) (Section 3.1.3)**	Protecting the privacy of our customers and security of their data to the greatest possible extent.	--	Data management risk Compliance risk Operational risk
	Simple and transparent products (no. 1) (Section 3.1.2)	Offer simple and transparent products that meet customers' needs. The information on our products and services also needs to be accessible and clear.	Customer weighted average NPS 0 (+10) 1.57 million current account customers (1.5 m)	Organisational risk
Scociety	**Responsible investing (no.2) (Section 3.2.3)**	Investing all the fund entrusted to us on a socially responsible way in order to make a positive impact.	Climate-neutral balance sheet 44% (45%)	Sustainability risk
	Climate-neutral balance sheet (no. 3) (Section 2.2 and 3.2.1)	Making a positive contribution to the climate by reducing CO2 emissions of our mortgage portfolio by helping homeowners make their homes more sustainable.		Sustainability risk
	Financial resilience (no.4) (Section 2.2 and 3.2.2)	Improving our customers' financial resilience of our customers, by helping them improve their financial position, increase their financial skills and reduce their financial concerns.	Financial confidence barometer 48 (50)	Credit risk Business risk
Employees	**Genuine attention for employees (no. 6) (Section 2.2 and 3.3)**	Enabling our employees to achieve our mission and strategy by giving genuine attention to autonomy, personal growth and professionalism.	Genuine attention 7.7 (≥7.5) Commitment: 8.0 (≥8.0) Engagement: 7.4 (≥8.0)	Operational risk
Shareholder	**Responsible financial and risk management (no. 7) (Section 3.4 and 3.5)**	We are committed to be a financially sound bank with solid returns and a strong capital position, with a moderate risk profile with low-risk activities.	ROE 7.7% (8.0%) CET1 ratio 32.6% (≥19%) Leverage ratio 5.1 (≥ 4.75%) Cost/income ratio 53.7% (50-52%)	Market risk Business risk Organisational risk Model risk

1 The numbers behind the topics indicate the ranking of the topics in the materiality matrix as described in this Section.

2 For more information on the risks, see Section 4.1.3 Risk appetite and risk indicators.

2.5 Options for the future

On 14 November, de Volksbank's future was on the agenda of a general consultation between the Minister of Finance and the financial spokespersons for the political parties in the House of Representatives. The reason for the consultation was the Minister's letter to the House of Representatives about NLFI's annual report on de Volksbank. In the letter, the Minister wrote that a decision with respect to de Volksbank's future could not be made at this time based on the NLFI report and market conditions, despite the fact that the three-year period previously indicated had expired. During the consultation, the Minister expressed his intention to present a broader perspective on the diversity of the Dutch banking landscape in the next six months.

At de Volksbank, we are currently exploring ways to optimise our business model. Our aim is to ensure that the bank is and remains agile, resilient and shockproof. This includes a consideration of the options of diversifying income and cutting costs. The sustained low interest rate environment, financial and technological developments with related investments, and rising costs incurred to comply with laws and regulations make this a tough challenge. Our study should lead to a new strategic plan. We will inform NLFI of the results of our study in the course of 2020. NLFI will prepare a new report on this basis and send it to the Minister in the autumn of 2020. In the months ahead, the Minister will consult with NLFI and de Volksbank to explore a number of options for privatisation. The starting point here is that our bank's social character should be retained in any type of privatisation.

3. Banking with a human touch

3.1 Benefits for customers

We aim to be a bank where customers feel at home, a bank that cares about easy-to-understand products, privacy, security and technological innovation and that wholeheartedly supports society.

3.1.1 What do customers think?

Customer satisfaction and the growth in the number of current accounts are major indicators of the impact that we have with our efforts of serving the customers' interests.

NET PROMOTER SCORE

The customer-weighted average of all brand-specific Net Promoter Scores (NPS) reached zero at the end of 2019. ASN Bank and RegioBank are among the select group of Dutch banks with a positive NPS. The NPS at RegioBank rose to +14 and that of ASN Bank remained virtually stable. The NPS at BLG Wonen rose from -22 to -17 and, at -11, that of SNS was equal to its NPS at the end of 2018.

NPS per brand

	2019	2018
Customer-weighted average Net Promoter Score (NPS)[1]	+0	-1
ASN Bank	+17	+18
BLG Wonen	-17	-22
RegioBank	+14	+12
SNS	-11	-11

1 For the KPI measurements, reference is made to the 2019 Annual Report, chapter About the non-financial information.

NUMBER OF CURRENT ACCOUNT CUSTOMERS

The number of current account customers rose by 80,000 (150,000 gross) to 1.57 million in 2019, thus exceeding the target of 1.5 million current account customers at year-end 2020 a year early.

Current account customers per brand

	2019	2018
Total current account customers (in 1,000)	1,583	1,488
ASN Bank	318	280
RegioBank	309	291
SNS	956	917

3.1.2 Simple and transparent products

Seeking to make and keep customers financially resilient, de Volksbank needs to offer simple and transparent products that meet customers' needs. The information provided about the products and services also needs to be accessible and clear to everyone at all times.

De Volksbank's brands offer a wide range of products that help customers build up financial buffers, such as savings products for short-term savings goals, investment products for the medium and long terms, and bank savings products to supplement pensions.

De Volksbank aims to innovate its products and services through its brands in order to meet society's demands.

Simplicity and transparency are the features connecting all these products. This means that we eliminate unnecessarily complicated descriptions and offer accessible products for every stage of life.

BLG WONEN

BLG Wonen launched the rent statement pilot project in September 2019. The rent statement serves as an addition to income data and allows a tenant to demonstrate – partly on the basis of rent paid in the past – that he or she can afford to pay mortgage costs now and in the future. The rent statement is a response to the question of many high-rent tenants as to why they are permitted to pay high rents but are unable to buy a home involving lower monthly expenses. By means of this initiative, BLG Wonen intends to facilitate access to the housing market for private-sector tenants.

Mortgages

Online mortgage management

The input from customer panels has been used to improve several online processes this year. De Volksbank has given the customer online control of their own mortgage. Since many customers feel comfortable making additional repayments on their mortgage at the end of the year, the period in which customers may take care of this online was extended to 15 December in 2019 (2018: 21 November). This means that customers are now given more time to make a well-considered decision. Customers with an interest-only mortgage may indicate online that they wish to convert all or part of their mortgage into a mortgage involving another type of redemption. Using an online form, customers may calculate their new monthly expenses in advance and may check any other potential effects of conversion.

Data through government portals

De Volksbank launched a pilot project in the third quarter of 2019 to simplify the mortgage application process. Using DigiD, the customer may supply validated source data obtained from government portals such as Employee Insurance Agency UWV, the

Dutch Tax and Customs Administration, *Mijn Toeslagen* ('My Allowances') and *Mijn Pensioen Overzicht* ('My Pension Overview').
This is the next step in providing every customer with precisely the advice and assistance that is in line with his or her wishes.

We implemented the Employment Income Calculation (*Inkomensbepaling Loondienst*) in early 2019. This method, which is frequently used by lenders, suppliers of advisory software, advisers and other parties, calculates the income from salaried employment that can be used for a mortgage application. As a result, customers no longer depend on their employers for the correct completion of an employer's statement.

Interest rate offer replaces mortgage principles

The Interest Rate Offer (*Renteaanbod*) replaced the Mortgage Principles (*Hypotheek Uitgangspunten*; HUP) on 15 November 2019. The HUP was a very comprehensive document consisting of some fifty pages. The Interest rate offer (Renteaanbod) consists of only three to four pages. Moreover, the validity of the offer has now been extended from two weeks to four. The process leading up to this involved the identification of information that is relevant and clear to customers. A customer receives an interest rate offer before the final offer is issued.

Costs of issuing offers

Last year, de Volksbank adjusted its method of passing on the costs involved in the issue of mortgage offers. Previously, customers had to pay one month's interest charges after the third month of the offer; now they pay per day. All our brands will apply the same method going forward. The clear explanation included in the offer allows customers themselves to calculate the charges if they need more than three months to have a mortgage deed executed.

Interest rate renewal offers

Communication concerning interest rate renewal offers has changed. We used to send a letter containing a renewal offer for each loan part separately. Now, the customer receives a single letter containing an overview of the loan parts and an enclosure including a separate offer for each loan part.

Bridge loan

Where customers themselves used to transfer the amount of interest for a bridge loan once every three months, now direct debits take place every month. Customers pay a fixed rate of interest during the term, as previously communicated in the offer.

Payments

Our current accounts for young people help children from an early age to find out how a current account works. They learn how to make cash withdrawals and how online banking works, for instance. These products grow with the child, helping them manage their money step by step. Giving useful tips about banking affairs, we assist in a child's financial education. Children may be assigned their very own youth debit card with adjusted limits and parents can view the account through online banking or the app. For adults, de Volksbank's payment brands offer various current accounts for different target groups. We offer several features with these current accounts, such as an online housekeeping book for an overview

Tamara Mom, Nienke Schutter, Jolien Nelemans, Heidi Balkema
Customer Experience Marketeers

'We love our work: if it's better for the customer, it's better for all of us!'

of income and expenses, balance alerts, and people may choose their own PIN number for their debit card.

Savings

The *Zilvervloot* account encourages saving from an early age. RegioBank's Jong Wijs packages raise awareness of the importance of saving among young people. The savings products for adults also offer support in terms of saving, for instance in the form of digital piggy banks.
For the bank savings products we tailor our advice to the customer's needs. For wealth creation, too, a suitable solution is available for every customer in the manner they desire: by means of personal advice or by taking everything into their own hands.

Seeking to encourage the build-up and retention of a financial buffer, de Volksbank's brands will continue to offer retail customers with savings balances of up to € 25,000 an interest rate of at least 0.01% in 2020, and preferably longer. Furthermore, we do not intend to reduce the savings rates to below zero per cent for retail customers with savings balances of up to € 100,000 in 2020. Since it is hard to predict the future, we will reassess the situation every year. Sparing ordinary savers is and will remain the point of departure.

Investments

We introduced *Doelbeleggen* for customers looking for higher returns. A periodic and/or one-off investment allows customers to build up a sum of money in the long term. Customers invest in one of the five ASN Sustainable Mixed Funds, which are structured on the basis of stringent sustainability criteria. Ease of use and transparency are also key in these mixed funds; customers select a fund that dovetails with their risk and expected return requirements.
At ASN Bank, customers looking for responsible sustainable investments are able to choose from seven additional funds, such as ASN Groenprojectenfonds and ASN Milieu- en Waterfonds. Aiming to put its responsible investment strategy into practice even more, ASN added microcredit to the investment funds in 2018.

SME loans

In early 2019 de Volksbank launched an initiative to provide loans to small enterprises, offering self-employed persons and small businesses possibilities to obtain funding where this generally proves difficult in the market. These cover both small working capital loans and mortgage loans for commercial real estate (commercial loans with a maximum of € 1 million). A new execution-only SME mortgage product is also being developed.

'We will win the hearts of the Dutch people step by step by telling them who we are and what we stand for'

Marielle Krouwel
Head of Brand, Media & Communication at de Volksbank

DILEMMA

Savings rates remain positive in 2020 after talks with customers

Embedding the principle of shared value means that we act in the interests of customers, society, employees and the shareholder. That causes dilemmas every now and then. For instance, in our decision at the end of 2019 to guarantee positive savings rates in 2010, despite the downward trend expected. Arjen van Dooren, Research and Behaviour Manager, Jasper Nienhuijs, Market Management Manager, and Bas Smelt, Category Manager Wealth Accumulation, explain this decision in more detail.

How does consulting customers before the decision fit in with our shared value ambition?

Jasper: "Although dropping mortgage rates are favourable to customers, the opposite holds true for savings rates. Since the savings rates are especially important to our customers, it makes sense for us to give them the opportunity to have their say in such a high-impact decision."

Arjan: "That is why we thought it was important to conduct our own survey, to ensure that we could properly balance our customers' interest against the bank's interest. The survey allowed us to team up with customers and consider the dilemma that we have together."

Bas: "Exactly, because from a profit maximisation point of view, saving rates should already have been negative already for some time. But that's is not in everyone's interest."

What did the customer survey involve?

Arjan: "To start with, it was an exploratory survey. We drew up a questionnaire to individually interview 3,000 people in the Netherlands, and we had qualitative talks. We analysed the group dynamics in a total of 12 focus groups, each having 4 customers. In the conversations, we also discussed the various negative interest rate scenarios. The survey participants were retail consumers with varying savings balances. In addition to customers of ASN Bank, SNS and RegioBank, we also interviewed customers of other Dutch banks."

So, what was the general response?

Jasper: "The outcome was clear: consumers find a negative savings rate fundamentally unacceptable. This was a recurring theme is the interviews. Negative savings rates go against the strong Dutch savings mentality. We have been brought up on the idea that saving makes sense, and it has been promoted by banks for many years."

Bas: "So, consumers are used to receive positive interest rates on their savings balances. A negative savings rate changes their perception from a win-win to a win-lose situation 'Banks make a profit on the savings balances entrusted to them, while customers pay'. A negative savings rate feels like a punishment instead of a reward for disciplined savings behaviour."

What is the main lesson you have learned from the customer survey?

Arjan: "Giving people more knowledge and information is pointless. Once people are full of emotion, they no longer listen to what you have to say. When offering solutions, you have to take this into account."

Bas: "The customer survey clearly reveals that saving money in a bank should not cost the average customer any money. A negative savings rate goes against the notion that saving should be free of charge."

Jasper: "That's right. As promoting financial resilience in the Netherlands is our mission, it is important for us to continue to promote saving, for both young and old people. A buffer should always be facilitated. That is something to keep in mind."

Arjan van Dooren
Research and Behaviour Manager

Bas Smelt
Category Manager Wealth Accumulation

Jasper Nienhuijs
Market Management Manager

3.1.3 Privacy and data security

De Volksbank protects and respects privacy, guarantees the security of personal details and helps customers retain control of their own data. New technologies make it easier for consumers and organisations to rapidly and efficiently share data, and this data-sharing economy renders many paper processes superfluous. De Volksbank monitors this development with interest, but also asks questions: how are companies able to safeguard customers' privacy preferences? And how do we ensure that customers retain control of their own data?

Privacy master switch

Entering into force in 2019, the new European payment directive Payment Services Directive 2 (PSD2) gives customers the opportunity to give other financial services providers access to their current accounts. They must indicate this themselves and banks are required to give this access free of charge. It has been of paramount importance to de Volksbank for a long time now that the customer – and no one else – is in charge of his or her own data at the bank. PSD2 does not change this. In 2018, de Volksbank was the first bank to introduce a 'master switch', allowing customers to decide to share or not to share data at the push of a button. The customer himself or herself must always first turn on the master switch before data can be shared with a third party. If the customer decides that he or she no longer wants to share data, the master switch can simply be turned off. This way, the customer is in control.

From data vision to data strategy

We phrased our first Data Vision in 2017: 'Your data, you decide'. The third version of this vision was completed in 2019. Providing clear frameworks defining how de Volksbank wants to position itself in the area of Data & Privacy, the Data Vision is widely supported in our organisation.
In 2019, we worded our view of the use of transaction data for commercial purposes more clearly. We also added an Algo Vision to the Data Vision: how does de Volksbank view the use of artificial intelligence (AI) in relation to Banking with a human touch? We believe the solution is to be found in phrasing clear principles on transparency, human involvement, honesty and clarification.
In 2020, we will further operationalise this vision in our organisation. We will do so in the four core areas for which we use data to put our strategy into practice, which are:
1) Personalising our services
2) Simplifying our business operations
3) Data-driven management and reporting
4) Implementing controlled reporting.
These steps will increasingly turn our Data Vision into a Data Strategy; data is not just an inseparable part of our work, but also a domain where we will be able to carve out a distinct position that fully reflects our way of banking.

The data-sharing economy and the role of de Volksbank

Partly driven by the introduction of PSD2, an increasing number of parties – including government authorities and the business community – are working to develop the data-sharing economy. The idea is that citizens and the economy can benefit from efficient ways to share data, thereby rendering paper processes superfluous. A solid data-sharing structure has been absent in the Netherlands so far, but many initiatives, collaborative ventures and experiments have been set up to create such a structure. We monitor this development with interest with a view to de Volksbank's Data Vision, while at the same time asking questions. How can privacy be guaranteed, how can data-sharing preferences be managed and how can compliance with privacy preferences by businesses be safeguarded? In short, how do we ensure that customers retain control of their own data?
We believe that the development of the data-sharing economy also gives rise to a need for a properly secured, trusted place for a consumer's data, which is controlled by this consumer.
That is why, in collaboration with FinTech Schluss, de Volksbank built a proof of concept (PoC) in the context of Digital We[2] in 2019. The PoC was also tested by customers. We can use the ensuing insights to take further steps and develop tools to enable customers to manage and protect their data as easily as they manage and protect their money.

Preventing 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. That is why we have improved our dispatch processes, leading to fewer reports to the Dutch Data Protection Authority (Dutch DPA). De Volksbank acts on the premise that all data incidents are to be reported to the Dutch DPA, unless it is certain that the rights and freedoms of the person concerned are not at risk. Since this premise has led us to report more incidents than would strictly be necessary, the Dutch DPA has issued general advice stating how we may adjust our reporting method. Our internal Data Breach Committee always gives advice when several people are involved in a data breach.

Brexit and personal data

The continuing uncertainty as to whether the United Kingdom (UK) will leave the European Union with or without an agreement has led us to take steps at an early stage. In early 2019, we identified the personal data that are processed in the UK and the appropriate measures that we must take in the event of a hard Brexit. For, in the event of a hard Brexit, or a no-deal Brexit, the European GDPR would no longer apply in the UK. The country will be a 'third country' from that moment on. In that case, personal data may only be transferred from the EU to the UK if appropriate measures have been taken to guarantee an adequate

2 Digital We is a co-innovation project in which digital technology issues are worked out together with other businesses and government authorities.

level of privacy protection for the personal data processed in the UK. This may be done by agreeing 'Standard Contractual Clauses' with the parties that process personal data for us in the UK. Anticipating a hard Brexit, we have made new arrangements with the relevant parties in the form of additional Standard Contractual Clauses or have transferred the personal data processing (or have agreed that it will be transferred in case of a hard Brexit) to a location within the EU/EEA.

3.1.4 Distribution and reach

We focus on an omnichannel distribution network with our four brands. The customer is key and decides for himself which channels and media he uses. ASN Bank applies an internet-only model and keeps in close contact with its customers, for example through the website. Moreover, the ASN mortgage is offer via SNS shops. BLG Wonen works together with independent advisers across the country. SNS and RegioBank have a local presence through independent advisers and shops, with RegioBank specifically targeting villages and towns with up to 20,000 inhabitants. SNS shops are partly de Volksbank's own shops and partly franchise shops. RegioBank exclusively applies a franchise formula. De Volksbank thus has national coverage with its brands and there will always be a branch nearby where customers may personally ask for advice. We always bear in mind the needs of our target groups and attune both our online and offline communication and distribution to this.

We also set high requirements on the availability of our services and are making every effort to ensure that customers can use our payment services, such as debit card payments, cash withdrawals, iDEAL and online and mobile banking, at all times. The availability in percentages can be found in the table 'Banking Confidence Monitor scores 2019' in Section 3.1.5.

REGIOBANK

In 2019, RegioBank and *Oranje Fonds* – a Dutch Foundation that provides clubs and foundations with funds to promote participation in society– started collaborating in the fund *Voordebuurt Fonds*. Through this fund, RegioBank finances local projects that promote cohesion in local communities and help increase the quality of life there. In addition to financially supporting local initiatives, RegioBank and *Oranje Fonds* encourage fundraising by means of local crowdfunding.

3.1.5 Banking Confidence Monitor

Presented on 13 January 2020, the 2019 Banking Confidence Monitor is a wide-ranging survey by the Dutch Banking Association that measures consumers' confidence in the financial services sector and their own bank. The Confidence Monitor also includes the findings of the Dutch Authority for the Financial Markets, a supervisory authority that has assessed to what extent banks put customers' interests first in their products. The results clarify to us in which areas we are performing well and where we can introduce improvements.

Customers' interests

The Confidence Monitor shows that de Volksbank scores well across the board. The scores reflect that we, at de Volksbank, listen attentively to our customers: RegioBank was once again proclaimed the most customer-friendly bank in the Netherlands in 2019. Our brands' customer satisfaction also rises year on year. Last year, SNS received the highest customer satisfaction score, according to the Dutch Consumers' Association. We would like to keep it this way, and make improvements where possible. This means that we continue to listen attentively to our customers and, when implementing new technologies, always ask ourselves what added value they bring for customers.

Banking Confidence Monitor scores [1]

Section	Sector	SNS	ASN Bank	RegioBank
CONFIDENCE & PERCEPTION				
Confidence in banking sector[2]	3	2.9	2.6	3
Confidence in own bank[2]	3.3	3.4	3.8	3.8
Customer orientation[2]	3.4	3.6	3.8	4.0
Transparency[2]	3.5	3.7	4	4.1
Expertise[2]	3.8	3.8	4.0	4.1
SERVICE & USE				
Online services[2]	4.4	4.5	4.5	4.5
Customer contacts[2]	4.2	4.4	4.3	4.6
Handling of complaints[2]	3.2	3.8	3.6	3.9
AVAILABILITY IN %				
- Online banking[3]	99.81	99.56	99.75	99.75
- Mobile banking[3]	99.88	99.59	99.56	99.56
- iDeal[4]	99.87	99.80	99.75	99.81

1 BLG Wonen does not participate in the Confidence Monitor as the sample size is not large enough. In addition, as far as the AFM modules are concerned, the number of questions for BLG Wonen is very limited.
2 Customer research by Ipsos (1-5 scale).
3 Measured from July 2018 to June 2019. As of april 2019 the availability of mobile banking is no longer measured per brand, but for the Volksbank as a whole.
4 Concerns measurements as from the third quarter of 2018 unitel the second quarter of 2019.

Bob IJmker, Ozgul Cengiz-Ugurlu, Stefan Blom
Quality Monitoring Intelligence

'We provide clarity on the quality of customer contact in order to continuosly improve it'

3.2 Responsibility for society

De Volksbank wants to make a positive contribution to society. With our core activities - mortgages, savings and payments - we can have a considerable positive impact on sustainability in our chain and our customers' financial resilience.

3.2.1 Sustainability

Our sustainability policy rests on three pillars: climate, human rights and biodiversity.

A climate-neutral balance sheet by 2030

The financial services sector and de Volksbank have committed themselves to the Dutch Climate Agreement. We report the climate impact of loans and investments and define reduction targets.
De Volksbank has set itself the goal of having a climate-neutral balance sheet by 2030 at the latest. The goal for year-end 2020 has been set at 45%.

We have been measuring the climate impact of all our investments and loan portfolios since 2015. The measurement results are presented in a CO2 balance sheet. We have a climate-neutral balance sheet when our entire bank balance sheet causes as many emissions (CO2 loss) as we avoid, reduce or even take out of the air (CO2 profit).

Virtually all activities that we can finance as a bank cause greenhouse gas emissions to some extent, often indirectly, since the global economy currently still strongly depends on the burning of fossil fuels. This means that arriving at a climate-neutral bank balance sheet is a considerable challenge, but it is one we can live up to.

By excluding companies that are directly involved in the extraction and burning of fossil fuels and to invest in sustainable alternatives, we support the energy transition. We also support this transition by reducing energy consumption, for example by making homes more sustainable.

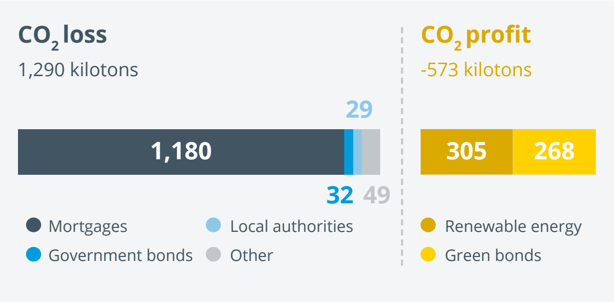
We were already 44% climate neutral at the end of 2019, an improvement of 7 percentage points compared with 2018 (37%). The improvement is partly driven by the funding of a number of renewable energy projects. Especially loans provided for a few renewable energy projects, including the Blauwwind II wind farm, contributed to a net growth of nearly 53 kilotons of CO2 emissions avoided. We were also able to buy a number of green bonds, which indirectly contribute to renewable energy projects. This resulted in a 17 kiloton increase in CO2 emissions avoided.

'To truly promote a sustainable society, we drive sustainability not only within de Volksbank, but also across the financial services sector'

Lisa van Blaricum-Bakker
Senior Sustainability Policy Adviser at ASN Bank

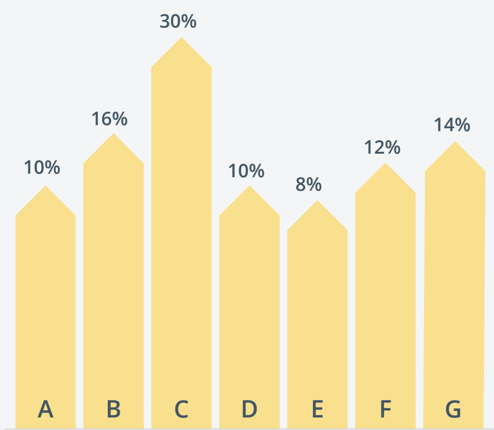
Emmelien Venselaar
Sustainability Analyst – Climate at ASN Bank

Climate-neutral balance sheet



The emissions of our bank balance sheet are largely caused by the high amount of funded mortgages on our balance sheet. The more than € 48 billion in mortgages on the bank balance sheet accounts for 1,180 kilotons of CO2 emissions (2018: 1,187 kilotons). The emissions are estimated on the basis of the provisional and final energy labels of the homes we finance. The average energy label of our mortgage portfolio remained unchanged at D. Of our customers, 25% have a home with energy label A or B. For the other homes that we finance with energy labels C to G, there is still much room for improvement through, for example, insulation and solar panels.

Energy labels in our mortgage portfolio



Based on the RVO database year-end 2019
27% of the homes has a definitive energy label

Incidentally, a higher grade energy label does not necessarily mean that the energy consumption and the CO2 emissions of a home are reduced. For this reason, we want to recalculate the CO2 emissions of the residential portfolio on the basis of the actual energy consumption data. In 2019, we held discussions on this subject with Statistics Netherlands (CBS) and Dutch grid managers on the supply of data at portfolio level.

ASN Bank is heading for a carbon profit. It announced in August 2019 that the bank, together with the ASN Investment Funds, is 118% climate neutral. This means that all direct and indirect investments together avoid more emissions than they cause. With this accomplishment, the bank also demonstrates that sustainable banking contributes to combating climate change. By setting an example and sharing its measurement methods and approach, the bank also helps other financial institutions move forward. In 2014, ASN Bank was the first bank in the world to phrase the climate objective that 'all investments are to achieve net climate neutrality by 2030'. The climate goal was tightened further in 2018: the total of all investments is to have a positive impact on the climate by 2030. This means that, in 2030, ASN Bank takes more CO2 out of the atmosphere than it emits. This is more ambitious than the Paris climate target. In this way, ASN Bank also contributes to de Volksbank's climate target of a climate-neutral balance sheet by 2030.

Sustainable housing at de Volksbank

Seeking to help our customers make their homes more sustainable, SNS launched a pilot project in January 2019. Customers received an invitation to a meeting in the shop to discuss savings opportunities for their home.
Personal advisers used the home energy check of Slimwoner.nl and a conversation tool. They offered customers information on energy-saving measures and types of funding, including tax benefits and subsidies. Customers participating in the pilot project were enthusiastic about SNS's commitment to increase sustainability.

Funding

Customers who have not included financing for energy-saving measures in their mortgage and who do not wish to use their savings for this may avail themselves of the Energy Saving Loan. In practice, our advisers have noted that not all customers feel comfortable applying for a consumer loan online. That is why SNS introduced the Personal Sustainability Loan in May. This consumer loan, offered at an attractive rate, may only be used to make a home more sustainable and is subject to an attractive rate of interest. Customers may request energy-saving advice with all our brands through our partner Susteen.

Last spring, we collaborated with *Nationale Duurzame Huizenroute* to set up 45 themed tours. Customers could visit homes in groups of ten to twelve participants and ask occupants for their energy-saving experiences.

ASN mortgage

The first ASN Mortgage – de Volksbank's most sustainable mortgage – was taken out in January 2019. Created to encourage customers to invest in energy-saving measures, the ASN Mortgage allows customers to include a sustainability portion in this mortgage at a low interest rate. Furthermore, customers pay a lower rate on the mortgage as a whole when they make their home more sustainable.

Standardising the measurement method

De Volksbank has been involved in the PCAF as an initiator and chair since 2015. Together with other financial institutions, PCAF is developing a uniform and transparent measurement method for calculating the greenhouse gas emissions of loans and investments. PCAF Global was founded in October 2019, with dozens of international financial institutions joining with the aim to standardise this measurement method.

Calculated objectives

In April 2019, de Volksbank participated in a test of the method developed by the Science Based Targets initiative (SBTi), a global consortium of NGOs and knowledge institutes that translate climate scenarios into concrete goals per industry – science based targets – to meet the 1.5 degrees target of the Paris Agreement. A science based target indicates the degree of emission reduction in a specific sector and the pace at which the reduction needs to be achieved. So far, the targets have been defined for various sectors, but not for the financial services sector. That is why, with PCAF's support, the SBTi started developing a method in 2018 to calculate science based targets for the financial services sector. We applied the SBTi's method to de Volksbank's mortgage portfolio in April and presented the results to the SBTi community in June. The results show how rapidly and to which extent emissions per square metre arising from de Volksbank's mortgage portfolio must be reduced to comply with national, European and global emissions scenarios. We will examine in 2020 whether and how we can incorporate the results into our present target of a climate-neutral balance sheet by 2030.

Green Bond

The Green Bond Framework was drafted in accordance with the ICMA Green Bond Principles (GBP). It has been assessed externally by sustainability rating agency ISS-oekom based on quality, sustainability and transparency in compliance with the GBP. Under this Green Bond Framework, de Volksbank can issue green bonds and use the proceeds to finance green activities that help reduce CO2 emissions. We successfully issued our first green bond with a value of € 500 million in September. The Green Bond Framework and the corresponding reports are available on de Volksbank's Green Bond website.

Sustainable internal business operations

Gross CO2 emissions were down by 10% from 2018, from 9,150 to 8,208 tons. Net emissions (emissions excluding the green energy purchased) dropped by 18%, from 4,623 to 3,768 tons. The main factors underlying the decrease are the transition to electric company cars, the flexible transport policy (a reduction

Sangita Ramlal-Kalloe
Commercial Support Employee at Sustainable Loans of ASN Bank

Wouter Eijlander
Data Scientist at Electronic Channel Security at de Volksbank

Priscila Mauricio Goncalves
Lawyer at ASN Beleggingsinstellingen Beheer B.V.

'We check whether our corporate customers act ethically: that's how we contribute to a healthy financial environment'

of 692 tons) and the continuous focus on energy saving in the offices and the shops.

- As from 1 January 2017, the starting point for our company car scheme has been a fully electric fleet. At the end of 2019, nearly 1 in 2 leased cars (49%) was fully electric.
- Since 1 January 2019, the commuting scheme has been aimed at a sustainable way of travelling, in which bicycle use and the use of public transport are encouraged. Employees are able to choose their type of commuting on a day-by-day basis.
- In 2019, 65% of the SNS shops were fully fitted with LED lighting and the illuminated signs of all shops were provided with LED lights.
- The 17% drop in gas consumption was achieved as 50% of the non-franchise shops ceased using gas. New shops are not connected to the gas supply. For existing shops, gas will be phased out at opportune moments.
- New control technology has also been installed in the 's-Hertogenbosch office, which has resulted in lower gas consumption.

We offset our CO2 emissions resulting from internal business operations by purchasing CO2 credits. This year, we have selected the Tambopata project. This Reducing Emissions from Deforestation and forest Degradation (REDD+) project forms part of the Althelia Climate Fund (ACF) and meets our highest standards in the areas of the environment, society and Environment Sustainable Governance (ESG). Circularity is high on the agenda of the Facility Management department. Several projects intended to improve waste sorting or prevent waste altogether reduced the number of kilos of residual waste at the Utrecht head office by 32% compared with 2018. This is a major step towards our goal of constantly reducing the amount of residual waste we produce. Circular solutions are chosen when furniture is replaced. In 2019, we replaced the chairs in the meeting rooms in the large offices because of wear and tear. In consultation with the supplier, the new seats of the chairs were modified such that they could be placed on the old supports. The old seats were grinded, and the stools made from this have also been placed in our offices. The circular concept is the new standard. All new shops are constructed according to this concept; a total of 15% of the SNS shops are now circular. The circularity score indicates the percentage of materials used that is renewable. This score is between 70% and 81%, and we continuously attempt to raise the score.

The Procurement department implements the sustainability policy and creates demonstrable impact by:

- aiming for a selection of high-impact groups of items (e.g., catering, hardware, repairs and maintenance, printed matter and promotional items);
- using the issue cards of *Stichting MVO Register* for the relevant category to ask suppliers how they are demonstrably working on the sustainability themes relevant to them (based on ISO26000), for example in the illuminated signs and the Meetings & Overnight Stays tenders;
- assessing in the selection phase how suppliers deal with outsourcing to third parties and the selection of subcontractors;
- using the database of *Stichting MVO Register* to explore the market. For example, the leasing companies included in the tender are all listed in the MVO Register for corporate social responsibility;
- including the issue of a CSR report and associated verification through *Stichting MVO Register* as a condition of performance in tenders concerning the high-impact groups of items;
- the 58 suppliers of de Volksbank that are now included in the platform of *Stichting MVO Register* with a publication;
- circular procurement based on the Lansink Ladder, a commonly used standard for waste management. It gives us insight into the origin of the materials used, the degree of reusability and, for instance, the option of recovering raw materials. In the selection phase, we assess how suppliers apply this, including when purchasing furniture and illuminated signs;
- including the sustainability declaration in the contracts with suppliers as a fixed component for all other contracts and groups of items. The declaration lays down the supply chain responsibility for sustainable business operations;
- providing several internal training courses on the use of the platform of *Stichting MVO Register*. The training courses were attended by contract managers of the Facility Management, HR and IT departments and the employees of the Procurement department. Employees in question have also completed a basic training programme on Circular Procurement.

DILEMMA

A fully electric vehicle fleet: a necessary adjustment or an ambition carried too far?

Embedding the principle of shared value means that we act in the interests of customers, society, employees and the shareholder. That causes dilemmas every now and then, such as in our aim of a climateneutral balance sheet and its translation into a fully electric fleet. We presented Arno Veenman, Mobility Manager of the Year and initiator of the electric car leasing policy, with a few statements.

A pioneering role in mobility or employees on site as quickly as possible at all times?
"When we signed the elaboration of our manifesto in 2015, we agreed that we would achieve a 50% CO_2 reduction on business operations by the end of 2020. That's why we chose to truly lead the way in mobility. In concrete terms, this means that our entire fleet will consist of electric vehicles. The expectation is that the last fuel cars will be replaced by electric cars in 2022, with the exception of the five pool cars. We will take up the associated challenges together.""

Do you force everyone to adapt or do you create room for customised solutions?
"Electric driving requires that company car drivers make adjustments. It takes some getting used to, especially in terms of planning the charging. However, using these cars is becoming more and more convenient: the range of cars is getting better and better and the number of charging stations and smart apps supporting our company car drivers is on the rise. And yet there are a number of colleagues for whom all this is still really difficult. We try to stick to our basic principle as much as possible and obviously try to help colleagues who are experiencing problems. For example, we've already removed a lot of the inconvenience by providing NS-Business Cards. This allows you to park your car at a charging station and use public transport to travel the last few kilometres. This isn't always pleasant for the colleagues involved, but it needs to be done if we are to reach our goal. And, in practice, more solutions can often be found than people think."

Sticking to electric or returning to fossil fuel if electric doesn't work?
"When we started driving electric cars in 2017, the problem was that there were insufficient electric cars with a proper range. Almost three years later, a lot has changed. We now face new challenges, such as the high prices of cars with a long range. In some cases a fossil fuel stock car provides a temporary solution, but the supply of such cars is plummeting. We don't want colleagues to be unable to do their work."

Arno Veenman
Mobility Manager

Human rights
De Volksbank signed the Dutch Banking Sector Agreement on international responsible business conduct (*IMVO convenant*) at the end of 2017, along with the Dutch Banking Association, other financial institutions, the government, trade unions and non-governmental organisations. We agreed that we would reduce the risk of human rights violations through loans and project financing. How will we do this? By identifying where our investments pose risks to human rights and by subsequently taking action to contain those risks for the people concerned. We also looked at our own organisation, including our own people and our procurement policy.

A good example is the Platform Living Wage Financials (PLWF), which was founded in 2019 by ASN Bank, MN and Triodos Investment Management jointly with the aim of putting a collective engagement effort into achieving a living wage in the global garment industry (see www.livingwage.nl). The platform grew to twelve investors in 2019, with invested assets totalling € 2.5 trillion. All investors apply their own investment criteria, which means that some of them have invested more in garment companies than others. The PLWF contacted 32 companies in the garment industry in total. Investors that are part of the PLWF assess all companies based on the same methodology. The United Nations international network of investors that created the Principles for Responsible Investment (UN PRI) expressed its appreciation of PLWF's work and conferred on it the 'Award for the Best Active Ownership Initiative of 2019'.

More information about our human rights policy and the relevant developments in 2019 will be available in the 2019 human rights report at www.devolksbank.nl/verantwoordbankieren as from the second half of March 2020.

Biodiversity
ASN Bank has calculated the impact that the bank's activities have on biodiversity. Based on the results, ASN Bank has set a goal for 2030: all of its investments and loans are to have a net positive impact on biodiversity. The bank actively participates in the Dutch Central Bank's Sustainable Finance Platform and is a co-initiator of the biodiversity working group. The working group contributes to expanding knowledge and spreading a sense of urgency in bringing the loss of biodiversity to a halt. It also examines how financial institutions may identify and stop deforestation.

3.2.2 Financial resilience
Being the reason that we were incorporated two hundred years ago, increasing people's financial resilience is in our DNA. Financial resilience comprises three aspects: financial skills, financial confidence and financial health. The Financial Resilience Centre of Expertise guides the way in which de Volksbank and its brands should promote these three aspects.

Personal customer teams
At SNS, personal contact plays a prominent role in increasing customers' financial resilience, allowing us to be of great significance at times when it matters to our customers. In 2019, our employees who have customer contact started working in regional customer teams that are responsible for answering questions asked by customers living in the immediate surroundings. Previously, central customer service answered questions; now, questions are often put directly to an employee in one of our shops. In 2019, SNS reassigned 62% of all telephone contact to the shops.

The 'Give and Go' app was rolled out in 2019, which allows customers themselves to choose a personal adviser and ask their question. If the question is a specialist one, the personal adviser may add an expert to the conversation. An increasing number of customers opt for this way of communicating.

Obviously, customers may also meet their personal adviser in the shop. This enables us to get to know our customers better and build a relationship with them, which allows us to help them increase their financial resilience.

FOR THE LOCAL COMMUNITY
SNS opened the first community store called '*de Ruimte*' ('the Room') In Maastricht. Developed for and by the local community, de Ruimte is a place where attention is given to all that is happening in people's lives now and may happen later. By offering *de Ruimte*, SNS provides a meeting place where visitors can benefit from one another's and our financial expertise in an easily accessible way and a relaxed atmosphere. We offer sessions with local experts and SNS advisers about all possible money matters.

Financial skills
De Volksbank promotes the teaching of financial skills in schools. People who have learnt how to handle money when they were children display more financially healthy behaviour later. That is why we set great store by teaching children how to properly handle money from an early age, especially in this digital age when money is not as visible as it was before. RegioBank set up the Jongwijs programme to assist parents in increasing their children's financial skills. SNS started developing a programme aimed at the financial education of children, involving one-to-one communication with parents of children aged 6 to 11.

Eurowijs

	2015	2016	2017	2018	2019
Number of pupils reached	18,980	104,387	221,572	165,818	216,678

Eurowijs educational programme
Based on play, the Eurowijs teaching materials educate children about money and how they can handle it

wisely. De Volksbank developed this continuing learning pathway for financial education in 2013 for primary and lower secondary education groups. We make the materials available to schools free of charge.

The teaching materials may be used in the form of guest lessons given by de Volksbank employees, but schools may also organise their own lessons. More than 10% of de Volksbank's employees are guest teachers and their commitment is high, with 96% of these employees stating that they want to participate next year as well. The *Eurowijs* teaching materials reached more than 216,000 pupils in 2019.

Eurowijs day

De Volksbank organised an Eurowijs Day for the fourth time in 2019, which was a day on which colleagues, including many members of management and the Board of Directors, gave guest lessons to primary school pupils. On this festive day, our Chief Commercial Officer Marinka van der Meer also unveiled the new Eurowijs logo, which incorporates de Volksbank's name and blue colour. This makes it immediately clear that Eurowijs is an initiative of de Volksbank.

PERSONAL CONTACT

Where other banks aim for continued centralisation and digitisation, SNS actually seeks to promote personal contact. Rather than a call centre with constantly changing employees or options menus, customers have access to a fixed regional team they may contact by telephone, using the Give and Go app or through their personal adviser in one of the 203 SNS shops. This is because financial affairs are often personal and it adds to customers' comfort if they can contact a trusted person; this lowers the barrier. By building a sound relationship with customers, SNS helps its customers become more financially resilient.

National money week

During 'National Money Week', from 25 to 29 March 2019, de Volksbank employees gave 285 'Cash Quiz' lessons in groups 6, 7 and 8 in primary schools. As a bank, we reached 7,125 pupils aged ten to twelve with these lessons. The Dutch Banking Association (*Nederlandse Vereniging van Banken;* NVB) organises the lessons as a partner to the Money Wise Platform, and seventeen banks participate by giving the lessons.

Secure online banking workshops

Secure online banking is a major theme in financial education. SNS organises interactive workshops on cybercrime and secure online banking in several shops. Everyone is welcome to attend the workshops, where participants learn to protect themselves by means of concrete examples and scenarios from practice. Some shops have also engaged the national police to inform customers of what people themselves can do to ensure their safety.

'We aim for a society in which people are close to one another and where safety and financial resilience are not needs but facts'

Maurits Metman
Data Scientist at Electronic Channel Security at de Volksbank

Anouk Berends
Customer Contact Planner & Coordinator at RegioBank

Vivian Fafié
Business & Change Management Trainee at de Volksbank

Financial confidence

De Volksbank measures factors that play a role in financial confidence: a sense of having control over one's own finances, self-confidence in case of financial difficulties, the degree of financial planning, and an urge to display avoidance behaviour. De Volksbank measures financial concerns on a monthly basis among 750 citizens of the Netherlands, 530 of whom are customers of our own brands.

In March 2018 we launched the Financial Confidence Barometer, an unbiased, quantitative measuring instrument that also indicates the extent to which we successfully contribute to making our customers financially resilient. We developed the Barometer together with behavioural scientists of the Behavior Change Group and the National Institute for Family Finance Information (Nibud), which was involved as an adviser.

The respondents answered the question whether the bank is ready to help them on a scale of 1 (totally disagree) to 100 (totally agree). The first baseline measurement, taken in 2018, resulted in a score of 40. This figure was 48 at the end of 2019, compared with 49 at the end of 2018. Our target for 2020 is 50.

In the last quarter of 2019, de Volksbank conducted an in-depth analysis of the data collected with the Financial Confidence Barometer in the past twelve months. By then, sufficient data was available to identify the main variables that lead customers to experience financial concerns. In 2020, we will further improve our services based on the customer insight obtained.

Financial position

The survey reveals that people in debt wait to find help for five years on average, whereas the debts multiply by ten in those years. That is why de Volksbank focuses on debt prevention.

In 2019, our Financial Resilience Centre of Expertise studied the degree in which Dutch people are able to strike a balance between their income and expenditure – an important issue that concerns nearly 40% of the Dutch. The results of the study guide the development of our services.

The Dutch Debt Counselling Route

A continuation of a successful pilot project launched in 2019 at the initiative of banks, the Dutch Debt Counselling Route (*Nederlandse Schuldhulproute*; NSR) offers a way towards suitable debt support with the aim of preventing payment problems from growing into debt worries. In the third quarter, SNS spoke with customers in The Hague who might be experiencing financial difficulties. This was so successful that SNS expanded this approach to Zwolle and Deventer in the last quarter of 2019. De Volksbank will continue to participate in this initiative in 2020.

Responsible lending standards

If we start standing shoulder to shoulder with the customer and do not reason and act entirely from our own area of expertise, we are able to outline a frame of reference to decide how products should be designed to benefit customers. This increases our ability to anticipate developments and aligns our actions and customer expectations more closely, for instance in the area of lending standards. Interbank consultations through NVB are very important in this respect, and NVB also plays a major role in terms of consulting with politicians and legislative parties. All this helps us arrive at properly coordinated lending standards for mortgage and consumer loans, which benefits the financial resilience of our customers and society.

Combating overinsurance

Seeking to help customers save up money, SNS has been sending customers alerts for a few years now when we believe that a customer is overinsured. This way, we help customers avoid unnecessary non-life insurance cover and it positively impacts the customer's financial position.

Carefree homeownership

De Volksbank aims for all its customers to experience carefree homeownership, now and in the future. The following initiatives launched by de Volksbank contribute to this aim.

Awareness campaign for interest-only mortgages

In 2019, de Volksbank again focused extensively on informing customers with interest-only mortgages. Of the 220,000 customers with a full or partial interest-only mortgage with de Volksbank, 177,000 customers were contacted personally.

Customers received a letter inviting them to an informative meeting about their interest-only mortgage. If interested, they will be contacted by an adviser to discuss their mortgage. But they also have the option to arrange this online. Available to all customers of de Volksbank's brands, the Interest-Only tool allows customers to calculate their charges when they repay their mortgage and check what happens on the maturity date. Customers may then also initiate a change. This way, the customers themselves are in control of their own mortgage.

Information sessions on interest-only mortgages

SNS organises special information sessions for customers with interest-only mortgages to provide them with information and offer them insight and choices regarding their interest-only mortgages. Following a successful pilot project in 2019, the information sessions are now being implemented nationwide.

Mortgage Term Monitoring Service

For many people, taking out a mortgage is a decision that ties them down for years. Since a lot may change in those years, the SNS Mortgage Term Monitoring Service has been introduced. Customers receive an alert every year if their mortgage rate might be reduced. Once every two years, customers are invited to a free exploratory talk about their situation, wishes and the mortgage. Also, customers obviously receive a quick response to questions if, for example, they are about to move house.

Debt collection agencies replaced by prevention programme

Customers who temporarily or permanently struggle to comply with their payment obligations are transferred to the Arrears Management department. This applies to all banking products, but the impact for customers is the greatest when a mortgage is involved. The Arrears Management department always explores first whether and how customers can be assisted in staying in their home.

In the past few years, the Arrears Management department has made a major contribution to strengthening customers' financial resilience. It no longer engages debt collection agencies, for instance.

De Volksbank intends to focus on the customer relationship and show that it is there for the customer, even in times of hardship. We also want to avoid situations where customers are unnecessarily saddled with debt collection costs, since such costs only add to their payment problem and do not contribute to a long-term solution in any way. In order to effectively help customers, the Arrears Management department also has employees who give customers budget coaching and, if necessary, job coaching at the customer's home free of charge.

DILEMMA

No engagement of debt collection agencies, closer to a debt-free future

Embedding the principle of shared value means that we act in the interests of customers, society, employees and the shareholder. That causes dilemmas every now and then, including in the decision taken in 2017 to stop engaging debt collection agencies. We take stock of the situation with Peter Olij, one of the heads of the Arrears Management department.

It is clear how this benefits customers. But why would it be bene icial to our shareholder, employees and society that we no longer engage debt collection agencies?
"Society doesn't gain from debt collection agencies whose remuneration structure encourages them to engage in undesirable ways of debt collection. The most commonly used remuneration structures are "no win no fee" and "on a commission basis". That's not in line with banking with a human touch. We have, however, concluded an entirely new services contract with bailiffs – where similar arrangements are common – but without any undesirable pay incentives. Other financial institutions have started following our example. Our employees are proud of the fact that we are the first – and for the time being the only – Dutch bank to have taken the step of discontinuing the engagement of debt collection agencies. They prefer to help the customers themselves. And although our decision was not driven by a financial consideration, this way of working is in fact profitable in due course, after an estimated 6 to 8 years."

Peter Olij
Head of Arrears Management

We stopped engaging debt collection agencies in 2017. Two years on, do you still think it was worthwhile?
"We encountered some very distressing cases. To give just one example: one of our customers would have repaid his initial debt in full if we had been in touch with him ourselves. Because his file was handled by a debt collection agency, the costs charged were many times higher ."

Our approach is based on a long-term relationship of trust between the bank and the customer. But what do we do in case of ill will or criminal activities?
"We do not engage any debt collection agencies at all. If a customer is able to pay but refuses to do so, sometimes our only option is to engage a bailiff. We do still use bailiffs, since a bailiff has been appointed by the Crown and occupies a special position. A bailiff is the only person who's able to enforce payment, through wage garnishment for example, and who may consult sources such as Employee Insurance Agency UWV and the Public Administration at municipality level."

How much progress has been made so far in bringing back all files?
"We knew it would be quite a job and that we would need a large team. We were prepared for that. How ever, we underestimated everything else that needed to be done. We thought we would need a year in total to bring back customers, terminate the collaboration with debt collection agencies and make new arrangements with bailiffs. Now, more than two years later, we aren't quite there yet. That last 10% costs a disproportionate amount of energy."

What did we gain by no longer engaging debt collection agencies, or what did it cost us?
"So far, we have brought back 6,900 customers from the various debt collection agencies. These customers occasionally have several debts on which we no longer charge interest and costs. We permanently save the commission we paid to debt collection agencies. On the other hand, we do incur costs because we now perform the work ourselves. On balance, this turns out positively. However, the main thing is that our decision to no longer engage debt collection agencies brings customers one step closer to a debt free future, which is something we would wish for every customer."

3.2.3 Socially responsible investing

Socially responsible investment has been widely integrated within de Volksbank since 2017 by embedding ASN Bank's sustainability policy in all of de Volksbank's activities and processes. The sustainability policy and the corresponding investment criteria have been developed by ASN Bank's Sustainability Expertise Centre (SEC) and apply to all loans, financing and investments of de Volksbank as a whole.

Our sustainability policy underlies our assessments of countries, organisations and companies in which we invest or that we finance. We evaluate their attitude and conduct in respect of human rights, the climate and biodiversity. We have classified countries into high-risk countries, risk countries and low-risk countries (see the sustainability policy). In the first assessment, we use a number of human rights, climate and biodiversity indicators to determine whether we will exclude a country. The countries that we do not exclude are subsequently assessed against a number of sustainability indicators, for example in the area of child labour, forced labour or corruption. We have pre-determined a minimum score that a country must receive before we can approve it. We assess project funding and loans to companies against our sustainability criteria in a similar manner. However, sustainability is also a matter of making positive choices. The better a country deals with such issues as income equality, discrimination and corruption, the more positively we will rate the country. Again, we determine this using the score achieved on our set of human rights, climate and biodiversity indicators. We apply the same positive approach to the funding and loans we provide to companies.

Monitoring and control of the application of the sustainability policy is laid down in the Volksbank Financial Markets Sustainability Policy and comes under the SEC's responsibility.

We use various sources when examining whether our sustainability criteria are still complied with. We cooperate with various data suppliers and use information from companies themselves and from non-governmental organisations (NGOs), including trade unions, and information that is available in all sorts of media.

The data suppliers provide information in a number of areas:
- ESG data, which is data on environmental performance and social and corporate governance data from a wide range of listed companies (ESG stands for environmental, social & governance).
- Quantitative data on the environmental performance of companies, including the emission of pollutants caused by business activities. This enables us to better compare the environmental impact that companies have.
- Analyses of media across the globe, in which data suppliers verify whether any misconduct has been found at the companies.

Should it turn out that our sustainability criteria are no longer complied with, our first step is to raise the issue in a discussion. If no improvements are made, we may decide to withdraw as an investor or financier.
ASN Beleggingsinstellingen Beheer (ABB) is part of de Volksbank and the manager of ASN Beleggingsfondsen. ASN Beleggingsfondsen invests in companies, authorities, microfinance institutions, green bonds and projects with its twelve investment funds. Each fund has its own investment policy and its own risk and return profile. All funds are subject to stringent sustainability criteria covering climate change, human rights and biodiversity. ASN Beleggingsfondsen has set the following long-term goals for those themes:
- Climate neutral and climate positive by 2030
- A net positive impact on biodiversity by 2030
- By 2030, the garment industry is to have taken all steps to enable a living wage for employees in its supply chain.

ASN Beleggingsfondsen reports on the progress made in achieving these goals in its annual report, which is available on the website of ASN Beleggingsfondsen.

Investing can make everyone better off

The Investment Committee of ASN Beleggingsinstellingen Beheer searches for and selects companies that may be invested in. A condition is that the business activities are future-proof and the financial projections are favourable. We exclude certain activities, such as the manufacture of and trade in arms, nuclear energy, fossil fuels and fur, and companies that are suspected to be engaged in child labour. In addition to companies, we also assess countries. A good score on income equality and the elimination of discrimination and corruption count towards a favourable assessment. We also look at a country's repayment capacity.

ABB regularly assesses whether investments still meet the sustainability criteria, which may result in the addition or removal of companies. ABB also contacts listed companies on behalf of ASN Beleggingsfondsen, asking them questions about their commitment to sustainability. It actively asks them to make their policies and activities more sustainable and explain any misconduct regarding such aspects as human rights, the environment and administrative integrity. ASN Beleggingsfondsen engages in intensive dialogue with sectors such as the garment industry. On behalf of ASN Beleggingsfondsen, ABB votes at shareholders' meetings of companies in the investment portfolio.

De Volksbank's investment policy and ABB's voting reports are available on the website of ASN Beleggingsfondsen and are included in ASN Beleggingsfondsen's annual report.

3.2.4 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.

Our tax policy

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'. We regularly share information with the Tax and Customs Administration 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.

International

In recent years, the focus on the tax policies of internationally operating companies and, more specifically, on tax evasion in an international context

'If your own affairs are in order, you can do more for someone else'

Ro Dielbandhoesing
Risk Manager,
ASN Beleggingsfondsen

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 2019

De Volksbank accounted for € 87 million in corporation tax on the result for 2019. The effective tax rate was 24% (2018: 26%), at a nominal rate of 25%. The lower tax rate compared with the nominal rate was the result of the valuation of a net deferred tax asset at corporation tax rates applicable in 2020 and 2021 that are higher than previously announced. The rate for 2020 remains unchanged at 25%, where a decrease to 22.6% was previously assumed. In 2018, the expected decrease in corporation tax rates actually translated into a higher tax burden. 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 2019 are as follows:

- Payroll tax and social security contributions: € 106 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: € 42 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.
- As last year, de Volksbank does not owe any bank tax in 2019 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.

'We keep our customers financially healthy with sustainable processes'

Ingrid Admiraal-Aerts
Process Design & Analysis

3.2.5 Compliance and de Volksbank

Laws and regulations are a crucial aspect in de Volksbank's business operations. Implementation thereof necessitates correct and timely adjustments to policies, processes and documentation. Supervisory authorities, the Dutch legislator and the European Union impose ever-increasing numbers of laws and regulations on banks. Not only in relation to capital and liquidity, known as prudential supervision, but also to consumer protection and fraud prevention. Banks are required to ensure their own individual resilience and the stability of the entire financial sector at the same time, without losing sight of the interests of customers. In this section we highlight the most relevant laws and regulations with respect to prudential supervision and customer interests, and how de Volksbank deals with them.

Prudential supervision

In 2019, the laws and regulations governing prudential supervision of the financial sector were further refined. The European Commission (EC) thus adopted the so-called banking package, and there were changes with respect to the Capital Markets Union. We cover a number of important developments in 2019 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 the risks in the banking sector and strengthen the Banking Union. The next revision is in preparation with a view to the implementation of the final changes within the Basel III framework, also known as Basel IV.

De Volksbank is making preparations to comply with the new regulations to be implemented gradually as from the end of 2020 (CRD, BRRD and SRMR) and the end of June 2021 (CRR).

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, 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). For further information on the BRRD, ILAAP, ICAAP, SRMR/MREL and bail-in, see Chapter 4 Risk Management.

Basel IV and Article 458 of the CRR

In anticipation of the implementation of Basel IV, in which the calculation of risk-weighted assets (RWA) is of particular importance, DNB announced to increase the risk weights assigned to Dutch retail mortgage portfolios in October 2019. A risk weight floor will become effective in the autumn of 2020 for a period of two years. This measure stems from the framework provided by EU Article 458 of the CRR to DNB for this purpose.

The additional capital is intended to strengthen Dutch banks' capital to absorb possible shocks on the Dutch housing market. The risk weight floor consists of a risk weighting of 12% for mortgages with a loan-to-value (LTV) below or equal to 55%, and 45% for mortgages with an LTV exceeding 55%. LTV is the ratio between the size of the mortgage and the value of the collateral.

Capital markets union

The EC is working towards a fully integrated European capital market. This should make it easier for savers and investors to invest in companies in foreign countries.

Following the referendum on Brexit, the EC decided to accelerate the plans for the Capital Markets Union, with a strong emphasis on sustainable financing. In this plan, the EC stimulates investments in green companies and products, by means of green bonds for example.

The EC sees the development of a green bond market as an important step towards a sustainable financial sector. To promote the functioning of this market, the European Green Bond Standard was introduced on 18 June 2019. In addition to this European standard, green bonds must in the future also be in line with the so-called EU Taxonomy, a European Union-wide classification system to achieve a uniform way of determining what economic activities can be regarded as sustainable. The phase-in period of the EU Taxonomy will end on 31 December 2022.

Customer interests

Being a social bank, de Volksbank put the interests of its customers first, without losing sight of society, employees and shareholders. The European General Data Protection Regulation (GDPR) and the Payment Services Directive 2 (PSD2) continued to have our attention in 2019. Below, we explain what both entail and how de Volksbank implements them.

General data protection regulation

The GDPR came into effect on 25 May 2018. The regulation places high demands on the collection, processing and use of personal data. In 2019, de Volksbank continued research into instruments and resources that help protect the personal data of our customers and other persons. They help us execute privacy impact assessments, the processing of contracts, the registration of processing activities and the notification of data breaches in a simple and orderly manner.

De Volksbank has taken measures to protect personal data and will continue to do so. The bank ensures that the exploration of data and development of personal-data models based demonstrably takes place within the scope of privacy laws. For this purpose, handling personal data consciously and processing personal data carefully are important components of our privacy awareness campaigns and training programmes. Indeed, our employees are the first strong line of defence. We also developed specific policies for our data scientists.

Payment Services Directive 2

PSD2, the new European directive for payment services, was implemented in the Netherlands (the last EU member state to do so) on 19 February 2019. As from 14 September 2019, the corresponding technical requirements are now definitively applicable (EBA RTS 2018/389).

PSD2 regulates that organisations that have a license and/or registration from a relevant regulatory authority in the EU, such as DNB, can get access to current accounts of consumers and businesses, such as access to account information and payment initiation.

Banks must grant access if the account holder has given explicit consent to do so. There are strict safety requirements for strong customer authentication (SCA). SCA requires an additional authentication step for online credit card payments.

Interface

In order to put PSD2 on the right track, de Volksbank developed and offered an interface on the market in 2019. So-called application programming interfaces (APIs) enable communication between systems of different companies without human intervention. Third parties with a licence and/or registration can thus have access to our customers' current accounts, but only if the customer has given his or her explicit consent of course. By the end of 2019, a number of these parties connected to our interface.

Privacy & PSD2

As de Volksbank sets great store by the protection of its customers' data, we take great care to ensure that the information provided by us on PSD2 is precise. Customers thus know exactly what they consent to, and third parties do not inadvertently gain access to their current accounts. To make sure that customers retain control over their personal data, we were the first bank to develop a so-called 'master switch'. This master switch controls access to a current account and is switched 'off' by default, i.e. we do not provide data to third parties. This guarantee is part of our duty of care to customers. Customers can switch the master switch on or off at any time. De Volksbank started a project to meet the authentication requirements of PSD2 at the end of 2018. In 2019, we worked on the development of new authentication options based on a combination of a password, a device (such as a telephone) and/or personal characteristics (such as a fingerprint). We no longer provide new current account customers with authentication options whereby authentication is solely based on a username/password. In 2019, we took important steps to phase out these authentication tools for existing customers, which is expected to be completed by 1 July 2020.

Mortgage Credit Directive (MCD) and AFM guideline

In 2019, we recalculated all fees charged for early repayments or early renewals in the period between 14 July 2011 and 14 July 2016 and reimbursed any differences to the detriment of a customer. Differences for the period after 14 July 2016 had already been reimbursed.

Guideline on the deposit guarantee scheme

Following changes to the Dutch DGS with effect from 1 January 2019 and 1 January 2020, the DGS system within the bank was improved. We want our customers to be able to rely on the fact that we are able provide deposit balance details to DNB within three working days so that, in case of a resolution, the payout of deposits can be effected within seven working days.

European Anti-Money Laundering Directives

De Volksbank takes measures to prevent the bank and the financial system from being misused for money laundering and terrorist financing. We see the gatekeeper function as an integral part of our business operations as a social bank. The fourth European Anti-Money Laundering Directive (AMLD4) was implemented in national legislation, the *Wwft,* in 2019 . The fifth Anti-Money Laundering Directive (AMLD5) is currently being implemented in national legislation. This new European directive will lead to changes in the customer due diligence processes of de Volksbank and the consultation of the Ultimate Beneficial Owner (UBO) register, in which the 'ultimate beneficiaries' of legal entities such as companies, foundations and trusts are being recorded. De Volksbank will implement the AMLD4 requirements and prepare for the stricter requirements that will result from AMLD5.

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 Standards (CRS) and the Foreign Account and Tax Compliance Act (FATCA). Pursuant to the CRS and FATCA, we exchange customer data with foreign tax authorities. The FATCA is a U.S. law that combats tax evasion of U.S. taxpayers worldwide. Subject to this act, banks are obliged to provide data, such as account holders' social security number (SSN), to the Dutch tax authorities. De Volksbank has not received the SSN from a number of account holders, as a result of which they risk losing their current account. One option for account holders is to renounce their American citizenship. The United States has changed the rules for this: account holders can go through this procedure without an SSN, allowing us to give this group of customers more time to provide their SSN or 'certificate of loss of American citizenship'.

'It's great to hear that colleagues choose de Volksbank because of our story'

Peter Notenboom
HR Policy Adviser

3.3 Genuine attention for our employees

We want to enable our employees to make a meaningful contribution to our mission and strategy by giving genuine attention to autonomy, personal growth and professionalism. Aiming for committed employees who are enthusiastic about their work, we give them the freedom to make a meaningful contribution and develop themselves.

Our promise of being 'better for each other' also governs the way in which we treat employees. In early 2019, we introduced a new definition of shared value for our employees that is in line with this: Genuine attention. The new approach was developed with the input of employees. We aim to create value by focusing on the elements that are of value to our employees, summarised in 'Genuine attention':

- making a meaningful contribution to our mission and strategy, and being appreciated for it;
- an open and people-oriented working environment that is based on trust;
- room for professionalism and personal growth, with a manager who facilitates and stimulates this.

3.3.1 Objectives and achievements

KPIs[1]	October 2019	April 2019	October 2018	Target 2020
Genuine attention	7.7	7.6	--	≥7,5
Engagement	8.0	--	7.4	8.0
Commitment	7.4	--	7.2	8.0

1 On a scale from 1 to 10.

The employee Net Promoter Score (eNPS) was replaced as a KPI of shared value for employees in 2019, since it was insufficiently in line with the elements that are of value according to our employees and with de Volksbank's intentions with shared value for employees. We create value by focusing on the elements that are important to our employees, which may translate into a higher recommendation of de Volksbank as an employer (eNPS). For this reason, we will continue to measure the eNPS as an indicator, but no longer as a KPI of shared value for employees. In 2019, the eNPS increased to -1 (2018: -20) as the percentage of detractors dropped from 35% to 21% and the percentage promoters increased from 15% to 20%. The eNPS is calculated by subtracting the percentage of detractors (those giving a mark of 6 or

'De Volksbank gives genuine attention to me and my development with a comprehensive programme'

Tijmen Schagen
Finance & Risk Trainee

less) from the percentage of promoters (those giving a mark of 9 or 10).

In April 2019, we conducted our first survey into genuine attention, the new approach to and objective of shared value for employees. The survey will be carried out twice a year as from 2019 and focuses on the following themes: mission & strategy, trust, open & people-oriented, facilitating leadership and professionalism & personal growth. Together, these themes make up the new KPI 'Genuine attention', in which every theme carries the same weight. Genuine attention for employees averaged out to 7.6 in the April baseline measurement and to 7.7 in October. We are aiming for a score of 7.5 or more in 2020 for this objective, and we expect it will be a challenge to maintain the high scores.

The employee survey of October 2019 also included questions about how employees perceive their work and the organisation, which gave us an understanding of their commitment and engagement. The degree to which employees feel connected with the organisation rose from 7.4 on average in 2018 to 8.0 in 2019. The degree to which employees are passionate about their work increased from 7.2 on average in 2018 to 7.4 in 2019.

3.3.2 A meaningful contribution and appreciation

Our mission of banking with a human touch creates a common goal. Employees want to make a meaningful contribution to this goal and be appreciated for it. We have arranged this for example with 'This is how I work!' ('*Zo werk ik!*'), a responsible remuneration policy and a personal choice budget.

This is how I work !

In 2018, de Volksbank started with This is how I work!, a more personal way of planning, evaluating and appreciating employees' contributions and development. Employees regularly speak with one another and with their managers to set goals, ask for feedback and show appreciation when a goal is reached. This is how I work! is our implementation of genuine attention for autonomy, personal growth and professionalism in daily practice.
The 2019 evaluation has shown that employees are positive about This is how I Work! Although setting goals is still a fairly difficult task for some employees, they are asking themselves more consciously how they can make a meaningful contribution to our mission and strategy. More attention is also paid to employees' development.

Responsible remuneration policy

De Volksbank's remuneration policy applies to all employees and is based on our mission and ambition to create shared value, our profile as a social bank and our moderate risk profile. De Volksbank does not pay any variable remuneration and the highest earner does not earn more than ten times the average salary within the bank. The collective agreement is applicable to 99% of the employees; senior management does not come under the collective agreement. Please refer to Section 6.6 Remuneration report and the remuneration reports on de Volksbank's website for more information.

Personal choice budget

Introduced on 1 January 2019, the personal choice budget entails that the holiday allowance and 13th-months salary are no longer paid in May and December, respectively, but accrued on a monthly basis. Employees can now decide for themselves what they will spend their budgets on, and when. For instance, they may use their choice budget to change their NS Business Card to first class and set off their union dues in a tax-efficient way.

3.3.3 An open and people-oriented working environment

De Volksbank provides for an open and people-oriented working environment that is based on trust. We seek to create a healthy organisation with vital employees and set great store by employees feeling at home with the bank and being themselves. Our diversity and inclusivity policy is aimed at recognising and appreciating the differences between people, both customers and employees. Our goal of being close to our customers and society and responding to their needs calls for a diverse composition of our workforce.

Welcoming new employees

New employees get acquainted with de Volksbank through the programme called 'Open'. In five months' time, they become familiar with our organisation, create a network and share their fresh perspectives to support de Volksbank's continuous development and innovation process. The manager and a mentor also help the new colleague get used to the work.

Diversity and inclusivity

De Volksbank's workforce is already quite diverse in terms of sex, age, etc. Although we cannot measure all aspects of diversity for reasons of privacy, it is evident that some groups are underrepresented: women in management positions and employees with a distance to the labour market. That is why we are working to achieve the following objectives:

1. Diverse teams

For every job opening, the vacancy holder (usually a manager) is responsible for appointing a qualified candidate who adds diversity to the team. Diverse encompasses all aspects on which people can differ from each other, for example personality, gender, age and cultural background. The importance of diversity and the conduct required in this context are part of leadership programmes to ensure that managers are well-equipped to achieve this goal.

2. Striking a balance between men and women in management positions

Our goal is to strike an even better gender balance in management positions. At the end of 2019, 34% of management positions were filled by a woman. This means that the goal of 35% has nearly been reached. The target of having at least 40% women on de Volksbank's Board of Directors and Supervisory Board has already been achieved. In the Supervisory Board the positions are held by two women and three men (at year-end: two women and two men). In the Board of Directors the positions are held by two women and three men.

3. Offering opportunities to people with a distance to the labour market

De Volksbank aims to offer more people with a distance to the labour market a place in the organisation. Arrangements have been made with a caterer, a security company and a cleaning company about the number of employees from this group that they will deploy at de Volksbank. In 2019, a total of 50 employees with a distance to the labour market worked at the bank.
Our written-off laptops are given a second life through *Stichting ICT vanaf Morgen*, a social company that offers people with a distance to the labour market meaningful work in IT. In doing so, it also contributes to the sustainable use of electronic devices.

Equal remuneration for men and women

De Volksbank believes it is important that men and women who perform the same work receive equal pay in equal situations. That is why we had an independent agency study the wage differentials within the bank, which revealed that the wage differential is just 0.2% to the disadvantage of women. We apply fixed pay grades without bonuses and a job classification system and corresponding procedure to ensure that men and women are in the same pay grade if they perform the same work.

Gender balance

based on number of employees	2019	
	male	female
Total	53%	47%
Managers	66%	34%
PART-TIME/FULL-TIME		
Part-time	23%	77%
Full-time	66%	34%
TEMPORARY/PERMANENT CONTRACTS		
Temporary	48%	52%
Permanent	54%	46%

Vitality

Encouraging employees to actively work on their health and vitality, de Volksbank has adopted a thematic approach to bring this to employees' attention in an accessible and action-oriented way. De Volksbank creates good working conditions and employees are responsible for retaining optimum employability now and in the future.

The workload and ergonomics require attention, as the Preventive Medical Examination, the employee survey and other surveys have shown. For this reason, we organised a wide range of activities in 2019 on the theme of mental vitality, such as workshops on work-related stress, job satisfaction, mindfulness, and the

'At de Volksbank, you work not only on your career, but also on a better country'

Nancy van de Wiel
Corporate Recruiter

work-life balance. Employees may schedule an appointment with a psychologist within two weeks if they have mental health problems. Managers may receive practical support if someone on their team experiences a high psychosocial workload.
The second half of 2019 was marked by the campaign 'Start moving step by step'. Employees were given tips about how to get some exercise during the day, and training courses were also organised on this topic. Workplace instructions have been drafted, 'sit-stand desks' have been placed, and break reminder software is available.

Absenteeism rose slightly to 4.5% on average in 2019 (2018: 4.4%), which is above the standard of 3.7% that we have set. Organisational units where the absenteeism rate exceeds 4.5% prepare an employability plan to reduce absenteeism and especially increase vitality. Furthermore, it has been agreed that every organisational unit will discuss how it may further strengthen the employability of employees.

3.3.4 Room for professionalism and personal growth

De Volksbank's employees are given the freedom and responsibility to structure their work and career as they see fit. We give them an opportunity for personal and professional growth within the limits of our code of conduct and professional requirements. We challenge employees to use their talents and develop them. Managers assist and encourage employees in this respect and they themselves are also given the room to develop themselves.

In 2019, we invested € 6.7 million in employee training and development (2018: € 9.2 million). The average training costs per FTE (€ 2,249) were lower than in 2018 (€ 3,072). Less use was made of training budgets in 2019 because fewer sizeable reorganisations took place compared with 2018.

Our code of conduct

The 'Common Sense, Clear Conscience' code of conduct sets the frameworks within which there is room for professionalism. Trust is the point of departure. The code of conduct offers points of reference to help employees consider what is permitted and what is not. Employees may also use a 'dilemma step-by-step plan' to arrive at a sound decision. The code of conduct was updated in 2019; employees have taken note of the updated version and have completed a mandatory e-learning course.

Professional competence

Setting high standards for the professional competence of employees, de Volksbank requires that its employees are demonstrably familiar with current developments in their area of expertise and are able to apply this knowledge in their work. This is expected of us as a financial institution, but professional competence also helps our employees put our promise of being 'better for each other' into practice. In this respect, it is important from a social perspective that both de Volksbank and the employees continue to develop themselves and are employable in the long term, especially given the declining and changing job opportunities in the financial services sector.
Employees make arrangements with their managers to keep their competencies up to date and develop them. De Volksbank provides for the facilities.
Employees aged 45 and over were given the opportunity to obtain development advice in 2019. Following an inspiration meeting, they could decide to join a programme consisting of three personal coaching interviews with a development coach. The result of the programme was a detailed plan covering their development.

Retaining and developing talent

Several talent development programmes are in place to interconnect de Volksbank's future and the development of our talent. We focus on developing and professionalising both managerial talent and top specialists who are on their way towards key positions. Trainees and entry-level workers with no more than two years' work experience may join the Young Expert programme, which covers four areas of expertise: IT, Data Science & Innovation, Digital Marketing & Marketing Omnichannel, and Finance & Risk. In this two-year traineeship, trainees select their assignments with various departments in consultation with a mentor and are given every opportunity to develop personally.

Leadership development

Leadership development is based on the individual as a whole. This means that we look not only at major competencies and experience, but also at the values that people consider important in their work and in dealings with others, and at the personality traits that are the best match for the organisational culture of de Volksbank and its brands. All of de Volksbank's managers participate in the organisation's leadership programme. The employee survey shows that employees are positive about the manager's role. For leadership development, managers may avail themselves of 360-degree feedback and an online self-assessment to gain insight into personal preferences and competencies.

Leadership DNA

In March 2019, de Volksbank's senior management initiated the leadership programme with four meetings. The bank's challenges were identified and worked out during the meetings, including one with all of de Volksbank's managers. One of the questions addressed was: how can our leadership help achieve the bank's mission and goals? The answers have been incorporated into a leadership DNA, which is made up of four elements: values, personality traits, competencies, and experience. We use the leadership DNA when selecting new managers, in performance management, in the development of managers and to identify and develop talent.

New managers

New managers participate in the programme 'Management at de Volksbank'. The programme consists of six modules covering various aspects of management, such as performance coaching and management, change management, team coaching, vitality and absenteeism. Three groups started following this programme in 2019.

3.3.5 Organisational changes

Seeking to offer our customers optimum services and respond to the dynamics in the financial services sector in good time, we are aiming for a simple and agile organisation. The work of our employees is changing, including on the back of further digitisation of our processes and the adoption of new ways of working. That is why we set great store by our employees being and remaining employable in the long term and why we use strategic personnel planning to ensure that we have the staffing (in quantitative and qualitative terms) needed to reach our goals.

Simple and agile organisation

In 2019, we initiated a survey to discover how we could organise our bank to make it simpler and more agile. The survey covers not only the structure, but also our management and our working methods. The points of departure are that the customer relationship forms the basis for structuring the organisation and that employees must be able to make a difference. Responsibilities are placed low in the organisation and close to the customer in order to put banking with a human touch and genuine attention for autonomy, professionalism and personal growth into practice.

Strategic personnel planning

We seek to work towards our goal of a simple and agile organisation by actively and proactively availing ourselves of strategic personnel planning. The departments within de Volksbank prepare for developments affecting staffing requirements to ensure that the staffing needed (in quantitative and qualitative terms) is available in time and to ensure that employees are employable in the long term. We started improving this process in 2019. Our aim is to reduce the need for major reorganisations if we attune our staffing requirements to internal and external developments in good time. This may be done, for example, by recruiting employees, retaining talent, terminating the employment of employees who become redundant and making targeted investments in employees' knowledge and skills that we need, and therefore in their employability.

Staffing

At the end of 2016, we announced that the number of jobs at de Volksbank was expected to fall by 800-900 by 2020, approximately half of which involved our permanent staff. The number of internal FTEs has dropped by 363 since the end of 2016, and for the first time since 2016 the number of external employees declined in 2019. However, it is hard to determine exactly how many jobs were lost in 2019 because there is a lot of job-related activity; for example positions have ceased to exist completely or partially, or were changed slightly or drastically and new positions and

Leonard de Geus
Assessment & Processing
Assistant at SNS

Astrid Fidder
Format Manager
at RegioBank

'Passing on our experiences within this great company to new, ambitious employees – it doesn't get any better than this'

Both day counsellors of the introduction programme for new employees, OPEN therefore jobs were created. The outflow and particularly the inflow of employees increased in 2019 as a result of reorganisations. De Volksbank invests in the sustainable employability of employees and it does so more intensively during reorganisations. However, this does not eliminate the need to terminate the employment of redundant employees and at the same time recruit new employees. Redundant employees receive personal coaching to help them find another job.

	2019	2018	2017	2016
STAFFING				
Number of internal FTEs	2,992	3,112	3,292	3,347
Number of internal FTEs at year-end	2,991	2,993	3,231	3,354
Full-time/part-time ratio	70%/30%	69%/31%	70%/30%	70%/30%
Inflow	17.8%	8.1%	7.5%	11.5%
Outflow	16.6%	15.1%	11.2%	10.4%
FLEXIBLE DEPLOYMENT				
Temporary contracts[1]	14.00%	9.0%	11%	12.8%
Number of external FTEs	657	804	714	651
Number of external (fte) / total fte	18%	21%	18%	16%

1 Internal employees met with a fixed-term contract.

3.4 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%.

Responsible financial and risk management

De Volksbank strives for a stable capital position, an adequate liquidity position and a simple and transparent balance sheet. We aim for a financially healthy and stable bank, with activities that provide a steady and stable return. De Volksbank's balance sheet is primarily made up of retail mortgages (year-end 2019: 76% of balance sheet total) and investments, mostly government bonds (year-end 2019: 9% of balance sheet total).

Return on equity

De Volksbank strives to be a financially healthy and stable bank. Our target for the return on equity is 8%, as formulated in 2016. Return on equity amounted to 7.7%, a slight increase compared with 2018 (7.6%), due to a higher net result, partly offset by higher equity. This is slightly below our target of 8%. The return was achieved with a strong capital position when compared with other European banks.

Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the adjusted net result. In accordance with this policy, de Volksbank paid out a dividend of € 161 million for 2018 to NLFI in April 2019. This corresponds to a pay-out ratio of 60%, the upper end of the target range.

We propose to pay out a dividend of € 165 million on the 2019 profit, again corresponding to a pay-out ratio of 60% of the adjusted net result.

In addition, de Volksbank distributed € 250 million in capital to NLFI in December 2019. We were able to do so because we had built up a solid capital position in recent years through retained earnings and lowering the risk profile, allowing us to return to our shareholder part of the capital injection received at the time of the nationalisation.

3.5 Other objectives

Capital

We adjusted our capital targets in the first half of 2019. For 2020, our target is a leverage ratio of at least 4.75% (previously at least 4.25%) and a CET1 capital ratio of at least 19% based on a full phase-in of Basel IV regulations (previously at least 15%).

Our leverage ratio target is in line with the anticipated leverage ratio of comparable European banks and contains a strong management buffer to withstand severe stress scenarios. After the full phase-in of Basel IV, the minimum leverage ratio target of 4.75% is expected to be in keeping with a CET1 capital ratio target of at least 19%. Both the leverage ratio target and the risk-weighted target are well above the regulatory requirements and offer ample buffers. The management buffer also takes account of other uncertainties, such as the impact of future regulatory requirements, including Basel IV.

The CET1 capital ratio dropped to 32.6% (year-end 2018: 35.5%), driven by both the decrease in the CET1 capital and an increase in risk-weighted assets (RWA). This kept the CET1 capital ratio well above our target of at least 19%.

Based on the agreement reached on Basel IV regulations in December 2017, we expect our RWA to go up by approximately 40% and our CET1 capital ratio to go down by well over 9 percentage points as a consequence.

The leverage ratio decreased to 5.1%, from 5.5% at year-end 2018, driven by both a € 158 million decrease in CET1 capital and an increase in the denominator of the leverage ratio by € 1.4 billion, in line with the growth of the balance sheet total.

Cost/income ratio

In 2016, we set a target range of 50% to 52% for the cost/income ratio (operating expenses, excluding regulatory levies divided by total income) for 2020. At the time of publication of the 2019 interim results, we indicated that we do not expect to meet this target range, due in part to the increasing pressure on net interest income in the current low interest rate environment. Moreover, total operating expenses declined less strongly than expected, in particular as a result of additional costs related to laws and regulations, such as for transaction monitoring.

In 2019, the cost/income ratio improved to 57.3%, from 58.7% in 2018. This was entirely attributable to lower operating expenses.

3.6 Technology and innovation

'I'm proud that my department is the bank's financial conscience'

Aarti Mahabali
Senior Finance Specialist

Modernising core banking processes

If we are to properly develop de Volksbank's multi-brand, single back office strategy, it is imperative that we constantly keep our core processes agile and up to date. Because new services increasingly feature highly digital components, our systems need to be more flexible. This rapidly changing world calls for an increase in the number of releases and easy integration of new applications or communication between these applications and the bank's basic infrastructure.

As modern consumers are increasingly demanding, services such as fast payment processing, and excellent accessibility of our services have become prerequisites by now. In other words, the basic infrastructure underlying all modifications has to remain stable.

Optimum interaction between the different systems is indispensable if we are to really get to know our customers. This means that systems that originally contained different data and definitions should be able to exchange, interpret and use this data. Only then can we work in a more data-driven way and provide our customers with the best user experience possible.

Artificial Intelligence

De Volksbank sees many opportunities to use AI, which is particularly suited for putting the human touch back into banking and thereby optimising the scalability of true personalisation and truly knowing our customers. Since it is of the essence that this is done ethically, this year we started developing an ethical framework to also test specific AI models on the basis of our Data Vision. We set up and tested a Big Data Platform to test and roll out AI models. For example, we tested if we could approve a mortgage application based on a customer's payment data, eliminating the need for customers to submit pay slips and other documents – we did so with the customer's explicit consent of course.

We also developed an initial voice banking solution in which customers can ask certain questions via voice recognition.

Financial resilience / Banking with a human touch

We developed a number of digital solutions using our Big Data Platform and the data obtained from it, such as personal identification for certain services using facial recognition. The customer no longer needs to go to an office or shop to identify himself or herself. Adding to the customer's insight into his or her personal finances, we developed a conceptual model of a 'fixed expenses manager'. This function identifies a customer's fixed expenses and notifies him or her of all subscriptions and other recurring costs.

We are currently developing a functionality called 'my budget' to provide insight into someone's fixed income and expenses. It calculates customers' future real disposable budget on the basis of AI and shows them how much they have left to spend per month, while at the same time identifying if a customer receives a recurring benefit. If so, we can remind this customer to

periodically check if he or she still qualifies for such a benefit, thus preventing reclamations from the government.
Most of these solutions were tested in our 'Slim!' app. This app functioned as a copy of our mobile banking app and served as a separate test environment. Some 3,000 customers actively participated in experiments in this environment, which provided us with very valuable feedback.

Digital identity

Due to digitisation all around us, establishing the identity of the person 'behind the screen' with absolute certainty is of increasing importance. This leads to many developments in the field of digital identity, or 'self-sovereign identity', where people are both owners and managers of their own identity information.
Certainly from the banking with a human touch point of view, various applications are conceivable here. This is why we are involved in a number of pilots and initiatives, such as a pilot to apply for food aid from the food bank with a digital passport. We also participated in the 'Control over Data' hackathon, set up by the Ministry of the Interior and Kingdom Relations. The objective of this hackathon was to find a solution for a deceased person's digital legacy; more specifically, arranging authorisations for online accounts, debts and credit balances following this person's death. This resulted in a knowledge site and digital safe (*Meegeven.nl*) to support the settlement of banking matters after a person's decease.
Within the framework of the Dutch BlockChain Coalition, we also contributed to the development of a reliable way to establish identities.
In October 2019, de Volksbank also signed the declaration of intent for participation in the Hack_Right pilot programme, in which the police and the Public Prosecution Service collaborate with the business community to get young hackers ('first offenders') back on the rails *and* keep them there. The programme aims to turn these youngsters' talents into ethical hacking. We engage ethical hackers in projects of our development and management teams at an early stage to try to detect (unintended) functionalities in the software that may be misused by malicious parties and have not yet been detected through extensive testing. Lastly, together with Techruption, we participated in an exercise called 'ZZP in a day' to make registration with the Chamber of Commerce and opening a business account more efficient.

'We contribute to a more ethical society by acting as a guardian'

Marissa van Straten-Swijnenberg
Customer Integrity Specialist

3.7 Commercial developments

	31-12-2019	31-12-2018
CUSTOMERS AND CURRENT ACCOUNTS		
Total number of customers (in 1,000)	3,270	3,202
Total number of current account customers (in 1,000)	1,568	1,488
Market share new current accounts[1]	21%	24%
Mortgages		
Retail mortgages (gross in € billions)	48.2	47.3
Market share mortgage portfolio (in €)[2]	6.1%[3]	7.2%
Market share mortgage portfolio (in €)	6.5%[3]	6.6%
Savings		
Retail savings (in € billions)	38.4	37.4
Market share retail savings	10.4%	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 Based on CBS data. Market shares as at 31-12-2018 have been adjusted due to market size figures adjusted by CBS.
3 Third quarter 2019 figures because market size figures were not yet available.

Customers and current accounts

In 2019, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 219,000 new customers. Setting this off against customers who left the bank, the total number of customers rose by 68,000. As in 2018, this increase was largely attributable to the growth in the number of current account customers. This number rose by 80,000 (150,000 gross) to 1,568,000. Net growth was slightly higher than in 2018 (79,000). The lower gross growth was compensated by an adjustment of 18,000 inactive current account customers in 2018.

De Volksbank's market share of new current accounts remained high at 21% (2018: 24%). This market share has been 20% or more since 2014, significantly above the market share on a total portfolio basis of 8%.

Mortgages

The Dutch mortgage market saw growth compared with 2018, largely due to strong remortgage growth. Measured in terms of new mortgage lending, the market grew by 9%, and measured in euros by 16% to € 123 billion. The increase in euros was larger than the increase in numbers as the average principal showed an increase.

New mortgage production fell to € 5.5 billion, from € 5.9 billion in 2018 (-7%). The market share of new mortgages was 6.1%, also lower compared with 2018 (7.2%). This decline was due to competition in the mortgage market and the further increased demand for mortgages with a fixed-rate term of 10 years or more. Their share of the total market increased to 59%, compared with 56% in 2018. Based on the total retail mortgage portfolio, our market share remained stable at 6.5%.

Interest rate renewals amounted to nearly € 2.8 billion, a decline compared with 2018 (€ 3.3 billion). Of these renewals, approximately one fifth were early renewals (2018: approximately 25%). The number of early renewals decreased because a large part of the portfolio had seen renewals in previous years. Regular interest rate renewals were virtually stable.

Repayments amounted to € 5.3 billion, up compared with 2018 (€ 4.6 billion). This was partly due to a growing portfolio, an increase in the number of people moving house, fierce competition in the remortgage market and an increase in the repayments of bridging loans.

Contractual repayments also gradually increased in line with the changing composition of the mortgage portfolio, mainly reflected in an increase in annuity mortgages.

De Volksbank managed to slightly grow its retail mortgage portfolio because mortgage production exceeded redemptions by € 0.2 billion. In addition, as a result of lower interest rates, IFRS valuation adjustments related to hedge accounting increased from € 0.5 billion at year-end 2018 to € 1.2 billion. On balance, the retail mortgage portfolio grew from € 47.3 billion at year-end 2018 to € 48.2 billion (gross book value).

As a result of the high demand for mortgages with a fixed-rate term of 15 years or more, the share of these mortgages in the total portfolio grew to 19.6% (€ 9.2 billion), compared with 18.3% at year-end 2018 (€ 8.6 billion). The share of mortgages with fixed-rate terms of 10 to 15 years also increased, from 64% at year-end 2018 to 66%

Savings

Despite the historically low savings rates, the Dutch retail savings market grew slightly to € 368 billion, from € 354 billion at year-end 2018.

In the fourth quarter of 2019, we conducted a study to work together with our customers and consumer organisations to identify possible or desired measures with regard to low interest rates (see Section 3.1.2 Simple and transparent products).

This has given us a number of ideas that we want to turn into concrete propositions in the first half of 2020. De Volksbank's retail savings balances rose to € 38.4 billion compared with € 37.4 billion at year-end 2018. Nevertheless, the market share fell to 10.4% at year-end 2018 (10.6%).

Didi Strating
Personal Adviser at
SNS Mobile Advice

Hendrik Snijder
Risk Trainee at
de Volksbank

Mieke Docter
Strategy Management
Assistant at de Volksbank

Woudry Schonewille
Personal Adviser at
SNS Mobile Advice

'If everyone is ready to help someone else, we will all be better off!'

3.8 Financial results

Profit and loss account

in € millions	2019	2018	Change
Net interest income	875	908	-4%
Net fee and commission income	51	44	16%
Other income	3	6	-50%
Total income	**929**	**958**	**-3%**
Operating expenses excluding regulatory levies	533	562	-5%
Regulatory levies	41	47	-13%
Total operating expenses	**574**	**609**	**-6%**
Impairment charges financial assets	-7	-12	42%
Result before taxation	**362**	**361**	**0%**
Taxation	87	93	-6%
Net result	**275**	**268**	**3%**
Cost/income ratio[1]	57.3%	58.7%	
Return on Equity (RoE)[2]	7.7%	7.6%	
Net interest margin (bps)[3]	1.37%	1.47%	
Cost/assets ratio as a % of average assets[4]	0.83%	0.91%	

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Net result / average month-end total equity for the reporting period.
3 Net interest income / average month-end total assets for the reporting period.
4 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.

NET PROFIT

Net profit showed an increase to € 275 million, compared with € 268 million in 2018 (+3%). The increase was largely attributable to € 35 million lower total operating expenses and a slightly lower tax rate than for 2018. These positive factors were partly offset by € 29 million lower total income and a € 5 million lower reversal of expected credit losses of financial assets.

The Return on Equity (RoE) amounted to 7.7%, slightly up compared with 2018 (7.6%). This increase was driven by a higher net profit, partly offset by higher average equity.

Lower operating expenses excluding regulatory levies resulted in an improvement in the cost / income ratio to 57.3%, from 58.7% in 2018.

INCOME

Breakdown income

in € millions	2019	2018	Change
Net interest income	875	908	-4%
Net fee and commission income	51	44	16%
Investment income	12	3	300%
Result on other financial instruments	-10	2	--
Other operating income	1	1	0%
Total income	**929**	**958**	**-3%**
Net interest margin (bps)	1.37%	1.47%	

Total income fell by € 29 million to € 929 million (-3%), driven by lower net interest income.

Net interest income

Net interest income declined by € 33 million to € 875 million (-4%). 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. Compensation received for interest losses for early renewals and mortgage repayments was substantial, but lower than in 2018.

Lower interest income on mortgages was partly compensated by lower interest expenses related to the use of derivatives to manage the interest rate risk and reductions in interest rates on savings accounts.

The interest margin dropped to 1.37%, compared with 1.47% in 2018. This drop was caused by lower net interest income and a higher average level of assets, each of which was responsible for 5 basis points of the decline.

Net fee and commission income

Net fee and commission income showed a € 7 million increase to € 51 million. This increase was mainly driven by higher fees for payment transactions and mortgage advice.

Higher distribution fees paid to franchisees as a result of an increase in the number of franchised stores negatively affected net fee and commission income.

Investment income

Investment income rose by € 9 million to € 12 million, largely 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 showed a swing from € 2 million positive in 2018 to € 10 million negative. This was largely attributable to a lower result due to hedge ineffectiveness of derivatives in relation to the IFRS value adjustments for mortgages, for example. In 2018, this result was slightly positive, in 2019 it was negative.

EXPENSES

Operating expenses and FTE

in € millions	2019	2018	Change
Staff costs	373	402	-7%
Depreciation of (in)tangible assets	36	21	71%
Other operating expenses	165	186	-11%
Total operating expenses	**574**	**609**	**-6%**
Regulatory levies (other operating expenses)	41	47	-13%
Adjusted operating expenses	**533**	**562**	**-5%**
Cost/income ratio	57.3%	58.7%	
Cost/assets ratio as a % of average assets	0.83%	0.91%	
FTE			
Total number of internal FTEs	2,991	2,993	0%
Total number of external FTEs	657	804	-18%
Total number of FTEs	**3,648**	**3,797**	**-4%**

Total operating expenses fell by € 35 million to € 574 million, of which € 6 million for lower regulatory levies.

Regulatory levies amounted to € 41 million, of which € 7 million were related to the contribution to the resolution fund (2018: € 15 million) and € 34 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution (2018: € 32 million). The contribution to the resolution fund for 2018 was based on the situation in 2016, the year in which the legal merger between SNS Bank N.V., ASN Bank N.V. and RegioBank N.V. was effected. Because of this, ASN Bank's and RegioBank's covered deposits were not taken into account in the methodology used by the Single Resolution Board (SRB) to determine the annual contribution. The higher DGS contribution is particularly driven by the growth in covered deposits.

Adjusted for regulatory levies, operating expenses decreased by € 29 million to € 533 million, primarily as a result of a € 29 million reduction in staff costs. Of this reduction, € 15 million was related to lower reorganisation charges. In 2018, the addition to the restructuring provision amounted to € 21 million in connection with initiatives to simplify and improve our business operations. In 2019, the addition amounted to € 6 million. Furthermore, a reduction in the total number of FTEs by 149 contributed to the staff cost reduction.

Depreciation of tangible assets and amortisation of intangible assets amounted to € 36 million, an increase of € 15 million. This largely reflected the impact of IFRS 16 Leases, resulting in a reclass of € 12 million from other operating expenses (offices) to depreciation.

Other operating expenses excluding regulatory levies fell by € 21 million, mainly as a result of the aforementioned reclass. In addition, 2019 included a positive revaluation of € 7 million related to a previous contribution to the DGS in connection with the bankruptcy of DSB. And finally, external consultancy costs, largely related to regulatory and compliance-related projects, dropped by € 8 million. In 2018, other operating expenses comprised a release of provisions in the amount of € 11 million in 2018, mainly related to the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives.

Adjusted operating expenses divided by average total assets improved from 91 basis points (bps) in 2018 to 83 bps as a result of both lower adjusted operating expenses and higher average total assets.

Compared with year-end 2018, the total number of employees measured in FTE declined by 149 to 3,648 FTEs (-4%). The number of internal employees at year-end stood at 2,991, almost stable compared with year-end 2018. The number of external employees dropped from 804 to 657 FTEs, particularly due to the completion of projects.

Impairment charges of financial assets

in € millions	2019	2018	Change
Retail mortgage loans	2	-8	-
Other retail loans	-2	-1	-100%
SME loans	-8	-5	-60%
Other commercial loans and loans to the public sector	2	1	100%
Investments	-1	1	--
Total impairment charges financial assets	**-7**	**-12**	**42%**
Cost of risk total loans	-0.01%	-0.03%	
Cost of risk retail mortgage loans	0.00%	-0.02%	
Cost of risk SME loans	-1.05%	-0.75%	

In 2019, we saw a reversal of expected credit losses of financial assets of € 7 million, a decrease compared with a reversal of € 12 million in 2018.

Impairments on retail mortgages amounted to € 2 million after a reversal of € 8 million in 2018. Both periods saw a decrease in stage 3 loans following improved economic conditions, particularly with regard to the Dutch housing market and unemployment. In 2018, this resulted in a reversal of expected credit losses, despite an additional provision for stage 3 loans that had been in default for over 5 years.
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 in connection with adjustments in the provisioning model that particularly affected stage 2 loans.

The reversal of expected credit losses on other retail loans amounted to € 2 million (2018: € 1 million), mainly due to an interest correction for default loans.

The reversal of expected credit losses on SME loans amounted to € 8 million as a result of a decrease in stage 2 loans due to the improved economic outlook used in scenarios to determine the loan loss provision. Stage 3 loans also decreased due to a recovery of customers in default. In 2018, the aforementioned aspects also resulted in a reversal, partly offset by an additional charge for stage 3 loans that had been in default for over 5 years.

Impairments on other commercial loans and loans to the public sector amounted to € 2 million (2018: € 1 million).

TAXATION

De Volksbank accounted for € 87 million in corporation tax on the result for 2019. The effective tax rate was 24% (2018: 26%), at a nominal rate of 25%. The lower tax rate was the result of the revaluation of a net deferred tax asset at higher corporation tax rates in 2020 and 2021 than previously assumed. For 2020, the rate will remain unchanged at 25%, where previously a decrease to 22.55% was assumed. In fact, in 2018, the expected decrease in corporation tax rates resulted in a higher tax rate, partly compensated by a tax gain in connection with adjustments related to the settlement of the tax return for the year 2016.

Outlook

As a result of the international economic slowdown, the Dutch economy is expected to lose further momentum in the period ahead. Uncertainty surrounding Brexit has decreased for the time being, but a possible failure of the negotiations between Brussels and London on a new trade agreement remains a major risk. The Dutch economy's loss of momentum could, nevertheless, be very limited thanks to continued robust domestic demand.
Unemployment is expected to stabilise at its current low level. Rising house prices are expected to level off slightly, while the extremely low number of houses for sale will lead to a slight decrease in the number of transactions.
Given the prospects of moderate growth and low inflation in the eurozone and - related to this - an extremely accommodating monetary policy of the European Central Bank (ECB), the current low interest rate climate will persist for a longer period of time.

Net interest income in 2020 is expected to be lower than in 2019, especially as a result of lower interest income on mortgages in the sustained low interest rate environment. Given our interest rate policy for savings rates for 2020, lower interest expenses on savings will not be able to compensate for this drop.

For 2020, we do not expect a further reduction in the total operating expenses excluding regulatory levies. Given the macroeconomic outlook, we expect impairments on loans and advances to remain low. All things considered, we are expecting the net profit for 2020 to be lower compared with 2019.

Service employees
Facility Management

'Although physical post is disappearing, in the digital world we still want to add value for de Volksbank and its customers'

4. 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.

4.1 Risk management structure

4.1.1 Risk management structure

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

RISK MANAGEMENT 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.

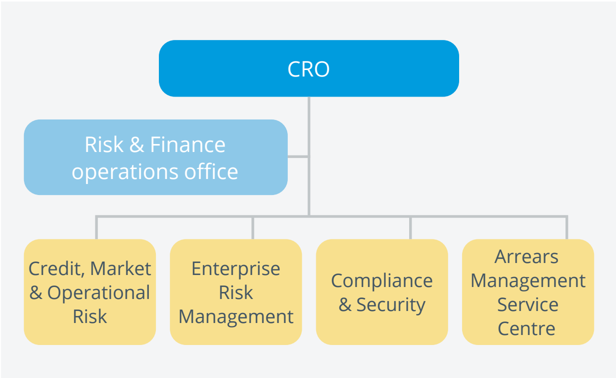
RISK MANAGEMENT FRAMEWORK
De Volksbank applies the Integrated Control Framework (ICF) to manage risks. In line with COSO Enterprise Risk Management, the ICF creates well-defined frameworks that ensure streamlined control processes with clear risk governance and provide direction to the right culture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

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

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

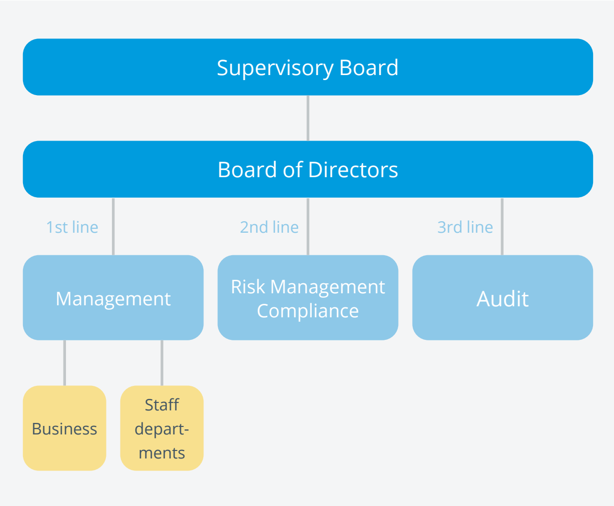
De Volksbank's mission, ambition and strategic objectives are translated into a risk strategy that describes risk management objectives with due regard to the SRA results.

RISK GOVERNANCE AUDITED
The Risk & Finance operations office was transferred to the CRO's area of responsibility in 2019. The risk management organisation is as follows:



We are currently working to improve the structure of the Compliance organisation.

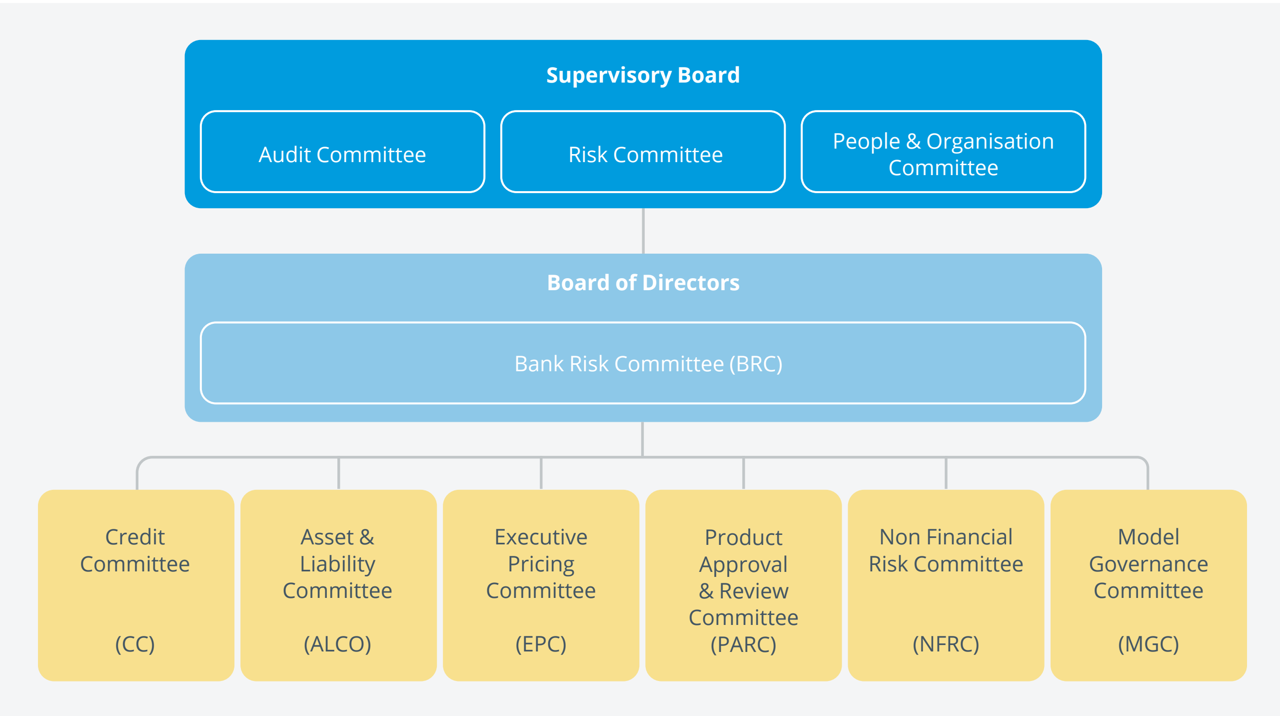
De Volksbank's risk governance is based on the three lines of defence model.



In this model, the first line of defence (the business) is responsible for setting up and executing its own processes. It identifies the risks, assesses and reports on these risks and measures them against the risk appetite that has been determined. The second line support the business, sets the frameworks, gives advice and monitors whether the business actually takes its responsibility. The second line also 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 the umbrella Bank Riks Committee (BRC). In this process, it is supported by risk committees (refer to Definitions for a description), with representatives from the first and second lines in each committee.

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



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

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

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

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

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

CULTURE AND RISK AWARENESS

Risk culture propagation

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

Risk guidelines

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

Development of risk awareness

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

Internal code of conduct

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

Remuneration policy

De Volksbank pursues a remuneration policy that is based on our Manifesto, our ambition to create shared value and our profile of a social bank. De Volksbank does not grant any variable remuneration, since this prevents us from taking undesirable risks that might give priority to short-term individual interests over long-term collective objectives (see also Section 6.6 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. We form adequate provisions for any credit losses we may reasonably expect. We also maintain an ample capital position to absorb unexpected losses.

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

When managing our mortgage portfolio, we focus on:
- the responsible funding of new customers;
- retention of a healthy, existing portfolio;
- support for customers with financial concerns.

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

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

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

4.1.2 Top risks

Developments inside and outside de Volksbank may affect the achievement of our strategic objectives (see also Section 2.2 Mission, ambition and objectives). De Volksbank has analysed these developments and has taken measures to align their potential impact with our risk appetite. De Volksbank evaluates the main risks on an annual basis and adjusts the classification where necessary.
In this chapter we describe the top risks of 2019, while also looking ahead to 2020 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.

A strategic review in which the above top risks are considered is currently being carried out at de Volksbank. For more information on the strategy, please refer to Chapter 2 Strategy.

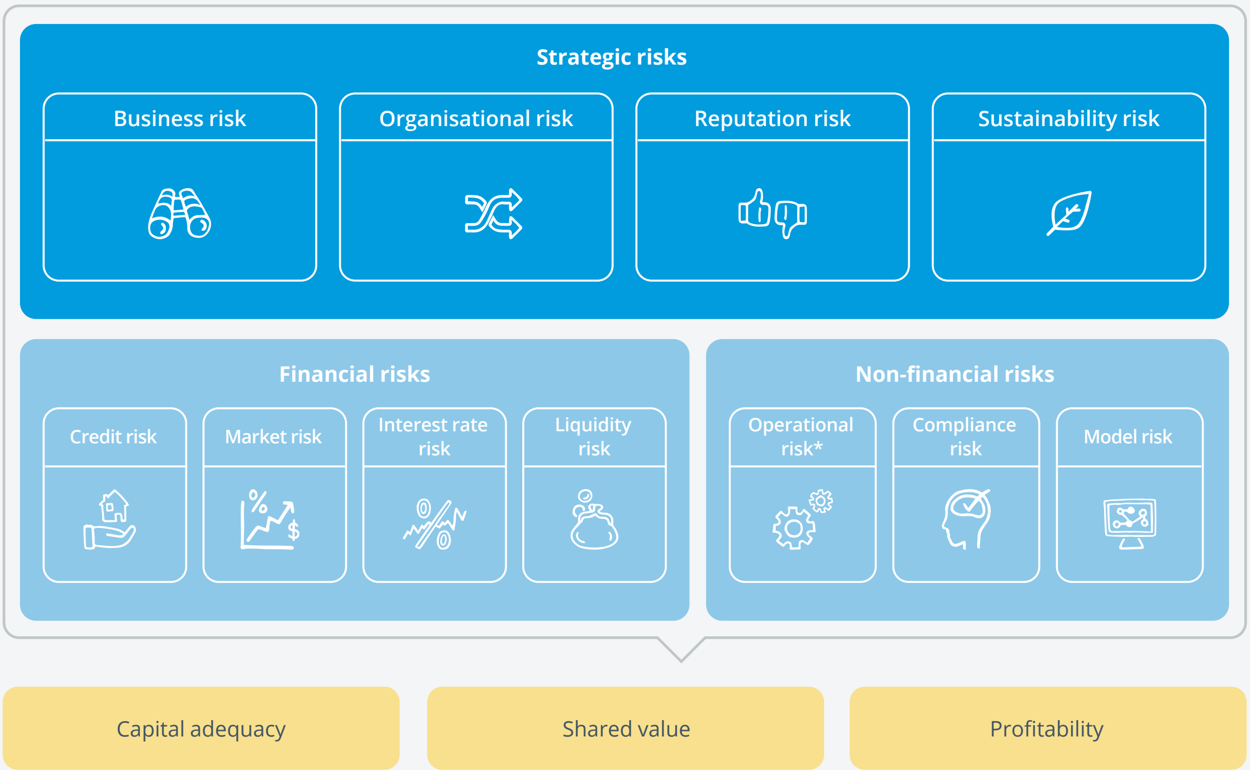
TOP RISKS RESULTING FROM EXTERNAL DEVELOPMENTS

Risk	Description of risk and impact	Trend	Measures
Sustained low interest rates	Market rates remain extremely low for a prolonged period of time, thereby consistently reducing the net interest margin and putting pressure on profitability.	↗	• See Section 4.2 Business risk and Section 4.4 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 4.2 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 4.2 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 4.2 Business risk for an explanation of the measures.

TOP RISKS RESULTING FROM INTERNAL DEVELOPMENTS

Risk	Description of risk and impact	Trend	Measures
Insufficiently agile and available data and IT systems	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 4.5 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 4.5 Operational risk for an explanation of the measures

4.1.3 Risk appetite and risk indicators



*Operational risk includes the sub-types resporting and datamanagement risk and legal risk

We carry out the annual SRA to identify and assess the risk in relation to the top risks and our strategy. The main risks are ultimately included in the risk classification. If necessary, we make adjustments to the classification to factor in, for example, new regulations, internal and external developments, or a change of strategy or risk capacity. We added new types of risk to the risk classification in 2019. See also Section 2.2 Mission, ambition and objectives.

De Volksbank has divided the main types of risk into strategic risks, financial risks and non-financial risks, which are discussed in more detail in Sections 4.2 Strategic risks up to and including 4.5 Non-financial risks.
Every year, we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives. 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 4.8.2 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. See the glossary at the end of this annual report for the definitions of the types of risk.

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.		• There are a large number of change programmes, which require a lot of resources and knowledge. That is why further improvements were implemented in 2019 in terms of managing the change programmes.
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; • No events have occurred that have adversely affected the reputation.
SUSTAINABILITY RISK • Banking in a socially responsible way; • Promoting sustainable developments; • Maintaining a strong social identity		• De Volksbank 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).		• The credit risk on our portfolios has again decreased. This is the result of an improved risk profile for the total portfolio following on from such factors as low unemployment rates and rising house prices.
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.
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 is mainly made up 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, although at a slower pace than desired. Knowledge in the area of operational risk management is enhanced by means of training. Dynamics in the organisation result in high work pressure. IT control is high. The threat of cybercrime is persistent, significant and continues to evolve. Insight into processes and internal control are being 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. Control in the supply chain is being strengthened to prevent errors in external reporting.
LEGAL RISK • Excellent business processes in place to help prevent claims; • Settlement of any claims with due care.		• The situation with regard to procedures, contracts and legal awareness is stable.
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. • Compliance rules are continuously being refined and the refinements are followed up.
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.

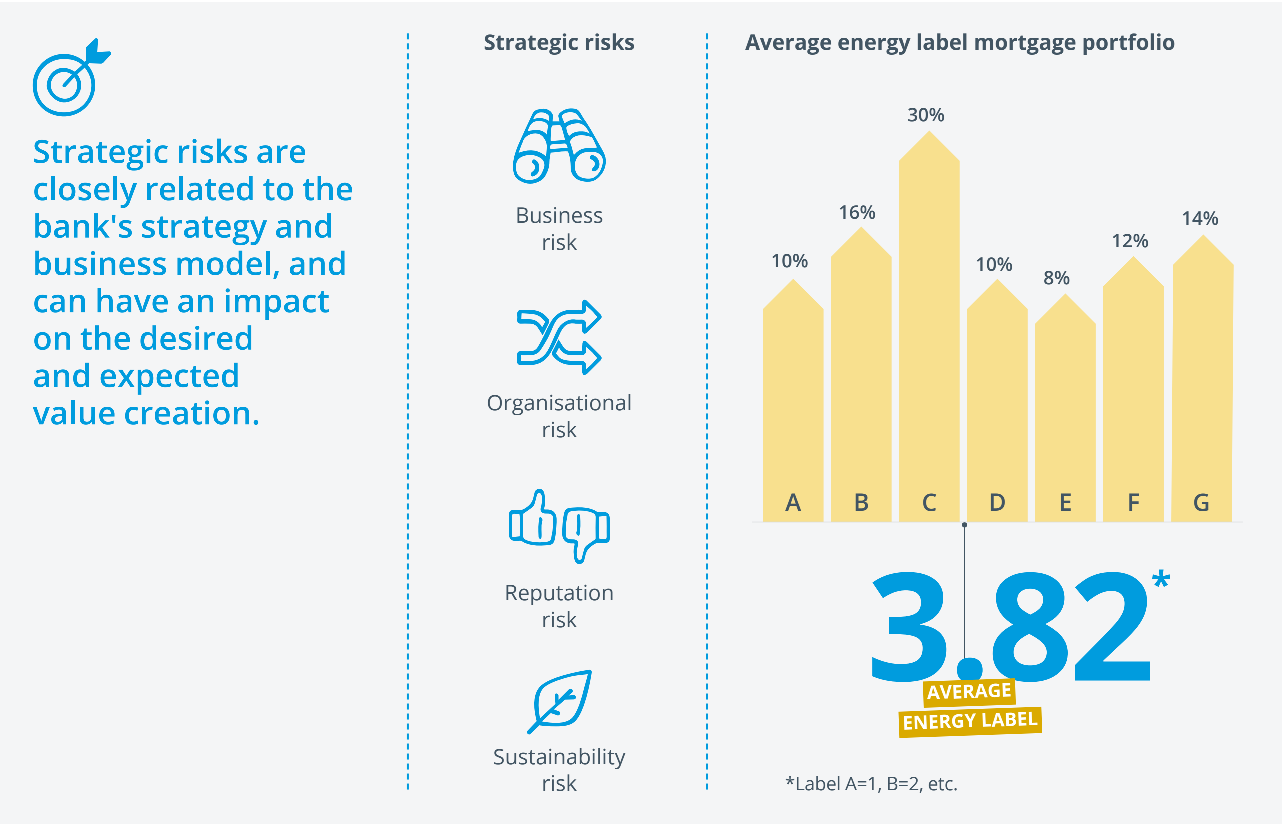
Capital adequacy

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 4.3.2 Management and control, 4.4.3 Figures, ratios and trends, 4.6.2 Management and control, and 4.8.2 Management and control for the use of stress testing in relation to capitalisation, credit, market and liquidity risks.

4.2 Strategic risk



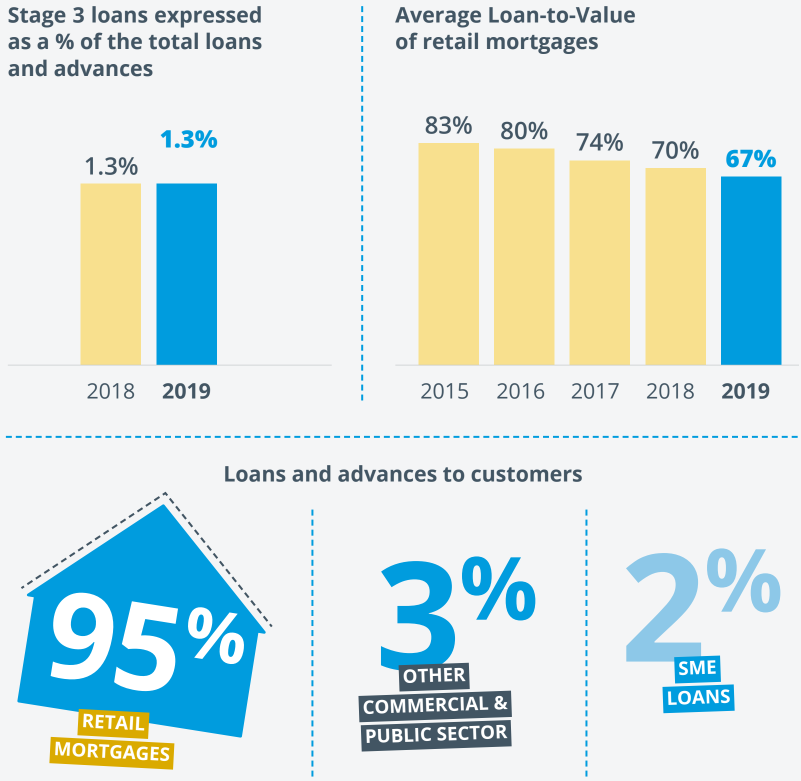
INTRODUCTION

In addition to financial and non-financial risks, strategic risks were introduced in 2019. We have determined four strategic risks, i.e. business, sustainability, organisational and reputation risk. The different strategic risk categories are introduced because these strategic risks have a different character. 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 a consequential risk. Combined with the potential impact reputation risk may have, it is classified as a strategic risk. A number of these strategic risks were part of the risk classification before but were classified as financial and non-financial risks. A number of types of risk are new in the classification. In 2019 indicators were determined for all types of risk, ensuring that the development of risks is continuously measured and adjustments may be made where necessary.

Type of risk	Developments 2019
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.	• Current macroeconomic conditions put pressure on the financial performance of traditional banks, such as de Volksbank. Since the low interest rate level complicates the achievement of financial objectives, additional attention is paid to the achievement of the business risk objectives. De Volksbank's profit is also strongly influenced by the cost level. A high degree of discipline in cost control is a major condition for maintaining the level of profit. This is part of the strategic review and has high priority We need to make major strategic choices to achieve the financial objectives, for example in terms of innovation, additional sources of income and efficient cost control. The aim is to guarantee that we will maintain the level of our financial results in a highly competitive market and a low interest rate environment.
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 strategic review. The number of change programmes is as large as ever, and they require a great deal of resources and expertise. The risk that the results of our change programmes will not be achieved in a timely manner still exists. That is why further improvements were implemented in 2019 focused on strengthening central management and the risk management of the programme portfolio.
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 social media in particular render consistent monitoring and adequate responses necessary; a complaint may 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. This means that active monitoring of the bank's reputation and image and adequate and correct responses to a potential loss of reputation or image are of the essence. 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). This is why the bank maintains a structure to allow rapid identification of events that potentially threaten its reputation and follow-up to prevent reputational damage.
SUSTAINABILITY RISK • Sustainability risk is the risk of financial and/or reputational damage as a result of ecological and/or social developments.	• In 2019, sustainability has been embedded in all parts of the organisation and business activities and has become an explicit part of risk management. This has resulted in the adoption of a Risk Appetite Statement for sustainability and in the determination of risk indicators to monitor the risk. The risk indicators encompass both ecological and social risks. We have also identified the factors affecting the risk. For example, climate change (physical risk), increased regulation and standardisation by the authorities and consumers' preferences (transition risk) may create financial losses for the bank. If de Volksbank fails to live up to society's sustainability expectations, reputational damage may arise.

4.3 Credit risk

Credit risk decreased again in 2019. The positive economic development in the Netherlands has resulted in fewer customers getting into financial difficulties and rising house prices. The tax regime also promotes a repayment component for new mortgages.



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'.

4.3.1 Risk profile

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

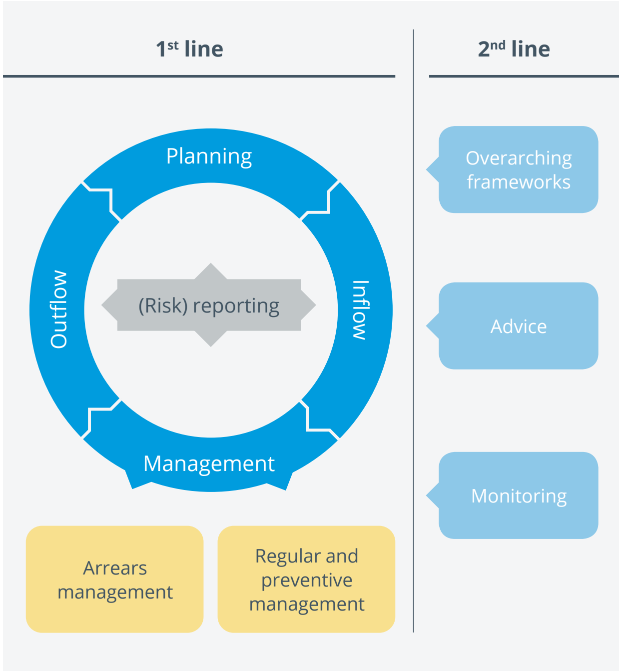
As part of our credit risk management, we cluster loans in portfolios. We have developed a policy to prevent any undesirable concentration risk, which is actively monitored. De Volksbank has a high concentration of retail mortgage loans in the Netherlands, which corresponds to our strategy of being a retail bank that operates exclusively in the Netherlands. Other loan portfolios on our balance sheet, which are also in line with our strategy, are much smaller in size.

Using specific features, 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 a mortgage loan from unsecured loans such as revolving credit, 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). Our policy also prescribes the maximum exposure to a single counterparty, so as to prevent us from running into financial problems ourselves if the relevant counterparty is no longer capable of meeting its obligations to us. 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 below describe the various loan portfolios and the underlying risk characteristics in more detail.

4.3.2 Management and control Audited

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



LOAN PORTFOLIOS

Retail mortgages

In the provision of new mortgage loans (inflow) we put customers' interests first and use internal standards, which are in line with the legal frameworks. Customers must be able to pay interest and make repayments now and in the future. We use the acceptance scorecard to predict whether customers are able to comply with their obligations in the long term and ensure that the originated loans meet our internal standards regarding the customer's income and the collateral value. See Section 4.3.9 Risk mitigation for more information about risk-mitigating measures.

The approval mandates for retail mortgage loans were changed at the end of 2018. The new structure allows acceptors themselves to decide in more instances whether to accept or reject applications. Applications scoring a higher risk on the acceptance scorecard and/or departing from the acceptance policy are submitted to second-line credit risk management for a decision. As a result, the Credit Committee's authority to approve retail mortgage loans has been delegated to second-line credit risk management. This transfer of powers shortens the processing period and ensures that decisions are taken by the people with the most in-depth knowledge.

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

For the outflow, we examine the customer's reasons for making repayments.

Interest-only and 'Aflossingsblij'

A number of customers with interest-only mortgages believe they will never be required to redeem (repay) the loan. We proactively contact customers whom we consider to fall into a high-risk category. This may be, for instance, because their mortgage is nearing maturity and given their age it is likely that they will retire, which may 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 these customers can be refinanced based on their retirement income and whether they have accumulated any 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 the customer as the basis for a long-term customer relationship. We manage the credit risk through an active and specific policy on customers who are in arrears or are expected to fall into arrears. Preventive management contacts the customer as soon as possible when the management processes show that there is a reason to do so. Contact will be initiated, for instance, when the customer's mortgage is nearing maturity and full repayment under the product terms and conditions is not expected. 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, this customer is transferred to the Arrears Management department.

When a customer experiences financial difficulties, they also come under the responsibility of the Arrears management department. If the arrears exceed 30 days, the customer is assigned their own case handler. If necessary, we pay the customer a visit to look together for solutions serving the customer's interests as well as the bank's interests. Starting point is that customers are able to stay in their home and continue making their mortgage payments.

If customers are truly unable to meet the obligations, we may consult with them and agree 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 itself keeps in touch with the customer, thus securing an optimum 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.

Forbearance

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

Other retail loans

We 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 on our own balance sheet.

SME loans

In mid-2018, we started providing new loans to SME customers again. We provide not only small working capital loans of up to € 50,000, but also mortgage loans for the purchase or renovation of commercial buildings. We record our SME customers' payment behaviour 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. The model outcomes largely determine which customers we will proactively contact first.

Preventive and arrears management for SME customers

We take action as soon as a SME costumer falls into arrears or states that it anticipates payment problems, and we do so based on the key principles of continuity of the company (the customer) concerned and the potential for recovery. Together with the customer, we explore the options for making the company financially resilient again, focusing on a healthy liquidity and profitability position. We may take forbearance measures for these customers, too. If and when a customer has recovered and a stable situation has arisen, Arrears management supervision ceases and the customer is transferred back to regular management. If recovery turns out to be impossible, we may support the customer in selling the collateral. In such a situation, the aim is to limit losses for the customer as well as for the bank.

Other commercial loans and loans to the public sector

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

Developments in the various loan portfolios are monitored and reports on this are periodically submitted to the Credit Committee, the Board of Directors and the Risk Committee of the Supervisory Board.

Every month, we prepare a report on the mortgage portfolio and discuss it within the mortgage distribution chain. Every quarter, we provide a detailed report on the loan loss provisions, which gives insight into internal and external developments affecting the loan loss provisions. Second-line credit risk management also issues quarterly reports on the bank-wide credit risk in relation to the risk appetite determined. These reports consist of a quantitative analysis, a qualitative assessment and an estimate of short-term forecasts regarding the development of credit risk in the various portfolios.

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 our risk models, we make monthly calculations for all our customers to estimate their risk of running into financial difficulties. Section 4.3.3 Provisioning methodology discusses the details of the determination of loan loss provisions.

STRESS TESTING AND SENSITIVITY ANALYSES

De Volksbank conducted several stress tests in 2019, both internal stress tests and stress tests imposed by the supervisory authority.

Those stress tests shed light on the possible consequences for the credit risk using specific models. We examine how sensitive the loan portfolios 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 4.8.2 Management and control.

4.3.3 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 positions'.

ECL MODELS AND LOAN PORTFOLIOS

At de Volksbank, we distinguish the following specific loan portfolios for which loan loss provisions are determined:

- retail mortgage loans;
- other retail loans;
- SME loans;
- sustainable and private loans of ASN Bank (the ASN 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 under 3 scenarios (base, up and down), where every scenario is given 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.

The survival model technique is used for the retail 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').

We make the calculations for three different macroeconomic scenarios: a basic (base), a slightly increasing (up) and a slightly decreasing (down) scenario. The results of these scenarios lead to weighted final values through a weight allocation. In addition, we determine loss rates in case of foreclosure and cure. The various probability components and loss rates are applied to the principal outstanding at the reporting date to determine the total expected loss.

We assessed and recalibrated the ECL model for retail mortgages in 2019. Although the model has remained conceptually the same, it has been significantly improved. The main improvements are the introduction of an additional macroeconomic variable for the relative change in the house price index and the inclusion of a bridge loan indicator and the loan-to-income ratio as risk drivers in the PD model. The data set used for model construction was also expanded, with the most recent portfolio developments now being included in the model. In all, these additions have substantially improved model performance and ease of interpretation.

A specific method has also been developed for the other retail loans portfolio, consisting of personal loans, revolving credit and overdraft facilities (credit limits on current accounts). Rather than calculating an individual PD at customer level, we opted to assign every customer a credit score that determines whether an increased credit risk exists. Factors that are decisive for the credit score include the registered arrears, the use of the limit available and the possession of multiple debt products. Customers are then allocated to stages based on their credit scores. Historical observations (default rates) have been used to set an average PD for each stage, and historical data have been used to determine an average product-specific Loss Given Default (LGD). We determine the expected loss (ECL) by multiplying the stage-dependent PD and product-specific LGD by the amount of the credit facility.

We use another modelling technique for the ASN 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).
Both the PD and the LGD are applied to the outstanding principal. The expected loss (ECL) is determined by multiplying these components.

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 (base), a slightly worse situation (down) and a slightly better situation (up). An independent team of macroeconomic experts estimates a forward-looking trend 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 CPB Netherlands Bureau for Economic Policy Analysis. 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 in the scenarios. 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 retail 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. The average mortgage rate was dropped as a parameter following the ECL model review. 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 other retail loans.

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 the 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. The scenarios of late 2019 reveal a more cautious prediction than the year before on account of lower economic growth projections.

Scenarios 31-12-2019

Macro Economic Parameter	Scenario	Weight	2020	2021	2022	2023
Relative change in house price index	Base	50%	2.9%	2.9%	3.4%	3.4%
	Up	15%	4.7%	4.5%	3.9%	3.9%
	Down	35%	0.3%	-0.1%	2.9%	3.4%
Real house price (in €)	Base	50%	317,306	326,428	337,690	349,340
	Up	15%	322,981	337,467	350,662	364,373
	Down	35%	305,437	305,086	313,857	324,685
Unemployment rate	Base	50%	3.6%	3.8%	3.8%	3.9%
	Up	15%	3.4%	3.3%	3.3%	3.3%
	Down	35%	3.7%	4.5%	4.7%	4.8%
Number of bankruptcies (monthly)	Base	50%	362	369	367	363
	Up	15%	345	324	313	304
	Down	35%	381	440	458	455

Scenarios 31-12-2018

Macro Economic Parameter	Scenario	Weight	2019	2020	2021	2022
Average Mortgage Rate	Base	50%	2.9%	2.9%	3.3%	3.7%
	Up	15%	3.2%	3.6%	4.0%	4.4%
	Down	35%	1.9%	1.9%	2.1%	2.3%
Real house prices (in €)	Base	50%	316,430	326,981	335,441	346,772
	Up	15%	319,830	341,208	359,892	374,377
	Down	35%	305,266	301,305	300,536	307,553
Unemployment rate	Base	50%	3.6%	3.6%	3.8%	3.9%
	Up	15%	3.3%	2.9%	2.6%	2.6%
	Down	35%	3.8%	4.6%	5.2%	5.4%
Number of bankruptcies (monthly)	Base	50%	322	321	327	325
	Up	15%	297	257	234	226
	Down	35%	350	408	461	477

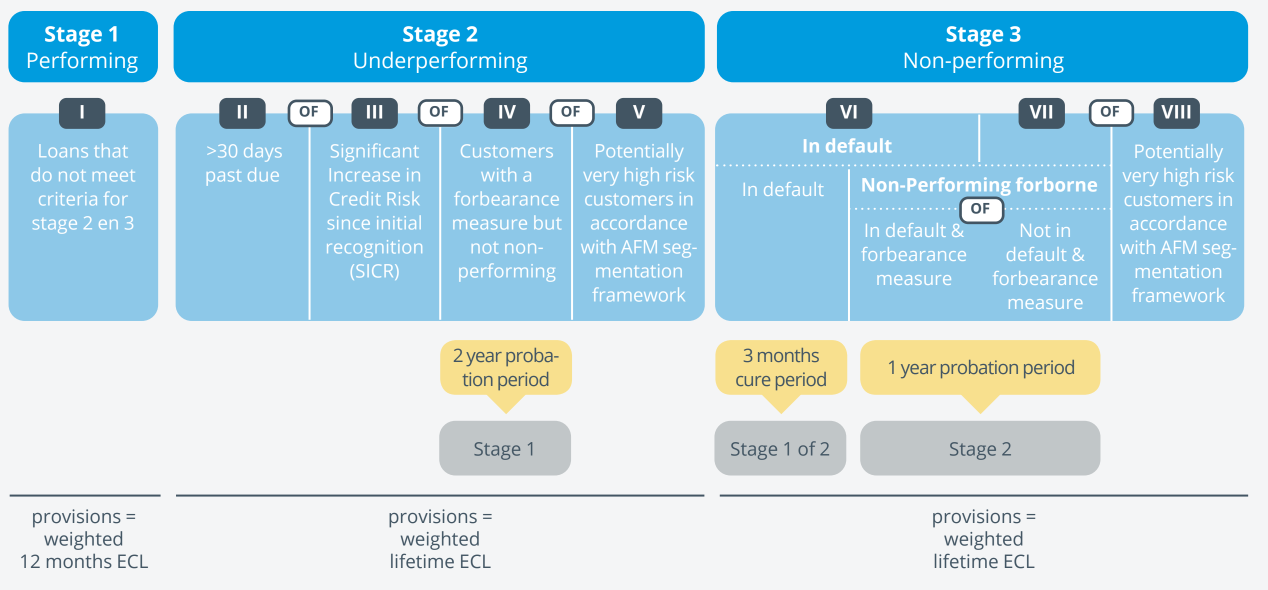
SENSITIVITY ANALYSIS

The table below illustrates the sensitivity of the loan loss provisions in situations where the individual scenarios (baseline, up and down) are fully applied to retail mortgages and SME loans. The weighted provision relates to the provision reported under IFRS on the basis of the weighting percentages in the table above (Scenarios 31-12-2019). For retail mortgages, a 100% down scenario would result in the provision being € 10 million higher than reported, in the event of a 100% up scenario, the provision would be € 9 million lower. This volatility reflects the point-in-time nature of the ECL model. The volatility is lower for SME loans. Apart from the composition of this portfolio, this is partly explained by the limited number of macro-economic parameters used in this ECL model.
Given the limited size of the other retail loans portfolio and the 100% coverage ratio of the stage 3 loans in this portfolio, the sensitivity to the various scenarios is marginal. Sensitivity to the various scenarios for the other commercial loans and loans to the public sector portfolio is also low, due to the limited exposure to stage 3 loans.

Sensitivity analysis

in € millions	Reported IFRS provision (weighted)	Base	Up	Down
Retail mortgages	71	-3	-9	+10
SME loans	31	+1	--	+1

STAGE ALLOCATION



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

Stage 1: 12-month ECL (category I)

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

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

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

II. A customer has been in arrears for more than 30 days.
A customer is in arrears if the payment of the interest and/or redemption amount is past due one day with the agreed payment date (monthly payment arrangement) and exceed a threshold value.

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

In the ECL models, it has been determined for each individual portfolio when a customer's credit rating is subject to significant deterioration (Significant Increase in Credit Risk; SICR). This deterioration is assessed by comparing the current PD with the PD we assigned to the customer when the loan was originated. We revised the SICR method for retail mortgages in 2019. Two major improvements are the following:
1) the difference between the PD upon origination and the PD on the measurement date is now calibrated to the absolute and relative limits, which makes the outcome more robust and more reliable, and
2) the PD calculated when the loan was originated is now additionally determined based on the up-to-date remaining term to maturity, which results in a better and dynamic comparison with the current PD.
In order to ultimately establish whether a significant deterioration of the credit rating has taken place, it is assessed for retail mortgages whether the current PD shows that pre-determined relative limit (increase of 7.75% or more) or absolute limits are exceeded compared with the PD when the loan was originated (for PD of ≤ 5%: 700% increase or more and for PD of > 5%: 100% increase or more). If this is indeed the case, the loan will be placed in stage 2.

An assessment is made as follows for the other loan portfolios:
- 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 other retail 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 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

In 2019, de Volksbank tightened its provisioning methodology for customers with fully or partially interest-only mortgage loans. The AFM segmentation is based on the Loan-to-Value (LtV) expected on the maturity date, the redemption type and the remaining mortgage term, the time remaining until retirement, and the remaining period in which the mortgage is tax deductible.
Mortgage customers in a number of 'potentially very high-risk' segments, which are characterised by a high expected LtV and a short term to event (this may be maturity, retirement, and possibly also the end of tax deductibility), are allocated to stage 2 as long as no insight is obtained into the customer's future payment capacity. If a conversation has been held with the customer and their income data are known, it may be estimated to what extent the payment capacity is sufficient to refinance the loan in the future. If the outcome of the assessment is positive, the customer is transferred to stage 1; if it is negative, a provision for the customer is made in stage 3.

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 their obligations in the future. These additional Unlikely-to-Pay (UtP) triggers are the following:
- suspension of payment
- bankruptcy
- fraud
- sale of the collateral by the Arrears Management department
- sale of the collateral with a residual debt

Customers only 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.

The supervisory authority tightened the guidelines for determining the default status in 2018. European banks have until 1 January 2021 to bring their definitions in line with the guidelines. We are busy with bringing the definition of default in line with the regulatory requirements.

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 (as described in VI) are placed in stage 3. These are loans that were included in stage 2 after a one-year probation period and that are reassigned to stage 3 due to a new forbearance measure and/or 30 days in arrears.

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 the same 'potentially very high-risk' segmentation as 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. The new methodology differs from the previous methodology in several ways. Firstly, we now use the additionally requested retirement income or income upon maturity, rather than the (out-of-date) income at the time when the mortgage was applied for. Secondly, the provision is no longer based on a collateral shortfall upon maturity of the loan. Instead, for customers in 'potentially very high-risk' segments we use the average coverage ratio of stage 3 customers to calculate the provision. These changes have increased alignment of the methodology with components that supervisory authorities recognise.

4.3.4 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 4.8.5 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	2019	2018
Cash and cash equivalents	2,026	815
Loans and advances to banks	3,791	3,589
Loans and advances to customers	50,461	50,536
Investments	5,348	4,782
Derivatives	718	732
Other	497	488
Total assets (IFRS balance sheet total)	**62,841**	**60,942**
Fair value adjustments from hedge accounting retail mortgages	-1,176	-463
Investments at fair value through P&L	-10	--
Other items that are not subject to credit risk exposure	-1	-6
Total items not subject to credit risk exposure	**-1,187**	**-469**
Liabilities from irrevocable facilities and guarantees	1,864	1,827
Repurchase commitment	684	868
Off-balance sheet exposure to credit risk	**2,548**	**1,756**
Total maximum exposure to credit risk	**64,202**	**63,167**

The total credit risk exposure increased over the course of 2019 from € 63.2 billion to € 64.2 billion. Cash and cash equivalents, loans and advances to banks and investments were up from the end of 2018, mainly driven by liquidity management actions. Making up well over 75% of the total, the loans and advances to customers category is the largest category on the balance sheet.

The cash and cash equivalents category concerns DNB deposits and loans and advances to credit institutions with a remaining maturity of less than one month. The loans and advances to banks category concerns 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.

The investments category mainly involves government bonds of EU Member States. The derivative 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 4.3.9 Risk mitigation and to note 3 Derivatives, note 4 Hedging and hedge accounting and note 23 Offsetting of financial assets and liabilities in the 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	2019	2018
Retail mortgages	48,090	47,262
Other retail loans	73	86
Exposure retail loans	**48,163**	**47,348**
SME loans	673	702
Other commercial loans and loans to the public sector	1,625	2,486
Total	**50,461**	**50,536**

Loans and advances by region Audited

in € millions	2019	2018
the Netherlands	49,903	49,822
EMU excl. the Netherlands	488	674
Other	70	40
Total	**50,461**	**50,536**

TOTAL LOANS AND ADVANCES TO CUSTOMERS 2019

Total gross loans and advances to customers fell by € 82 million to € 50.6 billion gross (€ 50.5 billion after provisions) in 2019, mainly related to a drop in other commercial loans and loans to the public sector. The retail mortgage portfolio increased, whereas the other portfolios decreased. The risk profile of the loan portfolio continued to improve not only thanks to favourable macroeconomic conditions, in particular the strong housing market, but also thanks to the efforts of the Arrears Management department. The stage 3 ratio – stage 3 loans expressed as a percentage of total loans and advances – remained flat at 1.3%.

PROVISIONS FOR CREDIT LOSSES

Changes in credit risk of existing customers may lead to either an addition to loan loss provisions or a release of a provision 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.

The total provision for loans and advances to customers amounted to € 119 million as at 31 December 2019 (end of 2018: € 126 million). The decline in provisions was mainly visible in SME loans and other retail loans.

Retail mortgage provisions increased due to the adjustments to the provisioning methodology for interest-only mortgages and the provisioning model. This is explained in Section 4.3.5 Retail mortgages.

Provisions for other retail loans and SME loans both dropped by € 10 million, on the back of the granting of a limited number of new loans, favourable macroeconomic conditions and continuous efforts to reduce the credit risk in the portfolios, especially of customers in default.

In the portfolio of other commercial loans and loans to the public sector a stage 3 provision was made as one customer defaulted. However, this is offset by the release of other loans in this portfolio. Please refer to Section 4.3.8 Other commercial loans and loans to the public sector for more information.

Loans and advances to customers 31 December 2019 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	43,977	-6	43,971	93.6%	0.0%
Other retail loans	62	--	62	71.3%	0.0%
SME loans	566	-1	565	80.4%	0.2%
Other commercial loans and loans to the public sector	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					
Retail mortgages	2,446	-22	2,424	5.2%	0.9%
Other retail loans	12	-1	11	13.8%	8.3%
SME loans	67	-5	62	9.5%	7.5%
Other commercial loans and loans to the public sector	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					
Retail mortgages	540	-43	497	1.1%	8.0%
Other retail loans	13	-13	--	14.9%	100.0%
SME loans	71	-25	46	10.1%	35.2%
Other commercial loans and loans to the public sector	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, 3					
Retail mortgages	46,963	-71	46,892		0.2%
Other retail loans	87	-14	73		16.1%
SME loans[1]	704	-31	673		4.4%
Other commercial loans and loans to the public sector	1,628	-3	1,625		0.2%
Total loans and advances stage 1, 2 and 3	**49,382**	**-119**	**49,263**		**0.2%**
IFRS value adjustments retail mortgages[2]	1,198	--	1,198		
Total loans and advances to customers	**50,580**	**-119**	**50,461**		**0.2%**
Off-balance sheet items[3]	2,548	-6	2,542		0.2%
Total on- and off-balance sheet items 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 revocable), guarantees and repurchase commitments.

Loans and advances to customers 31 December 2018 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	44,236	-2	44,234	94.5%	0.0%
Other retail loans	74	--	74	67.3%	0.0%
SME loans	558	-1	557	75.1%	0.2%
Other commercial loans and loans to the public sector	2,281	-1	2,280	91.6%	0.0%
Total loans and advances to customers stage 1	**47,149**	**-4**	**47,145**	**94.0%**	**0.0%**
STAGE 2					
Retail mortgages	2,039	-10	2,029	4.4%	0.5%
Other retail loans	14	-2	12	12.7%	14.3%
SME loans	99	-7	92	13.3%	7.1%
Other commercial loans and loans to the public sector	208	-2	206	8.4%	1.0%
Total loans and advances to customers stage 2	**2,360**	**-21**	**2,339**	**4.7%**	**0.9%**
STAGE 3					
Retail mortgages	549	-46	503	1.2%	8.4%
Other retail loans	22	-22	--	20.0%	100.0%
SME loans	86	-33	53	11.6%	38.4%
Other commercial loans and loans to the public sector	--	--	--	--	--
Total loans and advances to customers stage 3	**657**	**-101**	**556**	**1.3%**	**15.4%**
TOTAL STAGE 1, 2 AND 3					
Retail mortgages	46,824	-58	46,766		0.1%
Other retail loans	110	-24	86		21.8%
SME loans[1]	743	-41	702		5.5%
Other commercial loans and loans to the public sector	2,489	-3	2,486		0.1%
Total loans and advances stage 1, 2 and 3	**50,166**	**-126**	**50,040**		**0.3%**
IFRS value adjustments retail mortgages[2]	496	--	496		
Total loans and advances to customers	**50,662**	**-126**	**50,536**		**0.2%**
Off-balance sheet items[3]	2,694	-5	2,689		0.2%
Total on- and off-balance sheet items loans and advances to customers	**53,356**	**-131**	**53,225**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 672 million.
2 Consisting of fair value adjustments from hedge accounting and amortisations.
3 Consists of off-balance sheet facilities (of which € 463 million revocable), guarantees and repurchase commitments.

4.3.5 Retail mortgages

MAIN DEVELOPMENTS IN 2019

In 2019, the retail mortgage portfolio increased by € 0.9 billion to over € 48.1 billion. The growth was achieved in the first six months; a slight drop was seen in the second half of the year. Rising house prices resulted in a higher collateral value of mortgages, having a positive impact on the average LtV, which improved from 70% to 67%.

In 2019 we made some important adjustments to the provisioning methodology for retail mortgages, namely the review of the ECL model, an improvement of the SICR methodology and the review of the provisioning methodology for customers with (part) interest-only mortgages (AFM methodology). For a more extensive explanation of these adjustments see Section 4.3.3 Provisioning methodology, Stage allocation.
All in all, this translated into a structural increase in the retail mortgage provision.

In stage 2, both the number of customers and the amount of loans and advances increased compared with the end of 2018. This was due to the changes in the ECL-model, in SICR methodology and in the provisioning methodology for customers with fully or partially interest-only mortgage loans, resulting in an increase in the number of customers in the 'potentially very high risk' category. Moreover, improvements in the models resulted in a higher coverage ratio for stage 1 and 2 customers, translating into an increase in provisions.

Stage 3 loans at the end of 2019 were slightly below the level recorded at year-end 2018. In contrast to stage 2 loans, methodological adjustments to the ECL-model resulted in a decrease in stage 3 loans. In addition, there was a decrease in the number of customers that defaults as a result of arrears. These developments were partly cancelled out by a correction to the classification of non-performing forborne mortgages and through a policy change for the recording of residual debt after enforcement of mortgages (see also notes on movements in provision).

We have made a provision of € 43 million for all retail mortgages in stage 3, amounting to € 540 million

(2018: € 46 million). The decrease in the provision thanks to model improvements was partly offset by an increase as a result of the revised AFM methodology.

The stage 3 coverage ratio dropped from 8.4% to 8.0% and the stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) from 1.2% to 1.1%.

KEY FIGURES

Exposure to retail 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 retail mortgages	**48,161**	**-71**	**48,090**		
Off-balance sheet items[2]	1,605	-1	1,604		0.1%
Total on- and off-balance sheet items retail mortgages	**49,766**	**-72**	**49,694**		**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.

Exposure retail mortgages 31-12-2018 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	44,236	-2	44,234	94.5%	0.0%
Stage 2	2,039	-10	2,029	4.4%	0.5%
Stage 3	549	-46	503	1.2%	8.4%
Total stage 1,2,3	**46,824**	**-58**	**46,766**		**0.1%**
IFRS value adjustments[1]	496	--	496		
Total retail mortgages	**47,320**	**-58**	**47,262**		
Off-balance sheet items[2]	1,796	-1	1,795		0.1%
Total on- and off-balance sheet items retail mortgages	**49,116**	**-59**	**49,057**		**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 for retail mortgages 2019

in € millions	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	731	-699	-32	--
Transfer to stage 2	-1,082	1,256	-174	--
Transfer to stage 3	-102	-145	247	--
	-453	**412**	**41**	**--**

MOVEMENTS IN PROVISIONS AUDITED

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

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. In case of a residual debt after the foreclosure process, this debt is fully provided for.

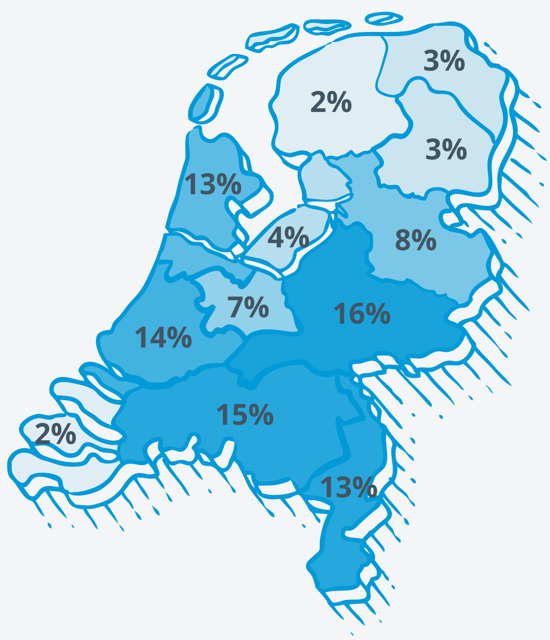
During a period of six months after the foreclosure process, any remaining collateral will be recovered. After this period, any remaining debt is written off against the credit loss provision. The residual debt policy was adjusted in 2019. The table below shows the amount of the credit provision for residual debt at the time of the adjustment under reclassification.

Statement of changes in provisions for retail mortgages Audited

in € millions	Stage 1	Stage 2	Stage 3	2019 Total	Stage 1	Stage 2	Stage 3	2018 Total
Opening balance	**2**	**10**	**46**	**58**	**3**	**17**	**54**	**74**
Reclassification	--	--	6	6	--	--	--	--
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	3	-3	--	--	2	-2	--
Transfer to stage 3	--	-1	1	--	--	-2	2	--
Changes in credit risk	--	-1	13	12	1	-5	5	1
Of which: changes in estimates	--	--	--	--	--	--	--	--
Originated or purchased loans	--	1	3	4	--	1	1	2
Of which: changes in estimates	--	--	--	--	--	--	--	--
Matured or sold loans	--	-1	-10	-11	--	-1	-5	-6
Write-offs	--	--	-9	-9	-2	-2	-9	-13
Changes in estimates	4	11	-4	11	--	--	--	0
Closing balance	**6**	**22**	**43**	**71**	**2**	**10**	**46**	**58**

RETAIL MORTGAGES BY REGION AND BRAND

Breakdown of mortgage portfolio by province



Remaining principle amounts by brand

in € millions	2019		2018	
ASN Bank	71	0%	--	0%
BLG Wonen	20,328	43%	18,639	40%
RegioBank	7,440	16%	7,378	16%
SNS	19,024	41%	20,700	44%
Total remaining principle amounts	**46,863**	**100%**	**46,717**	**100%**
Credit provision	-71		-58	
Accrued interest	100		107	
IFRS value adjustments[1]	1,198		496	
Total retail mortgages	**48,090**		**47,262**	

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

RETAIL 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 retail mortgage portfolio are increasing. The share of full or partial interest-only mortgages dropped slightly from 52% as of year-end 2018 to 50%.

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.

Retail 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 82% in 2018 to 86%.

Retail mortgages by redemption type

in € millions	2019		2018	
Interest-only (100%)	10,993	23%	11,654	25%
Interest-only (partially)	12,684	27%	12,740	27%
Annuity	12,979	28%	11,086	24%
Lineair	1,152	2%	1,025	2%
(Bank) savings[1]	5,078	11%	5,704	12%
Life insurance/investments	3,530	8%	4,006	9%
Other	447	1%	502	1%
Total	**46,863**	**100%**	**46,717**	**100%**
Credit provision	-71		-58	
Accrued interest	100		107	
IFRS value adjustments[2]	1,198		496	
Total retail mortgages	**48,090**		**47,262**	

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

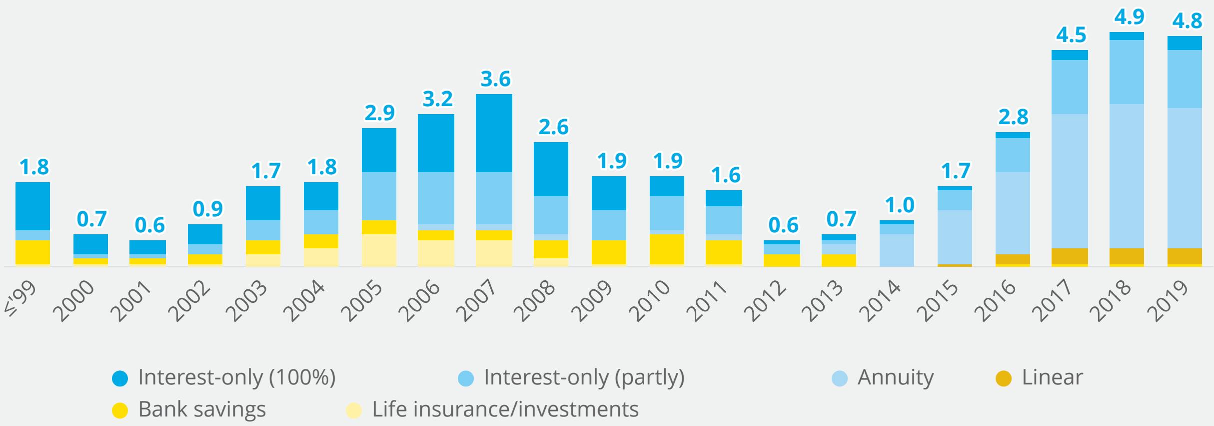
In percentages	2019	2018
LtV ≤ 75%	90%	86%
LtV >75 ≤ 100%	9%	11%
LtV >100 ≤ 110%	1%	2%
LtV >110 ≤ 125%	0%	1%
LtV > 125%	0%	0%
Total	**100%**	**100%**

Retail mortgages by fixed-term maturity

in € millions	2019		2018	
Floating rate	2,240	5%	2,398	5%
≥ 1 and < 5-year fixed-rate	1,337	3%	1,196	3%
≥ 5 and < 10-year fixed-rate	2,764	6%	3,944	8%
≥ 10 and < 15-year fixed-rate	30,896	66%	30,102	64%
≥ 15-yr fixed-rate	9,177	20%	8,573	18%
Other	449	1%	504	1%
Total remaining principal amounts	**46,863**	**100%**	**46,717**	**100%**
Credit provision	-71		-58	
Accrued interest	100		107	
IFRS value adjustments[1]	1,198		496	
Total retail mortgages	**48,090**		**47,262**	

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

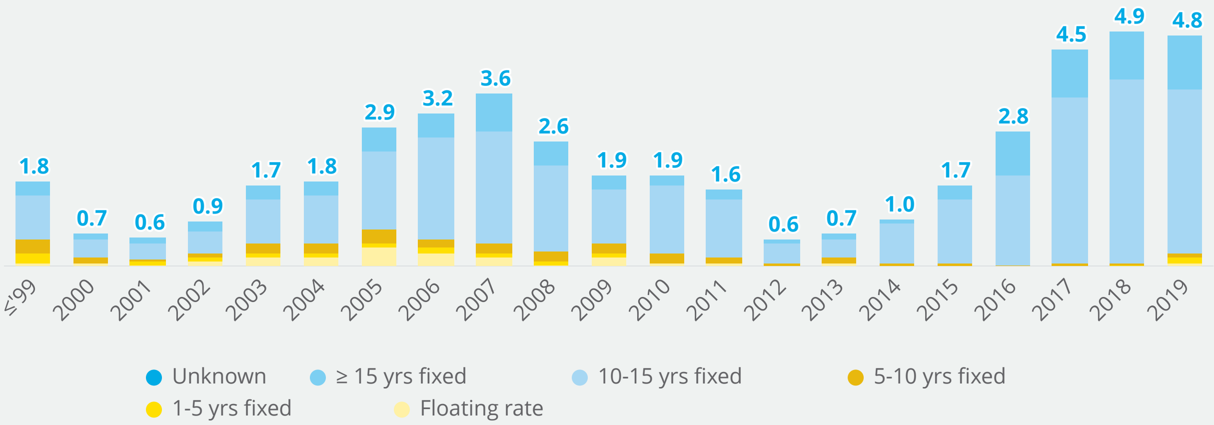
Retail mortgages by year of origin and redemption type (in € billions)[1,2]



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.

Retail mortgages by year and origin by fixed rate maturity (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.

RETAIL 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 retail mortgages improved to 67%, from 70% at year-end 2018. 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. As the average house price rose over the course of 2018, the NHG limit was set at € 290,000 on 1 January 2019 (1 January 2018: € 265,000), and at € 307,400 in case of investments in energy saving measures. These maximum amounts were raised to € 310,000 and € 328,600, respectively, at the start of 2020.

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

Breakdown retail mortgages by LtV bucket

	31-12-2019					31-12-2018				
in € millions[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**		**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
NHG[2]	12,636	467	77	13,180	29%	12,870	395	80	13,345	30%
- of which LtV ≤ 75%	6,444	171	29	6,645	15%	5,182	103	22	5,307	12%
- of which LtV >75 ≤ 100%	5,892	254	40	6,185	14%	6,981	224	41	7,246	16%
- of which LtV >100 ≤ 110%	242	27	4	273	1%	562	37	8	607	1%
- of which LtV >110 ≤ 125%	42	7	2	51	0%	131	19	4	154	0%
- of which LtV > 125%	17	8	2	27	0%	14	12	5	31	0%
Non-NHG	29,303	1,920	448	31,671	71%	29,261	1,585	457	31,303	70%
- of which LtV ≤ 75%	20,095	697	163	20,956	47%	18,146	549	133	18,828	42%
- of which LtV >75 ≤ 100%	8,556	900	178	9,634	21%	9,507	639	150	10,296	23%
- of which LtV >100 ≤ 110%	506	176	36	718	2%	1,240	189	49	1,478	3%
- of which LtV >110 ≤ 125%	103	57	28	188	0%	302	100	45	447	1%
- of which LtV > 125%	43	91	43	176	0%	66	108	80	254	1%
Principal amounts excluding savings deposits	**41,939**	**2,387**	**525**	**44,851**	**0%**	**42,131**	**1,980**	**537**	**44,648**	**100%**
Credit provision				-71					-58	
Accrued interest				100					107	
IFRS value adjustments[3]				1,198					496	
Savings deposits				2,012					2,069	
Total retail mortgages				**48,090**					**47,262**	
Weighted average indexed LtV				**67%**					**70%**	

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.

ARREARS IN RETAIL MORTGAGES

The table below shows the retail mortgages in arrears. The total amount of loans more than 90 days in arrears fell sharply from € 133 million to € 103 million. The total amount of loans in stage 2 rose from € 2.039 million to € 2.446 million, primarily due to adjustments to the provisioning methodology for interest-only mortgages and to the provisioning model. The total amount of loans in arrears dropped from € 502 million to € 484 million.

Retail mortgages 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	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**	

Retail mortgages in arrears 31-12-2018 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	44,236	44,236	--	--	--	0.0%
Stage 2	2,039	1,786	206	47	--	12.4%
Stage 3	549	300	41	75	133	45.4%
Subtotal	**46,824**	**46,322**	**247**	**122**	**133**	**1.1%**
IFRS value adjustments[1]	496	--	--	--	--	
Total	**47,320**	**46,322**	**247**	**122**	**133**	

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

4.3.6 Other retail loans

MAIN DEVELOPMENTS IN 2019

The size of the other retail loans portfolio, consisting of personal loans, revolving credit and overdraft facilities (a credit limit on a current account), is limited. As we stopped providing personal loans and revolving credit facilities in 2011, the portfolio has a natural decline. We also screened the entire revolving credit portfolio over the past 18 months and contacted all customers with such a credit facility. Thus, 32% terminated their revolving credit facility and 52% of all accounts were blocked for new withdrawals.

The size of other retail loans decreased, from € 110 million gross as at the end of 2018 to € 87 million. The amount of stage 3 loans dropped from € 22 million as at the end of 2018 to € 13 million, primarily driven by the write-down of arrears of more than 90 days. As new inflow is absent, the number of stage 3 loans is high compared with retail mortgages and SME loans. Other retail loans are unsecured, which means that almost full provisions need to be made for them in stage 3.

The portfolio is expected to decline even further in 2020. Customers with a high risk profile who are still actively using their revolving credit will be contacted again in 2020 to determine whether the current expenses for this loan are still appropriate considering their current financial situation.

KEY FIGURES

Exposure to other retail 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 other retail loans	**87**	**-14**	**73**		**16.1%**
Off-balance sheet items[1]	446	-3	443		0.7%
Total on- and off-balance sheet items other retail loans	**533**	**-17**	**516**		**3.2%**

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

Exposure to other retail loans 31-12-2018 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	74	--	74	67.3%	0.0%
Stage 2	14	-2	12	12.7%	14.3%
Stage 3	22	-22	--	20.0%	100.0%
Total other retail loans	**110**	**-24**	**86**		**21.8%**
Off-balance sheet items[1]	464	-4	461		0.8%
Total on- and off-balance sheet items other retail loans	**574**	**-28**	**547**		**4.8%**

1 Off-balance sheet: liabilities from irrevocable facilities, guarantees, repurchase commitments and creditcard products.

Transfers between stages in the gross carrying amount for other retail loans 2019

in € millions	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	3	-3	--	--
Transfer to stage 2	-6	6	--	--
Transfer to stage 3	-1	-1	2	--
	-4	**2**	**2**	**--**

MOVEMENT IN PROVISION

The policy of further reducing the default portfolio of other retail loans was continued in 2019. These are mainly long-term defaults for which a full provision had for the most part been made and have now been written off. The level of write-offs and, therefore, the decrease in the loan loss provision is in line with 2018. Other retail loans are unsecured, which is why a full provision has been made in stage 3 (coverage ratio of 100%).

Statement of changes in provisions for other retail loans Audited

	2019				2018			
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**--**	**2**	**22**	**24**	**--**	**2**	**32**	**34**
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	--	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--
Changes in credit risk	--	-1	5	4	--	--	5	5
Matured or sold loans	--	--	-3	-3	--	--	-3	-3
Write-offs	--	--	-11	-11	--	--	-12	-12
Closing balance	**--**	**1**	**13**	**14**	**--**	**2**	**22**	**24**

Arrears in other retail loans 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	--	--	7.3%
Stage 3	13	1	--	1	11	87.9%
Total	**87**	**74**	**1**	**1**	**11**	**14.1%**

Arrears in other retail loans 31-12-2018 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	74	74	--	--	--	0.1%
Stage 2	14	12	2	--	--	12.3%
Stage 3	22	2	--	1	19	89.3%
Total	**110**	**88**	**2**	**1**	**19**	**19.3%**

4.3.7 SME loans

MAIN DEVELOPMENTS IN 2019

In early 2018, de Volksbank launched an initiative to provide loans to small enterprises, offering self-employed persons and small businesses possibilities to obtain funding where this generally proves difficult in the market. These cover both small working capital loans and mortgage loans for commercial real estate (SME loans with a maximum of € 1 million). Although this resulted in a gradual increase in total production, the total amount of regular loan redemptions was still higher. To enhance new production of SME loans, we are developing a new execution-only mortgage product (taking out a mortgage without the intermediation of an adviser).

SME loans declined from € 743 million (gross) at the end of 2018 to € 704 million. Due to the provision of new loans, combined with lower prepayments, this decrease was more limited than in previous years. Loans in arrears dropped relatively faster, from € 35 million at the end of 2018 to € 26 million at the end of 2019.

The share of stage 1 loans is smaller in SME loans than in retail mortgages. We are making every effort to make more SME customers financially resilient and transfer them to stage 1. In 2019, this translated into a limited increase (of € 8 million) in the stage 1 portfolio to € 566 million.

Stage 2 loans dropped from € 99 million at the end of 2018 to € 67 million. The stage 2 loans mainly consist of customers with a deteriorated risk profile (Significant Increase in Credit Risk, SICR), who are not necessarily in arrears. An amount of € 64 million of the stage 2 loans did not involve any arrears.

Stage 3 loans dropped from € 86 million at the end of 2018 to € 71 million. Foreclosures resulted in lower stage 3 loans, and loans also moved to better stages. The stage 3 coverage ratio was 35.2% (end of 2018: 38.4%).

KEY FIGURES

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%**
Off-balance sheet items[1]	40	--	40		0.0%
Total on- and off-balance sheet items SME loans	**744**	**-31**	**713**		**4.2%**

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

Exposure to SME loans 31-12-2018 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	558	-1	557	75.1%	0.2%
Stage 2	99	-7	92	13.3%	7.1%
Stage 3	86	-33	53	11.6%	38.4%
Total SME loans	**743**	**-41**	**702**		**5.5%**
Off-balance sheet items[1]	36	--	36		--
Total on- and off-balance sheet items SME loans	**779**	**-41**	**738**		**5.3%**

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

Transfers between stages in the gross carrying amount for SME loans 2019

in € millions	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	32	-25	-7	--
Transfer to stage 2	-5	14	-9	--
Transfer to stage 3	-1	-13	14	--
	26	**-24**	**-2**	**--**

MOVEMENT OF PROVISION

The decrease in the provision for stage 2 and stage 3 loans is due to the recovery in the SME loan portfolio. The recovery is visible as a result of the outflow of loans from stage 3 through redemptions, whether or not after foreclosure processes, without resulting in an (additional) loss. On balance, the loan loss provision dropped by € 10 million, somewhat more than the € 8 million decrease in 2018. This was in part due to an additional provision in 2018 for stage 3 loans that were in default for more than 5 years.

Statement of changes in provisions for SME loans Audited

	2019				2018			
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**1**	**7**	**33**	**41**	1	12	36	49
Transfer to stage 1	--	--	--	--	--	--	--	--
Transfer to stage 2	--	1	-1	--	--	1	-1	--
Transfer to stage 3	--	-1	1	--	--	--	--	--
Change in credit risk	--	-2	1	-1	--	-5	5	--
Originated or purchased loans	--	--	--	--	--	--	--	--
Matured or sold loans	--	--	-5	-5	--	-1	-4	-5
Write-offs	--	--	-4	-4	--	--	-3	-3
Closing balance	**1**	**5**	**25**	**31**	**1**	**7**	**33**	**41**

ARREARS IN SME LOANS

Arrears in SME loans 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%**

Arrears in SME loans 31-12-2018 Audited

IFRS 9 in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears[1]	% in arrears
Stage 1	558	558	--	--	--	0.0%
Stage 2	99	97	2	--	--	2.0%
Stage 3	86	53	9	6	18	38.4%
Total	**743**	**708**	**11**	**6**	**18**	**4.7%**

1 Up to and including 31 December 2017 loans in default but not in arrears were placed in the bucket '> 90 days in arrears'. With effect from 1 January 2018 these loans are included in the bucket 'No arrears'.

STAGE 3 SME LOANS BY LOAN-TO-VALUE BUCKET

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

1 LtV based on the Loan-to-foreclosure-Value of collateral.

INTERNAL RATING GRADE OF SME LOANS

PD-risk category SME loans 2019

	2019				2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Not rated	--	--	--	--	9	--	--	9
1	346	4	--	350	352	2	--	354
2	131	--	--	131	110	2	--	112
3	48	--	--	48	48	--	--	48
4	25	--	--	25	25	2	--	27
5	12	17	--	29	9	26	--	35
6	4	27	--	31	5	47	--	52
7	--	19	--	19	--	20	--	20
8 (default)	--	--	71	71	--	--	86	86
Total	**566**	**67**	**71**	**704**	**558**	**99**	**86**	**743**
Credit provision	-1	-5	-25	-31	-1	-7	-33	-41
Carrying amount	**565**	**62**	**46**	**673**	**557**	**92**	**53**	**702**

4.3.8 Other commercial loans and loans to the public sector

MAIN DEVELOPMENTS IN 2019

The portfolio of other commercial loans and loans to the public sector is characterised by mostly secured loans with an extremely low credit risk. Most of this portfolio is found in stage 1 (90%), as was the case at the end of 2018. In this portfolio, € 137 million has been classified as stage 2, for which a provision of less than € 1 million has been made.

The portfolio of other commercial loans and loans to the public sector declined from € 2.5 billion at the end of 2018 to € 1.6 billion due to a reduction in the private loan issued to VIVAT, repayments of the non-selling other private loans and reductions in loans to the public sector as fewer cash loans are outstanding with the public sector. The new production of ASN Bank's sustainable loans was insufficient to compensate for this.

In 2019, one customer in the portfolio was allocated to stage 3. As doubts have arisen as to the fulfilment of future obligations, a specific provision totalling € 4 million has been made, of which € 2 million relates to the undrawn portion of the loan.

KEY FIGURES

Exposure other commercials loans and advances to the public sector 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 commercial loans and loans to the public sector	**1,628**	**-3**	**1,625**		**0.2%**
Off-balance sheet items[2]	457	-2[1]	455		0.4%
Total on- and off-balance sheet items other commercial loans and loans to the public sector	**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 a individual basis.

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

Exposure other commercial loans and advances to the public sector 31-12-2018 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	2,281	-1	2,280	91.6%	0.0%
Stage 2	208	-2	206	8.4%	1.0%
Stage 3	--	--	--	0.0%	0.0%
Total other commercial loans and loans to the public sector	**2,489**	**-3**	**2,486**		**0.1%**
Off-balance sheet items[1]	398	--	398		0.0%
Total on- and off-balance sheet items other commercial loans and loans to the public sector	**2,887**	**-3**	**2,884**		**0.1%**

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

Other commercial loans and loans to the public sector Audited

in € millions	2019	2018
Private loan to VIVAT	254	708
Sustainable project funding ASN Bank	642	640
Other private loans	445	559
Gross other commercial and semi-public loans	**1,341**	**1,907**
Provisions other commercial and semi-public loans	-3	-3
Other commercial and semi-public loans	**1,338**	**1,904**
Cash loans	13	115
Other private loans[1]	274	467
Loans to the public sector	**287**	**582**
Total other commercial loans and loans to the public sector	**1,625**	**2,486**

1 The other private loans to the public sector include loans which are guaranteed by the government.

Private loans per sector

in € millions	2019	2018
Financial institutions	254	708
Central governments	13	115
Local governments	96	224
Renewable energy	535	539
Residential construction	318	365
Health and welfare services	199	231
Water extraction and management	138	198
Other	76	109
Gross other private loans and loans to the public	**1,628**	**2,489**
Provisions	-3	-3
Total other private loans and loans to the public	**1,625**	**2,486**

Private loan to VIVAT

A private loan has been provided to insurer VIVAT. Mortgages are securitised as part of de Volksbank's securitisation programme, in which respect the savings policy is issued by VIVAT and the mortgage is provided by de Volksbank. VIVAT 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 2019, the loan amounted to € 254 million (year-end 2018: € 708 million). This drop is the result of the termination of the residential mortgages transaction in December 2019. 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 extend 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 (CO2 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.

Loans and advances to the public sector

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 2018. An amount of € 18 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 and advances to the public sector Audited

in € millions	2019	2018
the Netherlands	287	467
Belgium	--	90
Germany	--	25
Total	**287**	**582**

4.3.9 Risk mitigation

COLLATERAL

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

Exposure secured by collateral, guarantees and credit derivatives

	Exposure at default		Secured by guarantees		Secured by collateral	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
STANDARDISED EXPOSURE CLASSES						
Central governments and central banks	6,650	5,217	--	--	--	--
Regional governments or local authorities	1,659	2,508	--	--	--	--
Public sector entities	489	103	31	320	--	--
Multilateral developments banks	383	389	--	--	--	--
International organisations	47	27	--	--	--	--
Financial institutions	1,518	1,852	1,464	1,737	1,293	860
Corporates	1,028	1,054	510	658	257	712
Retail excl. mortgages	114	286	0	--	8	12
Secured by mortgages immovable property	580	424	0	--	0	--
Exposures in default	78	58	0	--	0	--
Items associated with particular high risk	0	--	--	--	--	--
Covered bonds	102	51	--	--	--	--
Equity exposures	9	7	--	--	--	--
Other Items	370	334	--	--	--	--
Total standardised approach	**13,028**	**12,311**	**2,005**	**2,715**	**1,558**	**1,584**
IRB EXPOSURE CLASSES						
Retail mortgages	46,131	45,905	12,892[1]	13,041[1]	44,129[2]	44,598[2]
Securitisation	72	85	--	--	--	--
Total IRB approach	**46,203**	**45,990**	**12,892**	**13,041**	**44,129**	**44,598**
Total exposure	**59,231**	**58,301**	**14,898**	**15,756**	**45,687**	**46,182**

1 The amount of a NHG guarantee on retail mortgages decreases on an annuity basis.

2 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 retail 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 commercial loans predominantly consists of property. We do not use credit derivatives as collateral.

Retail mortgages

For retail 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 Retail mortgages, € 12.9 billion (end of 2018: € 13.0 billion), i.e. 28%, of the exposure comes under the NHG guarantee scheme (see the table above).

Every month, collateral values are indexed based on house price developments. We do so using indices, by municipality and type of collateral, that we purchase from third parties. For our portfolio management, we adjust the collateral value both upwards and downwards. 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.

Commercial portfolio

We verify the value of collateral in the commercial portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform checks more frequently. The revaluation frequency for property depends on the amount of debt. If the debt (the exposure) exceeds € 1 million, the property must be revalued once every three years. No revaluation is required if the debt is lower.

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

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

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, 92% 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 how the fair value development of derivative positions with collateral arrangements is proportionate to the collateral received or to be provided;
- Settlement of forward exchange transactions via the Continuous Linked Settlement system, a global system that limits settlement risk by means of the ‘payment versus payment’ method and payment netting;
- Continuous monitoring to assess whether the assets available still meet the requirements to serve as collateral;
- Assessment of the fair value of the collateral received to ensure that it provides adequate cover for the underlying derivative.

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.

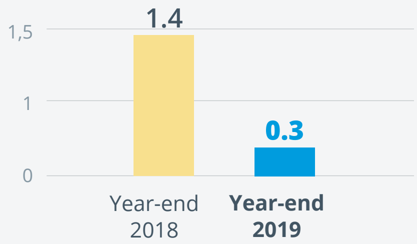
4.4 Market risk

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

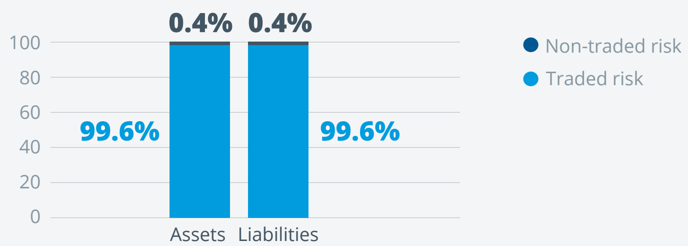
Volume of Earnings at Risk year-end 2019

€61 MILLION

Duration of equity



Exposure market risk year-end 2019



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.

4.4.1 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 an equity exposure of € 7 million, the equity risk is small. 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. 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 2019 was € 5 million. 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 2019 and 2020, the reference rates (IBORs) for financial instruments with floating rates will be replaced by Alternative Reference Rates (ARRs). De Volksbank is closely monitoring developments with respect to this transition. For 2019, the impact of these changes on the financial reporting is nil and for 2020 the impact is expected to be very limited.

4.4.2 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.

The main factor by which we manage the banking book's interest rate risk is the interest income sensitivity to market rate movements. The short-term 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 cannot 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.

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 measures the decrease in the EVE in the event of a parallel interest rate increase of 1 basis point (0.01%). 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.

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 trade in bonds. 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.

4.4.3 Figures, ratios and trends

MARKET RISK PROFILE IN THE BANKING BOOK

Specification interest rate risk

	2019	2018
Duration of equity	0.3	1.4
Earnings-at-Risk (in € millions)	61	83
Credit spread risk liquidity portfolio (in € millions) HTC	72	57
Credit spread risk liquidity portfolio (in € millions) HTCS	103	86

Duration of equity
At year-end 2019, the duration of equity stood at 0.3 (2018: 1.4). The relatively low duration of equity arose from an interest rate forecast that was adjusted downwards to a significant degree, combined with changes to our customer behaviour models over the course of 2019. Given our expectation that interest rates will continue to be low for a longer period of time, a slightly higher duration of equity is desirable. We have opted for a gradual implementation through regular balance sheet development, rather than actively managing it

Earnings-at-Risk
At year-end 2019, the EaR amounted to € 61 million before tax (2018: € 83 million). Downward adjustments to the interest rate forecast and our corresponding interest rate risk position are the main reason for the decrease compared with year-end 2018.

Credit spread risk
At year-end 2019, the credit spread risk for Hold to Collect and Sell (HTCS) en Hold to Collect (HTC) liquidity portfolios, amounted to € 103 million and € 72 million respectively (2018: € 86 million and € 57 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		Carrying amount	Market risk measure		Primary risk sensitivity
		Non-trading	Trading		Non-trading	Trading	
	2019	2019	2019	2018	2018	2018	
ASSETS SUBJECT TO MARKET RISK							
Investments held for trading	15	--	15	3	--	3	interest rate, exchange rate, credit spread
Investments Fair Value OCI	2,027	2,027	--	1,911	1,911	--	interest rate, credit spread
Investments Amortised costs	3,308	3,308	--	2,868	2,868	--	interest rate, credit spread
Derivatives	718	495	223	732	553	179	interest rate, exchange rate
Loans and advances to customers	50,461	50,461	--	50,536	50,536	--	interest rate
Loans and advances to banks	3,791	3,791	--	3,589	3,589	--	interest rate
Cash and cash equivalents	2,026	2,026	--	815	815	--	interest rate
Other	495	495	--	494	494	--	
Total assets	**62,841**	**62,603**	**238**	**60,948**	**60,766**	**182**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	502	502	--	502	502	--	interest rate
Debt certificates	6,906	6,906	--	5,822	5,822	--	interest rate, exchange rate
Derivatives	1,841	1,614	227	1,120	923	197	interest rate, exchange rate
Savings	38,404	38,404	--	37,376	37,376	--	interest rate
Other amounts due to customers	10,641	10,641	--	10,841	10,841	--	interest rate
Amounts due to banks	541	541	--	1,116	1,116	--	interest rate
Other	4,006	4,006	--	4,171	4,171	--	
Total liabilities	**62,841**	**62,614**	**227**	**60,948**	**60,751**	**197**	

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 the interest result is shown on a one-year horizon. The reported outcomes are before taxation.

Sensitivity interest rates Audited

in € millions	2019		2018	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Market value equity[1]	289	1,227	190	488
Net interest income[2]	46	-63	53	-62
IFRS equity[3]	-68	49	-56	58

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 2018. This is explained by a combination of lower interest rates and an adjustment in the assumed floor on market interest rates. Previously, we assumed -0.75% for all maturities, while now there is a proportional movement of -1% for overnight interest rates, up to 0% for rates of 20 years or more. As a result, interest rates up to 5 years may fall further than before, while longer rates may fall less far.

Market value of equity

A parallel interest rate hike has a positive impact of € 289 million on the 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.

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 € 1.227 million on the market value of equity. 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 assume that customer rates will drop, but will not turn negative. Because savings interest rates in the market are close to zero, 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.

The deviation in the -100 basis points scenario compared with 2018 is largely explained by the aforementioned adjustment to the interest rate floor. This effect is mainly reflected in the derivatives that we use to mitigate the interest rate risk of longer term mortgage positions. Because these positions generate a substantial amount of outgoing cash flows beyond the five-year term, the assumed interest rate floor for these positions is higher than in 2018. Together with the further decline in interest rates in 2019, the part of the 100 basis points downward shock that actually takes place has decreased sharply. As a consequence, the resulting decline in value of these securities is also considerably smaller in this scenario.

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 2019, 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 € 63 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 negative impact on the IFRS equity of € 68 million, whereas a parallel interest rate shift of -100 basis points will have a positive impact on the IFRS equity of € 49 million. 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

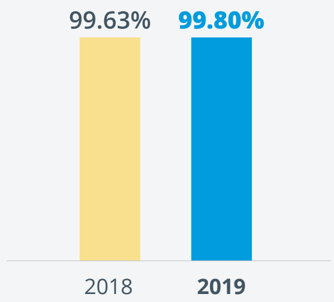
De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the year, the total VaR limit for the trading book remained stable at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

4.5 Non-financial risks

The impact of non-financial risks can be large. 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. We describe them in Section 4.1.2 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 us 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.

4.5.1 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. Efficiently meeting the growing information needs of supervisory authorities also demands our attention. De Volksbank is adapting its processes and systems to meet the stricter standards, but this improvement project has not been completed. The scope of the risks is continuously measured and assessed by the Non-Financial Risk Committee (NFRC).

4.5.2 Types of risk and areas of focus

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

In this section we address important developments in 2019.

TYPE OF RISK	DEVELOPMENTS IN 2019
OPERATIONAL RISK • Operational risk is the risk of direct or indirect losses or reputational damage caused by inadequate or deficient internal processes and systems, by inadequate human behaviour or human error, or by external events. In our business operations, we seek to manage and control our risks in a responsible manner. This includes effective and efficient processes that guarantee high quality to our customers and that are easy to carry out by our employees. Our improvement cycle is primarily aimed at reducing error rates and being demonstrably in control.	• In 2019, we made progress in further strengthening the organisation that oversees non-financial risk control. We developed and rolled out 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. As a result, all incidents are now recorded at a single central location, with additional attention being paid to the quality of incident data, incident follow-up and the tightening of requirements for root cause analysis in 2019. The resulting information will allow us to improve our processes even more. In 2019, we also carried out a study into the way in which our control measures are recorded and tested, thus helping process owners to further control their processes. By training and educating departments and management, we made the importance of operational risk management a constant point of focus in 2019, too. Disruption of our services due to cyberattacks and system failures in 2019 was limited and mostly within the limits set by us and the supervisory authorities. We have established that the continuity of our platforms was not consistently substandard. We periodically test the operation of the continuity facilities of our main bank systems. Despite a slight reduction in DDos attacks, we note an increasing number of cyber-attacks. This remains a point of focus. The use of software robots (Robotic Process Automation – RPA) in existing manual processes is currently being developed at de Volksbank. They automate processes involving a substantial amount of high-volume manual and repetitive work and enhance the efficiency as a result. De Volksbank avails itself of a uniform robotics platform for this purpose. Although the growth of RPA entails yet other types of risk, the uniform use of RPA mitigates these risks. We also pay attention to Brexit; we have made preparations to absorb the possible effects of Brexit and monitor further developments. The bilateral financial framework agreements that are most important to de Volksbank, entered into with counterparties based in the United Kingdom have for the most part been transferred to an entity in a European jurisdiction.
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.	• Guarding an ethical financial services sector, de Volksbank gives priority to ethical conduct and its social responsibility. The bank realises that the trust placed in it may be undermined by and/or on account of its customers or business partners. De Volksbank takes all reasonable measures to prevent de Volksbank or the financial system from being abused for money laundering and terrorist financing, so as to protect its integrity and the trust placed in it and in the financial markets. Changes related to the Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme; Wwft) and sanctions regulations have followed one another in rapid succession in the past few years. For instance, the fourth and fifth Anti-Money Laundering Directives both entered into force within a short period of time. The fourth Directive has already been implemented in national legislation. The implementation of the fifth Anti-Money Laundering Directive is expected in 2020. De Volksbank is still continuously working to translate laws and regulations into internal policies,

processes and procedures to take the control of customer integrity to a higher maturity level. De Volksbank is still continuously working to take the control of customer integrity to a higher maturity level. The changes made to laws and regulations have 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 on this issue is also regularly discussed at Board level.

We focused on the General Data Protection Regulation and PSD2 in 2019 as well. The transfer of the Data Protection Officer position to the Compliance department means that the privacy issue will be safeguarded within de Volksbank to a greater extent.

Furthermore, in 2019 de Volksbank launched a project to strengthen the compliance function and broaden its focus. The compliance function thus monitors all prudential and non-prudential legislation applicable to the bank. In particular, it has a wide range of integrity risks in scope, including customer integrity, privacy, financial crime risks (fraud and corruption), and the interpretation of social standards such as the (general) duty of care. The project will continue in 2020.

LEGAL RISK

- Legal risk arises from non-compliance with contracts or applicable laws and regulations, or an unexpected interpretation of these laws and regulations, and from non-contractual liability. Nowadays, legal risk is not just about the strict legal standard, compliance with (contractual) obligations or laws and regulations, but also – especially in the financial services sector – about social norms and unwritten rules.

- As was the case in 2018, the mortgages theme was prominently placed on the agendas of both the AFM and civil society organisations in 2019. 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. The majority of bilateral financial framework contracts entered into with counterparties established in the United Kingdom that de Volksbank considers to be the most important, have been converted to an entity in a European jurisdiction.

MODEL RISK

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

- The bank manages model risk based on three criteria. First of all, bottlenecks in resources must not result in the absence of periodic checks on the managed models. Furthermore, any points for improvement found must be followed up subject to the timelines agreed. And, finally, model risk must remain at a controllable level. This may be achieved by means of temporary risk-mitigating measures such as the application of conservative surcharges on model results. Based on these criteria, model risk management was improved in 2019.

  Improvement processes were carried out for a number of models to adapt them to new regulations. For the Internal Rating Model for Retail Mortgages (Particuliere Hypotheken Interne Rating Model; PHIRM) – the set of credit models for our mortgage portfolio – this resulted in new models for IFRS 9, which were first used in 2019. The models we use to manage and control interest rate risk are also subject to change. This is partly because of the effect that customer behaviour has on the models, in the event of repayments on mortgages and savings maturity, for example, and partly because of new requirements imposed by regulations.

REPORTING AND DATA MANAGEMENT RISK

- Reporting and data management risk comprises the risk that de Volksbank's financial and/or non-financial reporting contains material inaccuracies or is materially incomplete or is not

- We strive to provide reliable internal and external information, in which respect high-quality underlying data and adequate data management are important. In 2018, we drew up a new data management policy that is the basis for an integrated approach to quality improvement. In the first quarter of 2019, we launched a strategic programme with which we continue to work on improving and controlling the start-to-finish reporting processes, the associated data flows and the supporting application landscape. We made adjustments to various processes for the purpose of providing reliable information both internally and

	available to its internal and external stakeholders in time.	externally and to the process involving periodic and new reporting to supervisory authorities. The processes in question were further automated and improvements were carried out in data management for the reporting chain. To avoid data inaccuracies from being discovered and remedied at the very end of the reporting process, data quality monitoring will be more explicitly invested at the source and the Data Management Framework has been put into operation. Renewed processes will be implemented further in the next few years.

4.6 Liquidity management and financing

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

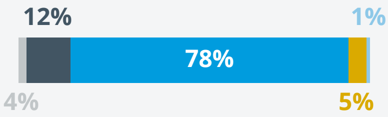
Liquidity buffer 2019

€16.9 BILLION

Wholesale funding maturing in 2019

€0.2 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 or long term to meet its financial obligations without incurring unacceptable costs or losses. This applies both under normal circumstances and in times of stress. Liquidity risk also includes the situation in which the balance sheet structure could develop in such a way that the bank suffers excessive exposure to a disruption of its sources of funding.

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

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

4.6.2 Management and control Audited

CYCLICAL LIQUIDITY RISK MANAGEMENT

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

1. Identification of liquidity risks. Every year, we determine the risk appetite for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives.
2. Determination of the level above which we feel comfortable. We determine this on the basis of the risk appetite for liquidity risk, using specific risk indicators. We also establish an intervention ladder with specific ranges per risk indicator in case follow-up is required.
3. Annual recalibration of the liquidity strategy. We lay down guidelines for a balance sheet structure with maximum efficiency. In this process, we take account of the liquidity management objective: an adequate liquidity and funding profile.
4. Definition of actions in the capital and liquidity plan. We do this at least once per 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 standards and work out various scenarios.
   We control the desired liquidity position based on business plans, risk limits and the requirements imposed by supervisory authorities, rating agencies and investors. We monitor the funding and liquidity need and the adjust the planning if necessary.
5. Drawing up of the 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 4.8.2 Management and control).
6. Identification, measurement and management of the bank's liquidity position, i.e. liquidity management, is an ongoing operational process performed in line with its risk appetite, risk limits, policy and guidelines.
7. The determination of the adequacy of the liquidity position on a monthly basis (in the Liquidity Adequacy Assessment Report), on a quarterly basis (in the Financial Risk Report) and on an annual basis (in the Internal Liquidity Adequacy Assessment Process Report). We compare the current risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity position, risk appetite, policy or guidelines and to improve the risk management process. The 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).

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 also used for the cash position, it is now also determined for the (highly) liquid assets which unencumbered ECB-eligible bonds can be registered in the DNB collateral pool in ten days.

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 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 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.

4.6.3 Figures, ratios and trends

In 2019, the bank maintained a strong liquidity position that amply met both its internal targets and regulatory requirements.

Liquidity indicators

	2019	2018
LCR	182%	177%
NSFR	>100%	>100%
Loan-to-Deposit ratio	102%	106%
Liquidity buffer (in € millions)	16,897	15,152

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum of 100%. At 31 December 2019, the LCR stood at 182% (year- end 2018: 177%).

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio, dropped to 102%, from 106% at year-end 2018. This was caused by a growth in deposits, of which € 1.0 billion as a result of an increase in retail savings, while there was a slight decrease in loans. We do not take into account the € 0.7 billion increase in the carrying amount of loans from hedge accounting.

Liquidity buffer Audited

Liquidity buffer composition

in € millions	2019	2018
Cash position[1]	3,836	2,447
- of which central bank reserves & nostro accounts	*2,302*	*993*
- of which contractual wholesale cashflows maturing within ten days or less	*1,534*	*1,455*
Sovereigns	2,805	2,393
Regional/local governments and supranationals	1,091	975
Other liquid assets	263	437
Eligible retained RMBS	8,902	8,900
Liquidity buffer	**16,897**	**15,152**

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 rose to € 16.9 billion (year-end 2018: € 15.2 billion).

In 2019, the cash position increased by € 1.4 billion to € 3.8 billion. The funding need mainly resulted from a € 0.4 billion increase in collateral placed in respect of derivative transactions in the form of cash and the repayment of € 0.3 billion in wholesale funding. The funding need was more than met by a € 1.4 billion growth in deposits and the issue of € 1.3 billion in covered and unsecured bonds, increasing the cash position.

The liquidity value of other liquid assets in the liquidity buffer amounted to € 13.1 billion as at the end of 2019 (year-end 2018: € 12.7 billion):

- The value of unencumbered sovereign debts in the liquidity buffer rose by € 0.4 billion, predominantly because they were not used as collateral for (repo) transactions at the end of 2019, partly offset by a greater use as collateral related to derivative positions;
- The liquidity value of eligible retained RMBS remained virtually stable at € 8.9 billion.

As at year-end 2019, € 0.8 billion in assets with more than a 10-day horizon had been invested for cash management purposes (year-end 2018: € 0.4 billion). These loans are available as short- term liquid assets.

4.6.4 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 unencumbured assets 2019

	Median four quarters				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
Assets of the reporting institution	11,499		52,803		10,314		52,527	
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*	

Encumbered and unencumbered assets 2018 Audited

	Median four quarters				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
Assets of the reporting institution	9,973		51,604		9,702		51,246	
Equity instruments	--	--	6	6	--	--	6	6
Debt securities	2,120	2,189	3,202	3,252	986	998	3,789	3,854
Other assets	8,310		48,196		8,716		47,452	
- of which mortgage loans	*6,939*		*40,046*		*7,245*		*39,973*	

TOTAL ENCUMBERED ASSETS

Based on the median over the four quarters, € 11.5 billion of the assets were encumbered during 2019. This amount of encumbered assets was mainly higher than the amount at year-end 2019 because repurchase contracts were outstanding throughout the year, as opposed to year-end 2019. At year-end 2019, € 10.3 billion of the assets is encumbered (2018: € 9.7 billion), mainly on account of:

- outstanding covered bonds;
- collateral deposited related to outstanding derivative positions;
- an offset mortgage arrangement with VIVAT;
- a loan provided to VIVAT to finance (sub-)participations in the securitisation entities;
- outstanding securitisations;
- foreign exchange transactions;
- payment transactions.

The increase in 2019 is primarily the result of the issuance of covered bonds and a higher volume of collateral deposited in relation to derivative positions.

The total encumbered assets mainly consist of pledged mortgages related to covered bonds. The total amount of liabilities related to these encumbered assets is € 8.4 billion (2018: € 8.4 billion). They mainly consist of bonds issued within the covered bond programme.

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

UNENCUMBERED ASSETS

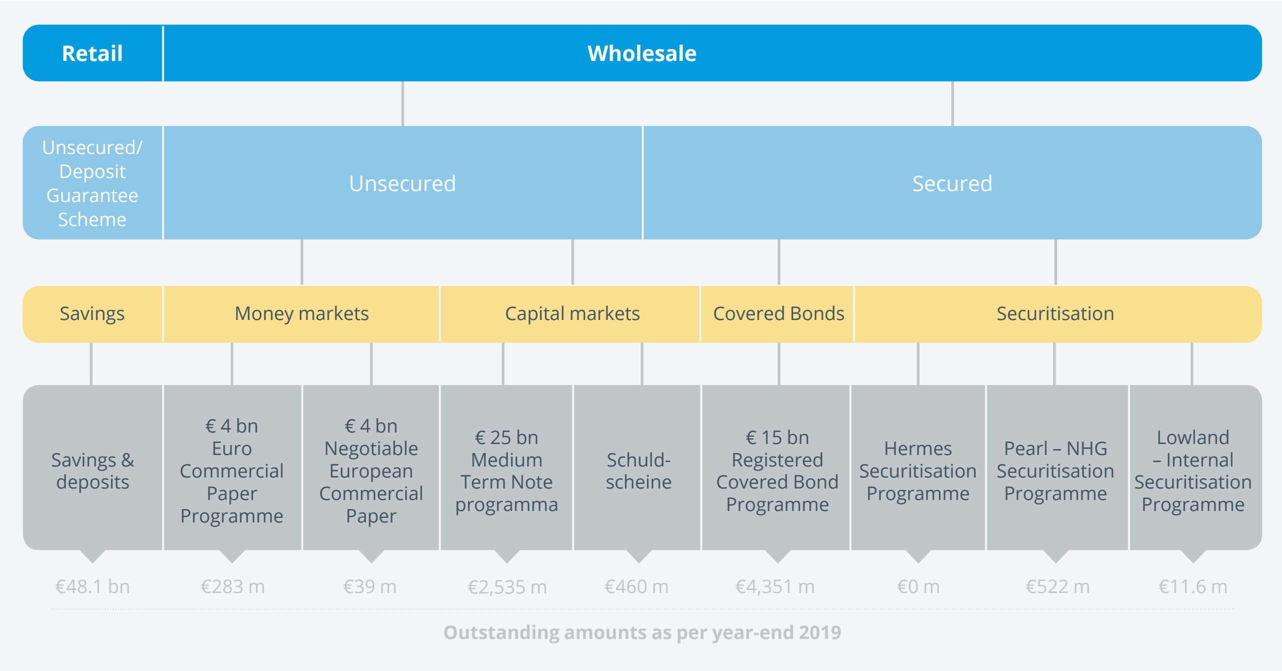
The unencumbered part of the assets amounts to € 52.5 billion and may partly be converted into cash, for example by securitisations. Securitised mortgages of which the bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral for instance in a repurchase transaction.

POTENTIAL COLLATERAL DEPOSIT

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 229 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 € 156 million in collateral at year-end 2019 (2018: € 174 million). This collateral consists almost entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.



4.6.5 Funding strategy

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

Retail savings are the bank'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 2019, financing from customers increased to € 48.1 billion, from € 47.2 billion at year-end 2018.

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

In addition, the bank attracts capital market funding. To this end, we use various funding instruments spread over maturity, market, region and type of investors.

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.

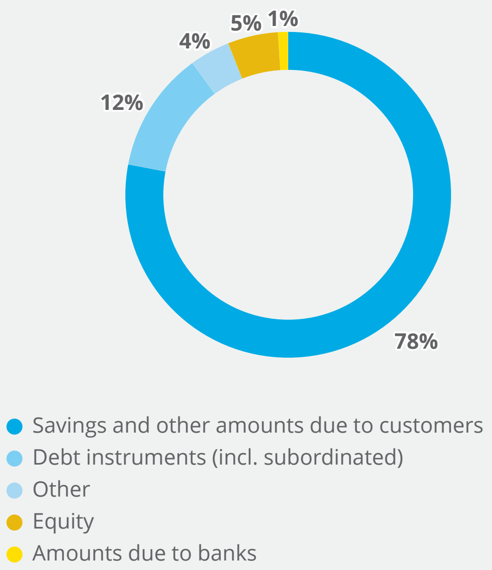
The covered bond programme not only permits the issue of public covered bonds but also private placements.

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 (NEU) programmes.

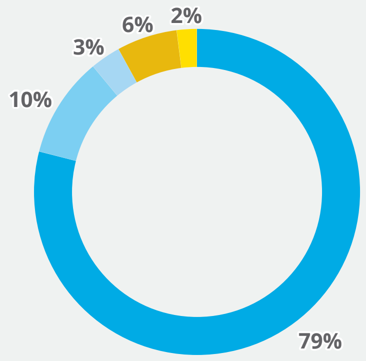
The overview below presents the various public funding programmes (including maximum amounts and outstanding nominal value) available to the bank at year-end 2019. In addition, the overview includes other important funding sources.

The diagrams at the top of the next page provide an overview of the composition of the total liabilities as at year-end 2019 and year-end 2018, based on the carrying amount. The percentage of our funding that is made up of savings and other amounts due to customers fell to 78%, from 79% at year-end 2018.

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

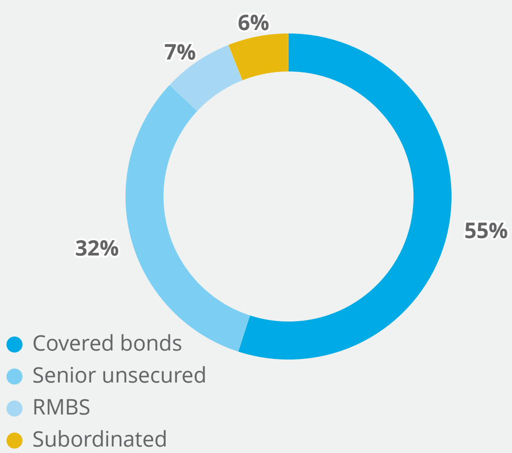


Equity and liability mix 2018: € 60.9 billion
(Book value)

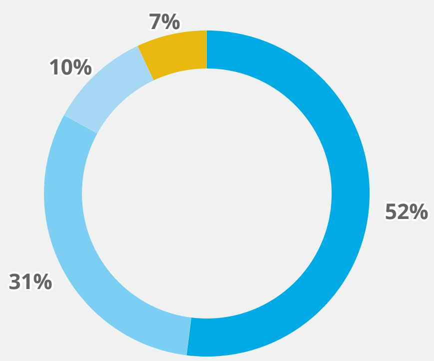


The figures below provide an overview of the outstanding wholesale funding with an original term of more than one year at year-end 2019 and 2018. In the balance sheet, this wholesale funding is included under debt instruments, amounts due to banks and other amounts due to customers. The information presented is based on the nominal value of the (hedged) positions. This nominal value differs from the IFRS valuation in the balance sheet, which is mainly based on the amortised cost price.

Wholesale funding mix 2019: € 7.9 billion
(Nominal value)



Wholesale funding mix 2018: € 6.9 billion
(Nominal value)



In 2019, de Volksbank successfully executed a number of capital market funding transactions, namely the issue of:

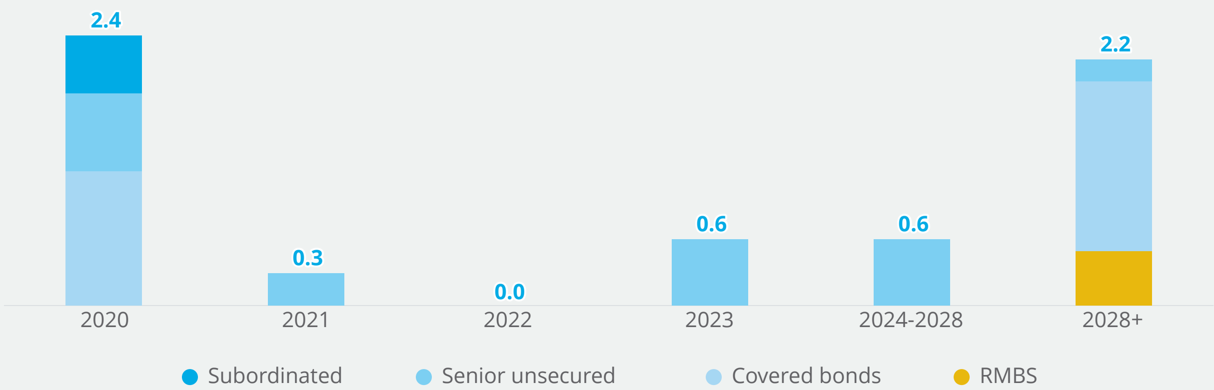
- € 0.5 billion in covered bonds (public transaction) with a maturity of seven years;
- € 0.5 billion in green unsecured bonds (public transaction) under the Green Bond Framework of de Volksbank with a maturity of five years;
- € 0.3 billion in covered bonds (private placements) with a maturity of fifteen to twenty years.

To support the MREL ratio, de Volksbank has also prematurely repaid € 0.2 billion in senior unsecured bonds outstanding with an original maturity date in April 2020 and replaced these by € 0.2 billion in senior unsecured bonds with a maturity of two years.

In addition to these funding transactions, the capital market funding mix changed in 2019 (from € 6.9 billion to € 7.9 billion), primarily due to the repayment of:

- senior unsecured funding (€ 0.2 billion)
- certificates issued under securitisation programmes (€ 0.1 billion)

Wholesale funding maturity calendar
(in € billions)



The figure below presents an overview of the maturity calendar of the capital market funding outstanding with an original maturity of more than one year. It is assumed that this funding will be redeemed at the first possible dates. In 2020, we are expected to issue senior and covered bonds in particular to meet our capital market funding needs.

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 represent 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. Allocation of this collateral over the maturity buckets is conducted in accordance with the maturity classification of the derivative contracts.

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	34,013	67	227	2,436	1,661	--	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	**42,400**	**323**	**2,785**	**4,487**	**9,342**	**3,505**	**62,841**

1 This relates to the provision on investments

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

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

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
Totaal	**41,471**	**298**	**3,146**	**4,841**	**8,223**	**57,979**
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**

Maturity schedule for derivatives on the liabilities 2019 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
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**

Remaining contractual maturity of assets and liabilities 2018 Audited

in € millions cashflows discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments	133	--	250	1,897	2,505	-3	4,782
Derivatives	54	38	27	348	265	--	732
Loans and advances to customers	787	112	695	2,736	46,335	-129[1]	50,536
Loans and advances to banks	2,644	153	23	161	608	--	3,589
Other	839	--	--	329	--	141	1,309
Total assets	**4,457**	**303**	**995**	**5,471**	**49,713**	**9**	**60,948**
LIABILITIES							
Shareholders' equity	--	--	--	--	--	3,571	3,571
Subordinated debts	--	--	3	499	--	--	502
Debt certificates	131	36	185	2,396	3,074	--	5,822
- of which senior unsecured	*21*	*6*	*49*	*1,421*	*162*	--	*1,659*
- of which covered bonds	--	--	--	*975*	*2,303*	--	*3,278*
- of which RMBS	--	--	*51*	--	*609*	--	*660*
- of which CP/CD (short term)	*110*	*30*	*85*	--	--	--	*225*
Derivatives	72	38	30	205	775	--	1,120
Savings	32,961	51	399	2,264	1,701	--	37,376
- of which due on demand	*32,871*	--	--	--	--	--	*32,871*
Other amounts due to customers	7,033	11	221	840	2,736	--	10,841
- of which senior unsecured	--	--	*77*	*267*	*221*	--	*565*
- of which covered bonds	--	--	--	*266*	*94*	--	*360*
Amounts due to banks	900	29	6	117	64	--	1,116
- of which senior unsecured	--	--	--	*34*	--	--	*34*
- of which secured (short term)	*820*	--	--	--	--	--	*820*
- of which other	*80*	*29*	*6*	*83*	*64*	--	*262*
Other	481	--	14	28	--	77	600
Total equity and liabilities	**41,578**	**165**	**858**	**6,349**	**8,350**	**3,648**	**60,948**

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

Maturity schedule for financial liabilities 2018 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	19	519	--	538
Debt certificates	132	43	245	2,498	3,327	6,245
Savings	32,862	51	468	2,429	1,809	37,619
Other amounts due to customers	7,414	24	265	1,075	2,887	11,665
Amounts due to banks	900	29	8	117	64	1,118
Totaal	**41,308**	**147**	**1,005**	**6,638**	**8,087**	**57,185**
OFF-BALANCE SHEET COMMITMENTS						
Liabilities from pledges and guarantees given	17	--	--	--	--	17
Liabilities from irrevocable facilities	1,348	--	--	--	--	1,348
Repurchase commitments	11	3	30	36	786	866
Total off-balance sheet commitments	**1,376**	**3**	**30**	**36**	**786**	**2,231**

Maturity schedule for derivatives on the liabilities side 2018 Audited

In € millions cashlows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	26	54	240	727	-49	998
Currency contracts	68	38	11	5	--	122
Total	**94**	**92**	**251**	**732**	**-49**	**1,120**

4.7 Credit ratings

MAIN DEVELOPMENTS IN 2019

In 2019, the long-term credit ratings for unsecured debt of de Volksbank remained unchanged. Fitch's short-term credit rating rose from F2 to F1.

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 28 March 2019, Moody's published a report with the semi-annual update of de Volksbank's credit ratings, affirming the ratings and maintaining the stable outlook. According to Moody's, the long-term A3 rating reflects de Volksbank's low risk profile and its very strong capital position.

On 28 June 2019, S&P published a report affirming de Volksbank's credit ratings and maintaining its positive outlook. Until then, the positive outlook was related to the favourable economic conditions in the Netherlands. S&P decided not to convert this positive outlook into a change in the credit ratings. The positive outlook is now related to S&P's expectations regarding the development of the buffer of loss absorbing capital instruments.

On 25 October 2019, Fitch affirmed de Volksbank's long-term credit rating at A- (stable outlook), and raised the short-term credit rating from F2 to F1. According to Fitch, this upgrade reflected the improved funding and liquidity score.

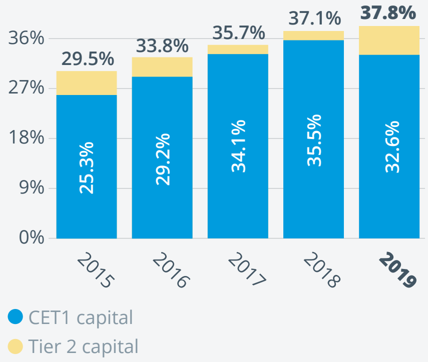
The S&P, Moody's and Fitch rating reports are available on de Volksbank's website.

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

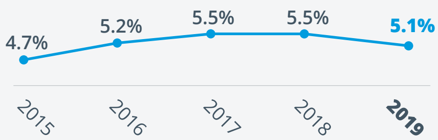
4.8 Capital management

Based on the balance sheet position at year-end 2019, we estimate that we will still amply 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



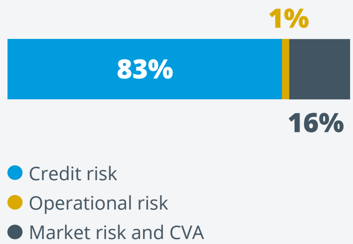
Leverage ratio



Common Equity Tier 1 ratio year-end 2019

32.6%

Risk-weighted assets



The primary objective of capital management is to ensure that the amount of de Volksbank's available capital is sufficient at all times to implement 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.

4.8.1 Capital requirements

REGULATORY REQUIREMENTS

With effect from 1 January 2020, de Volksbank is required to meet a minimum total capital ratio of 14.0% (Overall Capital Requirement, OCR), of which at least 10.5% consists of CET1 capital. This requirement ensues from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2019 and follows from the SREP decision.

The OCR is defined as the level at which the maximum distributable amount of dividend (Maximum Distributable Amount, MDA) is curtailed by regulations. The OCR includes the Pillar 1 capital requirement of 8.0%, the Pillar 2 CET1 requirement of 2.5% – together the Total SREP Capital Requirement, TSCR – and the Combined Buffer.

CRR/CRD IV requirements as of 1 January 2020

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

The 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. Both buffers will remain at this level based on the SREP decision that took effect 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 when credit growth is excessive. Each quarter DNB sets the level of the buffer for the Netherlands, which, in principle, varies from 0% to 2.5%[3].

The table above presents the capital requirements in respect of Common Equity Tier 1 capital, Tier 1 capital and total capital (Tier 1 and Tier 2) as at 1 January 2020. The Common Equity Tier 1 capital ratios and total capital ratios are well above these minimum capital requirements.

INTERNAL MINIMUM LEVEL

De Volksbank has adjusted its capital targets for 2020 to a leverage ratio of at least 4.75% (previously: at least 4.25%) and a CET1 capital ratio of at least 19.0% (previously: at least 15%) based on the fully phased-in Basel IV rules. Our leverage ratio target of at least 4.75% is in line with the expected leverage ratio of comparable European banks and includes an ample management buffer to withstand severe stress situations involving unfavourable conditions that may greatly impact the net interest margin and credit losses. The management buffer also factors in other uncertainties, such as fluctuations in the macroeconomic environment and the impact that the elaboration and implementation of Basel IV may have on non-risk-weighted targets.

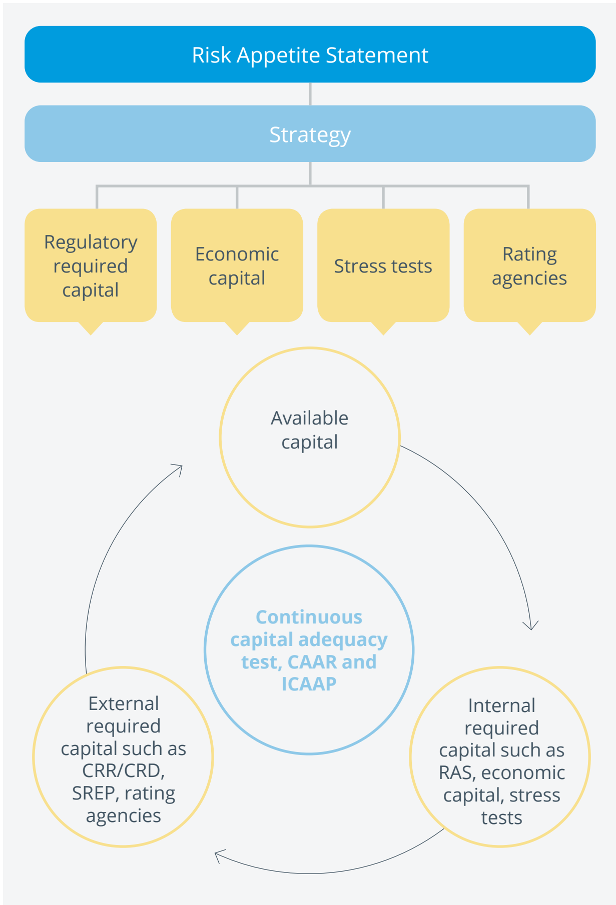
After full phase-in of Basel IV rules, the minimum target of the leverage ratio of 4.75% is expected to be in keeping with a CET1 capital ratio of at least 19.0%. The composition of our minimum risk-weighted target is in line with the composition of our minimum leverage ratio target. As a result, on top of the SREP requirement of 10.5% and the Pillar 2 Guidance, we also have an ample management buffer to withstand severe stress situations. The management buffer also factors in other uncertainties, such as the impact of future regulatory requirements, including Basel IV.

In time, the management buffers – and thus the capital targets – may be revised, for example as soon as 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.

4.8.2 Management and control Audited

Our strategy incorporates the objective of having a solid capital position at our disposal, combined with an adequate Return on Equity (RoE). In respect of the RoE, de Volksbank applies a target of 8.0% for 2020. The basic principle for the amount of capital is that the bank maintains internal buffers, in addition to the minimum amount of capital required by the supervisory authority, to guarantee sufficient capitalisation in the event of a severe yet plausible stress scenario.

Our capital management process is presented in the figure below.



REGULATORY CAPITAL AND MREL

The minimum amount of capital required by law (regulatory capital) is based on the risk-weighted capital ratios (CET1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required (leverage ratio). As described in Section 4.8.1 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) in both a risk-weighted and a non-risk-weighted manner.

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

ECONOMIC CAPITAL

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

1. Our calculations of economic capital include all risks from which material losses may ensue according to internal insight. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.
2. Using our own insight to guide us, we translate our risk appetite into internal capital requirements, partly on the basis of the desired credit rating (see also Section 4.7 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 our 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, revealing the effects of any management action. 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 also assessed by rating agencies, i.e. by S&P, Moody's and Fitch. When determining a 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 4.7 Credit ratings for more information about our credit ratings.

CONTINUOUS CAPITAL ADEQUACY ASSESSMENT

Capital Adequacy Assessment Report

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

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

RECOVERY PLAN AND CONTINGENCY PLANNING

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

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

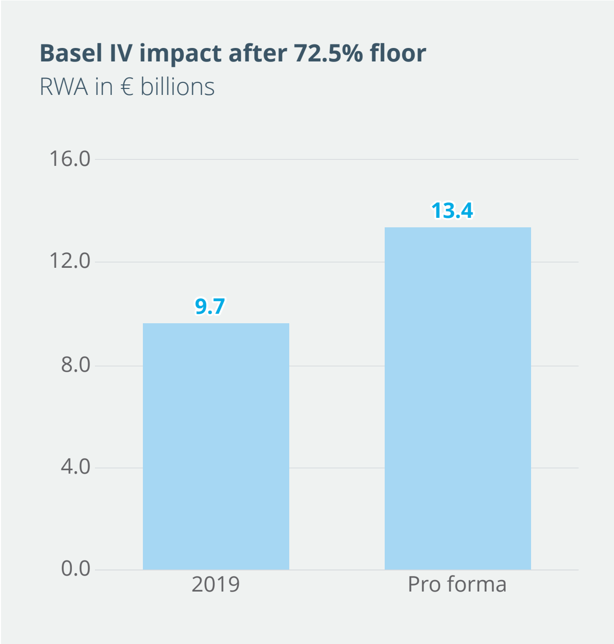
The recovery plan is updated and discussed with the ECB's Joint Supervisory Team (JST) every year.

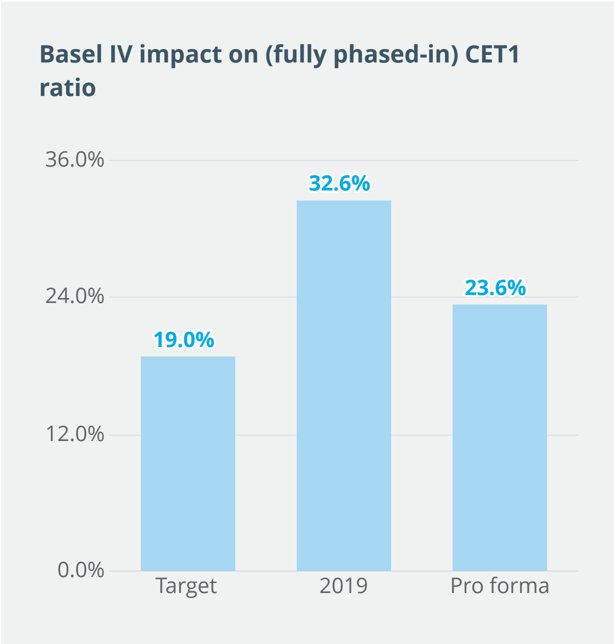
4.8.3 Developments in capital requirements

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.

Based on the balance sheet position at year-end 2019, we estimate that as a result of Basel IV, fully phased in, our risk weighted assets (RWA) will grow by approximately 38%[4], and that our CET1 capital ratio will decrease by more than approximately 9 percentage points as a result. The largest effect comes from the output floor (from 50% phased-in from 2022, to 72.5% phased-in from 2027) on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM[5]. The RWA impact from the Targeted Review of Internal Models (see also TRIM in section 4.8.3 Developments in capital requirements) is based on the internal modelling approach and will, therefore, no longer be most restrictive when the RWA is determined under full phase-in of Basel IV. We expect the changes in internal modelling approaches and the standardised measurement approach for operational risk anticipated under Basel IV to have a limited impact on the RWA of de Volksbank.





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 retail mortgages. We will adjust our capital planning if necessary.

On 19 November 2019, amendments to the National Mortgage Guarantee (*NHG*) terms and conditions were announced. The aim is that an NHG guarantee will also qualify as an eligible form of credit protection under Basel IV. This is relevant for the calculation of the capital requirements for retail mortgages under the standardised approach.

We estimate that our CET1 capital ratio under full phase-in of Basel IV will still exceed our target of at least 19%[6]. This will allow us to both continue our growth path and pay out dividend.

4 Starting from (1) loan-splitting for retail mortgages, and (2) the assumption that 93% of the retail mortgages meet the document requirements.

5 Particuliere Hypotheken Interne Rating Model (Internal Rating Model for Retail Mortgages).

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) NHG coverage. This measure applies to banks that use internal risk models to calculate capital requirements for their mortgage portfolios, such as de Volksbank. The minimum risk weight will depend on the Loan-to-Value (LtV) of the mortgage. This minimum floor will be introduced for a period of at least two years as from autumn 2020. As a result, we expect the pro forma risk weighting of our mortgage portfolio to rise from 12.9% to 15% at the end of 2019. As a result, the RWA is expected to rise by € 1.0 billion, resulting in a 3% decline in our pro forma CET1 capital ratio at year-end 2019

PROVISION FOR NON-PERFORMING EXPOSURES

To encourage harmonisation of EU banks, in April 2019 Capital Requirements Regulation (CRR) requirements became effective for the level of provisions or other capital adjustments for NPEs provided as from 26 April 2019. Additional prudential provisions may have to be formed for long- term NPEs.

In addition to these CRR requirements, the ECB has published its expectations for the level of provisions for NPEs provided before 26 April 2019 which were not yet non-performing as at 31 March 2018. Moreover, the ECB made a recommendation in its SREP decision for the level of prudential provisions for outstanding NPEs as at 31 March 2018.

The CRR requirements, the ECB's expectations and the recommendation in the SREP decision may have an impact on the CET1 capital ratio and the leverage ratio of de Volksbank in the coming years.

TRIM

As de Volksbank uses internally developed models, the bank was part of the TRIM that was carried out by the supervisory authority in 2018. In this review, issues assessed included: the extent to which laws and regulations are complied with, the quality and completeness of the data used, the modelling technique used including the data lineage and the suitability of the model to the portfolio in question. On the basis of this review, the supervisory authority has drawn up additional requirements with regard to the improvement of data, data lineage and the further development of de Volksbank’s credit risk model. In anticipation of this, the supervisory authority imposed a temporary mandatory adjustment to the model parameters. As a result of this mandatory adjustment at the end of September 2019, RWA increased by € 0.8 billion and the IRB shortfall increased by € 11 million. As a consequence, the CET1 capital ratio fell by 2.9%, and the leverage ratio fell by 0.02 percentage points.

IFRS 16 LEASES

The new accounting standard IFRS 16 Leases came into force on 1 January 2019. IFRS 16 requires (almost) all leases to be recognised on the balance sheet. Accordingly, the balance sheet grew by € 76 million as from 1 January 2019 (100% risk weighting) and the CET1 capital ratio decreased by 0.3 percentage points.

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 meets this requirement. Furthermore, the Bank Recovery and Resolution Directive (BRRD) and the SRB’s 2018 MREL policy lead us to expect that the MREL for de Volksbank – as an Other Systemically Important Institution (O-SII) – must consist of subordinated instruments for at least 17.5% of RWA.

In 2017, the European Commission amended the BRRD by including a new asset class: senior non-preferred debt (Senior Non-Preferred (SNP) notes). These notes are subordinated to other senior bonds, but take precedence over Tier 2 bonds. Dutch insolvency law was adjusted accordingly in late 2018.

De Volksbank's capital planning is based on the assumption that, as from 1 January 2024, the minimum non-risk-weighted MREL requirement of 8% will consist entirely of subordinated liabilities (Tier 1 capital, Tier 2 capital and SNP notes). The bank bases this assumption on current insights into future regulations regarding an MREL subordination requirement. Based on this assumption, we expect to issue between € 1.0 and € 1.5 billion worth of SNP notes over the next five years, based on the current capital position. De Volksbank is closely monitoring developments regarding a possible MREL subordination requirement and will adjust its capital planning if necessary.

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6 On the basis of our balance sheet position as at 31 December 2019 and assuming the implementation of Basel IV rules in European legislation remains unchanged.

4.8.4 Capital structure Audited

Shareholders' equity decreased by € 136 million to € 3,435 million in 2019, particularly as a result of the € 161 million dividend payout for 2018 and the € 250 million capital distribution in December 2019, which was partly compensated by a € 275 million profit retention.

Capitalisation Audited

In € millions	2019	2018
Capital instruments	381	381
Share premium	3,537	3,787
Retained earnings	275	268
Accumulated other comprehensive income (OCI)	52	51
Other reserves	-810	-916
Shareholders' equity	**3,435**	**3,571**
Non-eligible interim profits	-214	-178
Non-eligible previous years' retained earnings	--	--
Shareholders' equity for CRD IV purposes	**3,221**	**3,393**
Cashflow hedge reserve	-26	-30
Other prudential adjustments	-6	-3
Total prudential filters	**-32**	**-33**
Intangible assets	-2	-6
IRB shortfall[1]	-31	-41
Total capital deductions	**-33**	**-47**
Total regulatory adjustments to shareholders' equity	**-65**	**-80**
CRD IV CET 1 capital	**3,156**	**3,313**
Additional Tier 1 capital	--	--
Tier 1 capital	**3,156**	**3,313**
Eligible Tier 2	500	500
Impact EBA interpretations CRR Article 82	--	-348
Tier 2 capital	**500**	**152**
Total capital	**3,656**	**3,465**

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

Tier 2 capital instruments Audited

	Maturity date	First possible call date	Nominal amount	
in € millions			2019	2018
Bond loan	5-11-2025	5-11-2020	500	500
Total			**500**	**500**

In order 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 2019, € 17 million was added to the CET1 capital from the non-eligible (interim) profits as at year-end 2018 in the amount of € 178 million, after deduction of the dividend payout of € 161 million.

The interim profit not yet eligible as CRD IV equity for 2019 (€ 214 million) is the dividend reservation on the net profit for the first half and the full net profit for the second half of 2019.

In order to determine CET1 capital, shareholders' equity is subsequently subjected to a number of regulatory adjustments for CRD IV purposes. Total regulatory adjustments amounted to € 65 million negative at the end of December 2019 (2018: € 80 million negative) and consisted mainly of a prudential adjustment for the cashflow hedge reserve and a deductible item related to the IRB shortfall. The latter dropped from € 41 million to € 31 million. CET1 capital was also reduced by € 3 million under the prudential provision level of the NPEs outstanding as at 31 March 2018 on account of the SREP decision. On balance, CRD IV CET1 capital was down by € 158 million to € 3,156 million.

Subordinated Tier 2 notes with a nominal value of € 500 million were issued in 2015. The book value of these notes totalled € 499 million in 2019 (2018: € 499 million).

The legal merger between de Volksbank N.V. and de Volksholding B.V. was completed on 30 March 2019.

The merger completely mitigates the consequences of the EBA interpretation of CRR Article 82 regulations for financial holding companies, which means that de Volksbank's Tier 2 capital is fully effective again as from 30 March 2019. As a result of the merger, the total capital ratio rose by 0.7 percentage points.

4.8.5 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.

De Volksbank avails itself of an Advanced Internal Ratings Based (Advanced IRB or AIRB) model, called PHIRM, to determine the credit risk in its retail mortgage portfolio. Please refer to Section 4.3.5 Retail mortgages for more information on our internal model. We use the Standardised Approach (SA) – rather than internal models – to calculate the credit risk of other portfolios (including non-retail mortgages and loans to government authorities, businesses and financial institutions) and to calculate market risk and operational risk. Please refer to Section 4.4 Market risk for more information on market risk. Operational risk is described in Section 4.5 Non-financial risks.

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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
CREDIT RISK IRB APPROACH						
Retail mortgages[2]	46,131	45,905	5,932	5,487	475	439
Securitisation positions	72	85	8	6	1	--
Total credit risk IRB approach	**46,203**	**45,990**	**5,940**	**5,493**	**476**	**439**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	6,650	5,217	70	137	6	11
Regional governments and local authorities	1,659	2,508	--	--	--	--
Public sector entities	489	103	1	1	--	--
Multilateral developments banks	383	389	--	--	--	--
International organisations	47	27	--	--	--	--
Financial institutions	1,518	1,852	330	366	26	29
Corporates	1,028	1,055	895	941	72	76
Retail excl. mortgages	114	286	78	180	6	14
Secured by mortgages immovable property	580	424	362	197	29	16
Exposures in default	78	58	97	62	8	5
Covered bonds	102	51	10	5	1	--
Shares	9	7	9	7	1	1
Other Items	370	334	276	261	22	21
Total credit risk standardised approach	**13,028**	**12,311**	**2,128**	**2,157**	**171**	**173**
Total credit risk	**59,231**	**58,301**	**8,068**	**7,650**	**647**	**612**
MARKET RISK STANDARDISED APPROACH						
- Traded debt instruments	10	--	5	--	--	--
OPERATIONAL RISK						
- Standardised approach	--	--	1,503	1,544	120	123
Total market- and operational risk	**10**	**--**	**1,508**	**1,544**	**120**	**123**
Credit Valuation Adjustment (CVA)	--	--	104	147	8	12
Total	**59,241**	**58,301**	**9,680**	**9,341**	**775**	**747**

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 retail mortgages a regulator-approved model is used.

EXPOSURE AT DEFAULT AUDITED

The Exposure at Default (EAD) has increased from € 58.3 billion at year-end 2018 to € 59.2 billion at the end of 2019. The EAD of the retail mortgage portfolio grew from € 45.9 billion to € 46.1 billion in 2019. Other major changes in 2019 were attributable to a € 1.4 billion increase in loans to the central bank and central governments and an increase in loans to regional and local authorities in the amount of € 0.8 billion. In addition, loans to public sector entities rose by € 386 million and the exposure to financial institutions dropped by € 334 million.

The EAD for market risk rose from zero to € 10 million as the trading book for traded debt instruments grew.

In 2019, RWA increased by € 339 million to € 9.7 billion. This increase was mainly caused by a € 445 million increase related to the credit risk of the retail mortgage portfolio, calculated according to the Internal Ratings Based (IRB) approach.

Additional obligations imposed by TRIM resulted in an RWA increase of € 792 million. Because of the impact of the TRIM, the average risk weighting (RWA density) of retail mortgages rose to 12.9%, from 12.0% at year-end 2018. In contrast, the portfolio's credit quality improved further, particularly as a result of improved economic conditions. This improvement was reflected in lower Probabilities of Default (PDs) and Loss Given Defaults (LGDs).

RWA for credit risk calculated under the SA dropped by € 29 million, remaining virtually flat at € 2.1 billion. RWA for operational risk, market risk, the Credit Valuation Adjustment and the revised securitisation framework declined by € 77 million in total to € 1.6 billion.

The exposure to credit risk is included below 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	2019	2018
Total assets (IFRS balance sheet total)	62,841	60,948
Fair value adjustment hedge accounting	-1,176	-463
Items that are not subject to credit risk exposure	-11	-6
On-balance sheet exposure to credit risk	61,654	60,479
OFF-BALANCE SHEET COMMITMENTS		
Credit facilities and guarantees	1,864	1,827
Repurchase commitment	684	868
Total maximum exposure to credit risk	**64,202**	**63,173**
Valuation adjustments[1]	-3,588	-3,318
Recalculation off-balance credit facilities and guarantees to EAD[2]	-1,383	-1,553
Total Exposure at Default	**59,231**	**58,302**
Credit risk risk-weighted assets/total exposure at default	13.6%	13.1%

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. The repurchase commitments have a conversion factor of zero and therefore have no weighting for EAD.

BREAKDOWN OF RETAIL MORTGAGES BY RATING GRADE

In December 2014, de Volksbank was given permission to use its AIRB model to calculate the capital requirement of its mortgage portfolio. It consists of models for PD, (Downturn) LGD and EAD. The rating model calculates the likelihood of a customer running into payment problems within one year and the resulting losses expected for the bank. We use the results to determine the RWA of the retail 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 retail mortgages

	Average LGD		Obligor grade		EAD		RWA	
Internal rating grade	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
1	8.79%	8.79%	0.08%	0.08%	11,210	11,010	219	200
2	10.19%	9.66%	0.23%	0.21%	7,857	7,004	383	302
3	12.66%	11.97%	0.35%	0.32%	10,688	10,422	865	744
4	17.43%	15.77%	0.51%	0.47%	7,846	8,129	1,152	1,008
5	18.93%	18.13%	0.80%	0.72%	3,100	3,421	669	662
6	20.14%	18.88%	1.16%	1.05%	758	846	224	220
7	16.95%	15.41%	1.42%	1.30%	2,034	2,162	577	525
8	21.96%	20.99%	1.94%	1.76%	789	925	352	372
9	17.01%	16.22%	3.70%	3.36%	558	659	282	301
10	16.26%	14.80%	7.72%	7.02%	541	565	379	345
11	17.36%	15.94%	15.19%	13.81%	181	179	175	155
12	14.03%	15.07%	26.04%	23.67%	193	194	167	179
13	16.22%	16.57%	49.14%	44.68%	163	159	143	150
Default	16.16%	18.01%	100.00%	100.00%	213	230	345	324
Total					**46,131**	**45,905**	**5,932**	**5,487**

Development RWA

in € millions	2019	2018
Opening amount	9,341	9,781
CREDIT RISK STANDARDISED APPROACH		
Development portfolio	-29	333
Movements in credit risk CVA	-43	-56
Total movement Credit risk standardised approach	**-72**	**277**
CREDIT RISK IRB		
Re-risking (calls securitisation-programmes)	--	--
Movement investor position securitisation	2	--
Model updates	--	--
Methodology and policy	--	--
Limitation-impact	791	--
Development portfolio (including PD and LGD migrations)	-346	-584
Total movement IRB-approach	**447**	**-584**
Market risk development	5	-44
Market risk sale of portfolio	--	--
Operational risk	-41	-89
Total movement	**339**	**-440**
Closing amount	**9,680**	**9,341**

CAPITAL RATIOS

The table below presents the development of capital ratios in 2019:

Capital ratios

in € millions	2019	2018
CRD IV common equity Tier 1 capital	3,156	3,313
Tier 1 capital	3,156	3,313
Total capital	3,656	3,465
Risk-weighted assets	**9,680**	**9,341**
Exposure measure as defined by the CRR	62,006	60,625
Common equity Tier 1 ratio	32.6%	35.5%
Tier 1 capital ratio	32.6%	35.5%
Total capital ratio	37.8%	37.1%
Leverage ratio	5.1%	5.5%

De Volksbank's CET1 capital ratio dropped to 32.6% from 35.5% at year-end 2018, due to both a decline in CET1 capital and an increase in risk-weighted assets (RWA). The CET1 capital ratio thus remained well above our target of at least 19%.

As a result of the merger of Volksbank N.V. with Volksholding B.V., which made the Tier 2 capital fully effective once again, the total capital ratio increased from 37.1% to 37.8%.

LEVERAGE RATIO

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

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

Leverage ratio

in € millions	2019	2018
EXPOSURE VALUES		
Derogation for Securities Financing Transactions (SFTs)	--	10
Derivatives: market value	121	147
Derivatives: add-on mark-to-market method	276	381
Off-balance: undrawn credit facilities	113	133
Off-balance: medium/low risk	710	410
Other assets	60,850	59,623
CAPITAL AND REGULATORY ADJUSTMENTS		
Tier 1 capital	3,155	3,313
Regulatory adjustments (Tier 1)	-65	-80
Exposure measure as defined by the CRR	62,006	60,625
Leverage ratio	5.1%	5.5%

The leverage ratio dropped from 5.5% at year-end 2018 to 5.1%, caused by both a decrease in CET1 capital by € 158 million and an increase in the leverage ratio denominator by € 1.4 billion. The denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR). The increase in this risk exposure was in line with the growth in the balance sheet total (€ 1.9 billion), with the lower growth in the risk exposure mainly resulting from an increase in collateral placed for derivatives, which is deducted from the risk exposure.

The 5.1% leverage ratio is well above the regulatory requirement and our new target of at least 4.75%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount necessary to meet risk-weighted capital requirements. This is the consequence of the focus on retail 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	2019	2018
CET1 capital	3,156	3,313
Tier 2 capital	500	500
Total capital	**3,656**	**3,813**
Other eligible unsecured liabilities with remaining maturity > 1 year	1,748	1,941
Total capital including other eligible liabilities	**5,404**	**5,754**
Risk exposure measure as defined by the BRRD (MREL)	60,738	59,412
Risk-weighted assets	9,680	9,341
MREL BRRD		
MREL (Total capital)	6.0%	6.4%
MREL (Total capital including other eligible liabilities)	8.9%	9.7%
MREL RISK WEIGHTED ASSETS		
MREL (Total capital)	37.8%	40.8%
MREL (Total capital including other eligible liabilities)	55.8%	61.6%

The non-risk-weighted MREL ratio stood at 8.9% (2018: 9.7%). This includes the total capital and all other unsecured liabilities eligible for MREL according to the current BRRD.

Total capital and eligible liabilities dropped by € 350 million to € 5,404 million. The main reason for this decrease was that the short-term unsecured bond of € 400 million issued in October 2018 entered the final year of its term in April 2019, on account of which this loan was no longer MREL eligible from then on. This decrease was partly compensated by the supervisory authority's confirmation in June 2019 that the structured unsecured debts – which were excluded in year- end 2018 MREL figures – qualify for MREL. This allows de Volksbank to include these debts in its eligible liabilities again (€ 133 million). The risk exposure measure as defined by the BRRD rose by € 1.1 billion to € 60.5 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,656 million) amounted to 37.8% (year-end 2018: 40.8%). Both are subordinated to other liabilities outstanding.

4.8.6 Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the adjusted net result. In accordance with this policy, de Volksbank paid out a dividend of € 161 million for 2018 to NLFI in April 2019. This represents a pay-out ratio of 60%, the upper end of the target range used by us.

We propose to pay out a dividend of € 165 million on the 2019 profit. This implies a payout ratio of 60%, the top of the applied target range of 40-60%.

In addition, de Volksbank made a capital distribution of € 250 million to NLFI in December 2019. The strong capital position built up by de Volksbank in recent years through retained earnings and lowering of the risk profile has now allowed us to return part of the capital injection at the time of nationalisation to our shareholder.

4.9 Management statement Pillar 3

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 4.1.1 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 2019, the Board of Directors assessed the strategic, operational, financial, reporting and compliance risks, as included in Section 4.1.2 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 4.1.1. 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 2019;
- 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 2020.

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 2019, de Volksbank faced a number of IT disruptions (availability of payments), preventing us from further developing positive relationships with our customers. De Volksbank continuously monitors the stability of its infrastructure and external threats. IT control processes were improved. In addition, de Volksbank is implementing a number of strategic programmes, for example in the areas of PHIRM and TRIM. Both the IT Change activities and strategic programmes contribute to the implementation of de Volksbank's strategy and help ensure that de Volksbank is and remains demonstrably in control, in line with its (mission and) ambition.

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 2019 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 2019 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 2019 and the result, and companies included in the consolidation;
- the 2019 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 2019 Annual Report describes the main risks de Volksbank is facing.

Utrecht, 4 March 2020

BOARD OF DIRECTORS

Maurice Oostendorp (Chair)
Jeroen Dijst
Marinka van der Meer
Mirjam Verhoeven

5. Report of the Supervisory Board

5.1 Looking back and ahead with the Chairman of the Supervisory Board

JAN VAN RUTTE

The year 2019 was a turbulent year in every respect. Leaving their mark on the world, Europe and the Netherlands, major political, social, economic and technological developments also posed new challenges to de Volksbank. However, the Supervisory Board believes that de Volksbank's vision, mission and strategy offer the right guidance to rise to these challenges.
Banking with a human touch and the ensuing shared value ambition give us the confidence that de Volksbank will be able to continue to build a solid bank that contributes to a stable, diverse and sustainable financial services sector in a modern way. The Supervisory Board has seen increasing political and social attention for de Volksbank's implementation of its vision and mission.

The Supervisory Board is pleased that de Volksbank successfully took further steps towards putting its vision and mission into practice in 2019, for instance by defining measurable objectives for each of the four stakeholder groups. In this respect, the Supervisory Board will see to it that the concrete goals set are in fact reached, obviously subject to responsible financial and risk management – after all, this forms the basis for a healthy, stable bank. De Volksbank's relatively simple balance sheet structure sets high demands on both the bank's earnings capacity and cost control, especially in a period of sustained low interest rates.

The progress report drawn up by NLFI in October 2019 is of great importance to de Volksbank's future. The Supervisory Board was closely involved in the discussions with NLFI about the results achieved and future options for privatisation, and broadly endorses the analysis and conclusions included in the progress report. De Volksbank's position can only be strengthened if the business model is optimised, income is diversified and costs are reduced further. This will allow an even more robust foundation to be laid for a responsible privatisation of de Volksbank. The results will become available in the course of 2020.

Major themes in 2019, also for de Volksbank, included a greater focus on the climate and the environment, the still worrying debt problem among Dutch households, the need to continue working on an ethical financial services sector, and the financial consequences ensuing from the sustained low interest rates. Being well aware of these themes, de Volksbank has focused on them for a longer period of time in the context of our shared value ambition, but in this day and age they require additional efforts.

Regulatory and supervisory authorities devote more and more attention to the climate and the environment, but sustainability is equally a responsibility that the financial services sector itself needs to assume. Laborious national and international discussions about setting and reaching concrete goals underline this responsibility, requiring financial companies to actively work towards these goals rather than wait for governments to make arrangements. For this reason, de Volksbank is an initiator of the Partnership for Carbon Accounting Financials (PCAF), which aims to make the climate impact of investments transparent. De Volksbank has also been committed to a more sustainable world for some time now, having set the target of being climate neutral by 2030. Seeking to make its mortgage portfolio more sustainable in this connection, de Volksbank introduced the sustainable ASN Mortgage in 2019. De Volksbank also issued its first Green Bond in 2019. These are all examples of concrete measures and actions that de Volksbank carries out to stress its pioneering role. The Supervisory Board expressly encourages new and more far-reaching steps to increase sustainability in 2020.

The Supervisory Board supports de Volksbank's continued commitment to increasing its customers' financial resilience by focusing on their financial education and skills, financial confidence and their financial health. For this reason, de Volksbank and its brands are developing simple and transparent products and services in which the benefits of a product or service for the customer take centre stage. In that connection, a number of major initiatives were taken in 2019, such as the Dutch Debt Counselling Route (*Nederlandse Schuldhulproute*), in which de Volksbank participates with its brand SNS, and the rent statement pilot project launched by BLG Wonen. The decision taken in 2019 to continue to give positive savings rates for balances of up to € 100,000 in 2020 is also worth noting.

Several integrity violations have resulted in new and more stringent measures imposed by regulators and supervisory authorities. These are mainly related to shortcomings identified in preventing money laundering and terrorist financing, but also, for instance, banks cooperating in tax avoidance structures. The Supervisory Board is well aware of de Volksbank's responsibility in guarding an ethical financial services sector.
This was why the measures to control integrity risks were further tightened in 2019. Furthermore, in 2019, de Volksbank launched a project to further strengthen the bank's compliance function and broaden its focus. In 2019, de Volksbank also decided together with ABN AMRO, ING, Rabobank and Triodos Bank to set up an organisation to monitor payment transactions. It is expected to become clear in 2020 whether the technical and legal challenges of joint monitoring can be taken up successfully.

The further decline in interest rates puts further pressure on net interest margins in 2019. This poses a serious threat to de Volksbank's earnings model, since this model is highly dependent on the net interest margin between mortgages and savings. Radical measures, such as business model optimisation, income diversification and further cost cuts, are supported by the Supervisory Board for that reason. A strong capital position also remains of the essence. It is especially because of de Volksbank's strong capital position that an additional € 250 million capital distribution could be made to shareholder NLFI at the end of 2019.

The progress made in 2019 gives the Supervisory Board confidence for the future, although numerous challenges still remain. Regulators and supervisory authorities set ever higher requirements and NLFI and the Minister of Finance have concluded that more time is needed to create optimum conditions for a privatisation of de Volksbank. The Supervisory Board is of the opinion that the implementation and execution of de Volksbank's vision and mission require substantial efforts in 2020 and beyond. Digitisation, diversification and distribution are key words here, in the Supervisory Board's opinion.

As regards the staffing of the Board of Directors, the Supervisory Board considers 2019 to have been a year in which investments were made in new leadership. We formally welcomed Mirjam Verhoeven as the new COO on 9 May 2019. At the end of August 2019, Annemiek van Melick (CFO) left de Volksbank as her directorship ended. Pieter Veuger has been nominated; once the supervisory authorities have approved him and NLFI has appointed him as her successor, the Board of Directors will be at full strength again to rise up to all challenges.

The Supervisory Board thanks Annemiek van Melick for her outstanding work and her dedication to de Volksbank. The Supervisory Board highly appreciated her professionalism, commitment and focus on results.

De Volksbank also owes special thanks to Maurice Oostendorp, who acted as an interim CFO after Annemiek van Melick's departure, and to Marcel Klopper, who carried out a large number of CFO duties until the end of 2019.

The Supervisory Board itself operated in its current composition throughout 2019. Duties and responsibilities were clarified and mutual collaboration was strengthened during that year. This inspires confidence in the Supervisory Board's performance in the challenging times that lie ahead.

5.2 Composition of the Supervisory Board

As at 31 December 2019 , the Supervisory Board comprised the following members: Jan van Rutte (Chairman), Monika Milz (Vice Chair), Sonja Barendregt - Roojers, Aloys Kregting and Jos van Lange.

The composition of the Supervisory Board remained unchanged in 2019. The composition of the Supervisory Board is such that its members can operate independently of each other and of the Board of Directors 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 of the Board of Directors in 2019.

Committees of the Supervisory Board

The Supervisory Board has three committees: the Audit Committee (AC), the Risk Committee (RC) and the People and Organisation Committee (P&OC). These committees prepare the decision-making by the Supervisory Board and advise the Supervisory Board on various topics. Each committee has its own regulations, as does the Supervisory Board itself.

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 2019, the committee comprised the following members: Sonja Barendregt-Roojers (Chair), Jos van Lange and Aloys Kregting. The CEO, CFO, CRO, the Director of Audit, the external auditor and two representatives of Finance Accounting, Reporting & Control 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. Twice a year, an AC meeting is held at which only the Director of Audit and the external auditor are present. The AC convened six times in 2019.
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. The quarterly results are, of course, 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. In this context, the AC discussed the progress of *Deltawerken*, including the processes that produce regulatory reports for supervisory authorities.

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

In 2019, special attention was also paid to the forbearance reports in the FINREP reports and ECB's reports on on-site inspections.

Topics specifically discussed in the AC in 2019 include:

1. With regard to the reliability of the financial reporting process:
- 2018 Annual Report
- Interim and annual figures, related press releases and Pillar 3 reports
- Management reports
- Accounting issues
- Litigation provisions
- Tax policy and periodic tax update
- Dividend policy
- Merger between de Volksholding and de Volksbank
- Corep/Finrep reports.

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
- Joint management letter of EY and Audit
- Audit/EY meeting on the functioning and attitude of the Board of Directors (tone at the top).

3. With regard to the independence and functioning of the internal and external auditors:
- 2020 Audit charter
- Performance assessment of Audit
- EY Audit plan, risk assessment and updates
- Risk assessment and 2020-2021 audit plan of Audit
- Performance assessment of the external auditor.

Risk Committee

The RC assists the Supervisory Board in its role of supervisor of the structure and functioning of internal risk management system and control system of de Volksbank, in conjunction with the bank's overall risk appetite and strategic objectives.

The RC is composed of at least three members. In 2019, the RC comprised the following members: Jos van Lange (Chair), Monika Milz and Sonja Barendregt – Roojers. The CEO, CRO, CFO, the directors of Audit and of Compliance & Security Affairs are permanent attendees at every meeting. The Chair of the RC and the CRO hold a preliminary consultation prior to the meeting. The RC convened five times in 2019.

At every regular meeting, the RC reflects on the financial and non-financial risks after having discussed the risk context. Obviously, the financial risks expressly included a consideration of the consequences that the sustained low interest rate environment has for de Volksbank's earnings model and risk profile. The non-financial risks were also discussed at length, with additional attention being paid to reporting risk arising from an as yet insufficient data quality. Risks pertaining to processes, people and systems were also extensively explained and discussed to explore their potential for improvement. De Volksbank's use of internal models following on from increasingly data-driven external supervision partly depends on these aspects. The results of the ECB TRIM exercise played a major role here.

In 2019, the RC devoted special attention to the structure and operation of the broad Compliance function in accordance with EBA guidelines. The RC will be renamed 'Risk & Compliance Committee' in 2020 partly for this reason. The internal organisation is strengthened in quantitative and qualitative terms and will be assigned a broader mandate. Based on the Compliance improvement programme that was set up, in 2019 actions were also initiated in such areas as the Dutch Financial Supervision Act/customer integrity and demonstrability of compliance with prudential and non-prudential laws and regulations.

Topics specifically discussed in the RC in 2019 include:
- Quarterly reports on financial and non-financial risks
- Strategic risk analyses
- Risk appetite statements
- Risk paragraph in the 2018 Report of the Board of Directors
- In-control statements
- Integrated Control Framework (ICF) self-assessment
- 2019 Supervisory Review & Evaluation Process (SREP) decision
- Recovery Plan
- Quarterly reports drawn up by the Supervisory Office
- 2018 Annual Report on Whistle-blowers' Scheme
- Transaction monitoring and customer integrity
- On-site Inspection (OSI) Forbearance and forbearance repair project
- OSI Targeted Review of Internal Models (TRIM) and OSI Compliance
- Quarterly reports drawn up by Compliance and Security Affairs
- Compliance Charter
- Reverse stress test
- Update PHIRM Margin of Conservatism (MoC)
- Lending process ASN Bank and SME

People and 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 of Directors, senior management and employees; (ii) appointment policy of the Supervisory Board, the Board of Directors and senior management; (iii) organisational changes and internal succession issues; and (iv) supervision of the way in which the Board of Directors performs its employer's duties.

In 2019, the POC focused on how to deal with work and people in a more strategic manner. By nominating new directors, for instance, it is now able to influence how de Volksbank may define the form and substance of its own future. In terms of assessments, the definition of new standards – such as the Leadership DNA, 'genuine attention for our employees' and the HR dashboard indicators – has created an adequate framework that may further strengthen the organisation. The rapid changes in the financial services sector impact the work that is available, and thereby also the jobs that de Volksbank is able to offer. The Supervisory Board actively acted as a sounding board for the Board of Directors in the choices needed to be a modern and attractive employer. The tripartite collaboration between the Board of Directors, the Works Council and the Supervisory Board proved to have great added value in this respect.

The P&OC is composed of at least three members. In 2019, the committee comprised the following members: Monika Milz (Chair), Jan van Rutte and Aloys Kregting. The CEO, and the Director of HR are permanent attendees at every meeting. The P&OC convened six times in 2019.

Topics specifically discussed in the P&OC in 2019 include:

1. With regard to the remuneration policy and terms of employment of the members of the Board of Directors, senior management and employees:
- Annual review and risk analysis of the remuneration policy of the Board of Directors, senior management, Identified staff and Non-identified staff
- Adoption 2019 Identified staff
- Adoption of the 2018 Remuneration report for Identified staff
- 2018 Remuneration report
- Determination of peer group for Board of Directors benchmark
- KPI assessment and achievements of Board of Directors and senior management for 2018
- Definitive KPIs for Board of Directors and senior management for 2019
- Proposal on KPIs for the Board of Directors for 2020

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

3. With regard to organisational changes and internal succession issues:
- Leadership DNA of de Volksbank Internal talent review and succession policy for the Board of Directors and senior management
- Changes in the management structure
- Talent management

4. With regard to the supervision of the way in which the Board of Directors performs its employer's duties:
- Report on wage differences between male/females at de Volksbank
- Results 2019 employee survey
- 2019 annual HR calendar
- Status strategic HR projects
- Discussion HR dashboard, including sickness absence, staff turnover and other indicators for the quality of the work environment.

5.3 Meetings of the Supervisory Board

The Supervisory Board convened ten times in 2019. All meetings but one were attended by all members of the Supervisory Board. The availability of Supervisory Board members for interim consultation was satisfactory. Members of the Board of Directors and the General Counsel are permanent attendees at Supervisory Board meetings. For the first hour of each meeting, the Supervisory Board meets in private.

2019	SB	AC	RC	POC
Jan van Rutte	10/10	-	-	6/6
Sonja Barendregt-Roojers	10/10	5/5	4/5	-
Aloys Kregting	9/10	4/5	-	5/6
Monika Milz	10/10	4/5	4/5	-
Aloys Kregting	10/10	-	5/5	6/6
Total attendance	**98%**	**87%**	**87%**	**94%**

Topics discussed

In the Supervisory Board meetings in 2019, the following topics were discussed:

Future of de Volksbank

The Supervisory Board, together with the Board of Directors, is preparing for an independent future of de Volksbank. In connection with this, the Supervisory Board and the Board of Directors discussed several topics including the interpretation and implementation of de Volksbank's mission and vision, capital objectives, the target return, the desired diversity in the financial sector and the various options of privatisation. In 2019, we also held a constructive discussion on these topics with both NLFI and the Minister of Finance, partly in the light of the progress report drawn up by NLFI in October 2019. As previously mentioned, the Supervisory Board endorses the analysis and conclusions included in this report. The Supervisory Board has noted with interest the Minister of Finance's letter accompanying the report and the general consultations on the report held with the Minister in the House of Representatives.

Strategic issues

De Volksbank's current strategic plan, which runs until mid-2020, focuses on three strategic pillars: a distinct profile as a social bank, simple and efficient business operations and an profile of smart adopter. The major challenges facing de Volksbank, however, call for further elaboration on a number of strategic issues, on which the Supervisory Board closely monitors the progress.

Progress on 'House-in-Order'

'House-in-order' is the collective name for all projects aimed at contributing to controlled business operations. In 2019, steps were once again taken to actually get the 'house' in order. Nevertheless, the Supervisory Board notes that there are still enough areas of attention, such as 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.

Compliance with laws and regulations

Compliance with laws and regulations remains an area of attention. A large number of new rules came into force or were announced in 2019. These rules will be monitored, assessed on their 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 must be drawn up and implemented. The Supervisory Board considers it of great importance to always use realistic timelines in this respect and to actually meet commitments.

2020-2024 Operational Plan and 2021-2024 Trend Analysis

The Board of Directors explained the 2020-2024 Operational Plan and Trend analysis to the Supervisory Board in a separate meeting in November 2019. The plan and the analysis were subsequently approved by the Supervisory Board in December. These documents were accompanied by detailed and well-substantiated advice from the Risk Department, of which the Supervisory Board took due note.

Enquiry

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 N.V. and SNS Bank N.V. The investigation covers the period from 1 July 2006 to 1 February 2013, the date on which SNS REAAL N.V. was nationalised. The investigation is still ongoing and, contrary to the original expectations of the investigators, it will not be possible to complete the investigation before mid-2020. In view of this delay, the costs of the investigation are likely to exceed the initial budget of € 2.3 million. De Volksbank is to pay 30% of these costs. In addition to the provisions made for the costs of the investigators, it has been established that it is too early to determine provisions for possible claims. The Supervisory Board is following the developments closely.

Merger of de Volksholding and de Volksbank

In close consultation with NLFI, a reverse mother/ daughter merger of de Volksholding and de Volksbank was decided upon in 2018. The Supervisory Board approved this merger and the accompanying amendment of the Articles of Association of de Volksbank. The merger went into effect on 30 March 2019, as a result of which de Volksholding, a legal intermediate layer without activities and employees, ceased to exist. The merger did, however, mean that three funding programmes had to be explicitly approved by the Supervisory Board in 2019, which it did in the autumn of 2019. At the end of the year, the Supervisory Board approved the update of these programmes in 2020.

Other topics

In 2019, the topics discussed by the Supervisory Board, whether or not after discussion in one of its committees, included the following:

GENERAL

- Transaction monitoring and customer integrity
- Quarterly reports drawn up by Audit and EY
- Quarterly reports on financial and non-financial risks
- Management reports
- Follow-up joint management letter of EY and Audit
- 2018 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 2020 ITC policy
- Data management maturity assessment
- Review of the regulations for the Board of Directors and Supervisory Board
- Merger of de Volksbank N.V. and SNS FinanCenter B.V.
- Annual review and risk analysis of the remuneration policy of the Board of Directors
- KPIs of the Board of Directors and senior management
- Diversity policy
- Talent management
- Results of the employee survey

FINANCE AND RISK

- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports
- Recovery Plan
- Litigation statement and Q2 and Q4 2019 provisions
- SREP 2019 decision
- PERDARR update
- Tax update
- 2019-2020 Risk Appetite Statement (RAS)
- Corep/Finrep reports
- OSI report Forbearance
- OSI report Compliance

5.4 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 2019, the Supervisory Board, together with the Board of Directors, attended three lifelong learning sessions in which the following subjects were successively discussed:
• the 'Deltawerken' programme of de Volksbank: how do we control the (data)flow;
• IRRBB (interest rate risk in the banking book) steering, part 2;
• the role of franchising within de Volksbank.

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. At the beginning of 2019, the Supervisory Board evaluated its own functioning in 2018 in two sessions, one of which under the supervision of an external consultant. On the basis of statements, both the members of the Supervisory Board and the members of the Board of Directors gave scores for the functioning of the (individual members of the) Supervisory Board. The conclusion was that the Supervisory Board functions well and may be pleased with both the good and critical scores in all dimensions, which also turn out to fit in well with the self-image of the member of the Supervisory Board in question. The meetings are sufficiently effective and the Supervisory Board is sufficiently independent, knowledgeable and diverse. To critically monitor the effectiveness of the Supervisory Board, every meeting is evaluated at the end of that meeting.
The discussion of the self-assessment of the Supervisory Board and its committees also revealed a number of areas for improvement. The Supervisory Board concluded that the setting up and implementation of the introduction programme for new members of the Supervisory Board, Board of Directors and senior managers and the lifelong learning programme for the Supervisory Board require more attention. Apart from the meeting agenda, the Supervisory Board also wants to build in more room for reflection and work more systematically on the numerous relationships it maintains. [We followed up on these points for improvement in 2019, which resulted in a further improvement of the Supervisory Board's performance, broader knowledge of the Supervisory Board members and more alignment between the agendas of the committees. As regards operations the Supervisory Board indicated that, going forward, documents for Supervisory Board and committee meetings should be made available at an earlier point in time with a view to a timely preparation of the meetings. More attention will also be paid to meeting documents first being discussed by the Board of Directors, in principle, before they are placed on the agenda of a Supervisory Board or committee meeting. The Supervisory Board expects that this method of placing items on the agenda may have a positive effect on the collaboration between the Board of Directors and the Supervisory Board. In May 2019, the supervisory authority informed de Volksbank of the conclusions of the Board Effectiveness Assessment (BEA) carried out in late 2018. BEA is a general ECB study of leadership, decision-making and communication by the Board of Directors with their direct reports and the Supervisory Board. This resulted in a dialogue between the Supervisory Board, the Board of Directors and senior management and the adoption of an Executive Team Performance Framework. The Framework expressly lays down the Supervisory Board's responsibility for the correct composition of the Board of Directors, with suitable competencies to allow an effective translation of the strategy into roles and responsibilities (Team Design). There is a growing sense that the team can only reach adequate effectiveness with a combination of performance and a sound mutual and personal relationship between the members of the Board of Directors (Team Effectiveness). The Supervisory Board members contribute to this by encouraging collaboration between the various members of the Board of Directors. Each member of the Board of Directors is paired with a Supervisory Board member, which has eased mutual contact and has resulted in the Supervisory Board receiving more personal views about the challenges the Board of Directors faces. The Supervisory Board regularly discusses the improvement initiatives with the Board of Directors. The Supervisory Board is also informed of the annual self-assessment of the Board of Directors and its semi-annual 360-degree feedback assessments. The Supervisory Board has informed the supervisory authority of the measures taken as a follow-up on the BEA.

5.5 Relationship and consultations with the shareholder

Stichting administratiekantoor beheer financiële instellingen (NLFI) is sole shareholder of de Volksbank. In addition to the Articles of Association of de Volksbank, NLFI and de Volksbank have signed a Memorandum of Understanding (MoU). The MoU contains agreements on the way in which statutory powers are exercised in the day-to-day operations. Consultations between the Supervisory Board and NLFI take place periodically in accordance with annual meeting calendar. In these meetings the Chairman of the Supervisory Board discusses various topics including the assessment of the Board of Directors and the Supervisory Board. In addition, de Volksbank's Annual General Meeting (AGM) is prepared jointly. In 2019, the AGM was held on 25 April.

As 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. In addition to the annual meeting schedule, the Supervisory Board and NLFI also discussed the future of de Volksbank. As mentioned above, the Supervisory Board endorses the analysis and conclusions of NLFI as set out in its progress report of October 2019.

5.6 Employees and employee participation

In 2019, the Works Council, the Board of Directors and the Supervisory Board met on a regular basis and in various combinations. Subjects were discussed in these meetings included:

- Spot On - strategic themes and options for privatisation
- Shared value for the employee
- Financial and commercial update
- Various requests for advice, including Initiative proposal for sourcing, Higher Professional Education (HBO) educational requirement versus HBO professional and intellectual ability, automated screening of applicants and competence analysis of internal employees
- Collaboration employee participation bodies and Supervisory Board and Tripartite 3D Trophy
- Employee survey
- Collective agreement/Social Plan/pension negotiations
- Appointment and reappointment members of the Board of Directors and senior management
- 2020-2024 Framework letter
- Business Model Canvas
- ITC infrastructure and projects, including *Deltawerken*
- Formation Board
- Sickness absence
- Training costs for 2020
- Vitality programme
- 2018 Pay ratio
- Self-organisation
- Impact of the leadership programme
- Strategic staff planning, including diversity

The Works Council exercised its right to speak at the GMS on 25 April 2019. During this meeting, the Works Council looked back on the activities it performed in the period from May 2018 to April 2019. It turned out that the reorganisations carried out in that period had a major impact on both the organisation and the staff. It was emphasised that the Works Council continuously listens to what people are saying and is asking questions to find out what is going on within the organisation. The Works Council has always considered consultations with the Supervisory Board and the Board of Directors to be open and constructive. There was sufficient room to make up its mind.

The constructive collaboration and consultation between the Works Council, the Supervisory Board and the Board of Directors did not go unnoticed. For, at a conference of the ‘Employee Participation & Governance Alliance’ held at the Social and Economic Council (SER) in The Hague on 11 December 2019, it was announced that de Volksbank had won the Tripartite 3D Trophy (*Driehoek 3D Trofee*). Tripartite stands for the three partners: employee participation, supervision and management, and 3D stands for dialogue, sustainability and diversity/inclusiveness. The jury of this trophy was impressed by the transformation towards the 'Banking with a human touch' way of banking, and by the way in which the Works Council is proactively involved in the primary process of the organisation and the way in which it plays a role in both strategic decision-making and implementing the bank's social objectives. Moreover, social values are extended to how the bank treats its own employees. The supervisory board supports the Board of Directors and HR in shaping this process within the organisation. The Supervisory Board is constructionally critical of de Volksbank's ambition to pursue an active policy with regard to workplace diversity and inclusion.

The Supervisory Board would like to thank the Works Council for its competent and committed efforts over the past year.

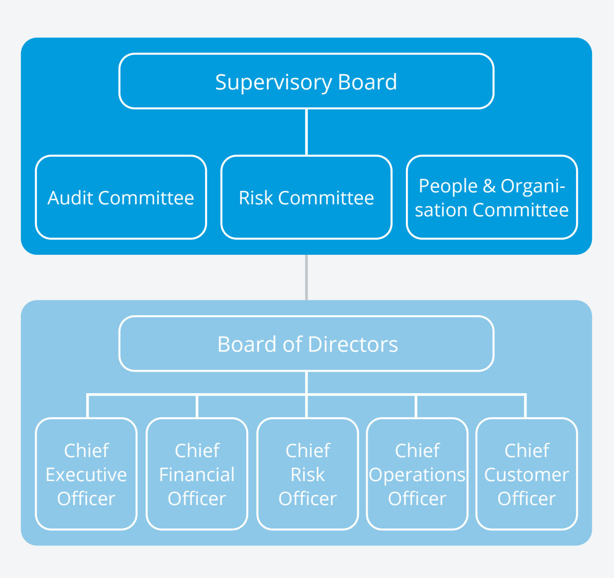
5.7 Financial statements and dividend proposal

Prior to publication, the 2019 financial statements were discussed in meetings of the Board of Directors, Audit Committee and Supervisory Board. On 4 March 2020, EY – de Volksbank’s external auditor in 2019 - issued an unqualified auditor’s report on the 2019 financial statements. On the same date, 4 March 2020, the members of the Supervisory Board approved and signed the financial statements. At this meeting, the Supervisory Board approved the Board of Directors’ proposal to pay a dividend of € 165 million to NLFI as sole shareholder of de Volksbank.

De Volksbank’s ample capital position was discussed at the GMS of 25 April 2019, where de Volksbank promised that it would prepare a concrete proposal for an additional capital distribution to the shareholder. Following the Supervisory Board’s approval, this resulted in a proposal to make a € 250 million capital distribution to NLFI. After the supervisory authority confirmed that the capital distribution could take place and NLFI and the Minister of Finance consented to it, the distribution was effected on 19 December 2019. Charged to the share premium reserve, the distribution contributes to a more efficient capital position and positively impacts de Volksbank’s Return on Equity.

6. Corporate governance

6.1 Composition, appointment and functioning of the Board of Directors



Composition 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 (members of the) Board. In addition, the profile sets out the relevant aspects of diversity, such as nationality, age, gender and background with regard to education and professional experience. The profile for the Board is approved by NLFI and published on the website of de Volksbank.

Until the departure of Annemiek van Melick as from 1 September 2019, the Board consisted of the following members in 2019:

Maurice Oostendorp

1956 - Nationality: Dutch

Maurice Oostendorp has been appointed Chairman of the Board of Directors on 17 August 2015 for the period up to and including 17 August 2019. Maurice is Chief Executive Officer.Following the departure of Annemiek van Melick as from 1 September 2019, Maurice also holds the position of Chief Financial Officer on an interim basis. Other board positions held by Maurice are: Member of the Supervisory Board of the Nederlandse Waterschapsbank (NWB), member of the Advisory Board of Women in Financial Services in the Netherlands and member (and Treasurer) of the Board of the Dutch Banking Association (NVB). Before joining de Volksbank, Maurice was CFRO of SNS REAAL N.V. Prior to that, he served as CFO and member of the Board of Directors at Coöperatie VGZ. Maurice began his career at ABN AMRO, where he held several positions, among them Director General Group Finance.

Annemiek van Melick

1976 – Nationality: Dutch

Annemiek van Melick was a member of the Board from 1 July 2014 up to 1 September 2019 in the role of Chief Financial Officer. Annemiek was a member of the Supervisory Council of the Dutch Banking Association (NVB). Annemiek joined SNS REAAL N.V. in 2008 as Director of Corporate Strategy, Mergers & Acquisitions. She was appointed Chief Financial & Risk Officer of SNS Bank N.V. in 2012. Annemiek has extensive experience in the financial services sector and employers include Goldman Sachs in London.

Jeroen Dijst

1971 – Nationality: Dutch

Jeroen Dijst was appointed to the Board on 1 August 2016. 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 board 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. She started her career at ING in 2004.

Mirjam Verhoeven

1967 – Nationality: Dutch

Mirjam Verhoeven was appointed Chief Operations Officer on 9 May 2019 and does holds no other board positions. Mirjam joined de Volksbank and its predecessors in title in 2002 and held various positions. In her previous role as Chief Information Officer and Director of Innovation, she was responsible for IT & Change, the IT policy and shaping de Volksbank's innovation strategy. Mirjam started her career as project manager at Cap Gemini.

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 connection with the departure of Annemiek van Melick, the Supervisory Board has decided to nominate Pieter Veuger for appointment as a member of the Board in the role of Chief Financial Officer. NLFI has indicated to appoint Pieter Veuger subject to approval from the supervisory authorities. At the time of publication of this annual report, this approval had not yet been received.

The proposed appointment is subject to approval by the supervisory authorities. As of the date of publication of this annual report, this approval has not yet been received.

Composition of the Board of Directors per 31 December 2019

Name	Appointed until
Maurice Oostendorp	General meeting 2023[1]
Jeroen Dijst	General meeting 2020[1]
Marinka van der Meer	General meeting 2022[1]
Mirjam Verhoeven	General meeting 2023[1]

1 Tot aan de datum van de AVvA in vermelde jaar.

Functioning of the Board of Directors

The Articles of Association of de Volksbank (the Articles) contain a list of the duties of the Board and the rules governing its functioning. In addition, both the Regulations for the Board of Directors (the Regulations) and the 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 MoU was amended in 2019 in connection with the merger between de Volksholding and de Volksbank, as a result of which de Volksholding ceased to exist. The Regulations for the Board were last amended on 12 December 2019 following changes to the compliance function of de Volksbank and changes to Dutch corporate governance regulations. These amended regulations came into effect on 1 January 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.

Left to right: Marinka van der Meer, Maurice Oostendorp, Jeroen Dijst, Mirjam Verhoeven

6.2 Composition, appointment and functioning of the Supervisory board

Composition 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 (members of the) Supervisory Board. In addition, the profile sets out the relevant aspects of diversity, such as nationality, age, gender and background with regard to education and professional experience. In essence, the diversity policy of de Volksbank is aimed at recognising and valuing (differences between) people, both customers and employees. The aim of the diversity 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 is 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 GMS, taking this profile into account.

In 2019, 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. (predecessors in title of de Volksbank) on 1 November 2013. Jan was appointed member and Chairman of the Supervisory Board on 30 September 2015, and he was reappointed as such on 19 April 2018. His term of office will expire on 19 April 2022. If a GMS is held between 1 April 2022 and 1 May 2022, the term of office shall expire on the date of that GMS. Jan is also a member of the P&OC.

Other board positions held by Jan are:

- Member of the Supervisory Board of PGGM N.V.
- Member of the Supervisory Board of BNG Bank N.V.
- Member of the Supervisory Board of ORMIT Holding B.V.
- Member of the Supervisory Council of Stichting Health Center Hoenderdaal
- Member of the Board of Stichting ABN AMRO Foundation
- Member of the Board of Stichting Administratiekantoor Aandelen KAS BANK

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 – Nationality: 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 People and Organisation Committee and a member of the Risk Committee.

Monika's term of office will expire at the first GMS after 20 April 2021. However, if the GMS 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 are:

- Member of the Supervisory Board of HandelsVeem Beheer B.V.
- Member of the Supervisory Board of Zuidema Beheer B.V.
- Member of the Board of Stichting Parnassia
- Member of the Board of Stichting Arbo Unie

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 GMS to be held after 1 September 2021. However, if the GMS 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 AC and a member of the RC.

Other board positions held by Sonja are:

- Member of the Supervisory Board of ASR Nederland N.V.
- Member of the Supervisory Board of Robeco Institutional Asset Management B.V.

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.

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 Risk Committee and a member of the Audit Committee.

Other board positions held by Jos are:
- Member of the Supervisory Board of Bouwinvest N.V.
- Member of the Board of Governors of Tilburg University
- Member of the Supervisory Board of Zuyderland Medisch Centrum
- Chairman of the Supervisory Board of the Central Bureau on Fundraising (CBF) (monitors fundraising by charities)
- Chair of the Catholic Higher Education Foundation – Tilburg University
- Member of the Investment Advisory Committee of DELA (insurance company)
- Chairman Stichting Landgoed Kasteel Geldrop (Geldrop Castle Foundation)

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.

Aloys Kregting

1967 – Nationality: Dutch

Aloys Kregting was appointed to the Supervisory Board on 24 August 2018. His term of office expires at the close of the AGM in 2022. Aloys is also a member of the Audit Committee and a member of the People and Organisation Committee.

Other board positions held by Aloys 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.

Profile

Core competences of the members of the Supervisory Board

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

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

1 Jan van Rutte will, in principle, resign on 19 April 2022. If, in 2022, a GMS will take place between 1 April 2022 and 1 May 2022, Jan van Rutte will retire on the date of that GMS.

2 Jos van Lange and Aloys Kregting will both retire at the first GMS at the latest.

Left to right: Jos van Lange, Jan van Rutte, Sonja Barendregt-Roojers, Monika Milz, Aloys Kregting

Appointment of members of the Supervisory Board

Members of the Supervisory Board are appointed upon nomination by the Supervisory Board. The GMS 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. The Articles contain a list of the duties and rules governing the Supervisory Board's functioning. In addition, the Regulations for the Supervisory Board and the MoU agreed with NLFI contain additional agreements on the way in which the Supervisory Board should exercise its duties and powers.

The Articles and MoU were amended in 2019 in connection with the merger between de Volksholding and de Volksbank, as a result of which de Volksholding ceased to exist. The Regulations for the Supervisory Board were last amended on 12 December 2019 following changes to the compliance function of de Volksbank and changes to Dutch corporate governance regulations. These amended regulations came into effect on 1 January 2020.

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

Composition of Supervisory Board Committees (as from 31 December 2019)

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

These committees support the preparation of the decision-making of the Supervisory Board, which has drawn up regulations for each of these committees and appoints the chairs. The Regulations for the P&OC were last amended on 12 December 2019 in connection with changes to the Dutch corporate governance regulations and came into effect on 1 January 2020.

Composition committees on 31 December 2019

	Audit Committee	Risk Committee	People and Organisation Committee
Jan van Rutte	-	-	Member
Sonja Barendregt-Roojers	Chairman	Member	-
Aloys Kregting	Member	-	Member
Jos van Lange	Member	Chairman	-
Monika Milz	-	Member	Chairman

6.3 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. On our website www.devolksbank.nl we explain how we do this by means of an overview. Compliance with the Banking Code is a dynamic process. As new developments may occur any time, this overview is regularly updated.

6.4 Dutch Corporate Governance Code

The Dutch Corporate Governance Code (the Code) is a code of conduct for listed companies and is regarded as a general interpretation of good corporate governance. The Code contains principles and best practice provisions that regulate relations between the Board of Directors, the Supervisory Board and the AGM .

Despite the fact that all shares in de Volksbank are held by NLFI, de Volksbank applies the Code voluntarily and in full. The only exception to this is that the terms of office of the members of the Supervisory Board as laid down in the Regulations of the Supervisory Board, with reference to the Articles of de Volksbank, are linked to the dates of the AGMs. This means that these terms of office may be longer than specified in the Code.

On 13 December 2019, the Dutch Corporate Governance Code Monitoring Committee published its report entitled 'Monitoring the 2018 financial year'. It was for the first time that this committee requested fifteen unlisted organisations to participate in its survey into compliance with the Code. Of these fifteen, ten organisations took part in the survey launched by the researchers and these results were also included in the compliance survey. De Volksbank is one of these ten.

Among the ten unlisted organisations the survey shows that, on average, they comply more closely with the Code than listed companies. Themes to which this particularly applies are the composition and size of the board, the appointment procedure, following up and evaluating actions, and corporate culture.

On our website www.devolksbank.nl, we explain how de Volksbank applies the Code by means of an overview. Compliance with the Code is a dynamic process. As new developments may occur at any time, this overview is regularly updated.

6.5 Legal structure of de Volksbank

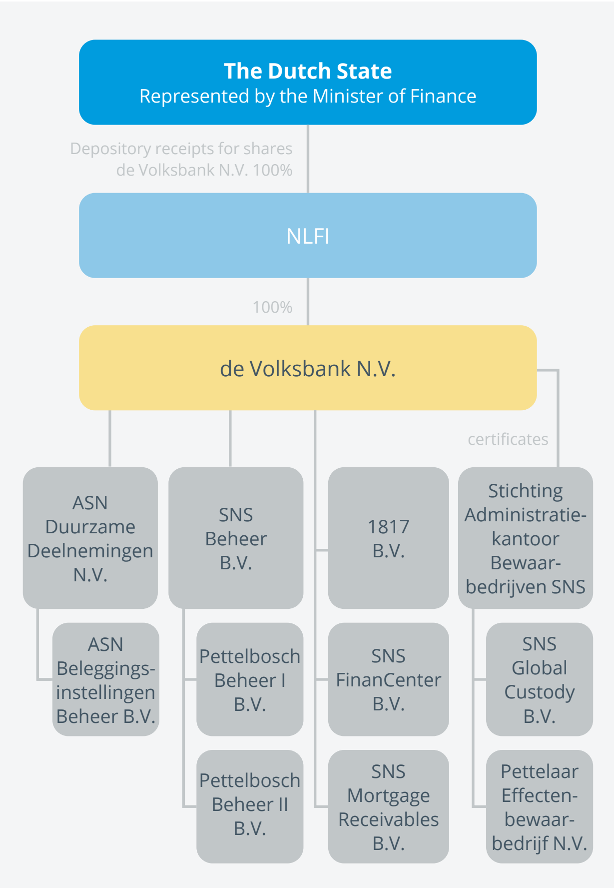
On 30 March 2019, de Volksbank as the acquiring legal entity was merged with de Volksholding as the disappearing legal entity. As a result, NLFI now directly holds 100% of the share capital of de Volksbank on behalf of the Dutch State. NLFI is a foundation with a statutory task established by the Minister of Finance and was established to exercise the shareholder rights on behalf of the Dutch State in a number of financial institutions in a businesslike, non-political manner and to separate the interests in a transparent manner. The aforementioned merger is related to the consequences of the interpretation of the European Banking Authority (EBA) of Article 82 of the Capital Requirements Regulation on the capital position of de Volksbank (for more information, also refer to 4.8.4 Capital Structure).

In future, de Volksbank intends to focus more on its core activities (for more information on these core activities see Chapter 2 Our strategy).

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

The overview comprises a statement of all wholly-owned subsidiaries as at 31 December 2019.

For more information see www.devolksbank.nl



6.6 Remuneration Report

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). Men and women who do the same job are rewarded equally in an equal situation. The salary of the Chairman of the Board is in reasonable proportion to the salaries of the other employees (also see Pay ratios). 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 salary supplement as compensation for the loss of pension accrual above € 107,593 and a lease car.

Fixed annual income

On 1 July 2019, 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. As from that date, the fixed annual income of the Chairman of the Board amounts to € 417,197 and the fixed annual income of the other members of the Board to € 320,176. The remuneration policy includes a higher salary of € 341,522 for the other members of the Board. Apart from collective agreement salary increases, members of the Board are not entitled to other increases of the 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 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 are 14% and 24% below the general market median, respectively. For the fixed and variable remuneration (short and long term) in the general market, this is 47% and 58% below the median, respectively.

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 our 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 2019

Objectives/ Shared value		KPI	Weighting
Customer	1	Net Promoter Score (NPS)	15%
	2	Number of current account customers	10%
Society	4	Climate-neutral balance sheet	12.5%
	5	Financial resilience	12.5%
Employee	6	Genuine attention	25%
Shareholder	7	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 (competences, cultural profile and critical success factors). The Supervisory Board has assessed the achievement of the various performance targets for 2019 and has concluded that the Board achieved 72,5% of the targets.

The performance targets for 2020 are shown in the table below. For the achievement of these targets, please refer to Chapter 3 Banking with a human touch.

Performance year 2020

Objectives/ Shared value		KPI	Weighting
Customer	1	Net Promoter Score (NPS)	15%
	2	Current account customers	10%
Society	3	Climate-neutral balance sheet	12.5%
	4	Financial resiliance	12.5%
Employee	5	Oprechte aandacht	25%
Shareholder	6	Return on Equity (excluding the CRO) or Common Equity Tier 1 ratio (only the CRO)	25%
			100%

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 over € 107,593, members of the Board (including the Chairman) receive a gross supplement of 16,35% of the income above that limit. This is laid down in the collective agreement of de Volksbank and is applicable up to and including 31 December 2020. An evaluation of the possible continuation of this compensation will 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 (including the Chairman) will receive one year's fixed annual income as redundancy compensation at the maximum.

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

	Position	Fixed remuneration [1]		Pension[2]		Other[3]		Total	
in € thousands		**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Maurice Oostendorp	CEO	413	408	22	21	91	92	526	521
Jeroen Dijst	CRO	317	314	22	21	58	58	397	393
Marinka van der Meer[4]	CCO	317	82	22	6	52	13	391	101
Mirjam Verhoeven[5]	COO	206	--	14	--	36	--	256	--
Annemiek van Melick[6]	CFO	211	314	15	21	40	73	266	408
							--		
Alexander Baas		--	261	--	21	--	65	--	347
Total Board of Directors		**1,464**	**1,379**	**95**	**90**	**277**	**301**	**1,836**	**1,770**

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 salary supplement as compensation for the loss of the pension accrual in excess of € 107.593, the addition for the use of a company car and social security contributions.

4 Remuneration as from 28-9-2018

5 Remuneration as from 9-5-2019

6 Remuneration up to 1-9-2019; after this date the CFO position was held by the CEO.

Alexander Baas stepped down as member of the Board of de Volksbank with effect from 1 January 2019. As from this date he was appointed Director of de Volksbank's Service Center Customers, Payments and Savings.

In connection with the departure of Annemiek van Melick, the Supervisory Board has decided to nominate Pieter Veuger for appointment by NLFI as a member of the Board in the position of Chief Financial Officer (CFO). The intended appointment is subject to the approval by the external supervisory authorities. This approval has not yet been received. The Works Council has given positive advice.

Pay ratio

Our standard is that the Chairman of the Board of Directors does not earn more than ten times the median salary[7] within de Volksbank. For the past five years, we see the following:

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

Pay ratio

	2019	2018	2017	2016	2015
Ratio between the remuneration of the Chairman of the Board and the median employee salaries at de Volksbank (excl. Chairman)	7:1	6:1	7:1	7:1	7:1

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 that were outstanding on 31 December 2019.

Loans to members of the Board of Directors

	Outstanding 31 December	Average interest rate	Redemption
in € thousands	**2019**	**2019**	**2019**
Mirjam Verhoeven	37	5.40%	10

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.

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 Committee	7,000
Member Risk Committee	4,900

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 2019.

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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Jan van Rutte (Chairman)	44	44	5	8	49	52
Monika Milz	31	31	12	11	43	42
Sonja Barendregt-Roojers	31	31	12	10	43	41
Jos van Lange[3]	31	21	12	8	43	29
Aloys Kregting[4]	31	11	10	3	41	14
Charlotte Insinger[5]	--	8	--	2	--	10
Ludo Wijngaarden[5]	--	9	--	4	--	13
Totaal	**168**	**155**	**51**	**46**	**219**	**201**

1 Annual fixed compensation for the membership/chairmanship of the Supervisory Board.
2 Annual compensation for one or more committees, including the expense allowance.
3 Compensation as from 1-5-2018
4 Compensation as from 24-08-2018.
5 Compensation up to and including until 19-04-2018

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
In 2019, no loans were provided to members of the Supervisory Board and no loans were outstanding on 31 December 2019.

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 Committee of the Supervisory Board. This year, however, the remuneration policy was discussed in the People and Organisation Committee rather than in the Risk 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 the implementation thereof. 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 on compliance with laws and regulations, the policy and 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 as set out in the Banking Code on remuneration policy. The Supervisory Board also discusses any material retention, signing-on and buy-out fees 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 buy-out fees 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 jointly supervise the remuneration policy and compliance thereof. Audit periodically performs independent audits into the drawing up and implementation of the remuneration policy.

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Consolidated financial statements

Consolidated balance sheet

Before result appropriation and in € millions	Notes[1]	31-12-2019	31-12-2018
ASSETS			
Cash and cash equivalents	2	2,026	815
Derivatives	3	718	732
Investments	5	5,350	4,782
Loans and advances to banks	6	3,791	3,589
Loans and advances to customers	7	50,461	50,536
Tangible and intangible assets	8	128	69
Tax assets	9	99	133
Other assets	10	268	292
Total assets		**62,841**	**60,948**
EQUITY AND LIABILITIES			
Savings	11	38,404	37,376
Other amounts due to customers	12	10,641	10,841
Amounts due to customers		**49,045**	**48,217**
Amounts due to banks	13	541	1,116
Debt certificates	14	6,906	5,822
Derivatives	3	1,841	1,120
Tax liabilities	9	15	15
Other liabilities	15	492	487
Provisions	17	64	98
Subordinated debts	18	502	502
Total other liabilities		**10,361**	**9,160**
Share capital		381	381
Other reserves		2,779	2,922
Retained earnings		275	268
Shareholders' equity		**3,435**	**3,571**
Total equity and liabilities		**62,841**	**60,948**

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]	2019	2018
INCOME			
Interest income	25	1,263	1,330
Interest expense	25	388	422
Net interest income		**875**	**908**
Fee and commission income	26	118	110
Fee and commission expenses	26	67	66
Net fee and commission income		**51**	**44**
Investment income	27	12	3
Other result on financial instruments	28	-10	2
Other operating income	29	1	1
Total income		**929**	**958**
EXPENSES			
Staff costs	30	373	402
Depreciation and amortisation of tangible and intangible assets		36	21
Other operating expenses	31	165	186
Impairment charges financial assets	32	-7	-12
Total expenses		**567**	**597**
Result before taxation		**362**	**361**
Taxation	33	87	93
Net profit attributable to shareholder		**275**	**268**

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	2019	2018
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Unrealised revaluations property and equipment	1	--
Change in other reserves	1	2
Total items never reclassified to profit or loss	**2**	**2**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-5	-5
Change in fair value reserve	5	-4
Total items that are reclassified to profit or loss	**--**	**-9**
Other comprehensive income (after tax)	**2**	**-7**

Total comprehensive income

in € millions	2019	2018
Net profit	275	268
Other comprehensive income (after tax)	2	-7
Total comprehensive income for the period	**277**	**261**

Consolidated statement of changes in equity

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	Retained earnings	Total equity
Balance as at 31 December 2018 (IAS 17)	381	3,787	6	31	14	-916	268	3,571
Change in accounting policies	--	--	--	--	--	-2	--	-2
Balance as at 1 January 2019 (IFRS 16)	**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 statement of changes in equity 2018

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	381	3,787	6	36	18	-1,057	329	3,500
Transfer of net result 2017	**--**	**--**	**--**	**--**	**--**	**139**	**-139[3]**	**--**
Unrealised revaluations	--	--	--	-2	--	--	--	-2
Realised revaluations through P&L	--	--	--	-3	-4	--	--	-7
Realised revaluations through equity	--	--	--	--	--	--	--	--
Other movements	--	--	--	--	--	2	--	2
Other comprehensive income	**--**	**--**	**--**	**-5**	**-4**	**2**	**--**	**-7**
Net result 2018	--	--	--	--	--	--	268	268
Total result 2018	**--**	**--**	**--**	**-5**	**-4**	**2**	**268**	**261**
Dividend pay-out	--	--	--	--	--	--	-190[4]	-190
Transactions with shareholder	**--**	**--**	**--**	**--**	**--**	**--**	**-190**	**-190**
Total changes in equity 2018	**--**	**--**	**--**	**-5**	**-4**	**141**	**-61**	**71**
Closing balance	**381**	**3,787**	**6**	**31**	**14**	**-916**	**268**	**3,571**

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 € 190 million.
4 Dividend paid out to de Volksholding

Consolidated cashflow statement

in € millions	Notes[1]	2019	2018
CASHFLOW FROM OPERATING ACTIVITIES			
Operating profit before tax		362	361
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible and intangible assets	8	20	21
Changes in other provisions and deferred tax	9, 17	-7	-17
Impairment charges and reversals	31	-7	-12
Unrealised results on investments through profit or loss	27	-60	--
Tax paid		-51	-55
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances to customers	7	75	-1,077
Change in liabilities to customers	12	-200	535
Change in advances to banks	6	-202	-946
Change in liabilities to banks	13	-575	-1,567
Change in savings	11	1,028	620
Change in trading portfolio	5	-10	162
Change in other operating activities		876	-127
Net cashflow from operating activities		**1,249**	**-2,102**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment and intangible assets	8	3	1
Sale and redemption of derivatives	3	-92	-8
Sale and redemption of investments	5	4,806	2,955
Purchase of intangible assets	8	--	--
Purchase of property and equipment	8	-11	-12
Purchase of derivatives	3	-100	--
Purchase of investments	5	-5,318	-2,926
Net cashflow from investment activities		**-712**	**10**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	18	--	--
Issues of debt certificates	14	2,191	3,020
Redemption of subordinated loans	18	--	--
Redemption of debt certificates	14	-1,093	-2,103
Redemption of lease liabilities	16	-13	--
Paid dividends		-161	-190
Paid capital distribution		-250	--
Net cashflow from financing activities		**674**	**727**
Net decrease of cash and cash equivalents		**1,211**	**-1,365**
Cash and cash equivalents as at 1 January	2	815	2,180
Change in cash and cash equivalents	2	1,211	-1,365
Cash and cash equivalents as at 31 December		**2,026**	**815**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		1,553	1,583
Dividends received		--	--
Interest paid		643	693

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 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 4 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).

On 30 March 2019, de Volksbank and its former parent company, Volksholding B.V., were legally merged. All rights and obligations of the Volksholding B.V. (disappearing legal person) have been transferred to de Volksbank (acquiring legal person) and the Volksholding B.V. has ceased to exist. As a result of the merger, the shares in de Volksbank are held directly by NLFI. The assets and liabilities of Volksholding B.V. consisted solely of the participation in de Volksbank and equity respectively. The fusion is processed as a continuation of de Volksbank and has no consequences for de Volksbank's financial statements.

Adoption of the financial statements

The consolidated financial statements of de Volksbank for the year ended 31 December 2019 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 5 March 2020. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 23 April 2020. The General Meeting of Shareholders has the possibility to amend the financial statements.

Basis of preparation

Statement of IFRS compliance

De Volksbank prepares the annual accounts 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.

Changes in published Standards and Interpretations effective in 2019

De Volksbank has applied IFRS 16 since 1 January 2019. A further explanation of the impact of IFRS 16 on de Volksbank's accounting principles is included in the section 'IFRS 16'. Comparative figures have not been adjusted in response to the application of IFRS 16.

In 2019, 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:

- Annual improvements to IFRS standards 2015-2017 cycle
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments

With the exception of IFRS 16, none of the above publications have a material effect on the consolidated financial statements.

IFRS 16 LEASES

IFRS 16, the new standard on leases, came into effect on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between 'operational' and 'financial' leases for lessees. It requires lessees to recognise nearly all leases on the balance sheet, reflecting their right to use an asset for a specific agreed period of time and the associated liability for payments. The introduction of IFRS 16 has resulted in an increase in assets and liabilities for leases on the balance sheet.

Lessor accounting remained nearly unchanged under IFRS 16 compared to IAS 17. IFRS 16 did not impact lease contracts in which de Volksbank is lessor.

IFRS 16 contains a number of practical expedients. De Volksbank has made the following accounting policy choices:
- Short-term leases: we do not capitalise short-term leases;
- Low-value leases: we do not capitalise low value leases (determined at € 5,000 or less);
- Portfolio application: de Volksbank applies the portfolio approach in order to calculate lease contracts with comparable characteristics not on an individual basis but on a portfolio basis;
- Separating non-lease component: we separate the non-lease component from the lease component;
- Discount rates (only at transition): a single discount rate is used to a portfolio of leases with reasonably similar characteristics;
- Initial direct costs (only at transition): excluded from the measurement of the right-of-use asset at the date of initial application; and
- Hindsight (only at transition): hindsight is used in determining the lease term if the lease contains options.

In 2018, all leases were identified and the effect of applying IFRS 16 was determined. The main leases entered into by de Volksbank are property leases. Under IFRS 16, these leases are recognised on the balance sheet. De Volksbank applied IFRS 16 as from 1 January 2019 using the adjusted retrospective transition method, whereby comparative figures 2018 are not adjusted. On the transition date the practical expedient offered in IFRS 16 is used to classify the contracts that were classified as operating lease under IAS 17, also as leases under IFRS 16.

Extension and termination options are taken into account when determining the lease liability if it is reasonably certain that these options will be exercised. Because the rate implicit in the contract cannot be readily determined the incremental borrowing rate of de Volksbank is used.

The introduction of IFRS 16 had an increasing effect of € 76 million as at 1 January 2019 on the assets of de Volksbank, which are 100% risk weighted in prudential reporting. The right-of-use assets are presented in the line item tangible and intangible assets. In addition, equity is negatively affected by € 2 million. The lease liabilities are presented in the line item other liabilities. The effect on profit or loss is nil. The average weighted incremental borrowing rate is approximately 2%.

Reconciliation off-balance sheet commitment under IAS 17 to on balance liability under IFRS 16

in € millions	
Off-balance sheet commitments IAS 17 as of 31 December 2018	91
Discounting	-5
service costs	-5
Pre-payments	-3
Other	-2
Lease liability under IFRS 16 as of 1 January 2019	**76**

Interpretations of existing standards or amendments to standards, not yet effective in 2019

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 2020 were not early adopted by de Volksbank.
- IFRS 17 Insurance Contracts
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to IFRS 3 Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The changes that are most relevant and may have a material impact on the financial statements of de Volksbank are discussed below.

INTEREST RATE BENCHMARK REFORM (AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7)

In 2019 and 2020, the reference rates (IBORs) for variable-interest financial instruments will be replaced by Alternative Reference Rates (ARR). As a result of this conversion, certain IFRS 9, IAS 39 and IFRS 7 hedge accounting requirements will be amended from 1 January 2020. In order to limit possible hedge accounting issues, practical expedients are being implemented, which will help to make the transition without hedge accounting issues. The practical expedients relate in particular to a reduction of the requirements for prospective and retrospective testing, so that the application of hedge accounting can be continued.

Changes in accounting policies, estimates and presentation

Change in estimates

An estimate change was made in 2019 when determining the provisions for retail mortgages as a result of more experience and new information. The most important changes are the implementation of the revised IFRS 9 ECL model for retail mortgages and the improved methodology for interest-only mortgages. The change in estimate has an increasing impact of € 12 million on credit provisions at 31 December 2019.

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 in as far as these have not been affected by the introduction of IFRS 9. Further explanation of changes resulting from the introduction of IFRS16 is included in section 'IFRS 16'. 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 4 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.

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 these de Volksbank 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.

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 2019 there are no acquisitions or other disposals.

1 Financial assets and liabilities

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	14	5,350
Loans and advances to banks	3,791	--	--	3,791
Loans and advances to customers	50,461	--	--	50,461
Total financial assets	**59,587**	**2,027**	**732**	**62,347**
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
Total financial liabilities	**56,994**	**--**	**1,841**	**58,835**

Overview of financial assets and liabilities by measurement base 2018

in € millions	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Cash and cash equivalents	815	--	--	815
Derivatives	--	--	732	732
Investments	2,868	1,911	3	4,782
Loans and advances to banks	3,589	--	--	3,589
Loans and advances to customers	50,536	--	--	50,536
Total financial assets	**57,809**	**1,911**	**735**	**60,454**
Savings	37,376	--	--	37,376
Other amounts due to customers	10,841	--	--	10,841
Amounts due to banks	1,116	--	--	1,116
Debt certificates	5,822	--	--	5,822
Derivatives	--	--	1,120	1,120
Subordinated debt	502	--	--	502
Total financial liabilities	**55,657**	**--**	**1,120**	**56,777**

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 banking 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	2019	2018
Non-restricted demand deposits at Dutch Central Bank[1]	1,797	576
Short-term bank balances	185	190
Cash	44	49
Total	**2,026**	**815**

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 2019, € 17 million of the short-term bank balances was encumbered on account of securitisations (2018: €33 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

	2019			2018		
	Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative
Macro fair value hedge - interest rate contracts	24,990	262	1,392	24,541	274	745
Micro fair value hedge - interest rate contracts	5,672	136	159	5,658	173	108
Micro fair value hedge - currency contracts	23	--	2	23	--	1
Total micro fair value hedge	**5,695**	**136**	**161**	**5,681**	**173**	**108**
Total fair value hedge	**30,685**	**398**	**1,553**	**30,222**	**448**	**853**
Cash flow hedge - interest rate contracts	**118**	**2**	**2**	**103**	**2**	**1**
				--	--	--
Economic hedge - interest rate contracts	6,070	98	63	6,456	116	81
Economic hedge - currency contracts	24,730	140	143	22,212	93	115
Total economic hedge	**30,800**	**238**	**206**	**28,668**	**209**	**196**
Trading- interest rate contracts	2,192	78	80	2,863	68	70
Trading- currency contracts	122	2	--	121	5	--
Total trading	**2,314**	**80**	**80**	**2,984**	**73**	**70**
Total	**63,917**	**718**	**1,841**	**61,977**	**732**	**1,120**

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.

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 profit and loss account.

Fair value hedge accounting
Derivatives that are designated as hedging the fair value of recorded 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 adjustment 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 Results 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 hedge specific embedded options in mortgages. It concerns mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to customers;
- 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. These are mortgages that have a fixed-rate interest period of more than 6 months. 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 retrospective and a prospective 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. 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. The hedge is set up once and will not be terminated. Effectiveness assessments are performed on a retrospective and a prospective basis and are measured using the dollar offset method.

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 and interest rate futures. The country or credit spread 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 retrospective and a prospective basis and are measured using the dollar offset method.

Cashflow hedges

Hedging floating interest rate cashflows

To reduce the variable interest rate cash flow risk in the investment portfolio, de Volksbank applies macro cash flow hedge accounting. 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 € 35 million positive (gross) as at 31 December 2019 (2018: € 41 million positive (gross)).

Hedged items in fair value hedges

	2019		2018	
in € millions	Carrying amount	Hedge adjustment included in the carrying amount	Carrying amount	Hedge adjustment included in the carrying amount
ASSETS				
MACRO FAIR VALUE HEDGES				
Loans and advances - interest rate risk	44,450	1,176[1]	43,826	463[2]
MICRO FAIR VALUE HEDGES				
Investments FVOCI - interest rate risk	1,111	32	1,037	15
Investments AC - interest rate risk	2,731	104	2,635	70
Loans and advances - interest rate risk	23	1	22	--
LIABILITIES				
MICRO FAIR VALUE HEDGES				
Issued debt - interest rate risk	2,216	107	2,321	149
Issued debt - foreign exchange risk	2	--	2	--

1 The macro hedge adjustment of € 1.176 million consists of € 1.046 million active hedges and € 130 million for discontinued hedges which are amortised.

2 The macro hedge adjustment of € 463 million consists of € 330 million active hedges and € 133 million for discontinued hedges which are amortised.

Effectiveness fair value hedges

in € millions	2019	2018
Fair value movements hedging instruments	-755	-216
Fair value movements hedged item attributable to hedged risks	746	217
Ineffectiveness macro fair value hedges	**-9**	**1**
Fair value movements hedging instruments	-99	-52
Fair value movements hedged item attributable to hedged risks	98	53
Ineffectiveness micro fair value hedges	**-1**	**1**

The ineffectiveness of fair value hedges is recognised in the income statement within Other result of financial instruments.

Nominal amount hedging instruments in 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**

Nominal amount hedging instruments in fair value hedges 2018

	Maturity				Fair value	
in € millions	≤1 year	> 1 year - 5 years	> 5 years	Total	Positive	Negative
Investments	225	1,579	1,702	3,506	3	108
Issued debt	60	1,654	439	2,153	170	--
Interest rate risk micro hedges	**285**	**3,233**	**2,141**	**5,658**	**173**	**108**
Loans and advances	--	21	--	21	--	1
Issued debt	--	2	--	2	--	--
Foreign exchange risk micro hedges	**--**	**23**	**--**	**23**	**--**	**1**
Total micro hedge instruments	**285**	**3,255**	**2,141**	**5,681**	**173**	**108**

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. A 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 under 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 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 4.3.3 Provisioning methodology.

Overview Investments

	Equity securities		Debt securities		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Amortised cost	--	--	3,309	2,868	3,309	2,868
Fair value through other comprehensive income	3	3	2,024	1,908	2,027	1,911
Fair value through P&L	4	3	10	--	14	3
Total	**7**	**6**	**5,343**	**4,776**	**5,350**	**4,782**

In 2019, the total value of investments increased from € 4,782 million in 2018 to € 5,350 million, mainly due to higher positions in cash management portfolios. All debt securities are, as well as in 2018, allocated to stage 1. The provision for credit losses on debt securities decreased during the year to € 2 million, from € 3 million at year-end 2018, due to releases of € 2 million and additions of € 1 million.
In 2018, part of the securities were pledged as collateral for repurchase contracts, which are recognised as amounts due to banks.

This is explained in more detail in note 22 Transferred and encumbered assets.

End of 2019 the investments in structured entities amounted to € 87 million (2018: € 785 million). This concerns mortgage-backed investments with an investment grade rating.

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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Opening balance	2,867	2,651	3	14	1,908	2,156	3	2	--	162	4,781	4,985
Reclassifications	--	48	--	--	--	-48	--	--	--	--	--	--
Purchases and advances	4,361	2,214	--	1	957	711	--	--	--	--	5,318	2,926
Disposals	-434	-31	--	--	-704	-126	--	--	--	--	-1,138	-157
Redemptions	-3,515	-2,006	--	--	-153	-792	--	--	--	--	-3,668	-2,798
Revaluations	42	6	--	-12	23	16	1	1	--	--	66	11
Change in trading portfolio	--	--	--	--	--	--	--	--	10	-162	10	-162
Impairments	1	-1	--	--	--	--	--	--	--	--	1	-1
Amortisation	-13	-13	--	--	-7	-9	--	--	--	--	-20	-22
Closing balance	**3,309**	**2,868**	**3**	**3**	**2,024**	**1,908**	**4**	**3**	**10**	**--**	**5,350**	**4,782**
(Amortised) cost price	3,309	2,868	8	8	1,970	1,877	3	3	10	--	5,300	4,756
Unrealised gains in value	--	--	-5	-5	54	31	1	--	--	--	50	26
Total	**3,309**	**2,868**	**3**	**3**	**2,024**	**1,908**	**4**	**3**	**10**	**--**	**5,350**	**4,782**

In 2018, € 10 million reported under equity securities of the negative revaluation was the result of improved insight into the rights accompanying a specific stake.

Breakdown of Investments (counterparty)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EQUITY SECURITIES								
Financial institutions	--	--	3	3	4	3	7	6
DEBT SECURITIES								
Government bonds	2,077	1,626	1,588	1,546	10	--	3,675	3,172
Local authorities	27	116	51	55	--	--	78	171
Other (corporate) bonds	1,205	1,126	385	307	--	--	1,590	1,433
of which: green and sustainable bonds	*927*	*595*	*272*	*15*	--	--	*1,199*	*610*
Total debt securities	**3,309**	**2,868**	**2,024**	**1,908**	**10**	--	**5,343**	**4,776**
Total investments	**3,309**	**2,868**	**2,027**	**1,911**	**14**	**3**	**5,350**	**4,782**

Breakdown of Investments (rating)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
AAA	1,546	1,518	1,366	1,251	--	--	2,912	2,769
AA	1,196	1,088	531	635	--	--	1,727	1,723
A	567	262	130	22	10	--	707	284
No rating	--	--	--	3	4	3	4	6
Total	**3,309**	**2,868**	**2,027**	**1,911**	**14**	**3**	**5,350**	**4,782**

Breakdown of Investments (countries)

	Amortised cost		Fair value through OCI		Fair value through P&L		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Germany	740	627	799	784	--	--	1,539	1,411
Netherlands	755	742	391	403	--	--	1,146	1,145
France	494	473	199	72	--	--	693	545
Belgium	270	340	229	287	--	--	499	627
Austria	187	228	69	134	--	--	256	362
Luxembourg	139	199	159	104	--	--	298	303
Ireland	134	132	27	16	--	--	161	148
Finland	124	101	--	32	--	--	124	133
Spain	--	--	96	--	10	--	106	--
Japan	407	14		--	--	--		14
Other countries	59	12	58	79	4	3	121	94
Total	**3,309**	**2,868**	**2,027**	**1,911**	**14**	**3**	**5,350**	**4,782**

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 a 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	**2019**	**2018**
Deposits	3,368	3,185
Restricted demand deposits at Dutch Central Bank[1]	423	404
Total	**3,791**	**3,589**

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 € 1,310 million of the total deposited collateral on derivative transactions (2018: € 878 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 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 deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well. De Volksbank applies a specific default definition for each portfolio for which loan loss provisions are determined under IFRS 9. For more information about the stage allocation process, please refer to section 4.3.3 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 debit:

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

Specification loans and advances to customers

	Loans		Provisions		Book value	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Retail mortgages	48,161[1]	47,320[1]	-71	-58	48,090	47,262
Other retail loans	87	110	-14	-24	73	86
SME loans	704	743	-31	-41	673	702
Other commercial loans and loans to the public sector	1,628	2,489	-3	-3	1,625	2,486
Total	**50,580**	**50,662**	**-119**	**-126**	**50,461**	**50,536**

1 Including IFRS value adjustments of € 1,198 million (2018: € 496 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 (2018: € 17.7 billion), of which € 11.7 billion (2018: €11.6 billion) is on own book. There is a limited transfer of risks and benefits for the securitised mortgage claims. 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, € 254 million (2018: € 708 million) relates to loans and advances to VIVAT. VIVAT is participating in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. In relation to this, VIVAT receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. The same amount is recognised as financing from VIVAT in note 12 Other amounts due to customers.

The total provision for loans and advances amounted to € 119 million as at 31 December 2019 (end of 2018: € 126 million). The decline in provisions was mainly visible in SME loans and other retail loans.
Retail mortgage provisions rose in connection with additional provisions for interest-only mortgages and adjustments to the provisioning model.
Provisions for other retail loans and SME loans both dropped by € 10 million, on the back of the granting of a limited number of new loans, favourable macroeconomic conditions and continuous efforts to reduce the risk in the portfolio, especially of customers in default. A provision was included in the portfolio of other commercial loans and loans to the public sector as one customer defaulted. However, this is offset by the release of other loans in this portfolio.

Section 4.3 Credit risk contains more information about loans and advances to customers. Section 4.3.2 Management and control includes information about how the loan portfolio is subdivided and how it is managed. Section 4.3.3 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 4.3.4 Figures, ratios and trends up to and including Section 4.3.8 Loans and advances to the public sector.

Statement of changes in loans and advances to customers (gross)

	Retail mortgages		Other retail loans		SME loans		Other[1]		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Opening balance	**47,320**	45,846	**110**	142	**743**	786	2,489	2,674	50,662	49,448
Reclassifications	**--**	-7	**--**	--	**--**	15		-12	--	-4
Advances	**5,733**[2]	6,153[2]	**1**	--	**1**	35	3,312[3]	8,864[3]	9,047	15,052
Redemptions	**-5,623**[4]	-4,866[4]	**-1**	--	**-41**	-94	-4,166[3]	-9,052[3]	-9,831	-14,012
Divestments	**--**	--	**--**	-4	**--**	--	--	--	--	-4
Change in fair value as a result of hedge accounting	**712**	190	**--**	--	**--**	--	--	--	712	190
Exchange rate differences	**--**	--	**--**	--	**--**	--	2	--	2	--
Movement in accrued interest	**-7**	-8	**--**	--	**--**	1	-4	-2	-11	-9
Movement in current accounts	**--**	--	**-23**	-28	**--**	--	-5	5	-28	-23
Other movements	**26**	12	**--**	--	**1**	--	-66	12	-39	24
Closing balance	**48,161**	**47,320**	**87**	**110**	**704**	**743**	**1,562**	**2,489**	**50,514**	**50,662**

1 Other commercial loans and loans to the public sector.

2 The advances include conversions, 'extra ruimte' mortgages and bridging loans. The conversions amounted to € 209 million (2018: € 237 million), 'extra ruimte' mortages and bridging loans amounted to € 868 million (2018: € 761 million).

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

4 The redemptions include conversions, 'extra ruimte' mortgages and bridging loans. The conversions amounted to € 270 million (2018: € 305 million), 'extra ruimte' mortages and bridging loans amounted to € 931 million (2018: € 693 million).

Movement in current accounts of € 23 million (2018: € 28 million) relates to short-term exposures.

Statement of changes in specific provision loans and advances to customers

in € millions	Retail mortgages 2019	Retail mortgages 2018	Retail other loans 2019	Retail other loans 2018	SME loans 2019	SME loans 2018	Other[1] 2019	Other[1] 2018	Total 2019	Total 2018	Off-balance[2] 2019	Off-balance[2] 2018
Opening balance	**58**	74	**24**	34	**41**	49	**3**	1	**126**	158	**5**	8
Reclassification	6	--	--	--	--	--	--	--	**6**	--	--	--
Change in credit risk	12	1	5	5	-1	--	--	2	**16**	8	1	-2
Originated or purchased loans	4	2	--	--	--	--	--	--	**4**	2	--	--
Matured or sold loans	-11	-6	-3	-3	-5	-5	--	--	**-19**	-14	--	-1
Changes in estimates	11	--	--	--	--	--	--	--	**11**	--	--	--
Impairment charges (releases)	**16**	-3	**2**	2	**-6**	-5	**--**	2	**12**	-4	**1**	-3
Write-offs	-9	-13	-12	-12	-4	-3	--	--	**-25**	-28	--	--
Closing balance	**71**	58	**14**	24	**31**	41	**3**	3	**119**	126	**6**	5
Impairment charges (releases)	16	-3	2	2	-6	-5	--	2	12	-4	1	-3
Recoveries and other charges trough P&L	-14	-4	-3	--	-2	--	--	-1	-19	-5	--	-1
Total impairment charges (releases)[3]	**2**	-7	**-1**	2	**-8**	-5	**--**	1	**-7**	-9	**1**	-4

1 Other commercial loans and loans to the public sector.

2 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 aslo note 17).

3 The total impairment charges (releases) for the period excludes cahrges (releases) for investments, these amount a reversal of € 1 million (2018: impairment of € 1 million).

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 realisable value and the value in use. The realisable value 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 of the realisable value 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	2019	2018
Land and buildings in own use	17	16
IT equipment	11	14
Other tangible assets	26	33
Right of use of lease contracts	71	--
Total property and equipment	**125**	**63**
Internally developed software	1	4
Distribution channel RegioBank	1	2
Total intangible assets	**2**	**6**
Total	**127**	**69**

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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Accumulated acquisitions costs	21	21	34	30	75	76	130	127
Accumulated revaluations	1	--	--	--	--	--	1	--
Accumulated amortisation and impairments	-5	-5	-22	-16	-50	-43	-77	-64
Closing balance	**17**	**16**	**11**	**14**	**25**	**33**	**54**	**63**
Opening balance	16	17	14	12	33	38	63	67
Revaluations	1	--	--	--	--	--	1	--
Investments	--	--	6	8	5	4	11	12
Divestments	--	-1	-2	--	-1	--	-3	-1
Depreciation	-1	--	-6	-6	-9	-9	-16	-15
Impairments	1	--	-1	--	-2	--	-2	--
Closing balance	**17**	**16**	**11**	**14**	**26**	**33**	**54**	**63**

At year-end 2019 the renovations to the leased office premises, which are not yet in use, amount to €1.1 million (2018: € 0.4 million).

Statement of changes in intangible assets

	Internally developed software		Distribution channel RegioBank		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Accumulated acquisition costs	15	15	21	21	36	36
Accumulated amortisation and impairments	-14	-11	-20	-19	-34	-30
Closing balance	**1**	**4**	**1**	**2**	**2**	**6**
Opening balance	4	10	2	4	6	14
Depreciation capitalised costs	-3	-4	--	--	-3	-4
Depreciation purchases	--	--	-1	-2	-1	-2
Divestments	--	-2	--	--	--	-2
Impairments	--	--	--	--	--	--
Closing balance	**1**	**4**	**1**	**2**	**2**	**6**

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**
2019	**12**	**17**	**71%**
2018	12	16	77%
2017	12	17	71%

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.

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 receivables 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 realization included in the income statement together with the deferred revaluations.

Specification tax assets and liabilities

	Tax assets		Tax liabilities	
in € millions	**2019**	**2018**	**2019**	**2018**
Corporate income tax	56	63	--	--
Deferred taxes	43	70	15	15
Total	**99**	**133**	**15**	**15**

CORPORATE INCOME TAX

Corporate income tax receivable and payable for the years up to and including 2017 is irrevocable. The return for 2017 was filed in 2019 and definitively assessed in October 2019. 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. The corporate income tax return for 2018 must be filed before 1 May 2020.

Origin of deferred tax assets and liabilities 2019

in € millions	Balance as at 1 January 2019	Change through P&L	Change through equity	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**

Origin of deferred tax assets and liabilities 2018

in € millions	Balance as at 1 January 2018	Change through P&L	Change through equity	Other movements[1]	Closing balance
Intangible assets	-1	--	--	--	-1
Property and equipment	1	1	--	--	2
Investments	-5	--	1	--	-4
Derivatives	-12	--	2	--	-10
Loans and advances to customers	90	-25	--	-7	58
Provisions	17	-9	--	--	8
Other	2	--	--	--	2
Total	**92**	**-33**	**3**	**-7**	**55**

1 Concerns the impact of a corporate tax rate reduction thorugh the P&L and through equity.

Specification tax-effect changes shareholders' equity

in € millions	2019	2018
Change in cashflow hedge reserve	1	2
Change in fair value reserve	-2	1
Total	**-1**	**3**

Tax-deductible losses

in € millions	2019	2018
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 2019 mostly related to a temporary valuation difference in loans and advances to customers. The remaining term of this temporary valuation difference is 1,5 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 accrued assets and other advances, including other taxes. The other taxes are recognised at nominal value. The remaining other advances and accrued assets are recognised at amortized cost. The net amount of claims and provisions in relation to the Deposit Guarantee Scheme (DGS) is recorded under accrued assets.

Specification other assets

in € millions	2019	2018
Accrued assets	162	148
Other advances	106	143
Total	**268**	**292**

Other accrued assets include the advanced contribution of de Volksbank to the Dutch Central Bank of € 58 million (2018: € 57 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank.

11 Savings

ACCOUNTING POLICY FOR SAVINGS
Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of households. Upon 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	2019	2018
Due on demand	34,080	32,871
Other savings	4,324	4,505
Total	**38,404**	**37,376**

The bank savings accounts amount to € 3,542 million (2018: € 3,452 million). The life-course savings accounts amount to € 158 million (2018: € 178 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 mortgage deposits.

Upon 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	2019	2018
Private loans	917	931
Private loans securitisation programme	254	708
Due on demand	6,951	6,470
Mortgage deposits	381	462
Savings deposits	2,138	2,270
Total	**10,641**	**10,841**

Under private loans, € 478 million relates to debt instruments (Schuldscheine) issued by pension funds and insurance companies (2018: € 557 million).

A part of the private loans is issued by the covered bond programme of de Volksbank. The book value of the private loans amounts to € 430 million (2018: € 361 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 € 254 million (2018: € 708 million) relate to the amount for which VIVAT participates in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. For securitised offset mortgages, account is taken of the savings part accrued by means of a sub-participation of VIVAT in the securitisation entity. VIVAT 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 VIVAT.

As part of an offset mortgage arrangement, de Volksbank and insurer Vivat 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 offset mortgage claims. In 2019, the savings capital accrued totalled € 1.468 million (2018: € 1,550 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.

Upon 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	2019	2018
Due on demand	159	180
Deposits and certificates	349	417
Repo-contracts	--	484
Private loans	33	35
Total	**541**	**1,116**

Under private loans, € 33 million (2018: € 35 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. Outstanding debt certificates are measured at fair value upon initial recognition, 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	2019	2018
Medium-term notes (MTN)	6,062	4,937
Certificates of deposits	322	225
Debt certificates issued under Pearl and Lowland Securitisation programmes	522	609
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	--	51
Balance as at 31 December	**6,906**	**5,822**

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Issued under securitisation programmes		Holland Homes		Total	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Opening balance	4,937	3,294	225	472	609	711	51	440	5,822	4,917
Issues	1,212	1,751	979	1,269	--	--	--	--	2,191	3,020
Redemptions	-72	-94	-883	-1,516	-87	-102	-51	-391	-1,093	-2,103
Amortisation	4	4	1	--	--	--	--	2	5	6
Change accrued interest	3	10	--	--	--	--	--	--	3	10
Other adjustments	-22	-28	--	--	--	--	--	--	-22	-28
Closing balance	**6,062**	**4,937**	**322**	**225**	**522**	**609**	**--**	**51**	**6,906**	**5,822**

Medium Term Notes

Specification Medium Term Notes

in € millions[1]	Coupon rate	Book value 2019	Nominal value 2019	Book value 2018	Nominal value 2018
De Volksbank N.V.	Fixed	5,540	5,489	4,308	4,242
De Volksbank N.V.	Structured	124	93	189	160
De Volksbank N.V.	Floating	398	397	440	432
Total		**6,062**	**5,979**	**4,937**	**4,834**

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, € 4.0 billion (2018: € 3.3 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 deterioration of the mortgage loans. CBC is fully consolidated by de Volksbank.

With regards to the covered bond program 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.

Of the Medium Term Notes issued in 2019, € 0.5 billion was issued in a public transaction in January with an interest rate of 0.5% and a maturity of 7 years. In addition, € 0.5 billion was issued in a public transaction in September 2019 with an interest rate of 0,01% and a maturity of 5 years.

Certificates of Deposit

Certificates of Deposit are debt securities with a fixed interest rate and a short-term maturity. At the end of 2019, de Volksbank issued € 322 million (2018: € 225 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 compensation. A positive result within the separate companies leads to the creation of a positive value of the deferred compensation. 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			**2019**	**2018**		
Pearl 1	1,014	09-2006	600	687	18-09-2026	18-09-2047
Lowland 4	4,114	02-2017	4,083	4,067	18-02-2022	18-02-2054
Lowland 5	5,027	05-2018	5,012	5,007	18-05-2023	18-05-2055
Lowland 6	2,500	10-2018	2,494	2,492	18-10-2023	18-10-2055
Total	**12,655**		**12,189**	**12,253**		
On own book			-11,667	-11,644		
Total			**522**	**609**		

At year-end 2019, de Volksbank held securitisation programme bonds on its own book at an amortised cost of € 11.7 billion (2018: € 11.6 billion).

Part of the senior tranches of Pearl 1 and Lowland 4 securitisations are held for own account and qualify as eligible assets at the European Central Bank.

Holland Homes securitisation programmes

In 2019 de Volksbank has, besides its regular securitisation programmes, securitised part of its mortgages through the Holland Homes transactions. Companies established for the purpose of these transactions (special purpose entities, SPEs) are funded through long-term bonds issued by these SPEs. The obligations to bondholders and the income from the mortgages are matched by means of interest rate swaps

Specification Holland Homes securitisatisation programme

	Initial principal	Start of securitisation	Book value		Date put-option	Contractual expiration
in € millions			**2019**	**2018**		
Holland Homes (MBS 2000-1)	350	11-2000	--	51	n.a.	24-09-2030
On own book			--	--		
Total			**--**	**51**		

In 2019 the debt certificates Holland Homes (2000-1) were redeemed.

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	2019	2018
Other taxes	16	16
Other liabilities	406	471
Lease liabilities	70	--
Total	**492**	**487**

For the accounting principles and a more detailed explanation to the lease liabilities, see note 16 Lease contracts.

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	2019
Opening balance	79
Additions	5
Depreciation expense	-13
Impairments	--
Closing balance	**71**

Statement of changes in lease liabilities

in € millions	2019
Opening balance	76
Additions	6
Interest expenses	1
Lease payments	-13
Closing balance	**70**

Expenses relating to short-term lease contracts and expenses relating to low-value assets both were nil in 2019.

The total cash flow from leases during the financial year amounts to € 9 million.

For an overview of the future cash flows from lease contracts, refer to Section 4.6.5 Funding strategy

Income from property sublease amounts to € -3 million in 2019.

Future lease payments to be received

in € millions	2019
1 year	3
2 years	3
3 years	1
4 years	--
5 years	--
> 5 years	--
Totaal	**7**

For more information on the transition from IAS 17 to IFRS 16, you are referred to the accounting principles. For more information about off-balance sheet commitments under IAS 17, please refer to note 19 Off-balance sheet commitments.

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	2019	2018
Employee commitments	16	16
Restructuring provision	15	42
Other provisions	27	35
Provision for credit losses off-balance sheet items	6	5
Total	**64**	**98**

See note 19 Legal proceedings for a more detailed explanation of the main pending legal proceedings against de Volksbank.

The restructuring provision was reassessed in 2019. An amount of € 6 million was added to the restructuring provision. This addition was related to further initiatives to simplify and improve our business operations. In addition, withdrawals amounted to € 33 million in 2019. The restructuring provision runs up to and including 2020.

The employee commitments and other provisions are predominantly long-term in nature.

Statement of changes in other provisions

	Employee commitments		Restructuring provision		Other provisions	
in € millions	2019	2018	2019	2018	2019	2018
Opening balance	16	16	42	41	35	68
Additions	3	1	6	21	6	--
Withdrawals	-1	-1	-33	-20	--	-23
Releases	-2	--	--	--	-9	-10
Closing balance	**16**	**16**	**15**	**42**	**27**	**35**

Movements in the loan loss provision related to off-balance sheet items are shown in note 7 Loans and advances customers.

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.

The (Tier 2) bonds have a book value of € 502 million as at 31 December 2019 (2018: € 502 million). These subordinated debts were placed in 2015 for a total amount of € 500 million. The bonds, with a maturity of ten years, have a fixed coupon rate of 3.75% and with a one-off option to redeem or to adjust the rate after five years.

Statement of changes subordinated debts

in € millions	2019	2018
Opening balance	502	501
Revaluations	--	1
Closing balance	**502**	**502**

19 Off-balance sheet commitments

ACCOUNTING POLICY FOR CONTINGENT LIABILITIES AND COMMITMENTS
Contingent liabilities are liabilities not recognised in the balance sheet whose existence is contingent on one or more uncertain future events that may or may not occur in the future not wholly within the control of de Volksbank. It is not possible to make a reliable estimate of such liabilities. This includes liabilities from pledges and guarantees given, liabilities from irrevocable facilities and repurchase commitments.

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	2019	2018
Liabilities from pledges and guarantees given	12	17
Liabilities from irrevocable facilities	1,406	1,348
Repurchase commitments	684	868
Total	**2,102**	**2,233**

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.

Some of the collateralised loans and advances of € 527 million (2018: € 623 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 € 157 million as at 31 December 2019 (2018: € 245 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	2019	2018
< 1 year	17	43
1 - 5 year	32	36
> 5 year	635	789
Total	**684**	**868**

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 € 34 million to the DGS in 2019 (2018: € 32 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 € 7 million (2018: € 14 million) to the NRF in 2019.

Future commitments

The introduction of IFRS 16 requires tenants to recognise almost all leases on the balance sheet. For more information on the current financial year, refer to note 16 Lease contracts. The table below on operating lease commitments therefore only relates to the explanation of the comparative figures under IAS 17. The future minimum operating lease commitments relate to leased premises.

Maturity calendar future minimum operating lease commitments

in € millions	2018
< 1 year	14
1 - 5 year	48
> 5 year	29
Total	91

The moment the future operating lease commitments were incurred, they were recognised under the item Other operating expenses. Part of the buildings are sublet to third parties. For a period of up to 1 year, this future rental income in 2018 amounted to € 3 million, and for a period of 1 to 5 years to € 8 million.

De Volksbank concluded some large long-term IT support contracts in the amount of € 43 million (2018: € 29 million).

Maturity calendar future IT commitments

in € millions	2019	2018
< 1 year	17	12
1 - 5 year	26	16
> 5 year	--	1
Total	**43**	**29**

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

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, and briefing in that appeal is scheduled to begin in December 2019. 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. A motion to dismiss briefing process is expected to begin with respect to those claims in early 2020.
- 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 group of defendants, including de Volksbank and SNS Global Custody, have asked the U.S. Supreme Court to hear an appeal of the Second Circuit's decision (and to reinstate the bankruptcy court's decision). If that appeal is unsuccessful, the cases will return to the bankruptcy court for further proceedings.

The 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 2019 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') 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 mid-2020. 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 his conclusion of 18 October 2019, the Procurator General of the Supreme Court concluded that the application for cassation should be dismissed. The Supreme Court will pass judgment on 21 February 2020.

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 position.

This applies to the compensation proceedings 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 final 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 October 2019 to which parties to the proceedings were entitled to respond until the beginning of November 2019 at the latest. The experts will thereupon assess if they will incorporate the reactions of the parties to the proceedings in their final report. The ruling of the Enterprise Chamber is expected in 2020. The Enterprise Chamber will determine whether compensation must be paid to those entitled to the expropriated securities and assets, and if so, for what amount. Any compensation resulting from this proceeding will be paid by the State.

Other

Interest rate derivatives

In the past, de Volksbank entered into interest rate derivatives with customers. At the request of the AFM request, de Volksbank reassessed its customers' interest rate derivatives in 2014 and 2015 in order to establish whether customers had been adequately advised in the past.

The Minister of Finance appointed three independent experts (the Committee of Experts) to set up a uniform recovery framework (Recovery Framework). This Recovery Framework defines how the new reassessments should be conducted and what corrective action should be taken.

De Volksbank started implementing the Recovery Framework in 2017. At year end, de Volksbank made an offer to all customers with a derivative that fall within the scope of this framework and informed all customers that fall outside this scope. The administrative processing and payment of the offers made was completed in the first half of 2019. The file on the Recovery Framework was closed in the second half of 2019. No provision for the Recovery Framework was therefore made at year-end 2019.

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 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	2,027	2,024	--	3	2,027
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	3,309	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**	**5,272**	**790**	**53,917**	**66,064**
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	--	35,236	3,656	38,892
Other amounts due to customers	10,641	--	10,707	--	10,707
Amounts due to banks	541	--	541	--	541
Other liabilities	492	--	--	--	492
Total financial liabilities	**59,327**	**515**	**48,269**	**10,865**	**60,141**

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 2018

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through OCI	1,911	1,857	50	4	1,911
Investments - fair value through P&L	3	--	--	3	3
Derivatives	732	--	664	68	732
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised costs	2,868	2,870	73	--	2,943
Loans and advances to customers	50,536	--	--	53,028	53,028
Loans and advances to banks	3,589	--	--	--	3,589
Other assets	292	--	--	--	292
Cash and cash equivalents	815	--	--	--	815
Total financial assets	**60,746**	**4,727**	**787**	**53,103**	**63,313**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,120	--	1,050	70	1,120
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	502	--	526	--	526
Debt certificates	5,822	--	--	5,911	5,911
Savings	37,376	--	33,493	4,352	37,845
Other amounts due to customers	10,841	--	10,971	--	10,971
Amounts due to banks	1,116	--	1,120	--	1,120
Other liabilities	487	--	--	--	487
Total financial liabilities	**57,264**	**524**	**46,634**	**10,333**	**57,978**

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 2019

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	3	4	68	70
Purchases/advances	--	--	--	--
Unrealised gains or losses recognised in P&L[1]	--	--	-13	-14
Unrealised gains or losses recognised in OCI[2]	--	--	--	--
Movement accrued interest	--	--	--	--
Closing balance	**3**	**4**	**55**	**56**

1 These are included in the line item Result on financial instruments.

2 These are included in the line item Fair value reserve.

Change in level 3 financial instruments 2018

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	2	15	83	169
Purchases/advances	--	1	--	--
Unrealised gains or losses recognised in P&L[1]	1	--	-15	-94
Unrealised gains or losses recognised in other comprehensive income[2]	--	-12	--	--
Movement accrued interest	--	--	--	-5
Closing balance	**3**	**4**	**68**	**70**

1 These are included in the line item Result on financial instruments.

2 These are included in the line item Fair value reserve.

Breakdown level 3 financial instruments

in € millions	2019	2018
Equity	7	7
Derivatives	55	68
Total assets	**62**	**75**
Derivatives	56	70
Total liabilities	**56**	**70**

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 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

Sensitivity non-market observable parameters financial instruments level 3 2018

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	68	-0,5% of +0,5%	6	6
		Pre-payment rate	68	-1% of +1%	2	2
LIABILITIES						
Derivatives	Discounted cashflow	Discount curve	70	-0,5% of +0,5%	4	3
		Pre-payment rate	70	-1% of +1%	4	3

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 programmes Hermes, Pearl and Lowland, 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. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-by-back by de Volksbank.

TRANSFERS BETWEEN CATEGORIES

No significant movements occurred in 2018 and 2019.

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 parent company de Volksholding, 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 receivables 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 € 38 million (2018: € 39 million).

Positions and transactions with managers in key positions

In 2019, de Volksbank's top management consists of the Board of Directors under the Articles of Association ('*statutaire Directie*') and one member who is not a member of the Board of Directors under the Articles of Association ('*niet-statutair lid*'). The latter concerns the period of Mirjam Verhoeven from the date of the intention to appoint until the date on which the formal appointment has taken place. The related costs for this period are recognized under others. During 2018, 2 board members resigned and 1 board member was appointed. At the end of 2019, four persons were regarded as managers in key positions (year-end 2018: 5 members).

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed annual income	1,741	1,680	130	466	1,871	2,146
Pension contribution	95	90	8	13	103	103
Termination benefits	--	--	--	311	--	311
Total	**1,836**	**1,770**	**138**	**790**	**1,974**	**2,560**

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 (salary) payments to compensate for the loss of pension above € 107,593 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Mortgage loans[1]	37	300	5.40%	3.60%	10	214	--	300

1 The decrease in outstanding mortgage loans is caused by the termination of the employment contract of one of the senior management members.

The table above provides an overview of the loans granted to managers in key positions that were outstanding on 31 December 2019. 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 6.6 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 FinanCenter 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%
Stichting Security PEARL Mortgage Backed Securities 1	Amsterdam	0%
Stichting Security Lowland Mortgage Backed Securities 3	Amsterdam	0%
Stichting Security Lowland Mortgage Backed Securities 4	Amsterdam	0%
Stichting Security Lowland Mortgage Backed Securities 5	Amsterdam	0%
Stichting Security Lowland Mortgage Backed Securities 6	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 (repurchase) 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, securitization 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	**2019**	**2018**	**2019**	**2018**
Debt certificates	--	--	--	484
Loans and advances	585	751	--	--
Total transferred assets as per year-end	**585**	**751**	**--**	**484**
Amounts due to banks	--	--	--	484
Debt certificates	522	660	--	--
- Issued under securitisation programmes Hermes, Pearl and Lowland	522	609	--	--
- Issued under securitisation programme Holland Homes	--	51	--	--
Total transferred liabilities as per year-end	**522**	**660**	**--**	**484**

In 2019, the transferred assets amounted to € 585 million (2018: € 1,235 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	**2019**	**2018**
Other investment instruments - debt securities	697	987
Loans and advances	9,177	8,278
Cash and cash equivalents	17	33
Loans and advances to banks	423	404
Closing balance	**10,314**	**9,702**

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 €156 million in collateral at year-end 2019 (2018: € 174 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 € 472 million (2018: € 452 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 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.

Financial assets and liabilities 2018

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	732	--	732	452	133	--	147
Total financial assets	**732**	**--**	**732**	**452**	**133**	**--**	**147**
Derivatives	1,120	--	1,120	452	593	--	75
Amounts due to banks	1,116	--	1,116	--	--	484	632
Total financial liabilities	**2,236**	**--**	**2,236**	**452**	**593**	**484**	**707**

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 2019 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 in the period to which they relate.

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	2019	2018
Interest income	1,263	1,330
Interest expenses	388	422
Net interest income	**875**	**908**

At year-end the interest income includes € 17 million (2018: € 19 million) interest income on impaired assets (stage 3).

Specification interest income

	2019			2018		
in € millions	Gross interest income	Hedging expenses	Total interest income	Gross interest income	Hedging expenses	Total interest income
Residential mortgages	1,318	-179	1,139	1,427	-217	1,210
of which financial instruments not using the effective interest rate method	*1*	*--*	*1*	*2*	*--*	*2*
Other loans and advances to customers	104	-4	100	95	--	95
Loans and advances to banks	8	--	8	2	--	2
Investments	40	-36	4	43	-37	6
Negative interest on liabilities	8	--	8	13	--	13
Other	4	--	4	4	--	4
Total	**1,482**	**-219**	**1,263**	**1,584**	**-254**	**1,330**

The negative interest expenses on liabilities are driven by the negative short-term EURIBOR interest rates. Interest income on financial assets not calculated using the effective interest method relates to commitment fees.

Specification interest expenses

in € millions	2019 Gross interest expenses	2019 Hedging income	2019 Total interest expenses	2018 Gross interest expenses	2018 Hedging income	2018 Total interest expenses
Debt certificates	80	-62	18	76	-68	8
Subordinated debt	19	--	19	19	--	19
Savings	182	--	182	215	--	215
Other amounts due to customers	138	--	138	152	--	152
Amounts due to banks	6	--	6	6	--	6
Negative interest on assets	25	--	25	20	--	20
Other	--	--	--	2	--	2
Total	**450**	**-62**	**388**	**490**	**-68**	**422**

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	2019	2018
FEE AND COMMISSION INCOME		
Money transfer and payment charges	41	36
Advice and agency activities	13	11
Management fees	46	48
Insurance agency activities	15	15
Other activities	3	--
Total fee and commission income	**118**	**110**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	--
Money transfer and payment charges	6	8
Management fees	19	21
Securities activities	1	1
Fee franchise	40	36
Total fee and commission expenses	**67**	**66**
Total	**51**	**44**

27 Investment income

ACCOUNTING POLICY FOR INVESTMENT INCOME
Investment income consists of dividend income and unrealised and realised and revaluations.

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 revaluations
This includes the unrealized and realized revaluations 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Realised gains	--	-4	11	6	--	--	11	2
Other result on investments	--	--	--	--	1	1	1	1
Total	**--**	**-4**	**11**	**6**	**1**	**1**	**12**	**3**

In 2018, the realised loss on the sale of debt securities at amortised costs of € 4 million concerned the phase-out of Italian debt securities for risk management purposes.

28 Other result on financial instruments

ACCOUNTING POLICY FOR OTHER RESULT ON FINANCIAL INSTRUMENTS
This line item includes revaluation result 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	**2019**	**2018**
Ineffectiveness fair value hedge accounting	-10	2
Ineffectiveness cash flow hedge accounting	--	--
Trading results derivatives, investments and other financial instruments[1]	2	4
Result on buy back of debt instruments	-2	-3
Other	--	-1
Totaal	**-10**	**2**

1 Includes the netted foreign result of the hedged positions and of the instrument used to hedge the currency risk. The netted foreign currency result in 2019 amounts to € 2 million (2018: € 4 million).

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 2019 amounted to € 1 million (2018: € 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	**2019**	**2018**
Salaries	175	180
Pension costs	38	40
Social security	33	34
Other staff costs	127	148
Total	**373**	**402**

The decrease in staff costs is largely due to a decrease in the additions 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 2019 (2018: 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% (2018: 5% of pensionable earnings (after deduction of the contribution-free amount). The existing administration agreement with Stichting Pensioenfonds SNS REAAL has been extended by three years until 31 December 2020. For the yearly contribution of de Volksbank with a range between 22% and 24%. The premium for 2019 consists of 24%.

Other staff costs consist largely of the costs of temporary staff, travel costs and education and training costs. The cost of hiring staff amount to € 96 million (2018: € 99 million) and an addition to the restructuring provision of € 6 million (2018: € 21 million).

Number of FTEs

in numbers	2019	2018
Number of FTEs	2,991	2,993

The variable remuneration for senior management was abolished and no variable remuneration has been paid out as from 2018. For 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 specified period of time (4 years). The last phantom shares were awarded in 2017. At year-end 2019, the total amount of liabilities arising from the phantom shares is € 269,004 (2018: € 525,042). This decrease is the result of distributions made in 2019.

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	2019	2018
Housing costs	6	18
Information technology costs	32	27
Marketing and public relations costs	28	30
Consultancy costs	14	22
Prudential costs	41	47
Other costs	44	42
Total	**165**	**186**

Lease commitments relating to the accommodation costs have been included in lease contracts as from 2019, see 16 Lease Contracts. As a result, the accommodation costs under other operating expenses decreased by €12 million compared with 2018.

Prudential costs include an amount of € 7 million (2018: € 14 million) in relation to de Volksbank's annual contribution to the Resolution Fund and € 34 million (2018: € 32 million) relates to Deposit Guarantee Scheme (DGS). Other costs comprise costs for payment transactions, securities management and printed matter.

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	2019	2018
Retail mortgages	2	-8
Other retail loans	-2	-1
SME loans	-8	-5
Other commercial loans and loans to the public sector	2	1
Investments	-1	1
Total impairments financial assets	**-7**	**-12**

In 2019, we saw a reversal of expected credit losses of financial assets of € 7 million, a decrease compared with a reversal of € 12 million in 2018.

Impairments on retail mortgages amounted to € 2 million after a reversal of € 8 million in 2018. Both periods saw a decrease in stage 3 loans following improved economic conditions, particularly with regard to the Dutch housing market and unemployment. In 2018, this resulted in a reversal of expected credit losses, despite an additional provision for stage 3 loans that had been in default for over 5 years.
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 in connection with adjustments in the provisioning model that particularly affected stage 2 loans.

The reversal of expected credit losses on other retail loans amounted to € 2 million (2018: € 1 million), mainly due to an interest correction for default loans.

The reversal of expected credit losses on SME loans amounted to € 8 million as a result of a decrease in stage 2 loans due to the improved economic outlook used in scenarios to determine the loan loss provision. Stage 3 loans also decreased due to a recovery of customers in default. In 2018, the aforementioned aspects also resulted in a reversal, partly offset by an additional charge for stage 3 loans that had been in default for over 5 years.

Impairments on other commercial loans and loans to the public sector amounted to € 2 million (2018: € 1 million).

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	2019	2018
In financial year	64	57
Prior year adjustments	--	-3
Corporate income tax due	**64**	**54**
Due to temporary differences	23	39
Deferred tax	**23**	**39**
Total	**87**	**93**

Reconciliation between the statutory and effective tax rate

in € millions	2019	2018
Statutory income tax rate	25.0%	25.0%
Result before tax	362	361
Statutory corporate income tax amount	**90**	**90**
Exemptions	--	1
Prior year adjustments (including tax provision release)	--	-3
Impact deferred corporate tax rate reduction	-3	5
Total	**87**	**93**
Effective tax rate	24.0%	25.7%

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	€ 929 million
Number of FTEs on a full-time basis	3.648
Profit before tax	€ 362 million
Tax on profit	€ 87 million
Public subsidies received	n.a.

Dividend

The Board of Directors of de Volksbank proposes to pay out a dividend of € 165 million (2018: € 161 million) to the shareholder NLFI. A dividend of € 196 (2018: € 192) per share can be paid for 2019.

Utrecht, 4 March 2020

BOARD OF DIRECTORS
Maurice Oostendorp (Chair)
Jeroen Dijst
Marinka van der Meer
Mirjam Verhoeven

SUPERVISORY BOARD
Jan van Rutte (Chair)
Sonja Barendregt-Roojers
Aloys Kregting
Jos van Lange
Monika Milz

Company financial statements

Company balance sheet

Before result appropriation and in € millions	Notes	31-12-2019	31-12-2018
ASSETS			
Liquid assets	1	1,991	741
Loans and advances to banks	2	3,791	3,589
Loans and advances to customers	3	50,461	50,461
Derivatives	4	718	732
Investments[1]		5,348	4,781
Subsidiaries	5	92	42
Receivables from subsidiaries	6	246	539
Tangible and intangible assets	7	120	62
Deferred tax assets[1]		99	133
Other assets	8	268	294
Total assets		**63,134**	**61,374**
EQUITY AND LIABILITIES			
Savings	9	38,404	37,376
Other amounts due to customers	9	10,387	10,106
Amounts due to customers		**48,791**	**47,482**
Amounts due to banks	10	541	1,116
Debt certificates		6,384	5,162
Derivatives	4	1,786	1,051
Deferred tax liabilities[1]		15	15
Amounts due to subsidiaries	12	1,128	1,882
Other liabilities	13	488	495
Other provisions[1]		64	98
Subordinated debts[1]		502	502
Total liabilities		**59,699**	**57,803**
Share capital	14	381	381
Share premium reserve	14	3,537	3,787
Revaluation reserve	14	6	6
Cashflow hedgereserve	14	26	31
Fair value reserve	14	19	14
Statutory reserve	14	--	2
Other reserves	14	-809	-918
Retained earnings	14	275	268
Total equity		**3,435**	**3,571**
Total equity and liabilities		**63,134**	**61,374**

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	2019	2018
Interest income	17	869	954
Interest expense	17	345	365
Net interest income		**524**[1]	**589**[1]
Fee and commission income	18	112	105
Fee and commission expenses	18	50	50
Net fee and commission income		**62**	**55**
Investment income	19	12	3
Result subsidiaries	20	344	345
Other result on financial instruments	21	-24	-48
Other operating income		--	1
Total operating income		**918**	**945**
Salaries	22	338	365
Social security	22	33	34
Staff costs		**371**	**399**
Depreciation and amortisation of tangible and intangible assets		36	21
Other operating expenses	23	159	179
Impairment charges financial assets	24	-8	-13
Total operating expenses		**558**	**586**
Result operations for taxation		**360**	**359**
Taxation	25	85	91
Net result for the period		**275**	**268**

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 balance sheet, 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 balance sheet 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.

Notes to the company financial statements

1 Liquid assets

Specification liquid assets

in € millions	2019	2018
Non-restricted demand deposits at Dutch Central Bank[1]	1,797	576
Short-term bank balances	150	116
Cash	44	49
Total	**1,991**	**741**

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	2019	2018
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	2,438	2,797
> 3 months ≤ 1 year	150	23
> 1 year ≤ 5 years	183	161
> 5 years	1,020	608
Total	**3,791**	**3,589**

3 Loans and advances to customers

Specification loans and advances to customers

in € millions	2019	2018
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	839	896
> 3 months ≤ 1 year	574	692
> 1 year ≤ 5 years	2,926	2,725
> 5 years	46,122	46,148
Total	**50,461**	**50,461**

4 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Derivatives held for fair value hedge accounting	398	448	1,553	853	-1,155	-405
Derivatives held for cashflow hedge accounting	2	2	2	1	--	1
Derivatives held for economic hedges	238	209	151	127	87	103
Derivatives held for trading	80	73	80	70	--	-18
Total	**718**	**732**	**1,786**	**1,051**	**-1,068**	**-319**

Statement of changes in derivatives

in € millions	**2019**	**2018**
Opening balance	**-319**	**-9**
Purchases	100	--
Settlements	92	-69
Revaluations	-949	-303
Exchange rate differences	8	44
Other	--	18
Closing balance	**-1,068**	**-319**

5 Subsidiaries

Statement of changes in subsidiaries

in € millions	**2019**	**2018**
Opening balance	**42**	**84**
Changes in the composition of group companies	--	-33
Revaluations	1	1
Result subsidiaries	344	345
Adjustment equity value subsidiaries	-14	-30
Payments	-358	-325
Other movements	77	--
Closing balance	**92**	**42**

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 Receivables from subsidiaries

Specification receivables from subsidiaries

in € millions	**2019**	**2018**
Liquid assets	11	178
Loans and advances to customers	187	235
Other assets	48	126
Total	**246**	**539**

The receivables from subsidiaries consist of short-term loans within the group.

7 Property, equipment and intangible assets

Specification property and equipment

in € millions	**2019**	**2018**
Land and buildings in own use	10	8
IT equipment	11	14
Other assets	26	33
Right of use of lease contracts	71	--
Total property and equipment	**118**	**55**
Internally developed software	1	4
Distribution channel RegioBank	1	2
Total intangible assets	**2**	**7**
Total	**120**	**62**

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

	Land and buildings		**IT equipment**		**Other assets**		**Total**	
in miljoenen euro's	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Accumulated acquisitions costs	17	10	34	30	76	76	127	116
Accumulated revaluations	-2	--	--	--	--	--	-2	--
Accumulated amortisations and impairments	-5	-2	-23	-16	-50	-43	-78	-61
Eindbalans	**10**	**8**	**11**	**14**	**26**	**33**	**47**	**55**
Opening balance	8	9	14	12	33	38	55	59
Revaluations	--	--	-1	--	--	--	-1	--
Investments	1	--	7	8	5	4	13	12
Divestments	--	-1	-3	--	-1	--	-4	-1
Depreciation	--	--	-6	-6	-9	-9	-15	-15
Impairments	1	--	--	--	-2	--	-1	--
Closing balance	**10**	8	**11**	14	**26**	33	**47**	55

Statement of change in intangible assets

	Internally developed software		**Distribution channel RegioBank**	
in € millions	**2019**	**2018**	**2019**	**2018**
Accumulated acquisition costs	15	15	21	21
Accumulated amortisation and impairments	-14	-11	-20	-19
Closing balance	**1**	**4**	**1**	**2**
Opening balance	4	10	2	4
Depreciation	-3	-4	-1	-2
Divestments	--	-2	--	--
Impairments	--	--	--	--
Closing balance	**1**	**4**	**1**	**2**

8 Other assets

Specification other assets

in € millions	2019	2018
Other accrued assets	153	144
Other advances	115	150
Total	**268**	**294**

9 Amounts due to customers

Specification amounts due to customers

in € millions	2019	2018
Savings	38,404	37,376
Other amounts due to customers	10,387	10,106
Total	**48,791**	**47,482**

Time to maturity amounts due to customers

in € millions	2019	2018
BREAKDOWN BY REMAINING MATURITY:		
Payable on demand	41,251	39,517
Not payable on demand:		
≤ 3 months	117	61
> 3 months ≤ 1 year	527	605
> 1 year ≤ 5 years	2,827	3,047
> 5 years	4,069	4,252
Total	**48,791**	**47,482**

10 Amount due to banks

Time to maturity amount due to banks

in € millions	2019	2018
BREAKDOWN BY REMAINING MATURITY		
Payable on demand	159	180
Not payable on demand:		
≤ 3 months	221	749
> 3 months ≤ 1 year	14	7
> 1 year ≤ 5 years	94	117
> 5 years	53	63
Total	**541**	**1,116**

The interest rate of loans with a maturity of more than one year is on average 4.7%.

11 Debt certificates

Time to maturity debt certificates

in € millions	2019	2018
BREAKDOWN BY REMAINING MATURITY		
> 1 month ≤ 3 months	242	167
> 3 months ≤ 1 year	1,705	134
> 1 year ≤ 5 years	1,246	2,396
> 5 years	3,191	2,465
Total	**6,384**	**5,162**

12 Amounts due to subsidiaries

Specification amounts due to subsidiaries

in € millions	2019	2018
Amounts due to customers	60	51
Equity value subsidiaries	54	68
Financial liability securitised mortgages	1,013	1,613
Current account subsidiaries	1	150
Total	**1,128**	**1,882**

The amounts due to subsidiaries consist of short-term amounts due within the group.

13 Other liabilities

Specification other liabilities

in € millions	2019	2018
Other taxes	16	16
Other liabilities	402	479
Lease liabilities	70	--
Total	**488**	**495**

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.

14 Equity

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	Retained earnings	Total Equity
Opening balance per 1 January 2019	381	3,787	6	31	14	2	-918	268	3,571
Change in accounting policies	--	--	--	--	--	--	-2	--	-2
Balance as at 1 January 2019 (IFRS 16)	**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	
Capital distribution	--	-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**

The statutory reserves concerns own developed software.

Statement of changes in equity 2018

in € millions	Issued capital	Share premium reserve	Revaluation reserve	Cashflow hedge-reserve	Fair value reserve	Statutory reserves	Other reserves	Retained earnings	Total Equity
Opening balance per 1 January 2018	**381**	**3,787**	**6**	**36**	**18**	**4**	**-1,061**	**329**	**3,500**
Transfers 2017	--	--	--	--	--	--	139	-139	--
Unrealised revaluations	--	--	--	-2	--	--	--	--	-2
Realised revaluations through equity	--	--	--	-3	-4	--	--	--	-7
Other movements	--	--	--	--	--	-2	4	--	2
Amounts charged directly to equity	**--**	**--**	**--**	**-5**	**-4**	**-2**	**4**	**--**	**-7**
Net result 2018	--	--	--	--	--	--	--	268	268
Total result 2018	**--**	**--**	**--**	**-5**	**-4**	**-2**	**143**	**129**	**261**
Dividends	--	--	--	--	--	--	--	-190	-190
Total changes in equity 2018	**--**	**--**	**--**	**-5**	**-4**	**-2**	**143**	**-61**	**71**
Closing balance	**381**	**3,787**	**6**	**31**	**14**	**2**	**-918**	**268**	**3,571**

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

	Number of shares		Amount of shares in € millions	
In numbers	**2019**	**2018**	**2019**	**2018**
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**

15 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 Duurzaam 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.

16 Related parties

Positions and transactions between de Volksbank N.V. and subsidiaries

	Securitisation entities		Other		Total	
in € miljoenen	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Income received	9	8	6	12	15	20
Expenses paid	15	15	--	--	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 6 Receivables from subsidiaries and note 12 Amounts due to subsidiaries.

17 Net interest income

Specification net interest income

in € millions	2019	2018
Interest debt securities	4	6
Interest income retail mortgages	755	839
Interest income other	110	109
Interest expense banking activities	345	365
Net interest income	**524**	**589**

18 Net fee and commission income

Specification net fee and commission income

in € millions	2019	2018
FEE AND COMMISSION INCOME		
Money transfer and payment charges	41	36
Advice and agency activities	12	11
Management fees	40	43
Insurance agency activities	15	15
Other activities	4	--
Total fee and commission income	**112**	**105**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	--
Money transfer and payment charges	6	8
Management fees	2	5
Securities activities	1	1
Fee franchise	40	36
Total fee and commission expenses	**50**	**50**
Total	**62**	**55**

19 Investment income

Realised gains and losses on equities in the amount of € 12 million (2018: € 3 million) are recognised under investment income.

20 Result subsidiaries

The result subsidiaries amounted to € 344 million (2018: € 345 million) and consists for the largest part of receivables from the SPV's that are not part of the company's financial statements.

21 Other result on financial instruments

Specification other result on financial instruments

in € millions	2019	2018
Ineffectiveness fair value hedge accounting	-10	2
Ineffectiveness cash flow hedge accounting	--	--
Trading results derivatives, investments and other financial instruments	-12	-46
Result on buy back of debt instruments	-2	-3
Other	--	-1
Total	**-24**	**-48**

22 Staff costs

Specification staff costs

in € millions	2019	2018
Salaries	174	179
Pension costs	38	39
Social security	33	34
Other staff costs	126	147
Total	**371**	**399**

23 Other operating expenses

Specification other operating expenses

in € millions	2019	2018
Housing costs	6	19
Information technology costs	31	27
Marketing and public relations costs	28	30
Consultancy costs	13	21
Prudential costs	41	47
Other costs	40	35
Total	**159**	**179**

24 Impairment charges (reversals) of financial assets

Specification impairment charges of financial assets

in € millions	2019	2018
Retail mortgages	1	-9
Other retail	-2	-1
SME	-8	-5
Other commercial loans and loans to the public sector	2	1
Investments	-1	--
Total impairment charges financial assets	**-8**	**-13**

25 Taxation

Specification taxation

in € millions	2019	2018
In financial year	64	57
Prior year adjustments	--	-3
Corporate income tax due	**64**	**54**
Due to temporary differences	23	39
Deferred tax	**23**	**39**
Total	**87**	**93**

The effective tax rate over 2019 amounts to 24.0% (2018: 25.7%).

26 Audit fees

Notes to the audit fees

in € thousands, excluding applicable VAT	EY Accountants 2019	EY Accountants 2018
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,696	1,100
Other assurance services	922	1,273
Tax advisory services	--	--
Other non-audit services	--	--
Total	**2,618**	**2,373**

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 € 165 million (2018: € 161 million) dividend from the retained earnings for 2019. The profit after dividend payment for the financial year 2019 will be added to the other reserves.

Utrecht, 4 March 2020

BOARD OF DIRECTORS
Maurice Oostendorp (Chair)
Jeroen Dijst
Marinka van der Meer
Mirjam Verhoeven

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 2019 included in the annual report

Our opinion

We have audited the financial statements for the year ended 31 December 2019 of de Volksbank N.V. ('the company'), based in Utrecht. The financial statements include the consolidated financial statements and the 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 2019, and of its result and its cash flows for 2019 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 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- the consolidated balance sheet as at 31 December 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statement of 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 balance sheet as at 31 December 2019;
- the company income statement for 2019;
- 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 in the Dutch market. We have paid particular attention in our audit to a number of topics based on the activities and our risk analysis.

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.

Materiality

Materiality	EUR 18 million (2018: EUR18 million)
Benchmark applied	5% of the result before taxation (2018: 5%)
Explanation	Based on our professional judgment, the result before taxation is the most appropriate basis for determining the materiality of de Volksbank N.V. as it is one of the key performance measures for the users of the financial statements. The applied benchmark is consistent with the wider industry.

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 0.9 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.

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 analysis we have evaluated the potential impact of among others key financial ratio's, the business model, the low for long interest environment, the increased regulatory supervision on laws and regulations and organizational changes.

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 accounting policies 'the use of judgements, estimates and assumptions in the preparation of the financial statements'. We have also used data analysis to identify and address high-risk journal entries.

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 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 that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

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, we consider based on the audit evidence obtained, 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.

Scope of the group audit

De Volksbank N.V. is at the head of a group of entities. The consolidated financial statements of de Volksbank N.V. represent the financial information of this group. In order to obtain sufficient and appropriate audit evidence about the group's financial information we have performed a full-scope audit on the consolidated financial information for the group as a whole. The audit procedures performed for the group are performed by one audit team.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming, use of specialists

We ensured that the audit teams 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, 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 review of capital ratios.

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 management
- 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.

These 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.

In comparison to the audit of the financial statements 2018 of de Volksbank N.V. two key audit matters changed. Following the changes in the IT environment of de Volksbank N.V. we identified the reliability and continuity of the IT environment as a key audit matter. The implementation of IFRS 9 Financial Instruments is no longer a key audit matter as it specifically related to 2018.

Estimation of impairment losses on mortgages

Risk	The retail mortgage loan portfolio of de Volksbank N.V. is measured at amortized cost, less a provision for impairment. Impairment allowances represent the company's best estimate of expected losses. At 31 December 2019 the total gross mortgage loan portfolio amounts to EUR 48.2 billion (2018: EUR 47.3 billion) and expected credit loss provisions of EUR 71 million (2018: EUR 58 million) are reported and disclosed in note 7 of the financial statements. With the adoption of IFRS 9 the provision for impairment is based on expected credit losses (ECL) which includes elements such as the probability of default (PD), the loss given default (LGD), the allocation of loans to stages and the use of macro-economic scenarios and forward looking information. In 2019 de Volksbank implemented a revised model for the calculation of the expected credit losses. Furthermore, the loan loss provisioning for interest only mortgages has been refined. 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 mortgage loans are inherently uncertain processes involving assumptions and factors including the financial condition of the counterparty and expected future cash flows. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Given the relative size of the mortgage portfolio 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	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 as well as substantive procedures. This included the allocation of assets 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, arrear 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 collateral for stage 3 loans. With the support of our internal economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weights and the severity and magnitude of modelled downside scenarios. 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 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, 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 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.

Estimate of other, non-credit, provisions and related disclosure

Risk	In accordance with IAS 37, de Volksbank N.V. provides for liabilities related to, among others, restructuring, customer care and claims and litigations. At 31 December 2019, a total of EUR 64 million (2018: EUR 98 million) for these non-credit related provisions are recognized and detailed in note 17 of the financial statements. In note 19 the off balance sheet commitments, including legal proceedings, 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 management 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 performed walkthrough procedures regarding the design 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 made, such as related to the restructuring, we assessed and challenged the provisioning methodology and tested the underlying data and assumptions used. For cases which were settled during 2019, such as the mortgage penalty interest compensation, 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 overall completeness 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 regulatory and conduct risk specialists. Finally, we assessed whether the disclosures provided on the other provisions and off balance sheet commitments in note 17 and note 19 of the financial statements, are in compliance with the EU-IFRS requirements.
Key observations	Based on our procedures performed we consider the provisions to be reasonable. The disclosure on provisions 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 4.5.2 in the annual report, the IT environment and the IT organization of de Volksbank N.V. are constantly changing in the context of process improvement and digitization. During these changes there is a risk that the generic 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, integral part of the engagement team, 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, walk through procedures have been performed on the IT processes and detailed testing on the 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:
- Better for each other
- Report of the board of directors, including the world around us, our strategy and banking with a human touch;
- Risk management;
- Report of the supervisory board
- Corporate governance
- Other 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 as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the 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 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, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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, 4 March 2020

Ernst & Young Accountants LLP

signed by A.B. Roeders

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: the shareholders and Supervisory Board of de Volksbank N.V.

Our conclusion

We have reviewed the non-financial information in the accompanying annual report for the year 2019 of de Volksbank N.V. at Utrecht. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed nothing has come to our attention that causes us to believe that the non-financial information does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to corporate social responsibility
- The thereto related events and achievements for the year 2019 in accordance with the reporting criteria as included in the section Reporting criteria.

The non-financial information consists of chapters 'Our strategy', 'Banking with a human touch' and the appendix 'About the non-financial information in this report' of the annual report.

Basis for our conclusion

We have performed our review of the non-financial information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specific Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". Our responsibilities under this standard are further described in the section Our responsibilities for the review of the non-financial information of our report.

We are independent of de Volksbank N.V. in accordance with 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. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Reporting criteria

The non-financial information needs to be read and understood together with the reporting criteria. De Volksbank N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the non-financial information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in chapter 'About the non-financial information in this report' in the annual report.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our review engagement

The non-financial information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the non-financial information.

In section 'Sustainability' of the chapter '3.2 Responsibility for society' the results of the Carbon neutral Balance sheet are presented. For the Carbon neutral Balance sheet calculations are mostly based on external sources. These external sources are disclosed in the document 'De Volksbank Profit and Loss Methodology, version 2.0 of December 2016' at https://www.devolksbank.nl/en/corporate-responsibility/climate-neutral-banking/klimaatneutrale-winst-en-verliesrekening (hereafter: 'methodology of the Carbon neutral Balance sheet'). We have not performed procedures on the content of these external sources, other than evaluating the suitability and plausibility of these external sources used.

The references to external sources or websites in the non-financial information are not part of the non-financial information as reviewed by us. We therefore do not provide assurance on this information.

Responsibilities of management and the supervisory board for the non-financial information

The board of directors is responsible for the preparation of reliable and adequate non-financial information in accordance with the reporting criteria as included in the section Reporting criteria, including the identification of stakeholders and the definition of material matters. The choices made by the board of directors regarding the scope of the non-financial information and the reporting policy are summarized in chapter 'About the non-financial information in this report' of the annual report.

The board of directors is also responsible for such internal control as the board of directors determines is necessary to enable the preparation of the non-financial information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the reporting process of de Volksbank N.V.

Our responsibilities for the review of the non-financial information

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout the review performed by a multi-disciplinary team, in accordance with the Dutch assurance standards, ethical requirements and independence requirements.

Our review included amongst others:

- • Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the non-financial information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the board of directors
- Obtaining an understanding of the reporting processes for the non-financial information, including obtaining a general understanding of internal control relevant to our review
- Identifying areas of the non-financial information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the non-financial information responsive to this risk analysis. These further review procedures consisted amongst others of:
  - Interviewing management and relevant staff at brand level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the non-financial information;
  - Obtaining assurance information that the non-financial information reconciles with underlying records of the company
  - Evaluating whether the estimates made in the Carbon accounting Profit & Loss account are reasonable, including the assumptions on which the estimates were based, which are included in the methodology of the Carbon neutral balance sheet

  - Evaluating the suitability and plausibility of the external sources used in the calculations on which the carbon accounting data is based, which are included in the methodology of the Carbon neutral balance sheet
  - Reviewing, on a limited test basis, relevant internal and external documentation
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the non-financial information with the information in the annual report which is not included in the scope of our review
- Evaluating the overall presentation, structure and content of the non-financial information
- Considering whether the non-financial information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Amsterdam, 4 March 2020

Ernst & Young Accountants LLP

Signed by R.J. Bleijs

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.
Asset & Liability Comité (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.
CO2	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
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 specific IFRS loan loss provision formed in relation to the impaired default 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.
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.
de Volksholding	de Volksholding B.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.
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 Comité (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.

Term	Definition
Financial Committee (FinCo)	Committee that is responsible for controlling the financial and consolidation processes, management information and internal and external reporting. The FINCO is also charged with the management of cost/benefit, treasury and tax matters.
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.
GMS	General meeting of shareholders of de Volksbank N.V.
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 late by more than one day.
In default	A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations.
Impairment losses on loans and other receivables	Charge to the income statement to cover possible loan losses on non-performing loans.
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.
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 Comité (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, de Volksholding B.V. and de Volksbank N.V.
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
Non-Financial Risk Comité (NFRC)	Risk committee that is responsible for controlling the risk frameworks and risk appetite for non-financial risks. Its responsibilities include setting standards and limits in the area of non-financial risks.
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.
People and Organisation Committee (POC)	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.
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.
RC	Risk committee of the supervisory board of de Volksbank N.V.

Term	Definition
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)	Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.
(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 SB	the supervisory board of de Volksbank N.V.
the Secretary	the company secretary of de Volksbank N.V.
the Articles	the articles of association 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.

Abbreviations

Abbreviations	Description	Abbreviations	Description
AC	Audit Committee of the SB	IAS	International Accounting Standard
AFM	The Netherlands Authority for the Financial Markets	ICAAP	Internal Capital Adequacy Assessment Process
AIRB	Advanced Internal Rating Based-model[1]	ICF	Integrated Control Framework
ALCO	Asset & Liability Committee[1]	IFRS	International Financial Reporting Standards[1]
ALM	Asset Liability Management	IIRC	International Integrated Reporting Council
AQR	Asset Quality Review	ILAAP	Internal Liquidity Adequacy Assessment Process
ASN	Algemene Spaarbank voor Nederland	IRB	Internal Rating Based (approach)
AuM	Assets under Management	ISDA	International Swaps and Derivatives Association
BCBS	Basel Committee for Banking Supervision	KPI	Key Performance Indicator
BLG	Bouwfonds Limburgse Gemeenten	LCP	Liquidity Contingency Plan
BRC	Bank Risk Committee	LCR	Liquidity Coverage Ratio[1]
BRRD	Bank Recovery and Resolution Directive	LGD	Loss Given Default
BSM	Balance Sheet Management	LTRO	Long Term Refinancing Operation
CA	Collective Agreement	LtV	Loan to value
CAAR	Capital Adequacy Assessment Report	MBS	Mortgage Backed Securities
CC	Credit Committee[1]	MFH	Mixed Financial Holding
CCO	Chief Customer Officer	MGC	Model Governance Committee[1]
CD	Certificates of Deposit	MoU	Memorandum of Understanding
CDO	Collaterised Debt Obligation	MREL	Minimum Requirement for own funds and eligible liabilities
CEO	Chief Executive Officer	MVO	Corporate social responsibility
CFO	Chief Financial Officer	NFRC	Non-Financial Risk Committee[1]
CLO	Collaterised Loan Obligation	NHG	National Mortgage Guarantee
CO2	Carbon dioxide[1]	NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
COO	Chief Operations Officer	NPS	Net Promoter Score
CP	Commercial Paper	NRF	National Resolutionfund
CRD	Capital Requirements Directive	NSFR	Net Stable Funding Ratio[1]
CRO	Chief Risk Officer	PARC	Product Approval and Review Committee[1]
CRR	Capital Requirements Regulation	PCAF	Partnership for Carbon Accounting Principles
CSA	Credit Support Annex	PD	Probability of Default
CVA	Credit Valuation Adjustment[1]	P&OC	People and Organisation Committee
DMA	Disclosure on Management Approach	RAS	Risk Appetite Statement
DNB	Dutch Central Bank	RC	Risk Committee of the SB
EAD	Exposure at Default[1]	RMBS	Residential Mortgage Backed Securities[1]
EaR	Earnings at Risk	ROE	Return on Equity
EBA	European Banking Authority	RWA	Risk Weighted Assets
EC	European Committee	SA	Standardised Approach
ECB	European Central Bank	SB	Supervisory Board of Volksbank N.V.
EMTN	European Medium Term Note	SME	Small Medium Entities
EPC	Executive Pricing Comité[1]	SPV	Special Purpose Vehicle
ES	Expected Shortfall	SRB	Single Resolution Board
ESCB	European System of Central Banks	SREP	Supervisory Review and Evaluation Process
EU	European Union	TLAC	Total Loss-Absorbing Capacity
EVE	Economic Value of Equity	VaR	Value at Risk
FinCo	Financial Comittee[1]	Wft	Financial Supervision Act
FTE	Full Time Equivalent	WfZ	Guarantee fund for the health care
GMS	General Meeting at Shareholders	WSW	Social Housing Guarantee Fund
GRI	Global Reporting Initiative		

1 See for further information the definition list.

ABOUT THE NON-FINANCIAL INFORMATION IN THIS REPORT

Sustainability policy principles

In addition to the Brundtland Report, our sustainability policy is based on important and globally recognised reports, treaties and conventions. The foundations of our human rights policy are the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. The fundamental labour rights of the International Labour Organization (ILO) also provide input for our labour policy. In 2017 we fine-tuned it further using the guidelines of the Organisation for Economic Co-operation and Development (OECD).

Our climate change policy is rooted in the findings of the Intergovernmental Panel on Climate Change (IPCC), the UN Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Montreal Protocol and the Paris Agreement. The Convention on Biological Diversity underlies our biodiversity policy.

The 2030 Agenda for Sustainable Development states that the global Sustainable Development Goals (SDGs) are grounded in the Universal Declaration of Human Rights. The UN Guiding Principles on Business and Human Rights, as well as the ILO standards, are also considered highly relevant in this regard. The green aspect of de Volksbank's sustainability policy and the SDGs formulated by the United Nations are based, among other things, on the agreements made in Paris and Kyoto. The biodiversity-related SDGs are based on the Convention on Biological Diversity, just like they are at de Volksbank.

In the autumn of 2019, de Volksbank also signed the UNEP FI Principles for Responsible Banking, thereby endorsing its commitment to making the world more sustainable.

Scope and boundaries

We present our non-financial information for the calendar year 2019 to inform our stakeholders of our role in society related to our mission 'Banking with a human touch', our strategy and our objectives. We define 'non-financial information' as information pertaining to the non-financial issues emerging as relevant from our determination of materiality.

The scope of the non-financial information presented in this annual report, including the GRI Content Index and appendices, covers de Volksbank N.V. and its business units and brands. They are jointly referred to as 'de Volksbank' in this annual report. Where possible, we also report data and results regarding previous years. The appendices contain both less material and more specified data, for example broken down by business unit. The performance of our suppliers, customers and other actors in our value chain is not included in our figures, unless explicitly stated otherwise. Where non-financial data relate to business units of the organisation, this will be indicated.

Forward-looking information is reported in the report in a clearly recognisable manner as 'plans for 2020' and 'ambitions'. In many cases, goals are based on (well-founded) estimates and assumptions.

Management approach to corporate responsibility

Corporate responsibility is rooted at the heart of de Volksbank. Our organisation model encourages individual responsibility and the involvement of employees in social and sustainable banking by assigning responsibilities decentrally as much as possible.

The Chairman of the Board of Directors bears responsibility for the development and implementation of the corporate responsibility policy. The current main issues relating to corporate responsibility have been assigned to separate departments, as follows:

1. The climate neutral balance sheet and implementation of ASN Bank's sustainability policy for de Volksbank have been assigned to ASN Bank's Sustainability Expertise Centre. Once every quarter, the results of the climate neutral balance sheet are discussed and approved by the Climate Neutral Committee chaired by the COO of de Volksbank.
2. Sustainable housing and financial resilience have been assigned to the Marketing department.
3. The 'Banking with a human touch' programme encourages corporate responsibility by supporting employees, line management and teams to further implement Banking with a human touch, resulting in modifications to services, advice, policy, processes, systems and behaviour. The programme provides support and advice to line management in order to effect change.
4. The HR department is responsible for implementing corporate responsibility in relation to staff, including, for example, the diversity policy. For more information, please refer to Section 3.3 Genuine attention for our employees.
5. The Integrated External Reporting (IER) department is responsible for coordinating all non-financial issues in the annual report, including stakeholder engagement.

De Volksbank also has an Advisory Council in order to obtain sufficient feedback from the outside world about issues that are important to the organisation, in addition to stakeholder engagement. The Council consists of members from the worlds of business, politics and science and from social organisations and deals with issues ranging from strategic to operational issues and from corporate responsibility and Manifesto to brand positioning.

Please refer to Section 2.4 Stakeholder dialogue for more information on the Advisory Council.

Investment policy

The investment policy of de Volksbank relates to all financing and investments. De Volksbank issues loans (notably mortgages) to retail customers and small and medium-sized enterprises. ASN Bank also issues private placements to local governments, healthcare institutions and educational institutes. Moreover, ASN Bank is active in sustainable project financing (such as wind turbine projects and solar parks).

ASN Bank's investment policy is prepared and developed by the Sustainability Expertise Centre (SEC). ASN Bank takes the lead in maintaining and implementing the investment policy and the policy to arrive at a climate neutral balance sheet by 2030 and in developing other human rights and biodiversity initiatives. The SEC keeps in touch with external parties including NGOs, other financial institutions, academics, politicians and the media. Furthermore, the SEC prepares the sustainability policy of ASN Beleggingsfondsen, which otherwise autonomously determines its policy.

In addition, relationships exist with commercial departments and staff departments to provide support in determining objectives (KPIs) and actually putting those objectives into practice.

Data collection and reporting

Guidelines

This report was published on 5 March 2020 and drawn up in accordance with the 'core' option of the GRI Standards guidelines of the Global Reporting Initiative (GRI). The process of determining material issues and reporting priorities is presented in the Section on Determination of materiality in this appendix. The report provides an overview of the main developments and performance of de Volksbank in 2019 and is based on the topics that the Board of Directors and our stakeholders have labelled as material. More static issues, such as our responsible investment policy and responsible procurement policy, are reported on our website. The same goes for less material topics. In accordance with the recommendations from the International Integrated Reporting Council (IIRC), this report shows how we created financial and non-financial value for our stakeholders in 2019. Where reclassifications have taken place compared to the previous annual report, this is explicitly described.

Data collection

The quantitative and qualitative information in this report was collected on the basis of qualitative interviews and quantitative data requests. For this purpose, we consulted those responsible within the business units and staff departments (project managers, policy officers, programme managers, etc.). They provided the quantitative data requested and manage the non-financial issues on a daily basis.

Additional information, such as data concerning the composition of our mortgage portfolio, information on employees and environmental performance, was retrieved from central or specific information systems. The reported non-financial data relate to the reporting year 2019. These do not include the environmental performance of the business operations, which are reported on the basis of the actual results for the fourth quarter of 2018 up to and including the third quarter of 2019.

Reporting process

The contents of the annual report were subsequently reviewed and verified within the business units and by the various staff departments. In 2019, the internal audit department examined matters including corporate responsibility, ASN sustainable loans, shared value KPIs, remuneration and privacy. The results and follow-up actions of these studies are communicated to the Board of Directors and Audit Committee and monitored on a quarterly basis.

In 2016, we introduced a set of objectives to put our strategy into practice. In 2017 we started executing our fine-tuned strategy, with a focus on creating shared value for our stakeholders. In the same year, the KPI for financial resilience was further developed, and we began work on our Financial Barometer to measure the financial concerns of Dutch people and our customers. This also includes questions about the extent to which our customers believe we have helped them to be financially confident. In 2019, the eNPS was replaced with the KPI 'genuine attention for our employees'. It is measured twice a year as part of the employee survey.

Calculation of CO2 emissions – climate-neutral operations

Our business operations are net climate neutral. We achieve this by purchasing as much green energy as possible. Where this is not yet available or is only available to a very limited extent, such as for car fuels and district heating, we offset the CO2 emissions by purchasing REDD+ credits. These are used to invest in the Tambopata Biodiversity Reserve and Agroforestry project in Peru to combat deforestation, support the community and increase biodiversity, thus reducing CO2 emissions. Our climate neutrality does not stop us from continuing our efforts to reduce our absolute energy consumption and to avail ourselves of more green energy sources. 50% of the SNS non-franchise shops no longer use gas, and 49% of the company cars are already electric.

In order to monitor our progress, we annually report the CO2 emissions of our own operations on the basis of scopes 1, 2 and 3 of the Greenhouse Gas Protocol.

Scope 1: all direct CO2 emissions caused by fuels that we ourselves purchase and consume (natural gas for office heating and the fuel for our company cars).

Scope 2: indirect CO2 emissions from our operations (electric energy consumption).

Scope 3: other indirect 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).

Calculation of CO_2 emissions – climate-neutral income statement

De Volksbank signed the PRI Montreal Pledge in 2015. This means that we report in a transparent way on the impact our investments have on the climate. This is also relevant as regards de Volksbank signing the commitment to the Dutch Climate Agreement in June 2019. The commitment states that financial institutions are to report on the CO_2 emissions from relevant loans and investments as from 2020. We have reported on our climate impact in our annual report since 2015 with the aim of working towards a climate-neutral bank balance sheet by 2030 at the latest.

The GHG Protocol 'Corporate Value Chain Standard' offers guidance to identify and report on the emissions from relevant loans. These also include emissions from assets, which are reported under scope 3, category 15, Investments. Category 15 is the most material category for banks. As no method existed to identify category 15 emissions, de Volksbank has adopted, and for some operating activities expanded, the methodology developed by ASN Bank. The results are reflected in a CO_2 income statement. In order for us to achieve full climate neutrality, the CO_2 loss side must be equal to the CO_2 profit side.

The CO_2 income statement includes all relevant balance sheet items of de Volksbank. We cannot allocate CO_2 emissions to all balance sheet items.

No CO_2 emissions can be allocated to cash and cash equivalents and derivatives, for instance. CO_2 emissions can be allocated to the other 90% of the accounting balance sheet; these items are relevant and need to be included in our climate-neutral balance sheet.

The CO_2 calculations were set up in collaboration with external consultancy firm Navigant and are performed in accordance with the operational control method of the GHG Protocol. The ASN Bank Sustainability Expertise Centre collects data and makes calculations for the climate-neutral income statement every quarter. Navigant checks the calculations and analyses the results. The results are presented as an income statement comparable with prevailing financial accounting methods. The results are discussed and approved by the Climate Neutral Committee chaired by the CCO of de Volksbank. The data are also reported in QBRs and risk reports.

We identify the margin of uncertainty of the calculations resulting from assumptions made in the methodology. In 2019, the total margin of uncertainty was 15% (2018: 16%). The data on assets avoiding CO_2 are relatively reliable (6% margin of uncertainty) compared with assets causing CO_2 (20% uncertainty).

The uncertainty on the loss side is mainly caused by the fact that we do not yet have insight into the actual energy consumption of our mortgage customers. Instead, we work with average gas and electricity consumption for each energy label, which means that the CO_2 emissions caused are an estimate. The energy labels have been obtained from the database of the Netherlands Enterprise Agency (RVO). For definitive labels we work with the most recent year-end label composition, which allows us to also include any changes in the definitive labels in our calculations. The provisional energy labels are based on the RVO database from April 2018.

The lack of data reported by institutions and countries also adds to the uncertainty. This frequently leads us to use sector averages for government bonds and loans to financial institutions in the calculations.

The complete methodology has been published on our website and offers a detailed overview of the calculations made, the definitions used and the basic principles applied. Insight is also provided into the assumptions made and the limitations that are inherent in the methodology.

There were no changes in our methodology in 2019. However, it was examined in 2019 whether our climate-neutral balance sheet can be calculated using the methodology of the Partnership for Carbon Accounting Financials (PCAF). Initiated and chaired by de Volksbank, PCAF aims to develop a transparent and clear methodology for identifying financed emissions.

In four years' time, PCAF has grown to become a global collaborative venture to which a large part of the Dutch financial services sector actively contributes.

Adopting the PCAF methodology may impact the calculation of our climate-neutral balance sheet. Our own methodology is slightly more conservative than the PCAF methodology on a number of points, for instance in the calculation of the CO_2 emissions of our mortgage portfolio. However, it is also possible that we are permitted to allocate fewer avoided CO_2 emissions to our project loans, since the calculation of CO_2 emissions avoided allows for a far more in-depth analysis of what a project contributes to and changes in a nationwide energy system. The conclusion is that, in 2020, we aim to address and fine-tune the ambiguities in the implementation of the methodology within PCAF first.

Climate-neutral business operations

Over 99% of our total CO_2 impact is caused by the assets on our balance sheet and only 1% by our offices and transportation. We nevertheless believe that our aim to be a sustainable bank is not credible without having green business operations. That is why we have set ourselves the aim of achieving 100% climate-neutral business operations. We also want to continue to save energy in order to continually reduce the CO2 emissions that need to be offset.

In 2019, as in previous years, our business operations were 100% climate neutral as we offset our CO2 emissions with REDD+ certificates. The total energy consumption dropped by 8% compared with 2018. The share of green energy was slightly down, due to higher energy consumption in a multi-tenant business building (which uses grey energy) and a larger drop in the energy consumption in the other buildings. The flexible commuting scheme introduced on 1 January 2019 contributed to lower CO2 emissions from transport. Where at the end of 2018 more than one in four of our company cars (29%) were fully electric, this figure was already nearly 1 in 2 (49%) at the end of 2019.

Category	Units	2019	2018	Change
ENERGY CONSUMPTION OF LARGE OFFICES AND OWN RETAIL NETWORK				
Green gas	GJ	6,141	7,429	-17%
Natural gas (grey)	GJ	284	176	62%
District heating	GJ	6,089	6,440	-5%
Generators	GJ	-	-	0%
Green energy	GJ	21,873	23,621	-7%
Grey energy	GJ	885	699	27%
Total energy consumption[1]	**GJ**	**35,272**	**38,364**	**-8%**
Energy consumption per FTE	GJ	12	12	-5%
Energy consumption per m²	GJ	1	1	-9%
SHARE OF GREEN ENERGY CONSUMPTION				
% green energy	% of total	96%	97%	-1%
% green energy consumption	% of total	79%	81%	-2%
CO2 EMISSIONS				
Heating	tonnes	595	563	6%
Lease cars	tonnes	996	1,601	-38%
Scope 1	**tonnes**	**1,590**	**2,164**	**-27%**
Electricity	tonnes	4,103	4,384	-6%
Scope 2	**tonnes**	**4,103**	**4,384**	**-6%**
Flights	tonnes	109	101	8%
Commuting	tonnes	1,808	1,685	7%
Business travel	tonnes	598	816	-27%
Scope 3	**tonnes**	**2,515**	**2,602**	**-3%**
Gross CO2 emissions	tonnes	8,208	9,150	-10%
Net CO2 emissions	tonnes	3,768	4,623	-18%
CO2 in tonnes per FTE	tonnes	1.3	1.4	-11%
MODE OF TRANSPORT				
Company cars	km	5,254,452	7,203,894	-27%
Flights	km	614,718	572,401	7%
Commuting (car)	km	7,291,344	6,897,597	6%
Commuting (public transport)	km	13,926,413	14,485,477	-4%
Business travel (car)	km	2,719,743	3,709,559	-27%
Total mode of transport	**km**	**29,806,670**	**32,868,928**	**-9%**
Kilometres per FTE	*km*	10,010	10,634	-6%
PAPER CONSUMPTION				
Paper	tonnes	343	296	16%
Paper in kg per FTE	*kg per fte*	115	96	20%
WASTE				
Residual waste	tonnes	98	119	-18%
Biodegradable waste	tonnes	32	47	-31%
Small chemical waste	tonnes	0	0	25%
Business waste	tonnes	5	8	-32%
Paper and cardboard waste	tonnes	65	77	-15%
Plastic	tonnes	8	7	17%
Total waste	**tonnes**	**209**	**258**	**-19%**
Share of waste	*%*	47%	46%	1%
Waste in kg per FTE	*kg per fte*	70	84	-16%

1 To determine the CO2 emissions of our business operations we use the emission factors given at CO2-emissiefactoren.nl. In order to control our emissions throughout the year, we keep the emission factors in a year as constant as possible, in accordance with our policy. As from December 2017 the emission factors for electricity and gas were updated. These new factors are included in the calculations as from the first quarter of 2018.

How we obtain the results for other non-financial issues

De Volksbank measures the Net Promoter Score (NPS) for all brands on a quarterly basis. This is the relational NPS, which involves the retail customer expressing a satisfaction rating (in terms of probability of recommendation) in general and not specifically in the context of any concrete contact or concrete transaction. The survey is conducted by an external party. A representative sample is drawn from an external consumer panel for each brand on a quarterly basis. The sample size varies per brand and ranges from 500 to 1,000 customers. The NPS indicates the ratio between the so-called detractors (customers who will probably not recommend, and possibly even advise against, their bank) and promoters (customers who will probably recommend their bank). A score between 1 and 6 means that the customer advises against de Volksbank's brands as financial service providers. Scores 7 and 8 are considered passive scores, and customers giving a score of 9 or 10 are promoters. The total result of the NPS for de Volksbank is calculated as a weighted average based on the total number of retail customers per brand and is reported based on the result in the last quarter. Reporting for the brands is also based on the result in the last quarter of the reporting period.

The calculation for the weighted average NPS for de Volksbank was changed on two points in 2019. First, from now on only the total number of retail customers per brand will be considered and corporate customers are excluded. Second, from now on the weighted average is based on the number of customers at the end of the middle month of the quarter rather than at the end of the quarter. This improves alignment with the measurement method of the NPS that reflects the average for the relevant quarter of retail customers only. This change has only minimal impact on the NPS figures.

The eNPS has been replaced as a KPI with the KPI 'genuine attention'. It is measured twice a year as part of the employee survey, which is conducted by a third party among all of de Volksbank's employees. In the survey, employees are asked whether they feel they are given genuine attention, using five themes (mission & strategy, trust, open & people-oriented, facilitating leadership and professionalism & personal growth).

We report the availability rates of online banking and mobile banking in line with the methodology for the NVB's Confidence Monitor. The rates represent the availability during prime time hours, which is reviewed internally for any inaccurate outcomes and adjusted where necessary.

The scores for iDEAL are based on the period of Q3 2018 up to and including Q2 2019. The scores of online banking and mobile banking are based on the period of July 2018 up to and including June 2019.
Prime time hours for online and mobile banking are workdays and Saturdays from 7 a.m. to 1 a.m., and Sundays from 8 a.m. to 1 a.m. Prime time hours for iDEAL are every day from 6:30 a.m. to 1 a.m.
For iDEAL, standards have been set for availability: for prime time they have been set at 99.76% until 1 January 2019 and at 99.88% as from 1 January 2019. This is 98.50% for non-prime time.

Determination of materiality

The materiality determination is performed every year before the annual report is published, which allows us to tailor the information we provide to the information needs of our stakeholders. Upon approval of the Board of Directors, the materiality determination is included in the annual report.

For the purpose of a review to be conducted in 2019, we opted to interview people personally. To that end, stakeholders from the four main stakeholder groups (customers, society, employees and shareholder) known to the bank were contacted in the autumn of 2019. The material topics were discussed with them one by one.

Step 1: clustering material topics, reducing the number of material topics, making modifications.

Before the interviews were held, the annual report working group clustered the 22 material topics explored in 2018 and grouped them by shared value: benefits for customers, responsibility for society, genuine attention for our employees and return for the shareholder. A number of topics were also merged and the total number was reduced to 13 topics. As a result, a few topics that were rated highly in the 2018 annual report no longer exist now. The 13 topics were presented to the stakeholders listed above; see also step 2. The results form a sound basis for several stakeholder dialogues in the next few years.

The following material topics were maintained without change: privacy & customer data safety, simple & transparent products, climate-neutral balance sheet, financial resilience, collaboration with stakeholders, and responsible remuneration policy. Next, the following changes were made: 'human rights and responsible investing' was replaced with 'socially responsible investment'.
'Customer support' is not a separate topic, but forms part of the shared value 'benefits for customers'.

Compliance with laws and regulations is as important as ever, and it is so obvious that it has not been presented to the stakeholders as a material topic.

The same goes for 'availability of services'. This topic is a point of focus internally. 'Healthy, stable bank' was combined with 'responsible risk management' and 'responsible return' and is now called 'responsible and financial risk management'.

'Technological innovations' is now termed 'social innovation'. Since the bank is a follower rather than a trend-setter when it comes to technological innovations, this name is not appropriate and slightly confusing. The bank is able to have a greater impact with social innovation.
'Sustainable products & services' is part of the topic 'climate-neutral balance sheet'.
'Regional services' is covered by 'distribution and reach'.
'Ethical banking' comes under several material topics in the shared value 'benefits for customers' and was cancelled as a separate topic. 'Committed and engaged employees' was cancelled because of the new KPI 'genuine attention for our employees'.
'Fair pricing' was cancelled, because it more or less coincides with 'simple & transparent products'.
'Employee diversity' was changed to 'employee diversity and inclusivity'.
'Circular economy' was cancelled. Circularity does play a role in our procurement policy, but it is just one

aspect of our activities and it does not allow us to have a great impact on society.

Because topics have been merged and a number of topics have been cancelled as described above, it is difficult to truly compare the movements with last year's results. A notable addition to the top 6 material topics is the topic 'genuine attention for our employees'. 'Responsible financial and risk management' (previously 'healthy, stable bank') and other topics are no longer top topics. This is mainly due to the fact that we identified the 10 most material topics last year. Last year, the topic was ranked 9th. This year, it is in 7th place.

Step 2: interviews with stakeholders and setting priorities

External prioritisation
The 13 topics were discussed with stakeholders during the interviews. We interviewed 19 people in total: 4 customers, 7 employees, 6 representatives of society, and 2 representatives of the shareholder.
The interviewees can be considered representative of the stakeholder group concerned. All results were processed anonymously. The stakeholders assigned a number of points to each topic according to the following scale: strongly agree = 5 points, agree = 4, neutral = 3, disagree = 2, strongly disagree = 1.
Furthermore, at the end of each interview people were asked to specify a top 3, assigning 3 points to priority 1, 2 points to priority 2 and 1 point to priority 1. The results were then added together. The stakeholders were also asked to share any suggestions, tips and possibly new material topics they might have for the bank.

Internal prioritisation
Internal prioritisation took place during a session with employees from various disciplines within de Volksbank. During the session, they determined for each material topic its relevance with regard to the economic and social impact for the company.
The internal group was asked to rate each topic using the scale described above.

Step 3: determining material topics and the final matrix

The materiality matrix was drafted based on the results thus obtained.
• The y-axis represents prioritisation from the perspective of external stakeholders.
• The x-axis in the matrix presents the impact score, based on the internal prioritisation from step 2.
The materiality matrix and a table showing all material topics has also been included in this report at Section 2.5 Stakeholder dialogue. We extensively report on the 6 most material topics (see below) in the annual report.

MOST MATERIAL TOPICS

De Volksbank's most material themes are explained in the table below.

Material topics	Definition
1. Simple and transparent products	We are continuously working on customer products that are both understandable and tailored to their needs. We aim to provide customers with accessible and transparent information about our products and services.
2. Socially responsible investing	To make a positive impact, we aim to invest all the funds entrusted to us.
3. Climate-neutral balance sheet	We want to make a positive contribution to the climate. That is why we, as the only bank in the world so far, have the ambition to have a climate-neutral balance sheet. One way we do this is by reducing the CO2 emissions of our mortgage portfolio by helping homeowners in making their homes more sustainable.
4. Financial resilience	We aim to make the Netherlands financially resilient by helping our customers improve their financial position, increase their financial skills and reduce their financial concerns.
5. Privacy & safety of customer data	De Volksbank aims for optimal monitoring of customer data to protect customers' privacy as much as possible and to guarantee the safety of their data.
6. Genuine attention for our employees	We want to enable our employees to make a meaningful contribution to our mission and strategy by giving genuine attention to autonomy, personal growth and professionalism.

REPORTING YEAR 2019 (ANNUAL REPORT 2019)

In the reporting year 2020, the materiality determination may be reviewed, as was the case in the reporting year 2019.

External assurance

In order to give our stakeholders more confidence in the reliability, completeness and transparency of our data and information, we asked audit firm EY to verify the non-financial information in this annual report and to issue an assurance report with a 'limited level of assurance' in that respect. EY performed its work in accordance with Dutch Assurance Standard 3810N 'Assurance engagements relating to sustainability reports' as drawn up by the Netherlands Institute of Chartered Accountants (NBA). The non-financial information consists of the chapters 'Our strategy', 'How we bank with a human touch' and the appendix 'About the non-financial information in this report' of the annual report. All appendices form an integral part of this annual report. Internally the FinCo (Financial

Committee) is involved in the external verification of non-financial information. No assurance is provided for forward-looking information.

EU Directive table

Topic	Subtopic	Added (yes/no)	Chapter / Page reference
Business model	General description	Yes	Better for each other, Ch. 2: Four brands par. 2.1
	Structure and governance	Yes	Ch. 6: Corporate Governance
	Markets in which the institution is active	Yes	Better for each other, Ch. 2: Four brands par. 2.1, Simple and transparant products: mortgages, payments, savings, investments, SME loans par. 3.1.2.
	Strategy and objectives	Yes	Ch. 2: Mission, ambition and objectives par. 2.2, Three strategic pillars par. 2.3, How we create value par. 2.4
	Important factors that can have influence on the future development of the company	Yes	Ch. 1: The world around us par. 1.1 up to and including par 1.6
Relevant social and personnel matters: Financial Resilience	A description of the policies pursued including due diligence	Yes	Ch. 2: Responsibility for society par. 2.2, How we create value par. 2.4, Ch. 3: Financial resilience par. 3.2.2, About the non-financial information in this report: Management approach to corporate responsibility, Data collection and reporting.
	The outcome of those policies	Yes	Better for each other: Key figures, Ch. 3: Financial resilience par. 3.2.2
	Principle risks in own operations and within the value chain	Yes	Credit risk par. 4.3, Types of risk and areas of focus par. 4.5.2
	How risks are managed	Yes	Ch. 4: Risk management structure par. 4.1, Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	Non-financial key performance indicators	Yes	Ch. 2 Three strategic pillars par. 2.3, Ch. 3: Financial resilience par. 3.2.2
Relevant social and personnel matters: Privacy and security of customer data	A description of the policies pursued including due diligence	Yes	Ch. 3: Privacy and security of customer data par. 3.1.3, Compliance and de Volksbank par. 3.2.5
	The outcome of those policies	Yes	Ch. 3: Privacy and security of customer data par. 3.1.3 (such as Privacy master switch)
	Principle risks in own operations and within the value chain	Yes	Ch. 4: Risk management structure par. 4.1, Risk appetite and risk indicators par. 4.1.3, Business risk par. 4.2, Types of risk and areas of focus par. 4.5.2
	How risks are managed	Yes	Ch. 4: Risk management structure par. 4.1, Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	Non-financial key performance indicators	No	No KPI has been formulated for this (at this time). It is, however, a crucial focus point in de Volksbank's operations. This also means that the bank is continuously working on the desired adjustments to policy, processes and documentation.
Relevant social and personnel matters: Genuine attention for our employees	A description of the policies pursued including due diligence	Yes	Ch. 2 Genuine attention for our employees par. 2.2, How we create value par. 2.4, Ch. 3: Genuine attention for our employees
	The outcome of those policies	Yes	Better for each other: Key figures, Ch. 2 How we create value par. 2.4, Ch. 3: Genuine attention for our employees par. 3.3.1 under objectives and achievements and other paragraphs for related subjects.

Topic	Subtopic	Added (yes/no)	Chapter / Page reference
	Principle risks in own operations and within the value chain	Yes	Ch. 4: Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	How risks are managed	Yes	Ch. 4: Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	Non-financial key performance indicators	Yes	Ch. 2: Genuine attention for our employees par. 2.2
Relevant Environmental matters	A description of the policies pursued including due diligence	Yes	Ch. 2: Responisibility for society par. 2.2, 3.2 Responsibility for society: climate-neutral balance sheet, biodiversity, About the non-financial information in this report: Management approach to corporate responsibility, Investment Policy, Data collection, Calculation of CO2 emissions – climate-neutral operations, Calculation of CO2 emissions – climate-neutral income statement, Calculation of CO2 emissions – climate-neutral income statement
	The outcome of those policies	Yes	Better for each other, Ch. 2: Responsibility for society par. 2.2, Ch. 3: Responsibility for society par. 3.2 (Climate-neutral balance sheet, biodiversity)
	Principle risks in own operations and within the value chain	Yes	Ch. 4: Risk appetite and risk indicators par. 4.1.3, Strategic risk (sustainability risk) par. 4.2
	How risks are managed	Yes	Climate-neutral balance sheet, Three sustainability objectives, 3.4 Risk classification and risk appetite
	Non-financial key performance indicators	Yes	Ch. 2: Responsibility for society par. 2.2, Ch. 3: Biodiversity: all investments and loans are to have a net positive impact on biodiversity in 2030
Relevant matters with respect for human rights	A description of the policies pursued including due dilligence	Yes	Ch 3.: Responsibility for society: human rights par. 3.2
	The outcome of those policies	Yes	Ch 3.: Responsibility for society: human rights par. 3.2
	Principle risks in own operations and within the value chain	Yes	Ch 3.: Responsibility for society: human rights par. 3.2 with refence to human rights report
	How risks are managed	Yes	Ch 3.: Responsibility for society: human rights par. 3.2 with reference to human rights report
	Non-financial key performance indicators	No	Ch 3.: Responsibility for society: human rights par. 3.2 with reference to PLWF: a collective engagement effort into achieving a living wage
Relevant matters with respect to anti-corruption and bribery	A description of the policies pursued including due dilligence	Yes	Ch 3.: Responsible tax policy par. 3.2.4, Compliance and de Volksbank, par. 3.2.5
	The outcome of those policies	Yes	Ch 3.: Responsible tax policy par. 3.2.4, Compliance and de Volksbank, par. 3.2.5
	Principle risks in own operations and within the value chain	Yes	Ch. 1: The world around us, par. 1.4, Ch. 3: Socially responsible investing par. 3.2.3, Ch. 4: Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	How risks are managed	Yes	4: Risk appetite and risk indicators par. 4.1.3, Types of risk and areas of focus par. 4.5.2
	Non-financial key performance indicators	No	De Volksbank is constantly adapting its policy to relevant laws and regulations, and rejects corruption and bribery in any form. This also explicitly applies to investments and financing.

Topic	Subtopic	Added (yes/no)	Chapter / Page reference
Relevant matters with respect to insight into the diversity (executive board and the supervisory board)	A description of the policies pursued	Yes	Ch. 3: Diversity and inclusivity par. 3.3.3
	Diversity objectives	Yes	Ch. 6: Composition, appointment and functioning of the Board of Directors par. 6.1, Composition, appointment and functioning of the Supervisory board par. 6.2
	Description of how the policy is implemented	Yes	Ch. 3: Diversity and inclusivity par. 3.3.3
	Results of the diversity policy	Yes	Ch. 3: Diversity and inclusivity par. 3.3.3

De Volksbank values your opinion on this annual report

We invite all stakeholders, including civil society organisations, to ask questions, express complaints and share tips via verantwoord.ondernemen@devolksbank.nl.

EXTERNAL BENCHMARKS

Our sustainability policy and activities are rated by independent institutions.

ISS-oekom research

ISS-oekom research assesses companies all over the world for the sustainability of their investment policy. ISS-oekom issued a B rating for de Volksbank in July 2019, which places de Volksbank among the three leaders in the financial sector (Mortgages and Public sector). The score reflects 'the integration of sustainable and social aspects in the business operations and policies of de Volksbank'.

Sustainalytics

Sustainalytics conducts worldwide research into the policies of companies in the areas of sustainability and corporate governance. De Volksbank occupies a leading position with its score of 88 for ESG performance as of June 2019. According to Sustainalytics, this high score stems from de Volksbank's leading position in environmental, social and governance issues.

Fair Bank Guide

Every two years, the Fair Bank Guide (*Eerlijke Bankwijzer*) assesses the investment policy of the seven most important Dutch banks. In the current study, they are rated based on eight sustainability themes, five risk sectors and their business practices related to remuneration and transparency. Since 2017 the ASN Sustainability Policy has applied to de Volksbank as a whole, i.e. to ASN Bank, BLG Wonen, RegioBank and SNS. That is why the Fair Bank Guide assessed de Volksbank as a whole for the first time. In this study, published in December 2018, de Volksbank obtained the highest total score.

The Fair Bank Guide conducted two practical studies in 2019.

The Fair Bank Guide's practical study 'Controversial Arms Trade' (June 2019) revealed that de Volksbank does not invest in the thirteen companies that emerged from the study as being involved in arms trade with countries that violate human rights or are parties to a conflict. This is the result of de Volksbank's policy to exclude the arms industry.

In July 2019, the practical study 'Plastic Loans' revealed that de Volksbank does not invest in the selected shale gas and plastics companies. This is because de Volksbank excludes the fossil fuel industry. The Fair Bank Guide also noted that de Volksbank only explicitly mentions ethylene in the exclusion criteria.

DZ Bank

In the EESG rating model of DZ Bank, de Volksbank scores 82 points. In December 2018, this was the highest score in the banking sector. The average for all sectors is 44 points. The sector-specific sustainability threshold for banks is 54 points. De Volksbank does not violate any exclusion criteria and is not involved in any gross EESG controversies.

De Volksbank is classified as sustainable and has received the DZ Bank Seal of Quality for Sustainability 12/2018. The economic sustainability factor calculated in the DZ Bank model is positive (1.15).

MSCI

In 2018, de Volksbank received an A rating – on a scale from AAA to CCC – from MSCI ESG Ratings.

MSCI ESG Ratings helps investors identify environmental, social and governance (ESG) risks.

Transparency Benchmark

In 2019, the Transparency Benchmark jury assessed the annual reports of large enterprises for the reporting year 2018. De Volksbank landed in 121th place. In total, the jury assessed 240 annual reports. The jury concluded that the annual report meets the adjusted criteria for 33.7%. There have been major changes to the criteria in comparison with previous years. The old set of criteria were mainly derived from the GRI and IIRC guidelines. By contrast, the latest set of criteria reflect the most recent developments in reporting social information.

Among other things, the formulation of the criteria has been based on the Sustainable Development Goals, the EU Directive on non-financial information (EUD NFI), the OECD Guidelines for Multinational Enterprises, the Corporate Governance Code and the Natural Capital Protocol, as well as on Climate-related Financial Disclosures and chain transparency.

The amended criteria place more emphasis on:
- actions, decisiveness and content
- future orientation in the light of the continuous improvement process
- the context in which an organisation is active, also regarding strategic objectives
- connectivity

DISCLAIMER

The forward-looking statements made in this annual report are only applicable as from the date of publication of this report. De Volksbank does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this report, and de Volksbank does not assume any responsibility to do so. The reader should, however, take into account any further disclosures of a forward-looking nature that de Volksbank N.V. may make in its interim reports.