de volksbank
Annual Report 2021

de volksbank

SNS asn bank RegioBank BLGwonen

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About this report

CORE & MORE APPROACH

We report according to the 'core & more' principle. Our core **Integrated Annual Review** contains a concise summary of our most important financial and social results for the past year. It sets out how we dealt with opportunities and risks in 2021 and how we created value for our customers, society, our employees and our shareholder. Would you like more background information on certain subjects? You will find it in one of our 'more' reports, such as our Annual Report 2021. Other 'more' reports are:

- **Pillar 3 Report 2021** containing the mandatory reporting on capital requirements and risk management ensuing from the European Capital Requirements Regulation (CRR)
- **ESG Report 2021** which includes more information on 'Environmental, Social and Governance' aspects.
- **Principles for Responsible Banking** explaining the progress made with the implementation of the sustainability principles (SDGs).

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

ANNUAL REPORT 2021

This Annual Report is one of our 'more' reports and provides information on the bank's financial and non-financial performance in compliance with regulatory requirements. This 2021 Annual Report consists of:

- The Report of the Board of Directors, comprising:
  - Key figures
  - Strategy and progress
  - Governance (excluding 2.2 Report of the Supervisory Board)
  - Risk management
- The Report of the Supervisory Board
- Financial statements
- Other information and Additional information

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

Capital metrics and risk positions for 2021 and comparative figures for 2020 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 the website of de Volksbank .

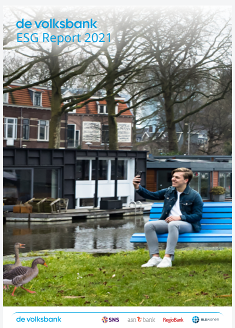
The currency we report in is in euros (€).

Adjusted measures

We supplement our IFRS figures with non-IFRS measures used by management internally that constitute alternative performance measures under European Securities and Markets Authority (ESMA) guidance and non-GAAP financial measures. Further explanation may be found in Section 1.11 Reconciliation of alternative performance measures.

Disclaimer

This document is the PDF/printed version of the 2021 Annual Report of de Volksbank and has been prepared for ease of use. This is not the official 2021 Annual Report, including the audited financial statements thereto pursuant to article 361 of Book 2 of the Dutch Civil Code. The official 2021 Annual Report was made publicly available pursuant to section 5:25c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), and was filed with Netherlands Authority for the Financial Markets in European single electronic reporting format (the ESEF package). The ESEF package is available on the website of de Volksbank https://www.devolksbank.nl/en/investor-relations/annual-review-2021. In any case of discrepancies between this PDF/printed version and the ESEF package, the latter prevails.



Company profile

De Volksbank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner. Our mission is 'banking with a human touch'. We achieve it by creating value for all our stakeholders: our customers, society, our employees and our shareholder. We aim for optimum total value rather than maximisation of a single value. Together with our brands we strive for a strong customer relationship and increasing our social impact.

SNS

SNS contributes to a country in which every Dutch citizen is financially secure, allowing them to live pleasantly and comfortably.

asn bank

ASN Bank seeks to make sustainability accessible to all Dutch people, enabling them to use their money to do the right thing for people, animals and nature all over the country.

RegioBank

RegioBank is committed to maintain the quality of life in Dutch communities by taking on the role of community builder and contributing to social and economic vitality.

BLGwonen

BLG Wonen enables a society in which people can live contentedly in a manner that suits their wishes and financial situation. Now and in the future.

MORTGAGES

€ 48.2bn

market share 6.1%

CURRENT ACCOUNT CUSTOMERS

1.78m

market share of new current accounts 20%

SAVINGS

€ 45.6bn

market share 11.3%

De Volksbank is the fourth largest retail bank operating in the Dutch market, with more than 3 million customers. We offer simple and transparent mortgage, savings and payment products to private individuals, self-employed persons and smaller companies. We also offer insurance and investment products.

SNS

208
SNS Shops

1,653,000
customers

asn bank

835,000
customers

de volksbank
Utrecht

EMPLOYEES

3,961
FTE of which
3,178 internal

RegioBank

459
branch offices

732,000
customers

BLGwonen

> 3,000
independent advisers

247,000
customers

CUSTOMERS

> 3.46m

ASSETS UNDER MANAGEMENT

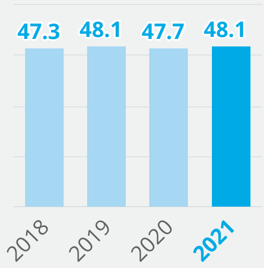
€ 4.75bn

SME LOANS

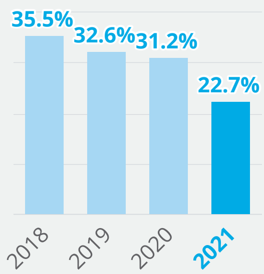
€ 841m

Key figures

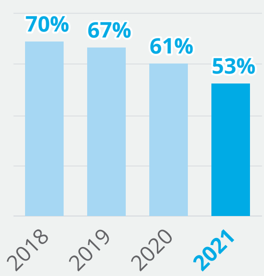
Residential mortgages
(in € billions)



CET 1 ratio



Loan-to-Value residential mortgages



Balance Sheet

in € millions	2021	2020	2019	2018	2017
Balance sheet total	72,081	67,484	62,841	60,948	60,892
Loans and advances to customers	50,727	50,542	50,461	50,536	49,459
- of which residential mortgages	*48,091*	*47,697*	*48,090*	*47,262*	*45,934*
Amounts due to customers	58,128	53,652	49,045	48,217	47,062
- of which savings	*45,646*	*42,111*	*38,404*	*37,376*	*36,756*
Debt certificates	7,402	6,119	6,906	5,822	4,920
Shareholders' equity	3,486	3,450	3,435	3,571	3,714

Capital and funding

in € millions	2021	2020	2019	2018	2017
CET 1 capital	3,182	3,223	3,155	3,313	3,339
Risk-weighted assets (RWA)	13,993	10,331	9,680	9,341	9,781
RATIOS					
CET 1 ratio	22.7%	31.2%	32.6%	35.5%	34.1%
Tier 1 ratio	22.7%	31.2%	32.6%	35.5%	34.1%
Total capital ratio	26.3%	36.1%	37.8%	37.1%	35.7%
Leverage ratio	5.1%	5.2%	5.1%	5.5%	5.5%
Loan-to-deposit ratio[1]	86%	92%	102%	106%	107%

Credit quality of residential mortgages

	2021	2020	2019	2018	2017
Weigthed average indexed Loan-to-Value	53%	61%	67%	70%	74%
Stage 3 ratio	1.1%	1.2%	1.1%	1.2%	1.6%
Stage 3 coverage ratio	3.2%	6.4%	8.0%	8.4%	15.9%
Loans in arrears (%)	0.7%	1.2%	1.0%	1.1%	1.4%

Market shares

	2021	2020	2019	2018	2017
New current accounts	20%	17%	20%	23%	20%
Retail savings	11.3%	10.8%	10.6%	10.6%	10.7%
Mortgage portfolio (in €)	6.1%	6.2%	6.4%	6.5%	6.5%
New mortgages (in #)	5.8%	5.0%	6.1%	7.2%	6.8%

Other key figures

	2021	2020	2019	2018	2017
Number of SNS Shops	208	205	203	202	197
Number of independent advisers RegioBank	459	483	517	515	528

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures in this Annual Report.

Profit and loss account

in € millions	**2021**	**2020**	**2019**	**2018**	**2017**
Net interest income	775	850	875	908	924
Net fee and commission income	39	46	51	44	49
Other income	13	27	3	6	55
Total income	**827**	**923**	**929**	**958**	**1,028**
Operating expenses excluding regulatory levies	588	602	533	562	560
Regulatory levies	79	50	41	47	43
Total operating expenses	**667**	**652**	**574**	**609**	**603**
Impairment of charges financial assets	(58)	38	(7)	(12)	(24)
Total expenses	**609**	**690**	**567**	**597**	**579**
Result before taxation	**218**	**233**	**362**	**361**	**449**
Taxes	56	59	87	93	120
Net result for the period	**162**	**174**	**275**	**268**	**329**
- Incidental items[2]	17	(34)	-	-	13
Adjusted net result for the period	**145**	**208**	**275**	**268**	**316**

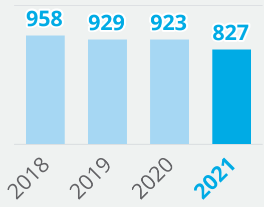
Strategic objectives

	2021	**2020**	**2019**	**2018**	**2017**
CUSTOMERS					
Customer weighted average NPS[3]	6	2	0	-1	-3
Active multi-customers (in 1,000)[3]	1,015	949	899	n.a.	n.a.
SOCIETY					
Climate-neutral balance sheet[4]	55%	45%	44%	37%	27%
EMPLOYEES					
Genuine attention[3]	7.8	7.9	7.7	n.a.	n.a.
Commitment[3]	7.9	8.4	8	7.4	7.6
Engagement[3]	7.4	7.6	7.4	7.2	7.4
SHAREHOLDER					
Return on Equity[2]	4.7%	5.1%	7.7%	7.6%	9.1%
Adjusted Return on Equity[2]	4.2%	6.1%	7.7%	7.6%	8.7%

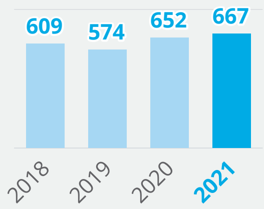
Other performance indicators

	2021	**2020**	**2019**	**2018**	**2017**
Cost/income ratio[2]	80.7%	70.6%	61.8%	63.6%	58.7%
Adjusted cost/income ratio[2]	83.3%	65.8%	61.8%	63.6%	59.6%
Net interest margin (bps)[2]	1.11%	1.30%	1.37%	1.47%	1.50%
Cost of risk total loans[2]	-0.12%	0.08%	-0.01%	-0.03%	-0.05%

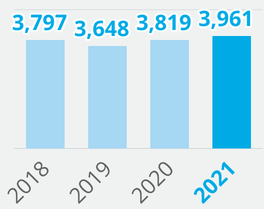
Total income
(in € millions)



Total operating expenses
(in € millions)



Number of employees
(FTEs)



2 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures in this Annual Report.

3 For the measurement methodology of these KPIs reference is made to the 2021 ESG Report.

4 As of 2021, the climate-neutral balance sheet is calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology. The comparative figure of 2020 has been adjusted. For the measurement methodology reference is made to the 2021 ESG Report.

Foreword of the CEO

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

"The publication of this annual report for 2021 gives me the opportunity to reflect first of all on the current events that affect us all. Only a few weeks ago, at the end of February 2022, the war in Ukraine shocked the world. The war violence and human suffering are appalling. We cannot yet predict the consequences for people, political relations and the economic developments. First and foremost, our hearts go out to the people of Ukraine and to all who have been affected by the violence.

2021 was the second year in which the Covid-19 pandemic dominated everyday life, the way in which we were able to interact with each other, as well as the developments in the global economy. Following an economic contraction in 2020, 2021 saw a return to economic growth. However, time and again uncertainty returned as the number of infections rebounded and new Covid-19 variants emerged. Under these circumstances, we succeeded in providing our services to our customers at the level they are accustomed to, while taking the necessary precautions. Although our SNS shops and RegioBank branch offices returned to business as usual as much as possible, for many of our employees working from home remained - and remains - the norm.

For us, February 2021 was marked by an important event: in that month we presented our new strategy and long-term objectives for the period 2021- 2025, entitled 'Better for each other – from promise to impact'. For the bank as a whole, we have set ourselves two major goals: firstly, in 2025 we want to be the bank with the strongest customer relationship in the Netherlands, and secondly, we want to be recognised as a bank that achieves a substantial and measurable positive impact on society.

Taking these two goals as a point of departure, we formulated distinctive growth priorities for our four bank brands. ASN Bank aims to accelerate growth as a digital, sustainable bank. SNS will broaden its target audience to include younger customers and strengthen its business model with more fee income. RegioBank is set to strengthen its local presence with a broader range of propositions. BLG Wonen intends to expand by improving its distribution reach and service. These growth priorities are mainly aimed at increasing our recurring fee income and relieving the pressure on our total income that arises from the low interest rate environment.

In order to achieve our goals and priorities, we identified five necessary transformations: we need to improve our digital and omnichannel dialogue, broaden our product range and customer target group, improve the quality of our data warehouse, implement a more agile organisation structure enabling a stronger customer focus and realise efficiency gains.

To measure the progress on our strategic goals and priorities, we have reset the long-term objectives from our previous strategic plan ending 2020 to the year 2025 for each of our four stakeholder groups: customers, society, employees and the shareholder.

In 2021, we saw encouraging developments in a number of our long-term objectives. Our customer-weighted Net Promoter Score reached an all-time high of 6 at the end of December and the number of active multi-customers rose by 7% to over one million. Our climate-neutral balance sheet stood at 55%. As from 2021, this ratio is calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology. Based on the previous methodology, the climate neutrality stood at 59% at year-end 2020; using the new PCAF methodology this would have been 45%. And the most recent measurement of our KPI, 'Genuine attention for employees' remained high at 7.8, in spite of the challenges of working in a Covid-19 environment and the uncertainty for a number of our employees emanating from the preparations for an agile way of working.

Our brands showed the first signs of progress in achieving their growth priorities for the period 2021-2025:

- Together they grew the mortgage production by 33% to € 8.1 billion. Redemptions were also higher but, in all, our residential mortgage portfolio grew by € 1.1 billion to € 47.4 billion;
- SNS and RegioBank together managed to grow the SME loan portfolio by 16% to € 841 million;
- ASN Bank achieved healthy growth in both customer numbers and fee income from asset management. Assets under management grew by more than 20%

to € 4.75 billion. In the fourth quarter ASN Bank successfully launched a new biodiversity fund;
- SNS broadened its product scope with the introduction of simple personal loans;
- RegioBank was again voted the most customer-friendly bank in the Netherlands.

In contrast to the sound commercial developments, 2021 was a challenging year financially. Interest rates remained low and in some cases negative, putting pressure on our total income and net profit.

In 2021, total income fell by 10% to € 827 million, mainly driven by lower interest income on mortgages. Substantially higher prepayment charges received and lower interest paid on savings accounts were not able to compensate for this. Savings balances grew considerably more than our loan portfolio and the resulting increase in excess liquidity also put pressure on our net interest margin and resulted in higher regulatory levies. In many cases, de Volksbank pays interest on liquidities deposited with financial institutions, such as the ECB. To partly offset the increase in excess liquidity costs, we decided to charge 0.5% interest on an annual basis on the portion of current accounts and savings balances exceeding € 100,000 as from 1 July 2021, in line with other Dutch banks. Fee and commission income related to the investment funds of ASN Bank and money transfer and payment fees saw encouraging growth. Realised results on investments dropped to a normalised level following an exceptionally strong 2020.

Total operating expenses rose by 2% to € 667 million. In 2021, operating expenses included an incidental gain of € 22 million related to a previous contribution to the Deposit Guarantee Scheme for the insolvency of DSB; in 2020 they included an incidental restructuring charge of € 45 million. Adjusted for these items, operating costs rose by 14%. Approximately one-third of the increase was due to higher regulatory levies, mainly related to the DGS. The other two-thirds were due to an increase in the number of FTEs, for the most part related to customer integrity, the Service Centers and wage inflation. The implementation of the strategic plan, including further digitalisation, the roll-out of our modular IT platform, support for the transition to an agile way of working and the new SME proposition, also required more FTEs. The adjusted C/I ratio rose to 83.3%, compared with 65.8% in 2020.

In 2021, defaults remained low, the economic outlook improved and house prices continued to increase. This led to a reversal of impairment charges of € 58 million, in spite of an increase in the management overlay, reflecting the higher degree of uncertainty about economic developments in the Netherlands. In 2020, impairment charges still amounted to € 38 million, mirroring the risks of Covid-19 as perceived at that time. Thus, in 2021, there was a positive swing in impairment charges of € 96 million, which fully compensated the decline in total income.

In spite of the reversal of impairment charges and the high level of prepayment charges received, net profit dropped by 7% to € 162 million, corresponding to a RoE of 4.7%. Adjusted for incidental items, net profit fell by 30% to € 145 million.

A strong and diversified capital position remains a key element of our strategy. To this end, in 2021 we issued € 1 billion in senior non-preferred notes under our Green Bond Framework. Our CET1 capital ratio showed a strong decrease from 31.2% to 22.7% as risk-weighted assets increased, mainly due to a temporary and voluntary add-on related to our internal credit risk model for residential mortgages and an ongoing supervisory review on the underlying database infrastructure. The Basel IV fully loaded CET1 capital ratio declined from 24.2% to 22.5%, mainly driven by an increase in RWAs for exposures to financial institutions and corporates. The leverage ratio stood at 5.1%, compared with 5.2% at year-end 2020.

From 15 April to 31 December 2021, John Reichardt acted as interim CFO. I would like to thank John for his expertise and contribution to our bank.

In 2021, the Supervisory Board saw a number of changes. At the General Meeting of Shareholders, held on 21 April 2021, two supervisory board members stepped down in conformity with the rotation schedule, Monika Milz after two terms in office, and Sonja Barendregt-Roojers after one term. I would like to express my appreciation and thanks to Monika and Sonja for their contribution to our bank.
On 13 August 2021, Gerard van Olphen was appointed as the new Chair of the Supervisory Board. Jan van Rutte stepped down on the same day. I would like to thank Jan for his longstanding commitment and contribution to de Volksbank.
On 20 September 2021, Jeanine Helthuis and Petra van Hoeken were appointed to the Supervisory Board, which is now at full strength again.

As mentioned, 2021 was a challenging year financially. This underscores the urgency to come up with new initiatives so that our income becomes less sensitive to interest rates. We also focus on cost reductions, while making the investments necessary to improve our IT platform. In 2022, we will press on to implement our strategy and take the next step in the further development of our services. We will get even closer to our customers in order to gradually offer more services that seamlessly match their specific needs and life situations. We will do so both digitally and in local communities, always keeping a human touch in mind. Last year, we laid the groundwork for an agile way of working and the new organisation is set to start on 1 March. I am confident that the execution of our strategy will enable us to grow total income and improve operational efficiency in the coming years.”

Based on the current interest rate environment, and assuming that 2022 will not again see a substantial reversal of impairments, we expect the net result to be lower than in 2021.

Finally, I would like to take this opportunity to thank our customers for the increasingly positive response to our services and all our employees for their continued efforts for the benefits of all our stakeholders.''

1.

STRATEGY AND PROGRESS

STRATEGY 2021-2025

‘Better for each other – from promise to !mpact’

How we differentiate ourselves: two pillars

Strong customer relationship
Personal customer approach by seamless and pleasant interactions and suitable propositions

Social impact
De Volksbank achieves social impact on the climate and decent living by integrating these themes in its services

Four growth priorities of the brands

SNS

Attracting a younger target audience and strengthening the business model with fee income

asn bank

Accelerate the growth of ASN Bank as a digital, sustainable bank

RegioBank

Reinforce RegioBank's local presence by broadening its propositions

BLGwonen

Expand BLG Wonen by increasing its distribution reach and improving its service

Five necessary movements of change

- Digital and omni-channel dialogue
- Relevant range of products, new propositions and small businesses as a new target market
- IT-based customer bank
- Customer focused
- Efficient and flexible

1.1 Our Strategy

In February 2021, we presented our new strategy for 2021 – 2025: Better for each other – from promise to impact. The strategy has two main pillars with which we aim to strengthen our distinctive capability: a strong customer relationship and increasing social impact. This distinctive capability is reflected in our four brands, each with its own growth priorities. To strengthen our distinctive capability and achieving the brands' growth priorities, our strategy has five necessary change movements.

Pillar 1: Strong customer relationship

De Volksbank wants to stand out from its peers as the bank with the strongest customer relationship. Each of our four brands have always had their own identity with a clear, social profile. Whether it concerns sustainability, good living, quality of life in the neighborhood or attention to the growth of every person. Our customers recognise the values and standards that our brands share, allowing us to build strong relationships with them. And we must cherish that relationship: it is what sets us apart from other banks.

Pillar 2: Social impact

De Volksbank is committed to achieve a substantial and measurable positve impact on society. Each brand focuses on a specific social theme: ASN Bank on sustainability, BLG Wonen on decent housing, RegioBank on quality of live in the neighbourhood and SNS as from 2022 on attention to the growth of every person. De Volksbank aims to create a positive social impact across the board and reduce the negative impact. We do this by offering socially relevant propositions and by being a driving force, allowing us to contribute to changes at customer and system level.

Four growth priorities of the brands

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

- Accelerate the growth of ASN Bank as a digital, sustainable bank;
- Attract a younger target audience and strengthen SNS's business model with fee income;
- Reinforce RegioBank's local presence by broadening its propositions;
- Expand BLG Wonen by increasing its distribution reach and improving its service.

Five necessary movements of change

To enhance our distinctiveness and to realise our brands' growth priorities, our strategy features five change movements, i.e. significant changes to our processes and behaviour. In short, we will become more agile and work smarter together on a flexible IT infrastructure and offer our customers relevant products in the way they want. The following is a brief description of the five change movements:

- Digital and omni-channel dialogue: we achieve a greatly enhanced customer experience through omni-channel dialogue and personalised access to products and services.
- Relevant range of products, new propositions and small businesses as a new target market: we deliver more value for our customers and the bank by expanding our brands' current product range with existing and new propositions and addressing the target market for small businesses. Not just with our own products and services; we are increasingly linking reliable partners to our banking environment.
- IT-based customer bank: we achieve a modular, customer-driven IT infrastructure with more automated IT processes.
- Customer focused: our organisation becomes more agile and tailored to customers' needs with the transformation to an agile organisation.
- Efficient and flexible: we increase our efficiency by entering into more partnerships and increasing the outsourcing of activities and services, as well as by using capital and balance sheet in a more targeted way.

1.2 How we create value

Banking with a human touch

We have a clear mission: banking with a human touch. We achieve it by creating value for all our stakeholders: our customers, society, our employees and our shareholder. We aim for optimum total value rather than maximisation of a single value.

Being a financial institution, we play an important role in the Dutch economy and in society. We help households to save money and build up capital. We also help companies and households if they are short of money, for example with a mortgage loan. We provide (online) payment services and manage sustainable funds in which our customers can invest. These activities create value for our retail customers and small businesses throughout the Netherlands, our chain partners and society as a whole.

Moreover, being a social bank, we strive for a sustainable and fair society. We give substance to this by translating the Principles for Responsible Banking (PRB) of the United Nations Environment Programme Finance Initiative (UNEP FI) into strategic themes such as sustainability, decent housing, financial resilience and quality of life. Given our shared value ambition, we aim to create benefits for our customers, give genuine attention to our employees, take responsibility for society and achieve returns for our shareholder. We realise that we can only do so if we remain a sound and solid bank.

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

- Outlining our dialogue with, and the expectations of, our stakeholders.
- Further explaining the material topics for our stakeholders.
- Presenting the value creation model. This overview provides a visual representaton of how we create value for our stakeholders.

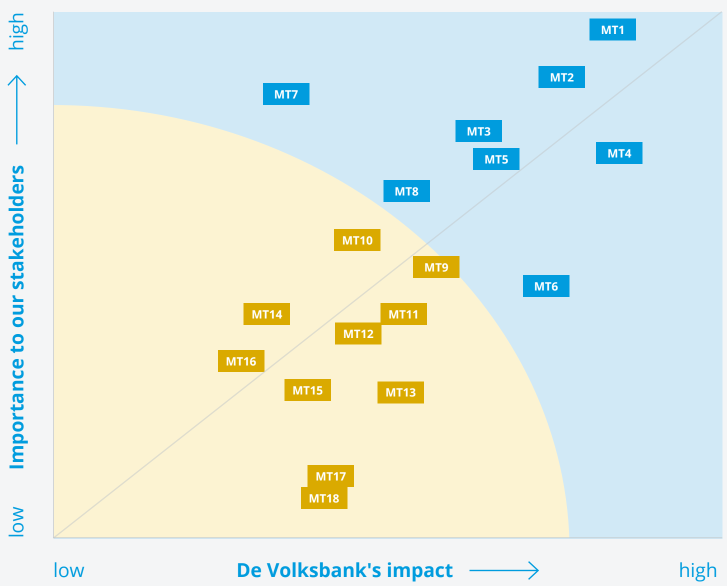
- Presenting a strengths and weaknesses analysis. Strengths and weaknesses influence the value creation process as well as the opportunities and threats we face.
- Presenting our new strategic plan, which builds on de Volksbank mission of creating positive impact for our stakeholders by banking with a human touch, including targets for 2025 and other objectives.
- Showing how we positively and negatively impact the Sustainable Development Goals (SDGs).
- Our sustainability policy affects all seventeen SDGs to a greater or lesser extent. Our value creation strategy, objectives and KPIs are linked to five SDGs in particular, to which we can make a long-term contribution:
  - Decent work and economic growth (8)
  - Sustainable cities and communities (11)
  - Climate action (13)
  - Life on land (15)
  - Partnerships for the goals (17)

Material topics

Once every other year we conduct a materiality assessment to identify the most material topics for our stakeholders. Through this survey we try to find out what they consider to be appropriate long-term goals for de Volksbank. In the intermediate year, we validate and evaluate the accuracy of these topics and our process. Material topics are specific topics that have a high impact on our stakeholders and/or on de Volksbank. These topics are important for achieving our shared value ambition, which is why they are directly related to our objectives (see Chapter 2.7 of our 2021 Integrated Annual Review). More detailed information on the expectations of our stakeholders in relation to these material topics is included in the 2021 Integrated Annual Review and in the 2021 ESG Report.

The table below displays the 18 material topics ranked in order of importance by our stakeholders. The materiality matrix, also presented below, depicts the results of the 2021 materiality assessment. Eight of the material topics are deemed most material and therefore constitute the areas of focus in our disclosures. We choose to disclose detailed information on the remaining ten topics as well. The overview also includes the reference to the section of the 2021 Integrated Annual Review in which we explain how we address the respective material topics. The icons can be found throughout the 2021 Integrated Annual Review and indicate that a material topic is discussed in that particular section. The eight most material topics are made recognisable with blue icons. We monitor most of the material topics with indicators. In various cases these indicators are KPIs. Some indicators are deemed appropriate and informative for internal purposes only, others are already disclosed publicly or will be disclosed publicly in due course. We have two indicators for environmental matters: a KPI for climate impact and a KPI for biodiversity and natural resources (albeit an internal KPI for the time being).

MATERIALITY MATRIX



Material topics

- MT1 Fair, transparent and sustainable products
- MT2 Customer relationship and service
- MT3 Data privacy and safety
- MT4 Responsible investment and financing
- MT5 Responsible financial results
- MT6 Climate impact
- MT7 Compliance with laws and regulations
- MT8 Social engagement, cooperation and entrepreneurship
- MT9 Countering cyber and financial crime
- MT10 Integrity and ethics
- MT11 Genuine attention for our employees
- MT12 Responsible risk management
- MT13 Social impact
- MT14 Digitalisation and innovation
- MT15 Human rights
- MT16 Corporate governance
- MT17 Diversity and inclusion
- MT18 Biodiversity and natural resources

Other disclosures
Other issues relevant to being a responsible business

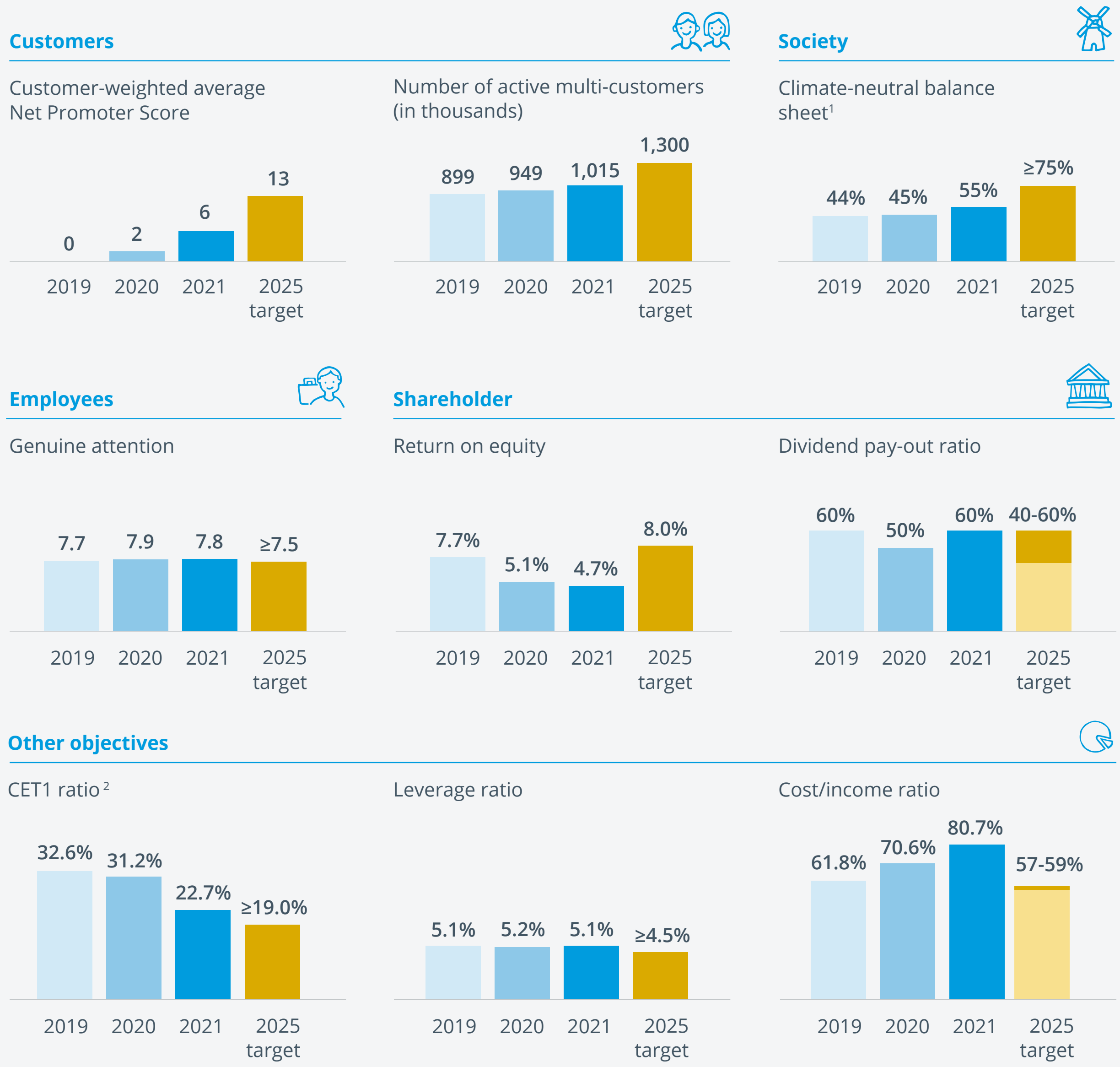
Our areas of focus
Priority issues that matter most to our business and stakeholders

	Most material topics	Page*	Indicators
MT1	Fair, transparent and sustainable products	p. 32	KPI active multi-customer
MT2	Customer relationship and service	p. 31	KPI Net Promoter Score KPI CustomerRelationshipScore (as of yet internal only)
MT3	Data privacy and safety	p. 35	Internal indicators
MT4	Responsible investment and financing	p. 43	KPI Climate-neutral balance sheet KPI Biodiversity (as of yet internal only) KPI Living wage (as of yet internal only)
MT5	Responsible financial results	p. 53	Return on Equity Dividend pay-out ratio
MT6	Climate impact	p. 43	KPI Climate-neutral balance sheet
MT7	Compliance with laws and regulations	p. 70	Internal indicators
MT8	Social engagement, cooperation and entrepreneurship	p. 39	Housing Access Monitor KPI: in development
	Other material topics		
MT9	Countering cyber and financial crime	p. 36	Internal indicators
MT10	Integrity and ethics	p. 68	% of employees is familiar with the code of conduct
MT11	Genuine attention for our employees	p. 48	KPI Genuine attention
MT12	Responsible risk management	p. 56	CET1 capital ratio and leverage ratio
MT13	Social impact	p. 37	Financial Confidence Barometer
MT14	Digitalisation and innovation	p. 35	Internal indicators
MT15	Human rights	p. 46	KPI Living wage (as of yet internal only)
MT16	Corporate governance	p. 64	No indicators
MT17	Diversity and inclusion	p. 49	Equal pay (% gender pay gap) Gender balance in management, Board of Directors and Supervisory Board
MT18	Biodiversity and natural resources	p. 47	KPI Biodiversity (as of yet internal only)

* Refers to our 2021 Integrated Annual Review .

1.3 Progress on our objectives

STRATEGIC OBJECTIVES



1. As from 2021, the climate-neutral balance sheet is calculated using the PCAF methodology. The percentage shown for 2020 (45%) was adjusted using the PCAF methodology. Before the adjustment, this figure was 59%.
2. The CET1 capital ratio target is based on full phase-in of Basel IV standards. We estimate this ratio will be 0.2 percentage point lower.

The strategy for the coming years builds on our mission to achieve a positive impact through banking with a human touch: for our customers, society, our employees and our shareholder. Based on the strategic ambitions for 2021 – 2025 and the forecast for the economic developments and financial markets, we have set objectively measurable goals for each stakeholder group, which are closely monitored.

Benefits for customers

De Volksbank aims to be a bank that provides fair banking products, where customers feel at home and that looks from its customers' perspective. Growth in the number of active multi-customers and the positive trend in customer satisfaction, as expressed in the Net Promoter Score (NPS), indicate that customers appreciate our mission of banking with a human touch.

Net Promoter Score
The customer-weighted average of all brand-specific NPS[1] improved to +6, compared with +2 at year-end 2020. This was due to improvements at ASN Bank, BLG Wonen and SNS, most notably to a decrease in the number of detractors. At RegioBank the NPS remained stable. De Volksbank has set itself a goal of +13 by the end of 2025.

Number of active multi-customers
As from 2021, one of our customer KPIs is the number of active multi-customers. In 2021, this number rose by 66,000 to 1,015,000. The year-end 2025 target has been set at 1.3 million. The total number of current account customers grew by 124,000 to 1,781,000 and the total number of customers rose by 125,000 to 3,467,000.

Responsibility for society
We aim to make a positive contribution to society on four themes, i.e. sustainability, good housing for everyone, quality of life in the region and attention to personal growth for everyone. We are currently developing additional KPIs for these four themes.

- Sustainability: in addition to the existing climate-neutral balance sheet KPI, we have developed KPIs in relation to biodiversity and human rights.
- Good housing for everyone: we aim to promote accessibility to the housing market. To monitor the accessibility of the housing market in the Netherlands, we launched the Housing Accessibility Monitor.
- Quality of life in the region: we developed a KPIs for this theme which will be publicly communicated in due course.
- Attention to personal growth for everyone: as part of SNS's strategic direction, SNS changed the name of the theme formerly known as 'financial resilience' to 'attention to personal growth for everyone', for which they have developed KPIs.

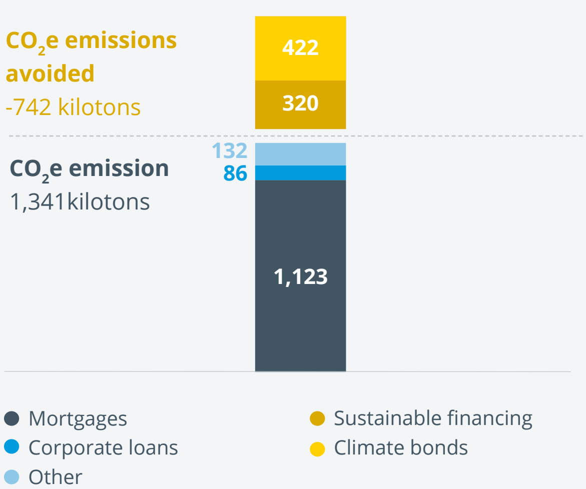
1 A positive NPS requires the percentage of promoters to be higher than the percentage of detractors. Whether a customer is a 'promoter' (9-10), 'passively satisfied' (7-8) or a 'detractor' (0-6) is measured on a 1 to 10 scale.

Climate-neutral balance sheet
At year-end 2021, we were 55% climate neutral which puts us well on the way to achieving our interim target of at least 75% in 2025. As from 2021, the climate-neutral balance sheet is calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology. The switch to the PCAF methodology had a significant negative impact. Based on the previous carbon profit and loss methodology, the climate neutrality stood at 59% at year-end 2020, while this would have been 45% using the PCAF methodology and the adjustments made for the data quality improvements. The negative impact fell within the range we anticipated and communicated earlier in 2021. The significant decrease in climate neutrality is partly due to methodological changes and partly to the improved data quality. Also, instead of using energy labels as a proxy, we were able to use actual energy consumption data of our mortgage portfolio, which was anonymously provided by grid operators. The use of this actual data meant that we had to attribute more emissions to our portfolio, which reduced our climate neutrality.

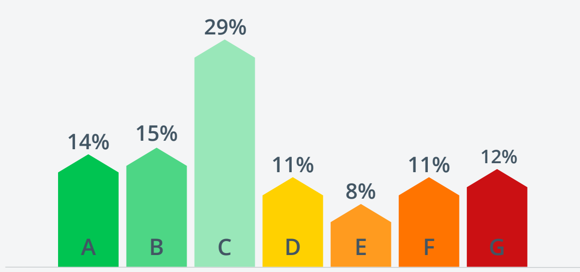
Regardless of the methodology used, the underlying balance between CO2 emissions lost and avoided improved due to an increase in financed renewable energy projects and an increase in purchased green bonds with a strong focus on renewable energy projects.

The CO2 emissions financed in 2021 amounted to 1,341 kilotons compared with 1,384 kilotons in 2020 recalculated using the PCAF methodology. Avoided CO2 emissions amounted to 742 kilotons in 2021 compared with 620 kilotons in 2020, also recalculated.

CLIMATE-NEUTRAL BALANCE SHEET 2021



ENERGY LABELS OF FINANCED HOMES[1]



1. Rounded percentages based on the RVO database at year-end 2021. 34% of the homes have a final energy label.

Genuine attention for our employees

We want to empower our employees to make a meaningful contribution to our mission and strategy by paying attention to autonomy, personal growth and professionalism. Every six months, we monitor the KPIs for the shared value for employees, which are genuine attention, commitment and engagement. For the KPI 'genuine attention' we aim for a score of at least 7.5 (on a 1-10 scale) in 2025. For commitment and engagement the goal is a score of 8.0. In October 2021, 82% of all employees participated in the employee survey. The scores for genuine attention, commitment and engagement remained high at 7.8, 7.9 and 7.4 respectively (October 2020: 7.9, 8.4 and 7.6 respectively). These are satisfactory scores, especially considering the challenges of working in a Covid-19 environment. Furthermore, employees experienced uncertainty in relation to the new strategy and the transformation into an agile organisation, with possible consequences for their work and job-security.

KPIs[1]	Oct 2021	Apr 2021	Oct 2020	Apr 2020	Oct 2019	Target 2025
Genuine attention	**7.8**	**7.8**	**7.9**	**7.9**	**7.7**	**≥7,5**
Commitment	7.9	8.2	8.4	--	8.0	8.0
Engagement	7.4	7.6	7.6	--	7.4	8.0

1 On a scale from 1 to 10.

De Volksbank offers employees the opportunity to work on their own future as well as on the future of de Volksbank and society. Our employees indicate that they enjoy working at de Volksbank because they want to make banking human and build lasting relationships with customers. They experience their work as meaningful and can make a contribution to society.

EMPLOYEE VITALITY AND SAFETY

We are aware that there are certain risks involved with our employees, for example not being able to fill vacancies, see chapter 3.5 for more on People Risk. The new collective labour agreement (cla) for 2021-2022 contains new arrangements to improve work-life balance. In addition, a vision on a 'New Way of Working 2.0' has been developed, where employees organise their work in such a way that it works best for them and their team. Regarding the safety of our employees we have our Common Sense, Clear Conscience Code of Conduct, which sets out how we treat each other and customers. In 2021 employees had to follow an e-learning for this Code of Conduct. Moreover, de Volksbank has appointed an Integrity Confidential Advisor at various locations throughout the country. The Committee on Unwanted Conduct deals with complaints on bullying, sexual harassment, disciminiation, aggression or violence at work, mediation by a counsellor is also possible.

Return for the shareholder

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

Return on equity

In 2021, the RoE stood at 4.7%, a decline compared with 2020 (5.1%) as a result of lower net profit. As communicated earlier we expect the return on equity in the next few years to be lower than our 2025 target of 8%. We are making substantial investments to implement the strategy in order to achieve a RoE of 8% by 2025.

Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the net profit. In line with this policy, de Volksbank decided in its General Meeting of Shareholders in April 2021 to declare a dividend of € 104 million for 2020 corresponding to a pay-out ratio of 60%.

For 2021, we propose to pay out a dividend of € 97 million. This implies a pay-out ratio of 60%.

Other objectives

Capital and leverage ratio

The target level of the Common Equity Tier 1 (CET1) ratio and the leverage ratio are based on Basel IV and the end-state of the CRR Non-performing Exposures (NPE) rules.

Our CET1 capital ratio showed a strong decrease from 31.2% to 22.7% as risk-weighted assets increased, mainly due to a temporary and voluntary add-on related to our internal credit risk model for residential mortgages and an ongoing supervisory review on the underlying database infrastructure. The CET1 capital ratio remained well above our target of at least 19%.

The leverage ratio decreased from 5.2% at year-end 2020 to 5.1%, mainly driven by a decrease in the leverage ratio numerator (Tier 1 capital) by € 41 million.

Please refer to the Section 3.8 Capital Management for an explanation of our capital objectives and achievements.

Cost/income ratio

In 2021, lower total income and higher operating expenses including regulatory levies resulted in a cost/income ratio (C/I ratio) of 80.7%, an increase compared with 2020 (70.6%). As communicated earlier, we expect the C/I ratio to exceed the 2025 target range of 57-59% in the next few years as the strategic initiatives are intended to produce an effect over the course of the years, at the level of both income and operating expenses.
Please refer to the Section 1.10 Financial Results for more information about the cost/income ratio.

1.4 ESG-related disclosures

Sustainability is a broad and complex concept. When we think of sustainability we generally envision a world in which a balance is struck between humanity, the environment and the economy - now and in the future. The definition of sustainable development from the 1987 UN report “Our Common Future” (Brundtland) is the foundation of how we conceptualise sustainability: 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' This definition shapes our efforts to make a positive impact on the environment and society as a bank.

The term ‘Environmental, Social and Governance’, in other words ESG, has become an industry standard for categorising sustainability by means of these three themes. Said themes are in line with our Sustainability Policy, which comprises three pillars: climate, biodiversity and human rights. Governance is an important precondition for sustainability, this is true for de Volksbank itself as well as for the organisations we invest in.

De Volksbank recognises that there are two sides to these themes: the first is about the opportunities of creating social impact (our ”inside-out impact” on society and the environment), the second deals with the different types of sustainability-related risks that follow from the changes in our society and environment (”outside-in impact”, of society and the environment on the bank). Such risks may, for example, follow from acute or chronic climate events or the transition to a low-carbon economy.

This paragraphs discusses some developments with regard to ESG-related matters. The outside-in risks and our risk management related to sustainability are described in more detail in the Sustainability Risk section of this Annual Report. We discuss our (inside-out) impact on society in detail in our Integrated Annual Review 2021 and the ESG Report 2021. An overview of the references to the non-financial disclosures required by the Non-Financial Reporting Directive can be found in our Principles & Standards Report 2021. The aforementioned reports can be found on our website.

Sustainability governance & strategy

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

As from 2020, de Volksbank structures its disclosure on sustainability risks along the lines of the TCFD guidelines. The TCFD specifically covers climate-related risks. Even so, we also include social and governance risks in our sustainability risk management, in addition to environmental risks such as climate-related risks. Hence, these social and governance risks are also included in our sustainability risk disclosures. All TCFD pillars are discussed in this Annual Report, some in this section and some in the section on Sustainability Risk. This section deals primarily with the pillars governance, strategy, and metrics and targets. The Sustainability Risk section covers the risk management pillar.

TCFD Disclosures	Section
Governance	
a. Board oversight	1.4 & 3.9
b. Role of management	1.4 & 3.9
Strategy	
c. Climate related risks & opportunities	1.4 & 3.9
d. Impact on our business	1.4 & 3.9
c. Resilience of our strategy	1.4
Risk management	
e. Identifying and assessing risks	3.9
f. Managing risks	3.9
g. Integration of sustainability in overall risk management	3.9
Metrics & targets	
h. Metrics used	1.4 & 3.9
i. Greenhouse gas emissions	1.4
f. Targets to manage risks	1.4

SUSTAINABILITY GOVERNANCE

In 2021, we improved and integrated sustainability related decision making. With the ECB Guidelines on Climate-related and Environmental Risk in mind, we have strengthened various aspects of our sustainability risk management. An overview of the overall sustainability governance is provided below.

The Board of Directors

The Board of Directors is ultimately responsible for achieving the overall sustainability objectives of de Volksbank and establish that it is in line with risk appetite. The Chief Risk Officer (CRO) is responsible for sustainability within the Board of Directors.

Social Impact Committee and Advisory Team Sustainability

The Social Impact Committee (SIC) oversees our social impact and the impact of sustainability matters on de Volksbank. The SIC is responsible for the progress of strategic targets for social (inside-out) impact, monitoring the incorporation of ESG matters in business processes and the risk management framework (outside-in) and fostering transparency with the fulfilment of the non-financial reporting guidelines. The CRO is the chair of this multidisciplinary committee. Co-chair of the SIC is a member of the Board of ASN Bank. Other members of SIC include representatives from Strategy, Finance, Communication, de Volksbank Financial Markets Risk and Compliance. Audit has a standing invitation. All members of the SIC may escalate (pending) decisions to the Board of Directors.

As from 2022, a multidisciplinary team provides the committee with advice on sustainable matters. The members of this Advisory team are representatives from the first line of defence, the business and the supporting teams. Risk and Compliance have independent control functions. The members of the Advisory team also sit on the Annual Report Working

Group as sustainability matters are very important for regulatory disclosures.

Other risk committees and risk-related bodies

Sustainability risk can be a driver for other types of risk and can therefore be a topic in risk committees other than the SIC, for example the Credit Committee or the Operational Risk Committee. De Volksbank also has the ASN Investment Committee to advise the Asset and Liability Committee on sustainable investments, such as sustainable project finance, notes, private placement notes and ESG bonds.

The Board of ASN Bank and Expertise Center Sustainability

The Board of ASN Bank is responsible for developing sustainable strategies and policies to ensure that de Volksbank is permanently at the forefront of sustainable finance in the Netherlands (and in other countries) to create a more sustainable society. The Sustainability Center of Expertise (*ECD*) of ASN Bank is the center of expertise in the field of sustainability. The ECD sets up and maintains the first line policies within the House of Policies Sustainability, including investment criteria for the entities ASN Impact Investors and ASN Sustainable Finance. Another responsibility of the ECD is to support and provide advice to other lines of business by developing and maintaining their sustainability initiatives.

SUSTAINABILITY STRATEGY

De Volksbank aims to have a positive impact on society and reduce its negative impact. We do this in the first place by offering socially responsible propositions. We also strive to be a protagonist for change at the customer and systemic level alike. This strategy, in turn, also makes de Volksbank more resilient against transitional and physical sustainability-related risks. For example, due to our stringent sustainability policy, we do not have any exposures in carbon-related assets such as fossil fuel assets. Therefore, we do not face any transitional risks related to this type of asset. All in all, the pre-existing strategic focus on social impact results in a relatively low risk profile for sustainability-related matters. For more information on this, see the Section on Sustainability Risk.

In 2021, an ambitious Strategic Plan for the period 2021-2025 was presented, which explicitly aims to accelerate our positive social impact. In developing this new strategy, de Volksbank used various plausible scenarios of marketplace developments, including inputs related to sustainability risks. For example, one of the inputs was our stringent sustainability policy, applicable to all loans and investments. Furthermore, during the process of developing the new strategy, de Volksbank analysed important internal and external developments. Inputs included scenario analyses, such as sustainability scenarios, consultations with our stakeholders, the materiality matrix, stress tests and the annual Strategic Risk Assessment.

The strategic time horizon is medium term (5 years), spanning from 2021 to 2025. Our sustainability KPIs, however, exceed the horizon of the strategic plan with long-term targets (10 years) for 2030. De Volksbank's strategic plan should be seen as an adaptive plan, which means that we will continuously assess and adapt the strategy and forthcoming plans on a short-term basis (1 year) if so required. The annual Strategic Risk Assessment is an important tool to recalibrate the strategy against internal and external trends, including important developments in climate and sustainability risks.

The implementation and execution of the business strategy is measured by KPIs. Examples of KPIs to measure our external impact is the climate neutrality of our balance sheet and the net positive impact on biodiversity.

METRICS AND TARGETS

We use various metrics to assess our sustainability-related risks and opportunities. The diagram below sets out our main metrics and long-term targets.

Sustainability Metrics

Definition	Type	2021	Long-term target
Climate-neutral balance sheet	Key Performance Indicator	55%	100% climate neutral in 2030
Impact on biodiversity	Key Performance Indicator	So far, internal only	Net positive impact on biodiversity in 2030
Average energy label of mortgage portfolio[1]	Supporting metric	3.66	2.9 in 2025
Gender balance in management positions	Key Risk Indicator	36%	40-50% women in management positions in 2025

1 On a scale from 1 to 7. Label A=1, B=2, etc.

Greenhouse gas emissions & Science-Based targets

Our KPI 'climate-neutral balance sheet' consists of an estimation of the emissions avoided with our activities and the emissions caused by us. These calculations are based on the PCAF methodology and cover scope 1, 2 and 3 emissions. For more details on our climate-neutral balance sheet and methodology, see the Integrated Annual Review and ESG Report 2021, respectively.

In 2021, after calculating emission reduction targets for our balance sheet for 2050, we submitted an application to the Science-Based Targets initiative for the approval of our science-based targets. This application was still pending approval at the time of writing. By means of these science-based targets, we have a clear trajectory to fulfil our responsibility in achieving the Paris Climate Agreement.

EU Taxonomy Regulation

This is the first year de Volksbank reports on the EU Taxonomy Regulation. The regulation is an initiative to help us identify whether economic activities that we finance or invest in can be considered environmentally sustainable and to prepare transparent and comparable reports on that basis.

The regulation comprises six sustainability objectives:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and healthy ecosystems.

So far, the EU Taxonomy Regulation has only established criteria for the first two objectives; criteria for the other objectives will be established in the years ahead. This being the case, we could only assess our assets on the basis of these two objectives.

Mandatory disclosure 2021

In € millions

Balance sheet total	72,081
Impairments	109
Balance sheet total gross carrying amount	72,190
Non-financial assets (-/-)	0.3%[1]
Exposure to central governments, central banks and supranational issuers (-/-)	19.8%[1]
Total covered assets denominator GAR	79.9%[1]
of which exposure to Taxonomy eligible economic activities	67.0%[1]
of which exposure to Taxonomy non-eligible economic activities	4.6%[1]
of which exposure to derivatives	0.8%[1]
of which financial assets held for trading	0.3%[1]
of which on-demand interbank loans	0.1%[1]
of which exposures not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU	7.4%[1]

1 % coverage (over balance sheet total gross carrying amount)

QUALITATIVE INFORMATION

Contextual information

The table above is based on the exposures of de Volksbank within the regulatory scope of consolidation, which is the same scope we use for our Annual Report. The total covered assets in the denominator of the Green Asset Ratio (GAR) concerns all financial assets except for exposures to central governments, central banks and supranational issuers.

The line item exposures to Taxonomy eligible economic activities only includes residential real estate. Counterparties not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU (non-NFRD) are determined through an assessment based on internal or publicly available information. This line item includes exposures to SME and credit institutions from outside the EU.

Due to the lack of information on the eligibility of our NFRD counterparties these exposures are included in the line item exposures to Taxonomy non-eligible activities. An estimate for these exposures is given below.

Description of our compliance

Besides being compliant with the EU Taxonomy Regulation under the NFRD disclosure de Volksbank has also expressed its desire to designate as many asset categories as possible as being in line with the EU Taxonomy so de Volksbank can further distinguish itself as a leader in sustainability. Our approach to the taxonomy goes hand in hand with our goal to be climate-neutral by 2030. We expect the EU Taxonomy Regulation KPI scores to improve on the back of achieving our climate-neutrality goal. For example, our taxonomy-aligned assets could increase by expanding our project financing portfolio in renewable energy to meet our climate-neutrality goal.

Finally, we will continue to engage with retail mortgage customers and project financing counterparties to push for sustainability considerations. In addition, our ambition is to include EU Taxonomy considerations in the engagement with all our customers and counterparties whenever feasible and appropriate.

Additional information on the financing of Taxonomy-aligned economic activities

In 2017, de Volksbank adopted ASN Bank's sustainability policy, which is based on three pillars: climate, biodiversity and human rights. De Volksbank subsequently implemented this policy in the operations and processes of all its brands. De Volksbank has thus become a frontrunner in the field of sustainability policies, as is confirmed by a recent study by the Fair Banking Guide. These policies describe our Do No Significant Harm (DNSH) criteria and the Minimum Social Safeguards (MSS) in detail. They also provide guidance on the type of activities that could have a positive impact on our three pillars of sustainability.

De Volksbank welcomes the EU Taxonomy concept and will embed it into its sustainability policy and, therefore, in itsstrategy. It should be noted that we do have remarks and concerns in relation to the taxonomy. Our sustainability policies are often more stringent and ambitious. As an example, de Volksbank categorically excludes investments in fossil fuel-related activities and nuclear activities. Our position may deviate from the EU Taxonomy as natural gas and nuclear exposures, for example, may be considered 'green' (albeit transitional) based on the latest Taxonomy developments. De Volksbank is actively opposing to this development through its lobbying activities. Furthermore, de Volksbank advocate 'brown' taxonomy developments that would force companies and financial institutions to disclose their fossil fuel-related activities.

VOLUNTARY TAXONOMY-ELIGIBILITY ASSESSMENT

Due to the lack of information on the EU Taxonomy-eligibility of our counterparties we have made an estimate on the basis of the main economic activities of our NFRD counterparties based on public information. If the counterparty's main activity is stated in Annex I and/or II of the EU Taxonomy's technical screening criteria, the total exposure is deemed eligible to the amount proportionate to the turnover to which the economic activity is related. If this is not the case, the total exposure is deemed non-eligible.

Voluntary disclosure 2021

In € millions

	Taxonomy eligible	Taxonomy non-eligible	% coverage (over total assets)
Total assets	48,551	3,116	71.6%
of which trading portfolio and on demand inter-bank loans in Total assets	-	313	0.4%
Total exposure to central governments, central banks and supranational issuers		14,282	19.8%
Total exposure to derivatives		591	0.8%
Total exposure to non-NFRD companies		5,366	7.4%

Preliminary and voluntary Taxonomy-aligned assessment

Our assets can be considered Taxonomy-aligned when they meet the technical screening criteria of the EU Taxonomy, i.e. the DNHS criteria and the MSS criteria. Only taxonomy-aligned assets are included in the numerator of the Green Asset Ratio. Despite the fact that this is not yet mandatory, we have estimated our taxonomy-alignement for indicative purposes only. The preliminary and voluntary taxonomy-aligned assessment indicates that more than 10% of our overall portfolio may qualify as taxonomy-aligned. It is estimated that our retail mortgage portfolio is the main contributor.

Please note that this estimation is based on assumptions regarding the DNSH and MSS criteria. The actual GAR and other KPIs dictated by the Taxonomy Delegated Act will probably deviate from this figure as there are specific exclusions and inclusions to be made as from the 2023 Annual Report. This initial assessment was performed in April 2021 on the basis of year-end 2020 balance sheet and the regulations valid at that time.

Prevention of financial crime

KNOW YOUR CUSTOMER

As one of the gatekeepers of the financial system, de Volksbank helps detect and prevent financial crime by taking a holistic approach to customer integrity in relation to anti-money laundering, countering the financing of terrorism and compliance with sanctions and tax regulations.

As a financial institution, we are required to have a clear picture of our customers, for instance under the Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*). As part of the Know Your Customer principle, we check customer data and establish the identity of our customers. We also use verification protocols to prevent and combat malpractices. For example, we form an opinion on our business customers' attitude to tax, as de Volksbank does not want to invest in, and/or provide loans to companies involved in tax scandals.

ANTI-CORRUPTION AND BRIBERY

An important condition for de Volksbank to properly implement its strategy and its shared value ambition is that de Volksbank, its employees, collaboration partners and customers are not involved in corruption and bribery. Corruption creates unfair competition in the economy, distorts public trust and damages de Volksbank's integrity. To prevent us or our customers from becoming involved in corruption, we take measures that apply to various policies, such as our customer acceptance policy, procurement policy, outsourcing policy and screening policy for hiring new employees. All listed companies as well as government bonds are screened for anti-corruption. All employees have taken an oath or made a solemn affirmation, promising they will comply with laws and regulations and codes and rules of conduct, and how to act ethically. This is one of ways in which we aim to minimise the risk of physical, financial or reputational damage to de Volksbank, its customers and/or other business relations. Every sign of corruption is adequately dealt with and followed up with an appropriate response. The Risk Policy describes the management measures taken by de Volksbank to prevent the bank and/or its employees and customers from engaging in corruption. Our compliance-related policies are available on our website. For more details on the risks associated with the aforementioned topics and our risk management, see Chapter 3 of this report.

We do not have a specific indicator, such as a KPI, for this topic. The material topics good governance, integrity and ethics and regulatory compliance are inextricably linked to this topic. These material topics and the related indicators are listed in the table in Section 1.2 of this Annual Report.

Human rights

As human rights constitutes one of the three pillars of our sustainability policy, we have always respected them in our activities. The way we report on human rights has evolved over the years. After signing the Dutch Banking Sector Agreement (DBA) in 2016, a stand-alone Human Rights Report was published in 2019. This report was aligned with the UNGP Reporting Framework and included the salient issues that we identified in our Salience Analysis in 2018.

We recognise that human rights are at risk in our operations, lending and especially in our investments. We thereforeactively perform human rights due diligence. In 2021, our strict policies instigated an internal investigation into our possible involvement with customers and partners who work with solar panels that could be linked to Uyghur forced labour. Our customers and partners now work exclusively with solar panels that have been approved on the basis of this investigation.

The results of the salient risk analysis in 2018 showed that the possible human rights issues in our operations and lending activities were less salient than the possible human rights issues in our role of an investor. We concluded that the most salient risks relate to the ASN Investment Funds and we identified the following five most salient issues:

1. a living wage in the garment industry;
2. a living wage in the agri-food industry;
3. consumer protection in the pharmaceutical industry;
4. clinical trials in the pharmaceutical industry;
5. workplace health and safety in the garment industry.

We decided to focus on living wage in the garment industry to optimise the effectiveness of our engagement. We are engaging with the garment industry to achieve our long-term objective: the garment industry will provide workers in its supply chain with a living wage by 2030. As in previous years, we assessed companies and governments in our investment portfolio. The results were published in the Platform Living Wage Financials Annual Report in October 2021.

Our approach to human rights consists of two elements:

1. A set of sustainability criteria to avoid involvement in entities which are not protecting (governments) or respecting (companies and other entities) human rights. Similar to our Climate Policy and Biodiversity Policy, our Human Rights Policy contains criteria in relation to activities to be excluded and avoided on the one hand, and criteria to support investments that uphold collective, human and labour rights on the other. For instance, we do not invest in companies that engage in or profit from war or armed conflict. We cannot and will not reconcile ourselves to the idea that these types of companies benefit from the existence of and increase in armed conflicts. This means that we also refrain from every form of financing of or investment in companies that are involved in the development, maintenance, testing, storage and distribution of weapons. Examples of criteria to uphold human rights and labour rights are: equal treatment and non-discrimination; no child labour in accordance with the ILO definition; no forced labour; freedom of association and collective bargaining; safe and healthy working conditions; and respecting the rights of local communities and indigenous people (including the acquisition of land by companies). For further details on these policies, see our website.
2. An initiative to strive for 'living wages' in the garment industry (Platform Living Wage Financials). ASN Bank has broadened the scope of the 'living wage' initiative by involving other financial institutions.

We have developed a KPI for the human rights pillar of our sustainability policy; the KPI Living wage. Thus far, we use this KPI for internal purposes only. Human rights is one of the 18 identified material topics and is therefore listed in the table in Section 1.2 of this Annual Report. For more information on our approach to human rights, see our website and our ESG Report 2021.

1.5 Options for the future

On 12 February 2021, de Volksbank revealed its strategic plan 2021-2025. On 30 June 2021, NLFI published a progress report on de Volksbank, which included an assessment of the new strategy.

On 6 July 2021, the Minister of Finance informed the Dutch House of Representatives in a letter about NLFI's latest progress report and also presented a study regarding de Volkbank's future options. In its report, NLFI noted that de Volksbank's strategy for the period 2021-2025 is a fitting response to the challenging market circumstances, but that it would take several years for the (financial) impact of the strategy to materialise. NLFI noted the uncertainties related to the targeted income growth and cost control, and announced it would continue to closely monitor implementation of the strategy. All things considered, NLFI concluded that it was still too early for a decision on the privatisation of de Volksbank. In his letter to the House of Representatives, the Minister of Finance agreed with NLFI's observations and conclusions. In the study, the Minister set out (assessments of) four future options and six (non-exhaustive) governance models with the aim of providing perspectives on how to retain de Volksbank's social character whichever option is chosen: privatisation or stateownership.

On 26 January 2022, during a general consultation on State participations, the Minister of Finance mentioned that, as far as de Volksbank was concerned, NLFI had indicated a period of approximately three years before any decision on the bank's future options could be taken.

1.6 Regulatory environment

Correctly and timely implementing an increasing number of laws and regulations remains a crucial aspect of de Volksbank's business operations. Supervisory authorities and legislators, both Dutch and European, increasingly impose laws and regulations on banks on topics related to prudential supervision, consumer protection and sustainability. De Volksbank continues to work on its individual resilience and stability without losing sight of the interests of its customers and other stakeholders. In this section we highlight the laws and regulations with the highest relevance in 2021 in relation to prudential supervision and customer interests, and discuss how de Volksbank deals with them.

Prudential supervision

In 2021, the further guidance of laws and regulations governing prudential supervision of the financial sector was still impacted by Covid-19. Supervisory authorities focused on facilitating a maximum lending capacity and the absorption of losses ensuing from this crisis for banks. Financial institutions also required more time to prepare for the implementation of changes to laws and regulations after the Covid-19 pandemic. Below, we discuss a few important developments in 2021.

Implementation of Basel IV in the European Union

In order to reduce risk in the banking sector and strengthen the Banking Union, the EU gradually revised its framework of harmonised banking supervision rules over the past few years. This prudential framework is represented by the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). Implementation of the 2019 Banking package, containing the previous round of reforms into this framework, was completed in 2021. As a final step, the European Commission (EC) issued its draft proposals for the transposition of Basel IV, known as CRRIII and CRDVI, into EU legislationin October 2021. The proposed implementation date is 1 January 2025 with a 5-year phase-in period of the output floor. The new prudential rules include the introduction of a capital floor based on standardised approaches, a revision of the standardised approach for credit risk and new rules for operational and market risk.

To encourage lending to EU households and businesses in response to the Covid-19 crisis, the EC decided in June 2021 to extend the temporary exclusion of central bank exposures from the leverage ratio until March 2022.

Capital and liquidity position

De Volksbank continuously looks from different angles to see if the financial stability and continuity of the bank is guaranteed. Supervisory authorities are provided with our data reports and analyses, such as ICAAP and ILAAP, external and internal stress tests, the recovery plan and information for the purposes of resolution planning by *De Nederlandsche Bank* (DNB), the Dutch Central Bank. For more information on the BRRD, ILAAP, ICAAP, SRMR/MREL and bail-in, see Section 3 Risk Management .

Risk weighting floor of mortgage portfolio

As announced by DNB in 2019, the increase in risk weights assigned to residential mortgage portfolios will be implemented with effect from 1 January 2022. The measure will expire on 1 December 2022 but it is up to DNB to decide whether or not to extend the measure, every time for a two-year period. The risk weight floor will apply to banks that use internal risk models to calculate capital requirements for their mortgage loan portfolios. This measure stems from the framework that Article 458 of the CRR provides to DNB for this purpose. The additional capital is intended to strengthen Dutch banks' capital to absorb possible shocks in the Dutch housing market. For the projected impact on de Volksbank, see Section 3.8.3 Developments in capital requirements.

Definition of Default guidelines

To harmonise the Definition of Default (DoD) across EU banks, the ECB and EBA issued guidelines on how banks should classify credit defaults for prudential purposes. These guidelines entered into force on 1 January 2021. De Volksbank accordingly implemented the DoD in 2021. For additional information, please refer to Section 3.3.2 Management and control of 3.3 Credit risk.

EBA Guidelines on loan origination and monitoring

EBA published the Guidelines on loan origination and monitoring in May 2020. These Guidelines: i) specify internal governance arrangements for granting and monitoring credit facilities throughout their life cycle; ii) clarify the credit decision-making process and building on the requirements of the EBA Guidelines on internal governance, and iii) set requirements for assessing borrowers' creditworthiness , including the use of automated models, along with requirements for handling information and data for such assessments. These Guidelines are to be gradually phased in as from 30 June 2021 to 2024. De Volksbank will integrate the guidelines into its internal policies and processes in line with this schedule.

ECB recommendation: dividend payments

In July 2021, the ECB decided not to extend its pandemic-related dividend recommendation for eurozone banks to exercise extreme prudence beyond September 2021, following the economic rebound and further reduction in the level of economic uncertainty, which is improving the reliability of banks' capital projections compared with the start of the pandemic. For more information on this topic, see Section 3.8.5 Dividend in Chapter 3.8 Capital management.

Capital Markets Union

On 6 July 2021, the EC published a proposal for a Green Bond Regulation to create a new 'gold standard' for green bonds. This Green Bond Regulation will lay the foundation for a framework of rules on the use of the 'European Green Bond' (EuGB) designation for bonds that pursue environmentally sustainable

objectives under the Taxonomy Regulation. Other market standards can be compared to, and potentially seek alignment with the EuGB framework. It also creates a system to register and supervise external reviewers of green bonds who confirm alignment with the EuGB framework. The broader aim of the Green Bond Regulation is to facilitate the further development of the European market for green bonds, while minimising disruption to existing green bond markets. The EC hopes that the development of this market will help meet the EU's climate and environmental objectives under the Paris Agreement on climate change. The Green Bond Regulation also aims to reduce the risk of 'greenwashing' by setting high standards for the issuance of green bonds, and forms part of the European Green Deal which sets an objective of making it easier for investors and companies to identify credible sustainable investments.
The proposed framework entails four key requirements:

- the funds raised by the bond should be allocated fully to projects in alignment with the EU Taxonomy,
- detailed reporting should provide full transparency on how bond proceeds are allocated,
- all EU green bonds must be checked by an external reviewer to ensure compliance with the Green Bond Regulation and alignment of funded projects with the Taxonomy, and
- external reviewers providing services to issuers of EU green bonds should be registered with and supervised by the European Securities Markets Authority.

Even though the Green Bond Regulation will be a voluntary standard giving issuers the choice to opt for the EuGB designation or not, the EC has decided to take a legislative route. It is very likely that the designation will become the market standard for green bond issuances in the EU, and institutional investors will therefore demand green bonds that carry such a designation. Green bond issuers in the EU who are not compliant with the new rules may also run the risk of greenwashing; compliance being yet another reason to avoid supervisory scrutiny. Being a frequent issuer of green bonds, and in view of adhering to its Green Bond Framework, the developments related to both the Green Bond Regulation and the EuGB designation are important to de Volksbank.

Customer interests

Being a social bank, we put our customers' interests first without losing sight of the other stakeholders, i.e. society, our employees and our shareholder. As changes to laws and regulations related to customer interests affect the organisation, we describe the most relevant developments in this area in 2021 below.

General Data Protection Regulation

De Volksbank continues to enhance compliance with the General Data Protection Regulation (GDPR) to protect the privacy of our customers and employees. After repositioning the Privacy Office to the second line of defence in 2020, the Data Protection Officer strengthened his independent position, thus complying with the Dutch Data Protection Authority's issued in mid-2020.
Furthermore, de Volksbank is working on the consequences of a decision by the Court of Justice of the European Union regarding data transfers, which has led to new European Data Protection Board guidelines. As a consequence, all contracts with (sub)processors must be scrutinized and reassessed for the risks resulting from processing in countries outside the European Economic Area (EEA). In addition, new Standard Contractual Clauses – where applicable – must be concluded.

European Anti-Money Laundering Directives

De Volksbank takes all reasonable measures to prevent the bank and/or the financial system from being misused for money laundering and terrorist financing. We consider the gatekeeper function to be an integral part of our business operations as a social bank. The ongoing changes to the laws and regulations impact the processes and organisation of de Volksbank. We continue to collaborate on certain AML-related topics together with major banks and public parties, the Financial Intelligence Unit and the national police.

In 2021, de Volksbank continued to participate in Transaction Monitoring Netherlands (TMNL). In this initiative, launched by ABN AMRO, ING Bank, Rabobank, Triodos and de Volksbank, said banks are joining forces to contribute to boosting the effectiveness of anti-money laundering and terrorist financing by bringing together transaction data from different banks and making meaningful connections between them.

Sustainability

The EC presented the European Green Deal, a roadmap to make the EU economy sustainable and climate neutral by 2050. The Sustainable Finance Action Plan (SFAP) is an essential part of achieving these policy goals and impacts de Volksbank directly in certain areas. We closely monitor these and other initiatives, changes in sustainability-related laws and regulations, and assess how they may affect our business units. In response to this, we continued to anchor sustainability in the entire organisation, to integrate sustainability into regular processes - such as risk management processes - and to make de Volksbank's contribution to sustainability tangible through our reporting.
De Volksbank is, for instance, required to disclose information on how and to what extent our financing activities are associated with environmentally sustainable economic activities. The EU taxonomy provides a classification system of economic activities that contribute to, and do not harm, the environment and safeguard minimum social standards at the same time. For its 2021 Annual report, de Volksbank's meets the obligation to report on EU Taxonomy eligible activities.
Furthermore, the EC announced its intention to review the current regulations for corporate sustainability reporting, i.e. the Non-Financial Reporting Directive. We are closely following the implementation of this revision, the so-called proposed Corporate Sustainability Reporting Directive. For more detailed

information on our EU taxonomy obligations, ambition and (preliminary) reporting outcomes, see our 2021 Integrated Annual Review.

Payment services

As far as payments are concerned, we monitor general and legislative developments that will or may play a major role in the coming years.
One such a development is the European Retail Payment Strategy that is part of the EU's broader Open Finance Strategy, in which European acceptance of instant payments is the key element. ECB's investigations into the possibility of issuing a digital euro is another topic that is of great interest to us. In relation to access to payment accounts, the European Payments Council (EPC) is developing a new scheme, SEPA Payment Account Access (SPAA), in which user cases are included that are mainly related to payment transactions. This development to a new scheme concerns payment services on top of the mandatory services arisen from PSD2. These services do not have to be provided free of charge. A review of the PSD2 by the European Commission is expected in 2022.

1.7 Responsible tax policy

De Volksbank and its brands ensure compliance with the laws and regulations governing their business operations and activities. Being a social bank, we believe that this includes a responsible tax policy that benefits the organisation, our customers and society. Health, safety, education and other public expenditure are paid for from tax revenues, and we are well aware of that. So, we are happy to pay our fair share of tax. Our tax policy is approved by the Board of Directors and reviewed by the Audit Committee every year.

The spirit of the law

Naturally, we comply with all relevant tax laws and regulations. In addition to checking whether we legally comply with these laws and regulations, we check if we comply with their real meaning or intention, i.e. the spirit of the law. With that in mind, it is not appropriate to push the limits as regards taxation. We have no objection to being granted a tax benefit as intended by tax legislation, but will never devise or set up aggressive tax structures or used tax havens to obtain one. Nor do we let tax considerations play a decisive role.
However, this does not mean that we do not take tax aspects into account in relation to our consumer loans, such as interest deductions on our customers' mortgages.

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 our Tax department's objectives. 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 may alternately result in a lower or higher effective tax rate.

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 and was emphasised by signing an agreement in relation to so-called Horizontal Tax Monitoring (HTM), a form of cooperative tax compliance, in 2017.

In 2020, the Dutch tax authorities introduced a new approach to HTM, tightening the method. De Volksbank's current compliance agreement is subject to a transitional arrangement that will expire on 31 December 2022 at the latest.

De Volksbank and the Dutch tax authorities regularly discuss potentially important tax position developments and other tax-related topics. In these discussions, we not only highlight our own point of view, but we also highlight arguments that may argue against our own tax position. When we make mistakes, we will try to find a solution in consultation with the tax authorities. In that case, we will pay the taxes due and accept any other consequences, thus learning from our mistakes so as to prevent them in the future. We ensure that our customers experience as few negative effects as possible.

Tax control and risk management

It goes without saying that our tax control measures are intended to identify risks and minimise errors. All our tax control measures combined constitute our Tax Control Framework, which in turn is part of de Volksbank's Integrated Control Framework. It contributes to tax-compliant products for our customers, the mitigation of tax risks and the filing of timely, correct and complete tax returns. Examples of these tax control measures are training sessions and presentations for the business and management alike, regular participation in various internal and external meetings and the mandatory tax sign-off in the Product Approval and Review Process.
Tax control measures are reviewed by the Operational Risk department. A Risk Control Self Assessment (RCSA) is also performed on an annual basis.
Any concerns about unethical or unlawful tax-related behaviour of the organisation can be voiced through the regular processes and procedures of incident and loss management as well as through the whistleblowing procedure, even though the latter does not specifically mention tax.

International aspects

In recent years, the focus on the tax policies of internationally operatingcorporations, and on international tax evasion in particular, has increased. De Volksbank endorses international legislative initiatives on this issue, such as the OECD's initiative on Base Erosion and Profit Shifting and the domestic legislation resulting from these initiatives, even though not all of these are equally relevant to de Volksbank as we operate mainly in the Netherlands.

Nevertheless, we are obliged to report potentially aggressive cross-border tax arrangements to the Dutch tax authorities under the Mandatory Disclosure Rules (MDR/DAC6). These arrangements involve residents of various countries and may potentially be used for tax evation purposes by customers, counterparties or business partners. In view of de Volksbank's product range and customer profiles throughout the years, we expect the number of reports to be limited. In 2021, de Volksbank did not report any such arrangements under these regulations.

Taxes paid in 2021

De Volksbank accounted for € 56 million in corporation tax on the result for 2021. The effective tax rate was 25.8% (2020: 25.2%), slightly higher than the nominal rate of 25%. The effective tax rate increased due to the introduction of the minimum capital rule (thin cap rule) in 2020. This scheme precludes the deduction of some of the interest expenses. 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 2021 are as follows:

- Payroll tax and social security contributions: € 98 million (2020: € 97 million). These are withheld from employees' wages but, being part of the salary costs, are for the account of and paid by de Volksbank.
- Non-recoverable VAT: € 51 million (2020: 38 million). The financial services that de Volksbank provides are mostly exempt from VAT. Consequently, customers are not charged VAT for these services. VAT charged to the bank by suppliers cannot be reclaimed from the Tax and Customs Administration. The non-deductible VAT thus leads to an increase in costs for de Volksbank.
- Just like last year, de Volksbank does not owe any bank tax in 2021 as the taxable amount on which de Volksbank owes bank tax remains below the exemption threshold of the levy.

Tax risk policy on customers and transactions

De Volksbank's procedures and measures to identify, verify and accept customers are compliant with applicable Dutch and international regulations, such as the Common Reporting Standard (CRS) and the Foreign Account Tax Compliance Act (FATCA). Under the CRS and FATCA, customer data must be exchanged with the tax authorities of other countries.

Within the context of the Know-Your-Customer principle for business owners, we form a standpoint on their tax attitude. De Volksbank does not provide direct tax advice to customers, nor do we facilitate tax-aggressive structures for them.

De Volksbank does not want to invest in or provide loans to businesses involved in tax scandals, nor do we cooperate in transactions of which tax savings are the main objective. We therefore check if a transaction or standpoint is robust, has sufficient substance and does not have any negative effects. By this we mean the following:

- The standpoint 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 standpoint 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 to forming a standpoint, we make a considered and reasonable assessment of whether there is a chance of reputational damage or any other material negative (tax) consequences.

1.8 Economic developments

Dutch economy

Still in the grip of the pandemic, the Dutch economy had a difficult start to the year 2021. The lifting of measures to limit contact in the spring, however, led to a consumer-driven turnaround of which the services companies and large parts of the retail sector benefitted in particular. Yet, at the end of the year, the conditions worsened due to a renewed surge of the pandemic.

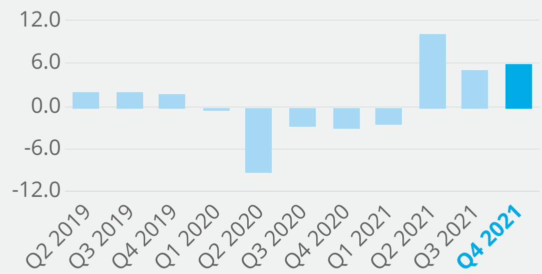
The industrial sector continued to perform strongly despite persistent supply chain disruptions, material shortages and a sharp rise in input prices. On balance, the economy fully overcame the pandemic-induced downturn, and macroeconomic developments compared favourably to those in most other European countries.

The government continued to support businesses in the first three quarters through wage cost subsidies, reimbursement of fixed costs and tax deferrals. As a result, bankruptcies fell to a record low in August and the numbers remained low in the subsequent months. The year-average unemployment rate fell by 0.6 percentage points of the labour force to 4.2%, despite a strong inflow of previously inactive workers into the labour market. Inflation rose by 1.4 percentage points to an annual average of 2.7%. Especially in the second half of 2021, inflation rose mainly as a result of higher prices for car fuels, natural gas and electricity.

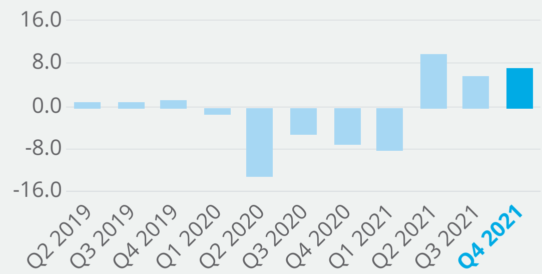
Interest rates and government bond yields

The ECB aimed for favourable financing conditions by keeping its deposit rate at the low level of -0.5% and by continuing its bond purchases through its Pandemic Emergency Purchase Programme (PEPP). Nevertheless, bond yields rose in the first months of the year as pandemic-related worries subsided and optimism about the economic outlook grew. The ECB managed to stop this movement in yields by stepping up its bond buying programme. During the summer, bond yields fell as concerns about the Delta variant took centre stage, but not much later sentiment turned as surging energy prices and labour shortages raised fears that the recorded rise in inflation would not be as short-lived as assumed earlier. Later in the autumn, the identification of the Omicron variant led to renewed safe-haven flows and another drop in yields, but by the end of the year – as markets started to look beyond the impact of the pandemic wave – yields went up once more. The pre-announced ending of net bond purchases under the PEPP, as well as the firm conviction by which the US Federal Reserve set out on its new course also put their stamp on markets in the final part of the year. On balance, the Dutch ten-year yield rose from -0.48% to -0.03% over the reporting period with the lowest level at the start of the year and peaks of +0.05% in May and October.

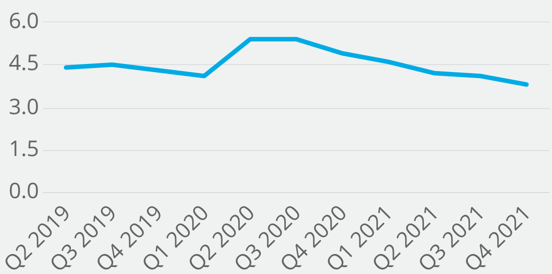
Gross domestic product Source: CBS
(YoY change in %)



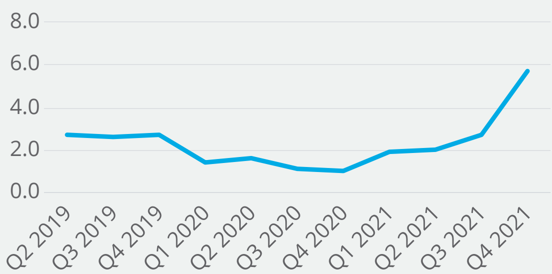
Household consumption Source: CBS
(YoY change in %)



Unemployment Source: CBS
(Seasonally adjusted in %)



Inflation Source: CBS
(YoY change in %)

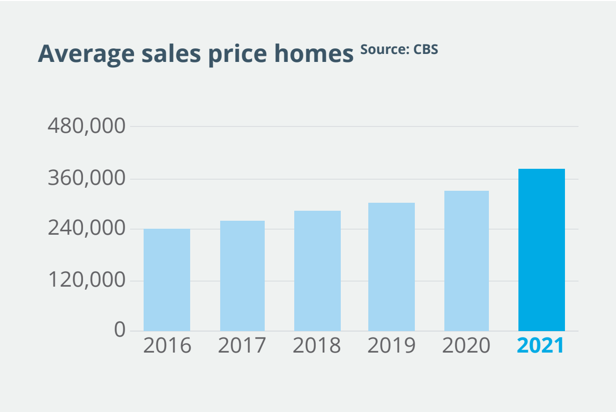


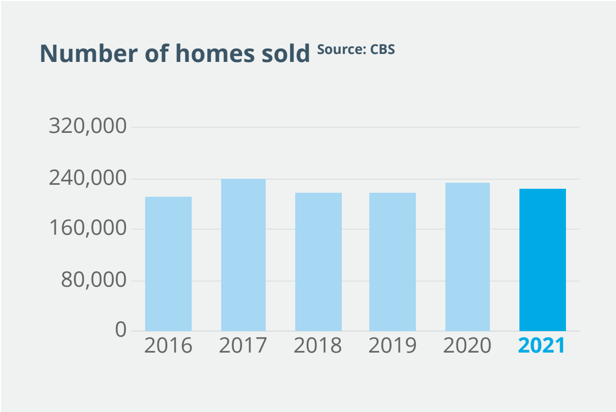
Housing and mortgage market

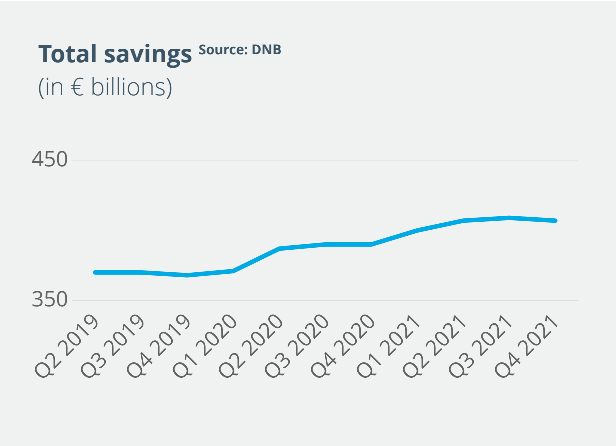
Conditions on the Dutch housing market became increasingly tight as the improving labour market combined with even lower mortgage rates underpinned potential demand. Furthermore, potential sellers became increasingly reluctant to sell because they were afraid they would not be able to acquire a new home themselves as the number of houses for sale reached extremely low levels. The average annual house prices increased by 15.2% on top of a 7.8% rise in 2020. Although the number of transactions continued to rise strongly in the first quarter as a result of changes in the property transfer tax for first-time buyers, over the full year the number of transactions fell by 4.0%.

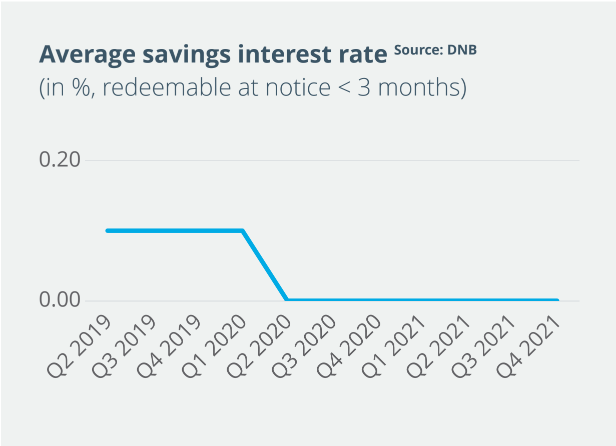
Savings market

Despite exceptionally low savings rates, the Dutch retail savings market grew to € 407 billion from € 390 billion at year-end 2020.









1.9 Commercial developments

	31-12-2021	31-12-2020
CUSTOMERS		
Total number of customers (in 1,000)	3,467	3,342
Total number of active multi-customers (in 1,000)	1,015	949
PAYMENTS		
Total number of current account customers (in 1,000)	1,781	1,657
Market share of new current accounts[1]	20%	19%
MORTGAGES		
Residential mortgages (gross in € billions)	48.2	47.8
Market share of new mortgage production (in #)	5.8%	5.0%
Market share of mortgage portfolio (in €)	6.1%[2]	6.2%
SAVINGS		
Retail savings (in € billions)	45.6	42.1
Market share of retail savings	11.3%	10.8%

1 Source: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.
2 Third quarter 2021 figures because market size figures were not yet available.

Customers and payments

As from 2021, one of our customer KPIs is the number of active multi-customers. In 2021, this number rose by 66,000 to 1,015,000. The year-end 2025 target has been set at 1.3 million. The total number of current account customers grew by 124,000 to 1,781,000 and the total number of customers rose by 125,000 to 3,467,000.

De Volksbank's market share of new current accounts was slightly down but remained high at 20% (2020: 17%). This market share is significantly above the market share on a total portfolio basis of approximately 9%.

Current account customers per brand

	2021	2020
Total current account customers (in 1,000)	1,781	1,657
SNS	998	961
RegioBank	377	334
ASN Bank	406	362

Mortgages

De Volksbank's residential mortgage portfolio, excluding IFRS value adjustments, grew to € 47.4 billion (year-end 2020: € 46.2 billion) as new production exceeded redemptions. As the mortgage rates remained at all-time low levels, homeowners were eager to lock in rates for a longer period of time, increasing their financial security. In a growing market for new mortgages, de Volksbank's new mortgage production amounted to € 8.1 billion (2020: € 6.1 billion). The market share of new mortgages stood at 5.8%, an increase compared with 2020 (5.0%). Repayments amounted to € 7.0 billion, compared with € 6.5 billion in 2020, mainly due to the rising mortgage refinancing volumes.

Interest rate renewals amounted to € 2.4 billion, a decrease compared with 2020 (€ 3.2 billion), mainly due to lower regular renewals.

Savings

In 2021, savings deposits at de Volksbank grew by € 3.5 billion to € 45.6 billion. Our market share increased to 11.3%, from 10.8% at year-end 2020.

1.10 Financial results

Profit and loss account

in € millions	2021	2020	Change
Net interest income	775	850	-9%
Net fee and commission income	39	46	-15%
Other income	13	27	-52%
Total income	**827**	**923**	**-10%**
Operating expenses excluding regulatory levies	588	602	-2%
Regulatory levies	79	50	58%
Total operating expenses	**667**	**652**	**2%**
Impairment charges financial assets	-58	38	-253%
Total expenses	**609**	**690**	**-12%**
Result before taxes	**218**	**233**	**-6%**
Taxation	56	59	-5%
Net result	**162**	**174**	**-7%**
Addition to restructuring provisions	--	-34	
Revaluation loan in relation to insolvency of DSB	17	--	
Total incidental items	**17**	**-34**	
Adjusted net result[1]	**145**	**208**	**-30%**
Cost/income ratio	80.7%	70.6%	
Adjusted cost/income ratio	83.3%	65.8%	
Return on Equity (RoE)	4.7%	5.1%	
Adjusted Return on Equity (RoE)	4.2%	6.1%	
Net interest margin (bps)	1.11%	1.30%	
Cost/assets ratio as a % of average assets	0.84%	0.92%	
Adjusted cost/assets ratio as a % of average assets	0.87%	0.85%	

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures in this Annual Report.

NET PROFIT

Compared with 2020, net profit decreased by € 12 million to € 162 million (-7%). Net profit included positive incidental items of € 17 million, consisting entirely of a postive revaluation of € 22 million before tax related to recognition of legal interest on a previous contribution made under the Deposit Guarantee Scheme (DGS) in relation to the insolvency of DSB.

In 2020, net profit contained € 34 million of negative incidental items, consisting entirely of a restructuring provision of € 45 million before tax in connection with the transformation to a new organisational structure and agile way of working.

Net profit, adjusted for incidental items, decreased by € 63 million to € 145 million (-30%). This drop was mainly attributable to € 96 million lower total income. Furthermore, total adjusted operating expenses increased by € 82 million. This was partly compensated by a € 96 million swing in impairment charges of financial assets.

INCOME

Breakdown income

in € millions	2021	2020	Change
Net interest income	775	850	-9%
Net fee and commission income	39	46	-15%
Investment income	3	17	-82%
Result on other financial instruments	10	9	--
Other operating income	--	1	-100%
Total income	**827**	**923**	**-10%**
Net interest margin (bps)[1]	1.11%	1.30%	

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures in this Annual Report.

Net interest income

Net interest income decreased by € 75 million to € 775 million (-9%) and the net interest margin decreased to 1.11% (2020: 1.30%). This was mainly due to lower income on mortgages as a result of interest rate renewals at lower rates. Furthermore, new mortgage production was concluded at substantially lower rates than the rates of repaid mortgages. The residential mortgage portfolio, excluding IFRS value adjustments[2], increased to € 47.4 billion, compared with € 46.2 billion at year-end 2020.

In addition, the interest paid on liquidities deposited with financial institutions, such as the European Central Bank, rose. This rise was driven by higher liquidities as a result of substantial growth in deposits. Furthermore, net interest income included a charge of € 13 million related to a provision for a compensation scheme for customers with a revolving consumer credit. De Volksbank will compensate retail customers of SNS and RegioBank who paid too much interest on their revolving consumer credit facility during the lifetime of this facility. A charge of € 2 million related to the execution costs of the scheme has been included in the operating expenses.

Lower income on mortgages and higher interest paid on liquidities were only partly compensated by lower interest expenses on savings. De Volksbank took several measures in response to the persistently low and negative interest rates on financial markets and people saving more at the same time. As from 1 August 2020, SNS, RegioBank and ASN Bank charged 0.5% interest on business customers' savings in excess of € 1 million. The threshold for charging interest has gradually been lowered in line with market rates. As from 1 March 2021, private and business customers with deposits in excess of € 250,000 were also charged 0.5% interest. As from 1 July 2021, de Volksbank brands charge 0.5% interest per year on that part of the balance that exceeds € 100,000. This affected around € 4 billion in deposits, equating to approximately 7% of total deposits and approximately 3% of our savings customers. The negative interest rate in question is calculated per separate current, savings and investment account. With effect from 1 April 2022, the brands of de Volksbank will use the overall account balances per customer as the threshold. Despite historically low interest rates, we saw substantial growth of the entire savings market and in our savings deposits. In 2021, savings deposits at de Volksbank grew by € 3.5 billion to € 45.6 billion. Our market share increased to 11.3%, from 10.8% at year-end 2020.

Net interest income was positively impacted by a different classification of distribution fees paid by RegioBank. In the fourth quarter of 2020, RegioBank changed its commission fee model from a combined savings balance and customer model to a full-customer model. As a consequence, distribution fees paid are classified as fee and commission expenses instead of interest expenses. The impact of this modified classification amounted to approximately € 18 million compared with 2020.

Compensation received for loss of interest on account of early repayments of mortgages (prepayment charges) was exceptionally high as a result of a growing mortgage refinancing market. This compensation amounted to € 103 million, up sharply compared with the level of 2020 (€ 56 million).

Net fee and commission income

Total fee and commission income increased by € 16 million to € 137 million (+13%), while total fee and commission expenses increased by € 23 million to € 98 million. On balance, net fee and commission income decreased by € 7 million to € 39 million, more than wholly due to the aforementioned € 18 million classification change in RegioBank's commission fee model. Excluding this change, net fee and commission rose by € 11 million. This increase was mainly driven by an increase in management fees as a result of higher assets under management, which amounted to € 4.8 billion compared with € 3.9 billion at year-end 2020 (+21%). Approximately one-third of the growth in assets under management was caused by net cash inflow and the remainder was due to positive stock market developments. Money transfer and payment fees and mortgage advisory fees were also higher in 2021. Finally, the acquisition of property valuation platform Fitrex B.V., as announced on 1 September 2021, contributed to the increase in net fee income, although the impact was still very limited.

Investment income

Investment income amounted to € 3 million compared with € 17 million in 2020. This decrease was attributable to lower realised results on fixed-income investments sold as part of asset and liability management and the optimisation of the investment portfolio. Compared with the exceptionally high level in 2020, the level normalised in 2021.

Other results on financial instruments

Other results on financial instruments amounted to € 10 million compared with € 9 million in 2020. Lower treasury results were compensated by a higher result on hedge accounting ineffectiveness.

EXPENSES

Operating expenses and FTE

in € millions	2021	2020	Change
Staff costs	414	427	-3%
Depreciation of (in)tangible assets	20	29	-31%
Other operating expenses	233	196	19%
Of which Regulatory levies	*79*	*50*	*58%*
Total operating expenses	**667**	**652**	**2%**
Incidental revaluation loan in relation to insolvency of DSB (other operating expenses)	22	--	
Incidental addition to restructuring provision (staff costs)	--	45	--
Adjusted operating expenses	**689**	**607**	**14%**
FTE			
Total number of internal FTEs	3,178	3,171	0%
Total number of external FTEs	783	648	21%
Total number of FTEs	**3,961**	**3,819**	**4%**

Total operating expenses rose by € 15 million to € 667 million (+2%), despite a € 67 million swing in incidental items. In 2021, operating expenses were positively impacted by a postive revaluation of € 22 million before tax related to recognition of legal interest on a previous contribution made under the

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

Deposit Guarantee Scheme (DGS) in relation to the insolvency of DSB.

Excluding incidental items, total operating expenses were up € 82 million (+14%), of which € 29 million as a result of higher regulatory levies. Regulatory levies amounted to € 79 million (2020: € 50 million), of which € 11 million was linked to the resolution fund contribution (2020: € 8 million), and € 68 million to the ex-ante DGS contribution (2020: € 42 million). Covered deposit growth was the main cause of the DGS contribution increase.

Excluding incidental items and regulatory levies, adjusted operating expenses amounted to € 610 million, compared with € 557 million in 2020 (+10%). This € 53 million increase was mainly driven by € 52 million higher staff costs[3]. Other operating expenses were up € 10 million, mainly due to higher marketing and IT expenses. Depreciation of tangible and intangible assets was € 9 million lower, due to reversals of impairment charges on buildings in own use, the sale of property and the fact that intangible assets had already been written off at year-end 2020.

The rise in staff costs was mainly driven by an increase in FTEs and wage inflation. In comparison with year-end 2020, the total number of FTEs grew by 142 to 3,961. The increase was mainly related to customer integrity activities and to the need for extra capacity at the Service Centers due to higher volumes. Furthermore, total FTEs increased due to the implementation of the strategic plan in the areas of IT, support in the transition to a new way of working and the SME finance proposition. The number of internal employees rose by 7 FTEs to 3,178 and the number of external employees rose by 135 FTEs to 783.

The transition to a uniform and agile way of working with independent customer and service teams will lead to more efficient cooperation and a flatter organisation, which is now expected to result in a total loss of 400-450 FTE by 2023. In parallel with this process, new employees having the knowledge and skills needed to implement the strategy have been and will be hired. The first signs of this were visible in 2021. Exactly how many jobs will be involved over the next few years will partly depend on the growth rate of our business.

Adjusted operating expenses divided by average total assets increased slightly to 87 basis points (bps) from 85 bps in 2020.

3 As from 2021, costs related to outsourced services are reclassified from external staff expenses to information technology costs (included in other operating expenses). The reclassification impact compared with 2020 amounted to approximately € 20 million.

Impairment charges of financial assets

in € millions	2021	2020
Residential mortgages	-46	29
Consumer loans	3	-1
SME loans	-12	8
Other corporate and government loans	-4	0
Investments	1	0
Other	--	2
Total impairment charges financial assets	**-58**	**38**
Cost of risk total loans[1]	-0.12%	0.08%
Cost of risk residential mortgages[1]	-0.10%	0.06%
Cost of risk SME loans[1]	-1.56%	1.16%

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures in this Annual Report.

Impairment charges of financial assets consisted of a € 58 million reversal, compared with a charge of € 38 million in 2020 in connection with the Covid-19 pandemic. A more detailed description of the credit loss provisioning is set out in the Section 3.3 Credit risk.

Residential mortgages

Impairment charges on residential mortgages consisted of a reversal of € 46 million, compared with a charge of € 29 million in 2020. The reversal followed from the improved economic outlook, most notably higher house prices. The management overlay applied increased compared with year-end 2020 on the back of greater uncertainty regarding the substantially decreased modelled provisions. Mid-2020 de Volksbank introduced this management overlay to reflect the high degree of uncertainty about economic developments in the Netherlands and the financial resilience of customers whose incomes are negatively affected by the Covid-19 pandemic.

Consumer loans

Impairment charges on consumer loans consisted of a charge of € 3 million for off-balance sheet items, compared with a reversal of € 1 million in 2020. This increase was mainly driven by the implementation of a new regulatory definition of default.

SME loans

Impairment charges on SME loans consisted of a reversal of € 12 million as a result of an improved economic outlook, in particular a reduction in the expected number of insolvencies. There was also a decrease in stage 3 loans.

In 2020, impairment charges amounted to € 8 million due to an increase in stage 2 loans owing to the deteriorated economic outlook used in scenarios to determine the credit loss provision.

Other corporate and government loans

Impairment charges on other corporate and government loans consisted of a € 4 million reversal, mainly caused by the lower credit risk on one specific loan. In 2020, there was no reversal.

Outlook

Based on the current outlook for economic growth, housing prices and interest rates we expect total income to hold up well compared with the level in 2021. Lower interest income on mortgages in the sustained low interest rate environment is expected to be largely absorbed by lower retail funding expenses and higher net fee and commission income, reflecting the progress of our growth initiatives.

For 2022, operating expenses are projected to be higher compared with 2021, mainly driven by strategy-related expenses and the absence of the incidental item as in 2021.

Economic developments in the Netherlands and their consequences for the financial resilience of our customers are highly uncertain. This may affect our credit loss provisioning. Based on the current outlook and due to the sound quality of our loan portfolio, we expect the level of impairment charges on loans and advances to be low in 2022.

In February 2022, in response to the violation of Ukraine's sovereignty, various sanctions were issued against Russia, Belarus and parts of Ukraine. We do not have material direct exposure to Ukraine, Russia or Belarus, nor do we expect to have a material indirect exposure to said countries. However, the economic consequences of the situation in Ukraine and their impact on de Volksbank are at this time difficult to estimate.

All in all, we expect the net profit for 2022 as a whole to be lower compared with 2021.

1.11 Reconciliation of alternative performance measures

Our financial results are prepared and reported in accordance with IFRS, as detailed in the Financial statements on page 150.

We also present alternative performance measures, i.e. non-IFRS financial measures. These include adjusted performance that we use to align internal and external reporting, identify and quantify items that management believes to be significant, and provide insight into how management assesses the bank's period-on-period performance.

To derive adjusted performance, we adjust for certain incidental items, i.e. items that have an impact on the net result in excess of €15 million and have an incidental nature, thus limiting insight into underlying developments.

- In 2021, net profit included positive incidental items of € 17 million, entirely consisting of a postive revaluation of € 22 million before tax related to recognition of legal interest on a previous contribution made under the Deposit Guarantee Scheme (DGS) in relation to the insolvency of DSB.
- In 2020, net profit included negative incidental items of € 34 million, entirely consisting of a restructuring provision of € 45 million before tax in connection with the tranformation to a new organisational structure and agile way of working.

Definitions of additional ratios presented on page 6-7 of this Annual Report and in other sections of the Report of the Board of Directors are presented in the table Non-IFRS financial measures on the next page.

Reconciliation of reported to adjusted net result

in € millions	2021 Reported	2021 Adjust-ments	2021 Adjusted	2020 Reported	2020 Adjust-ments	2020 Adjusted
Net interest income	775		775	850		850
Net fee and commission income	39		39	46		46
Investment income	3		3	17		17
Other result on financial instruments	10		10	9		9
Other income	--		--	1		1
Total income	**827**		**827**	**923**		**923**
Staff costs	414		414	427	-45	382
Depreciation and amortisation of tangible and intangible assets	20		20	29		29
Other operating expenses	233	22	255	196		196
Of which: regulatory levies	*79*		*79*	*50*		*50*
Total operating expenses	**667**	**22**	**689**	**652**	**-45**	**607**
Of which: operating expenses excluding regulatory levies	***588***	22	***610***	***602***	-45	***557***
Impairment charges of financial assets	-58		-58	38		38
Of which: residential mortgages	*-46*		*-46*	*29*		*29*
Of which: consumer loans	*3*		*3*	*-1*		*-1*
Of which: SME loans	*-12*		*-12*	*8*		*8*
Of which: other corporate and government loans	*-4*		*-4*	*--*		*--*
Of which: investments	*1*		*1*	*--*		*--*
Of which: other	*--*		*--*	*2*		*2*
Total expenses	**609**	**22**	**631**	**690**	**-45**	**645**
Result before taxation	**218**	**-22**	**196**	**233**	**45**	**278**
Taxation	56	-5	51	59	11	70
Net result for the period	**162**	**-17**	**145**	**174**	**34**	**208**

NON-IFRS FINANCIAL MEASURES

KPIs and adjusted KPIs

in € millions	2021 Reported	2021 Adjustments	2021 Adjusted	2020 Reported	2020 Adjustments	2020 Adjusted
Cost/income ratio	Total operating expenses (including regulatory levies) as percentage of total income.					
Total operating expenses[1]	667	22	689	652	-45	607
Total income	827		827	923		923
Cost/income ratio	**80.7%**		**83.3%**	**70.6%**		**65.8%**
Return on Equity (RoE)	Net result for the period from continuing operations as percentage of average month-end total equity for the reporting period.					
Net result	162	-17	145	174	34	208
Average month-end total equity	3,458		3,458	3,410		3,410
Return on Equity (RoE)	**4.7%**		**4.2%**	**5.1%**		**6.1%**
Net interest margin (bps)	Net interest income as percentage of average month-end total assets for the reporting period.					
Net interest income	775		775	850		850
Average month-end total assets	69,958		69,958	65,385		65,385
Net interest margin (bps)	**1.11%**		**1.11%**	**1.30%**		**1.30%**
Cost/assets ratio as a % of average assets	Total operating expenses excluding regulatory levies as percentage of average month-end total assets for the reporting period.					
Operating expenses excluding regulatory levies	588	22	610	602	-45	557
Average month-end total assets	69,958		69,958	65,385		65,385
Cost/assets ratio as a % of average assets	**0.84%**		**0.87%**	**0.92%**		**0.85%**

1 As from 2021, the total operating expenses are used to calculate the Cost/income ratio. Previously, the operating expenses excluding regulatory levies were used. This change is in line with market practice and provides a better insight in the development of our profitability. The comparative figures have been adjusted accordingly.

Cost of risk

in € millions	2021	2020
Cost of risk	Impairment charges of financial assets as percentage of average month-end loan portfolio exposure for the reporting period.	
TOTAL LOANS		
Impairment charges of financial assets - total loans	-59	38
Average month-end portfolio exposure - total loans	49,417	47,500
Cost of risk total loans	**-0.12%**	**0.08%**
RESIDENTIAL MORTGAGES		
Impairment charges of financial assets - residential mortgages	-46	29
Average month-end portfolio exposure - residential mortgages	46,465	48,333
Cost of risk residential mortgages	**-0.10%**	**0.06%**
SME LOANS		
Impairment charges of financial assets - SME loans	-12	8
Average month-end portfolio exposure - SME loans	769	690
Cost of risk SME loans	**-1.56%**	**1.16%**

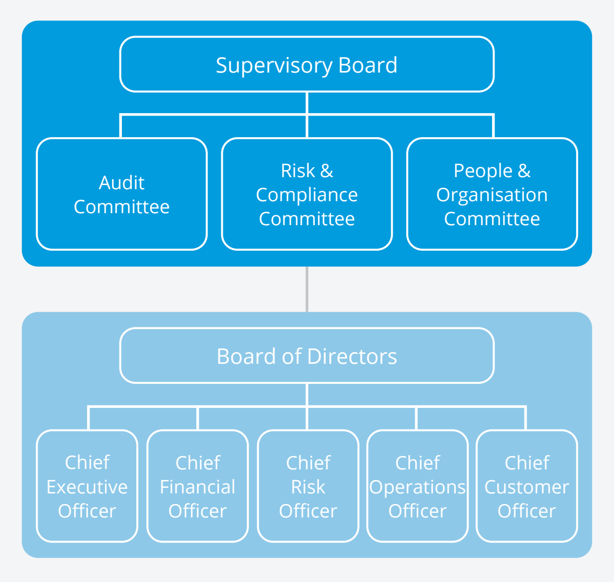
Loan-to-Deposit ratio (LTD)

in € millions		2021	2020
Loan-to-Deposit ratio (LtD)	Loans and advances to retail customers as a percentage of amounts due to retail customers		
Total loans and advances to customers		50,727	50,542
IFRS value adjustments		810	1,572
Loans and advances to other corporates and governments (cash loans VFM)		431	442
Loans and advances to retail customers		**49,486**	**48,528**
Total amounts due to customers		58,128	53,652
Amounts due to non-retail customers (private loans VFM)		571	628
Amounts due to retail customers		**57,557**	**53,024**
Loan-to-Deposit ratio (LtD)		**86%**	**92%**

2.

GOVERNANCE

2.1 Supervisory Board and Board of Directors



Composition, appointment and functioning of the Board of Directors

The Supervisory Board draws up a generic profile for the Board of Directors (the Board) in consultation with the Board itself. This profile specifies the required knowledge, suitability, expertise, integrity and availability of the Board and its members. It also sets out the relevant aspects of diversity and inclusion, such as nationality, age, gender and background with regard to education and professional experience. At the end of 2021, the percentage of women on the Board was 33%, taking into account the vacancies for CFO and COO positions. Our 2025 target has been set at a female/male ratio of 40/60%. De Volksbank's Diversity and Inclusion Policy focuses on recognising and valuing both customers' and employees' diversity. The purpose of the policy is to contribute optimally to the execution of the bank's strategy. The generic profile for the Board has been approved by NLFI and published on our website. The profile has not changed in 2021.

Composition of the Board of Directors

The following is a concise description of the Board members' professional experience:

Martijn Gribnau

1964 - Nationality: Dutch

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

Jeroen Dijst

1971 - Nationality: Dutch

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

Marinka van der Meer

1969 - Nationality: Dutch

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

John Reichardt

1958 – Nationality: Dutch

John Reichardt was appointed to the Board on 15 April 2021. John was the interim Chief Financial Officer up to and including 31 December 2021 and held no other board positions during this period.

Prior to joining de Volksbank John served on the Executive Board of BNG Bank for twelve years. He started his banking career in 1985 at the former AMRO Bank, where he held various positions in its branch network.

Appointment of the members of the Board of Directors

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

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

Composition of the Board of Directors as at 31 December 2021

Name		Appointed until
Martijn Gribnau	CEO & COO a.i.	AGM 2024
Jeroen Dijst	CRO	AGM 2024
Marinka van der Meer	CCO	AGM 2022
John Reichardt	CFO a.i.	n.a.[1]

1 CFO a.i. as from April 2021 until 31 December 2021.

Changes in the senior management structure in 2022

As part of the new strategic plan for 2021-2025, as from the second quarter of 2022, de Volksbank will introduce an Executive Committee (ExCo) to add focus and balance to the management of the changing organisation. This is key to a successful implementation. The ExCo will consist of four statutory Executive Board members and three non-statutory Senior Executives. The below three positions will be added to the ExCo as non-statutory members and, together with the members of the Board, will form the Executive Committee:

- Chief Transformation Officer (CTO)
- Chief Information Officer (CIO)
- Chief People and Organisation Officer (CPOO)

The recruitment and selection process for these last three positions is currently ongoing. As a result of the introduction of the ExCo, the position of Chief Operations Officer (COO) in the Board will lapse.

Functioning of the Board of Directors

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

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

In 2020, the Board experienced differences of opinion that resulted in the departure of the CFO and COO for a variety of reasons. In response, an independent survey into the Board dynamics was commenced. The bank's sole shareholder, NLFI, fulfilled a monitoring role. On 18 February 2021 the findings of the survey were disclosed by de Volksbank. The researchers concluded that the Board and the Supervisory Board had not functioned in the best possible way in the recent past and that the relationship between the two bodies was not always a healthy one. The Board and Supervisory Board considered the report to be critical.

The Supervisory Board concluded that the measures the Supervisory Board had introduced in the second half of 2020 together with the Board were in line with the researchers' findings. These measures included a change of the composition of the Board and streamlining of the bank's senior management structure. Furthermore, the collaboration within the Board and between the Board and the Supervisory Board is evaluated regularly and the researchers' suggestion to execute the onboarding process more carefully and for a longer period of time was adopted.

Composition, appointment and functioning of the Supervisory Board

The Supervisory Board is composed in such a way that it has sufficient expertise to properly perform its duties. The Supervisory Board draws up a generic profile for its members. This profile specifies the required knowledge, suitability, expertise, integrity and availability of the Supervisory Board and its members. It also sets out the relevant aspects of diversity and inclusion, such as nationality, age, gender and background with regard to education and professional experience. At the end of 2021, 40% of the Supervisory Board positions were filled by women, in line with our target for 2025. De Volksbank's Diversity and Inclusion Policy focuses on recognising and valuing both customers' and employees' diversity. This policy also applies to the Supervisory Board. The generic profile of the Supervisory Board has been approved by NLFI and published on our website. The generic profile of the Supervisory Board was amended as from 1 November 2021. When a new member is appointed, the Supervisory Board will propose a candidate to the Annual General Meeting (AGM), taking this profile into account.

Composition of the Supervisory Board

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

The following changes in the composition of the Supervisory Board took place in 2021:

- 11 March: Jan van Rutte, at that time Chair of the Supervisory Board, announced that he would step down early and would stay on until a successor was found;
- 21 April: the terms of office of Monika Milz and Sonja Barendregt - Roojers expired in conformity with the rotation schedule and both indicated not to be available for reappointment;

- 13 August: Gerard van Olphen was appointed Chair of the Supervisory Board on the same day Jan van Rutte stepped down;
- 20 September: Jeanine Helthuis and Petra van Hoeken were appointed to the Supervisory Board.

Since 20 September 2021, the Supervisory Board has consisted of Gerard van Olphen (Chair), Jeanine Helthuis, Petra van Hoeken, Aloys Kregting and Jos van Lange.

Composition of the Supervisory Board as at 31 December 2021

31-12-2021	Initial date of appointment	Expiry date appointment	Year of birth	Gender
Gerard van Olphen	08-2021	AGM 2025	1962	M
Jeanine Helthuis	09-2021	AGM 2025	1962	F
Petra van Hoeken	09-2021	AGM 2025	1961	F
Aloys Kregting	08-2018	AGM 2022	1967	M
Jos van Lange	05-2018	AGM 2022	1956	M

The following is a concise description of the Supervisory Board members' professional experience:

Gerard van Olphen

1962 – Nationality: Dutch

Gerard van Olphen was appointed as a member and Chair of the Supervisory Board of de Volksbank N.V. on 13 August 2021. Gerard is also a member of the People & Organisation Committee (P&OC). His term of office will expire on the date of the AGM of 2025.

Other positions held by Gerard on 31 December 2021 are:

- Member of the Supervisory Board of a.s.r. / member of the Audit & Risk Committee and member of the Nomination & ESG Committee
- Member of the Supervisory Board of the Dutch Heart Foundation
- Member of the Identification Board of the Royal Netherlands Institute of Chatered Accountants (NBA)

Gerard has extensive executive-level experience at various financial institutions with roots in Dutch society. In the spring of 2021, he stepped down as Chair of the Executive Board of APG, the Dutch pension investor. Prior to that, he was Chair of the Executive Board of SNS REAAL and, after the split-off, he briefly served as Chair of insurance company Vivat, acquired at the time by the Anbang Insurance Group. Earlier in his career he held the positions of CFRO and Vice Chair of the Executive Board of Achmea, CEO of NIBC Asset Management and member of the Executive Committee of NIB Capital. From 1991 to 2001, he held several policy-making positions at SNS REAAL, including that of CEO of REAAL.

Jeanine Helthuis

1962 – Nationality: Dutch

Jeanine Helthuis was appointed as a member of the Supervisory Board on 20 September 2021. Jeanine is also Chair of the P&OC and a member of the Risk & Compliance Committee (R&CC). Her term of office will expire on the date of the AGM of 2025.

Other positions held by Jeanine on 31 December 2021 are:

- Managing Director at Van Doorne
- Vice Chair of the Supervisory Board of ProRail / member of the Audit Committee, Selection & Appointment Committee and Remuneration Committee

Jeanine has broad managerial experience in leading Dutch service providers, including companies in the banking sector. She has held various board and senior management positions at several companies in the logistics sector and in the financial services industry. Jeanine is currently a Managing Director at Van Doorne, a Dutch law firm. Prior to that, she was General Manager at PC Uitvaart (2015 – 2020) and Chair of the Board of Directors of Monuta (2009 – 2012). In the intervening period (2013 – 2014), she chaired the working group of the Dutch Investment Institution (NII). Jeanine is currently also Vice Chair of the Supervisory Board of ProRail, and was a Supervisory Board member at Van Lanschot Kempen until May 2021.

From 2006 - 2009, Jeanine sat on the Managing Board of Fortis Bank Nederland in the capacity of CEO of its Retail Bank, and from 1991 – 2005 she held various senior management positions at KPN. Jeanine started her career at Nedlloyd.

Petra van Hoeken

1961 – Nationality: Dutch

Petra van Hoeken was appointed as a member of the Supervisory Board on 20 September 2021. Petra is also Chair of the R&CC and a member of the Audit Committee (AC). Her term of office will expire on the date of the AGM of 2025.

Other positions held by Petra on 31 December 2021 are:

- Member of the Supervisory Board of Nordea / member of the Risk & Compliance Committee and member of the Audit Committee
- Member of the Supervisory Board of NWB Bank / Chair of the Risk & Compliance Committee and member of the Audit Committee
- Member of the Supervisory Board of Oranje Fonds / member of the Audit Committee and member of the Investment Committee
- Adviser to the Ministry of Economic Affairs and Climate Policy / Chair of the Credit Committee of the Corporate Finance Guarantee Scheme (GO Scheme)
- Member of the Donations Review Committee of Leiden University

Petra has extensive managerial and banking experience at Dutch and international banks. Until the end of 2020, Petra was Chief Risk Officer (CRO) on the Executive Committee of the Intertrust Group. Prior to that, she was CRO and a member of the Managing Board at Rabobank (2016 – 2019), during which period she was responsible for Legal & Compliance and Risk Management of the Rabobank Group. Petra held a similar position at NIBC (2011 – 2016). Petra started her career in 1986 at ABN AMRO where, after having held various international positions, she became responsible for EMEA & Global Risk Management as CRO. After the split-off from ABN AMRO, she held the same position for RBS.

Aloys Kregting

1967 – Nationality: Dutch

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

Other positions held by Aloys on 31 December 2021 are:

- Chief Information Officer (CIO) at AkzoNobel N.V
- Member of the Supervisory Board of the Utrecht University Medical Centre (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. Aloys worked for DSM from 2008 to 2016. During this period he held the positions of CIO and CSO. Aloys has been CIO at AkzoNobel since 2016.

Jos van Lange

1956 – Nationality: Dutch

Jos van Lange was appointed as a member of the Supervisory Board on 1 May 2018. His term of office will expire on the date of the AGM of 2022. On 20 September 2021, Jos took the reins as Chair of the AC and remained a member of the R&CC.

Other positions held by Jos on 31 December 2021 are:

- Chair of the Supervisory Board/Chair of the People and Organisation Committee of Zuyderland Medisch Centrum
- Vice Chair of the Supervisory Board of Bouwinvest N.V. / Chair of the Audit, Risk & Compliance Committee
- Member of the Board of Governors of Tilburg University / Chair of the Audit Committee
- Member of the Investment Advisory Committee of cooperative DELA
- Chair of the *Landgoed Kasteel Geldrop* Foundation

Jos held the position of CEO at Rabo Real Estate Group 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.

Profile

31-12-2021	Social identity banks	Strategy	Customers	Distribution	People and organisation	Innovation	Sustainability	ITC	Data	Finance	Risk, compliance, audit
Gerard van Olphen	•	•	•	•	•	•	•			•	•
Jeanine Helthuis	•	•	•	•	•					•	•
Petra van Hoeken	•	•	•				•	•	•	•	•
Aloys Kregting	•	•			•	•		•	•		•
Jos van Lange	•	•	•	•					•	•	•

Appointment of members of the Supervisory Board

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

Functioning of the Supervisory Board

In performing its duties, the Supervisory Board continuously weighs up the interests of all its stakeholders to fulfil the mission and ambition of de Volksbank. The Supervisory Board members operate independently of each other within the meaning of the

Dutch Corporate Governance Code and in accordance with DNB's position on the independent functioning of the Supervisory Board. The Articles of Association contain a list of the duties and rules governing the Supervisory Board's functioning. In addition, both the regulations for the Supervisory Board and the Memorandum of Understanding (MoU) agreed with NLFI include additional agreements on the way in which the Supervisory Board should exercise its duties and powers and with regard to the appointment of the Chair of the Supervisory Board and the CEO.

The Articles of Association and MoU were not amended in 2021. The regulations for the Supervisory Board were last amended on 11 February 2021.

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

2.2 Report of the Supervisory Board

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

The task of these committees is to prepare the decision-making of the Supervisory Board and to support the Supervisory Board by providing advice on various topics. The Supervisory Board has drawn up regulations for each of these committees and appoints the chairs.

Composition of committees on 31 December 2021

	AC	R&CC	P&OC
Gerard van Olphen	-	-	Member
Jeanine Helthuis	-	Member	Chair
Petra van Hoeken	Member	Chair	-
Aloys Kregting	Member	-	Member
Jos van Lange	Chair	Member	-

Audit Committee

The AC assists the Supervisory Board in reviewing the:
(i) reliability of the financial reporting process and risk assessment of issues that can influence financial reporting;
(ii) structure and functioning of the internal risk management system in all matters concerning accounting and tax policies and practices, and the internal control system, and relevant statutory and regulatory compliance; and
(iii) independence and functioning of the internal and external auditors.

The AC is composed of at least three members. On 31 December 2021, the committee comprised the following members: Jos van Lange (Chair), Petra van Hoeken and Aloys Kregting. The CEO, the CFO, the CRO, the Director of Audit and the external auditor (EY) are permanent attendees at every meeting. In addition, the COO is invited to discuss ITC-related issues. The Chair of the AC, the Director of Audit and the external auditor hold a preliminary consultation prior to the meeting. In addition, the Chair of the AC and the CFO also hold a preliminary consultation prior to the meeting. At least once a year, an AC meeting is held at which only the Director of Audit and the external auditor are present. The Regulations for the Audit Committee were last amended on 11 February 2021.

The AC convened four times in 2021. At each meeting, the AC discussed the reports issued by Audit and received regular updates, either in writing or verbally from EY, the external auditor. Top risks related to both the internal control risks and financial risks were explicitly addressed. Also, the quarterly results were discussed in depth each quarter. The design, existence and operation of the internal control systems were also regularly on the agenda, with the AC paying specific attention to the improvement programmes that were put in place to strengthen internal control and to make the reporting processes more robust.

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

Specific topics discussed in the AC in 2021 included:

1. As regards the reliability of the financial reporting process:
- 2020 Integrated Annual Review Report
- 2020 Annual Report
- 2020 ESG Report
- Monthly and Quarterly Business Reviews, interim and annual figures, related press releases and Pillar 3 reports
- Updated Dividend Policy, ECB recommendation and planned dividend distribution for 2019 and 2020
- Management reports
- Accounting issues, including Covid-19 impact
- 2022-2025 Operational Plan
- Non-credit risk provisioning and Litigation Statement
- Tax policy and periodic tax updates

2. As regards the structure and functioning of matters concerning accounting and tax policies and practices, internal control, and relevant statutory and regulatory compliance:
- Quarterly reports drawn up by Audit and EY
- Quarterly reports drawn up by ITC
- Tax policy and updates
- Data management
- Risk Review of the 2022-2025 Operational Plan
- Joint management letter of EY and Audit
- Audit/EY meeting on the functioning and attitude of the Board of Directors (tone at the top)
- 2022 Audit Plan
- Quarterly reports drawn up by the Supervisory Office

3. As regards the independence and functioning of the internal and external auditors:
- 2022 Audit charter
- Audit's performance assessment
- EY Audit plan, risk assessment and updates
- Risk assessment and 2022-2024 Audit plan
- Performance assessment of the external auditor

Risk & Compliance Committee

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

The R&CC is composed of at least three members. On 31 December 2021, the R&CC comprised the following members: Petra van Hoeken (Chair), Jeanine Helthuis and Jos van Lange. The CEO, CRO, CFO, and the Directors of Audit and Compliance are permanent attendees at every meeting. The Chair of the R&CC

and the CRO hold a preliminary consultation prior to the meeting. The Chair of the Supervisory Board and the Chair of the R&CC both have regular meetings with the Director of Compliance. The Regulations for the Risk & Compliance Committee were last amended on 13 February 2020.

The R&CC convened four times in 2021. In every regular meeting, the R&CC reflected on the financial, non-financial and strategic risks subsequent to discussing the risk context and the risk management function.

Specific topics discussed in the R&CC in 2021 included:

- Covid-19 impact
- Quarterly reports on risk context, financial, non-financial and strategic risks
- Path to Green: Reporting Risk
- Excess liquidity approach
- 2021-2022 Risk appetite statements (RAS)
- In-control statements
- Remedial action plan 2020 Supervisory Review & Evaluation Process (SREP) letter and draft 2021 SREP letter
- Quarterly reports drawn up by the Supervisory Office
- 2021 Annual Report on whistle-blowers' scheme
- Transaction monitoring and customer integrity, including S(C)IRA
- Cyber security risks
- PHIRM 3.1 impact
- ECB guidelines on climate and related environmental risks
- Quarterly reports drawn up by Compliance
- 2021 Compliance Charter
- Status updates on the Compliance Enhancement Programme
- Periodic updates on the various loan portfolios
- 2021 Risk analysis remuneration

People & Organisation Committee

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

The P&OC is composed of at least three members. On 31 December 2021, the committee comprised the following members: Jeanine Helthuis (Chair), Aloys Kregting and Gerard van Olphen. The CEO and the Director of HR are permanent attendees at every meeting. The Chair has consultations with the Chair of the Works Council on a regular basis. The Regulations for the People & Organisation Committee were last amended on 11 February 2021.
The P&OC convened four times in 2021.

Specific topics discussed in the P&OC in 2021 included:

1. As regards the remuneration policy and terms of employment of the members of the Board, senior management and employees:
- Annual review and risk analysis of the remuneration policies of the Board, senior management, Identified Staff and Non-Identified Staff
- Adoption of the 2021 list of Identified Staff
- Adoption of the 2020 Remuneration report for Identified Staff
- 2020 Remuneration report
- Determination of peer group for Board benchmark
- KPI assessment and achievements of Board and senior management for 2020
- Progress updates on KPIs for Board and senior management for 2021
- Proposal on KPIs for the Board for 2022

2. As regards the appointment policies of the Supervisory Board, the Board and senior management:
- Succession process and (re)appointment of the members of the Board and senior management
- Self-assessment and lifelong learning of the Board and Supervisory Board

3. As regards organisational changes and internal succession issues:
- Requests for advice in relation to the transformation to an agile organisation and agile way of working
- Changes in the top management structure
- Amendments to the generic profile of the Supervisory Board
- 2021-2022 approach to diversity and inclusion
- Future of learning and development

4. As regards the supervision of the way in which the Board performs its employer's duties:
- Results of the 2021 employee surveys
- Quarterly survey of HR subjects added to the QBR
- Salary structure of high earners (employees whose salaries are not covered by the collective agreement)
- Amendments to the Collaboration Agreement with the Works Council
- Discussion of HR dashboard, including sickness absence, staff turnover and other indicators of the quality of the work environment
- Covid-19 impact and 'New Way of Working (HNW) Policy' 2.0
- Report on the gender pay gap at de Volksbank

Meetings of the Supervisory Board

The Supervisory Board convened seven times in 2021. All regular meetings were attended by all members of the Supervisory Board. In a number of extraordinary Supervisory Board meetings that were not attended by the Board, discussions focused on such topics as i) the above-mentioned survey report into Board dynamics at de Volksbank; ii) the new top management structure (including relevant status updates on the recruitment and selection processes involved for CFO, CIO, CTO and CPOO); iii) the Supervisory Board's approach in its new composition as from 20 September 2021.

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

Supervisory Board attendance in 2021[1]

Total meetings per Supervisory Board member	SB	AC	R&CC	P&OC
Jan van Rutte	6/6	2/2	2/2	3/3
Sonja Barendregt-Roojers	3/3	1/1	1/1	
Monika Milz	3/3	1/1	1/1	1/1
Gerard van Olphen	1/1			1/1
Jeanine Helthuis	1/1		1/1	1/1
Petra van Hoeken	1/1	1/1	1/1	
Aloys Kregting	7/7	4/4	2/2	4/4
Jos van Lange	7/7	4/4	4/4	2/2
Total attendance	**100%**	**100%**	**100%**	**100%**

1 As from 21 April 2021 the Supervisory Board consisted of three members, as a result of which all members attended all committee meetings, which were held on 26 May 2021 and 10 August 2021. Jeanine Helthuis and Petra van Hoeken were appointed to the Supervisory Board on 20 September 2021 and Jos van Lange was appointed Chair of the AC on the same date.

In 2021, topics discussed by the Supervisory Board in regular meetings included, but were not limited to:

EXECUTION OF DE VOLKSBANK'S STRATEGIC PLAN 2021-2025

At the beginning of 2021, the new strategic plan was presented to NLFI and later in the year it was discussed in NLFI's progress report to the Minister of Finance. In 2021, the Board closely involved the Supervisory Board in the progress on strategy execution, in particular with respect to the growth priorities of de Volksbank's brands' including a number of supporting internal transformations, its targets with respect to climate-neutral balance sheet achievements in 2025 and its progress on societal impact. The years 2021 and 2022 are considered years of investment intended to achieve an increase in customer focus and a higher level of digitisation.

2022-2025 OPERATIONAL PLAN

The Board presented and explained the 2022-2025 Operational Plan to the Supervisory Board in a regular meeting in November 2021. The Supervisory Board approved the 2022-2025 Operational Plan in the same meeting. The 2022-2025 Operational Plan was supported by detailed and well-substantiated second-line advice, of which the Supervisory Board took due note.

IMPLEMENTATION OF AN AGILE ORGANISATION AND AGILE WAY OF WORKING

In the Supervisory Board's regular meetings the Board informed the Supervisory Board of the impact of '*Klantificeren Graag!*' and the progress made with the agile transformation. The Supervisory Board discussed the impact on staff of this transformation with the Works Council. During the Supervisory Board's off-site meeting on 26 January 2022 the Supervisory Board was informed more in depth of the actual impact of the agile way of working within de Volksbank's context.

IMPACT OF COVID-19

The year 2021 was also marked by the major impact of Covid-19 with far-reaching consequences for customers, staff and the economic context of the financial sector. Therefore, Covid-19 was a recurrent key consideration in the Supervisory Board's discussions with the Board on several financial and risk-related topics.

CYBERCRIME AND CYBER RISKS

Information security and the growing cyber threat remained key topics in 2021. The Audit Committee, the Risk & Compliance Committee and the Supervisory Board were updated on a regular basis on developments and measures taken. In this context, the control framework and IT general controls are constantly being improved and tested.

CUSTOMER INTEGRITY

The progress on de Volksbank's customer integrity enhancement programme was discussed in the presence of the full Supervisory Board. The information provided in this context included opinions of the three lines of defence.

OTHER TOPICS

In 2021, the topics discussed by the Supervisory Board, whether or not after discussion in one of its committees, included the following:

GENERAL

- Covid-19 impact and updates
- 2021-2025 Strategic Plan
- Characteristics of a social bank and diversity in the Dutch banking landscape
- Transaction monitoring and customer integrity
- Quarterly reports drawn up by Audit and EY
- Quarterly reports on financial, non-financial and strategic risks
- Quarterly reports, including on programme management
- Follow-up to the joint EY and Audit management letter
- 2020 Report of the Board
- 2020 Integrated Annual Review Report, 2020 Annual Report, 2021 interim financial report, related press releases and Pillar 3 and ESG reports
- Commercial developments at the ASN Bank, BLG Wonen, RegioBank and SNS brands
- Annual review and risk analysis of the Remuneration Policy of the Board
- Achievement of 2020 and Q2 2021 KPIs of the Board of Directors
- 2022 KPIs of both the Board and senior management for 2022
- Update on proceedings following the nationalisation; please refer to Legal Proceedings in note 21 of the consolidated financial statements

FINANCE AND RISK

- 2022-2025 Operational Plan including risk review
- MBR, QBR, interim and annual figures, related press releases and Pillar 3 and ESG reports
- 2021-2022 Risk Appetite Statement (RAS)

- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports
- Litigation statement and non-credit risk provisioning
- Draft 2021 SREP decision

Supervisory quality assurance and self-assessment

A lifelong learning (LL) programme is in place to deepen and broaden Supervisory Board members' knowledge. In 2021, the Supervisory Board, together with the Board, attended three LL sessions in which the following subjects were successively discussed:

- Money laundering, predicate offences and related individual human suffering
- Stakeholder management
- IT and cyber risks

The planned fourth LL session on sustainable management and supervision was rescheduled to 13 April 2022, which implicates there are five LL sessions planned for in 2022.

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. Given the number of major changes in the Supervisory Board no self-assessment was performed in 2021. Instead, an external accredited consultancy firm developed a plan of approach for supporting both the Supervisory Board and the Board in their mutual cooperation, which is set to run up to and including the second quarter of 2022. This plan consists of various activities, including interviews and separate and joint sessions for both the Supervisory Board and the Board.

Relationship and consultations with the shareholder

NL Financial Investments (NLFI) is the sole shareholder of de Volksbank. In addition to the Articles of Association (AoA) of de Volksbank, which contain a list of the duties of the Board and the rules governing its functioning, NLFI and de Volksbank signed a Memorandum of Understanding (MoU). This MoU contains agreements on the way in which the Board should exercise its powers ensuing from the AoA in the day-to-day operations. Consultations between the Supervisory Board and NLFI take place periodically in accordance with an annual meeting calendar. In these meetings the Chair of the Supervisory Board discusses various topics including the assessment of the Board and the Supervisory Board. In addition, de Volksbank's Annual General Meeting (AGM) is prepared in consultation with NLFI. In 2021, the AGM was held on 21 April. Just like last year, this meeting was held via MS Teams due to Covid-19.

As the sole shareholder of de Volksbank, NLFI reports to the Minister of Finance every year by means of a progress report. This report provides an overview of the extent to which de Volksbank is implementing its strategy and assesses whether de Volksbank is ready for a future independent of the Dutch State. On 6 July 2021, the Minister of Finance informed the House of Representatives of the state of affairs based on NLFI's progress report dated June 2021 and shared an investigation conducted by the Ministry of Finance on de Volksbank's future options for ownership structures and governance models.

Employees and employee participation

As in 2020, 2021 was a year in which Covid-19 greatly affected de Volksbank's employees, not only from the perspective of their working conditions. Furthermore it was a year in which the Works Council assessed the request for advice on the intended introduction of an agile way of working as part of the new Strategic Plan 2021-2025 as submitted by the Board to the Works Council on 12 February 2021 and 7 September 2021. Similar to 2020, the Works Council was closely involved and heard in these initiatives in 2021.
The Works Council exercised its right to speak at the AGM of 21 April 2021. During this meeting, the Works Council also looked back on the activities it had performed in the period May 2020 - April 2021. The Works Council exercised its enhanced right of recommendation regarding the appointment of a new Chair of the P&OC, i.e. Jeanine Helthuis, on 20 September 2021.
In 2021, the Works Council, the Board and the Supervisory Board met on a regular basis in various combinations. The topics discussed in these meetings included:

- Covid-19-related scenarios and the New Way of Working (HNW) Policy 2.0
- Execution of the Strategic Plan 2021-2025, including the transformation to an agile way of working and outsourcing
- Financial and commercial updates
- Results of the 2021 employee surveys
- Appointment, reappointment and resignation of members of the Supervisory Board, the Board and top management
- Absenteeism
- Strategic workforce planning
- Long-term office housing plan
- Social framework
- Introduction of a new external health & safety service: Arbodienst Richting
- Acquisition of Fitrex, a property valuation platform
- Proposal for a new organisational structure for the Works Council
- Update on the Collaboration Agreement between the Board and the Works Council

Financial statements and dividend proposal

Prior to publication, the 2021 financial statements were discussed in meetings of the Board, Audit Committee and Supervisory Board. On 9 March 2022, EY – de Volksbank's external auditor in 2021 - issued an unqualified auditor's report on the 2021 financial statements. On the same date the members of the Supervisory Board approved and signed the financial statements.

At the AGM on 21 April 2021, NLFI agreed to de Volksbank's proposal to pay out a dividend of € 104 million to NLFI charged to the annual result of de Volksbank for 2020. The profit after dividend distribution for the 2020 financial year is added to the other reserves. Following the recommendation of the ECB that, in view of the uncertainty surrounding the Covid-19 crisis, the dividend for the 2020 financial year determined by the AGM would not be paid before 30 September 2021, it was paid out on 22 October 2021. Also in line with the recommendation of the ECB with respect to uncertainties surrounding Covid-19, an amount of € 20 million of the dividend payment of € 165 million for the 2019 financial year, as determined at the AGM of de Volksbank on 23 April 2020, was paid out on 22 April 2021. The remaining dividend amount of € 145 million for 2019 was paid on 22 October 2021 since circumstances - including Covid-19, the ensuing economic uncertainties and their impact on de Volksbank's financial position - allowed full payment. De Volksbank's capital ratios continued to meet the set targets after dividend payment.

2.3 Banking Code

In 2015, the Dutch Banking Association (NVB) introduced a package called 'Future-oriented Banking'. Apart from the Banking Code, this package contains a Social Charter and rules of conduct for employees in the Dutch banking sector. By means of this package, the Dutch banking sector aims to restore confidence and trust in the financial sector.

The Social Charter is a roadmap for achieving the banking sector's desired social position and shared value vision. The rules of conduct for employees are associated with the Banker's Oath.

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

De Volksbank complies with the principles of the Banking Code. For more detailed information on how de Volksbank applies the Banking Code, please refer to the overview on our website www.devolksbank.nl. As compliance with the Banking Code is a dynamic process due to ongoing new developments, this overview is regularly updated.

2.4 Dutch Corporate Governance Code

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

Although de Volksbank is not a listed company, and its shares are privately held by NLFI, the bank voluntarily applies the Code in full.

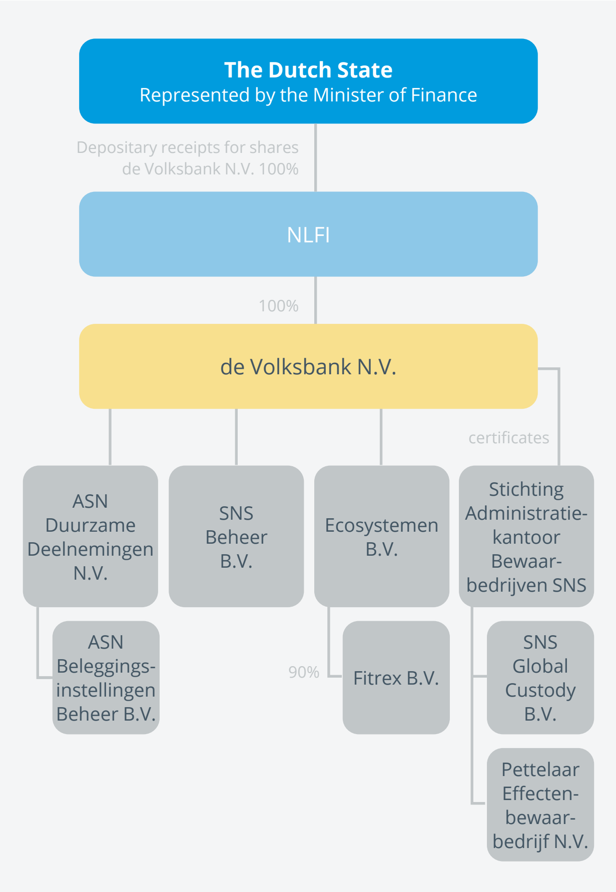
For more detailed information on how de Volksbank applies the Code, please refer to the overview on our website www.devolksbank.nl. As compliance with the Code is a dynamic process due to ongoing new developments, this overview is regularly updated.

2.5 Legal structure of de Volksbank

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

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

The overview comprises a statement of all wholly-owned subsidiaries as at 31 December 2021.
For more information, please refer to our website www.devolksbank.nl



2.6 Remuneration Report Audited

Introduction

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

As de Volksbank's mission is Banking with a human touch, this implies that we also add a human touch to the remuneration of our employees. In establishing the compensation policy and actual compensation, we take account of our stakeholders, i.e. our customers, society, our employees and the shareholder. We like to keep things straightforward and want to show that our strategy enables us to attract and retain talented employees, without offering them higher pay than the industry average. For more information on this topic, see the section on Remuneration benchmarking below. We also ensure equal pay in equal situations, and remuneration and/or performance assessments are not affected by, for example, gender differences or ethnic background.

The aforementioned also applies to the Board. The remuneration of the Board is in reasonable proportion to the salaries of de Volksbank's employees and to the average remuneration in the Netherlands. For more details on the pay ratios, see the section on Pay ratios below. De Volksbank does not offer any variable pay as we do not consider this to be in keeping with the social character of our bank.

Board Remuneration policy

Remuneration components

Members of the Board have a four-year agreement to perform services in exchange for which they receive compensation consisting of a Board member fee, a pension contribution and fringe benefits, such as a supplement as compensation for the loss of pension accrual over and above € 112,189 and a lease car.

Directors' fee

The Directors' fee of the Board members was raised by 1.5% on 1 July 2021, in step with the employees' salaries. As from that date, the Directors' fee of the Chair of the Board and the members of the Board amounts to € 430,865 and € 330,666, respectively.

The Directors' fee as stated above for members of the Board is below the amount as stated in the policy, i.e. € 352,711. This is because members of the Board fall within the scope of the bonus ban and salary freeze as set out in the Dutch Financial Supervision Act (Wft) due to the State aid received by de Volksbank. On the one hand, it is understandable that restrictions have been imposed in return for the State aid received, and de Volksbank itself decided that it does not want to reward its employees at the higher end of the market. On the other hand, we - as de Volksbank - must also take into account the reality of that market. The bonus ban and salary freeze mean that Directors' fees may not be increased other than in line with collective increases. As a result, remuneration in the longer term may be further out of line with comparable positions in the market. Especially in view of the tight labour market, it may become increasingly difficult for de Volksbank to attract and retain the right people.

Remuneration benchmarking

Once every two years we compare the Directors' fee with the remuneration of peer group positions in the general market, consisting of a combination of comparable financial and non-financial corporations. This benchmark was last performed in May 2021. The Directors' fee of the members and the Chair of the Board was 21% and 24% below the general market median, respectively (2020: 14% and 24%). In the case of short and long term fixed and variable remuneration, this was 51% and 59% below the median, respectively (2020: 47% and 58%). This particular gap is greater because de Volksbank does not have a variable remuneration scheme.

Pension

Board members participate in the same pension scheme as de Volksbank employees. No additional pension is granted. To compensate for the lack of pension accrual over and above the € 112,189 cap, members of the Board receive a gross supplement of 16.35% of their Directors' fee above that amount. This supplement is applicable up to and including 31 December 2022. An evaluation of the possible continuation of this compensation will be carried out before that date.

Other

The fringe benefits of the Board member's agreement to perform services are for the most part equivalent to the fringe benefits of de Volksbank employees.

In the event of termination of the agreement to perform services at de Volksbank's initiative, the Board member will receive no more than one year's fixed annual Directors' fee as compensation.

Performance objectives

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

As Board members are only entitled to fixed remuneration, there are no unwanted 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 achieving its performance objectives as well as the progress on its long-term objectives.

In this context, the Supervisory Board assesses the extent to which the performance objectives were achieved and the way in which conduct and culture within de Volksbank were managed in line with 'banking with a human touch' (competencies and critical success factors). The Supervisory Board assessed the overall achievements for 2021 and has concluded that the Board achieved 68% of the objectives.
The following tables show the performance objectives that have been set for 2022.

Performance year 2021

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

Performance year 2022

Aspect	Category	Weight
Shared value/ output	Customer	10%
	Society	10%
	Employees	10%
	Shareholder	10%
		40%
In Control	Risk Continuity	7.5%
Transformations	Digital and Omnichannel dialogue	4.5%
	Relevant product range, new propositions, small businesses as new target market	4.5%
	Customer bank	4.5%
	Customer-focused setup	4.5%
	Efficient and flexible	4.5%
		30%
Conduct	Customer focused	10.5%
	Cooperation with a focus on results	10.5%
	Continuous improvement and innovation	9%
		30%
		100%

Actual remuneration of the Board

Gross compensation of the Board of Directors

	Position	Fixed Board member fee		Pension[1]		Other[2]		Severance pay		Total	
in € thousands		**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Martijn Gribnau[3]	CEO	428	228	23	12	84	62	--	--	535	302
Jeroen Dijst	CRO	328	323	23	22	58	60	--	--	409	405
Marinka van der Meer	CCO	328	323	23	22	52	55	--	--	403	400
John Reichardt[4]	CFO	234	--	16	--	51	--	--	--	301	--
Maurice Oostendorp[5]		--	279	--	15	--	63	--	--	--	357
Mirjam Verhoeven[6]		--	277	--	19	--	49	--	--	--	345
Pieter Veuger[7]		--	150	--	11	--	24	--	--	--	185
Total Board of Directors		**1,318**	**1,580**	**85**	**101**	**245**	**313**	**--**	**--**	**1,648**	**1,994**
FORMER DIRECTORS											
Mirjam Verhoeven[8]		--	46	--	3	--	8	--	374	--	431
Pieter Veuger[9]		--	--	--	--	--	--	--	161	--	161
Total current and former Board of Directors		**1,318**	**1,626**	**85**	**104**	**245**	**321**	**--**	**535**	**1,648**	**2,586**

1 The pension is the employer contribution minus the employee's personal pension contribution.
2 'Other' includes all remaining remuneration, including the supplement as compensation for the loss of the pension accrual in excess of € 112,189, the addition for the use of a company car and social security contributions.
3 Remuneration as from 17-6-2020
4 Remuneration as from 15-4-2021
5 Remuneration up to 1-9-2020
6 Remuneration up to 10-11-2020
7 Remuneration as from 19-3-2020 up to 5-9-2020
8 As from 1-1-2021 exempt from work and left the company on 1-5-2021, the costs are included in 2020.
9 As from 5-9-2020 exempt from work and left the company on 31-1-2021, the costs are included in 2020.

Pay ratio

Our standard is that the Chair of the Board does not earn more than approximately ten times the median salary[4] at de Volksbank.
De Volksbank also reports on the pay ratio between the:

- average Directors' fee of the members of the Board, excluding the Chair, and the median salary of employees;
- Directors' fee of the Chair of the Board and the maximum of the lowest pay scale as at 31 December 2021;
- Directors' fee of the Chair of the Board and the average pay in the Netherlands according to the OECD; and
- Average remuneration of the members of the Board (excluding the Chair) and the average pay in the Netherlands according to the OECD.

Over the past five years, the situation is as follows:

4 Employees' salaries and Board members' remuneration consist of the following components: fixed salary or remuneration (including any supplements), pension and social security contributions. The OECD figure does not include the pension and social security contributions and for that comparison, de Volksbank uses the same definition as the OECD.

Pay ratio

	2021	2020[1]	2019	2018	2017
INTERNAL					
Ratio between the compensation of the Chairman of the Board and the median employee salaries at de Volksbank	7:1	7:1	7:1	6:1	7:1
Ratio between the average compensation of Board members and the median employee salaries	5:1	5:1	5:1	5:1	5:1
Ratio between the compensation of the Chairman of the Board and the maximum of the lowest pay grade as at 31 December	20:1	20:1	20:1	20:1	20:1
EXTERNAL					
Ratio between the compensation of the Chairman of the Board and the average pay in the Netherlands according to the OECD	n.a.[2]	9:1	10:1	10:1	10:1
Ratio between the average compensation of Board members and the average pay in the Netherlands according to the OECD	n.a.[2]	7:1	10:1	10:1	10:1

1 In 2021 de Volksbank improved its Pay ratio calculation, comparative figures 2020 have been adjusted.

2 At the time of publication, the OECD figure was not yet known and therefore no ratio for 2021 could be presented

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
On 31 December 2021, no loans to members of the Board were outstanding.

Compensation of the Supervisory Board

Supervisory Board Compensation policy
The table below provides an overview of the fixed annual gross compensation for the members of the Supervisory Board and the compensation for their service on committees.

Compensation policy for members of the Supervisory Board (no VAT applicable)

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

We compared the compensation of the members of the Supervisory Board against the general market in January 2019. This benchmark analysis, which consisted of a combination of comparable financial and non-financial corporations, showed that the compensation is 20% below the median of the general market.

Actual compensation of the members of the Supervisory Board
The table below provides an overview of the actual compensation of each member of the Supervisory Board in 2021.

Gross compensation of the Supervisory Board (no VAT applicable)

	As a member of the Supervisory Board[1]		As a member of a committee[2]		Total	
in € thousands	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Gerard van Olphen (Chair)[3]	17	--	3	--	20	--
Jeanine Helthuis[4]	9	--	3	--	12	--
Petra van Hoeken[4]	9	--	3	--	12	--
Jos van Lange	31	31	14	12	45	43
Aloys Kregting	31	31	12	10	43	41
Jan van Rutte[5]	27	44	6	5	33	49
Monika Milz[6]	9	31	4	12	13	43
Sonja Barendregt-Roojers[6]	9	31	4	12	13	43
Total	**142**	**168**	**49**	**51**	**191**	**219**

1 Annual fixed compensation for the membership/chairmanship of the Supervisory Board.
2 Annual compensation for one or more committees.
3 Compensation as from 13-08-2021
4 Compensation as from 20-9-2021
5 Compensation until 13-8-2021
6 Compensation until 21-4-2021

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

Loans
On 31 December 2021, no loans to members of the Supervisory Board were outstanding.

Supervision on remuneration
Both the Supervisory Board and the Board are responsible for the supervision of remuneration at de Volksbank. Other parties involved are the People and Organisation Committee (P&OC) 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 & Compliance Committee (R&CC) of the Supervisory Board. In 2021, the policy was discussed in both the P&OC and R&CC.

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 the directors 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 for de Volksbank employees as proposed by the Board.

At least once a year, the Supervisory Board will 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 of conduct as set out in the Banking Code in terms of remuneration. 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. In doing so, the Supervisory Board may call upon the expertise of independent remuneration experts where necessary.

Board of Directors

The Board 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 adopted Remuneration policy, to the extent that laws and regulations permit. Any such deviations are subject to prior approval by the Supervisory Board.

The Board is responsible for the application of the reasonableness test for the directors and Identified Staff in general, and - as far as directors and other employees are concerned - for the approval of benchmarks on market conformity and the approval of non-material retention, signing-on and buy-out fees.

Staff departments

The Remuneration policy and compliance therewith is jointly supervised by the control departments of Risk and Compliance and the staff departments of Finance, Legal Affairs and Human Resources through a Remuneration Working Group. Audit periodically performs independent audits into the drawing up and implementation of the Remuneration policy.

3.

RISK MANAGEMENT

Reader's guide

IFRS 7 AND PILLAR 3

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

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

3.1 Risk management structure

3.1.1 Risk management elements

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

RISK APPETITE STATEMENT

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

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

RISK MANAGEMENT MISSION

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

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

RISK MANAGEMENT AND SHARED VALUE

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

BENEFITS FOR CUSTOMERS

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

RESPONSIBILITY FOR SOCIETY

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

GENUINE ATTENTION FOR OUR EMPLOYEES

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

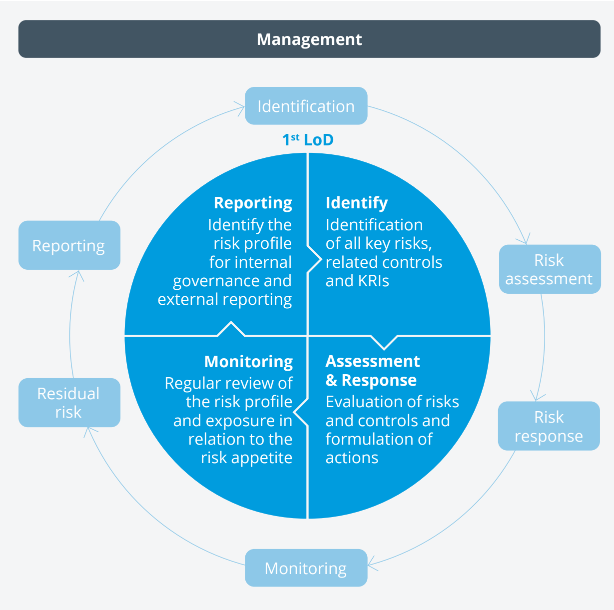
RETURN FOR THE SHAREHOLDER

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

RISK MANAGEMENT FRAMEWORK

To manage risks, de Volksbank applies the COSO[5] Enterprise Risk Management Framework. We have set up a Risk Management Cycle (RMC) to properly apply all COSO ERM elements and this serves as generic tool for both the first line and the second line of defence. The RMC ensures consistent terminology and provides a compatible methodology for the identification, assessment, measurement, monitoring, management and reporting of all risks.

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



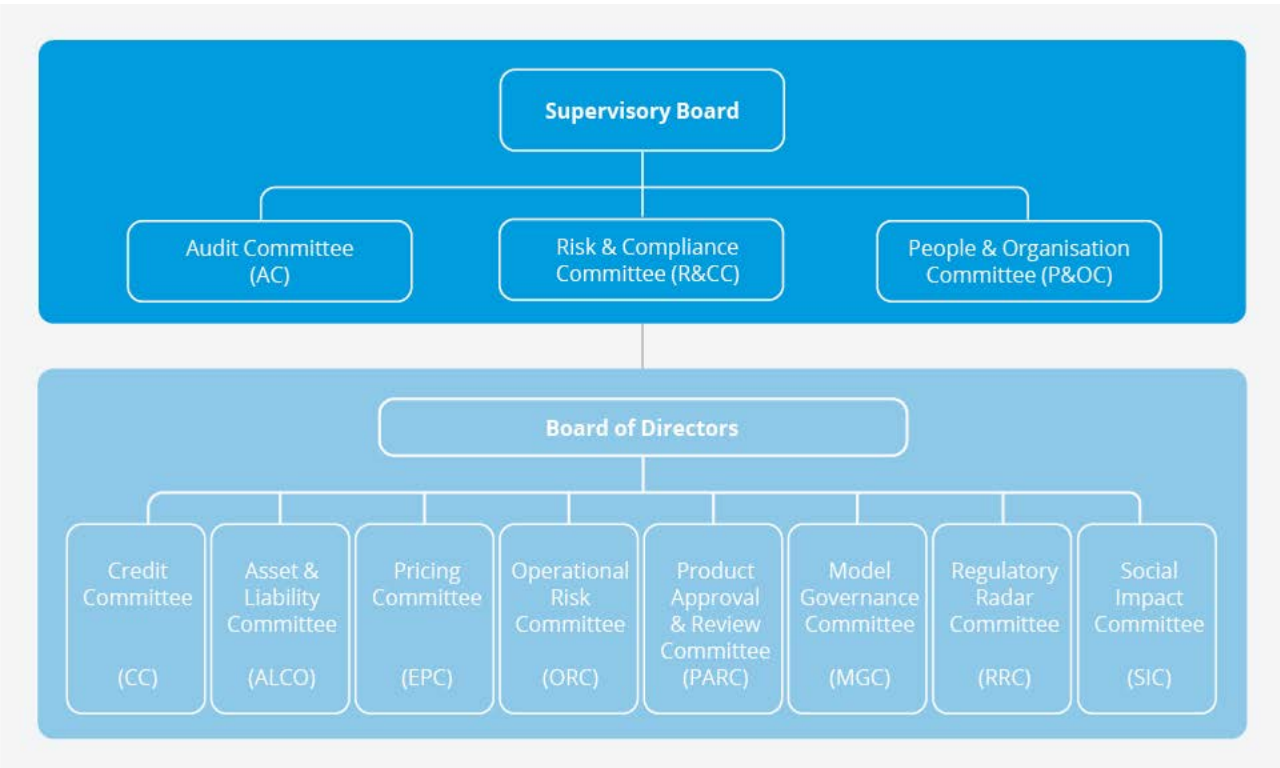
RISK GOVERNANCE AUDITED

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

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

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

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



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

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

In 2021, the Social Impact Committee (SIC) was formally acknowledged as a risk committee dedicated to support the Board of Directors. The SIC is responsible for monitoring the development and implementation the Social Impact strategy, for overseeing the Environmental, Social and Governance (ESG) risks in the business strategy and for monitoring the balance between the inside-out and outside-in impact, including any ethical dilemmas attached to it. For more information, see 3.9 Sustainability Risk.

Changes resulting from the transformation to an agile organisation

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

CULTURE AND RISK AWARENESS

Risk culture propagation

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

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

Risk Policy Framework

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

Raising risk awareness among employees

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

Internal code of conduct

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

Remuneration policy

De Volksbank pursues a remuneration policy that is based on our Manifesto, and the strategy to build a strong customer relationship and increase the social impact of the bank. De Volksbank does not grant any variable remuneration so as to discourage employees from taking undesirable risks that may give priority to short-term individual interests over long-term collective objectives. For more detailed information on our remuneration policy, see Section 2.6 Remuneration report).

RISK PROFILE

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

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

3.1.2 Top risks

De Volksbank primarily carries out regulated and supervised activities that may be impacted by internal and external developments. These developments and related risks may affect the achievement of our strategic objectives. For more on the strategic objectives, see Section 1.3 Progress on our objectives. To anticipate these developments and related risks, De Volksbank annually carries out a Strategic Risk Assessment (SRA) to identify and assess the top risks in relation to its strategy. In 2021, the SRA activities were integrated into the development of the new strategy.

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

TOP RISKS RESULTING FROM EXTERNAL DEVELOPMENTS[6]

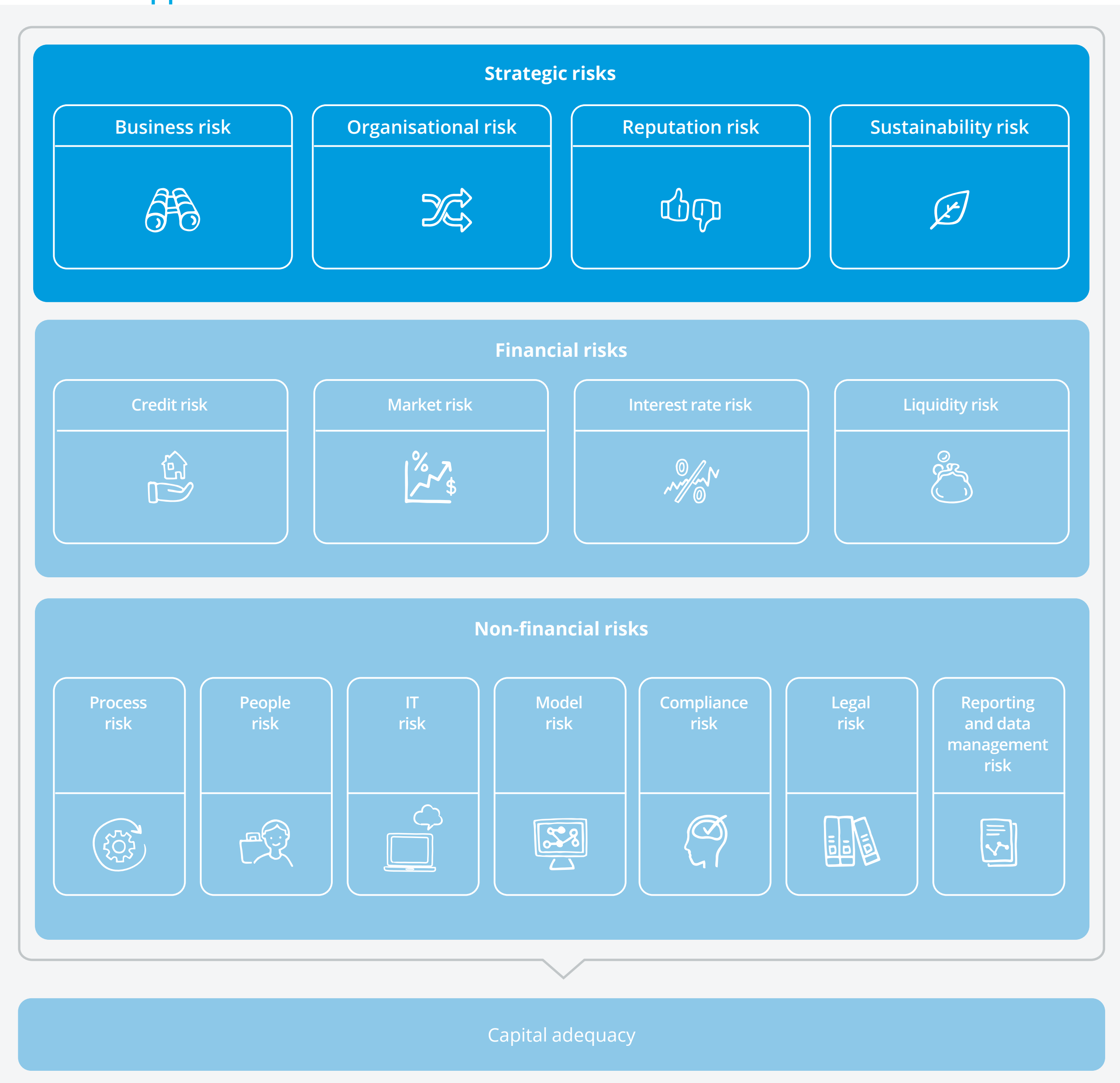
Events	Description of risk and impact	Trend	Measures
Covid-19 pandemic	Due to the Covid-19 pandemic and subsequent governmental support measures taken there is a risk that economic conditions will deteriorate when these measures are gradually released. Under stress, unemployment could increase, the economy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

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

TOP RISKS RESULTING FROM INTERNAL DEVELOPMENTS

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

3.1.3 Risk appetite and risk indicators



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

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

For each risk indicator, we have set an intervention ladder defining ranges to allow for follow-up action. These ranges are determined on the basis of results from internal stress tests, economic capital and the recovery plan. See also Section 3.8.2 Management and control.

The table below presents the bank's risk appetite and shows how our current risk profile scores in relation to the risk appetite. Every quarter, the indicators are reported to the risk committee that controls the relevant risk. For the definitions of the different risk types, see the relevant chapters in the Risk Management section of this Annual Report.

Relative score legend

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

Strategic Risks

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

Financial risks

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

Non-financial risks

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

Non-financial risks (continued)

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

Capital adequacy

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

STRESS TESTING

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

For the use of stress tests in relation to credit risk, market risk, liquidity risk and capitalisation, see Sections 3.3.2 Management and control, 3.4 Market risk, 3.6.2 Management and control and 3.8.2 Management and control. For more information on the continued development of climate stress testing, see Section 3.9.3 Areas of focus and activities.

3.2 Strategic risks

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

Strategic risks

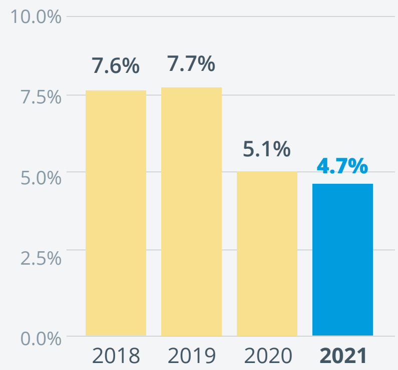
Business risk

Organisational risk

Sustainability risk

Reputation risk

Return on Equity



INTRODUCTION

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

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

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

Type of risk

BUSINESS RISK

- Business risk is defined as the risk that de Volksbank's profitability may not be sufficient to guarantee the viability and sustainability of the bank's earnings model. We define the viability of the earnings model as the extent to which the bank is capable of generating acceptable revenues in the next twelve months. The sustainability of the earnings model is defined as the extent to which the bank is capable of generating acceptable revenues over a three-year horizon.

Developments in 2021

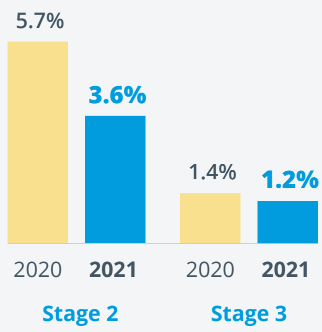
- The low interest rate environment kept challenging the achievement of financial objectives. Furthermore, the excess liquidity increased significantly. As a consequence, de Volksbank's profit level dropped compared with 2020. De Volksbank developed a new strategic plan for the 2021-2025 period and is in the transition process towards the implementation of this plan. The plan sets mission-driven objectives for growth and improvement. It also provides a path with actions leading towards the required level of financial performance. See Section 1.1 Our Strategy for more information on ongoing and future actions.

Type of risk	Developments in 2021
ORGANISATIONAL RISK • Organisational risk is the risk that the bank is unable to respond quickly and in a controlled manner to changes that may impact the bank's business model, with an adequate infrastructure and streamlined management processes. The risk may arise from failure to identify significant changes in a timely manner or the failure to make proper adjustments following inadequate design of infrastructure and processes, inadequate execution or incorrect deployment of capacity.	• De Volksbank continuously monitors its environment, assesses developments that may be relevant to us and determines how to respond to them. To improve our adaptability to the environment, we made a start towards an agile way of working which is part of our 2021-2025 strategy. Our risk management framework monitored whether the risk assessments on the organisational transformations were carried out in accordance with the prescribed methodology. Change portfolio management is important to mitigate organisational risk. We also continued to refine improvements made in previous years, such as reporting on the identified risks and risk-response effectiveness.
REPUTATION RISK • Reputation risk is the risk that de Volksbank becomes exposed to public attention and judgement following failure to take due account of de Volksbank's image and opinion as perceived by the outside world. Reputational damage may be related to our own conduct in crisis situations, but also to policy decisions, our day-to-day actions and issues regarding products or the behaviour of individual employees. Reputational damage leads to loss of trust and support from customers, counterparties, the shareholder, regulatory authorities and other stakeholders, and has a direct impact on employee motivation, ultimately leading to a loss in revenues.	• The two main pillars of our strategy, strengthening the relationship with our customers and having a positive and measurable impact on society, were and will continue to be key in maintaining the good reputation of de Volksbank and its brands. The progress made on these strategic goals has reinforced and boosted our reputation, as is reflected in our brands NPS scores in 2021. At the same time, the speed and impact of digital and social media continue to make consistent monitoring and adequate responses to reputation risks necessary. A complaint or adverse publication may eventually grow into a crisis, and a crisis may damage our reputation. De Volksbank actively monitors current and upcoming internal and external events that may result in reputational damage for the bank and its brands. In 2021, key events in relation to reputation risk management were the aftermath of the departure of key officers on the Board of Directors and Supervisory Board (see also Section 2 Governance) and the implementation of the new strategy. We also gave full attention to the ongoing Covid-19 pandemic and how by the Dutch government, supervisory authorities and our own organisation handled it. The way we coped with Covid measures taken by the government did not affect our reputation. Although we consider the reputational impact of the aforementioned issues to be limited, we closely monitor news flows and employee sentiment in this respect to mitigate any reputational damage and the risk of an increase in (key) staff turnover in the period 2021-2025. To further improve our reputation management, we will implement more advanced tooling to measure our reputation in 2022.
SUSTAINABILITY RISK • Sustainability risk is the risk of financial and/or reputational damage as a result of environmental, social and governance developments.	• The developments concerning sustainability risk are elaborated in Section 3.9 Sustainability risk

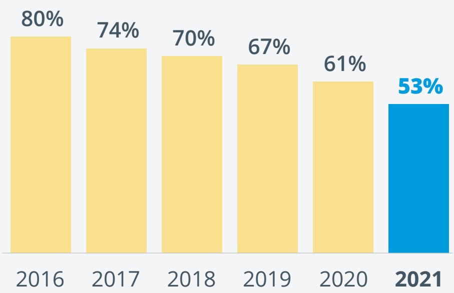
3.3 Credit risk

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

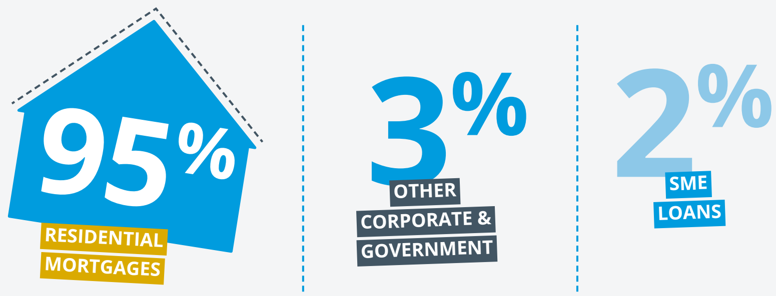
Stage 2 and stage 3 loans expressed as a % of the total loans and advances decreased in 2021



Average Loan-to-Value of residential mortgages



Loans and advances to customers[1]



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

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

3.3.1 Risk profile

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

We use specific criteria to allocate customers and loans to a particular portfolio. One criterion is the type of customer: a natural person, an SME customer, a government authority or a financial institution. We also make a distinction between secured loans, like mortgage loans, and unsecured loans, such as revolving credits, credit facilities on current accounts and personal loans.

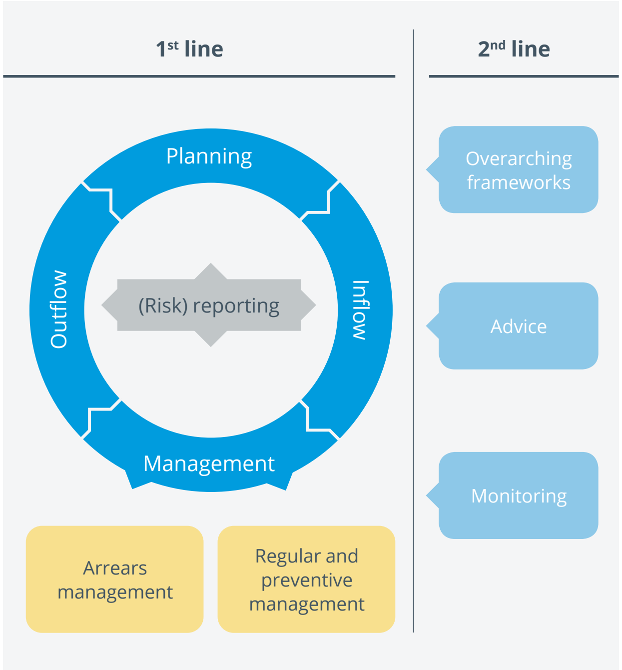
We also distinguish between the various degrees of security, for example a government guarantee or a guarantee issued by a fund, such as the National Mortgage Guarantee (NHG). In our risk policies, we also set exposure limits to a single counterparty, in order to avoid excessive losses if the counterparty in question can no longer meet its obligations. These limits are regularly reassessed.

To ensure effective monitoring and the timely implementation of adjustment measures, de Volksbank draws up reports in line with the portfolio clusters. The paragraphs in this section successively describe in more detail how we manage and control the various loan portfolios, how we apply our provisioning methodology for each portfolio and how we characterise the underlying risk drivers.

3.3.2 Management and control Audited

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

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



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

In 2020, in response to the Covid-19 crisis, we adjusted our approach to supporting customers who suffer from the economic impact of the pandemic. In 2021, we continued to offer financial support to customers who had trouble paying their mortgage or consumer loan due to Covid-19 under certain conditions. All customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2. Throughout the year we experienced a limited inflow of customers with financial problems as a result of the pandemic, and the vast majority of customers granted a payment holiday in 2020 or 2021 recovered over the course of 2021. For more information, please refer to Section 3.3.4 Figures, ratios and trends.

LOAN PORTFOLIOS

Residential mortgages

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

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

Interest-only mortgage and Aflossingsblij campaign

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

Preventive management and arrears management for retail customers

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

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

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

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

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

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

Consumer loans

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

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

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

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

SME loans

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

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

Preventive management and arrears management for SME customers

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

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

Other corporate and government loans

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

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

Investments

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

Loans and advances to banks

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

REPORTING

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

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

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

LOAN LOSS PROVISIONS (IFRS 9)

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

DEFINITION OF DEFAULT

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

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

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

In the fourth quarter of 2021, the ECB granted de Volksbank permission to use its new version of the Advanced Internal Ratings Based (AIRB) model, which incorporates the new DoD, including some model improvements as identified during the Targeted Review of Internal Models (TRIM). For more information on the AIRB model, see the Section 3.8.4 Figures, ratios and trends - Capital Structure. The IFRS 9 Expected Credit Loss (ECL) models were not fully recalibrated at year-end 2021, but did apply the new DoD to align the AIRB and IFRS 9 estimates. Full calibration would entail a re-estimation of model parameters based on reference data set under the new DoD. This is included in the model development plans for 2022/2023. Meanwhile, we accept that model performance can be suboptimal. With the new DoD in place, the provisioning process needs fewer rules for individually determined provisions as it can rely on the credit risk status for arrears and default as well as forborne and non-performing classification. The effect on the provisioning level is elaborated upon in the section Changes in the provision for the different credit portfolios. Overall, applying the new DoD within the IFRS 9 ECL models led to an increase in the provisions for credit losses of € 5 million.

STRESS TESTING AND SENSITIVITY ANALYSES

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

In addition, we regularly measure the sensitivity of the loan portfolios and the level of the loan loss provisions against fluctuations of macroeconomic parameters. Just like other banks, we are sensitive to these fluctuations. However, thanks to its strong capital and liquidity position, de Volksbank has proven capable of withstanding the extreme scenarios applied. For further details see Section 3.8.2 Management and control.

3.3.3 Provisioning methodology Audited

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

ECL MODELS AND LOAN PORTFOLIOS

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

- residential mortgages;
- consumer loans;
- SME loans;
- sustainable and private loans of ASN Bank (the ASN Bank portfolio, as part of the other commercial and government loans);
- Financial Markets portfolio (in the other commercial and government loans, investments and loans and advances to banks).

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

Measurements of climate-related and environmental risks are not yet directly incorporated in the ECL models and estimates, and hence in the provisioning figures. De Volksbank is currently conducting an elaborate assessment of Environmental, Social, and Governance (ESG) risks. The first step is identifying which factors are a material or immaterial risk on the short, medium and long time horizons. Secondly, risks qualified as 'material' will be quantified for their impact. De Volksbank will recognise the outcome of this assessment in the financial statements as soon as relevant and reliable information is obtained.

CREDIT RISK MANAGEMENT OF ECL MODELS

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

MODEL TECHNIQUES

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

Residential mortgages and SME loans

The survival model technique is used for the residential mortgage loans and SME loans. This is a method for calculating the month-on-month Probability of Default (PD), Probability of Cure and Probability of Foreclosure. These models determine the creditworthiness of the customer 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').

For interest-only mortgages, we have a specific provisioning methodology in place that increases provisions for customers with a potentially elevated credit risk profile.

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

Consumer loans

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

ASN Bank and Financial Markets portfolio

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

FORWARD-LOOKING INFORMATION

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

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

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

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

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

Macroeconomic scenarios used in credit risk models

In 2021, housing market developments remained insensitive to problems elsewhere in the economy. The demand for owner-occupied homes remained high, partly because of the persistently low mortgage rates. The house price growth continued over the year. In addition, the number of insolvencies and the unemployment rate remained at very low levels. The aforementioned developments had a positive impact on the macroeconomic outlook. In the second quarter, the weight of the downward scenario was reduced from 35% to 30%, in favour of the upward scenario weight, which was raised from 15% to 20%. The key reasons for this shift were the acceleration of the Covid-19 vaccination programmes and more concrete prospects of a full reopening of the Dutch economy. When new lockdown measures were announced in the last quarter, the change in weights was reassessed and adjusted accordingly to 35% for the down scenario and 15% for the up scenario. The base scenario was still awarded the greatest probability, with an unchanged weight of 50%.

Analysis of sensitivity to scenario weights

The sensitivity analyses in the tables below show de Volksbank's macroeconomic projections for the next four years. They also show the sensitivity of provisioning levels to the upward, base and downward scenario weights, keeping the management overlay parameters constant. If we look at the different scenarios as at 31 December 2021 with a 100% weighting, we see that the provision for residential mortgages would increase by € 27 million in a downward scenario, decrease by € 26 million in an upward scenario and decrease by € 14 million in a base scenario.

The sensitivity to macroeconomic expectations on the loan loss provisions for SME loans is less significant. The provision for SME loans would increase by € 3 million in a downward scenario and decrease by € 1 million in the upward and base scenarios, again assuming a 100% weighting of the respective scenarios.

For consumer loans and other corporate and government loans, the sensitivity to the scenario weights is limited. Exposure, and therefore provisions in stages 1 and 2 for consumer loans are relatively low. Other corporate and government loans generally have a low credit risk profile.

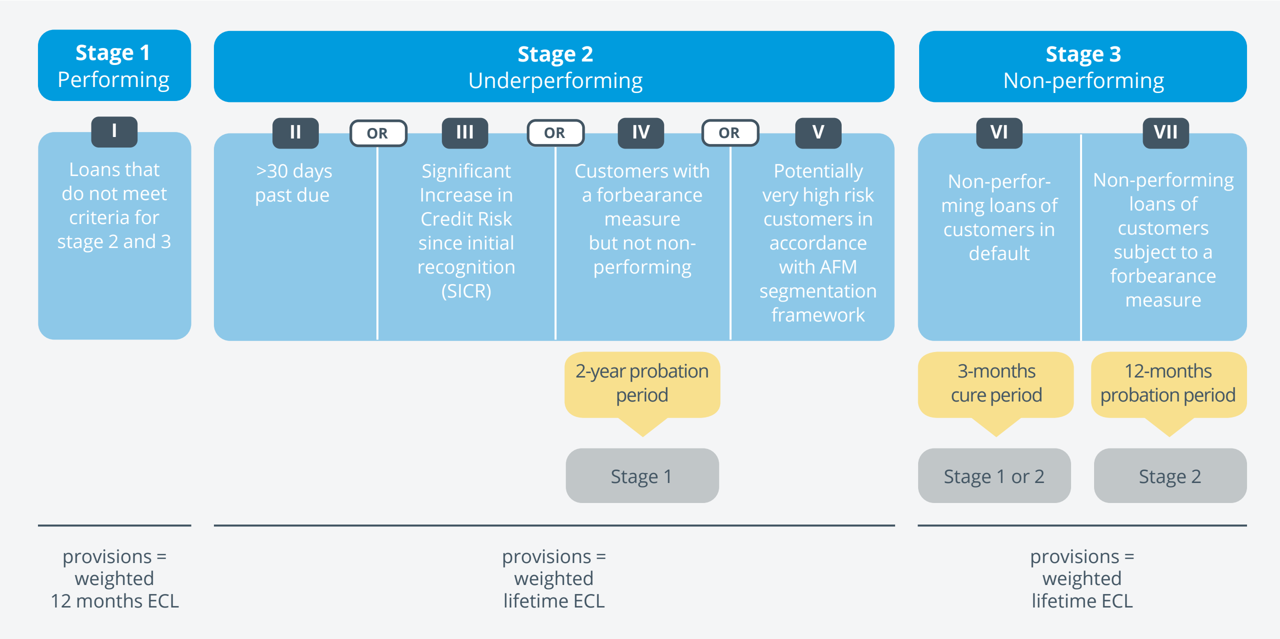
Sensitivity to the scenario weights as at 31 December 2021

	Macroeconomic parameter	2021	2022	2023	2024	2025	Weight	Unweighted ECL	Reported (weighted) ECL
RESIDENTIAL MORTGAGES									
Up	Relative change in house price index	21.7%	8.6%	4.3%	3.8%	3.8%	15%	€ 54 million	€ 80 million
	Unemployment rate	2.8%	2.4%	2.3%	2.3%	2.3%			
Base	Relative change in house price index	19.2%	5.3%	4.4%	3.8%	3.8%	50%	€ 66 million	
	Unemployment rate	3.1%	2.9%	2.6%	2.6%	2.7%			
Down	Relative change in house price index	14.2%	-1.4%	6.3%	3.8%	3.8%	35%	€ 107 million	
	Unemployment rate	3.5%	5.0%	4.7%	4.5%	4.5%			
SME loans									
Up	Unemployment rate	2.8%	2.4%	2.3%	2.3%	2.3%	15%	€ 23 million	€ 24 million
	Number of bankruptcies (monthly)	175	193	178	176	175			
Base	Unemployment rate	3.1%	2.9%	2.6%	2.6%	2.7%	50%	€ 23 million	
	Number of bankruptcies (monthly)	176	239	241	238	236			
Down	Unemployment rate	3.5%	5.0%	4.7%	4.5%	4.5%	35%	€ 27 million	
	Number of bankruptcies (monthly)	178	304	350	343	340			

Sensitivity to the scenario weights as at 31 December 2020

	Macroeconomic parameter	2020	2021	2022	2023	2024	Weight	Unweighted ECL	Reported (weighted) ECL
RESIDENTIAL MORTGAGES									
Up	Relative change in house price index	8.2%	7.3%	5.2%	3.7%	3.7%	15%	€ 69 million	€ 111 million
	Unemployment rate	5.3%	5.4%	4.2%	4.0%	4.0%			
Base	Relative change in house price index	7.0%	-1.8%	3.2%	3.7%	3.7%	50%	€ 104 million	
	Unemployment rate	5.4%	5.8%	5.0%	5.0%	5.0%			
Down	Relative change in house price index	7.0%	-5.3%	1.2%	3.7%	3.7%	35%	€ 141 million	
	Unemployment rate	5.4%	8.1%	7.1%	6.8%	6.8%			
SME loans									
Up	Unemployment rate	5.3%	5.4%	4.2%	4.0%	4.0%	15%	€ 36 million	€ 38 million
	Number of bankruptcies (monthly)	319	363	407	397	394			
Base	Unemployment rate	5.4%	5.8%	5.0%	5.0%	5.0%	50%	€ 37 million	
	Number of bankruptcies (monthly)	320	386	472	468	464			
Down	Unemployment rate	5.4%	8.1%	7.1%	6.8%	6.8%	35%	€ 41 million	
	Number of bankruptcies (monthly)	320	471	743	767	761			

STAGE ALLOCATION



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

Stage 1: 12-month ECL (category I)

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

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

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

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

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

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

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

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

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

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

Customers who have been subjected to a forbearance measure and who do not meet the prudential non-

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

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

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

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

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

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

VI. Non-performing loans of customers in default

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

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

Examples of these UtP triggers are the following:

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

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

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

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

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

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

MANAGEMENT OVERLAY

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

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

General management overlay

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

Covid-related management overlay

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

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

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

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

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

Modelled and post-modelled provision for credit losses

	2021				2020			
		Post-model adjustments				Post-model adjustments		
in € millions	Modelled provision for credit losses	General manage-ment overlay	Covid-related manage-ment overlay	Total provision for credit losses	Modelled provision for credit losses	General manage-ment overlay	Covid-related manage-ment overlay	Total provision for credit losses
Residential mortgages	18	54	8	80	65	6	41	112
Consumer loans	15	--	--	15	14	--	--	14
SME loans	19	--	5	24	31	--	8	39
Other corporate and government loans	1	--	--	1	6	--	--	6
Total	**53**	**54**	**13**	**120**	**116**	**6**	**49**	**171**

3.3.4 Figures, ratios and trends Audited

CREDIT RISK EXPOSURE

The following table presents the credit risk exposure based on the Exposure at Default (EAD) from the regulatory report (see also Section 3.8.4 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	2021 Gross carrying amount	2021 Provision for credit losses	2021 Book value	2020 Gross carrying amount	2020 Provision for credit losses	2020 Book value
Cash and cash equivalents	10,296	--	10,296	4,672	--	4,672
Derivatives	591	--	591	864	--	864
Investments	5,640	-2	5,638	5,115	-2	5,113
Loans and advances to banks	4,527	--	4,527	5,990	--	5,990
Loans and advances to customers	50,834	-107	50,727	50,708	-166	50,542
Other assets	170	--	170	151	--	151
Total financial assets	**72,058**	**-109**	**71,949**	**67,500**	**-168**	**67,332**
IFRS fair value adjustments[1]	-810		-810	-1,572		-1,572
Total items not subject to credit risk exposure	**-810**		**-810**	**-1,572**		**-1,572**
On-balance sheet exposure to credit risk (IFRS)	**71,248**	**-109**	**71,139**	**65,928**	**-168**	**65,760**
Loan commitments given	2,533	-8	2,525	1,807	-5	1,802
Other commitments (repurchase commitment)[2]	464	--	464	568	--	568
Financial guarantees and other commitments	11	--	11	12	--	12
Conditionally revocable credit facilities	407	-5	402	428	--	428
Off-balance sheet exposure to credit risk (IFRS)	**3,415**	**-13**	**3,402**	**2,815**	**-5**	**2,810**
Other assets[3]	131		131	152	--	152
Valuation adjustments[4]			181			-3,816
Recalculation off-balance credit facilities and guarantees to EAD[5]			-755			-661
Other differences[6]			-650			-18
Total Exposures at Default			**73,448**			**64,227**
Credit risk RWA/Total Exposure at Default			13.0%			12.8%

1 Consist of fair value adjustments from hedge accounting and amortisations.
2 For more information please refer to note 20 Contingent liabilities and commitments to the consolidated financial statements.
3 Assets that are not subject to ECL according to IFRS.
4 Consisting mainly of savings deposits, the balance of netting derivative positions and an add-on for potential future exposure and credit risk mitigating items (particularly collateral).
5 Off-balance sheet commitments are converted into EAD using a conversion factor.
6 Consisting mainly of deposited margin accounts for derivatives, which are mainly part of an ISDA master netting agreement. In 2021, due to the new CRR2 disclosures regarding counterparty credit risk this is no longer part of EAD.

The total credit risk exposure increased over the course of 2021 from € 68.7 billion to € 74.0 billion. Cash and cash equivalents and investments were up from year-end of 2020, mainly driven by liquidity management actions. Representing 70% of the total, the loans and advances to customers category is the largest on the balance sheet.

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

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

LOANS AND ADVANCES TO CUSTOMERS BY CATEGORY AND REGION

Loans and advances to customers Audited

in € millions	2021			2020		
	Gross carrying amount	Provision for credit losses	Book value	Gross carrying amount	Provision for credit losses	Book value
Residential mortgages	48,164[1]	-73	48,091	47,808[1]	-111	47,697
Consumer loans	52	-10	42	63	-12	51
Exposure retail loans	**48,216**	**-83**	**48,133**	**47,871**	**-123**	**47,748**
SME loans	841	-23	818	724	-38	686
Other corporate and government loans	1,777	-1	1,776	2,113	-5	2,108
Total loans and advances to customers	**50,834**	**-107**	**50,727**	**50,708**	**-166**	**50,542**
Off-balance sheet items	3,415	-13	3,402	2,815	-5	2,810
Total on and off-balance sheet items for loans and advances to customers	**54,249**	**-120**	**54,129**	**53,523**	**-171**	**53,352**

1 Including IFRS value adjustments of € 810 million (2020: € 1,572 million), consisting of fair value adjustments from hedge accounting and amortisations.

Loans and advances by region Audited

Book value in € millions	2021	2020
The Netherlands	49,765	49,538
EMU excl. the Netherlands	601	701
Other	361	303
Total	**50,727**	**50,542**

TOTAL LOANS AND ADVANCES TO CUSTOMERS 2021

During 2021, gross loans and advances to customers increased slightly by € 0.1 billion to € 50.8 billion gross. This was attributable to the gross growth in residential mortgage loans by € 1.1 billion, which was partly compensated by negative fair value adjustments from hedge accounting of € 0.8 billion due to the increase in interest rates at the end of 2021. Taken together, the residential mortgage loans grew by € 0.3 billion.
In addition, the total outstanding amount of the SME loans rose by € 0.1 billion. Other corporate and government loans contracted by € 0.3 billion, while consumer loans remained stable.

The total provision for credit losses dropped from € 171 million as at 31 December 2020, to € 120 million as at 31 December 2021, predominantly driven by the improving economic sentiment. The stage 3 ratio, i.e. stage 3 loans expressed as a percentage of total loans and advances, contracted from 1.4% to 1.2%. The stage 3 coverage ratio, provision for stage 3 loans as a percentage of total stage 3 loans, fell from 11.4% to 6.6%, mostly driven by the strong increase in house prices and an improved probability of cure.

PROVISIONS FOR CREDIT LOSSES

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

The total amount of provisions for on-balance sheet exposure decreased in 2021 by € 59 million, resulting in the same amount of reversals of impairment charges. This decrease was more pronounced in the residential mortgage portfolio, where loan loss allowances dropped by € 38 million. This is explained in Section 3.3.5 Residential mortgages. Total provisions for consumer loans dropped by € 2 million, please refer to Section 3.3.6 Consumer loans. Decreases in provisions for SME loans amounted to € 15 million and for other corporate and government loans to € 4 million. This is explained in Section 3.3.7 SME loans, Section 3.3.8 Other corporate and government loans respectively.

In all portfolios the amounts of recognised losses due to write-offs are low. This can be explained by favourable property prices in 2021 and limited a number of forced sales.

Loans and advances to customers by stage 31 December 2021 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Residential mortgages	45,248	-32	45,216	95.6%	0.1%
Consumer loans	28	--	28	53.8%	0.0%
SME loans	663	-6	657	78.8%	0.9%
Other corporate and government loans	1,653	-1	1,652	93.0%	0.1%
Total loans and advances to customers stage 1	**47,592**	**-39**	**47,553**	**95.1%**	**0.1%**
STAGE 2					
Residential mortgages	1,575	-24	1,551	3.3%	1.5%
Consumer loans	14	--	14	26.9%	0.0%
SME loans	112	-4	108	13.3%	3.6%
Other corporate and government loans	124	--	124	7.0%	0.0%
Total loans and advances to customers stage 2	**1,825**	**-28**	**1,797**	**3.6%**	**1.5%**
STAGE 3					
Residential mortgages	531	-17	514	1.1%	3.2%
Consumer loans	10	-10	--	19.2%	100.0%
SME loans	66	-13	53	7.8%	19.7%
Other corporate and government loans	--	--	--	0.0%	--
Total loans and advances to customers stage 3	**607**	**-40**	**567**	**1.2%**	**6.6%**
TOTAL STAGE 1, 2 AND 3					
Residential mortgages	47,354	-73	47,281		0.2%
Consumer loans	52	-10	42		19.2%
SME loans[1]	841	-23	818		2.7%
Other corporate and government loans	1,777	-1	1,776		0.1%
Total loans and advances to customers excluding IFRS value adjustments	**50,024**	**-107**	**49,917**		**0.2%**
IFRS value adjustments[2]	810	--	810		
Total loans and advances to customers	**50,834**	**-107**	**50,727**		**0.2%**
Off-balance sheet items stage 1	3,372	-7	3,365		0.2%
Off-balance sheet items stage 2	31	-1	30		3.2%
Off-balance sheet items stage 3	12	-5	7		41.7%
Total off-balance sheet items[3]	**3,415**	**-13**	**3,402**		**0.4%**
Total on and off-balance sheet items for loans and advances to customers	**54,249**	**-120**	**54,129**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 803 million.
2 Consist of fair value adjustments from hedge accounting and amortisations.
3 Consists of off-balance sheet facilities (of which € 407 million conditionally revocable), guarantees and repurchase commitments.

Loans and advances to customers by stage 31 December 2020 Audited

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

1 Gross SME loans include mortgage-backed loans for a gross amount of € 674 million.

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

3 Consist of off-balance sheet facilities (of which € 428 million conditionally revocable), guarantees and repurchase commitments.

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

in € millions	Residential mortgages 2021	Residential mortgages 2020	Consumer loans 2021	Consumer loans 2020	SME loans 2021	SME loans 2020	Other corporate and government 2021	Other corporate and government 2020	Total 2021	Total 2020
Opening balance	**47,808**	**48,161**	**63**	**87**	**724**	**704**	**2,113**	**1,626**	**50,708**	**50,578**
Reclassifications	--	-377[1]	--	--	--	-4		--	--	-381
Originated or purchased	8,086	6,100	2	--	219	83	4,229[2]	3,770[2]	12,536	9,953
Change in current accounts	--	--	-9	-21	-21	1	-6	6	-36	-14
Matured or sold	-6,972	-6,453	-1	-1	-80	-52	-4,583[2]	-3,280[2]	-11,636	-9,786
Write-offs	-2	-4	-3	-2	-1	-4	--	--	-6	-10
Change in fair value as a result of hedge accounting	-723	414	--	--	--	--	-1	--	-724	414
Amortisations	-38	-36	--	--	--	--	--	--	-38	-36
Exchange rate differences	--	--	--	--	--	--	27	-11	27	-11
Other movements	5	3	--	--	--	-4	-2	2	3	1
Closing balance	**48,164**	**47,808**	**52**	**63**	**841**	**724**	**1,777**	**2,113**	**50,834**	**50,708**

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

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

Changes in the provision for credit losses Audited

in € millions	Residential mortgages 2021	Residential mortgages 2020	Consumer loans 2021	Consumer loans 2020	SME loans 2021	SME loans 2020	Other corporate and government 2021	Other corporate and government 2020	Total 2021	Total 2020	Off-balance[1] 2021	Off-balance[1] 2020
Opening balance	**111**	**71**	**12**	**14**	**38**	**31**	**5**	**3**	**166**	**119**	**5**	**6**
Change in credit risk	-38	-5	--	1	-6	3	-4	2	-48	1	-1	-2
Originated or purchased	2	7	--	--	1	1	1	--	4	8	1	1
Matured or sold	-10	-6	--	--	-5	-4	-1	--	-16	-10	--	--
Change in models	1	9	1	-1	-1	--	--	--	1	8	3	--
Change in risk parameters	--	--	--	--	--	--	--	--	--	--	--	--
Change in management overlay	9	40	--	--	-3	8	--	--	6	48	5	--
Impairment charges (releases)	**-36**	**45**	**1**	**--**	**-14**	**8**	**-4**	**2**	**-53**	**55**	**8**	**-1**
Write-offs	-2	-5	-3	-2	-1	-1	--	--	-6	-8	--	--
Closing balance	**73**	**111**	**10**	**12**	**23**	**38**	**1**	**5**	**107**	**166**	**13**	**5**
Of which: management overlay	*57*	*41*	*--*	*--*	*5*	*8*	*--*	*--*	*62*	*49*	*6*	*--*
Impairment charges (releases)	-36	45	1	--	-14	8	-4	2	**-53**	55	**8**	-1
Recoveries and other charges trough P&L	-15	-17	-1	-1	1	--	--	--	**-15**	-18	**--**	--
Total impairment charges (releases)[2]	**-51**	**28**	**--**	**-1**	**-13**	**8**	**-4**	**2**	**-68**	**37**	**8**	**-1**

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

2 The total impairment charges (releases) for the period excludes charges (releases) for investments and other financial assets; these amount to € 2 million (2020: € 2 million).

COVID-19 SUPPORT MEASURES

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

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

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

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

Covid-19 measures

		Gross carrying amount (in € millions)						
	Number of customers	Active	Expired	Total	of which stage 1	of which stage 2	of which stage 3	Total provision for credit losses
31 DECEMBER 2021								
Residential mortgages	1,476	7	363	**370**	--	252	118	**5**
Consumer loans	46	--	--	**--**	--	--	--	**--**
SME loans	371	4	101	**105**	5	73	27	**6**
Other corporate and government loans	3	--	--	**--**	--	--	--	**--**
Total loans and advances to customers with Covid-19 measure	**1,896**	**11**	**464**	**475**	**5**	**325**	**145**	**11**
31 DECEMBER 2020								
Residential mortgages	1,502	26	373	**399**	--	315	84	**10**
Consumer loans	89	--	1	**1**	--	--	1	**--**
SME loans	339	5	103	**108**	55	22	31	**11**
Other corporate and government loans	3	--	--	**--**	--	--	--	**--**
Total loans and advances to customers with Covid-19 measure	**1,933**	**31**	**477**	**508**	**55**	**337**	**116**	**21**

3.3.5 Residential mortgages

MAIN DEVELOPMENTS IN 2021

Developments in the residential mortgage portfolio

De Volksbank's residential mortgage portfolio, excluding IFRS value adjustments, grew to € 47.4 billion (year-end 2020: € 46.2 billion) as new production exceeded redemptions. As the mortgage rates remained at all-time low levels, homeowners were eager to lock in rates for a longer period of time, increasing their financial security. In a growing market for new mortgages, de Volksbank's new mortgage production amounted to € 8.1 billion (2020: € 6.1 billion). The market share of new mortgages stood at 5.8%, an increase compared with 2020 (5.0%). Repayments amounted to € 7.0 billion, compared with € 6.5 billion in 2020, mainly due to the rising mortgage refinancing volumes.

Interest rate renewals amounted to € 2.4 billion, a decrease compared with 2020 (€ 3.2 billion), mainly due to lower regular renewals.

The percentage of customers who take out NHG-guaranteed loans has been almost stable for a number of years now. The weighted average indexed Loan-to-Value (LtV) of the residential mortgages improved to 53%, from 61% at year-end 2020. To determine the LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of mortgages to lower LtV buckets.

The impact of the Covid-19 pandemic on the credit quality of the residential mortgage portfolio remained immaterial. Of our customers with a payment holiday granted in response to the Covid-19-related financial difficulties, 80% have resumed payments by now without any further intervention on our part.

KEY FIGURES

Exposure to residential mortgages 31 December 2021 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	45,248	-32	45,216	95.6%	0.1%
Stage 2	1,575	-24	1,551	3.3%	1.5%
Stage 3	531	-17	514	1.1%	3.2%
Total stage 1,2,3	**47,354**	**-73**	**47,281**		**0.2%**
IFRS value adjustments[1]	810	--	810		
Total residential mortgages	**48,164**	**-73**	**48,091**		
Off-balance sheet items stage 1	2,303	-6	2,297		0.3%
Off-balance sheet items stage 2	19	-1	18		5.3%
Off-balance sheet items stage 3	6	--	6		0.0%
Total off-balance sheet items[2]	**2,328**	**-7**	**2,321**		**0.3%**
Total on and off-balance sheet items residential mortgages	**50,492**	**-80**	**50,412**		**0.2%**

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

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

Exposure to residential mortgages 31 December 2020 Audited

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

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

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

Transfers between stages in the gross carrying amount of residential mortgages

	2021				2020			
in € millions	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	1,149	-1,114	-35	--	871	-824	-47	--
Transfer to stage 2	-372	582	-210	--	-1,173	1,323	-150	--
Transfer to stage 3	-136	-179	315	--	-112	-162	274	--

CHANGES IN THE PROVISION AUDITED

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

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

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

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

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

Changes in the provision for credit losses for residential mortgages Audited

	2021				2020				Off-balance[1]	
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**2021**	**2020**
Opening balance	**24**	**52**	**35**	**111**	**6**	**22**	**43**	**71**	**1**	**1**
Reclassification	--	--	--	--	--	--	--	--	--	--
Transfer to stage 1	--	--	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	2	-2	--	--	--
Transfer to stage 3	--	-2	2	--	--	-2	2	--	--	--
Change in credit risk	-8	-17	-13	-38	--	-3	-2	-5	--	-1
Originated or purchased	1	1	--	2	5	1	1	7	1	1
Matured or sold	--	-3	-7	-10	--	-1	-5	-6	--	--
Change in models	--	--	1	1	--	9	--	9	--	--
Change in management overlay	15	-7	1	9	13	24	3	40	5	--
Impairment charges (releases)	**8**	**-28**	**-16**	**-36**	**18**	**30**	**-3**	**45**	**6**	**--**
Write-offs	--	--	-2	-2	--	--	-5	-5	--	--
Closing balance	**32**	**24**	**17**	**73**	**24**	**52**	**35**	**111**	**7**	**1**
Of which: management overlay				*57*				*47*	*6*	--
Impairment charges (releases)				-36				45	6	--
Recoveries and other charges through P&L				-15				-17	--	--
Total impairment charges (releases)				**-51**				**28**	**6**	**--**

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

CREDIT QUALITY

Stage 3 residential mortgages vintage analysis[1]

Time in default (as a % of total gross amount)	**2021**
< 1 year	49%
1-3 years	38%
3-5 years	7%
5-10 years	4%
> 10 years	2%
Total	**100%**

1 The table is generated in 2021 for the first time, there are no comparable figures for 2020 available.

Internal rating classes for residential mortgages 31 December 2021

in € millions		Gross carrying amount				Provision for credit losses			
Internal rating grade	**PD scaling**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	0.00 to <0.15	29,609	1	--	29,610	-4	--	--	-4
2	0.15 to <0.25	11,253	2	--	11,255	-5	--	--	-5
3	0.25 to <0.35	3,150	2	--	3,152	-4	--	--	-4
4	0.35 to <0.50	341	5	--	346	-1	--	--	-1
5	0.50 to <0.75	78	12	--	90	--	--	--	--
6	0.75 to <1.25	74	52	--	126	--	-1	--	-1
7	1.25 to <1.50	64	34	--	98	--	--	--	--
8	1.50 to <1.75	63	37	--	100	--	--	--	--
9	1.75 to <3.50	435	270	--	705	-6	-5	--	-11
10	3.50 to <10.00	170	354	--	524	-10	-5	--	-15
11	10.00 to <15.00	11	267	--	278	-1	-2	--	-3
12	15.00 to <25.00	--	338	--	338	--	-4	--	-4
13	25.00 to <100.00	--	201	--	201	-1	-7	--	-8
Default	100.00	--	--	531	531	--	--	-17	-17
Total		**45,248**	**1,575**	**531**	**47,354**	**-32**	**-24**	**-17**	**-73**
IFRS value adjustments[1]					810				
Total residential mortgages		**45,248**	**1,575**	**531**	**48,164**	**-32**	**-24**	**-17**	**-73**

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

Internal rating classes for residential mortgages 31 December 2020

in € millions		Gross carrying amount			
Internal rating grade	**PD scaling**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	0.00 to <0.15	9,742	--	--	9,742
2	0.15 to <0.25	11,751	--	--	11,751
3	0.25 to <0.35	9,031	1	--	9,032
4	0.35 to <0.50	7,608	1	--	7,609
5	0.50 to <0.75	4,056	5	--	4,061
6	0.75 to <1.25	225	24	1	250
7	1.25 to <1.50	23	22	--	45
8	1.50 to <1.75	9	24	--	33
9	1.75 to <3.50	118	285	15	418
10	3.50 to <10.00	544	702	36	1,282
11	10.00 to <15.00	43	239	7	289
12	15.00 to <25.00	3	675	28	706
13	25.00 to <100.00	1	561	81	643
Default	100.00	--	--	375	375
Total		**43,154**	**2,539**	**543**	**46,236**
Provision for credit losses[1]		-24	-52	-35	-111
IFRS value adjustments[2]					1,572
Total residential mortgages		**43,130**	**2,487**	**508**	**47,697**

1 The provisions per bucket are not available for 2020, they are for the first time generated in 2021.

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

Residential mortgages by Loan-to-Value bucket

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

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

The weighted average indexed LtV of the residential mortgages improved to 53%, from 61% at year-end 2020. 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 an NHG guarantee, this provides additional security to both the customer and the bank. The table below shows the loans outstanding that are fully or partly covered by an NHG. The NHG limit was set at € 325,000 on 1 January 2021, and at € 344,500 in case of investments in energy-saving measures. On 1 January 2022, these maximum amounts were raised to € 355,000 and € 376,300 respectively.

Breakdown of residential mortgages by LtV bucket[1] 31 December 2021

	Gross carrying amount (excluding savings deposits)					Provision for credit losses				Coverage ratio			
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**		**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
NHG[2]													
LtV ≤ 75%	10,537	258	78	10,873	24%	-2	-2	-2	-6	0.0%	0.6%	3.1%	0.1%
LtV >75 ≤ 100%	1,457	54	8	1,519	3%	-1	-1	-1	-3	0.1%	2.6%	3.6%	0.2%
LtV >100 ≤ 110%	5	2	0	7	0%	--	--	--	--	0.9%	10.5%	6.3%	3.8%
LtV >110 ≤ 125%	1	1	0	2	0%	--	--	--	--	0.3%	10.4%	0.0%	8.6%
LtV > 125%	1	0	0	1	0%	--	--	--	--	1.0%	13.7%	4.4%	3.5%
Total NHG	**12,001**	**315**	**86**	**12,402**	**27%**	**-3**	**-3**	**-3**	**-9**	**0.0%**	**1.0%**	**3.1%**	**0.1%**
NON-NHG													
LtV ≤ 75%	28,453	948	342	29,743	66%	-11	-8	-10	-29	0.0%	0.8%	2.9%	0.1%
LtV >75 ≤ 100%	2,936	234	72	3,242	7%	-13	-8	-3	-24	0.4%	3.4%	3.6%	0.7%
LtV >100 ≤ 110%	55	23	9	87	0%	-1	-2	-1	-4	2.3%	11.7%	4.2%	4.9%
LtV >110 ≤ 125%	22	11	4	37	0%	-2	-2	0	-4	7.4%	16.2%	4.3%	9.6%
LtV > 125%	7	6	4	17	0%	-2	-1	0	-3	24.8%	13.1%	8.7%	17.0%
Total Non-NHG	**31,473**	**1,222**	**431**	**33,126**	**73%**	**-29**	**-21**	**-14**	**-64**	**0.1%**	**1.7%**	**3.1%**	**0.2%**
Total	**43,474**	**1,537**	**517**	**45,528**	**100%**	**-32**	**-24**	**-17**	**-73**	**0.1%[3]**	**1.6%[3]**	**3.3%[3]**	**0.2%[3]**
IFRS value adjustments[4]				810									
Savings deposits				1,826									
Total residential mortgages				**48,164**					**-73**				**0.2%**
Weighted average indexed LtV				**53%**									

1 The LtV is based on the indexed market value of collateral.

2 NHG is determined on customer level; the size of guarantees related to NHG-guaranteed mortgages expires on an annuity basis.

3 The ratio differs from the ratio in other tables because the gross exposure is reduced by the savings deposits.

4 Consist of fair value adjustments from hedge accounting and amortisations.

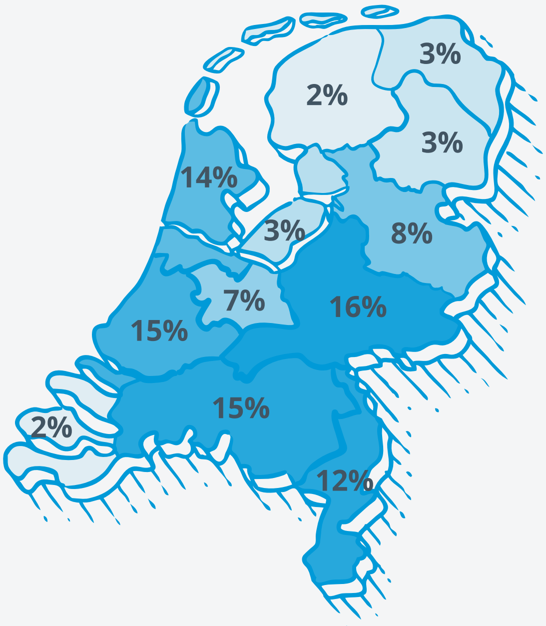
Breakdown of residential mortgages by LtV bucket[1] 31 December 2020

	Gross carrying amount (excluding savings deposits)					Provision for credit losses				Coverage ratio			
in € millions[2]	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
NHG[3]													
LtV ≤ 75%	8,381	267	52	8,700	20%	-1	-2	-2	-5	0.0%	0.7%	3.2%	0.0%
LtV >75 ≤ 100%	3,627	215	34	3,876	9%	-2	-3	-2	-7	0.0%	1.6%	5.4%	0.2%
LtV >100 ≤ 110%	22	11	1	34	0%	--	-1	--	-1	0.3%	9.0%	6.8%	3.3%
LtV >110 ≤ 125%	5	5	2	12	0%	--	-1	--	-1	1.2%	11.3%	10.9%	7.0%
LtV > 125%	4	5	1	10	0%	--	-1	--	-1	1.5%	11.0%	13.8%	7.5%
Total NHG	**12,039**	**503**	**90**	**12,632**	**29%**	**-3**	**-8**	**-4**	**-15**	**0.0%**	**1.4%**	**4.4%**	**0.1%**
NON-NHG													
LtV ≤ 75%	22,798	940	221	23,959	54%	-5	-8	-9	-22	0.0%	0.8%	3.9%	0.1%
LtV >75 ≤ 100%	6,295	869	163	7,327	17%	-12	-19	-12	-43	0.2%	2.2%	7.0%	0.6%
LtV >100 ≤ 110%	106	66	20	192	0%	-2	-6	-2	-10	1.5%	9.2%	11.1%	5.2%
LtV >110 ≤ 125%	37	43	12	92	0%	-1	-4	-2	-7	3.0%	9.3%	12.2%	7.1%
LtV > 125%	19	57	26	102	0%	-1	-7	-6	-14	4.2%	13.0%	22.4%	13.7%
Total Non-NHG	**29,255**	**1,975**	**442**	**31,672**	**71%**	**-21**	**-44**	**-31**	**-96**	**0.1%**	**2.2%**	**6.7%**	**0.3%**
Total	**41,294**	**2,478**	**532**	**44,304**	**100%**	**-24**	**-52**	**-35**	**-111**	**0.1%[4]**	**2.1%[4]**	**6.6%[4]**	**0.2%[4]**
IFRS value adjustments[5]				1,572									
Savings deposits				1,932									
Total residential mortgages				**47,808**					**-111**				**0.2%**
Weighted average indexed LtV				**61%**									

1 The LtV is based on the indexed market value of collateral.
2 The LtV is based on the indexed market value of collateral.
3 NHG is determined on customer level; the size of guarantees related to NHG-guaranteed mortgages expires on an annuity basis.
4 The ratio differs from the ratio in other tables because the gross exposure is reduced by the savings deposits.
5 Consist of fair value adjustments from hedge accounting and amortisations.

RESIDENTIAL MORTGAGES BY REGION AND BRAND

Breakdown of mortgage portfolio by province



Remaining principal amounts by brand

in € millions	2021		2020	
ASN Bank	474	1%	211	0%
BLG Wonen	23,716	50%	21,282	46%
RegioBank	7,375	16%	7,437	16%
SNS	15,789	33%	17,306	37%
Total remaining principal amounts	**47,354**	**100%**	**46,236**	**100%**
Provision for credit losses	-73		-111	
IFRS value adjustments[1]	810		1,572	
Total residential mortgages	**48,091**		**47,697**	

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

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

Over the past few years, the Dutch government has tightened the (tax) policy with respect to 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 on certain conditions. De Volksbank only finances interest-only mortgages up to a maximum of 50% of the fair value of the collateral. The remainder of the loan must consist of a type of mortgage under which the debt is repaid during the term of the mortgage.

As a result of these rules, both the gross amount and the share of annuity and linear mortgage loans in the total residential mortgage portfolio are increasing. The share of full or partial interest-only mortgages decreased slightly from 49% at year-end 2020 to 48%.

For customers with an interest-only mortgage, a repayment or refinancing problem may arise regarding the acceptance criteria applicable when the loan expires. For this reason, 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*, which means as much as ''customers want to continue to live in their home worry free''. Within the scope of this programme we are contacting all customers with an interest-only mortgage to assess their financial situation at maturity date.
Furthermore, de Volksbank joined together with other Dutch banks, the national campaign entitled *Aflossingsblij*, which calls on homeowners with interest-only mortgages nearing maturity to consider their personal situation as in some cases it is better to start making repayments or to save money to repay mortgage at maturity date.
However, if the customer runs into financing problems despite these measures, we will look for a suitable solution.

Residential mortgages with a fixed-rate term of ten years or more grew and mortgages with a fixed-rate term of less than ten years fell. This was driven by persistently low mortgage rates, leading customers to select a longer fixed-rate term for a new mortgage or interest rate renewal. In all, the share of mortgages with a fixed-rate term of ten years or more increased slightly from 89% at the end of 2020 to 90%.

Residential mortgages by redemption type

in € millions	2021		2020	
Interest-only (100%)	9,771	21%	10,281	22%
Interest-only (partially)	12,719	27%	12,421	27%
Annuity	16,762	35%	14,472	31%
Linear	1,296	3%	1,209	3%
(Bank) savings[1]	3,757	8%	4,385	9%
Life insurance/investments	2,665	5%	3,106	7%
Other	384	1%	362	1%
Total	**47,354**	**100%**	**46,236**	**100%**
Provision for credit losses	-73		-111	
IFRS value adjustments[2]	810		1,572	
Total residential mortgages	**48,091**		**47,697**	

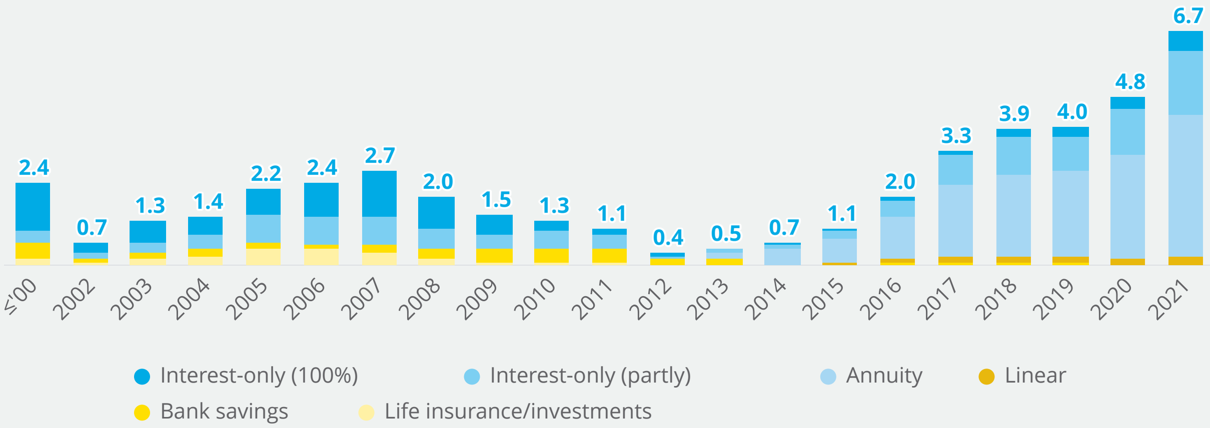
1 The guaranteed savings deposits accrued in a policy with the insurer are accounted for under (Bank) savings.

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

Interest-only (100%) mortgages by LtV bucket

In percentages	2021	2020
LtV ≤ 75%	99%	94%
LtV >75 ≤100%	1%	6%
LtV >100 ≤110%	0%	0%
LtV > 110%	0%	0%
Total	**100%**	**100%**

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



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

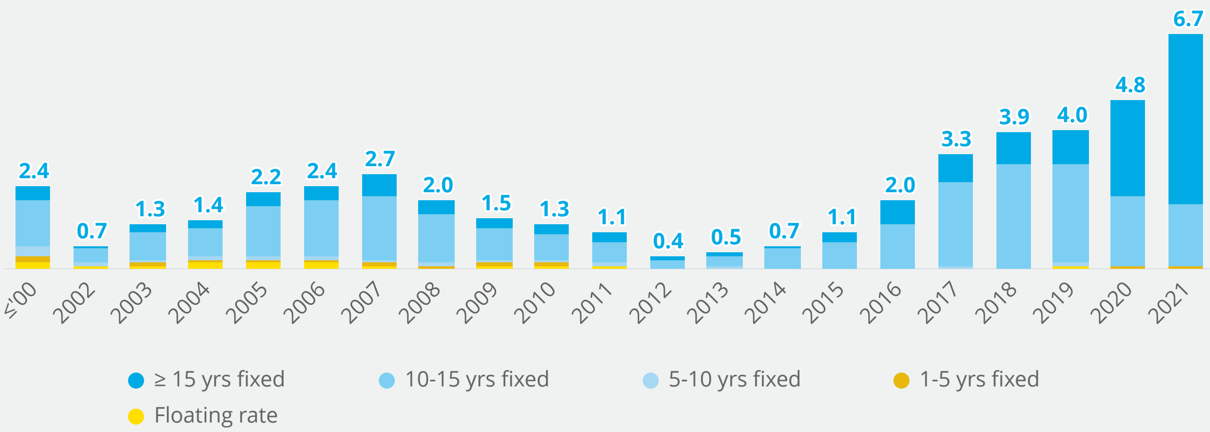
2 The mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.4 billion.

Residential mortgages by fixed-term maturity

in € millions	2021		2020	
Floating rate	1,546	3%	1,875	4%
≥ 1 and < 5-year fixed-rate	1,104	2%	1,246	3%
≥ 5 and < 10-year fixed-rate	1,643	4%	1,939	4%
≥ 10 and < 15-year fixed-rate	27,011	57%	29,456	64%
≥ 15-year fixed-rate	15,664	33%	11,356	25%
Other	386	1%	364	1%
Total remaining principal amounts	**47,354**	**100%**	**46,236**	**100%**
Provision for credit losses	-73		-111	
IFRS value adjustments[1]	810		1,572	
Total residential mortgages	**48,091**		**47,697**	

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

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



1 Amounts in this chart do include mortgage renewals. Mortgages that have been executed but have not yet been processed in the system, 'extra ruimte' mortgages and bridging loans are not included.
2 The mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.4 billion.

LOANS IN ARREARS

The table below depicts the amount of residential mortgages in arrears. The total amount of loans in arrears continued to follow a downward trend, supported by the reduced inflow rate of loans in arrears on the one hand and an increase in recovery rates on the other hand. As a result, the total amount of loans in arrears decreased from € 552 million to € 333 million. Customers who have been granted a Covid-19 support measure are not considered to be in arrears for the period the payment relief is granted. Customers are only considered to be in default once they are unable to pay in accordance with the agreed terms after the payment relief period. In that case, the customer is allocated to stage 3.

Residential mortgages in arrears 31 December 2021 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	45,248	45,212	17	4	15	0.1%
Stage 2	1,575	1,419	27	54	75	9.9%
Stage 3	531	378	6	24	123	28.8%
Subtotal	**47,354**	**47,009**	**50**	**82**	**213**	**0.7%**
IFRS value adjustments[1]	810					
Total	**48,164**	**47,009**	**50**	**82**	**213**	

Residential mortgages in arrears 31 December 2020 Audited

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

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

3.3.6 Consumer loans

MAIN DEVELOPMENTS IN 2021

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

In 2021, the default portfolio reduced slightly leading to a write-off amount of € 3 million.
The Covid-19 pandemic had little impact on the consumer loan portfolio.

KEY FIGURES

Exposure to consumer loans 31 December 2021 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	28	--	28	53.8%	0.0%
Stage 2	14	--	14	26.9%	0.0%
Stage 3	10	-10	--	19.2%	100.0%
Total consumer loans	**52**	**-10**	**42**		**19.2%**
Off-balance sheet items stage 1	406	--	406		0.0%
Off-balance sheet items stage 2	5	--	5		0.0%
Off-balance sheet items stage 3	5	-5	--		100.0%
Total off-balance sheet items[1]	**416**	**-5**	**411**		**1.2%**
Total on and off-balance sheet items consumer loans	**468**	**-15**	**453**		**3.2%**

1 Consists mainly of conditionally revocable facilities.

Exposure to consumer loans 31 December 2020 Audited

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

1 Consists mainly of conditionally revocable facilities.

Transfers between stages in the gross carrying amount of consumer loans

	2021				2020			
in € millions	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	2	-2	--	--	1	-1	--	--
Transfer to stage 2	-4	4	--	--	-7	7	--	--
Transfer to stage 3	-1	-1	2	--	--	--	--	--

CHANGES IN THE PROVISION AUDITED

The total loan loss provision for consumer loans decreased from € 12 million to € 10 million as a result of write-offs, recoveries, and lower ECLs following the upward adjustment of unemployment rate forecasts. Coverage ratios over the stages remained stable.

The provision for off-balance sheet items increased by € 3 million, mainly driven by the implementation of the new DoD. The new DoD pulls more customers in default based on unlikely-to-pay triggers, in addition to arrears. When customers enter default status based on arrears, the credit limit for their consumer loans is withdrawn, such that they no longer have access to the undrawn commitments. This mechanism is not in place for customers entering default status based on an unlikely-to-pay trigger. The undrawn portion of consumer credit products is considered an off-balance sheet commitment. Since the new DoD pulls more customers with undrawn off-balance commitments in default, the related provision for off-balance sheet items in stage 3 increased significantly in 2021. The impact of the new DoD for consumer loans on the stage 3 provision for on-balance sheet exposures is limited to € 1 million.

Changes in the provision for credit losses for consumer loans Audited

	2021				2020				Off-balance[1]	
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**2021**	**2020**
Opening balance	**--**	**1**	**11**	**12**	**--**	**1**	**13**	**14**	**2**	**3**
Transfer to stage 1	--	--	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	--	--	--	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--	--	--
Changes in credit risk	--	-1	1	--	--	1	--	1	--	-1
Change in models	--	--	1	1	--	-1	--	-1	3	--
Impairment charges (releases)	**--**	**-1**	**2**	**1**	**--**	**--**	**--**	**--**	**3**	**-1**
Write-offs	--	--	-3	-3	--	--	-2	-2	--	--
Closing balance	**--**	**--**	**10**	**10**	**--**	**1**	**11**	**12**	**5**	**2**
Impairment charges (releases)				1				--	3	-1
Recoveries and other charges through P&L				-1				-1	--	--
Total impairment charges (releases)				**--**				**-1**	**3**	**--**

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

LOANS IN ARREARS

Consumer loans in arrears 31 December 2021 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	28	28	--	--	--	0.0%
Stage 2	14	14	--	--	--	0.0%
Stage 3	10	1	1	--	8	90.0%
Total consumer loans	**52**	**43**	**1**	**--**	**8**	**17.3%**

Consumer loans in arrears 31 December 2020 Audited

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

3.3.7 SME loans

MAIN DEVELOPMENTS IN 2021

In 2021, SNS and RegioBank together managed to grow the SME loan portfolio by 16% to € 841 million.

Originated exposure mostly concerned mortgage loans in the range of a minimum of € 50,000 to a maximum of € 2 million.

KEY FIGURES

Exposure to SME loans 31 December 2021 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	663	-6	657	78.8%	0.9%
Stage 2	112	-4	108	13.3%	3.6%
Stage 3	66	-13	53	7.8%	19.7%
Total SME loans	**841**	**-23**	**818**		**2.7%**
Off-balance sheet items stage 1	116	-1	115		0.9%
Off-balance sheet items stage 2	6	--	6		0.0%
Off-balance sheet items stage 3	1	--	1		0.0%
Total off-balance sheet items[1]	**123**	**-1**	**122**		**0.8%**
Total on and off-balance sheet items SME loans	**964**	**-24**	**940**		**2.5%**

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

Exposure to SME loans 31 December 2020 Audited

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

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

Transfers between stages in the gross carrying amount of SME loans

	2021				2020			
in € millions	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfer to stage 1	39	-36	-3	--	16	-11	-5	--
Transfer to stage 2	-63	69	-6	--	-32	37	-5	--
Transfer to stage 3	-8	-3	11	--	-23	-9	32	--

CHANGES IN THE PROVISION AUDITED

In 2021, the credit loss provision for SME loans dropped from € 38 million to € 23 million. The less pessimistic forecast of bankruptcies, the drop in defaulted loans and the low realised losses at foreclosure drove down provisions for SME customers. In 2021, a group of customers with high LtVs recovered from stage 3 after a favourable unlikely-to-pay assessment. In addition, the implementation of a revised risk model lowered stage 3 provisioning based on improved foreclosure results lowering the probability of foreclosure and loss given foreclosure. This largely explains the notable decline in stage 3 coverage. The impact of the new DoD and the new risk model for SME loan provisions combined was € 1 million negative, of which a € 1 million increase in stage 2 and a € 2 million decrease in stage 3.

Changes in the provision for credit losses for SME loans Audited

	2021				2020				Off-balance[1]	
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**2021**	**2020**
Opening balance	**6**	**5**	**27**	**38**	**1**	**5**	**25**	**31**	**1**	**--**
Transfer to stage 1	--	--	--	--	--	--	--	--	--	--
Transfer to stage 2	--	1	-1	--	--	-1	1	--	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--	--	--
Change in credit risk	-1	-1	-4	-6	--	--	3	3	--	1
Originated or purchased	1	--	--	1	--	--	1	1	--	--
Matured or sold	--	-1	-4	-5	--	--	-4	-4	--	--
Change in models	--	1	-2	-1	--	--	--	--	--	--
Change in management overlay	--	-1	-2	-3	5	1	2	8	--	--
Impairment charges (releases)	**--**	**-1**	**-13**	**-14**	**5**	**--**	**3**	**8**	**--**	**1**
Write-offs	--	--	-1	-1	--	--	-1	-1	--	--
Closing balance	**6**	**4**	**13**	**23**	**6**	**5**	**27**	**38**	**1**	**1**
Of which: management overlay				*5*				*8*	--	--
Impairment charges (releases)				-14				8	--	1
Recoveries and other charges through P&L				1				--	--	--
Total impairment charges (releases)				**-13**				**8**	**--**	**1**

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

CREDIT QUALITY

Internal rating classes of SME loans 31 December 2021

		Gross carrying amount				Provision for credit losses			
in € millions Internal rating grade	**PD scaling**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	0.00 to <0.15	--	--		--	--	--	--	--
2	0.15 to <0.25	5	--		5	--	--	--	--
3	0.25 to <0.35	17	--		17	--	--	--	--
4	0.35 to <0.50	40	--		40	--	--	--	--
5	0.50 to <0.75	70	--		70	--	--	--	--
6	0.75 to <1.25	94	--		94	-1	--	--	-1
7	1.25 to <1.50	47	1		48	--	--	--	--
8	1.50 to <1.75	52	1		53	--	--	--	--
9	1.75 to <3.50	267	6		273	-3	--	--	-3
10	3.50 to <10.00	71	21		92	-2	--	--	-2
11	10.00 to <15.00	--	18		18	--	-1	--	-1
12	15.00 to <25.00	--	29		29	--	-1	--	-1
13	25.00 to <100.00	--	36		36	--	-2	--	-2
Default	100.00	--	--	66	66	--	--	-13	-13
Total SME loans		**663**	**112**	**66**	**841**	**-6**	**-4**	**-13**	**-23**

Internal rating classes of SME loans 31 December 2020

in € millions		Gross carrying amount			
Internal rating grade	**PD scaling**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	0.00 to <0.15	--	--	--	--
2	0.15 to <0.25	1	--	--	1
3	0.25 to <0.35	7	--	--	7
4	0.35 to <0.50	36	--	--	36
5	0.50 to <0.75	92	--	--	92
6	0.75 to <1.25	232	--	--	232
7	1.25 to <1.50	78	--	--	78
8	1.50 to <1.75	38	--	--	38
9	1.75 to <3.50	64	--	--	64
10	3.50 to <10.00	10	2	--	12
11	10.00 to <15.00	--	1	--	1
12	15.00 to <25.00	--	23	--	23
13	25.00 to <100.00	--	60	--	60
Default	100.00	--	--	80	80
Total		**558**	**86**	**80**	**724**
Provision for credit losses[1]		-6	-5	-27	-38
Total SME loans		**552**	**81**	**53**	**686**

1 The provisions per bucket are not available for 2020, they are for the first time generated in 2021.

Stage 3 SME loans vintage analysis[1]

Time in default (as a % of total gross amount)	**2021**
< 1 year	15%
1-3 years	55%
3-5 years	6%
5-10 years	14%
> 10 years	10%
Total	**100%**

1 The table is generated in 2021 for the first time, there are no comparable figures for 2020 available.

SME loans by LtV bucket 31 December 2021[1,2]

in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
LtV ≤ 75%	234	36	14	284	34%
LtV >75 ≤ 100%	301	28	11	340	40%
LtV >100 ≤ 110%	55	17	7	79	9%
LtV >110 ≤ 125%	46	6	6	58	7%
LtV > 125%	27	25	28	80	10%
Total SME loans	**663**	**112**	**66**	**841**	**100%**

1 The table is generated in 2021 for the first time, there are no comparable figures for 2020 available.
2 LtV based on foreclosure value of collateral.

Stage 3 SME loans by LtV bucket[1]

(as a % of total gross amount)	2021	2020
LtV ≤ 75%	21%	17%
LtV >75 ≤100%	16%	15%
LtV >100 ≤110%	11%	9%
LtV >110 ≤125%	10%	8%
LtV > 125%	42%	51%
Total	**100%**	**100%**

1 LtV based on foreclosure value of collateral.

CREDIT RISK CONCENTRATION

SME loans by sector[1]

in € millions	2021		2020	
	Gross carrying amount	Provision for credit losses	Gross carrying amount	Provision for credit losses
Agriculture, forestry and fishing	12	--	12	--
Manufacturing	48	-3	42	-4
Construction	67	-2	42	-2
Wholesale and retail trade	160	-4	127	-5
Transport and storage	9	--	7	--
Accommodation and food service activities	45	-2	40	-3
Information and communication	4	--	5	--
Financial and insurance activities	177	-4	147	-8
Real estate activities	166	-5	177	-12
Professional, scientific and technical activities	67	-2	54	-3
Administrative and support service activities	18	--	13	--
Education	6	--	5	--
Human health services and social work activities	22	--	19	--
Arts, entertainment and recreation	18	--	18	--
Other	22	-1	17	-1
Total SME loans	**841**	**-23**	**724**	**-38**

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

LOANS IN ARREARS

SME loans in arrears 31 December 2021 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	663	663	--	--	--	0.0%
Stage 2	112	112	--	--	--	0.0%
Stage 3	66	55	3	1	7	16.7%
Total SME loans	**841**	**830**	**3**	**1**	**7**	**1.3%**

SME loans in arrears 31 December 2020 Audited

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

3.3.8 Other corporate and government loans

MAIN DEVELOPMENTS IN 2021

Other corporate and government loans consist almost entirely of the loan portfolio of ASN Bank, of which 45% consists of private loans to local authorities and loans to housing associations and hospitals guaranteed by guarantee funds. The other 55% consists of loans in the sustainable sector (wind/sun). These loans are predominantly based on government incentives (subsidies and price guarantees). This makes the portfolio very secure, ensuring low credit risk which is reflected in the low level of provisions.

Most of the loans in the other corporate and government portfolio are found in stage 1 (93%), as was also the case at the end of 2020 (91%). An exposure of € 124 million was classified as stage 2, for which a provision of less than € 1 million had been made. At year-end 2021, there were no loans in stage 3 or in arrears (year-end 2020: one loan of € 43 million in stage 3, no arrears).

Only a limited portion of the portfolio was influenced by the Covid-19 crisis. Customers from this portfolio therefore made little use of the Covid-19-related support measures (suspension of repayment and interest payments).

KEY FIGURES

Exposure to other corporate and government loans 31 December 2021 Audited

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	1,653	-1	1,652	93.0%	0.1%
Stage 2	124	--	124	7.0%	0.0%
Stage 3	--	--	--	--	--
Total other corporate and government loans	**1,777**	**-1**	**1,776**		**0.1%**
Off-balance sheet items stage 1	547	--	547		0.0%
Off-balance sheet items stage 2	1	--	1		0.0%
Off-balance sheet items stage 3	--	--	--		--
Total off-balance sheet items[1]	**548**	**--**	**548**		**0.0%**
Total on and off-balance sheet items other corporate and government loans	**2,325**	**-1**	**2,324**		**0.0%**

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

Exposure to other corporate and government loans 31 December 2020 Audited

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

1 The provision made for one specific loan in stage 3 and the corresponding irrevocable facility is made on an individual basis.
2 Off-balance sheet: liabilities from irrevocable facilities and guarantees.

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

in € millions	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total
Transfer to stage 1	32	-32	--	--	6	-6	--	--
Transfer to stage 2	-9	53	-44	--	-36	36	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--

CHANGES IN THE PROVISION AUDITED

The credit loss provision for other corporate and government loans decreased from € 5 million to € 1 million, attributed to one customer previously in default transferring from stage 3 to stage 2, generating a € 3 million provision release. The new DoD had no impact on this portfolio.

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

in € millions	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total	Off-balance[1] 2021	Off-balance[1] 2020
Opening balance	--	1	4	5	--	1	2	3	1	2
Transfer to stage 1	--	--	--	--	--	--	--	--	--	--
Transfer to stage 2	--	--	--	--	--	--	--	--	--	--
Transfer to stage 3	--	--	--	--	--	--	--	--	--	--
Change in credit risk	--	-1	-3	-4	--	--	2	2	-1	-1
Originated or purchased	1	--	--	1	--	--	--	--	--	--
Matured or sold	--	--	-1	-1	--	--	--	--	--	--
Impairment charges (releases)	1	-1	-4	-4	--	--	2	2	-1	-1
Write-offs	--	--	--	--	--	--	--	--	--	--
Closing balance	1	--	--	1	--	1	4	5	--	1

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

CREDIT RISK CONCENTRATION

Breakdown of other corporate and government loans Audited

in € millions	2021	2020
Government	556	665
of which cash loans	*381*	*417*
of which other private loans ASN	*175*	*248*
Other financial corporations	197	394
of which private loans securitisation programme	--	*257*
of which sustainable funds ASN	*143*	*126*
of which cash loans	*50*	*0*
of which other loans	*4*	*11*
Non-financial corporations	1,024	1,054
of which other private loans ASN	*321*	*391*
of which sustainable project funding ASN	*703*	*638*
of which cash loans	--	*25*
Gross other corporate and government loans	1,777	2,113
Provision for credit losses	-1	-5
Total other corporate and government loans	1,776	2,108

Government loans

Loans and advances to the public sector are mostly loans provided to Dutch municipalities and provinces and government-guaranteed loans to institutions. The credit risk on these loans and advances is very low. The majority of the portfolio of loans and advances to the public sector are found in stage 1 (93%), as was the case at the end of 2020. An amount of € 124 million (7%) of the loans is classified as stage 2; a provision of € 1 million has been made for this. This portfolio does not contain any loans and advances in stage 3.

Loans to the government Audited

in € millions	2021	2020
The Netherlands	175	258
EMU excl. the Netherlands	72	163
Switzerland	309	244
Total	**556**	**665**

Loans to non-financial corporations by sector[1]

in € millions	2021 Gross carrying amount	2021 Provision for credit losses	2020 Gross carrying amount	2020 Provision for credit losses
Manufacturing	5	--	3	--
Electricity, gas, steam and air conditioning supply	563	-1	520	-4
Construction	14	--	13	--
Transport and storage	--	--	25	--
Financial and insurance activities	29	--	13	--
Real estate activities	235	--	273	--
Professional, scientific and technical activities	15	--	24	--
Administrative and support service activities	5	--	--	--
Human health services and social work activities	126	--	152	--
Arts, entertainment and recreation	11	--	5	--
Other	21	--	26	--
Total non-financial corporations	**1,024**	**-1**	**1,054**	**-4**

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

Private loans securitisation programme

Up to and including 2020 the other corporate and government loans included loans and advances to Athora Netherlands (year-end 2020: € 257 million). In relation to this, Athora Netherlands had received a private loan from the bank to finance its (sub-)participations in the securitisation entities. In 2021 a new arrangement came into force in which de Volksbank directly finances the sub-participations in its securitisation entities. Due to the consolidation of the securitisation entities these financings are eliminated on a consolidated level. Please refer to note 12 Other amounts due to customers to the consolidated financial statements for more information.

ASN Bank sustainable loans

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

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

Other private loans

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

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

3.3.9 Risk mitigation

OFFSETTING, NETTING, COLLATERAL AND GUARANTEES

The table below shows how exposures were offset, net, collateralised and guaranteed as at year-end 2021 and 2020.

Financial assets and liabilities: offsetting, netting, collateral and guarantees Audited

31 December 2021		Not offset in the statement of financial position						
in € millions	**Maximum exposure to credit risk**	**Master netting agreements**	**Cash collateral**	**Savings deposits**	**Immovable property**	**Financial guarantees**	**Net exposure**	**Provision for credit losses**
Cash and cash equivalents	10,296						10,296	
Derivatives	591	474[1]	92				25	
Investments	5,640					678	4,962	-2
Loans and advances to banks	4,527					1,443	3,084	
Loans and advances to customers	**50,834**	**-**	**-**	**1,826**	**46,268**	**371**	**2,369**	**-107**
- Residential mortgages	*47,354*			*1,826*	*45,491*	*2*[2]	*35*	*-73*
- Consumer loans	*52*						*52*	*-10*
- SME loans	*841*				*777*		*64*	*-23*
- Other corporate and government loans	*1,777*					*369*	*1,408*	*-1*
- IFRS fair value adjustments[3]	*810*						*810*	
Other assets	170						170	
Total financial assets	**72,058**	**474**	**92**	**1,826**	**46,268**	**2,492**	**20,906**	**-109**
Derivatives	1,013	474[1]	479				60	
Other liabilities	67,471						67,471	
Total financial liabilities	**68,484**	**474**	**479**	**--**	**--**	**--**	**67,531**	**--**
Loan commitments given	2,533				905		1,628	-8
Other commitments (repurchase commitment)[4]	464				464		--	--
Financial guarantees	11		11				--	--
Conditionally revocable commitments	407						407	-5
Total off-balance sheet	**3,415**	**--**	**11**	**--**	**1,369**	**--**	**2,035**	**-13**

1 Eligible for offsetting pursuant to the International Swap and Derivatives Association (ISDA).

2 Guarantees for residential mortgages provided with a National Mortgage Guarantee (NHG) and a LtV > 100%.

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

4 For more information please refer to note 20 Contingent liabilities and commitments to the consolidated financial statements.

Financial assets and liabilities: offsetting, netting, collateral and guarantees Audited

31 December 2020

in € millions	Maximum exposure to credit risk	Not offset in the statement of financial position: Master netting agreements	Cash collateral	Savings deposits	Immovable property	Financial guarantees	Net exposure	Provision for credit losses
Cash and cash equivalents	4,672						4,672	
Derivatives	864	593[1]	171				100	
Investments	5,115					998	4,117	-2
Loans and advances to banks	5,990					2,525	3,465	
Loans and advances to customers	**50,708**	**-**	**263**	**1,932**	**44,867**	**552**	**3,094**	**-166**
- Residential mortgages	*46,236*			*1,932*	*44,234*	*7[2]*	*63*	*-111*
- Consumer loans	*63*						*63*	*-12*
- SME loans	*724*				*633*		*91*	*-38*
- Other corporate and government loans	*2,113*		*263*			*545*	*1,305*	*-5*
- IFRS fair value adjustments[3]	*1,572*						*1,572*	
Other assets	151						151	
Total financial assets	**67,500**	**593**	**434**	**1,932**	**44,867**	**4,075**	**15,599**	**-168**
Derivatives	2,163	593[1]	1,502				68	
Other liabilities	61,774						61,774	
Total financial liabilities	**63,937**	**593**	**1,502**	**--**	**--**	**--**	**61,842**	**--**
Loan commitments given	1,807				667		1,140	-5
Other commitments (repurchase commitment)[4]	568				568		--	
Financial guarantees	12		10				2	
Conditionally revocable commitments	428						428	
Total off-balance sheet	**2,815**	**--**	**10**	**--**	**1,235**	**--**	**1,570**	**-5**

1 Eligible for offsetting pursuant to the International Swap and Derivatives Association (ISDA).

2 Guarantees for residential mortgages provided with a National Mortgage Guarantee (NHG) and a LtV > 100%.

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

4 For more information please refer to note 20 Contingent liabilities and commitments to the consolidated financial statements.

Offsetting

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

The table above 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 and amount to € 474 million (2020: € 593 million).

At the end of 2021 and 2020 there were no repurchase transactions and there was therefore no other financial collateral for amounts due to banks.

Loans and advances to banks

The guarantees for loans and advances to banks are guarantees issued by regional or central governments. The collateral is mainly linked to derivative transactions.

Residential mortgages

For residential mortgages, we ensure that the inflow of loans meets adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a National Mortgage Guarantee (NHG). Of the Internal Ratings-Based (IRB) exposure class residential mortgages, € 12.4 billion (2020: € 12.6 billion), i.e. 27%, of the gross carrying amount of the exposure comes under the NHG guarantee scheme (see also the table Breakdown of residential mortgages by LtV bucket in Section 3.3.5 Residential mortgages).

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

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

SME loans

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

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

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

Other corporate and government loans

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

We do not use credit derivatives as collateral.

COUNTERPARTY RISK ON DERIVATIVE POSITIONS

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

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

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

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

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

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

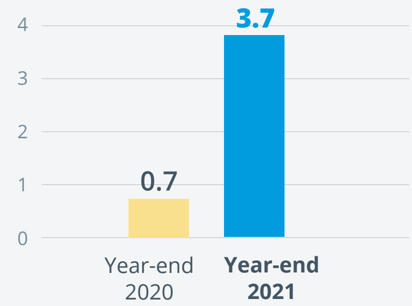
3.4 Market risk

Market interest rates started rising during 2021. Benefitting from this development, the interest rate risk position increased compared with year-end 2020.

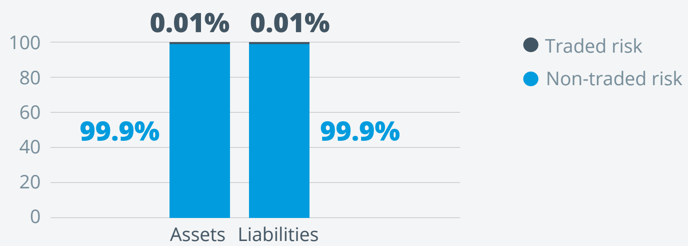
Volume of Earnings at Risk year-end 2021

€67 MILLION

Duration of equity



Exposure market risk year-end 2021



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

3.4.1 Risk profile

The market risk in the banking book mainly comprises market interest rate risk, i.e. the risk that the bank's future interest income deteriorates if market rates change. This risk is part and parcel of a bank that provides mortgage and savings products. In addition, tradable securities in the liquidity portfolio are sensitive to value decreases as a consequence of credit spread risk. Other risks that may be qualified as market risk are very limited for de Volksbank. With equity holdings in other companies totalling € 13 million (2020: € 8 million), the equity (price) risk is small.
Moreover, the banking book does not contain any exposure to commodities. De Volksbank has a limited trading portfolio that includes interest rate, credit spread and foreign currency exposures.

3.4.2 Management and control Audited

INTEREST RATE RISK IN THE BANKING BOOK

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

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

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

Short-term interest rate risk: EaR

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

Long-term interest rate risk: EVE

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

EBA guidelines

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

CURRENCY RISK

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

in € millions	2021	2020
Total net foreign currency exposure (long)	3.3	3.6
Currency exposure as % Total Capital	0.1%	0.1%

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

MARKET RISK IN THE TRADING BOOK

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

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

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

3.4.3 Figures, ratios and trends

MARKET RISK PROFILE IN THE BANKING BOOK

Breakdown of interest rate risk

	2021	2020
Duration of equity	3.7	0.7
Earnings-at-Risk (in € millions)	67	58
Credit spread risk liquidity portfolio (in € millions) HTC	93	88
Credit spread risk liquidity portfolio (in € millions) HTCS	148	118

Duration of equity

At year-end 2021, the duration of equity stood at 3.7 (2020: 0.7). Duration was steered upwards during the fourth quarter of 2021, to benefit from the steepening yieldcurve. A moderate increase in interest rate sensitivity is made possible by the use of swaptions to reduce the non-linear risk embedded in our long-term fixed mortgages. In general, we opt for a gradual implementation through regular balance sheet development, rather than actively managing it via the capital markets.

Earnings-at-Risk

At year-end 2021, the EaR amounted to € 67 million before tax (2020: € 58 million). The increase was mainly caused by the higher duration of equity.

Credit spread risk

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

MARKET RISK EXPOSURE TRADING AND NON-TRADING RISK AUDITED

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

Market risk exposure trading and non-trading risk

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

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 performed these analysis for three components: market value of equity, net interest income and IFRS equity. The impact on net interest income is shown on a one-year horizon. The reported outcomes are before taxation.

Sensitivity interest rates Audited

in € millions	2021 Interest rate +1%	2021 Interest rate -1%	2020 Interest rate +1%	2020 Interest rate -1%
Market value equity[1]	157	1,633	150	2,076
Net interest income[2]	72	-67	46	-55
IFRS equity[3]	-54	58	-67	18

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 and non-linear derivatives for which hedge accounting is not applied to a parallel 100 basis point interest rate increase or decrease.

Market value of equity

We derive the market value of equity from the market value of the assets and liabilities where possible based on available market prices. If this is not possible, 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, for both the cash flows as well as for the discount rate. The change in the market value of equity is reflected by the difference in value that arises when 1% higher and lower interest rates are discounted.

A parallel interest rate shift had a positive impact of € 157 million (2020: € 150 million) on the market value of equity. The assets mainly consisted of mortgages, the interest rate sensitivity of which is mainly hedged by of derivatives, primarily by 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 € 1,633 million (2020: € 2,076 million) on the market value of equity. The value of our assets increases significantly, but the offsetting impact on the liabilities is limited. This is partly explained by the application of the floor to the interest rate, which considerably limits the drop in the value of the derivatives. As interest rate are higher compared to last year, the impact of the floor is lower. In addition, the assumption to which level customer rates can be further lowered is based on the publicly available information. This will, however, only impact balances above a certain amount. For balances below this amount, the rate decrease is not passed through, although based on our internal models it would be expected to do so. The market value of demand deposits subsequently increases to a lesser extent than the assets, with a positive impact on the market value of equity as a result.

Net interest income

A parallel interest rate shift of +100 bps yielded a positive impact on net interest income of € 72 million at year-end 2021 (2020: € 46 million), predominantly triggered by the rate hike boosting income from derivatives. In addition, the interest income from our liquidity position increased. A parallel interest rate shift -100 bps had a negative impact of € 67 million (2020: € 55 million), primarily driven by the lower interest received from derivatives. Furthermore, the assumption that the above interest rate decrease will be passed through to a lesser extent to the savings rates than to the floating-rate mortgage loans and the liquidity position also played a role.

IFRS Equity

A parallel interest rate shift of +100 bps will have a direct negative impact on the IFRS equity of € 54 million (2020: € 67 million), whereas a parallel interest rate shift of -100 bps will have a positive impact on the IFRS equity of € 58 million (2020: € 18 million). This is in line with the previously explained impact of rising interest rates in combination with the assumed floor. The interest rate sensitivity of IFRS equity is reflected in the fair value reserve and other interest income. This is a consequence of changes in the fair value of the HTCS liquidity portfolio, including related interest rate derivatives. This also includes fair value changes of non-linear derivatives not included in hedge accounting.

MARKET RISK PROFILE IN THE TRADING BOOK AUDITED

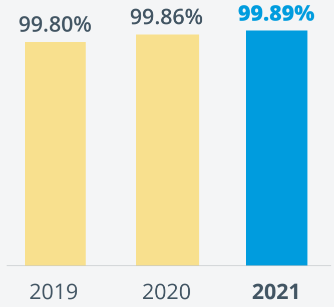
De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day VaR with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the year, the total VaR limit for the trading book remained stable at € 2 million (2020: € 2 million). This limit thereby reflects the relatively low risk profile of these activities in terms of size.

3.5 Non-financial risks

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

Non-financial risks

Average availability of iDEAL



Besides financial risks, de Volksbank is also exposed to non-financial risks, including operational risks, caused by both internal and external factors and developments. For a description of these developments, see Section 3.1.2 Top risks.

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

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

3.5.1 Risk management approach

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

3.5.2 Types of risk and areas of focus

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

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

PROCESSES RISK, PEOPLE RISK AND IT RISK

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

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

Most important developments in 2021

Process risk

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

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

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

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

People risk

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

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

IT risk

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

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

COMPLIANCE RISK

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

Developments in 2021

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

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

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

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

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

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

General Data Protection Regulation (GDPR)

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

Customer journey and customer knowledge

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

Genuine attention for our employees

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

Compliance Function

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

External and internal fraud

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

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

MODEL RISK

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

Developments in 2021

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

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

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

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

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

LEGAL RISK

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

Developments in 2021

The number of legal claims remained stable. The notes 20 Contingent liabilities and commitments and 21 Legal proceedings to the consolidated financial statements include an overview of material legal proceedings involving de Volksbank.

The Legal Department reported several events related to mortgage and consumer credit products to the Board of Directors. Consumer credit products received increasing attention from both the AFM and the media. A in-house legal analysis concerning the revolving consumer credit file resulted in a provision, see also note 17 Provisions to the consolidated financial statements for more information. The legal dispute between de Volksbank and the former CFO also required management attention and resulted in several media items.

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

REPORTING AND DATA MANAGEMENT RISK

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

Developments 2021

Deltawerken is the name of de Volksbank's strategic programme to set up a robust data processing infrastructure in the reporting processes. Implementation of the new infrastructure is an important step towards being demonstrably in control of data quality and data lineage through a single point of truth in the central financial data warehouse. A major deliverable of *Deltawerken* is a new reporting lane through the new data warehouse, which was implemented in the reporting process as from 31 December 2021. This new data warehouse, however, awaits supervisory review for regulatory reporting purposes and therefore reporting based on this new data warehouse needs to be adjusted in order to reflect the previous approved data warehouse. De Volksbank has received guidance from the supervisory authorities for drawing up the required reports. For more information, see the Section 3.8 Capital management.

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

3.6 Liquidity management and funding strategy

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

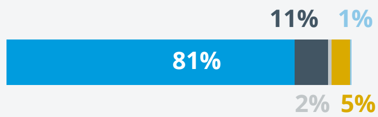
Liquidity position year-end 2021

€ 22.6 BILLION

Green Bond Issuance in 2021

€ 1.0 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

A-/A2

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

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

3.6.1 Risk profile

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

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

3.6.2 Management and control Audited

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

1. Identification of liquidity risks: we continuously aim to identify all potential risks within the scope of liquidity management. For example, we perform an independent risk review of all relevant liquidity management-related proposals.
2. Assessment of liquidity risks: one element of the ILAAP is that we continuously assess the adequacy of our liquidity profile and liquidity risk management. ILAAP provides input for the ECB's Supervisory Review & Evaluation Process (SREP). We present the outcome of our assessment in the annual ILAAP Liquidity Adequacy Statement (LAS) report. We compare the current and expected risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity profile, risk appetite, policy or guidelines, and to improve the risk management process. Liquidity risk assessment within the liquidity risk management lifecycle also entails:
   - the annual recalibration of the liquidity management strategy. We lay down guidelines for a balance sheet structure with maximum efficiency from a liquidity risk perspective. In this process, we take account of the liquidity management objective, i.e. an adequate liquidity and funding profile.
   - the definition of actions in the capital and liquidity plan. We do this at least once a year,

giving substance to the anticipated funding and liquidity needs ensuing from the Operational Plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal thresholds and work out various scenarios.
- the updating of forecasts in the monthly Liquidity Adequacy Assessment Report (LAAR). The forecasts are updated every month based on the most recent insights and reported to the ALCO. The LAAR includes a LAS based on the current risk profile versus the risk thresholds and a forward-looking assessment.
- regular stress testing to provide insight into the key vulnerabilities and to assess the resilience of the liquidity position to severe but plausible adverse (economic) conditions. The results are included in the LAAR.
- drawing up a recovery plan for adverse circumstances. This plan contains possible measures to strengthen the liquidity position. An annual update of the recovery plan contributes to the bank's continuity. For more information see Section 3.8.2 Management and control.

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

MANAGEMENT INSTRUMENTS

Liquidity position

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

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

Liquidity stress testing

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

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

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

Key liquidity ratios

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

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

3.6.3 Covid-19 related measures

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

3.6.4 Figures, ratios and trends

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

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

Liquidity indicators

	2021	2020
LCR	324%	233%
NSFR	176%	>100%
Loan-to-Deposit ratio[1]	86%	92%
Liquidity position (in € millions)	22,570	17,924

1 For the measurement methodology of this KPI reference is made to the paragraph Reconciliation of alternative performance measures in this Annual Report.

As of 28 June 2021, the amended Capital Requirements Regulation (CRR) requires all credit institutions to maintain a minimum Net Stable Funding Ratio (NSFR) of 100%. Both the Liquidity Coverage Ratio (LCR) and the NSFR remained well above the regulatory minimum of 100%. As at 31 December 2021, the LCR stood at 324% (year-end 2020: 233%), and the NSFR at 176%.

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio (see also section 1.11 Reconciliation of APMs), dropped to 86%, from 92% at year-end 2020. This drop was caused by continued deposit growth, of which € 3.5 billion due to an increase in retail customers' savings. In 2021, loans increased from € 48.5 billion to € 49.5 billion.

Liquidity position Audited

Liquidity position[1]

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

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

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

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

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

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

3.6.5 Encumbered and unencumbered assets Audited

The level of asset encumbrance provides insight into the amount of assets that have been pledged or are subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Encumbered and unencumbered assets 2021 Audited

	Four-quarter median				Year-end			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
in € millions	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Equity securities	--	--	8	8	--	--	9	9
Debt securities	627	637	4,911	4,936	543	552	5,081	5,106
Other assets	8,801		56,505		8,788		57,659	
- of which mortgage loans	*7,403*		*39,862*		*7,669*		*40,403*	
Assets of the reporting institution	**9,394**		**61,423**		**9,331**		**62,749**	

Encumbered and unencumbered assets 2020 Audited

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

TOTAL ENCUMBERED ASSETS

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

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

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

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

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

UNENCUMBERED ASSETS

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

POTENTIAL COLLATERAL DEPOSIT

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

COLLATERAL RECEIVED

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

3.6.6 Funding strategy

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

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

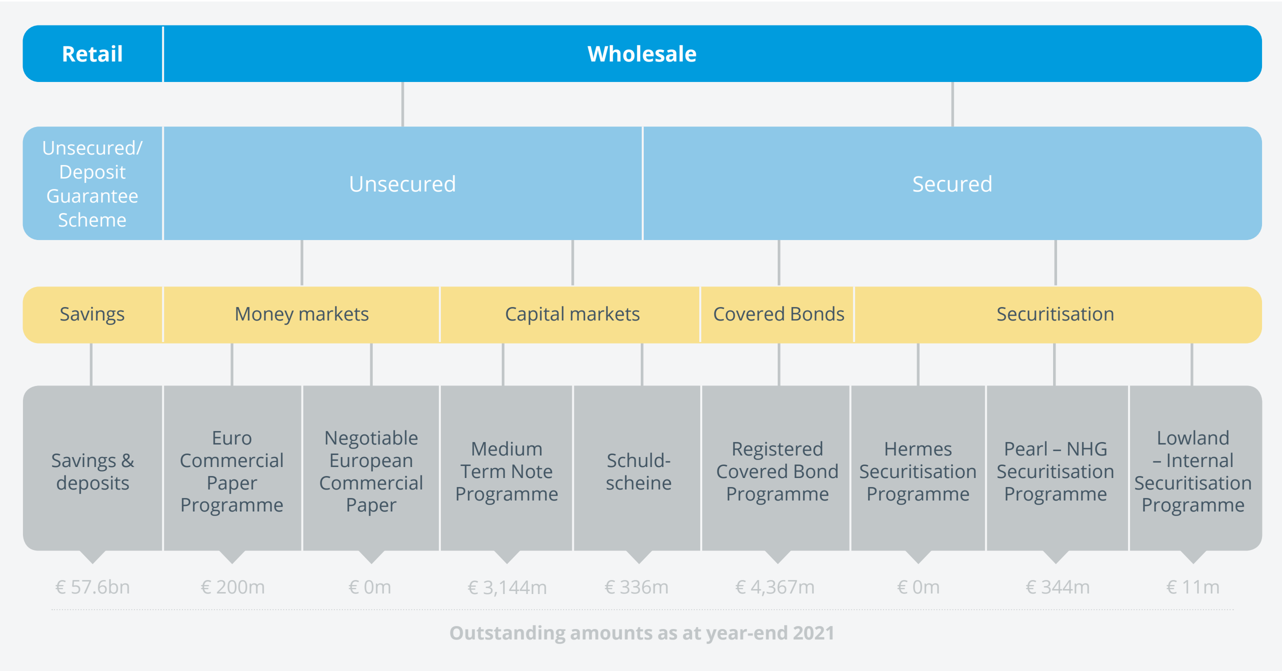
The bank also attracts funding from the capital market through various funding instruments spread over terms, markets, regions and types of investor.

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

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

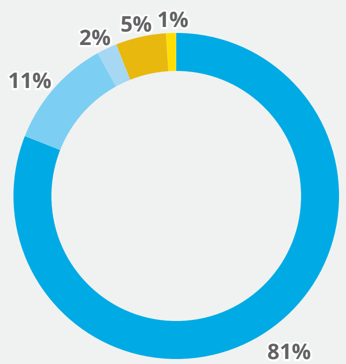
The bank issues funding with a term of up to one year in the money markets via its Euro Commercial Paper (ECP) and Negotiable European Commercial Paper (NEUCP) programmes.

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



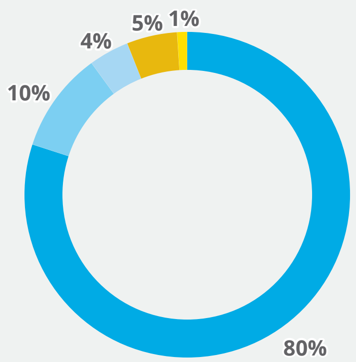
The diagrams below provide an overview of the book value-based composition of the total liabilities as at year-end 2021 and year-end 2020. The percentage of our funding that is made up of savings and other amounts due to customers rose to 81%, from 80% at year-end 2020.

Equity and liability mix 2021 € 72.1 billion
(Book value)



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

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



The table below provides an overview of the outstanding capital market funding with an original term of more than one year at year-end 2021 and 2020.

Capital market funding mix (nominal)

in € millions	2021	% of total	2020	% of total
Subordinated	500	6%	500	7%
- of which green bonds	*500*		*500*	
Senior non-preferred	1,000	12%	--	0%
- of which green bonds	*1,000*		--	
Senior preferred	1,980	24%	2,248	33%
- of which green bonds	*1,000*		*1,000*	
Covered bonds	4,368	54%	3,679	54%
RMBS	344	4%	433	6%
Total capital market funding	**8,192**		**6,860**	
- of which green bonds	*2,500*		*1,500*	

In 2021, de Volksbank successfully executed a number of capital market funding transactions to strengthen its MREL position, i.e.:

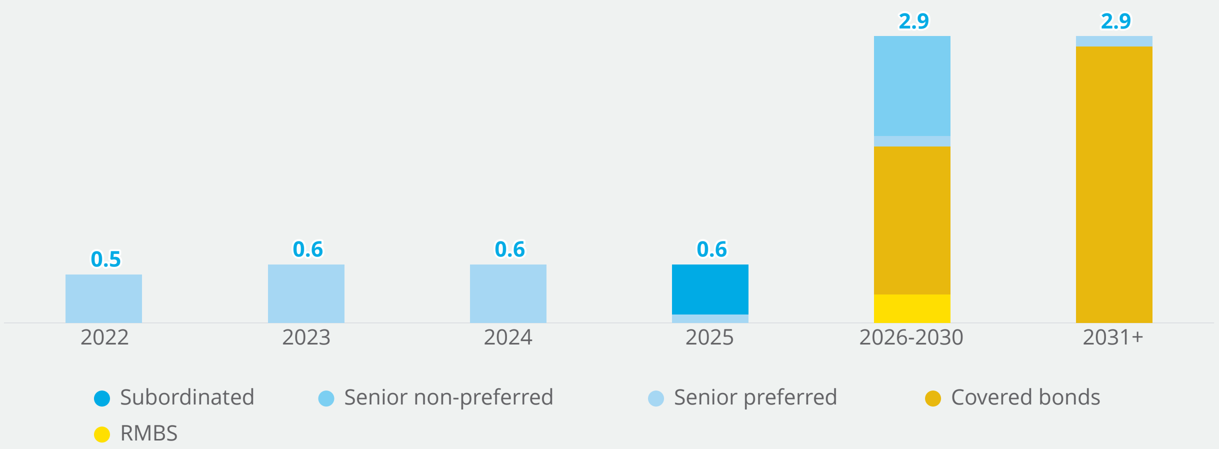
- € 0.5 billion in green senior non-preferred debt with a 7-year maturity;
- € 0.5 billion in green senior non-preferred debt with a 5-year maturity.

In addition, de Volksbank successfully issued € 0.7 billion in covered bonds with a 20-year maturity.

Beside the aforementioned de Volksbank did not conduct any additional capital market funding transactions in 2021 as available funding was more than sufficient thanks to the increase in customer deposits.

As capital market funding redemptions in 2021 were limited at € 0.4 billion, capital market funding increased from € 6.9 billion to € 8.2 billion.

Capital market funding maturity calendar
(in € billions)



The figure above presents an overview of the maturity calendar of the capital market funding outstanding with an original maturity of more than one year. In the graph we apply the assumption that this funding will be redeemed at the first possible dates. For 2022, we plan to issue covered bonds to manage balance sheet risks. We also plan to issue Additional Tier 1 (AT1) capital and senior non-preferred debt to strengthen our capital and MREL position.

MATURITIES OF ASSETS AND LIABILITIES AUDITED

We can break down the assets and liabilities according to the remaining contractual term. The net maturing nominal amounts, i.e. assets minus liabilities per maturity are an indication of:
- the liquidity risk;
- obligations that may not be met in time from inflows.

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

We do however, take into account behavioural aspects in the bank's asset & liability management. 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, in normal circumstance, customers tend to keep such products for a longer period of time.

Loans and advances to banks and amounts due to banks also include collateral delivered and received related to derivative transactions. This collateral is allocated to the maturity buckets in accordance with the maturity classification of the derivative contracts. The bottom tables on the next pages provide a breakdown of the liquidity profiles for financial liabilities and derivatives on the liability side of the balance sheet at year-end. The tables also present the related future undiscounted contractual cashflows.

Remaining contractual maturity of assets and liabilities 31 December 2021 Audited

in € millions amounts discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments	216	--	505	2,483	2,429	--	*5,634*
Derivatives	76	23	19	159	314	--	*591*
Loans and advances to customers	563	282	1,147	3,590	45,251	-107[1]	*50,727*
Loans and advances to banks	1,642	1,186	1,111	306	282	--	*4,527*
Other	10,296	2	10	235	0	58	*10,602*
- of which right of use of lease contracts	1	2	7	34	0	--	*44*
Total assets	**12,794**	**1,494**	**2,793**	**6,772**	**48,277**	**-49**	**72,081**
LIABILITIES							
Shareholders' equity	--	--	--	--	--	3,486	*3,486*
Subordinated debts	--	--	--	500	--	--	*500*
Debt certificates	90	30	612	2,359	4,311	--	*7,402*
- of which senior unsecured	--	--	*532*	*1,520*	*631*	--	*2,682*
- of which covered bonds	--	--	--	*495*	*3,680*	--	*4,175*
- of which RMBS	--	--	--	*344*	--	--	*344*
- of which CP/CD (short term)	*90*	*30*	*80*	--	--	--	*200*
Derivatives	147	29	44	311	482	--	*1,013*
Savings[2]	43,532	38	145	624	1,305	--	*45,645*
- of which due on demand	*43,517*	--	--	--	--	--	*43,517*
Other amounts due to customers	10,045	2	29	426	1,981	--	*12,482*
- of which senior unsecured	--	--	*20*	*298*	*51*	--	*370*
- of which covered bonds	--	--	--	*52*	*111*	--	*163*
Amounts due to banks	215	4	760	25	55	--	*1,059*
- of which senior unsecured	--	--	--	--	*5*	--	*5*
- of which secured (short term)	--	--	*757*	--	--	--	*757*
- of which other	*215*	*4*	*3*	*25*	*50*	--	*297*
Other	314	3	11	96	--	70	*493*
- of which lease liabilities	0	3	11	43	--	--	*57*
Total equity and liabilities	**54,343**	**105**	**1,601**	**4,341**	**8,135**	**3,556**	**72,081**

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

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

Maturity schedule for financial liabilities 31 December 2021 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	9	526	--	535
Debt certificates	96	60	685	2,454	4,571	7,866
Savings	44,778	36	129	293	409	45,645
Other amounts due to customers	10,130	19	131	921	1,888	13,089
Amounts due to banks	215	4	746	26	56	1,046
Lease obligations	0	3	11	43	0	57
Total	**55,220**	**122**	**1,711**	**4,263**	**6,924**	**68,240**
DERIVATIVES						
Interest rate derivatives	13	46	170	449	137	814
Currency contracts	145	23	24	4	-0	197
Total	**158**	**69**	**194**	**453**	**137**	**1,011**
OFF-BALANCE SHEET COMMITMENTS						
Loan commitments given	2,533					2,533
Financial guarantees and other commitments	520					520
Total off-balance sheet commitments	**3,053**	**--**	**--**	**--**	**--**	**3,053**

Remaining contractual maturity of assets and liabilities 31 December 2020 Audited

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

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

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

Maturity schedule for financial liabilities 31 December 2020 Audited

In € millions cashflows not discounted	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	9	535	--	544
Debt certificates	53	126	378	1,848	4,075	6,479
Savings	41,188	13	87	394	429	42,111
Other amounts due to customers	8,787	16	122	1,090	1,849	11,864
Amounts due to banks	72	18	733	54	64	941
Lease obligations	1	2	9	43	7	63
Total	50,102	175	1,338	3,964	6,424	62,002
DERIVATIVES						
Interest rate derivatives	14	70	225	1,007	440	1,756
Currency contracts	265	79	26	2	0	372
Total	**280**	**149**	**251**	**1,009**	**440**	**2,129**
OFF-BALANCE SHEET COMMITMENTS						
Loan commitments given	1,807	--	--	--	--	1,807
Financial guarantees and other commitments	612	--	--	--	--	612
Total off-balance sheet commitments	**2,419**	**--**	**--**	**--**	**--**	2,419

3.7 Credit ratings

Credit ratings as at 31 December 2021

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

In 2021, Moody’s upgraded de Volksbank’s long-term senior unsecured debt rating from A3 (stable outlook) to A2, also with a stable outlook. The short-term rating was upgraded from P-2 to P-1. Fitch reaffirmed de Volksbank's long-term credit rating at A-, with a stable outlook, and the short-term rating at F1. S&P reaffirmed the credit ratings and outlook for unsecured debt of de Volksbank.

RATING AMBITION

De Volksbank strives for solid long-term stand-alone ratings that are in line 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.

TIMELINE OF DEVELOPMENTS IN 2021

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

On 2 March, Fitch reaffirmed de Volksbank’s long-term credit rating (IDR) at A- and upgraded the long-term senior preferred debt rating from A- to A. The outlook remained stable. The upgrade of the senior preferred debt rating reflected the protection that could accrue to these liabilities from the bank's junior bank resolution debt and equity buffers and the issue of senior non-preferred debt. On 25 November, Fitch published a press release in which it affirmed these credit ratings and outlook.

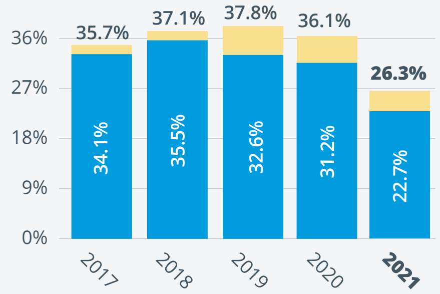
On 24 June, in the light of macroeconomic recovery prospects, S&P published a report in which they commented on the outlook on several Dutch banks. The outlook on de Volksbank was reaffirmed at stable. The outlook reflects i.a. S&P’s view that de Volksbank’s capitalisation will continue to be solid and therefore offer protection to its debtholders, including its senior preferred bondholders.

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

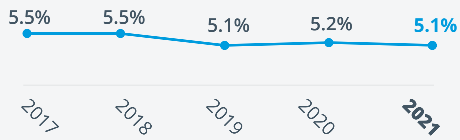
3.8 Capital management

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

Total capital ratio



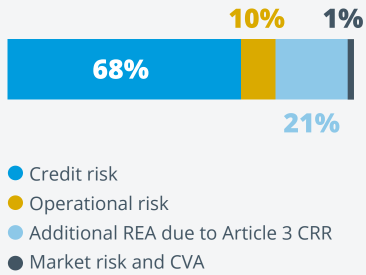
Leverage ratio



Common Equity Tier 1 ratio year-end 2021

22.7%

Risk-weighted assets



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

3.8.1 Capital requirements

REGULATORY REQUIREMENTS

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

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

CRR/CRD IV requirements as from 1 March 2022

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

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

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

COVID 19-RELATED MEASURES

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

- The ECB has allowed banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer (CCB). On 10 February 2022, the ECB announced that banks are once again expected to operate above Pillar 2 Guidance from 1 January 2023.
- The ECB has recommended banks not to make dividend payments for the financial years 2019 and 2020 until at least 1 January 2021, and to exercise extreme prudence until 30 September 2021 when deciding on or paying out dividends. On 23 July 2021, the ECB decided not to extend this recommendation.
- The ECB has announced that banks under its direct supervision may exclude certain central bank exposures from the leverage ratio calculation. On 10 February 2022, the ECB announced that banks have to reinclude central bank exposures in the leverage ratio from 1 April 2022.
- The BCBS has postponed the introduction of Basel IV, including the phase-in of the output floor on revised standardised approaches, to 1 January 2023 and has extended the accompanying transitional period for the output floor to 1 January 2028. The EC's legislative proposal to implement Basel IV further delays the phase-in of the output floor from 2025 to 2030.
- DNB has postponed the introduction of the new floor for the risk weighting of mortgages , initially scheduled for the autumn of 2020. In June 2021, DNB announced not to postpone the introduction of the measure any further and, in October 2021, it communicated that the regulation will be implemented with effect from 1 January 2022.

INTERNAL MINIMUM LEVEL

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

On top of the 9.69% SREP requirement and Pillar 2 Guidance, we also have an ample management buffer to withstand severe stress situations. With respect to our minimum risk-weighted target, the management buffer also factors in uncertainties that are not relevant for the leverage ratio, such as the impact of future regulatory requirements, including Basel IV.

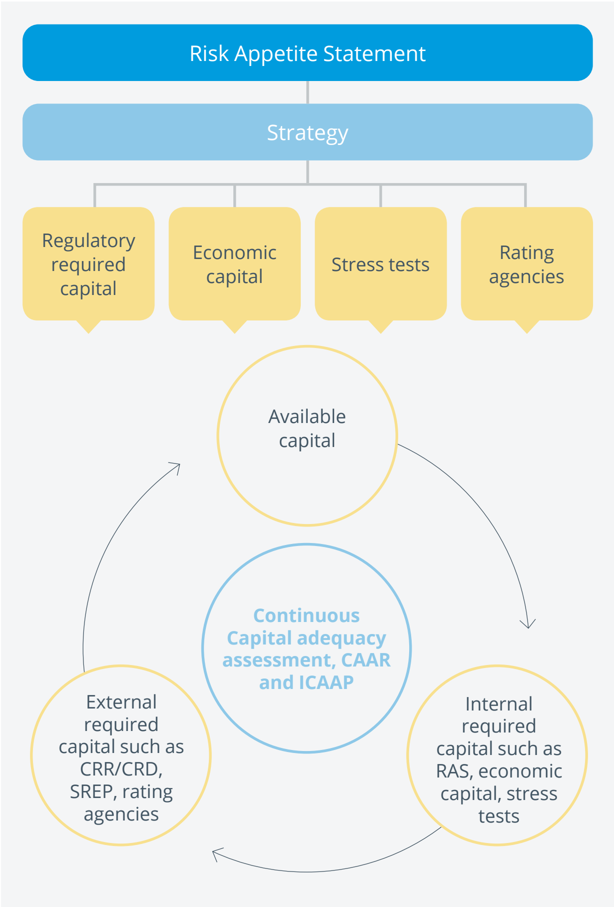
In time, management buffers – and thus the capital targets – may be revised, for example when the final impact of Basel IV has become clear. Capital expected to sustainably exceed our minimum targets is available for distribution, subject to regulatory approval.

3.8.2 Management and control Audited

CAPITAL MANAGEMENT STRATEGY

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

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



REGULATORY CAPITAL AND MREL

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

3.8.1 Capital requirements, the minimum risk-weighted capital ratios are based on the SREP. In addition to the capital ratios required by law, de Volksbank calculates and reports the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) on both a risk-weighted and non-risk-weighted basis, as required by law as from 1 January 2022.

ECONOMIC CAPITAL

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

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

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

STRESS TESTING

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

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

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

RATING AGENCIES

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

CAPITAL ADEQUACY LIFECYCLE

The risk management lifecycle as defined in 3.1 Risk Management Structure applies to capital management in the following way:

1. Identification of risks within the scope of capital adequacy: we continuously aim to identify all potential, material individual, aggregate and emerging risks within the scope of capital adequacy. For example, we perform an independent risk review of all relevant proposals related to capital adequacy.
2. Assessment of the risk profile against the risk thresholds by comparing the risk exposure with the available capital from own funds and bail-in eligible liabilities: as part of the ICAAP, we continuously assess the adequacy and effectiveness of the risk management framework as far as capital adequacy and its compliance with internal policies and the risk appetite framework are concerned. ICAAP provides input for the ECB's Supervisory Review & Evaluation Process (SREP). We present the outcome of the assessment in the annual ICAAP capital adequacy statement (CAS) report. The assessment of (expected future) capital exposure and developments also comprises the:
   - Annual recalibration of the capital management strategy.
   - Definition of actions in the capital and liquidity plan, which we draw up at least once a year, giving substance to the anticipated capital needs ensuing from the Operational Plan. As the OP has a multi-year horizon, we make forecasts of relevant risk indicators and compare these with the internal thresholds. We work out various scenarios, taking into account the anticipated effects of future regulations.
   - Update of forecasts in the monthly Capital Adequacy Assessment Report (CAAR). The CAAR includes a CAS based on the current risk profile versus the risk thresholds and a forward-looking assessment.
   - Regular stress tests to provide insight into the key vulnerabilities and to assess the resilience of the capital position to severe but plausible adverse (economic) conditions. The results are used to set the risk appetite thresholds.
3. Risk response to capital adequacy: every year, we determine the risk appetite statement (RAS) for capital adequacy in conjunction with the bank's general risk appetite and strategic objectives. To monitor capital adequacy, we use specific risk indicators and determine the level above which we feel comfortable based on the risk appetite for capital adequacy.
4. Monitoring of capital adequacy: the Treasury Committee monitors early warning indicators

defined in the RAS for capital adequacy on a regular basis. The ALCO monitors the RAS indicators in the CAAR on a monthly basis.

5. Residual risk: Not all capital risks are identified or fully managed at all times, because of expected or unexpected balance sheet or regulatory developments. By following the capital adequacy lifecycle, we intend to identify these risks and formulate a risk response.
6. Reporting of capital adequacy indicators: we prepare regulatory and internal reports to measure, monitor and manage the bank's capital adequacy on an ongoing basis.

RECOVERY PLAN AND CONTINGENCY PLANNING

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

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

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

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

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

3.8.3 Developments in capital requirements

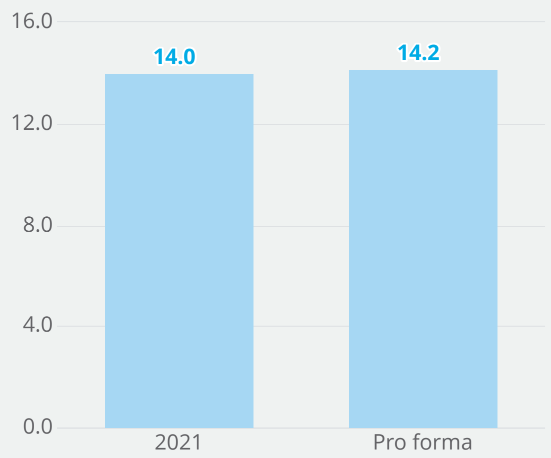
BASEL IV

In late 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV. On 27 October 2021, the EC published a legislative proposal amending the Capital Requirements Regulation (CRR) and the CRD in order to implement the remaining elements of Basel IV in the EU. De Volksbank closely monitors the developments, paying particular attention to new rules for residential mortgages. For more information, see section 1.6 Regulatory environment. We will adjust our capital planning if necessary.

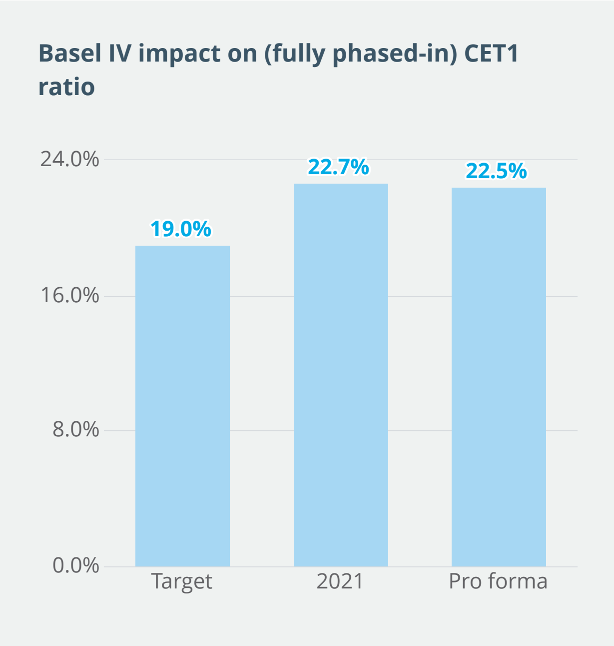
As at year-end 2021, we estimate that as a result of fully phased-in Basel IV our risk-weighted assets (RWA) would increase by approximately 1.5%[7] which would consequently reduce our CET1 capital ratio by approximately 0.2 percentage points. The largest effect is caused by the output floor on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM. The EC proposal stipulates that the output floor will phase in from 50% in 2025 to 72.5% in 2030. We expect the anticipated changes in internal modelling approaches and the SA for operational risk under Basel to have a limited effect on the RWA of de Volksbank.

Basel IV impact after 72.5% floor

RWA in € billions



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



The Basel IV fully loaded CET1 capital ratio declined from 24.2% to 22.5%, mainly driven by an increase in risk-weighted assets for exposures to financial institutions and corporates. This estimate of our CET1 capital ratio under full phase-in of Basel IV will still exceed our target of at least 19%[8]. This will allow us to both continue our growth path and pay out dividend.

MINIMUM FLOOR FOR RISK WEIGHTING OF MORTGAGES LOANS

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

PROVISION FOR NON-PERFORMING EXPOSURES

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

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

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

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

GONE-CONCERN CAPITAL: MREL

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

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

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

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

3.8.4 Figures, ratios and trends

CAPITAL OVERVIEW

in € millions	2021	2020
CRD IV common equity Tier 1 capital	3,182	3,223
Tier 1 capital	3,182	3,223
Tier 2 capital	500	500
Total capital	3,682	3,734
RWA		
Credit risk	9,521	8,210
Market risk	--	--
Operational risk	1,392	1,451
Credit Valuation Adjustment (CVA)	75	70
Additional risk exposure amount due to Article 3 CRR	3,005	600
Total RWA	**13,993**	**10,331**
Exposure measure as defined by the CRR	62,206	62,494
CAPITAL RATIOS		
Common equity Tier 1 ratio	22.7%	31.2%
Tier 1 capital ratio	22.7%	31.2%
Total capital ratio	26.3%	36.1%
Leverage ratio	5.1%	5.2%

De Volksbank's CET1 capital ratio decreased to 22.7%, from 31.2% at year-end 2020, primarily due to an increase in Risk Weighted Assets (RWA); see section RWA. The CET1 capital ratio remained well above our target of at least 19%.

CAPITAL STRUCTURE

In 2021, shareholders' equity increased by € 36 million to € 3,486 million. Available distributable items[9] amounted to € 3,075 million (2020: € 3,016 million). On the one hand, shareholders' equity decreased as a result of the 2020 dividend payment in the amount of € 104 million and the decrease of the revaluation reserve of € 23 million. On the other hand it increased mainly as a result of the € 162 million net profit for 2021.

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 (GMS) in April 2021, € 27 million was added to the CET1 capital from the non-eligible (interim) profits as at year-end 2020 of € 131 million, in addition to the deduction of € 104 million for the dividend payment.

The profit not yet eligible as CRD IV equity for 2021 i.e € 124 million, concerns the dividend declaration on the net profit for the first half (€ 56 million) and the full net profit for the second half of 2021 (€ 68 million).

9 Equalling the sum of share premium, retained earnings and other reserves.

Capitalisation

In € millions	2021	2020
Capital instruments	381	381
Share premium	3,537	3,537
Retained earnings	162	174
Accumulated other comprehensive income (OCI)	30	51
Other reserves	-624	-693
Shareholders' equity	**3,486**	**3,450**
Non-eligible interim profits	-124	-131
Non-eligible previous years' retained earnings	--	--
Shareholders' equity for CRD IV purposes	**3,362**	**3,319**
Cashflow hedge reserve	-19	-22
Other prudential adjustments	-3	-4
Total prudential filters	**-22**	**-26**
Intangible assets	-6	--
IRB shortfall[1]	-74	--
Additional deductions of CET1 capital due to Article 3 CRR	-78	-70
Total capital deductions	**-158**	**-70**
Total regulatory adjustments to shareholders' equity	**-180**	**-96**
CRD IV CET 1 capital	**3,182**	**3,223**
Additional Tier 1 capital	--	--
Tier 1 capital	**3,182**	**3,223**
Eligible Tier 2	500	500
IRB Excess[1]	--	11
Tier 2 capital	**500**	**511**
Total capital	**3,682**	**3,734**

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

Tier 2 capital instruments

in € millions	Maturity date	First possible call date	Nominal amount 2021	Nominal amount 2020
Bond loan (subordinated)	22-10-2030	25-10-2025	500	500
Total			**500**	**500**

Furthermore, to determine the CRD IV CET1 capital, we made a number of regulatory adjustments amounting to € 180 million negative at the end of December 2021 (2020: € 96 million negative). These adjustments consisted mainly of a deduction of € 74 million related to the IRB shortfall and a deduction of € 78 million due to temporary and voluntary Article 3 CRR deductions.

The IRB shortfall of € 74 million is mainly due to the update of our Advanced Internal Ratings Based (Advanced IRB or AIRB) model. De Volksbank avails itself of an AIRB model entitled Particuliere Hypotheken Interne Rating Model (PHIRM) to determine the credit risk in its residential mortgage portfolio. The model is continuously being redeveloped to comply with new rules and regulations. A recent update of PHIRM included the new EBA guidelines on Definition of Default that came into effect in 2021 as well as model improvements as identified during the Targeted Review of Internal Models (TRIM). The update also served to comply with the updated requirements of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV for IRB portfolios.

The development of PHIRM is an ongoing process. To become fully compliant with existing and new regulations and to address almost all remaining TRIM obligations, we are currently incorporating the remaining improvements into PHIRM.

The € 78 million deduction due to Article 3 of the CRR at year-end 2021 is mainly related to a pending supervisory examination on the implementation of a new data warehouse. Awaiting further formal approval, de Volksbank added extra conservatism to the CET1 capital amount and deducted an amount of € 62 million. An additional € 16 million was deducted as a prudential backstop following the ECB's guidelines on non-performing exposures (NPEs).

Overall, CRD IV CET1 capital was down by € 41 million to € 3,182 million.

RISK-WEIGHTED ASSETS (RWA)

Pillar 1 sets the minimum capital requirements on the basis of the risk-weighted assets (RWA) for three types of risk: credit risk, market risk and operational risk.

In addition to using the AIRB model PHIRM to determine the credit risk in our residential mortgage portfolio, we use the Standardised Approach (SA) – rather than internal models – to calculate the credit risk of other portfolios (including non-residential mortgages and loans to governments, businesses and financial institutions) and to calculate market risk and operational risk. Please refer to Section 3.4 Market risk for more information on market risk and to Section 3.5 Non-financial risks for Operational risk.

The table below shows the RWA per type of risk, exposure category and method of calculation.

Risk-weighted assets (RWA) and capital requirement Audited

	EAD		RWA		8% Pillar 1 capital requirement	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
CREDIT RISK IRB APPROACH						
Residential mortgages[1]	49,685	46,429	6,240	5,897	499	472
Total credit risk IRB approach	**49,685**	**46,429**	**6,240**	**5,897**	**499**	**472**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	14,323	8,857	--	3	--	--
Regional governments and local authorities	736	3,333	76	--	6	--
Public sector entities	988	798	33	31	3	2
Multilateral development banks	464	416	--	--	--	--
International organisations	71	38	--	--	--	--
Financial institutions	4,223	2,164	1,111	699	89	56
Corporates	1,493	929	1,265	855	101	69
Retail excl. mortgages	153	140	95	89	8	7
Immovable property secured by mortgages	673	546	350	274	28	22
Exposures in default	60	95	78	119	6	10
Covered bonds	217	164	22	16	2	1
Collective investments undertakings (CIU)	1	--	4	--	--	--
Shares	12	11	12	11	1	1
Other Items	242	211	215	199	17	16
Total credit risk standardised approach	**23,656**	**17,703**	**3,261**	**2,296**	**261**	**184**
Securitisation positions	107	95	20	17	2	1
Total credit risk	**73,448**	**64,227**	**9,521**	**8,210**	**762**	**657**
MARKET RISK STANDARDISED APPROACH						
- Traded debt instruments	--	--	--	--	--	--
OPERATIONAL RISK						
- Standardised approach	--	--	1,392	1,451	111	116
Total market- and operational risk	**--**	**--**	**1,392**	**1,451**	**111**	**116**
Credit Valuation Adjustment (CVA)	--	--	75	70	6	6
Additional risk exposure amounts due to Article 3 CRR	--	--	3,005	600	240	48
Total	**73,448**	**64,227**	**13,993**	**10,331**	**1,119**	**827**

1 To determine the RWA of residential mortgages a regulator-approved model is used.

Development RWA

in € millions	2021	2020
Opening amount	10,331	9,680
CREDIT RISK STANDARDISED APPROACH		
Development portfolio	965	166
Movements in credit risk CVA	5	-34
Total movement Credit risk standardised approach	**970**	**132**
Model updates	452	--
Methodology and policy	260	--
Development portfolio (including PD and LGD migrations)	-369	-34
Additional risk exposure amounts due to Article 3 CRR	2,405	600
Total movement IRB approach	**2,748**	**566**
Movement securitisation credit risk	3	9
Market risk development	--	-5
Operational risk	-59	-51
Total movement	**3,662**	**651**
Closing amount	**13,993**	**10,331**

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

In addition, RWA for credit risk calculated according to the Standardised Approach increased by € 965 million, largely related to the increased short-term exposures to other financial institutions and exposures to corporates. The increase in RWA for the exposure class Financial Institutions is largely related to the capital treatment of Swiss cantonal banks guaranteed by Swiss regional governments. De Volksbank has reassessed its capital treatment policy for these exposures. Based on this reassessment we no longer classify these exposures as exposures to regional governments and local authorities treated as central governments. As a result, exposures with Swiss cantonal banks are reclassified from exposure class Regional governments or local authorities to Financial Institutions in 2021. The risk weight has been adjusted from 0% to 20%.

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

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

EXPOSURE AT DEFAULT AUDITED

The Exposure at Default (EAD) increased from € 64.2 billion at year-end 2020 to € 73.4 billion at the end of 2021. The EAD of the residential mortgage portfolio grew from € 46.4 billion to € 49.7 billion. € 1.6 billion of this total increase of € 3.3 billion is related to mortgage savings deposits which are now included in the EAD due to the update of the PHIRM model.
Other major changes in 2021 were attributable to a € 5.5 billion increase in loans to the central bank and central governments, a decrease in loans to regional and local authorities of € 2.6 billion and an increase in loans to financial institutions of € 2.1 billion.

The EAD for market risk remained unchanged at nil as there were no trading positions in debt instruments as at year-end 2021.

BREAKDOWN OF RESIDENTIAL MORTGAGES BY RATING GRADE

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

The table below presents the breakdown of our mortgage portfolio by PD class.

PD-Risk category residential mortgages 31 December 2021[1]

Internal rating grade	PD scaling	Average LGD	Obligor grade	EAD	RWA
1	0.00 to <0.15	16.95%	0.11%	18,172	816
2	0.15 to <0.25	18.37%	0.22%	24,725	2,069
3	0.25 to <0.35				
4	0.35 to <0.50	16.88%	0.51%	207	29
5	0.50 to <0.75	23.49%	0.51%	1,371	270
6	0.75 to <1.25	23.21%	0.96%	278	83
7	1.25 to <1.50	26.06%	1.40%	2,684	1,157
8	1.50 to <1.75				
9	1.75 to <3.50	18.98%	2.94%	353	173
10	3.50 to <10.0	18.92%	6.94%	950	733
11	10.0 to <15.0	20.49%	11.20%	286	294
12	15.0 to <25.0	21.51%	20.52%	87	111
13	25.0 to <100	22.39%	55.31%	33	36
Default	**100.00**	24.28%	100.00%	539	469
Total				**49,685**	**6,240**

1 Based on the CRR IRB model

PD-Risk category residential mortgages 31 December 2020[1]

Internal rating grade	PD scaling	Average LGD	Obligor grade	EAD	RWA
1	0.00 to <0.15	6.58%	0.08%	11,722	171
2	0.15 to <0.25	9.78%	0.23%	8,628	404
3	0.25 to <0.50	12.60%	0.35%	10,210	822
4	0.35 to <0.50	18.16%	0.51%	7,467	1,141
5	0.50 to <0.75	18.38%	0.80%	2,825	592
6	0.75 to <1.25	18.97%	1.16%	620	172
7	1.25 to <1.50	16.95%	1.42%	2,432	690
8	1.50 to <1.75	21.36%	1.94%	567	246
9	1.50 to <3.50	14.48%	3.70%	481	207
10	3.50 to <10.0	15.20%	7.72%	572	375
11	10.0 to <15.0	16.16%	15.19%	222	200
12	10.0 to <25.0	15.77%	26.04%	254	248
13	25.0 to <100	17.58%	49.14%	135	128
Default	**100.00**	11.66%	100.00%	293	500
Total				**46,429**	**5,897**

1 Based on the CRR IRB model

LEVERAGE RATIO

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

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

The leverage ratio decreased to 5.1% from 5.2% at year-end 2020, mainly driven by a decrease in the leverage ratio numerator (i.e. Tier 1 capital) by € 41 million. The leverage ratio denominator is the risk exposure amount as defined by the CRR.

On 18 June 2021, the ECB announced that banks under its direct supervision may continue to exclude certain central bank exposures from the leverage ratio calculation until 31 March 2022. The decrease in the leverage ratio exposure of € 0.3 billion mainly results from the growth in the balance sheet total (€ 4.6 billion), the decreased deduction of receivables for cash variation margin for derivatives (- € 1.0 billion) and an increased deduction of central bank exposures in the amount of € 6.2 billion. The increase in the balance sheet total was mainly due to the growth in deposits.

The 5.1% leverage ratio is well above the regulatory requirement and our target of at least 4.5%.

Leverage ratio

in € millions	2021	2020
Tier 1 capital	**3,182**	**3,223**
EXPOSURE VALUES		
Derivatives: market value	36	100
Derivatives: add-on mark-to-market method	312	305
Off-balance: undrawn credit facilities	40	43
Off-balance: medium/low risk	1,251	908
Off-balance: other	462	569
Other assets	70,992	65,118
Exposures exempted in accordance with Article 429 (14) of the CRR	-10,706	-4,452
Regulatory adjustments (Tier 1)	-180	-96
Exposure measure as defined by the CRR	**62,206**	**62,495**
Leverage ratio	5.1%	5.2%

MREL

The table below presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank .

Total capital and eligible liabilities rose by € 0.4 billion to € 6.0 billion, mainly as a result of the issuance of € 500 million in SNP instruments in February 2021 and in June 2021. This increase was partly offset by an amount of senior unsecured debt of € 547 million becoming non-eligible.

At year-end 2021, the non-risk-weighted MREL ratio based on the leverage ratio exposure was equal to 9.6% (2020: 9.0%), including Total capital and all other unsecured liabilities eligible for MREL under the current BRRD. Including only Total capital and eligible SNP liabilities, the non-risk-weighted MREL ratio based on the leverage ratio exposure equalled 7.5%.

MREL

in € millions	2021	2020
CET1 capital	3,182	3,223
Tier 2 capital	500	511
Total capital	**3,682**	**3,734**
Other eligible senior non-preferred (SNP) liabilities with remaining maturity >1 year	1,000	--
Other eligible unsecured liabilities with remaining maturity > 1 year	1,312	1,859
Total capital including other eligible liabilities	**5,994**	**5,593**
Total Liabilities and Own Funds (TLOF) as defined by the BRRD	70,890	65,406
MREL (Total capital including other eligible liabilities) (TLOF)	8.5%	8.6%
MREL BRRD2 EXPOSURE MEASURES[1]		
Leverage ratio exposure measure (LRE)	62,206	62,494
Risk-weighted assets	13,993	10,331
MREL LRE		
MREL (Total capital and eligible SNP liabilities) (LRE)	7.5%	6.0%
MREL (Total capital including other eligible liabilities) (LRE)	9.6%	9.0%
MREL RWA		
MREL (Total capital and eligible SNP liabilities) (RWA)	33.5%	36.1%
MREL (Total capital including other eligible liabilities)	42.8%	54.1%

1 EBA reporting framework 3.0 comprises amendments linked to the CRR2/CRD5, BRRD2 and IFR and applies as from 30/06/2021. Therefore, MREL ratios are also shown in accordance with the amended BRRD2 .

The risk-weighted MREL ratio, based on total capital and eligible SNP liabilities, € 4,682 million in total, stood at 33.5% (year-end 2020: 36.1%). Based on the balance sheet position at year-end 2021, we estimate that the risk-weighted MREL ratio met with CET1 capital and subordinated instruments would be approximately 0.5 percentage points lower under Basel IV fully phased in. This is still compliant with the MREL requirements as set by the Single Resolution Board (SRB).

3.8.5 Dividend

De Volksbank has set a target range of 40% - 60% of net profit for the regular dividend distribution. In line with this policy, de Volksbank decided in its General Meeting of Shareholders (GMS) in April 2021 to declare a dividend of € 104 million for 2020, corresponding to a pay-out ratio of 60%.

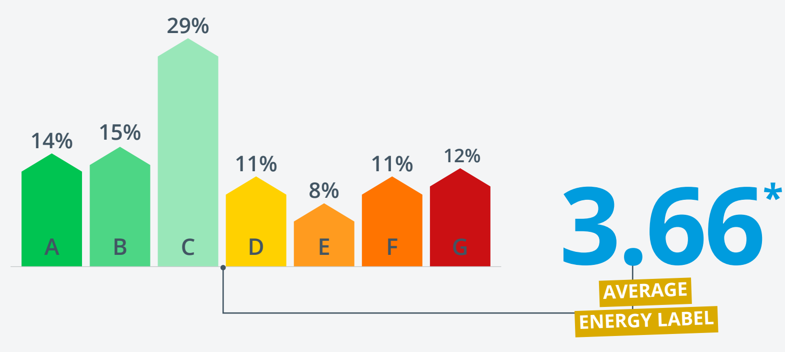
At the GMS in April 2021, NLFI agreed to a partial dividend payment for 2019 of € 20 million, in line with ECB's dividend recommendation to exercise extreme prudence. On 23 July 2021, the ECB decided not to extend its dividend recommendation to exercise extreme prudence beyond September 2021. Given this announcement, de Volksbank paid out the remaining dividend for 2019 and dividend for 2020 for a total amount of € 249 million in October 2021. Since the intended dividend amount had already been classified as a debt, this payment did not affect de Volksbank’s capital position.

For 2021, we propose to pay out a dividend of € 97 million of the net profit, which corresponds to a pay-out ratio of 60%.

3.9 Sustainability risk

Our goal is to make a positive impact on society and the environment. But we also consider the possible financial and reputational impact that sustainability can have on the bank.

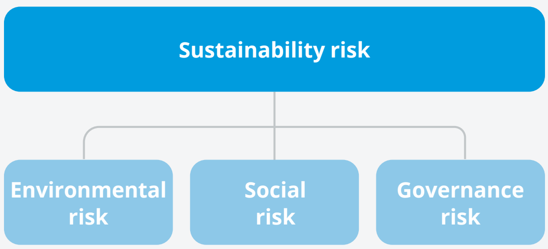
Average energy label residential mortgage portfolio



* Label A=1, B=2, etc.

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

Sustainability risk and sub-risk types



Environmental risk

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

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

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

Social risk

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

Governance risk

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

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

3.9.1 Risk profile

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

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

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

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

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

3.9.2 Management and control

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

In order to manage sustainability risks, it is important to elaborate the responsibilities for the business and independent control functions based on the 'Three Lines of Defence' model. As a supporting team of the first line (the business) the Expertise Centre Sustainability is responsible for set up and maintenance of the first line policies within the House of Policies Sustainability, including investment criteria for the entities ASN Impact Investors and ASN Sustainable Finance. For more information about the 'Three Lines of Defence' model, see section 3.1 Risk management structure.

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

3.9.3 Areas of focus and activities

ESG RISK ASSESSMENT

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

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

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

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

The ESG risk assessment resulted in the following analysis:

Overview results ESG risk assessment[1]

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

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

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

MITIGATING RISK CONTROLS

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

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

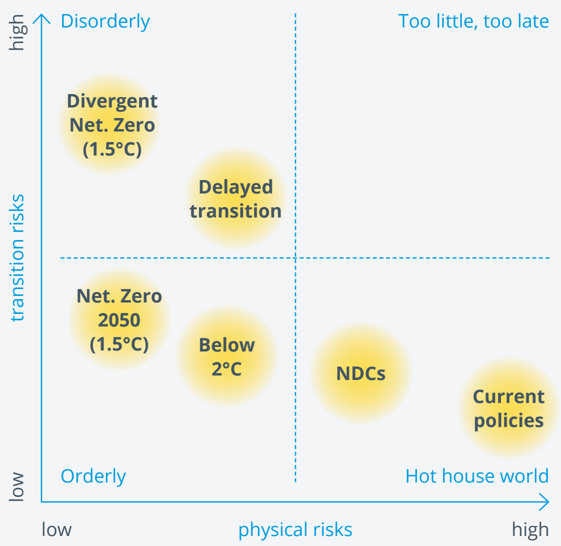
STRESS TESTING AND SCENARIO ANALYSIS

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

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

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

NGFS scenarios Framework



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

3.10 Management statement

IN-CONTROL STATEMENT

The Board of Directors of de Volksbank is responsible for the set-up, presence and operation of the (risk) management and control system. This system is designed to manage risks, to ensure that de Volksbank is not prevented from achieving its strategic operational and financial objectives, that reporting on financial and non-financial performance indicators is reliable and that laws and regulations are complied with. All of this contributes significantly to the execution of the five necessary movements of change that are the basis of de Volksbank's growth ambition, i.e.:

- Optimising the customer experience through omnichannel media and personalised availability of products and services;
- Expansion of the current product portfolio;
- Realising a modular customer-driven IT environment with a high standard of automation;
- Reshaping the organisation into an agile organisation;
- Increasing efficiency by entering into more partnerships and through outsourcing.

De Volksbank applies the 'three lines of defence' model with a clear organisational structure and accompanying accountability structure, as laid down in governance and risk committees (see also Section 3.1 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 on any risks that need to be adjusted. The effectiveness of the key 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 2021, the Board of Directors assessed the strategic, operational, financial, reporting and compliance risks, as included in Section 3.1.2 Top risks. In addition, the Board of Directors periodically tested the effectiveness of the design and operation of the risk management and control system, as included in Section 3.1 Risk management structure. The Board of Directors managed a portfolio of House in Order projects that improve the effectiveness 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 aforementioned, the Board of Directors declares that:

- The risk management and control system functioned properly in 2021;
- 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 2022.

It should be noted, however, that the above does not imply that the internal risk management system provides absolute assurance that it can prevent, or has prevented, all inaccuracies, errors, fraud and non-compliance with laws and regulations at all times.

RELEVANT DEVELOPMENTS

In 2021, working from home became the standard for the majority of de Volksbank's employees due to the Covid-19 pandemic. There are no indications that this situation has led to a weaker control framework or a higher non-financial risk profile. Over the past year, we saw an increase in external fraud cases in payment transactions. This is in line with a nationwide trend. De Volksbank is continuously investigating these cases and has a strategy for reimbursing customers who are eligible for compensation. In order to comply with our ambition to increase efficiency, we have started a programme to improve the quality of contract management.

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 principal bodies and elements for managing de Volksbank's financial reporting are the:

- 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 for financial reporting;
- Business units, which are responsible for the execution of the activities and therefore for recording the transactions and producing accurate and thruthful reports;
- System of financial key controls within the administrative and reporting departments, which monitor the proper functioning of the management and control system for financial reporting purposes;
- Assessments, which are partially 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;
- The Board of Directors, which approves the findings of the reporting process and the financial reporting itself, which are subsequently discussed in the Audit Committee;
- Internal Audit department, which examines the system's operation;
- 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 Independent auditor's report. The findings are discussed with de Volksbank's financial and

risk committees, the Audit Committee and the Supervisory Board.

We declare with a reasonable degree of certainty that in 2021 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 2021 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 2021, the result and cash flows, and companies included in the consolidation;
- the 2021 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 2021 Annual Report describes the main risks that de Volksbank is facing.

Utrecht, 9 March 2022

BOARD OF DIRECTORS

Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

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Consolidated financial statements

Consolidated statement of financial position

Before result appropriation and in € millions	Notes[1]	31-12-2021	31-12-2020
ASSETS			
Cash and cash equivalents	2	10,296	4,672
Derivatives	3	591	864
Investments	5	5,638	5,113
Loans and advances to banks	6	4,527	5,990
Loans and advances to customers	7	50,727	50,542
Tangible and intangible assets	8, 17	93	110
Tax assets	9	39	42
Other assets	10	170	151
Total assets		**72,081**	**67,484**
EQUITY AND LIABILITIES			
Savings	11	45,646	42,111
Other amounts due to customers	12	12,482	11,541
Amounts due to customers		**58,128**	**53,652**
Amounts due to banks	13	1,059	945
Debt certificates	14	7,402	6,119
Derivatives	3	1,013	2,163
Tax liabilities	9	9	17
Other liabilities	15, 16	382	558
Provisions	17	102	80
Subordinated debts	18	500	500
Total other liabilities		**10,467**	**10,382**
Share capital	19	381	381
Reserves	19	2,943	2,895
Net result for the period	19	162	174
Shareholders' equity		**3,486**	**3,450**
Total equity and liabilities		**72,081**	**67,484**

1 The references next to the items relate to the notes to the consolidated financial statements.

Consolidated income statement

in € millions	Notes[1]	2021	2020
INCOME			
Interest income	26	1,043	1,148
Interest expense	26	268	298
Net interest income		**775**	**850**
Fee and commission income	27	137	121
Fee and commission expenses	27	98	75
Net fee and commission income		**39**	**46**
Investment income	28	3	17
Other result on financial instruments	29	10	9
Other operating income	30	-	1
Total income		**827**	**923**
EXPENSES			
Staff costs	31	414	427
Depreciation and amortisation of tangible and intangible assets	8	20	29
Other operating expenses	32	233	196
Total operating expenses		**667**	**652**
Impairment charges of financial assets	33	-58	38
Total expenses		**609**	**690**
Result before taxation		**218**	**233**
Taxation	34	56	59
Net result for the period		**162**	**174**
ATTRIBUTABLE TO:			
The shareholder of the parent company		162	174

1 The references next to the items relate to the notes to the consolidated financial statements.

Comprehensive income

Other comprehensive income

in € millions	2021	2020
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Change in other reserves	-1	-
Total items never reclassified to profit or loss	**-1**	**-**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-3	-4
Change in fair value reserve	-18	10
Total items that are reclassified to profit or loss	**-21**	**6**
Other comprehensive income (after tax)	**-22**	**6**

Total comprehensive income

in € millions	2021	2020
Net result	162	174
Other comprehensive income (after tax)	-22	6
Total comprehensive income for the period	**140**	**180**
ATTRIBUTABLE TO:		
The shareholder of the parent company	140	180

Consolidated statement of changes in equity

Consolidated statement of changes in equity 2021

in € millions	Issued share capital	Share premium reserve	Cashflow hedge reserve	Fair value reserve	Other reserves	Net result for the period	Total equity
Balance as at 1 January 2021	**381**	**3,537**	**22**	**29**	**-693**	**174**	**3,450**
Transfer of net result	--	--	--	--	**70**	**-70**	--
Unrealised revaluations	--	--	--	-16	--	--	-16
Realised revaluations through P&L	--	--	-3	-2	--	--	-5
Other movements	--	--	--	--	-1	--	-1
Other comprehensive income	--	--	**-3**	**-18**	**-1**	--	**-22**
Net result	--	--	--	--	--	162	162
Total result 2021	--	--	**-3**	**-18**	**-1**	**162**	**140**
Dividend pay-out	--	--	--	--	--	-104	-104
Transactions with shareholder	--	--	--	--	--	**-104**	**-104**
Total changes in equity	--	--	**-3**	**-18**	**69**	**-12**	**36**
Closing balance	**381**	**3,537**	**19**	**11**	**-624**	**162**	**3,486**

Consolidated statement of changes in equity 2020

in € millions	Issued share capital	Share premium reserve	Cashflow hedge reserve	Fair value reserve	Other reserves	Net result for the period	Total equity
Balance as at 1 January 2020	**381**	**3,537**	**26**	**19**	**-803**	**275**	**3,435**
Transfer of net result	--	--	--	--	**110**	**-110**	--
Unrealised revaluations	--	--	--	22	--	--	22
Realised revaluations through P&L	--	--	-4	-12	--	--	-16
Other comprehensive income	--	--	**-4**	**10**	--	--	**6**
Net result	--	--	--	--	--	174	174
Total result 2020	--	--	**-4**	**10**	--	**174**	**180**
Dividend to be paid	--	--	--	--	--	-165	-165
Transactions with shareholder	--	--	--	--	--	**-165**	**-165**
Total changes in equity	--	--	**-4**	**10**	**110**	**-101**	**15**
Closing balance	**381**	**3,537**	**22**	**29**	**-693**	**174**	**3,450**

Consolidated cashflow statement

in € millions	**Notes[1]**	**2021**	**2020**
CASHFLOW FROM OPERATING ACTIVITIES			
Result before taxation		218	233
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible, intangible assets and right-of-use assets	8, 16	23	28
Changes in other provisions and deferred tax	9, 17	27	38
Impairment charges and reversals	33	-58	38
Unrealised results on investments through profit or loss	27	201	-84
Tax paid		-53	-2
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances to customers	7	-185	-81
Change in liabilities to customers	12	941	900
Change in derivatives assets	3	273	-146
Change in derivatives liabilities	3	-1,150	322
Change in advances to banks	6	1,463	-2,199
Change in liabilities to banks	13	114	404
Change in savings	11	3,535	3,707
Change in trading portfolio	5	-	10
Change in other operating activities		-50	3
Net cashflow from operating activities		**5,299**	**3,171**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment and intangible assets	8	4	6
Sale and redemption of investments	5	1,082	2,933
Purchase of intangible assets	8	-6	-
Purchase of property and equipment	8	-10	-12
Purchase of investments	5	-1,750	-2,675
Net cashflow from investment activities		**-680**	**252**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	18	-	498
Issues of debt certificates	14	1,992	1,828
Redemption of subordinated loans	18	-	-498
Redemption of debt certificates	14	-703	-2,591
Redemption of lease liabilities	16	-15	-14
Paid dividends		-269	--
Net cashflow from financing activities		**1,005**	**-777**
Net increase of cash and cash equivalents		**5,624**	**2,646**
Cash and cash equivalents at beginning of period	2	4,672	2,026
Change in cash and cash equivalents	2	5,624	2,646
Cash and cash equivalents at end of period		**10,296**	**4,672**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		1,308	1,418
Dividends received		-	-
Interest paid		194	374

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 judgements relating to the consolidated annual financial statements. If an accounting policy or a critical accounting estimate relates to a specific note, it is included within the disclosures of the relevant note.

To combine disclosures where possible and to reduce duplication, the IAS 1 Risk and Financial instrument disclosures and IFRS 7 Risk disclosures regarding capital management and risks related to of financial instruments have been integrated in Chapter 3 Risk management. These disclosures are an integral part of the Consolidated Annual Financial Statements and as such, support the compliance to these IFRS requirements.

General information

De Volksbank N.V. (referred to as 'de Volksbank'), is apublic limited liability company incorporated under the laws of the Netherlands. De Volksbank N.V. is a retail bank with sustainable business operations that provides services to private individuals, self-employed persons and small businesses inthe Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht, The Netherlands (CC 16062338 of Utrecht). All shares of de Volksbank are held by Stichting administratiekantoor beheer financiële instellingen (NLFI).

Adoption of the financial statements

The consolidated financial statements of de Volksbank for the year ended 31 December 2021 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 9 March 2022. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 21 April 2022. The General Meeting of Shareholders has the possibility to amend the financial statements.

Basis of preparation

Statement of IFRS compliance

De Volksbank prepares the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, de Volksbank prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements. The presentation and notes in the company financial statements are based on Title 9, Book 2 of the Dutch Civil Code.

Changes in published Standards and Interpretations effective in 2021

In 2021, the following standards and interpretations issued by the International Accounting Standards Board (IASB and the IFRS Interpretations Committee (IFRIC) respectively, became mandatory, and are adopted by the European Union:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2; and
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions beyond 30 June 2021 (when early adopted).

None of the above publications have a material effect on the consolidated financial statements.

Interpretations of existing standards or amendments to standards, not yet effective in 2021

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 2022 were not early adopted by de Volksbank.

- IFRS 17 Insurance Contracts;
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IAS 16 Property, Plant and Equipment;
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
- Annual Improvements 2018-2020;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates; and
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

None of the above publications have a material impact on the financial statements of de Volksbank.

IFRS 9, IAS 39, IFRS 7, IFRS 4 AND IFRS 16: INTEREST RATE BENCHMARK REFORM - PHASE 2

As of 1 January 2021 the bank adopted amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2, addressing issues that might affect financial reporting when an existing interest rate benchmark is actually replaced. The amendment did not have a material impact on the valuation of financial instruments or hedging relationships and thereby has no material impact on the bank's total equity and net income. The disclosure requirements from the amendment are reported in the note 3 Derivatives.

Changes in accounting policies, estimates and presentation

Accounting policy change

In 2021, de Volksbank changed its accounting policy for land and buildings in own use from the revaluation model to the cost model in order to more align with market-practice in the banking sector. The change to the cost model has an immaterial impact on the book value of the line item tangible and intangible assets, the result and shareholders' equity in 2021.

Change in accounting estimate

In 2021 de Volksbank implemented a uniform definition of default (DoD) for all credit exposures of de Volksbank, which has been aligned to the Regulatory Capital CRR Article 178. Similar to the previous version, a default is considered to occur if at least one of the following conditions is met:

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

The major change with the previous DoD is the way the day counter is defined. For that purpose a total amount in arrears is checked against absolute and relative thresholds. Regulatory requirements for UtP triggers also became more detailed and prescriptive. The change in estimate has an increasing impact of € 5 million on credit provisions at 31 December 2021.

Accounting principles for the consolidated financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All subsidiaries have applied the accounting principles consistently, for the purposes of these consolidated financial statements.

Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional and reporting currency of de Volksbank. All financial data presented in euros are rounded to the nearest million, unless stated otherwise. Counts are based on unrounded figures.

Significant accounting policies

The use of judgements, estimates and assumptions in the preparation of the financial statements

The preparation of the consolidated financial statements requires de Volksbank to make judgements, estimations and assumptions based on complex and subjective opinions and best estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Hereby, management judges situations on the basis of available information and financial data which could potentially change going forward. Although the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Judgements, estimations and underlying assumptions are reviewed on a regular basis. The impact of changes in estimates on the accounting outcome is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods.

Valuation of certain balance sheet items is highly dependent on the use of judgements, estimations and assumptions. Further disclosure is made on the use of judgements, estimations and assumptions in the specified accounting principles of these balance sheet items. The use of judgements, estimates and assumptions in determining the fair value of financial instruments, for both balance sheet valuations and disclosures, relates to the items below. For detailed information and disclosure of the accounting judgements, estimates and assumptions reference is made to the next sections and the notes to the financial statements items.

- Impairment losses on loans and receivables – refer to chapter 3 Risk management;

- Valuation of fair value of financial instruments (including prepayment assumption mortgages and amortisation hedge accounting) – refer to note 22 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 20 Contingent liabilities and commitments and 21 Legal proceedings

IMPACT OF COVID-19 ON THE USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Covid-19 has led to a revision of the judgements, estimates and underlying assumptions used in the reporting periods for the item Impairment charges on loans and receivables in the consolidated financial statements. These changes mostly relate to the stage allocation process, management overlay and macro-economic scenario's used for calculating the provisions. For detailed information and disclosure of the accounting judgements, estimates and assumptions used, reference is made to section 3.3.3 Provisioning methodology.

Basis for consolidation

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksbank, are consolidated in accordance with IFRS 10 Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which control is transferred to de Volksbank. They are de-consolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of de Volksbank's financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksbank. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

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

Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between de Volksbank and its associates are eliminated to the extent of de Volksbank’s interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currencies are recorded in the income statement under ‘investment income’ or ‘result on financial instruments’, depending on the balance sheet item to which they relate.

Government grants

Government grants that are related to income are recognised in the income statement on a systematic basis over the periods that the related expenses, for which it is intended to compensate, are recognised. In the case of an income-related grant, the grant is deducted from the related expense. For instance, if the related expense consist of interest due on specific funding, the government grant will be recognised as a deduction from the related interest expense.

Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, more specifically, the date on which de Volksbank commits itself to buy or sell the asset or liability. For "loans and advances to customers" and "amounts due to customers" settlement date accounting is used.

Derecognition

A financial asset is derecognised when the rights to receive cashflows from the asset have expired. De Volksbank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition. A transfer only qualifies for derecognition if either:

- De Volksbank has transferred substantially all the risks and rewards of the asset; or

- De Volksbank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Offsetting of financial instruments

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

Cashflow statement

The cashflow statement is prepared according to the indirect method, and distinguishes between cashflows from operational, investment and financing activities. Cashflows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cashflow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cashflow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cashflow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

Acquisitions and disposals

ACCOUNTING POLICIES ACQUISITIONS AND DISPOSALS

De Volksbank accounts for business combinations when control is obtained by the bank. On acquisition date the acquired business combination's assets, liabilities and contingent liabilities are measured at fair value and are subsequently accounted for in accordance with the accounting principles of de Volksbank, which is consistent with IFRS-EU. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the business combination over the share of de Volksbank in the net fair value of assets, liabilities and contingent liabilities acquired is recognised as goodwill. Negative goodwill is recognised directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within 12 months after the acquisition date, are made against goodwill. Transaction costs in connection to the purchase of the business combination are expensed as incurred.

On 1 September 2021, de Volksbank completed the acquisition of 90% of the shares of the property valuation platform Fitrex B.V. The total purchase price amounted to € 8 million. This acquisition is in line with the bank's 2021-2025 strategy to strengthen customer relationships. Accordingly, de Volksbank expands its services with a complementary service in its core activity 'housing', thus contributing to income diversification.

The transaction has an effective date of 1 January 2021, meaning that profit for the current financial year, less predetermined leakage is available for de Volksbank. Since the closing date is 1 September 2021, de Volksbank has control over the entity from that date onward. Accordingly, de Volksbank consolidates Fitrex's financial statements as from that date. Balance sheet total of the entity amounted to € 1 million at year-end 2020. In line with IFRS 3 Business Combinations, the transaction results in a goodwill amount of approximately € 6 million. The amount of goodwill is assessed annually for impairment. Intangibles amounted to € 1 million and are largely attributable to the customer base for intermediaries, with an amortisation period of 5 years.
The remaining 10% shares of Fitrex are recorded as a non-controlling interest.

The share purchase agreement of Fitrex B.V. includes an arrangement for the possible acquisition of the remaining 10% shares. This consists of a put option exercisable by two former shareholders as well as a call option exercisable by de Volksbank. The put option is exercisable after three years with an exercise price of fair market value. The call option exercisable by de Volksbank has similar terms. In addition, there are some early redemption features at various prices at various times. At each reporting date an assessment is made of the fair value of these structures with any future changes through the income statement.

In 2021 there were no disposals of businesses. In 2020 there were no acquisitions or disposals of businesses.

1 Financial assets and liabilities

Overview of financial assets and liabilities by measurement base 2021

in € millions	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Cash and cash equivalents	10,296	--	--	10,296
Derivatives	--	--	591	591
Investments	3,295	2,335	8	5,638
Loans and advances to banks	4,527	--	--	4,527
Loans and advances to customers	50,727	--	--	50,727
Other assets	170	--	--	170
Total financial assets	**69,015**	**2,335**	**599**	**71,949**
Savings	45,646	--	--	45,646
Other amounts due to customers	12,482	--	--	12,482
Amounts due to banks	1,059	--	--	1,059
Debt certificates	7,402	--	--	7,402
Derivatives	--	--	1,013	1,013
Subordinated debt	500	--	--	500
Other liabilities	382	--	--	382
Total financial liabilities	**67,471**	**--**	**1,013**	**68,484**

Overview of financial assets and liabilities by measurement base 2020

in € millions	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total
Cash and cash equivalents	4,672	--	--	4,672
Derivatives	--	--	864	864
Investments	3,082	2,025	6	5,113
Loans and advances to banks	5,990	--	--	5,990
Loans and advances to customers	50,542	--	--	50,542
Other assets	151	--	--	151
Total financial assets	**64,437**	**2,025**	**870**	**67,332**
Savings	42,111	--	--	42,111
Other amounts due to customers	11,541	--	--	11,541
Amounts due to banks	945	--	--	945
Debt certificates	6,119	--	--	6,119
Derivatives	--	--	2,163	2,163
Subordinated debt	500	--	--	500
Other liabilities	558	--	--	558
Total financial liabilities	**61,774**	**--**	**2,163**	**63,937**

2 Cash and cash equivalents

ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash, the non-restricted demand deposits with the Dutch Central Bank (DNB) and advances from the activities to credit institutions with an original remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairments.

Specification cash and cash equivalents

in € millions	2021	2020
Non-restricted demand deposits at Dutch Central Bank[1]	10,195	4,539
Short-term bank balances	90	121
Cash	11	12
Total	**10,296**	**4,672**

1 The restricted demand deposits at Dutch Central Bank are reported in the note Loans and advances to banks.

As at the end of 2021, € 16 million of the short-term bank balances was encumbered (2020: € 36 million), of which € 0 on account of securitisations (2020: € 21 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.

Derivatives by type

in € millions	2021 Nominal amounts	2021 Fair value Positive	2021 Fair value Negative	2020 Nominal amounts	2020 Fair value Positive	2020 Fair value Negative
Macro fair value hedge - interest rate	23,393	289	630	28,518	224	1,479
Micro fair value hedge - interest rate	4,233	77	100	4,495	90	183
Micro fair value hedge - currency	21	--	2	21	--	--
Total micro fair value hedge	**4,254**	**77**	**102**	**4,516**	**90**	**183**
Total fair value hedge	**27,647**	**366**	**732**	**33,034**	**314**	**1,662**
Cash flow hedge - currency contracts	**75**	**2**	**1**	**115**	**10**	**--**
Economic hedge - interest rate	5,512	71	30	4,338	83	44
Economic hedge - currency[1]	24,543	94	193	34,731	378	371
Total economic hedge	**30,055**	**165**	**223**	**39,069**	**461**	**415**
Trading- interest rate	7,764	56	57	1,784	79	80
Trading- currency	93	2	--	84	--	6
Total trading	**7,857**	**58**	**57**	**1,868**	**79**	**86**
Total	**65,634**	**591**	**1,013**	**74,086**	**864**	**2,163**

1 Please refer to Section 3.4 Market risk for more information.

Most derivatives are held to hedge against undesired markets risks. This is explained in Note 4 Hedging and hedge accounting.

Economic hedges relate to the hedges that are held for balance sheet management, for which no hedge accounting is applied.

The nominal amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These nominal amounts provide no indication of the size of the cashflows, the market and credit risks related to the transactions.

IBOR REFORM

Pursuant the EU Benchmark Regulation, reference rates (IBORs) for variable-interest financial instruments are being replaced by Alternative Reference Rates (ARR). In order to manage this process, de Volksbank has established an IBOR Transition Programme, chaired by the Head of Financial Markets. Activities performed by this programme includeincorporation of fall back language in the legal documentation of issued debt securities (2019/2020); for derivative contracts facing central clearing counterparties participation in the central approach regarding the discount rate switch (2020). Currently, several bilateral derivative agreements are negotiated with the respective counterparties.

The following table summarises the exposures impacted by the IBOR reform as from31 December 2021. USD LIBOR has not been converted in riskfree rates yet. EONIA ceased to be published as from 1 January 2022 onwards and has been converted in the euro short-term rate (€STR). USD LIBOR will continue to be published until mid-2023. The IBOR Reform does not have an impact on Euriborbased exposures. The calculation method of Euribor changed during 2019 followed by authorisation under the European Union Benchmark Regulation. This allows market participants to continue to use Euribor for which it is expected that it will continue to exist as a benchmark rate for the foreseeable future. The exposure disclosed concerns balances with contractual maturities after 31 December 2021.

IBOR transition

in € millions	Non-derivatives financial assets - carrying value	Non-derivatives financial liabilities - carrying value	Derivatives - nominal amount
USD LIBOR[1]	73	--	338
Total	**73**	**--**	**338**

1 Of which € 44 million carrying value financial assets refers to notional derivatives maturing mid-2023 or later.

Cash collateral balances across some of the bank's CSA agreements are converted to €STR, as EONIA ceased to be published as 1 January 2022 onwards. These balances are not included in this schedule.

The derivatives exposure represents notional contract amounts related to future IBOR reforms. As 15 October 2021, EONIA-linked swaps transacted with LCH have been converted to equivalent €STR-linked swaps whereby the economic difference has been cash–settled.

For USD LIBOR we will closely monitor the developments. The current expectation is that the 3-month and the 6-month USD LIBOR will continue to be published until mid-2023 an amount of € 44 million carrying value financial assets has a maturity date beyond this date and will be negotiated bilaterally with the counterparties involved.

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 (when possible) 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 designates 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 accounting and on an ongoing basis, de Volksbank assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or variability of the cashflows of the hedged item, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome. Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in the income statement in the line item Other result on financial instruments. Hedge ratios follow from the choices made for hedging of interest and currency risks. Ineffectiveness in hedge relationships might be caused by differences in maturities of the swap and the hedged item; and by the fair value of the floating leg of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate.

De Volksbank discontinues hedge accounting when the hedge relationship ceased to be effective or when the derivative or hedged item is sold or otherwise terminated.

The changes in fair value for derivatives that hedge economic risks and do not comply with the conditions of the EU carve out version of IAS 39 for hedge accounting or for which it is not cost-efficient to apply hedge accounting, are recognised directly in the income statement.

Fair value hedge accounting
Derivatives that are designated as hedging the fair value of recognised assets, liabilities or future transaction are recognised as a fair value hedge. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the Income statement within Other result on financial instruments.

The same goes for the corresponding adjustment of the fair value of the hedged asset or hedged liability attributable to the specific hedged risk. Hedge effectiveness for fair value hedges is measured as the amount by which the changes in fair value of the derivatives compensates the changes in the fair value of the hedged item.

When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged item is amortised to the income statement. The approach determines the amortisation period on the underlying remaining interest rate maturity of the hedged item. As a result, value adjustments for individual contracts are amortised over the respective maturity bucket. The moment the hedged position is no longer recognised, i.e. is sold or redeemed, the non-amortised part of the fair value adjustment of the hedged asset is recognised directly in the profit and loss account.

De Volksbank applies fair value hedge accounting for portfolio hedges of interest rate risk as allowed under the EU carve out version of IAS 39. Amongst others the EU carve out enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument in the bank's macro fair value hedging model and removes some of the limitations in macro fair value hedge accounting with respect to underhedging strategies. In addition, some restrictions on under-hedging strategies for fair value macro hedge accounting do not apply. De Volksbank applies micro fair value hedging to hedge separate hedged positions, which may be assets or liabilities. The carved out version of IAS 39 as adopted by the EU is used, which permits to exclude negative credit spreads in the hedge relationship for hedging micro fair value hedging.

Cashflow hedge accounting
Derivatives can be designated to hedge the risk of variability of future cashflows of a recognised asset or liability or highly probable forecast transaction. Hedge ineffectiveness for cashflow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cashflow in the cashflow hedge. The effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in the cashflow hedge reserve as a separate component of shareholders' equity. Any ineffective part of the cashflow hedge is recognised in Other result on financial instruments immediately. The valuation of the hedged item included in the cashflow hedge relationship, remains unchanged.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cashflow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cashflow hedge reserve fully remains in the cashflow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

Hedging
De Volksbank uses derivatives for the following objectives:
- To manage interest rate risk in the banking and trading book;
- To hedge foreign exchange risks by converting non-euro funding and investments into euro.

For a total overview of the derivatives, see note 3 Derivatives.

HEDGE ACCOUNTING
In most of the hedging strategies explained above, de Volksbank applies hedge accounting. In addition to the main distinction between fair value hedges and cashflow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. Micro hedging is a technique used to hedge individual contracts. Macro hedging is a technique used to hedge the risk on a portfolio of contracts. De Volksbank applies the following types of hedge accounting:

FAIR VALUE HEDGES

Hedging the interest rate risk in the banking book (macro hedge)

The portfolio hedged comprises fixed-rate mortgages of de Volksbank. The hedging instruments are interest rate swaps entered into as part of the interest rate risk management in the ALM process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a prospective and retrospective basis and are measured using the dollar offset method.

Hedging the interest rate risk on funding (micro hedge)

De Volksbank conducts micro hedging to convert fixed-rate funding into floating interest rates by means of interest rate swaps. If such funding is denominated in a foreign currency, cross-currency swaps are entered into. The hedge is set up once and will not be terminated. Effectiveness assessments are performed on a prospective and retrospective basis and are measured using the dollar offset method.
In addition to converting foreign currencies into euros and fixed-rate funding into floating-rate funding, de Volksbank also uses derivatives to convert structured funding into floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. The funding programme also includes interest rate structures such as floating-rate coupons with a multiplier or a leverage factor. De Volksbank fully hedges the interest rate risk on these structures.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating interest rate with interest swaps. The country or credit spread risk component is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a prospective and a retrospective basis and are measured using the dollar offset method.

CASHFLOW HEDGES

Hedging floating interest rate cashflows

To reduce the variable interest rate cashflow risk arising from some specific investments or loans, de Volksbank applies micro cashflow hedge accounting by means of interest rate swaps and, if such investment or loan is denominated in a foreign currency, cross-currency interest rate swaps. By using these cross-currency interest rate swaps not only the variability in cashflows, but also the foreign exchange risk that arise from the investments or loans is fully hedged, alltogether resulting in euro investments or loans. To apply micro hedge accounting, the hedged item (investment or loan) and the hedging instrument (derivative) are linked together in specific hedge relationships. Prospective effectiveness testing consists of matching the critical terms at inception of the hedge, retrospective effectiveness testing consists of a monthly comparison of the change in the fair value of the hedged cashflows and the fair value of the hedging instrument.
The accrued value of the derivatives is included in shareholders' equity over the remaining term of the hedge. The value accrued in shareholders' equity was less than € 1 million as at 31 December 2021 (2020: also less than € 1 million).

In the years prior to 2019, de Volksbank also applied macro cashflow hedge accounting to hedge the risk of floating interest rate cashflows on the cash position, floating interest rate mortgages, quotations and floating-rate funding by entering into interest rate swaps and basis swaps. These hedges no longer exist. The value of this former hedges accrued in shareholders' equity was € 25 million positive (gross) as at 31 December 2021 (2020: € 30 million positive (gross)).

Hedged items in fair value hedges

in € millions	2021 Carrying amount of the hedged item	2021 Accumulated amount of fair value hedge adjustments on the hedged item	2020 Carrying amount of the hedged item	2020 Accumulated amount of fair value hedge adjustments on the hedged item
ASSETS				
MACRO FAIR VALUE HEDGES				
Loans and advances - interest rate risk	46,534	866[1]	45,332	1,590[2]
MICRO FAIR VALUE HEDGES				
Investments FVOCI - interest rate risk	1,361	11	1,108	44
Investments AC - interest rate risk	2,753	51	2,918	118
Loans and advances - currency risk	22	--	21	--
LIABILITIES				
MICRO FAIR VALUE HEDGES				
Issued debt - interest rate risk	360	47	852	79

1 The macro hedge adjustment of € 866 million consists of € 285 million active hedges and € 581 million for discontinued hedges which are amortised.

2 The macro hedge adjustment of € 1,590 million consists of € 1,181 million active hedges and € 409 million for discontinued hedges which are amortised.

Effectiveness fair value hedges

in € millions	2021	2020
Fair value movements hedging instruments	639	-455
Fair value movements hedged item attributable to hedged risks	-636	459
Ineffectiveness macro fair value hedges	**3**	**4**
Fair value movements hedging instruments	69	-45
Fair value movements hedged item attributable to hedged risks	-69	41
Ineffectiveness micro fair value hedges	**--**	**-4**

The ineffectiveness of fair value hedges is recognised in the income statement within Other result on financial instruments. The ineffectiveness of cash flow hedges was less than € 1 million as at the end of 2021 and 2020.

Nominal amount hedging instruments in micro fair value hedges 2021

	Maturity				Fair value	
in € millions	≤1 year	> 1 year - 5 years	> 5 years	Total	Positive	Negative
Investments	471	2,011	1,435	3,917	21	99
Issued debt	30	164	122	316	56	1
Interest rate risk micro hedges	**501**	**2,175**	**1,557**	**4,233**	**77**	**100**
Loans and advances	21	--	--	21	--	2
Foreign exchange risk micro hedges	**21**	**--**	**--**	**21**	**--**	**2**
Total micro hedge instruments	**522**	**2,175**	**1,557**	**4,254**	**77**	**102**

Nominal amount hedging instruments in micro fair value hedges 2020

in € millions	Maturity ≤1 year	> 1 year - 5 years	> 5 years	Total	Fair value Positive	Negative
Investments	110	2,204	1,401	3,715	2	181
Issued debt	39	169	572	780	88	2
Interest rate risk micro hedges	**149**	**2,373**	**1,973**	**4,495**	**90**	**183**
Loans and advances	--	21	--	21	--	--
Issued debt	--	--	--	--	--	--
Foreign exchange risk micro hedges	**--**	**21**	**--**	**21**	**--**	**--**
Total micro hedge instruments	**149**	**2,394**	**1,973**	**4,516**	**90**	**183**

5 Investments

ACCOUNTING POLICY FOR INVESTMENTS

Amortised cost

An investment is measured at amortised cost less any impairment losses if it is held as part of a portfolio with an underlying business model to collect contractual cash flows until maturity (hold to collect (HTC)). The cash flows of the investment shall solely consist of interest payments and principal repayments (Solely Payments of Principal and Interest, or SPPI).

Fair value through other comprehensive income (OCI)

An investment is measured at fair value through OCI less any impairment losses if it is held as part of a portfolio with an underlying business model to collect contractual cash flows and to sell in the interim (hold to collect and sale (HTCS)). The cash flows of the investment shall solely consist of interest payments and principal repayments. When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as Investment income. De Volksbank applies the average cost method to determine these results, where necessary.

Fair value changes of equity investments are recognised in OCI or in profit or loss. This choice is made for each equity investment separately.

Fair value through profit or loss

An investment is measured at fair value through profit or loss if it is held as part of a portfolio with an underlying business model that qualifies as 'other' and/or the investment does not meet the IFRS 9 criteria that the cash flows of the investment solely consist of interest payments and principal. The business model 'other' is a business model that does not qualify as HTC or HTCS and may consist of trading portfolios. Realised and unrealised gains and losses are recognised directly in the income statement under Investment income. Interest income earned on securities is recognised as interest income. Dividend received is recorded under Investment income.

Impairment losses investments

An expected credit loss (ECL) model is applied to financial assets valued at amortised cost and to financial assets valued at fair value through the other comprehensive income. Under the ECL model, de Volksbank calculates the probability that a default (PD) occurs at different moments in time. This is multiplied by the difference between contractual cash flows due and the expected cash flows to be received (i.e. cash shortfall). The provision is the sum of all cash shortfalls multiplied by the probability of default at the different moments in time. The ECL calculations contain information about the past, present and future. In order to calculate the ECL, the applicable PD, EAD and LGD are multiplied and discounted.

Impairment losses for interest bearing investments measured at amortised cost or fair value through OCI are determined based on expected credit losses. Impairment losses are recognised directly in the income statement under Impairment charges (reversals) of financial assets. For further information on impairments losses on financial assets and the model-based assumptions for the determination of expected credit losses, please refer to 3.3.3 Provisioning methodology.

Overview of investments

	Equity securities		Debt securities		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Amortised cost	--	--	3,295	3,082	3,295	3,082
Fair value through other comprehensive income	5	4	2,330	2,021	2,335	2,025
Fair value through P&L	8	6	--	--	8	6
Total	**13**	**10**	**5,625**	**5,103**	**5,638**	**5,113**

In 2021, the total value of investments increased from € 5,113 million in 2020 to € 5,638 million, mainly due to an increase of the HTCS portfolio to mitigate the effect of excess liquidity on the cash and cash equivalents.
All debt securities were, as they were in 2020, allocated to stage 1. The provision for credit losses on debt securities remained stable at € 2 million compared with year-end 2020, although the provision increased by € 1 million due to new additions and decreased by € 1 million due to releases.

At the end of 2021 de Volksbank invested in certain debt securities issued by securitisation vehicles set up by other parties, and outside the scope of de Volksbank's consolidation, amounting to € 107 million (2020: € 95 million). The increase is the result of 2 additional investments in the highest tranche of Dutch Residential Mortgage-Backed Securities. All outstanding debt securities concern mortgage-backed investments with an investment grade rating, which expose the bank to limited credit risk by being senior in the payment waterfall of the securitisation vehicles.

Statement of changes in investments

	Amortised cost		Fair value through OCI				Fair value through P&L				Total	
	Debt securities		Equity securities		Debt securities		Equity securities		Debt securities			
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Opening balance	3,082	3,308	4	5	2,021	2,023	6	4	--	10	5,113	5,350
Purchases and advances	546	1,626	2	--	1,201	1,049	1	--	--	--	1,750	2,675
Disposals	-62	-878	--	--	-787	-926	--	--	--	--	-849	-1,804
Redemptions	-192	-987	--	--	-41	-142	--	--	--	--	-233	-1,129
Revaluations	-67	24	--	-1	-57	24	1	2	--	--	-123	49
Change in trading portfolio	--	--	--	--	--	--	--	--	--	-10	--	-10
Impairments	--	--	-1	--	--	--	--	--	--	--	-1	--
Amortisation	-12	-11	--	--	-7	-7	--	--	--	--	-19	-18
Closing balance	**3,295**	**3,082**	**5**	**4**	**2,330**	**2,021**	**8**	**6**	**--**	**--**	**5,638**	**5,113**
(Amortised) cost price	3,296	3,083	11	9	2,309	1,943	8	6	--	--	5,624	5,041
Provision for credit losses	-1	-1	-1	--	-1	-1	--	--	--	--	-3	-2
Unrealised gains in value	--	--	-5	-5	22	79	--	--	--	--	17	74
Total	**3,295**	**3,082**	**5**	**4**	**2,330**	**2,021**	**8**	**6**	**--**	**--**	**5,638**	**5,113**

Investments by counterparty

in € millions	Amortised cost 2021	Amortised cost 2020	Fair value through OCI 2021	Fair value through OCI 2020	Fair value through P&L 2021	Fair value through P&L 2020	Total 2021	Total 2020
EQUITY SECURITIES								
Financial corporations	--	--	5	4	8	6	13	10
DEBT SECURITIES								
Government	1,693	1,721	1,638	1,623	--	--	3,331	3,344
Financial corporations	1,097	935	435	328	--	--	1,532	1,263
Non-financial corporations	505	426	257	70	--	--	762	496
Total debt securities	**3,295**	**3,082**	**2,330**	**2,021**	**--**	**--**	**5,625**	**5,103**
of which: green and sustainable bonds	*1,264*	*1,076*	*558*	*416*	--	--	*1,822*	*1,492*
Total investments	**3,295**	**3,082**	**2,335**	**2,025**	**8**	**6**	**5,638**	**5,113**

Investments by rating

in € millions	Amortised cost 2021	Amortised cost 2020	Fair value through OCI 2021	Fair value through OCI 2020	Fair value through P&L 2021	Fair value through P&L 2020	Total 2021	Total 2020
AAA	1,717	1,662	1,232	1,165	--	--	2,949	2,827
AA	1,251	1,201	669	620	--	--	1,920	1,821
A	169	164	253	163	--	--	422	327
BBB	53	55	176	73	--	--	229	128
< BBB	--	--	--	--	--	--	--	--
No rating	105	--	5	4	8	6	118	10
Total	**3,295**	**3,082**	**2,335**	**2,025**	**8**	**6**	**5,638**	**5,113**

Investments by country

in € millions	Amortised cost 2021	Amortised cost 2020	Fair value through OCI 2021	Fair value through OCI 2020	Fair value through P&L 2021	Fair value through P&L 2020	Total 2021	Total 2020
Germany	879	817	681	694	--	--	1,560	1,511
Netherlands	717	768	597	411	--	--	1,314	1,179
France	626	550	173	213	--	--	799	763
Belgium	288	272	297	248	--	--	585	520
Austria	150	185	104	92	--	--	254	277
Luxembourg	137	141	172	134	--	--	309	275
Ireland	128	133	--	27	--	--	128	160
Finland	173	138	--	--	--	--	173	138
Spain	53	55	221	203	--	--	274	258
Other countries	144	23	90	3	8	6	242	32
Total	**3,295**	**3,082**	**2,335**	**2,025**	**8**	**6**	**5,638**	**5,113**

6 Loans and advances to banks

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO BANKS
Loans and advances to banks are measured at amortised cost using the effective interest method, less any impairment losses based on an expected credit loss (ECL) model. This item includes receivables to banks with a remaining maturity of one month or more.
This item relates to loans and advances to banks, excluding interest-bearing securities, and restricted demand deposits with the Dutch Central Bank (DNB).

in € millions	2021	2020
Deposits	4,016	5,527
Restricted demand deposits at Dutch Central Bank	511	463
Total	**4,527**	**5,990**

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 € 479 million of the total deposited collateral on derivative transactions (2020: € 1,502 million).

7 Loans and advances to customers

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO CUSTOMERS
Loans and advances to customers are measured at amortised cost using the effective interest method less any impairment losses.

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

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant increase of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant increase of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected credit loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected credit loss is determined for these credit exposures as well. De Volksbank applies a specific default definition for each portfolio for which loan loss provisions are determined under IFRS 9. For more information about the stage allocation process, please refer to section 3.3.3 Provisioning methodology.

Write-off
When writing off a loan, a distinction is made between the write-off of a (part of the) loan and a possible write-off of a residual debt arising from the write-off of a loan. There are two triggers that can lead to a write-off:
1. Waiver of amounts payable. Part of the 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. Any 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.

Loans and advances to customers by portfolio

	Gross carrying amount		Provision for credit losses		Book value	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Residential mortgages	48,164[1]	47,808[1]	-73	-111	48,091	47,697
Consumer loans	52	63	-10	-12	42	51
SME loans	841	724	-23	-38	818	686
Other corporate and government loans	1,777	2,113	-1	-5	1,776	2,108
Total	**50,834**	**50,708**	**-107**	**-166**	**50,727**	**50,542**

1 Including IFRS value adjustments of € 810 million (2020: € 1,572 million), consisting of fair value adjustments from hedge accounting and amortisations.

De Volksbank has securitised part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 12.7 billion (2020: € 12.7 billion), of which € 11.2 billion (2020: € 11.7 billion) is on own book. There is a limited transfer of risks and benefits for the securitised mortgage loans. Therefore, they are not derecognised from the balance sheet. Further information on securitisation transactions is provided under Note 14 Debt certificates and for more information on intragroup transactions, see Note 23 Related parties. More information on asset encumbrance can be found in Note 24 Transferred and encumbered assets.

Up to and including 2020, other corporate and government loans included loans and advances to Athora Netherlands (year-end 2020: € 257 million). Athora Netherlands has been participating in securitisation programmes in which savings-based mortgages had been securitised, with the savings policies being administered by Athora Netherlands. In relation to this, Athora Netherlands had received a private loan from the bank to finance its (sub-)participations in the securitisation entities. The same amount was recognised as financing from Athora Netherlands in Note 12 Other amounts due to customers. In 2021 a new arrangement came into force in which de Volksbank directly finances the sub-participations in its securitisation entities. Due to the consolidation of the securitisation entities these financings are eliminated on a consolidated level.

The total provision for loans and advances amounted to € 107 million as at 31 December 2021 (end of 2020: € 166 million). The decrease in provisions was mainly visible in the residential mortgage and SME loan portfolios.

Please refer to section 3.3 Credit risk for more information on loans and advances to customers. Section 3.3.2 Management and control includes information on how the loan portfolio is subdivided and how it is managed. Section 3.3.3 Provisioning methodology describes the breakdown of the stages and gives information on the models used. Quantitative and qualitative information on the portfolios is provided in Section 3.3.4 Figures, ratios and trends up to and including Section 3.3.8 Other corporate and governmental loans.

8 Property, equipment and intangible assets

ACCOUNTING POLICY FOR PROPERTY AND EQUIPMENT

Land and buildings in own use

Property in own use mainly comprises offices (land and buildings) and is measured at cost net of accumulated depreciation and, if applicable, impairment losses.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years. Land is not depreciated. An assessment is made whether there is an indication that land and buildings may be impaired.

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

Goodwill

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

Any change, in the fair value of acquired assets and liabilities at the acquisition date, determined within one year after acquisition, is recognised as an adjustment charged to goodwill. Adjustments that occur after a period of one year are recognised in the income statement.

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.

Other intangible assets

The other intangible assets of de Volksbank consist of distribution networks and are amortised in accordance with the straight-line method over their estimated useful life, 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

Goodwill

Goodwill created with the acquisition of subsidiaries, associated companies and joint ventures is allocated to cash - generating units. The book value of the cash-generating unit (CGU) (including goodwill) is compared to the calculated recoverable value, determined on the basis of value-in-use. If the recoverable value is lower than the book value, the difference will be recognised as impairment in the income statement. Assumptions used in these goodwill impairment tests are value-in-use based on the business plans and the allocated discount rate based on the risk profile of the CGU.

General

An intangible asset is subject to impairment if its book value exceeds the recoverable amount from continued use (value-in-use) or sale of the asset. The recoverable amount is the highest value of the fair value less costs of disposal and the value in use. The recoverable amount of assets is estimated if there are indications of impairment of the asset. Intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Software and other intangible assets

On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indicators of possible impairments.

REVERSAL OF IMPAIRMENTS ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Except for goodwill, impairment losses on property, equipment and intangible assets are reversed if there is proof that a change in the estimates used to determine the recoverable amount occurred after the impairment loss was recognised. The reversal is included under depreciations in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Tangible and intangible assets

in € millions	2021	2020
Land and buildings in own use	11	11
IT equipment	6	9
Other tangible assets	26	27
Right of use of lease contracts	44	63
Total property and equipment	**87**	**110**
Internally developed software	--	--
Goodwill	5	--
Other intangible assets	1	--
Total intangible assets	**6**	**--**
Total	**93**	**110**

In 2021, de Volksbank changed its accounting policy for land and buildings in own use from the revaluation model to the cost model. Reference is made to Changes in accounting policies, estimates and presentation.
For a more detailed explanation on right of use of lease contracts, see Note 16 Lease contracts. In 2021, all sublease contracts are reassessed and treated as finance subleases. As a consequence, a net investment in the sublease is recognised under Note 10 Other assets. Due to the insignificant impact, the comparative figures have not been restated.

Statement of changes in property and equipment

	Land and buildings		IT equipment		Other tangible assets		Total	
in € millions	2021	2020	2021	2020	2021	2020	2021	2020
Accumulated acquisitions costs	14	12	33	36	91	86	138	134
Accumulated revaluations		3		--		--		3
Accumulated depreciation and impairments	-3	-4	-27	-27	-65	-59	-95	-90
Closing balance	**11**	**11**	**6**	**9**	**26**	**27**	**43**	**47**
Opening balance	11	17	9	11	27	26	47	54
Revaluations		1		--		--		1
Investments	1	--	2	3	7	9	10	12
Divestments	-4	-6	--	--	--	--	-4	-6
Depreciation	--	--	-5	-5	-8	-8	-13	-13
Impairments	3	-1	--	--	--	--	3	-1
Closing balance	**11**	**11**	**6**	**9**	**26**	**27**	**43**	**47**

At year-end 2021, the renovations to the leased office premises that are not yet in use amount to € 2 million (2020 € 0.9 million).
For more details on the sale and leaseback of the property in own use in Den Bosch reference is made to Note 16 Lease contracts.

Statement of changes in intangible assets

	Internally developed software		Goodwill		Other intangible assets		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Accumulated acquisition costs	--	14	5	--	1	21	6	35
Accumulated amortisation and impairments	--	-14	--	--	--	-21	--	-35
Closing balance	**--**	**--**	**5**	--	**1**	--	**6**	**--**
Opening balance	--	1	--	--	--	1	--	2
Depreciation capitalised costs	--	-1	--	--	--	--	--	-1
Depreciation purchases	--	--	--	--	--	-1	--	-1
Investments	--	--	5	--	1	--	6	--
Closing balance	**--**	--	**5**	--	**1**	--	**6**	--

On 1 September 2021, de Volksbank completed the acquisition of 90% of the shares of the property valuation platform Fitrex B.V. The total purchase price amounted to € 8 million. In line with IFRS 3 Business Combinations, the transaction results in a goodwill amount of approximately € 6 million. The amount of goodwill is assessed annually for impairment. Intangibles amounted to € 1 million and are largely attributable to the customer base for intermediaries, with an amortisation period of 5 years. For more details on this acquisition, reference is made to Note Acquisition and disposals.

Depreciation and amortisation

Depreciation and amortisation

in € millions	**2021**	**2020**
Depreciation on tangible assets	13	13
Impairments on tangible assets	-3	1
Depreciation of right of use assets (leases)	10	13
Amortisation on intangible assets	--	2
Total	**20**	**29**

Depreciations of tangible and intangible assets was € 9 million lower, due to reversals of impairment charges on buildings in own use, the sale of property and the fact that intangible assets had already been written off at year-end 2020.

9 Tax assets and liabilities

ACCOUNTING POLICY FOR TAX ASSETS AND LIABILITIES

Corporate tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any Corporate income tax includes dividends withholding tax, which is settled through the corporate income tax return. Current tax recove12rables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

Accounting policy for deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless de

Volksbank can determine the time at which these temporary differences will end and if it is probable that these differences will not end in the near future. Deferred tax assets are assessed at the balance sheet date.

The most significant temporary differences arise from 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.

Specification tax assets and liabilities

	Tax assets		Tax liabilities	
in € millions	**2021**	**2020**	**2021**	**2020**
Corporate income tax	34	24	--	--
Deferred taxes	5	18	9	17
Total	**39**	**42**	**9**	**17**

CORPORATE INCOME TAX

Corporate income tax recovarable and payable for the years up to and including 2019 is irrevocable. The return for 2019 was filed in April 2021 and definitively assessed in June 2021. The corporate income tax due by the various subsidiaries of the fiscal unity for corporate income tax purposes based on the final assessment as well as the return filed has been settled with the head of the fiscal unity, i.e. de Volksbank N.V. The corporate income tax return for 2020 must be filed before 1 May 2022.

Origin of deferred tax assets and liabilities 2021

in € millions	**Balance as at 1 January 2021**	**Change through P&L**	**Change through OCI**	**Other movements**	**Closing balance**
Property and equipment	3	-3	--	1	1
Investments	-9	--	6	--	-3
Derivatives	-8	--	2	--	-6
Loans and advances to customers	12	-12	--	--	--
Provisions	3	--	--	--	3
Other	--	1	--	--	1
Total	**1**	**-14**	**8**	**1**	**-4**

Origin of deferred tax assets and liabilities 2020

in € millions	**Balance as at 1 January 2020**	**Change through P&L**	**Change through OCI**	**Other movements**	**Closing balance**
Property and equipment	2	3	-2	--	3
Investments	-6	--	-3	--	-9
Derivatives	-9	--	1	--	-8
Loans and advances to customers	36	-26	--	2	12
Provisions	4	-1	--	--	3
Other	1	-1	--	--	--
Total	**28**	**-25**	**-4**	**2**	**1**

Specification tax-effect changes shareholders' equity

in € millions	2021	2020
Change in revaluation reserve	--	-2
Change in cashflow hedge reserve	2	1
Change in fair value reserve	6	-3
Total	**8**	**-4**

Tax-deductible losses

in € millions	2021	2020
Total tax-deductible losses	--	--
Deferred tax assets calculated on tax-deductible losses	--	--
Average tax rate	25.0%	25.0%

The financial instruments in the tax return are valued on the basis of the same accounting principles as those that apply to the financial statements for reporting purposes.

10 Other assets

ACCOUNTING POLICY FOR OTHER ASSETS
The other assets consist of amounts to be settled, accrued assets and other, including other taxes. The other taxes are recognised at nominal value. The remaining amounts to be settled, accrued assets and other are recognised at amortized cost. The net amount of claims and provisions in relation to the Deposit Guarantee Scheme (DGS) is recorded under other.

Specification other assets

in € millions	2021	2020
Accrued assets	77	64
Amounts to be settled	30	9
Other advances	49	76
Sublease	14	2
Total	**170**	**151**

ACCRUED ASSETS
Trade and other receivables relates to various receivables in the normal course of business include short term receivables relating to mortgage and other amounts receivables from customers.

AMOUNTS TE BE SETTLED
Amounts to be settled include primarily transactions not settled at balance sheet date. The nature of these transactions is short term and are expected to settle shortly after the closing date of the balance sheet.

OTHER ADVANCES
Other include the interest on the advanced contribution of de Volksbank to the Dutch Central Bank of € 32 million (2020: € 59 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank in 2009.

SUBLEASE
In 2021, all sublease contracts are reassessed and treated as finance subleases. Due to the insignificant impact the comparative figures have not been restated.

11 Savings

ACCOUNTING POLICY FOR SAVINGS
Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of households. At initial recognition savings are measured at fair value. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under ‘interest expense’ in the income statement during the term of these savings by using the effective interest method.

Savings of households

in € millions	2021	2020
Deposits with agreed maturity	3,713	3,828
Deposits redeemable at notice	41,933	38,283
Total	**45,646**	**42,111**

The bank savings accounts amount to € 3,603 million (2020: € 3,600 million).

12 Other amounts due to customers

ACCOUNTING POLICY FOR OTHER AMOUNTS DUE TO CUSTOMERS
Other amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits, cash and home construction accounts.

At initial recognition other amounts due to customers are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under interest expense in the income statement during the term of these amounts owed by using the effective interest method.

Other amounts due to customers

in € millions	2021	2020
Current accounts - households	6,399	4,748
Current accounts - corporates	1,169	1,024
Savings deposits mortgages households	541	555
Deposits with agreed maturity corporates	1,944	2,324
of which private loans	*532*	*828*
of which savings deposits mortgages	*1,296*	*1,387*
Deposits redeemable at notice corporates	2,429	2,890
Total	**12,482**	**11,541**

Under private loans, € 361 million relates to the placement of debt instruments (*Schuldscheine*) at pension funds and insurance companies (2020: € 395 million).

Part of the private loans is issued under the covered bond programme of de Volksbank. The book value of the private loans amounts to € 166 million (2020: € 176 million). Additional repayment security for these private loans was given by the Covered Bond Company. For more information on the covered bond programme, reference is made to Note 14 Debt certificates.

Up to 2020, the private loans under the securitisation programme related to private loans granted to Athora Netherlands. These private loans enabled Athora Netherlands to finance a sub-participation in securitisation programmes of de Volksbank. More specifically these loans related to securitised savings-based mortgages for which the savings policies are administered by Athora Netherlands. The loans were granted to the extent of the accrued savings premiums. In 2021, a new arrangement came into force in which de Volksbank directly finances the sub-participations in its securitisation entities. Due to the consolidation of the securitisation entities these financings are eliminated on a consolidated level.

As part of an savings mortgage arrangement, de Volksbank and insurer Athora Netherlands have agreed that the savings premiums the insurer receives from the customer will be held with the bank. These savings premiums and the interest credited (the savings capital designated for mortgage redemption) mean that, in principle, the insurer has an unsecured claim against the bank. To spread the insurer's default risk, a cession/retrocession agreement has been concluded under which the insurer transfers the savings capital to the bank in exchange for a partial and joint right to the savings-based mortgage claims. In 2021, the savings capital accrued totalled € 1,296 million (2020: € 1,387 million).

13 Amounts due to banks

ACCOUNTING POLICY FOR AMOUNTS DUE TO BANKS
Amounts due to banks comprise unsubordinated debts to credit institutions. Amounts due to banks include private loans, current accounts and repos.

At initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under interest expense in the income statement during the term of these amounts owed by using the effective interest method.

Specification amounts due to banks

in € millions	2021	2020
Current accounts	100	214
Deposits with agreed maturity	762	731
Of which: with central banks	*757*	*695*
Of which: private loans	*5*	*36*
Deposits redeemable at notice	197	--
Total	**1,059**	**945**

Amounts due to banks includes de Volksbank's participation in 2020 in the targeted longerterm refinancing operations III (TLTRO III.5) programme set up by the ECB of € 0.7 billion. In addition, in 2021, de Volksbank participated for € 70 million in additional funding from the ECB (TLTRO III.7). The charged interest rate under the TLTRO III programme contains a discount that is linked to the amount of loans granted to non-financial corporations and households (excluding mortgages) and a positive net growth of these loans during a reference period. In the assessment whether or not de Volksbank would qualify for the interest rate discount under TLTRO III, de Volksbank took into account the amount of its outstanding eligible loans as well as the business forecasts of expected net growth of these particular loans. De Volksbank determined that it is likely to qualify for the interest rate discount. As the interest rate discount on TLTRO III is considered to be a below-market interest rate, the discount qualifies as an income related government grant according to IAS 20. The related negative interest expenses amount to € 7.6 million (2020: € 1.8 million) and are presented as interest income on liabilities. The TLTRO III programme has a legal maturity of three years, though each quarter there is a voluntary repayment option which has become available for TLTRO III.5 as of September 2021and will be available as from March 2022 for TLTRO III.7.

Under private loans, € 5 million (2020: € 31 million) relates to the placement of debt instruments (*Schuldscheine*) with banks.

14 Debt certificates

ACCOUNTING POLICY FOR DEBT CERTIFICATES
Debt certificates include the non-subordinated bonds and other debt certificates with a fixed or variable interest rate. At initial recognition outstanding debt certificates are measured at fair value, which ordinarily corresponds to the issue proceeds (the fair value of the payment received) net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

When de Volksbank purchases its own debt securities, these debt securities are derecognised.

Specification debt certificates

in € millions	2021	2020
Medium-term notes (MTN)	6,858	5,446
Certificates of deposits	200	240
Debt certificates issued under Pearl and Lowland Securitisation programmes	344	433
Balance as at 31 December	**7,402**	**6,119**

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Issued under securitisation programmes		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Opening balance	5,446	6,062	240	322	433	522	6,119	6,906
Issues	1,641	997	351	831	--	--	1,992	1,828
Redemptions	-224	-1,590	-390	-912	-89	-89	-703	-2,591
Revaluations	-3	6	--	--	--	--	-3	6
Amortisation	3	3	-1	-1	--	--	2	2
Change accrued interest	3	-9	--	--	--	--	3	-9
Change in fair value as a result of hedge accounting	-8	-23	--	--	--	--	-8	-23
Closing balance	**6,858**	**5,446**	**200**	**240**	**344**	**433**	**7,402**	**6,119**

Medium Term Notes

Specification Medium Term Notes

	Coupon rate	Book value	Nominal value	Book value	Nominal value
in € millions[1]		**2021**	**2021**	**2020**	**2020**
De Volksbank N.V.	Fixed	6,244	6,275	4,616	4,587
De Volksbank N.V.	Structured	116	81	130	93
De Volksbank N.V.	Floating	498	497	700	697
Total		**6,858**	**6,853**	**5,446**	**5,377**

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 issued under the EMTN programme.

Under the line item Medium Term Notes, € 4.2 billion (2020: € 3.5 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 programme, de Volksbank undertakes upon request of the CBC, to offer to transfer eligible assets to the CBC, provided that the CBC shall only request a transfer of eligible assets if it determines that the Asset Cover Test has been breached. The Asset Cover Test is an arithmetic test that determines the minimum amount of assets needed to cover the liabilities guaranteed by the CBC.

Certificates of Deposit

Certificates of Deposit are debt securities with a fixed interest rate and a short-term maturity. At the end of 2021, de Volksbank issued € 200 million (2020: € 240 million) in Certificates of Deposit.

Securitisation programmes

De Volksbank entered into securitisation programmes to obtain funding and to improve liquidity. Within these programmes de Volksbank sells mortgage receivables originated by itself to a Special Purpose Vehicle (SPV). The SPV issues securitised notes which are eligible collateral for the European Central Bank. In most programmes, de Volksbank acts as investor of the securitised notes. As the SPVs are set up for the benefit of de Volksbank and there is limited transfer of risks and rewards, de Volksbank continues to consolidate the SPVs.

Debt certificates issued under Pearl and Lowland securitisation programmes

De Volksbank has securitised part of the mortgage loans. In these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans were transferred at nominal value plus a deferred purchase price. A positive result within the special purpose vehicles leads to the creation of a positive value of the deferred purchase price. De Volksbank thus retains an economic interest in these companies. On the basis of this economic interest and other criteria established by IFRS for dominant control, de Volksbank has these companies fully consolidated in the financial statements.

Securitisation transactions have a socalled 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			**2021**	**2020**		
Pearl 1	1,014	09-2006	422	511	18-09-2026	18-09-2047
Lowland 4	4,114	02-2017	3,609	4,098	18-02-2022	18-02-2054
Lowland 5	5,027	05-2018	5,022	5,016	18-05-2023	18-05-2055
Lowland 6	2,500	10-2018	2,497	2,496	18-10-2023	18-10-2055
Total	**12,655**		**11,550**	**12,121**		
On own book			-11,206	-11,688		
Total			**344**	**433**		

At year-end 2020, de Volksbank held securitisation programme bonds on its own book at an amortised cost of € 11.2 billion (2020: € 11.7 billion).

Part of the senior tranches of Pearl 1 and Lowland 4 are held for own account and qualify as eligible assets at the European Central Bank.

15 Other liabilities

ACCOUNTING POLICY FOR OTHER LIABILITIES
Other liabilities consist of other taxes, other liabilities and lease liabilities. Other taxes are recognised at nominal value. Other liabilities are recognised at amortised cost.

Specification other liabilities

in € millions	2021	2020
Other taxes	16	16
Other	94	262
Accruals	215	215
Lease liabilities	57	65
Total	**382**	**558**

For the accounting principles and a more detailed explanation to the lease liabilities, see note 16 Lease contracts.

Other relates mainly to amounts payable to customers and suppliers.

16 Lease contracts

A lease contract exists if control over the use of an identified asset for a certain period has been obtained in exchange for consideration. The main lease contracts entered into by de Volksbank concern the leases for properties.

De Volksbank recognises a lease liability if it has control over the underlying asset. The lease obligation is valued at the present value of the lease payments that have not yet been made at that time. Because the implicit interest rate of the lease contracts cannot be easily determined, the marginal interest rate of de Volksbank is used. The lease payments are discounted using this marginal interest rate. During the term of a contract, the lease liability is increased with accrued interest and reduced with lease payments. The lease liability is adjusted for indexations of the lease payments, any changes to the contract or a modified estimate of any extension or termination options.

The right-of-use asset is measured at cost minus cumulative depreciation and impairment. The processed lease payments, initial direct costs and advance payments form part of the cost price. Any corrections to the lease liability are accordingly processed in the right-of-use asset. The right-of-use asset is depreciated on a straight-line basis over the remaining duration of the contract.

Lease contracts for buildings are usually entered into for a contractual period of 5 years. Extension and termination options that are outside the 5-year period are not included in the determination of the lease liability, because installments outside this period are not reasonably certain to be effected.

De Volksbank uses the option not to include short-term lease contracts and low-value lease contracts on the balance sheet but to include them in the result as an expense.

SUBLEASES
A number of store locations are subleased to franchisees. In addition, part of the head office is sublet to third parties. As substantially 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 finance sublease contracts. A net investement in the lease is recognised as a receivable in Other assets.

In 2021, all sublease contracts are reassessed and treated as finance subleases. Due to the insignificant impact the comparative figures have not been restated.

Statement of changes in right-of-use assets related to lease contracts

in € millions	2021	2020
Opening balance	63	71
Additions	6	8
Net investment in sublease	-15	-3
Depreciation expense	-10	-13
Impairments	--	--
Closing balance	**44**	**63**

On 12 June 2020, the complex of buildings in own use in Den Bosch was sold to third parties. Immediately upon sale, one building and part of the car park were leased back for a period of 5 years. This event has been accounted for as a sale-and-leaseback transaction. The book value of the property and the car park amounted to € 4.7 million and was sold for € 7.2 million. The total lease liability included in the balance sheet is € 4.3 million and the associated right-of-use asset is € 2.3 million. The sales result was € 0.5 million.

Statement of changes in lease liabilities

in € millions	2021	2020
Opening balance	65	70
Additions	6	8
Interest expenses	1	1
Lease payments	-15	-14
Closing balance	**57**	**65**

Expenses relating to short-term lease contracts and expenses relating to low-value assets both were nil (2020 nil).
The total cash flow from leases during the financial year amounts to € 14 million (2020: € 12 million).
For an overview of the future cash flows from lease contracts, refer to Section 3.6.6 Funding strategy.
Income from property sublease amounts to € 0.5 million (2020: € 3 million).

Future lease payments to be received

in € millions	2021	2020
1 year	4	4
2 years	4	4
3 years	3	3
4 years	2	3
5 years	1	2
> 5 years	--	1
Total	**14**	17
Unearned finance income	--	--
Total net investment in the lease	**14**	**17**

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	2021	2020
Employee commitments	14	14
Restructuring provision	53	52
Other provisions	22	9
Provision for credit losses off-balance sheet items	13	5
Total	**102**	**80**

For a more detailed explanation of the main pending legal proceedings against de Volksbank see Note 21 Legal proceedings.

In 2020, a restructuring provision of € 45 million has been made in relation to the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation. The restructuring provision was reassessed in 2021. An amount of € 6 million was added to the restructuring provision, and withdrawals amounted to € 4 million.

Employee commitments and other provisions are predominantly long-term in nature.

Other provisions increased mainly due to a provision for compensation of customers with a revolving consumer credit. In 2021, there were various rulings on the interpretations and use of variable interest clauses in revolving credits for consumer loans and mortgage products at other Dutch banks. The conclusion is that customers may expect the interest rate on their revolving consumer loans to remain in line with the relevant market interest rate during the term of a loan. Therefore, de Volksbank formed a provision of € 15 million for the compensation scheme for customers with a revolving consumer credit and execution costs of this scheme. At the end of 2021, de Volksbank communicated that it will compensate retail customers of SNS and RegioBank on their revolving consumer credit in accordance to the Kifid ruling. In the coming period de Volksbank will work out the compensation scheme in consultation with the Dutch Consumers' Association.

Statement of changes in other provisions

	Employee commitments		Restructuring provision		Other provisions	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Opening balance	14	16	52	15	9	27
Additions	3	1	6	46	16	2
Withdrawals	-2	-1	-4	-9	-2	-10
Releases	-1	-2	-1	--	-1	-10
Closing balance	**14**	**14**	**53**	**52**	**22**	**9**

Movements in the loan loss provision related to off-balance sheet items are shown in section 3.3.4 Credit Risk-Figures, ratios and trends.

18 Subordinated debts

ACCOUNTING POLICY FOR SUBORDINATED DEBTS
Subordinated debt is measured at fair value upon initial recognition, which ordinarily corresponds to the proceeds net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

The subordinated debts of de Volksbank form part of the eligible own funds which is used in determining the solvency position of de Volksbank.

Statement of changes subordinated debts

in € millions	**2021**	**2020**
Opening balance	500	502
Issues	--	498
Redemptions	--	-498
Revaluations	--	-1
Movement in accrued interest	--	-1
Closing balance	**500**	**500**

The (Tier 2) bonds have a book value of € 500 million (2020: € 500 million) and relate to a green Tier 2 capital instrument for a total amount of € 500 million issued in 2020. These bonds, with a maturity of 10.25 years and a fixed coupon rate of 1.75%, have a call option during a three-month period starting on 22 July 2025.

19 Equity

Share capital
The issued share capital is fully paid up and comprises 840,008 ordinary shares with a nominal value of € 453.79 per share.

Dividend
The Board of Directors of de Volksbank proposes to pay out a dividend of € 97 million (2020: € 104 million) to its shareholder NLFI. A dividend of € 115 (2020: € 124) per share can be paid for 2021.

Non-controlling interest
On 1 September 2021, de Volksbank completed the acquisition of 90% of the shares of the property valuation platform Fitrex B.V. The remaining 10% shares of Fitrex are recorded as a non-controlling interest and amounted to € 149,045 at year-end 2021.

20 Contingent liabilities and commitments

ACCOUNTING POLICY FOR CONTINGENT LIABILITIES AND COMMITMENTS
A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of de Volksbank. A contingent liability can also be a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

Financial guarantee contracts
A financial guarantee contract requires de Volksbank to make specified payments to the holder if certain conditions are met. The holder of the contract is reimbursed for a loss it incurs if a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Loan commitment
Loan Commitments are commitments to provide credit under pre-specified terms and conditions. The amounts shown in the table for guarantees and commitments represent the maximum amount de Volksbank is exposed to if the contract parties completely fail to perform as agreed. The 'nominal amount' best represents the bank's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

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

Contingent liabilities and commitments

in € millions	2021	2020
Financial guarantees given	11	12
Loan commitments given	2,533	1,807
Of which: contribution Deposit Guarantee Fund	*300*	*300*
Other commitments	509	600
Of which: repurchase commitments	*464*	*568*
Of which: irrevocable IT contracts	*45*	*32*
Total	**3,053**	**2,419**

Financial guarantees given
De Volksbank provides financial guarantees to guarantee the performance of customers to third parties.

Loan commitments given
The loan commitments given mainly consist of credit facilities pledged to customers, but against which no claim has yet been made (unused portions of irrevocable credit facilities granted to SME and corporate customers, new loan offers, approved but undrawn loans, revolving, underwriting facilities and home construction accounts). These facilities are pledged for a fixed term and at a variable interest rate. Collateral has been secured for a part of the credit facilities.

Other commitments given
Some of the collateralised loans and advances of € 368 million (2020: € 446 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 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 € 96 million as at 31 December 2021 (2020: € 122 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.

Other contingent liabilities
In 2021, there have been various rulings on the interpretations and use of variable interest clauses in revolving credits for consumer loans and mortgage products at other Dutch banks, concluding that customers may expect that the interest rate on their revolving loans remains in line with the relevant market interest rate during the term of a loan. For revolving consumer credits de Volksbank formed a provision. Overdraw facilities and credit cards are subject to further analysis. At the current stage, we do not have a present obligation for overdraw facilities and credit cards.

Deposit Guarantee Scheme

The European Deposit Guarantee Scheme Directive was implemented in Dutch legislation on 26 November 2015. This 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 DGS, banks pay quarterly contributions into a 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. In 2021, de Volksbank paid € 68 million to the DGS (2020: € 42 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 was replaced by the Single Resolution Fund (SRF) as of 2016. The SRF builds 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. In 2021, de Volksbank contributed € 11 million to the NFR (2020: € 8 million).

Future commitments

De Volksbank concluded some large long-term IT support contracts in the amount of € 45 million (2020: € 32 million).

Maturity calendar future IT commitments

in € millions	2021	2020
< 1 year	17	13
1 - 5 year	28	19
> 5 year	--	--
Total	**45**	**32**

21 Legal proceedings

De Volksbank and its subsidiaries are, and may from time to time become involved in legal, regulatory and/or arbitration proceedings that relate to claims by and against ithe bank, ensuing 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. . A decision by the district court is expected in the coming months. In the meantime, the Fairfield Funds liquidators have filed an amended complaint against

SNS Global Custody in the New York bankruptcy court with respect to their BVI Insolvency Act claims. On 14 December 2020 the New York bankruptcy court issued a decision in favour of SNS Global Custody. Fairfield Funds liquidators have appealed to the district court against the bankruptcy court's decision.
- Madoff Trustee. In November 2016, the New York bankruptcy court issued a decision that resulted in the dismissal of all claims asserted by the Madoff trustee against de Volksbank and SNS Global Custody. The Madoff trustee appealed this decision to the Second Circuit Court of Appeals, which overturned the bankruptcy court's decision in February 2019. A request by a group of defendants, including de Volksbank and SNS Global Custody, to the U.S. Supreme Court to hear an appeal of the Second Circuit's decision has been declined. The case will be referred back to the bankruptcy court for further proceedings. The exact timeline and process of these proceedings are still to be determined.

De Volksbank defends itself in each of these proceedings. In view of the complexity of the Madoff cases and the various procedural possibilities that are still open or in the initial phase, it is not possible at this moment to make a reliable assessment as to whether de Volksbank is ultimately obliged to actually pay any amounts.

PROCEEDINGS FOLLOWING THE NATIONALISATION

General

Various former holders of the securities and capital components expropriated in 2013 have initiated legal proceedings to seek compensation for damages. At the time that the financial statements were drawn up, no court proceedings had (yet) been initiated against de Volksbank other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of former holders or other parties affected by the nationalisation may result in a liability, or the level of the financial impact on de Volksbank. For this reason, at year-end 2021 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 any certainty, it cannot be ruled out that a negative outcome may have a material negative financial impact on the capital position, results and/or cashflows of de Volksbank.

Inquiry proceedings by Dutch Investors' Association

In November 2014, the Dutch Investors' Association (*Vereniging van Effectenbezitters; 'VEB'*) and other investors filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (the Enterprise Chamber) for an inquiry into the management of SNS REAAL, currently SRH, SNS Bank, currently de Volksbank, and 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 de Volksbank.

On 8 topics the Enterprise Chamber ordered an inquiry into the management and course of events at SRH and de Volksbank for the period from 1 July 2006 until 1 February 2013. The appointed investigators' final report on the inquiry was published on 27 July 2021. On 27 September 2021, the *VEB* requested the Enterprise Chamber in a subsequent procedure to establish mismanagement ('*wanbeleid*') of SRH and de Volksbank in the period from 1 July 2006 until 1 February 2013. An oral hearing took place on 17 February 2022. The Enterprise Chamber will give its verdict in the summer of 2022.

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 CRI (Commerz Real Investment Gesellschaft GmbH). CRI 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. In September 2020, CRI started proceedings against (a.o) Propertize with regard to a defect air control system and estimated the claim in the first instance at € 250,000, but asked the court to assess the damages.

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 of which the course and results of which may have a material impact on de Volksbank's position.

This goes for the compensation proceedings against the State before the Enterprise Chamber initiated by former holders of expropriated securities and capital components of SRH and de Volksbank. Following initial proceedings leading to a Supreme Court ruling on the basic principles for the assessment of the value of the expropriated securities and capital components, the Enterprise Chamber appointed three experts. The experts presented their first report on 27 April 2018. Following comments from the parties to the proceedings and a new ruling by the Enterprise Chamber, the experts produced an additional report in September 2019. Parties to the proceedings were entitled to respond to this report until the beginning of November 2019 at the latest, after which the experts filed their final report on 21 November 2019 with the Enterprise Chamber. The judgement was given on

11 February 2021. The Enterprise Chamber assessed the compensation (in total) at € 804,810,000. On 11 May 2021, the State lodged an appeal in cassation with the Supreme Court. The Supreme Court's judgement is expected in 2022. The position of subordinated creditors of SRH and de Volksbank will be clear after the judgement in last instance is given. The State – in case payment will have to be made to expropriated share-and bondholders – will have to pay the parties. There are no indications of legal grounds on which the claim will or could be transferred to de Volksbank.

OTHER
De Volksbank's former CFO started several proceedings in connection with his dismissal as CFO. On 5 August 2021 the district court rendered a judgement in the proceedings on the merits (bodemprocedure) rejecting all the former CFO's claims. The court thereby confirming that the former CFO's agreement with the bank has been validly terminated. The former CFO has appealed the district court's judgement. At the current stage de Volksbank has no present obligation recognised for this.

22 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 OF 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, when 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 on the basis of 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. To determine the fair value 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 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 values of subordinated debt are based on quoted prices in active markets or other available market data.

Debt certificates
The fair values of debt certificates are based on quoted prices in active markets or other available market data. Whenactively quoted market prices are not available, 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. The calculated fair value of amounts due to customers with a demand feature cannot be less than the amount payable on demand.

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 due within one month is considered to be a reasonable approximation of the fair value.

Other liabilities
The book value of 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 2021

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Derivatives	591	--	567	24	591
Investments - fair value through OCI	2,335	2,330	--	5	2,335
Investments - fair value through P&L	8	--	--	8	8
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Cash and cash equivalents	10,296	--	--	--	10,296
Investments - amortised costs	3,295	3,229	90	8	3,327
Loans and advances to banks	4,527	--	--	--	4,527
Loans and advances to customers	50,727	--	--	53,583	53,583
Other assets	170	--	--	--	170
Total financial assets	**71,949**	**5,559**	**657**	**53,628**	**74,837**
Financial liabilities measured at fair value					
Derivatives	1,013	--	989	24	1,013
Financial liabilities not measured at fair value					
Savings	45,646	--	43,858	2,148	46,006
Other amounts due to customers	12,482	--	11,063	1,447	12,510
Amounts due to banks	1,059	--	1,059	--	1,059
Debt certificates	7,402	--	--	7,571	7,571
Other liabilities	382	--	--	--	382
Subordinated debts	500	518	--	--	518
Total financial liabilities	**68,484**	**518**	**56,969**	**11,190**	**69,059**

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 2020

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Derivatives	864	--	827	37	864
Investments - fair value through OCI	2,025	2,021	--	4	2,025
Investments - fair value through P&L	6	--	--	6	6
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Cash and cash equivalents	4,672	--	--	--	4,672
Investments - amortised costs	3,082	3,042	85	--	3,127
Loans and advances to banks	5,990	--	--	--	5,990
Loans and advances to customers	50,542	--	--	53,596	53,596
Other assets	151	--	--	--	151
Total financial assets	**67,332**	**5,063**	**912**	**53,643**	**70,431**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	2,163	--	2,126	37	2,163
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Savings	42,111	--	39,358	3,218	42,576
Other amounts due to customers	11,541	--	9,471	2,135	11,606
Amounts due to banks	945	--	945	--	945
Debt certificates	6,119	--	--	6,529	6,529
Other liabilities	558	--	--	--	558
Subordinated debts	500	528	--	--	528
Total financial liabilities	**63,937**	**528**	**51,900**	**11,919**	**64,905**

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 2021

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	6	4	37	37
Purchases/advances	1	2	--	--
Revaluations	--	--	--	--
Unrealised gains or losses recognised in P&L[1]	1	--	-13	-13
Impairment	--	-1	--	--
Closing balance	**8**	**5**	**24**	**24**

1 These are included in the line item Result on financial instruments.

Change in level 3 financial instruments 2020

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	4	5	55	56
Purchases/advances	--	--	--	--
Revaluations		-1		
Unrealised gains or losses recognised in P&L[1]	2	--	-18	-19
Closing balance	**6**	**4**	**37**	**37**

1 These are included in the line item Result on financial instruments.

Breakdown level 3 financial instruments

in € millions	2021	2020
Equity	13	10
Derivatives	24	37
Total assets	**37**	**47**
Derivatives	24	37
Total liabilities	**24**	**37**

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 2021

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	24	-0,5% of +0,5%	1	1
		Pre-payment rate	24	-1% of +1%	1	1
LIABILITIES						
Derivatives	Discounted cashflow	Discount curve	24	-0,5% of +0,5%	1	1
		Pre-payment rate	24	-1% of +1%	1	1

Sensitivity non-market observable parameters financial instruments level 3 2020

in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflow	Discount curve	37	-0,5% of +0,5%	2	2
		Pre-payment rate	37	-1% of +1%	1	1
LIABILITIES						
Derivatives	Discounted cashflow	Discount curve	37	-0,5% of +0,5%	1	1
		Pre-payment rate	37	-1% of +1%	1	1

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to adjustments. The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve.

The level 3 derivatives relate to securitisation transactions. Here there is a relationship between the fair values this is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programme Pearl, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite.

TRANSFERS BETWEEN CATEGORIES

No significant movements occurred in 2020 and 2021.

23 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. As a part of its ordinary business operations, de Volksbank maintains various forms of ordinary business relationships with related companies and parties. Related parties of de Volksbank could be associated companies, joint ventures, SNS REAAL Pensioenfonds, *Stichting administratiekantoor beheer financiële instellingen* (NLFI), the Dutch State and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administration.

Transactions with related parties have been conducted under normal market terms and conditions ('at arm's length'), except where stated otherwise. In the transactions with related parties, best practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with best practice.

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 on the current corporate income tax recovarables and payables, reference is made to Note 9 Tax assets and liabilities of the consolidated financial statements.

OTHER TRANSACTIONS

De Volksbank pays pension premiums for its employees to the SNS REAAL pension fund in the amount of € 42 million (2020: € 39 million).

Positions and transactions with managers in key positions

In 2021 de Volksbank's top management consists of the Board of Directors under the Articles of Association ('*statutaire Directie*').
During 2021, no board members resigned and 1 board member was appointed. At the end of 2021, four persons were regarded as managers in key positions (year-end 2020: 3 persons).

Specification remuneration managers in key positions

in € thousands	2021	2020
Fixed annual income	1,563	2,027
Pension contribution	85	109
Termination benefits	--	535
Total	**1,648**	**2,671**

Fixed annual income includes all remuneration components paid by the employer with the exception of pension contribution and termination benefits presented separately in the table.

Pension contribution means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee. Extra payments to compensate for the loss of pension exceeding € 112,189 are included in the table under fixed annual income.

On 31 December 2021, no loans granted to managers in key positions were outstanding.

The remuneration of individual members of the Board of Directors and members of the Supervisory Board are explained in more detail in Section 2.6 Remuneration report which is part of the financial statements.

Subsidiaries of de Volksbank N.V.

Overview subsidiaries of de Volksbank N.V.

	Place of business	Proportion of ordinary shares
SNS Beheer B.V.	Utrecht	100%
Ecosystemen B.V.[1]	Utrecht	100%
ASN Beleggingsinstellingen Beheer 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%
Fitrex B.V.	Amsterdam	90%

1 Formely known as 1817 B.V.

The above mentioned subsidiaries are consolidated in the annual report of de Volksbank.

Consolidated structured entities

According to IFRS standards, the structured entities over which de Volksbank can exercise control are consolidated. De Volksbank's activities involving structured entities are broken down into the following categories:

- Securitisation programme
- Covered bond programme

De Volksbank does not have a contractual obligation to provide financial support other than liquidity facilities to its consolidated structured entities. Neither of the consolidated structured entities have taken benefit of the liquidity facilities, nor has de Volksbank provided voluntary non-contractual financial support to the Loan Loss Provision (LLP) over the reported periods.

	Place of business	Proportion of ordinary shares
PEARL Mortgage Backed Securities 1 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 4 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 5 B.V.	Amsterdam	0%
Lowland Mortgage Backed Securities 6 B.V.	Amsterdam	0%
Volks Covered Bond Company B.V.	Amsterdam	0%

For more information on the consolidated structured entities, see Note 14 Debt certificates.

24 Transferred and encumbered assets

ACCOUNTING POLICY FOR TRANSFERRED AND ENCUMBERED ASSSETS

Transferred financial assets are transactions for which de Volksbank has:

- transferred the contractual rights to receive the cashflows of the financial asset to a third party or parties, or;

- retained the contractual rights to receive the cashflows of that financial asset, but assumes a contractual obligation to pay the cashflows to a third party or parties.

Depending on the circumstances, these transfers may either result in financial assets that are not derecognised in their entirety or in assets that are derecognised in their entirety. If transferred financial assets continue to be recognised on the balance sheet, de Volksbank is still exposed to changes in the fair value of the assets.

Encumbered assets are assets that can be used as collateral for funding, for example mortgages used as collateral for covered bond programs, securitized assets and collateral for certain repurchase agreement (repo) transactions. In addition, the mandatory cash reserve is also included in encumbered assets. Assets that are committed to undrawn credit facilities are not regarded as encumbered, for example, securitisation notes held by the bank itself which qualify as eligible collateral for the European Central Bank.

The following 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	**2021**	**2020**	**2021**	**2020**
TRANSFERRED ASSETS				
Debt securities	--	--	--	--
Loans and advances	396	491	--	--
Total transferred assets as per year-end	**396**	**491**	**--**	**--**
Amounts due to banks	--			
Debt certificates	344	433	--	--
- Issued under securitisation programmes Hermes, Pearl and Lowland	344	433	--	--
- Issued under securitisation programme Holland Homes	--	--	--	--
Total transferred liabilities as per year-end	**344**	**433**	**--**	**--**

In 2021, the transferred assets amounted to € 396 million (2020: € 491 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

	Assets encumbered as a result of transactions with counterparties other than central banks					Assets encumbered as a result of transactions with counterparties other than central banks				
in € millions	**Covered bonds and secu-ritisations**	**Deriva-tives**	**Other**	**Central banks**	**Total 2021**	**Covered bonds and secu-ritisations**	**Deriva-tives**	**Other**	**Central banks**	**Total 2020**
Cash and cash equivalents	--	--	--	16	16	12	--	10	14	36
Investments - debt securities	--	376	167	--	543	--	510	173	--	683
Loans and advances to banks	--	593	511[1]	--	1,104	--	1,503	463[1]	--	1,966
Loans and advances to customers	5,027	--	1,801[2]	840	7,668	4,772	--	2,095[2]	754	7,620
Total encumbered assets	**5,027**	**969**	**2,479**	**856**	**9,331**	**4,784**	**2,013**	**2,741**	**768**	**10,305**

1 Consists of the mandatory cash reserve at DNB.

2 Pledged to savings premiums received in savings mortgage arrangement for € 1,297 million (2020: € 1,570 million).

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.

25 Post balance sheet events

In February 2022, in response to the violation of Ukraine's sovereignty, various sanctions were issued against Russia, Belarus and parts of Ukraine. We do not have material direct exposure to Ukraine, Russia or Belarus, nor do we expect to have a material indirect exposure to said countries. We adhere to the sanctions imposed, i.e. we closely monitor all transactions and assess them on an individual basis. However, the economic consequences of the situation in Ukraine and their impact on de Volksbank are at this time difficult to estimate.

There have been no other material post balance sheet events which could require disclosure or adjustment to the 31 December 2021 financial statements.

26 Net interest income

ACCOUNTING POLICY FOR NET INTEREST INCOME

Interest income

Interest income comprises interest income on financial assets that is attributable to the period. Interest on financial assets is almost completely accounted for using the effective interest method. A limited part of the interest income relates to financial assets, mainly derivatives in a hedge relationship and trading positions, measured at fair value through profit or loss and is recognised based on nominal interest rates.

The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, de Volksbank calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with the related direct costs, are included in the net interest income and accounted for using the effective interest method.

For credit-impaired assets valued at amortised cost (i.e. less any impairment losses) interest income consists of the time-value of money.

Interest expenses

Interest expenses comprise interest expenses arising from financial liabilities. Interest expenses on financial liabilities that are valued at amortised cost are accounted for using the effective interest method whereas interest expenses on financial liabilities that are classified at fair value through profit or loss are accounted for based on nominal interest rates.

Net interest income

in € millions	2021	2020
Interest income	1,043	1,148
Interest expenses	268	298
Net interest income	**775**	**850**

At year-end the interest income on impaired assets (stage 3) is equal to € 13 million (2020: € 16 million).

Interest income

in € millions	2021 Gross interest income	2021 Hedging expenses	2021 Total interest income	2020 Gross interest income	2020 Hedging expenses	2020 Total interest income
Residential mortgages	1,116	-147	969	1,219	-158	1,061
Other loans and advances to customers	47	-1	46	70	-1	69
Loans and advances to banks	3	--	3	6	--	6
Investments	34	-42	-8	37	-36	1
Negative interest on liabilities	29	--	29	7	--	7
Other	4	--	4	4	--	4
Total	**1,233**	**-190**	**1,043**	**1,343**	**-195**	**1,148**

The negative interest expenses on liabilities are driven by the negative short-term EURIBOR interest rates. As from 2021, this includes interest charged on savings deposits of business and private customers. Furthermore, an amount of € 7.6 million (2020: € 1.8 million) related to de Volksbank's participation in the targeted longer-term refinancing operations III (TLTRO III) programme is included.

Interest expenses

in € millions	2021 Gross interest expenses	2021 Hedging income	2021 Total interest expenses	2020 Gross interest expenses	2020 Hedging income	2020 Total interest expenses
Debt certificates	49	-9	40	69	-29	40
Subordinated debt	9	--	9	20	-2	18
Amounts due to customers	176	-11	165	230	-15	215
Amounts due to banks	2	--	2	4	-1	3
Negative interest on assets	51	--	51	22	--	22
Other	1	--	1	--	--	--
Total	**288**	**-20**	**268**	**345**	**-47**	**298**

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.

27 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.

Net fee and commission income

in € millions	2021	2020
FEE AND COMMISSION INCOME		
Money transfer and payment charges	50	42
Advice and agency activities	16	15
Management fees	54	44
Insurance agency activities	16	16
Other activities	1	4
Total fee and commission income	**137**	**121**
FEE AND COMMISSION EXPENSES		
Money transfer and payment charges	10	5
Management fees	20	22
Insurance agency activities	1	1
Fee franchise	67	47
Total fee and commission expenses	**98**	**75**
Total	**39**	**46**

Net fee and commission income decreased by € 7 million to € 39 million, more than wholly due to the below mentioned classification change in RegioBank's commission fee model. Excluding this change, net fee and commission rose by € 11 million. This increase was mainly driven by an increase in management fees as a result of higher assets under management, which amounted to € 4.75 billion compared with € 3.9 billion at year-end 2020 (+21%). Approximately onethird of this increase was caused by net cash inflow and the remainder was due to positive stock market developments. In addition, net money transfer and payment fees were higher.

As from 1 October 2020, RegioBank changed its commission fee model from a combined savings balance and customer model to a full-customer model. As a consequence, distribution fees paid are classified as fee and commission expenses (fee franchises) instead of interest expenses. The impact of this modified classification amounted to approximately € 18 million compared with 2020 (higher net interest income and lower net fee income, no impact on net result).

28 Investment income

ACCOUNTING POLICY FOR INVESTMENT INCOME
Investment income consists of dividend income and unrealised and realised gains.

Dividend income
Dividend income is recognised in the income statement when entitlement is established. For listed securities, this is the date on which these securities are quoted ex-dividend.

Unrealised and realised gains
This includes the unrealised and realised gains for investments in the following categories:
- Amortised cost (realised);
- Fair value through other comprehensive income (realised);
- Fair value through profit or loss (unrealised and realised).

Investments included in a fair value hedge accounting relationship are reported in Other result on financial instruments.

Investment income

	Debt securities - amortised cost		Debt securities - fair value through OCI		Equity securities - fair value through P&L		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Realised gains	--	--	3	15	--	--	3	15
Other result on investments	--	--	--	--	--	2	--	2
Total	**--**	**--**	**3**	**15**	**--**	**2**	**3**	**17**

Investment income amounted to € 3 million compared with € 17 million in 2020. This decrease was attributable to lower realised results on fixed-income investments sold as part of asset and liability management and the optimisation of the investment portfolio. Compared with the exceptionally high level in 2020, the level normalised in 2021.

29 Other result on financial instruments

ACCOUNTING POLICY FOR OTHER RESULT ON FINANCIAL INSTRUMENTS
This line item includes revaluation results on derivatives and other financial instruments classified as fair value through profit and loss. Derivatives are recognised at fair value. The profit or loss from revaluation at fair value is immediately recognised in the profit and loss account in the item Other result on financial instruments. For derivatives that are designated as a hedging instrument, the recognition of a resulting revaluation gain or loss depends on the nature of the hedge relationship (reference is made to note 4 Hedging and hedge accounting). Fair value movements in the hedged item attributable to hedged risk are also included in this line item as well as the ineffective portion of any gains or losses of hedge relations.

Furthermore, this line item includes realised results from buy backs of own debt certificates.

Other result on financial instruments

in € millions	**2021**	**2020**
Ineffectiveness fair value hedge accounting	3	--
Ineffectiveness cash flow hedge accounting	--	--
Non-trading derivatives: economic hedges - currency	6	10
Trading results derivatives, investments and other financial instruments	2	3
Result on buy back of debt instruments	-1	-4
Total	**10**	**9**

Other results on financial instruments amounted to € 10 million compared with € 9 million in 2020. Lower treasury results were compensated by a higher result on hedge accounting ineffectiveness.

30 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 2021 was nil (2020: € 1 million).

31 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	2021	2020
Salaries	208	192
Pension costs	42	39
Social security	32	30
Other staff costs	132	166
Total	**414**	**427**

The rise in salaries was due to wage inflation and an increase in the number of internal employees. The number of internal employees rose by 7 to 3,178 FTEs.

Other staff costs mainly consist of costs of temporary staff (€ 105 million, 2020: € 102 million). As from 2021, costs related to outsourced services are reclassified from external staff expenses (included in other staff costs) to information technology costs (included in other operating expenses). The reclassification impact compared with 2020 amounted to approximately € 20 million.

The pension rights of the 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 2021 (2020: 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% (2020: 5%) of pensionable earnings (after deduction of the contribution-free amount). The existing administration agreement with *Stichting Pensioenfonds SNS REAAL* was extended by one year until 31 December 2022. The yearly contribution of de Volksbank is set within a range between 22% and 24%. The premium for 2022 is 24%.

Number of internal FTEs

in numbers	2021	2020
Number of internal FTEs	3,178	3,171

The variable remuneration for senior management was abolished and no variable remuneration has been paid out as from 2018. Before the abolition of the variable remuneration, the revised Regulation on Sound Remuneration Policies (*RBB*) came into force as from 1 January 2012. Under this regulation, a possible variable remuneration awarded to de Volksbank staff was partly awarded in phantom shares. The fair value per phantom share is obtained by comparing the equity at the end of the year of performance against the number of outstanding ordinary shares (initial value). Subsequently, the share will annually be revalued with the results of the current year.

The value development of the phantom shares is based on the development of de Volksbank's results, possibly adjusted for non-recurring income or expenses. The value of the phantom shares is paid in phases in cash, one part after 1 year and the remaining part after the 4-year time period. The last phantom shares were awarded in 2017. At year-end 2021, the total amount of liabilities arising from the phantom shares is € 3,855 (2020: € 117,254). This decrease is the result of distributions made in 2021.

32 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	2021	2020
Housing costs	5	5
Information technology costs	60	35
Marketing and public relations costs	35	29
Consultancy costs	26	26
Regulatory levies	79	50
Other costs	28	49
Total	**233**	**196**

Other operating expenses, excluding regulatory levies, were € 9 million higher. Of this amount, € 22 million was related to a positive revaluation related to recognition of legal interest on a previous contribution made under the Deposit Guarantee Scheme (DGS) in relation to the insolvency of DSB. This revaluation totalled € 22 million in 2021, against € 1 million in 2020 in other costs.

As from 2021, costs related to outsourced services are reclassified from external staff expenses (included in other staff costs) to information technology costs (included in other operating expenses). The reclassification impact compared with 2020 amounted to approximately € 20 million.

Other costs comprise costs for payment transactions, securities management and printed matter.

Regulatory levies

in € millions	2021	2020
Deposit Guarantee Scheme	68	42
Single Resolution Fund	11	8
Bank tax	--	--
Total	**79**	**50**

The increased DGS contribution was mainly caused by growth in covered deposits.

33 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.

Impairment charges (reversals) of financial assets by portfolio

in € millions	2021	2020
Residential mortgages	-46	29
Consumer loans	3	-1
SME loans	-12	8
Other corporate and government loans	-4	--
Investments	1	--
Other	--	2
Total impairments financial assets	**-58**	**38**

Impairment charges of financial assets consisted of a reversal of € 58 million, compared with a charge of € 38 million in 2020 in connection with the Covid-19 pandemic. A more detailed description of the credit loss provisioning is set out in the Section 3.3 Credit risk.

34 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	2021	2020
In financial year	43	34
Prior year adjustments	--	1
Corporate income tax due	**43**	**35**
Due to temporary differences	13	24
Deferred tax	**13**	**24**
Total	**56**	**59**

Reconciliation between the statutory and effective tax rate

in € millions	2021	2020
Statutory income tax rate	25.0%	25.0%
Result before tax	218	233
Statutory corporate income tax amount	**54**	**57**
Exemptions	2	2
Prior year adjustments (including tax provision release)	--	1
Impact deferred corporate tax rate reduction	--	-1
Total	**56**	**59**
Effective tax rate	25.8%	25.2%

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 in which 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	€ 827 million
Number of FTEs on a full-time basis	3,961
Profit before tax	€ 218 million
Tax on profit	€ 56 million
Public subsidies received	n.a.

Authorisation of the consolidated annual financial statements

Utrecht, 9 March 2022

BOARD OF DIRECTORS
Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

SUPERVISORY BOARD
Gerard van Olphen (Chair)
Jeanine Helthuis
Petra van Hoeken
Aloys Kregting
Jos van Lange

Company financial statements

Company statement of financial position

Before result appropriation and in € millions	Notes	31-12-2021	31-12-2020
ASSETS			
Liquid assets	1	10,269	4,626
Government paper eligible at the central bank		960	669
Loans and advances to banks	2	4,527	5,990
Loans and advances to customers	3	50,727	50,542
Derivatives	4	591	864
Debt securities		4,664	4,434
Equity securities		10	8
Subsidiaries	5	79	64
Intangible assets	6	--	--
Tangible assets	7	87	107
Other assets	8	693	467
Total assets		**72,607**	**67,771**
EQUITY AND LIABILITIES			
Amounts due to banks	9	1,059	945
Amounts due to customers	10	58,127	53,394
Debt certificates	11	7,058	5,686
Derivatives	4	989	2,125
Other liabilities	12	1,286	1,591
Other provisions[1]		102	80
Subordinated debts[1]		500	500
Total liabilities		**69,121**	**64,321**
Share capital	13	381	381
Share premium reserve	13	3,537	3,537
Cashflow hedge reserve	13	19	22
Fair value reserve	13	11	29
Other reserves	13	-624	-693
Net profit for the period	13	162	174
Total equity		**3,486**	**3,450**
Total equity and liabilities		**72,607**	**67,771**
Loan commitments given		2,533	1,807
Financial guarantees and other commitments		520	612

1 For these line items reference is made to the notes to the consolidated financial statements.

Company income statement

in € millions	**Notes**	**2021**	**2020**
Interest income	17	1,064	1,168
Interest expense	17	264	289
Net interest income		**800**	**879**
Investment income and result subsidiaries	18	-7	-15
Fee and commission income	19	111	105
Fee and commission expenses	19	80	58
Net fee and commission income		**31**	**47**
Other result on financial instruments	20	-3	-9
Other operating income		--	--
Total income		**821**	**902**
Salaries	21	379	394
Social security	21	32	30
Staff costs		**411**	**424**
Depreciation and amortisation of tangible and intangible assets		20	30
Other operating expenses	22	224	189
Impairment charges of financial assets	23	-50	28
Total expenses		**605**	**671**
Result before taxation		**216**	**231**
Taxation	24	54	57
Net result for the period		**162**	**174**

Principles for the preparation of the company financial statements

When preparing the company financial statements, de Volksbank N.V. makes use of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code of applying the same principles for valuation and the determination of the results as are used in the consolidated financial statements for the company financial statements. Reference is made to the accounting principles for the consolidated financial statements. The presentation and notes in the company financial statements are based on Title 9, Book 2 of the Dutch Civil Code.

For additional information on items not explained further in the notes to the company statement of financial position, reference is made to the notes to the consolidated financial statements.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

De Volksbank N.V. is as a public interest entity in accordance with Book 2, Section 398 (7) of the Dutch Civil Code. The company financial statements fully comply with the Dutch Annual Accounts Formats Decree (Besluit modellen jaarrekening) (model K for the statement of financial position and model L for the income statement).

Subsidiaries are all companies and other entities in respect of which de Volksbank N.V. has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by de Volksbank N.V. The subsidiaries are accounted for using the equity method. The subsidiaries are regarded as an asset and liability combination and not as an indivisible asset. The expected credit losses as prescribed in IFRS 9 on receivables from subsidiaries in the company financial statements are eliminated and included in the carrying amount of the receivables.

The cashflow and fair value reserve qualify as statutory revaluation reserves.

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	2021	2020
Non-restricted demand deposits at Dutch Central Bank[1]	10,195	4,539
Short-term bank balances	63	75
Cash	11	12
Total	**10,269**	**4,626**

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	2021	2020
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	2,828	3,584
> 3 months ≤ 1 year	1,111	1,175
> 1 year ≤ 5 years	306	259
> 5 years	282	972
Total	**4,527**	**5,990**

3 Loans and advances to customers

Specification loans and advances to customers

in € millions	2021	2020
BREAKDOWN BY REMAINING MATURITY:		
≤ 3 months	844	949
> 3 months ≤ 1 year	1,145	799
> 1 year ≤ 5 years	3,582	3,250
> 5 years	45,156	45,544
Total	**50,727**	**50,542**

4 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Derivatives held for fair value hedge accounting	366	314	732	1,662	-366	-1,348
Derivatives held for cashflow hedge accounting	2	10	1	--	1	10
Derivatives held for economic hedges	165	461	199	383	-34	78
Derivatives held for trading	58	79	57	80	1	-1
Total	**591**	**864**	**989**	**2,125**	**-398**	**-1,261**

Statement of changes in derivatives

in € millions	**2021**	**2020**
Opening balance	**-1,261**	**-1,068**
Purchases	60	-26
Settlements	254	321
Revaluations	558	-503
Exchange rate differences	-9	15
Closing balance	**-398**	**-1,261**

5 Subsidiaries

Statement of changes in subsidiaries

in € millions	**2021**	**2020**
Opening balance	**64**	**52**
Result subsidiaries	-10	-32
Adjustment equity value subsidiaries	25	44
Closing balance	**79**	**64**

Securitised mortgages are not derecognised from the company financial statements as the derecognition criteria are not met. For that reason the equity values of subsidiaries that are presented in the company financial statements only relate to assets and liabilities of the subsidiary except securitised mortgages. The comparative figures for this change in presentation is adjusted accordingly.

6 Intangible assets

Statement of change in intangible assets

	Internally developed software		**Goodwill**		**Other intangible assets**	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Accumulated acquisition costs	--	14	--	--	--	21
Accumulated amortisation and impairments	--	-14	--	--	--	-21
Closing balance	**--**	--	**--**	--	**--**	--
Opening balance	--	1	--	--	--	1
Depreciation	--	-1	--	--	--	-1
Closing balance	**--**	--	**--**	--	**--**	--

7 Tangible assets

Specification property and equipment

in € millions	**2021**	**2020**
Land and buildings in own use	11	8
IT equipment	6	9
Other assets	26	27
Right of use of lease contracts	44	63
Total	**87**	**107**

For a more detailed explanation on the Right of use of lease contracts, refer to Note 16 Lease contracts in the Notes to the consolidated financial statements.
In 2021, de Volksbank changed its accounting policy for land and buildings in own use from the revaluation model to the cost model in order to bring it more in line with market-practice in the banking sector. For more information, refer to the Changes in accounting policies, estimates and presentation in the consolidated financial statements.

Statement of change in property and equipment

	Land and buildings		**IT equipment**		**Other assets**		**Total**	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Accumulated acquisitions costs	14	9	33	36	91	86	138	131
Accumulated revaluations		1		--		--		1
Accumulated amortisations and impairments	-3	-2	-27	-27	-65	-59	-95	-88
Closing balance	**11**	8	**6**	9	**26**	27	**43**	44
Opening balance	8	10	9	11	27	26	44	47
Revaluations		1		--		--		1
Investments	1	--	2	3	7	9	10	12
Divestments	-1	-2	--	--	--	--	-1	-2
Depreciation	--	--	-5	-5	-8	-8	-13	-13
Impairments	3	-1	--	--	--	--	3	-1
Closing balance	**11**	8	**6**	9	**26**	27	**43**	44

8 Other assets

Specification other assets

in € millions	2021	2020
Receivables from subsidiaries	485	289
Tax assets	43	45
Trade and other receivables	72	55
Amounts to be settled	30	1
Other	49	75
Sublease	14	2
Total	**693**	**467**

Other include the interest on the advanced contribution of de Volksbank to the Dutch Central Bank of € 32 million (2020: € 59 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank in 2009.

9 Amount due to banks

Specification amounts due to banks

in € millions	2021	2020
BREAKDOWN BY REMAINING MATURITY		
≤ 3 months	219	90
> 3 months ≤ 1 year	760	738
> 1 year ≤ 5 years	25	54
> 5 years	55	63
Total	**1,059**	**945**

The interest rate of loans with a maturity of more than one year is on average 1.0% negative (2020: 4.7% positive).

10 Amounts due to customers

Specification amounts due to customers

in € millions	2021	2020
Savings	45,645	42,111
Other amounts due to customers	12,482	11,283
Total	**58,127**	**53,394**

Time to maturity amounts due to customers

in € millions	2021	2020
BREAKDOWN BY REMAINING MATURITY:		
Payable on demand	43,516	39,874
Not payable on demand:		
≤ 3 months	10,060	8,605
> 3 months ≤ 1 year	214	160
> 1 year ≤ 5 years	1,050	1,355
> 5 years	3,287	3,400
Total	**58,127**	**53,394**

11 Debt certificates

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Opening balance	5,446	6,062	240	322	5,686	6,384
Issues	1,641	997	351	831	1,992	1,828
Redemptions	-224	-1,590	-390	-912	-614	-2,502
Revaluations	-3	6	--	--	-3	6
Amortisation	3	3	-1	-1	2	2
Change accrued interest	3	-9	--	--	3	-9
Other adjustments	-8	-23	--	--	-8	-23
Closing balance	**6,858**	**5,446**	**200**	**240**	**7,058**	**5,686**

Time to maturity debt certificates

in € millions	**2021**	**2020**
BREAKDOWN BY REMAINING MATURITY		
> 1 month ≤ 3 months	120	150
> 3 months ≤ 1 year	612	308
> 1 year ≤ 5 years	2,015	1,529
> 5 years	4,311	3,699
Total	**7,058**	**5,686**

12 Other liabilities

Specification other liabilities

in € millions	**2021**	**2020**
Amounts due to subsidiaries	902	1,023
Deferred tax liabilities	9	17
Other taxes	16	16
Accruals	211	209
Other	91	262
Lease liabilities	57	65
Total	**1,286**	**1,592**

For a more detailed explanation to the Lease liabilities, refer to Note 16 Lease contracts in the Notes to the consolidated financial statements.

Other relates mainly to amounts payable to customers and suppliers.

13 Equity

Statement of changes in equity 2021

in € millions	Issued capital	Share premium reserve	Cashflow hedge-reserve	Fair value reserve	Other reserves	Net profit for the period	Total Equity
Balance as at 1 January 2021	**381**	**3,537**	**22**	**29**	**-693**	**174**	**3,450**
Transfer of net result	--	--	--	--	70	-70	**--**
Unrealised revaluations	--	--	--	-16	--	--	-16
Realised revaluations through P&L	--	--	-3	-2	--	--	**-5**
Other movements	--	--	--	--	-1	--	-1
Amounts charged directly to equity	**--**	**--**	**-3**	**-18**	**-1**	**--**	**-22**
Net result	--	--	--	--	--	162	162
Total result 2021	**--**	**--**	**-3**	**-18**	**-1**	**162**	**140**
Dividend pay-out	--	--	--	--	--	-104	-104
Transactions with shareholder	**--**	**--**	**--**	**--**	**--**	**-104**	**-104**
Total changes in equity	**--**	**--**	**-3**	**-18**	**69**	**-12**	**36**
Closing balance	**381**	**3,537**	**19**	**11**	**-624**	**162**	**3,486**

The cashflow hedge reserve and fair value reserve are statutory reserves.

Statement of changes in equity 2020

in € millions	Issued capital	Share premium reserve	Cashflow hedge-reserve	Fair value reserve	Other reserves	Net profit for the period	Total Equity
Balance as at 1 January 2020	**381**	**3,537**	**26**	**19**	**-803**	**275**	**3,435**
Transfer of net result	--	--	--	--	110	-110	--
Unrealised revaluations	--	--	--	22	--	--	22
Realised revaluations through P&L	--	--	-4	-12	--	--	-16
Amounts charged directly to equity	--	--	-4	10	--	--	6
Net result	--	--	--	--	--	174	174
Total result 2020	**--**	**--**	**-4**	**10**	**--**	**174**	**180**
Dividend pay-out	--	--	--	--	--	-165	-165
Transactions with shareholder	**--**	**--**	**--**	**--**	**--**	**-165**	**-165**
Total changes in equity	**--**	**--**	**-4**	**10**	**110**	**-101**	**15**
Closing balance	**381**	**3,537**	**22**	**29**	**-693**	**174**	**3,450**

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	**2021**	**2020**	**2021**	**2020**
Authorised share capital	4,200,040	4,200,040	1,906	1,906
Share capital in portfolio	3,360,032	3,360,032	1,525	1,525
Issued share capital as at 31 December	**840,008**	**840,008**	**381**	**381**

14 Contingent liabilities and commitments

De Volksbank N.V. has provided guarantees as referred to in Book 2, section 403 of the Dutch Civil Code for *Pettelaar Effectenbewaarbedrijf N.V.*, SNS mortgage Receivables B.V., SNS Global Custody B.V. and *ASN Duurzaame Deelnemingen N.V.*

For more information on the other contingent liabilities, see Note 20 Contingent liabilities and commitments of the consolidated financial statements.

15 Related parties

Positions and transactions between de Volksbank N.V. and subsidiaries

	Securitisation entities		Other		Total	
in € millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Income received	10	6	5	4	15	10
Expenses paid	--	--	--	--	--	--

For more information on the related parties, see Note 23 Related parties of the consolidated financial statements.

The receivables from the subsidiaries and the amounts due to subsidiaries are included in Note 8 Other assets and Note 12 Other liabilities.

16 Post balance sheet events

In February 2022, in response to the violation of Ukraine's sovereignty, various sanctions were issued against Russia, Belarus and parts of Ukraine. We do not have material direct exposure to Ukraine, Russia or Belarus, nor do we expect to have a material indirect exposure to said countries. We adhere to the sanctions imposed, i.e. we closely monitor all transactions and assess them on an individual basis. However, the economic consequences of the situation in Ukraine and their impact on de Volksbank are at this time difficult to estimate.

There have been no other material post balance sheet events which could require disclosure or adjustment to the 31 December 2021 financial statements.

17 Net interest income

Specification net interest income

in € millions	**2021**	**2020**
Interest debt securities	-8	1
Interest income residential mortgages	980	1,074
Interest income other	93	93
Interest expense banking activities	-265	-289
Net interest income	**800**	**879**

The interest income on securitised mortgages that are not derecognised from the company financial statements and related interest expense of securitisation debt certificates, are reclassified from the company income statement item 'Result subsidiaries' to 'Net interest income'. The comparative figures for this change in presentation is adjusted accordingly.

18 Investment income and result subsidiaries

in € millions	**2021**	**2020**
Investment income	3	17
Result subsidiaries	-10	-32
Total	**-7**	**-15**

Realised gains and losses on equities in the amount of € 3 million (2020: € 17 million) are recognised under investment income.

19 Net fee and commission income

Specification net fee and commission income

in € millions	2021	2020
FEE AND COMMISSION INCOME		
Money transfer and payment charges	50	42
Advice and agency activities	15	15
Management fees	29	29
Insurance agency activities	16	16
Other activities	1	3
Total fee and commission income	**111**	**105**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	1
Money transfer and payment charges	10	5
Management fees	2	5
Fee franchise	67	47
Total fee and commission expenses	**80**	**58**
Total	**31**	**47**

For more information on the increase in Fee franchise, see Note 27 Net fee and commission income in the consolidated financial statements.

20 Other result on financial instruments

Specification other result on financial instruments

in € millions	2021	2020
Ineffectiveness fair value hedge accounting	3	--
Ineffectiveness cash flow hedge accounting	--	--
Non-trading derivatives: economic hedges - interest rate	--	--
Non-trading derivatives: economic hedges - currency	6	10
Trading results derivatives, investments and other financial instruments	-11	-15
Result on buy back of debt instruments	-1	-4
Total	**-3**	**-9**

21 Staff costs

Specification staff costs

in € millions	2021	2020
Salaries	206	190
Pension costs	42	39
Social security	32	30
Other staff costs	131	165
Total	**411**	**424**

22 Other operating expenses

Specification other operating expenses

in € millions	2021	2020
Housing costs	5	5
Information technology costs	60	35
Marketing and public relations costs	34	29
Consultancy costs	24	25
Regulatory levies	79	50
Other costs	22	45
Total	**224**	**189**

For more information on the increase in Information technology costs, see Note 32 Other operating expenses in the consolidated financial statements.

23 Impairment charges (reversals) of financial assets

Specification impairment charges of financial assets

in € millions	2021	2020
Residential mortgages	-38	19
Consumer loans	3	-1
SME loans	-12	8
Other corporate and government loans	-4	--
Investments	1	--
Other	--	2
Total impairment charges financial assets	**-50**	**28**

24 Taxation

Specification taxation

in € millions	2021	2020
In financial year	41	32
Prior year adjustments	1	1
Corporate income tax due	**42**	**33**
Due to temporary differences	12	24
Deferred tax	**12**	**24**
Total	**54**	**57**

The effective tax rate over 2021 amounts to 24.9% (2020: 24.7%).

25 Audit fees

Notes to the audit fees

in € thousands, excluding applicable VAT	EY Accountants 2021	EY Accountants 2020
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,967	1,910
Other assurance services	1,265	1,111
Tax advisory services	--	--
Other non-audit services	--	--
Total	**3,232**	**3,021**

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 review of interim financial information, the assessment of non-financial information as included in the integrated annual report and activities related to the 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 out a dividend of the amount of € 97 million (2020: € 104 million) dividend from the retained earnings for 2021. The profit after dividend payment for the financial year 2021 will be added to the other reserves.

Utrecht, 9 March 2022

BOARD OF DIRECTORS
Martijn Gribnau (Chair)
Jeroen Dijst
Marinka van der Meer

SUPERVISORY BOARD
Gerard van Olphen (Chair)
Jeanine Helthuis
Petra van Hoeken
Aloys Kregting
Jos van Lange

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 2021 included in the annual report

Our opinion
We have audited the financial statements 2021 of de Volksbank N.V. based in Utrecht. The financial statements comprise the consolidated and company financial statements.

In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the financial position of de Volksbank N.V. as at 31 December 2021 and of its result and its cash flows for 2021 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 2021 and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2021;
- the following statements for 2021: the consolidated income statement, comprehensive income, consolidated statement of changes in equity and the consolidated cashflow statement;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:
- the company statement of financial position as at 31 December 2021;
- the company income statement for 2021;
- 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. ('the company') 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.

Information in support of our opinion
We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business
De Volksbank N.V. is a bank with a focus on mortgages, payments and savings as its most important products for Dutch retail clients. We paid specific attention in our audit to a number of areas driven by related operations and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud 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.

In order to obtain sufficient and appropriate audit evidence to provide an opinion about the consolidated financial statements, we have performed a full-scope audit on the consolidated financial information of de Volksbank N.V. as a whole (no components) and by one audit team.

We were forced to perform our procedures related to the audit of the 2021 financial statements to a great extent remotely due to the Covid-19 measures. In order to compensate for the limitations related to physical presence and direct observation, we extensively used communication technologies and written information exchange to obtain the audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	EUR 17 million (2020: EUR 17 million)
Benchmark applied	0.5% of shareholder's equity (2020: 0.5%)
Explanation	Based on our professional judgment, a benchmark of 0.5% of shareholder's equity is an appropriate quantitative indicator of materiality as it best reflects the financial position of de Volksbank N.V. We determined materiality consistently with the previous financial year

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 € 0.8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Teaming and use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a bank. We included specialists in the areas of IT audit, forensics, legal and income tax. Furthermore, we have made use of our own experts in the areas of the loan loss provisioning, valuations of derivatives, hedge accounting, employee benefits, fair value disclosures and capital ratios.

Our focus on climate risks and the energy transition

Climate change and the energy transition are emerging topics and lead to significant change for many businesses and society. The Board of Directors has reported in section 1.4 ESG related disclosures and section 3.9 Sustainability risk on the Environmental, Social and Governance (ESG) factors directly and indirectly impacting de Volksbank N.V.'s business, and its consideration of the impact of climate change including the potential impact of climate-related risks and taking into account related regulatory and supervisory guidance and recommendations.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are materially impacting judgements, accounting estimates and significant assumptions applied by de Volksbank N.V., including those related to the estimation of expected credit losses. Furthermore, we read the other information included in the annual report and considered whether there is any material inconsistency between the non-financial information in section 1.4 ESG related disclosures and section 3.9 sustainability risk and the financial statements. Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgements, accounting estimates or significant assumptions per 31 December 2021.

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 we 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.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the company and its environment and the components of the system of internal control, including the risk assessment process and the board of directors' process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We refer to section 3 Risk management of the annual report for the Board of Directors' risk assessment, that includes the considerations for the potential for fraud.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

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. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present. In our risk assessments we considered the potential impact of among others developments of key financial ratios, the business development and organizational changes. We also considered whether the Covid-19 pandemic gives rise to specific fraud risk factors with remote working or illness possibly diluting the effectiveness of internal controls.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls and when identifying and assessing fraud risks we presume that there are risks of fraud in revenue recognition. However, we concluded that this presumption is not applicable for revenue recognition by de Volksbank N.V. and the risks related to management override of controls did not require significant auditor's attention in addition to the following fraud risk identified during our audit.

Risk of management override of controls in connection with the determination of macro-economic scenarios and forward looking information in the calculation of expected credit losses

Fraud risk	In identifying and assessing fraud risks, we considered the risk of possible management bias in connection with assumptions such as macro-economic scenarios and forward looking information in the determination of the expected credit losses, represents a risk of material misstatement due to fraud.
Our audit approach	We describe the audit procedures responsive to this fraud risk in the description of our audit approach for the key audit matter 'Estimation of expected credit losses on residential mortgages'.

Finally, we considered available information and made enquiries of relevant executives, directors (including risk, compliance, internal audit and legal) and the supervisory board.

The fraud risk we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

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, inspection of the integrity risk analysis (SIRA), 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. In case of potential non-compliance with laws and regulations that may have a material effect on the financial statements, we assessed whether the company has an adequate process in place to evaluate the impact of non-compliance for its activities and financial reporting and, where relevant, whether the company implemented remediation plans amongst which for client integrity. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us. We make reference to the key audit matter on the 'Estimation of other, non-credit, provisions and related disclosures'.

Our audit response related to going concern

The board of directors made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the specific assessment with the board of directors exercising professional judgment and maintaining professional skepticism. We considered whether the board of directors' going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on the company's ability to continue as a going concern and whether the company will continue to comply with prudential requirements. 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. Based on our procedures performed, we did not identify serious doubts about the company's ability to continue as a going concern for the next 12 months.
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.

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.

The key audit matter 'The impact of the Covid-19 pandemic' which was included in our last year's auditor's report, is not considered a key audit matter for this year. The impact of Covid-19 with regard to the uncertainty of loan loss provisions is included in the related key audit matter.

Estimation of expected credit losses on residential mortgages

Risk	Residential mortgages are measured at amortized cost, less a provision for impairment. Impairment allowances represent the company's best estimate of expected losses. At 31 December 2021 the total gross mortgage loan portfolio amounts to EUR 48.2 billion (2020: EUR 47.8 billion) and expected credit loss provisions of EUR 73 million (2020: EUR 111 million) are reported and disclosed in note 7 to the financial statements. The notes to the financial statement also disclose the 'Changes in accounting policies, estimates and presentation' related to the implementation of new definition of default. The provision for impairment is based on expected credit losses which includes assumptions such as the probability of default, the loss given default, the allocation of loans to stages and the use of macro-economic scenarios and forward looking information. In response to the higher estimation uncertainties under the current economic situation a number of management overlays have been recognized. The appropriateness of loan loss provisions is a key area of judgment for the board of directors. The identification of expected credit losses and the determination of the recoverability of residential mortgages are inherently uncertain processes involving assumptions and factors including scenarios for unemployment and housing prices and impact of Covid-19. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. As part of our risk assessment we considered the potential risk of management override of controls and we identified a significant risk with regard the collateral values as an important factor for the expected credit losses. Given the relative size of the residential mortgages of de Volksbank N.V., the complex accounting requirements with respect to calculating provisions for expected credit losses and the subjectivity involved in the judgments made, we considered this to be a key audit matter.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of de Volksbank N.V.'s accounting policies related to expected credit losses according to IFRS 9 "Financial Instruments". We have obtained an understanding of the loan loss provisioning process and tested the design and operating effectiveness of internal controls across the processes relevant to the expected credit loss calculations, and performed substantive procedures as well. This included the allocation of loans into stages, model governance, data accuracy and completeness, arrears management, multiple economic scenarios, post model adjustments, journal entry testing and disclosures. Our audit procedures included, amongst others, evaluating the appropriateness of de Volksbank N.V.'s accounting policies related to expected credit losses according to IFRS 9 "Financial Instruments". We have obtained an understanding of the loan loss provisioning process and tested the design and operating effectiveness of internal controls across the processes relevant to the expected credit loss calculations, and performed substantive procedures as well. This included the allocation of loans into stages, model governance, data accuracy and completeness, arrears management, multiple economic scenarios, post model adjustments, journal entry testing and disclosures. With the support of our internal modelling specialists, we assessed the adequacy of the provisioning models used by de Volksbank N.V. and verified whether the models were adequately designed and implemented. We performed an overall assessment of the provision levels by stage to determine if they were reasonable considering the risk profile of the mortgage portfolio, arrears management and credit risk management practices and the macroeconomic environment. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of loans on appropriate staging. We tested the data used in the ECL calculation by reconciliation to source systems. With the assistance of our real estate valuation experts we tested the collateral values as this is an important factor for the expected credit loss, in particular for stage 3 loans. We have assessed the indexation methodology for the collateral valuation, checked the correct application thereof, and performed an independent valuation test for a selection of collaterals. With the support of our internal economic specialists, we assessed the base case and alternative economic scenarios including the impact of Covid-19 and the recognition and documentation of management overlays. This included challenging probability weights and the forecasts across the scenarios, as well as assessing the sensitivity of changes in the assumptions in the calculations. We tested the appropriateness and the associated considerations of post model adjustments and recalculated a sample of these amounts. We also assessed completeness of the adjustments based on industry sector information, portfolio characteristics and considering inherent model uncertainties. Finally, we evaluated the completeness and accuracy of the disclosures relating to the provision for impairment losses, as disclosed in note 7 to the financial statements and by reference in the risk management paragraph of the annual report, to evaluate compliance with disclosure requirements included in EU-IFRS. In particular we evaluated that these disclosures adequately convey the degree of estimation uncertainty and the range of possible outcomes under the different economic scenarios.
Key observations	Based on our procedures performed we consider the provision for expected credit losses on residential mortgages to be reasonable and in compliance with EU-IFRS. The disclosures relating to the provision for expected credit losses meet the requirements of EU-IFRS.

Estimation of other, non-credit, provisions and related disclosures

Risk	In accordance with IAS 37 Provisions, contingent liabilities and contingent assets, de Volksbank N.V. provides for liabilities related to, among others, restructuring, legal claims and compliance matters. At 31 December 2021, a total of EUR 102 million (2020: EUR 80 million) for these non-credit related provisions is recognized and detailed in note 17 of the financial statements. In note 20 and note 21 the off balance sheet commitments and legal proceedings are presented. Furthermore, in the risk management paragraph developments with regard to legal and compliance risk are disclosed. Developments at de Volksbank N.V. with regard to the internal organization, services to customers and the range of products, as well as heightened regulatory scrutiny, give rise to increased attention from the board of directors when estimating the provisions, specifically in the determination of whether outflows in respect of identified matters are probable and can be estimated reliably and the appropriateness of assumptions and judgments used in the estimation of the provisions. Therefore, we consider this a key audit matter.
Our audit approach	We obtained an understanding of the entity level controls and the legal and regulatory framework of the company. Further, we evaluated the design and implementation of controls by de Volksbank N.V. to identify, monitor and disclose provisions for liabilities and claims, and to assess the completeness and accuracy of data used to estimate provisions. For significant provisions, such as in connection with reorganization and compensation schemes, we challenged the provisioning methodology and tested the underlying data and assumptions used. For cases which were settled during 2021 we verified the actual outflows and considered any remaining residual risk. On a regular basis, we inquired with the risk, compliance, internal audit and legal departments of de Volksbank N.V. to understand and discuss the existing and potentially new obligations and regulatory matters. We examined the relevant internal reports as well as regulatory and legal correspondence to assess developments and we performed follow-up procedures to examine the company's assessment of the impact on the financial statements and the adequacy of risk management disclosures. Where appropriate, we involved our legal and compliance specialists. Furthermore, we assessed whether the disclosures provided on the other provisions and off balance sheet commitments with regard to restructuring, legal claims and compliance matters in note 17, note 20 and note 21 of the financial statements are in compliance with the EU-IFRS requirements. Finally, we evaluated the appropriateness of the compliance and legal risk disclosures in the risk management paragraph.
Key observations	Based on our procedures performed we consider the provisions to be reasonable and in compliance with EU-IFRS. The disclosure on provisions and off-balance sheet commitments is considered adequate and appropriate and meets the requirements under EU-IFRS.

Reliability and continuity IT environment

Risk	The activities and financial reporting of de Volksbank N.V. are highly dependent on the reliability and continuity of the IT environment. Effective general IT controls with respect to change management, logical access, infrastructure and operations, secure to a large extent the integrity and continuity of the IT systems as well as the operating effectiveness of the automated controls. As described in the risk management sections 3.1.2 and 3.5.2 in the annual report, the IT environment and the IT organization of de Volksbank N.V. are subject to process improvements. There is a risk that the general IT control measures may not always operate as intended. Therefore we identified the reliability and continuity of the IT environment as a key audit matter.
Our audit approach	IT audit specialists are an integral part of the engagement team and assess the reliability and continuity of the IT environment to the extent necessary for the scope of our audit of the financial statements. In this context, we evaluated the design of the IT processes and tested the operating effectiveness of general IT controls. Further, we obtained an understanding of the cyber security procedures and reporting. Following certain observations related to the demonstrability of controls related to among others logical access and infrastructure management, 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

The annual report contains other information in addition to the financial statements and our auditor's report thereon.
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 for the management report and the other 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 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 management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Engagement
We were engaged by supervisory board as auditor of de Volksbank N.V. on 12 October 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format (ESEF)
De Volksbank N.V. has prepared the annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in the XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by de Volksbank N.V., complies in all material respects with the RTS on ESEF.

The board of directors is responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF, whereby the board of directors combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the company's financial reporting process, including the preparation of the reporting package;
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files has been prepared in accordance with the technical specifications as included in the RTS on ESEF;
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities for the financial statements

Responsibilities of the board of directors and the supervisory board for the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board of directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

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
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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, 9 March 2022

Ernst & Young Accountants LLP

Signed by P.J.A.J. Nijssen

DEFINITIONS AND ABBREVIATIONS

Definitions

Term	Definition
AC	Audit Committee of the supervisory board of de Volksbank N.V.
Advanced Internal Ratings Based (AIRB)	The highest and most detailed method for calculating the capital requirements for credit risk under Basel II on the basis of internal credit risk models.
AGM	Annual general meeting of shareholders of de Volksbank N.V.
Asset & Liability Comittee (ALCO)	Risk committee that takes decisions on how to optimally control interest income, capital and the liquidity position. The ALCO is also responsible for identification, controlling and management of these risks with a view to achieving long-term growth.
Arrears Management	Service centre that deals with files of customers in arrears
Basel III	The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards prescribe higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.
Basis point (bps)	One hundredth of 1 percentage point.
Business risk	The risk that business earnings and franchise value decline and/or deviate from expectations because of uncertainty in business income or in the expenses incurred to generate business income.
Capital adequacy	Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.
Capital adequacy risk	The risk that the capital position is insufficient to serve as a buffer for the occurrence of unexpected losses that may arise if one or more risks to which the Company is exposed manifest themselves.
CO_2	A greenhouse gas that is produced primarily through the burning of fossil fuels and that contributes to climate change. Also known as carbon dioxide.
Compliance risk	The risk that the Company and / or its employees do not completely or accurately comply with the (ratio) of written and unwritten rules of corporate integrity and conduct and may be held responsible for such conduct, which may lead to loss of reputation and / or financial loss.
Concentration risk	The risk arising from large individual exposures or accumulation of similar individual exposure (s) within or between categories of risks
Cost/income ratio / Adjusted cost/income ratio	Total operating expenses adjusted for the impact of regulatory levies divided by total income / Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) divided by total income adjusted for the impact of incidental items.
Cost/assets ratio as a % of average assets / Adjusted cost/ assets ratio as a % of average assets	Operating expenses adjusted for regulatory levies divided by average month-end total assets for the reporting period / Operating expenses adjusted for regulatory levies and incidental items divided by average month-end total assets for the reporting period.
Core Tier 1-ratio	The bank's core capital, excluding preference shares, expressed as a percentage of total risk exposure amount.
Coverage ratio	The coverage ratio gives the coverage of the IFRS loan loss provision formed in relation to the gross carrying amount of the loans, expressed as a percentage.
Covered bonds (CB)	Covered bonds (CB) are secured long-term funding Instruments (bonds). This type of bond differs from a standard bond by recourse to a pool of assets (cover assets). In a default event, the bondholder has recourse to the issuer and this pool of assets.
Cost of risk	Impairment charges divided by average month-end portfolio exposure for the reporting period.
Credit Comittee	Risk committee that is responsible for controlling credit risks within the frameworks and within the planning and budgeting cycle. The CC controls and monitors the development of credit risk in the portfolios.
Credit rating	Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the creditworthiness of a country, company or institution.
Credit risk	The risk that the Company suffers a financial loss or a material decrease in solvency, due to the fact that a borrower/counterparty does not meet a financial or other contractual obligation to the Company or due to a material detoriation of the creditworthiness of that borrower/counterparty.
Credit Valuation Adjustment (CVA)	The market value of counterparty credit risk compared to the (total) market value of a derivative.
de Volksbank	de Volksbank N.V.
Duration of equity	The duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve.

Term	Definition
Economic capital	An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.
Encumbered assets	Assets that were pledged or subject to an arrangement, either explicitly or implicitly, in any way to secure, collateralise or credit enhance a transaction.
Executive Pricing Comittee (EPC)	Risk committee that aims for a sustainably profitable portfolio by weighing volume, risk and return within the frameworks of external regulations, risk policy and our Manifesto.
Exposure at Default (EAD)	The EAD is the expected counterparty credit exposure at the time of default.
Forbearance	Forbearance exist if a debtor is having difficulty or is about to encounter difficulties complying with their financial obligations and their contract terms have been changed or the loan has been refinanced as a result.
Hedging	Complete or partial hedging of a financial position by entering into a transaction of which the change in value moves in the opposite direction of the change in value of the original position, often through derivatives.
In arrears	A customer is in arrears if the payment of any interest and/or redemption amount is past due one day after the agreed payment date.
In default	A customer is in default once three monthly instalments have not been paid and the past-due amount exceeds a threshold value. A customer also goes into default if we consider it unlikely that the customer will be able to comply with his or her obligations in the future.
Interest rate risk banking book	The current or prospective risk to the economic value, capital and earnings of the banking book arising from adverse movements in interest rates.
International Financial Reporting Standards (IFRS)	The IFRS, formerly known as International Accounting Standards (IAS), are drawn up and recommended by the International Accounting Standards Board. With effect from the financial year 2005, all listed companies in the EU are required to report under IFRS.
Legal risk	The risk related to a failure to adhere to (i) applicable laws and regulations or unexpected interpretation thereof, (ii) agreements; and related to (iii) non-contractual liability, resulting in financial loss, regulatory sanctions or damage to the Company's reputation. As a result, the Company may be held liable for any current and future claims or may incur damages itself, for example as a result of incorrectly drawn up contracts or incorrect product documentation
Liquidity Coverage Ratio (LCR)	The Liquidity Coverage Ratio (LCR) is an indicator that provides insight into whether sufficient liquid assets are available to absorb a 30-day stress scenario.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses. In addition, liquidity risk is understood to mean the likelihood that the balance sheet structure will develop in such a way that the Company is excessively exposed to disruptions in its funding sources.
Loan-to-Deposit ratio	Loans and advances to retail customers divided by amounts due to retail customers.
Market risk	The risk that equity, the result or continuity is threatened by movements in the level and/or volatility of market prices to which the Company is exposed.
Model Governance Comittee (MGC)	Risk committee that monitors the quality and uniformity of all financial risk and valuation models.
Model risk	The risk of making decisions based on inadequate or erroneous model output, caused by improper implementation, application or interpretation of the models.
MoU	Memorandum of Understanding as mutually agreed upon by NLFI and de Volksbank N.V.
Net interest margin (bps)	Net interest income divided by average month-end total assets for the reporting period.
Net Stable Funding Ratio (NSFR)	The NSFR aims to determine the extent to which longer-term assets are funded with stable forms of funding.
NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, from human failures or errors, or external events such as fraud or criminal acts.
Options	The contractual right, during a certain period or on a specified date, to purchase (call option) or to sell (put option) a certain number of underlying shares or currency at an agreed price.
P&OC	People and Organisation Committee of the supervisory board of de Volksbank N.V.
Preventive management	A joint project of SNS, RegioBank and BLG Wonen that provides customers with looming payment problems with preventive assistance.

Term	Definition
Product Approval & Review Comité (PARC)	Risk committee that is charged with the approval and periodic evaluation of new and existing products and services that we offer to our customers. The risk profile of existing and new products and services is controlled on the basis of legislation and regulations, customers' interests and our Manifesto.
R&CC	Risk and Compliance Committee of the supervisory board of de Volksbank N.V.
Repo	A repo, also known as a repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a certain date.
Reporting risk	The risk that the financial and / or non-financial reporting of the institution contains incorrect or incomplete information of substantial importance, or that internal and external stakeholders cannot take note of in a timely manner.
Reputation risk	The risk that the institution's reputation is tarnished and targets are not met because insufficient account is taken of the Company's image and opinion shared by the outside world (including customers, counterparties, shareholders and regulators).
Residential Mortgage Backed Securities (RMBS)	RMBS, or mortgage securitisations, are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cashflows to bondholders.
Return on equity (ROE) / adjusted ROE	Net result divided by average month-end total equity for the reporting period. / Net result adjusted for incidental items divided by average month-end total equity for the reporting period.
Stage ratio	The gross carrying amount of loans in a certain stage as a percentage of by the total gross carrying amount of loans.
(Bank)savings mortgages	Savings-based mortgages are mortgages with an insurance-linked savings scheme whereby the accumulated capital will be used to repay the principal at maturity. A bank savings-based mortgage operates on the same principle, except it is linked to a bank savings account.
Securitisation	Structuring and bundling debts and trading them in the form of securities.
Standardised approach	The standardised approach for credit risk calculates the credit risk according to a standardised methodology, using external credit assessments.
Stress test	A method of testing a system's or entity's stability when exposed to exceptional conditions by means of a simulation.
the Board	the Board of Directors of de Volksbank N.V.
the Code	The Dutch Corporate Governance Code
the Code of Conduct	the 'Common Sense, Clear Conscience' code of conduct of de Volksbank N.V.
the SB	the Supervisory Board of de Volksbank N.V.
the Secretary	the Company Secretary of de Volksbank N.V.

Abbreviations

Abbreviations	Description	Abbreviations	Description
AC	Audit Committee of the SB	EC	European Commission
AFM	The Netherlands Authority for the Financial Markets	ECB	European Central Bank
AGM	Annual General Meeting	ECL	Expected Credit Loss
AI	Artificial Intelligence	ECP	Euro Commercial Paper
AIRB	Advanced Internal Rating Based-model[1]	EMTN	European Medium Term Note
ALCO	Asset & Liability Committee[1]	EPC	Executive Pricing Comittee[1]
ALM	Asset Liability Management	ES	Expected Shortfall
AMLD	Anti-Money Laundering Directive	ESG	Environmental, Social and Governance
BCBS	Basel Committee for Banking Supervision	EU	European Union
BEPS	Base Erosion and Profit Shifting	EVE	Economic Value of Equity
BoD	Board of Directors of de Volksbank N.V.	FATCA	Foreign Account and Tax Compliance Act
Bps	Basispoints	FTE	Full Time Equivalent
BRC	Bank Risk Committee	GDP	Gross Domestic Product
BRRD	Bank Recovery and Resolution Directive	GDPR	General Data Protection Regulation (AVG)
CAAR	Capital Adequacy Assessment Report	GRI	Global Reporting Initiative
CAS	Climate Adaptation Services	IAS	International Accounting Standard
CAS	Capital Adequacy Statement	ICAAP	Internal Capital Adequacy Assessment Process
CBR	Combined Buffer Requirement	ICF	Integrated Control Framework
CBS	Statistics Netherlands	IFRS	International Financial Reporting Standards[1]
CC	Credit Committee[1]	ILAAP	Internal Liquidity Adequacy Assessment Process
CCB	Capital Conservation Buffer	IMI	Internal Model Investigation
CCO	Chief Customer Officer	IPCC	Intergovernmental Panel on Climate Change
CCP	Central counterparty	IRB	Internal Rating Based (approach)
CD	Certificates of Deposit	ISDA	International Swaps and Derivatives Association
CDS	Credit Default Swap	IT	Information Technology
CEO	Chief Executive Officer	JST	Joint Supervisory Team
CFO	Chief Financial Officer	KNMI	Dutch Meteorological Institute
CIO	Chief Information Officer	KKC	Small Loans Covid Guarantee Scheme
CLA	Collective Labour Agreement	KPI	Key Performance Indicator
CMU	Capital Markets Union	KRI	Key Risk Indicator
CO2	Carbon dioxide[1]	LAAR	Liquidity Adequacy Assessment Report
COO	Chief Operations Officer	LCR	Liquidity Coverage Ratio[1]
CPB	Netherlands Bureau voor Economic Policy Analysis	LGD	Loss Given Default
CRD	Capital Requirements Directive	LGF	Loss Given Failure
CRO	Chief Risk Officer	LtV	Loan to value
CRR	Capital Requirements Regulation	MBS	Mortgage Backed Securities
CRS	Common Reporting Standard	MGC	Model Governance Committee[1]
CSA	Credit Support Annex	MoU	Memorandum of Understanding
CSO	Chief Strategy Officer	MREL	Minimum Requirement for own funds and eligible liabilities
CVA	Credit Valuation Adjustment[1]	NEU	Negotiable European Commercial Paper
DGF	Desposit Guarantee Fund	NHG	National Mortgage Guarantee
DNB	Dutch Central Bank	NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
DPG	Deposit Guarantee Scheme	NPE	Non-performing exposures
EAD	Exposure at Default[1]	NPS	Net Promoter Score
EaR	Earnings at Risk	NRF	National Resolution Fund
EBA	European Banking Authority	NSFR	Net Stable Funding Ratio[1]

1 See for further information the definition list.

Abbreviations	Description
NVB	Dutch Banking Association
OCR	Overall Capital Requirement
OECD	Organisation for Economic Co-operation and Development
ORC	Operational Risk Committee
PARC	Product Approval and Review Committee[1]
PARP	Product Approval and Review Process
PCAF	Partnership for Carbon Accounting Principles
PD	Probability of Default
PELTROs	Pandemic Emergency Longer-Term Refinancing Operations
PIT	Point-in-Time
P&OC	People and Organisation Committee of the SB
QRM	Quantitative Risk Management
RAS	Risk Appetite Statement
RBB	Regulation on Sound Remuneration Policies
R&CC	Risk and Compliance Committee of the SB
RMBS	Residential Mortgage Backed Securities[1]
ROE	Return on Equity
RRE	Residential Real Estate
RWA	Risk Weighted Assets
SA	Standardised Approach
SB	Supervisory Board of de Volksbank N.V.
SDG	Sustainable Development Goal
SEC	Sustainability Expertise Centre
SIC	Social Impact Committee
SICR	Significant Increase in Credit Risk since initial recognition
SME	Small and medium-sized enterprises
SPV	Special Purpose Vehicle
SRA	Strategic Risk Assessment
SRB	Single Resolution Board
SRD	Shareholder Rights Directive
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRMR	Single Resolution Mechanism Regulation
€STR	Euro Short-term Rate
TCFD	Task Force on Climate Related Financial Disclosures
TLAC	Total Loss-Absorbing Capacity
TMNL	Transation Monitoring Netherlands
TRIM	Targeted Review of Intern Models
UtP	Unlikely-to-Pay
VaR	Value at Risk
VAT	Value Added Tax
Wft	Financial Supervision Act
WfZ	Guarantee fund for the health care
WSW	Social Housing Guarantee Fund
Wwft	Money Laundering and Terrorist Financing (Prevention) Act

1 See for further information the definition list.

DISCLAIMER

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.