de volksholding

2018 Annual report

The original annual report including the original financial statements were drafted in Dutch. This document is an English translation of the original. In case of any discrepancy between the English and the Dutch text, the latter will prevail.

de volksbank

PRESENTATION OF INFORMATION

This is the annual report of de Volksholding B.V. (de Volksholding) for the year 2018. De Volksholding was incorporated on 30 June 2015 and has fully owned the shares of de Volksbank N.V. (de Volksbank) since 30 September 2015.

In its capacity as holding company, de Volksholding does not have any activities or employees of its own. The Board of Directors and the Supervisory Board of de Volksholding form a personal union with the Board of Directors and Supervisory Board of de Volksbank, respectively.

All the required information related to de Volksbank's business operations is included in the annual report of de Volksbank, which is filed and published separately. The accounting principles used in the financial statements are similar for de Volksholding and de Volksbank.

The annual report of de Volksholding deviates from the annual report of de Volksbank on the following points:

- Report of the Supervisory Board (Chapter 5)
- Corporate Governance (Chapter 6)
- The general information in the consolidated financial statements is written from the perspective of de Volksholding
- Other changes in the consolidated financial statements:
- Consolidated balance sheet (shareholders' equity)
- Consolidated statement of changes in equity
- Note 21 Related parties
- Note Dividends
- The company financial statements (from de Volksholdings' perspective
- Independent auditor's report

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 meet the requirements as set out in Title 9, Book 2 of the Dutch Civil Code.

The non-financial information in this report has been prepared in accordance with the GRI Standards (Sustainability Reporting Guidelines of the Global Reporting Initiative) and complies with the EU-directive.

Information on the basis of preparation for non-financial reporting can be found in the appendix.

Capital metrics and risk positions for 2018 and comparative figures for 2017 are reported under the Basel III framework (CRD IV/CRR). Moreover, the Chapter on Risk management complies with the Enhanced Disclosure Task Force (EDTF) requirements. Information on Pillar 3 (part of the CRR) can be found in a separate report on the webise of de Volksbank.

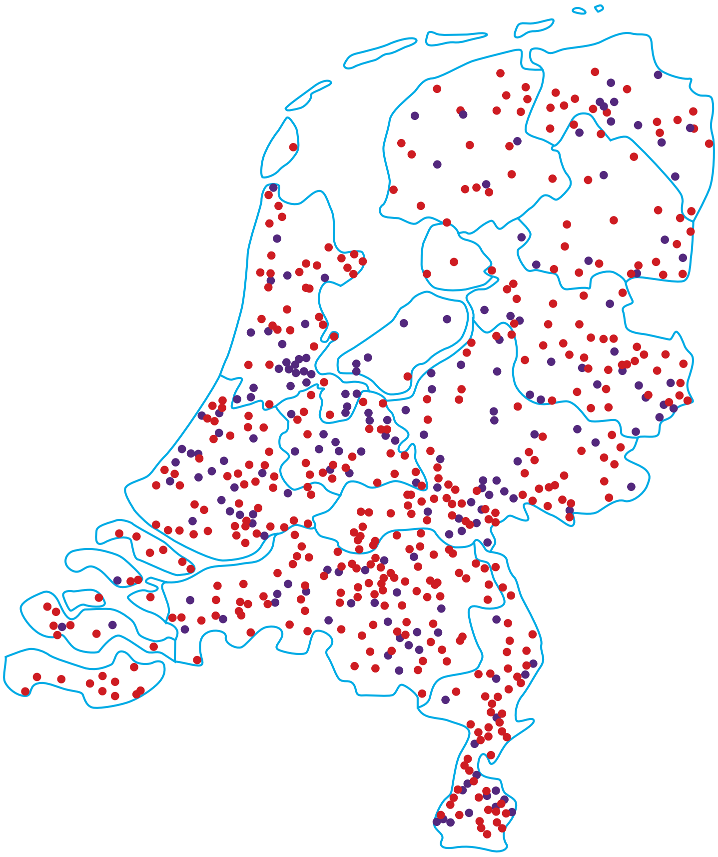
This annual report has been prepared in euros (€).

This annual report was published on 7 March 2019 and is available on the website of de Volksbank to browse or as a PDF download.

The annual report 2017 was published on 8 March 2018 and is also availabel on the website of de Volksbank to browse or as PDF download.

de volksbank

De Volksbank is the fourth-largest retail bank in the Dutch market, with a focus on mortgages, payments and savings. The bank has four brands: ASN Bank, BLG Wonen, RegioBank and SNS. Each brand has its own identity and image. De Volksbank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner.



> 3 million customers

3,797 employees

RegioBank
515 branches

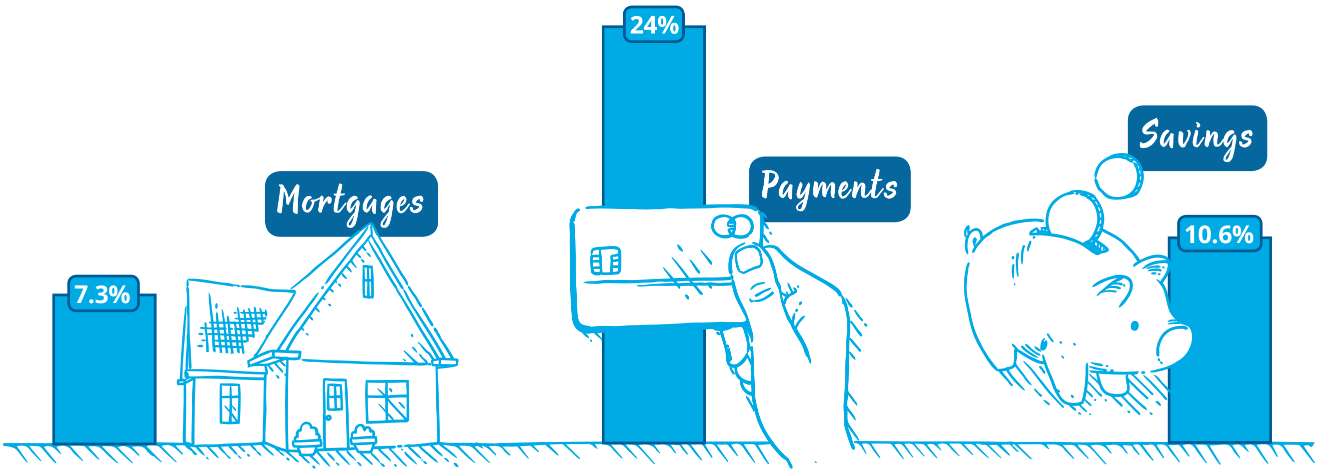
SNS
202 shops

293 ATMs

asn bank	BLG wonen	RegioBank	SNS
We encourage sustainable progress	**We make housing accessible to everyone**	**We are the bank nearby**	**We help you with money-smart tips**
Online and mobile	Independent advisers	Independent advisers, online and mobile	SNS shops, online and mobile
Payments, savings, investments and mortgages	Mortgages	Payments, savings and mortgages	Payments, savings, mortgages and insurance

Customers

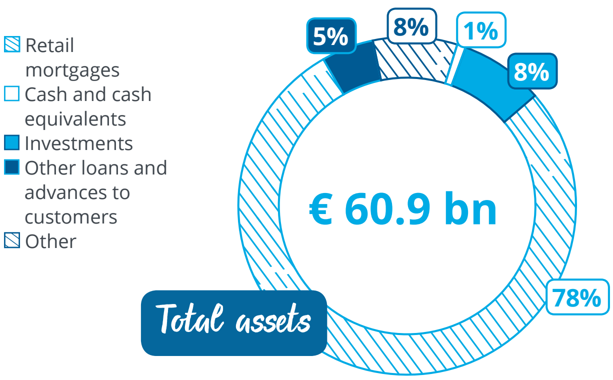
asn bank	BLG wonen	RegioBank	SNS
701,000	244,000	665,000	1,592,000

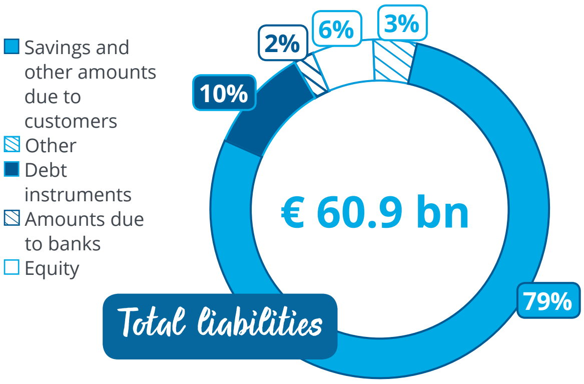


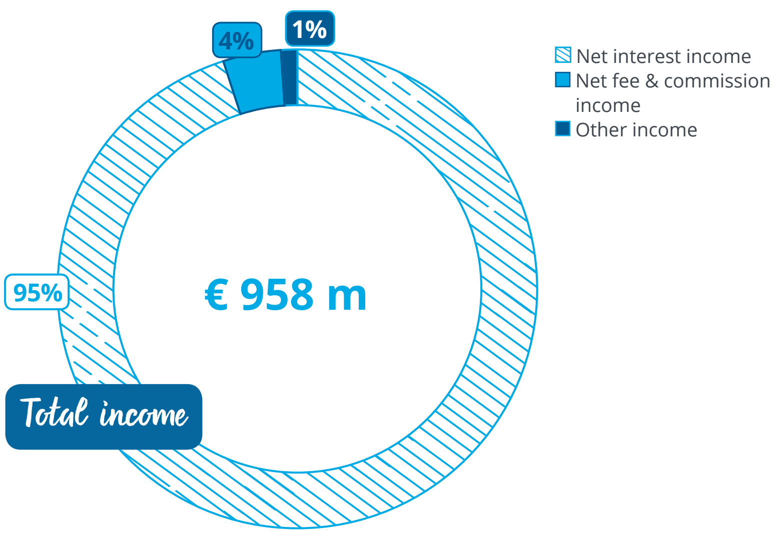
Market share
New mortgages

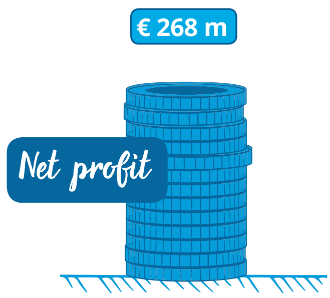
Market share
New current accounts

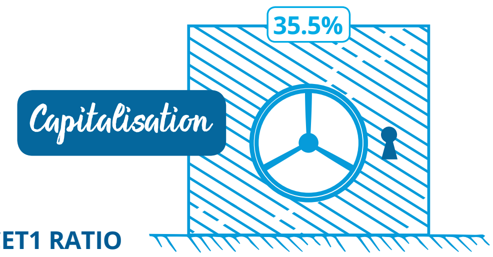
Market share
Savings







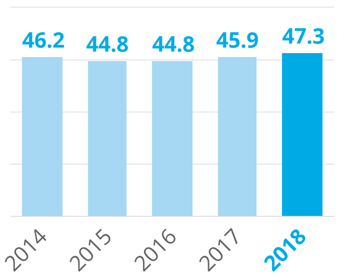




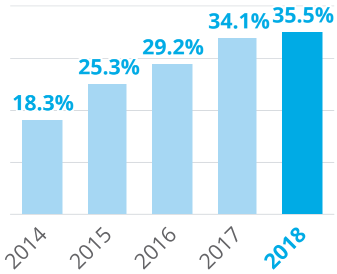
CET1 RATIO

KEY FIGURES

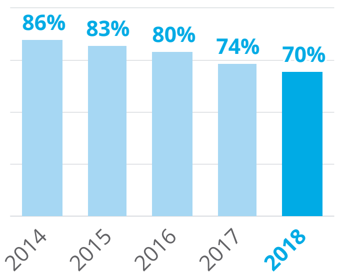
Residential mortgages
(in € billions)



CET 1 ratio



Loan-to-Value mortgage portfolio



Balance sheet

in € millions	2018	2017	2016	2015	2014
Balance sheet total	60,948	60,892	61,588	62,690	68,159
Loans and advances to customers	50,536	49,459	48,620	49,217	52,834
- of which retail mortgages	47,262	45,934	44,824	44,787	46,230
Amounts due to customers	48,217	47,062	47,428	47,440	46,208
- of which savings	37,376	36,756	36,593	36,860	35,666
Debt instruments	5,822	4,920	5,696	6,941	11,252
Equity	3,571	3,714	3,561	3,302	2,963

Capital and funding

in € millions	2018	2017	2016	2015	2014
Tier 1 core capital	3,313	3,339	3,164	2,916	2,520
Risk Weighted Assets (RWA)	9,341	9,781	10,824	11,513	13,771
RATIOS					
CET 1 ratio	35.5%	34.1%	29.2%	25.3%	18.3%
Tier 1 ratio	35.5%	34.1%	29.2%	25.3%	18.3%
Total capital ratio	37.1%	35.7%	33.8%	29.5%	18.4%
CET 1 ratio (fully loaded)	35.5%	34.3%	29.6%	25.8%	17.4%
Leverage ratio	5.5%	5.5%	5.2%	4.7%	3.8%
Leverage ratio (fully loaded)	5.5%	5.6%	5.3%	4.8%	3.6%
Loan-to-deposit ratio	106%	107%	103%	105%	113%

Quality loan portfolio

	2018	2017	2016	2015	2014
Loan-to-Value mortgage portfolio	70%	74%	80%	83%	86%
Loans in arrears (%)	1.1%	1.4%	1.8%	3.1%	4.3%
Stage 3 ratio[1]	1.3%	0.8%	1.3%	2.3%	3.1%
Stage 3 coverage ratio retail mortgages[1]	8.4%	16%	19%	23%	20%

Market shares

	2018	2017	2016	2015	2014
New current accounts[2]	24%	20%	21%	25%	21%
Retail savings	10.6%	10.7%	10.8%	10.9%	10.7%
Mortgage portfolio (in €)[3]	6.6%[4]	6.5%	6.4%	6.5%	7.0%
New mortgages (in #)	7.3%[4]	6.8%	5.7%	4.1%	3.7%

Other key figures

	2018	2017	2016	2015	2014
Number of SNS Shops	202	197	196	189	188
Number of independent advisers RegioBank	515	528	536	538	535
Number of ATMs	293	320	393	438	539

1 The 2014-2017 amounts are based on IAS 39 figures and therefore do not have stage information. The impaired ratio 2014-2017 has been compared with the stage 3 ratio 2018 and the coverage ratio retail mortgages 2014-2017 with the stage 3 coverage ratio retail mortgages 2018.

2 Source market share new current accounts: market research Ipsos, based on Moving Annual Total (MAT).

3 Based on CBS data. Market shares as at 31-12-2017 have been adjusted due to market size figures adjusted by CBS.

4 Third quarter 2018 figures because market size figures were not yet available.

Profit and loss account

in € millions	2018	2017	2016	2015	2014
Net interest income	908	924	938	994	1,024
Net fee and commission income	44	49	57	48	44
Other income	6	55	39	83	31
Total income	**958**	**1,028**	**1,034**	**1,125**	**1,099**
Operating expenses excluding regulatory levies	562	560	596	575	491
Regulatory levies	47	43	46	15	7
Total operating expenses	**609**	**603**	**642**	**590**	**498**
Other expenses	-	-	1	22	76
Total expenses	**609**	**603**	**643**	**612**	**574**
Impairment charges	(12)	(24)	(68)	37	207
Impairment charges goodwill	-	-	-	-	67
Result before tax	**361**	**449**	**459**	**476**	**251**
Taxes	93	120	110	128	100
Net result for the period	**268**	**329**	**349**	**348**	**151**
- Incidental items	-	13	(25)	13	(143)
Adjusted net result for the period	**268**	**316**	**374**	**335**	**294**

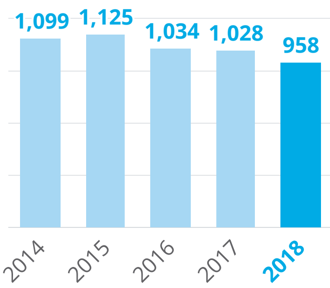
Shared value

	2018	2017	2016	2015	2014
CUSTOMERS					
Customer weighted average NPS[5]	-1	-3	-8	-12	-16
Current account customers (in 1.000)	1,488	1,409	1,328	1,240	1,147
SOCIETY					
Climate-neutral balance sheet[5]	37%	27%	22%	20%	16%
Financial resilience	49%[6]	40%[7]	n.a.	n.a.	n.a.
EMPLOYEES					
Employee NPS (eNPS)[5]	-20	-2	30	34	18
Commitment	7.4	7.6	8.1	8.2	8.0
Engagement	7.2	7.4	7.4	7.5	
SHAREHOLDER					
Return on Equity[8]	7.6%	9.1%	10.1%	11.1%	5.4%
Adjusted Return on Equity[9]	7.6%	8.7%	10.8%	10.7%	10.6%

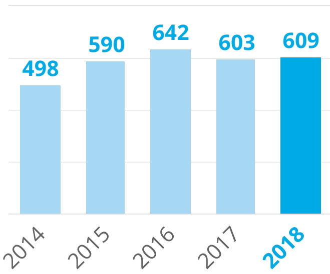
Other Performance indicators

	2018	2017	2016	2015	2014
Cost/income ratio[10]	58.7%	54.5%	57.6%	51.2%	44.7%
Adjusted cost/income ratio[11]	58.7%	55.4%	54.5%	53.4%	44.7%
Net interest margin (bps)	1.47%	1.50%	1.48%	1.52%	1.43%
Cost of risk total loans	-0.03%	-0.05%	-0.14%	0.07%	0.38%

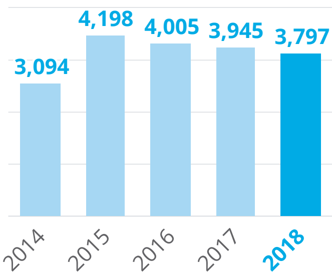
Total income (in € millions)



Total operating expenses (in € millions)



Number of employees (FTE)



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

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

7 Baseline measurement January 2018.

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

9 Net result adjusted for incidental items / average month-end total equity for the reporting period.

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

11 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items.

INTERVIEW WITH THE CHAIRMAN OF THE BOARD OF DIRECTORS

Maurice Oostendorp

"De Volksbank can look back on a fine year in many ways. We are increasingly appreciated as a bank that is able to put its mission of 'Banking with a human touch' into actual practice.

The fact that more and more people appreciate this is reflected, among other things, in the increase in the number of customers with a current account with one of our brands. A number of awards we won in 2018, including the Management Scope Corporate Impact Award, also testify to this appreciation. These awards encourage us to continue along the path taken. Our high ESG ratings equally reflect that we set great store by making a positive contribution to all our stakeholders."

Strengthening its social identity is a substantial component of de Volksbank's strategy. What are the outlines of the accomplishments in 2018?

In strengthening our social identity, we focus mainly on our climate impact and the financial resilience of our customers. We fleshed out our strategy on both topics.

For instance, we made good progress with the climate neutrality of our balance sheet, which rose by 10 percentage points to 37% thanks to increased funding of renewable energy projects and investments in green bonds. We also launched new initiatives in the areas of communication, advice and products to help customers make their homes more sustainable. A good example is the ASN Mortgage, introduced in 2018, enabling customers to finance energy-saving measures.

To make a positive contribution to the financial resilience of our customers we have, among other things, improved our preventive management in 2018. Customers can contact us about expected payment problems and we also contact vulnerable customers ourselves. For example, in 2018 we contacted approximately 150,000 customers with an interest-only mortgage to discuss the options of capital accumulation, repayments or refinancing with them in a timely manner. An (online) dialogue was then conducted with approximately 20,000 of them. What matters most to customers is that they can continue to live in their home without financial worries, and this is how we help them do just that.
We also retrieved some 6,000 customer files from debt collection agencies and now manage debt arrears ourselves.

What is de Volksbank's stance with regard to the new PSD2?

Upon the implementation of this directive, we put our duty of care first as regards confidentially managing customer data. Our points of departure are that customers are and remain the owners of their payment data and that we will not use this data for commercial gain. We place a clear restriction on ourselves here, as our customers' privacy is worth it. For this reason, we have developed a 'master switch' that allows customers to turn the passing-on of payment data to third parties on or off at any time. We also intend to expressly point out to customers the potential consequences if they make their payment data available to third parties.

How did de Volksbank's market position develop in 2018?

Overall, it developed positively. The number of current account customers rose by 79,000, or 5.5%. In 2018, nearly 25% of new current accounts in the Netherlands were opened with one of our brands and we recently passed the mark of 1.5 million current account customers. Our market share in new current accounts has exceeded 20% for a number of years now; this is significantly higher than our market share on a portfolio basis of roughly 8%.

Our mortgage portfolio also showed healthy growth of € 1.3 billion to € 47.3 billion. Our market share in new production of 7.3% exceeds our market share on a total portfolio basis, which is 6.7%.
Our market share in retail savings remained virtually stable at 10.6%.

Was any progress made with simplifying business operations in 2018?

This was indeed the case in a number of areas. A good example is the mortgage quotation and application process. We considerably simplified this process, allowing us to process more mortgages using fewer people while retaining quality. Cost savings ensuing from our 'Spot-On' strategic plan, as adopted in 2016, were on track. However, these were offset in 2018 by additional costs related to increased laws and regulations, for example in transaction monitoring, risk management and data management. Salaries under the collective agreement, including social security contributions, also rose more than we originally expected.

In all, this resulted in a virtually stable cost level in 2018 compared with 2017, where we initially assumed we would see a decrease. That is why, in 2019, we will have to step up our efforts to structurally reduce costs.

What was accomplished in the field of innovation in 2018?

Our smart adopter approach, whereby we strive to implement innovations in the market quickly, is going well. We have, for example, successfully completed the pilot for the 'Give and Go' app, in which a customer can choose a personal adviser with whom he can communicate directly at any time. The app will be introduced to all SNS customers in early 2019.

To enable us to quickly implement and test innovations of our banking services we introduced the beta app Sl!m. This is a copy of our brands' payment apps, with the same level of security and the same features. We use this app to test new functionalities, particularly in the field of financial resilience, with a select group of customers. We developed 'Payment Request' (*Betaalverzoek*) in Sl!m, after which this functionality was incorporated into the mobile apps of ASN Bank, RegioBank and SNS. In Sl!m, we also developed 'My Budget', which gives customers – on the basis of artificial intelligence – insight into what they have left to spend at the end of the month after all fixed costs have been paid.

What is the status of the future privatisation of de Volksbank?

Making preparations for privatisation, we started exploring how our Shared Value ambition for all our stakeholders is best embedded in our governance. We also examined which banks are similar to us and what makes us attractive for future shareholders, in other words, what our 'equity story' is. This also raises the question of the capital structure that best suits our needs. We conducted our own investigation in this regard and also engaged an external consultant.

The timing and form of the privatisation have yet to be established. In the autumn of 2018, NLFI issued its second progress report about us. One of its conclusions was that we will need until at least mid-2019 to develop the Shared Value ambition and further strengthen our social identity. As soon as de Volksbank is ready for privatisation, NLFI will advise the Minister of Finance accordingly. If this is not feasible by mid-2019, NLFI will issue another progress report and give an indication of the timeline expected at that point in time.

Profit and return on equity were down in 2018. What were the main causes?

Net profit totalled € 268 million for 2018, a 19% decrease compared to 2017. This was mainly caused by lower total income and a lower release of loan loss provisions.

The drop in income was mainly driven by lower capital gains on bonds, the absence of positive market value movements of former DBV mortgages and, to a limited extent, lower interest income. Loan loss provisions were once again released in 2018, although the total release was half the amount released in 2017.

In 2018 we did not succeed in compensating the lower income by lower operating expenses: these remained virtually flat.

The lower net profit entails that the return on equity dropped to 7.6%, as against 8.7% for 2017. With this, we are not at the level of our 2020 target of 8%. Still, this figure of 8% remains a major point of reference for us in the next few years. The return, incidentally, was achieved with an unvaryingly strong capital position when compared with other European banks.

In 2016, de Volksbank defined a number of targets for 2020 in terms of customers, society, employees and shareholder. One of these targets, 1.5 million current account customers, has been reached. Other targets, such as the target for the employee Net Promoter Score, now seem hard to reach by 2020. Are any adjustments to be expected?

We intend to provide an update of all our targets in the second half of 2019. This will also include an update of our capital targets.

With effect from 2019 and in line with our Shared Value approach, we will complement our targets with a redefined target for employees. The current target, the eNPS – employee NPS – indicates the degree to which employees recommend de Volksbank as an employer. This is a difficult target in periods of reorganisations and employment contraction, but above all the eNPS no longer represents the value we assign to all of our employees. We will set a target focused on 'genuine attention for our employees', in which both the ability to contribute to the organisation's goal and the ability of employees to develop themselves will take centre stage.

Looking ahead to 2019, what are the profit forecasts and what are the points of focus?

The sustained low interest rate environment is expected to exert further pressure on our income in 2019. The release of loan loss provisions is also finite.

That is why, despite our intention to control costs, we expect a slight decline in net profit.

In 2019, we will continue further substantiating Banking with a human touch: a form of banking that leaves room for emotion and dovetails with customers' actual needs. We want our customers to increasingly experience – feel – what Banking with a human touch really means. Society, the people that make up our society, should be able to trust that we will shoulder our responsibility in the right way".

1.

GENERAL TRENDS AND DEVELOPMENTS

1.1 INTRODUCTION

In determining its strategy, de Volksbank takes account of developments and trends in society, in the sector and in de Volksbank itself. We respond to opportunities, and where we see or anticipate risks, we take appropriate measures (see Chapter 4 Risk management).

1.2 SOCIAL DEVELOPMENTS

CONFIDENCE IN BANKS IS EDGING UPWARDS

Customer confidence in banks again rose slightly compared to last year. This emerged from the fourth edition (2018) of the annual Banking Confidence Monitor, commissioned by the Dutch Banking Association (NVB). The score for the banking sector as a whole was up from 2.9 in 2017 to 3.0 in 2018 on a 5-point scale. For the first time since the start of the measurement, the number of consumers who are positive about banks in terms of confidence exceeds the number of consumers who are negative about this. With this score the banking sector takes sixth place in the sector ranking, with the science sector heading the list with a score of 3.5. As in previous years, the confidence that people have in their own bank surpasses the confidence they have in the banking sector as a whole, rising from 3.2 in 2017 to 3.3.

Major drivers of confidence are customer focus, transparency and expertise. As the Confidence Monitor indicates that banks have successfully improved interaction with customers in recent years, the rising confidence of the last few years is not just a reflection of economic conditions picking up.

NOT ALL DUTCH CONSUMERS ARE SUFFICIENTLY FINANCIALLY RESILIENT

Although calculations in the Coalition Agreement (Rutte III government) show that many groups will be better off, the financial resilience of the Dutch population remains a key focus area. One in five residents is struggling with serious payment arrears. Excessive fixed charges rather than negligence are increasingly to blame for this, according to the National Institute for Family Finance Information (Nibud). The Scientific Council for Government Policy (WRR) earlier concluded in a report that the government is insufficiently successful in protecting citizens from debts and overrates their financial self-reliance.

CLIMATE CHANGE RISK TO THE FINANCIAL SERVICES SECTOR

The urgency of taking concrete climate action is beginning to take clear shape.
According to the Dutch Central Bank (DNB), postponing climate action will increase the risk of 'abrupt' measures being needed later, which will be firmly felt in the financial services sector. If measures are too long in coming, adjustments will need to be implemented by fits and starts and, according to DNB, that is precisely where financial institutions are the most vulnerable. The adverse effects may be limited by developing and pursuing a climate change policy in good time.

Society, too, demands that banks take their social responsibility when selecting their investments. More and more consumers opt for responsible products and services, such as investment funds investing in clean energy and social startups. They expect their bank to do the same.

In addition, there has been an increasing awareness of the need to identify the positive or negative impact that investments have on the climate. The negative impact is to be reduced. Investments in clean energy are being placed higher on the agenda. De Volksbank will consistently carve out a strong position for itself as a sustainable bank. This is reflected, for example, in its efforts to create a climate-neutral balance sheet.

Recent political developments have once again underlined the awareness that we must seriously address climate change. In December, for instance, nearly 200 countries set the next step in developing the details of the Paris Climate Agreement at the UN Climate Change Summit in Poland. The goals include reducing carbon dioxide emissions and helping poor countries cushion the consequences of climate change. Seeking to achieve the climate goals of the Paris Agreement, the Netherlands prepared a draft Climate Agreement in June 2018. It states the aim of reducing greenhouse gas emissions by 49% in 2030 compared with 1990. This percentage should be 95% by 2050. Full consensus about the Dutch Climate Agreement was yet to be reached at the end of 2018.

At the same time, we still see serious resistance to climate action, and not just in the Netherlands.

1.3 ECONOMIC DEVELOPMENTS

DUTCH ECONOMY

In 2018, the Dutch economy was not quite able to sustain the strong growth rate of the previous year, but did continue to outperform the eurozone as a whole. On balance, growth fell to 2.5%, from 2.9% in 2017. Although consumption provided the most stable contribution, investments made a positive contribution as well. Job growth exceeded expectations, causing the annual average unemployment rate in 2018 to fall from 4.9% to 3.8%. The ever tighter labour market is slowly but surely accelerating wage growth even if growth, at just under 2.5%, is still limited. The annual inflation rate averaged 1.7%, slightly up compared to 2017, owing in part to oil prices, which were on average considerably higher in 2018 compared to 2017.

INTEREST RATES

The European Central Bank (ECB) held the deposit rate unchanged at -0.4%, thus keeping the market rates extremely low throughout the year. Early 2018, the bond-buying programme was fixed until September 2018 at the monthly pace of € 30 billion. At the ECB meeting in August 2018 the expectation was fulfilled that the monthly purchases would be halved between September and December before ceasing altogether. In addition, an initial ECB rate hike was not expected until the end of the summer of 2019. Ahead of this phase-out, the interest rates on 10- year government bonds gradually climbed to a peak of 0.8%. After that, rates fell again, partly because of disappointing macroeconomic figures, especially elsewhere in Europe, and oil prices that fell sharply in the last quarter. At the end of the year, interest rates dropped even further, greatly impacted by China-US trade tensions and, not least the growing fear of a chaotic Brexit. At year-end, the 10-year interest rates was 0.38%, below the 0.53% at the start of the year and the outlook for short-term interest rate hikes has been tempered by both the Federal Reserve and the ECB in early 2019.

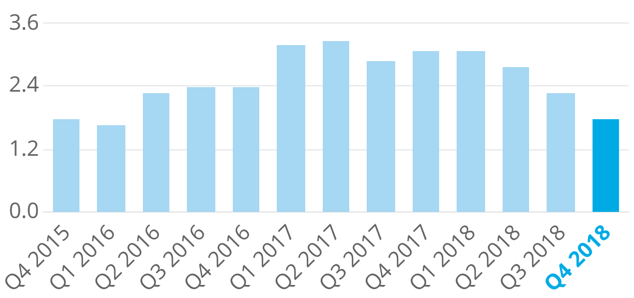
HOUSING AND MORTGAGE MARKET

The supply of homes on the housing market became increasingly tighter, which was partly caused by homeowners who preferred to buy a house before putting their house up for sale. Due to a lack of supply, the number of transactions dropped by 10%, a slightly larger drop than expected. Contrary to this, sellers benefited from a strong price increase that averaged 9% over the past year. At the end of the year, the housing supply rose slightly again, in evidence of a market that is starting to ease somewhat.

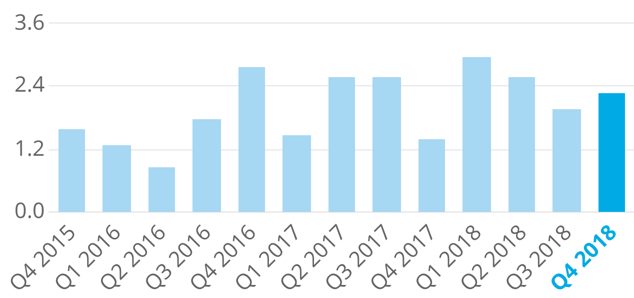
SAVINGS MARKET

In 2018, the Dutch retail savings market grew to € 354 billion, a 4% plus (year-end 2017: € 341 billion). The interest rate cuts for savings continued in 2018.

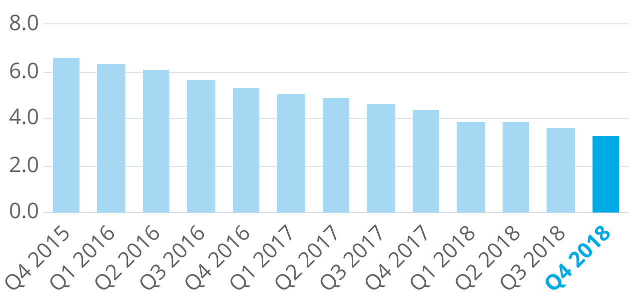
Gross domestic product
(YoY change in %)



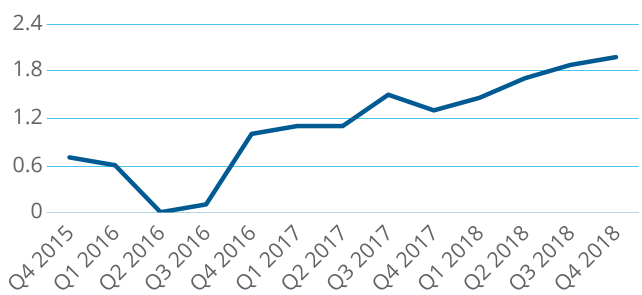
Household consumption
(YoY change in %)



Unemployment
(Seasonally adjusted in %)



Inflation
(YoY change in %)



1.4 DEVELOPMENTS IN THE SECTOR

OPENING FINANCIAL SECTOR CHANGES PLAYING FIELD FOR BANKS

The introduction of PSD2 opens up the banking sector to new players. Under this European legislation, parties other than traditional banks can apply for a payment institution licence. PSD2 requires banks to make payment data available to these other parties at the customer's request. Based on this data, they can develop services and new business models. This not only offers opportunities for fintechs, but also for the large technology companies, which are very adept at using data as a revenue model. These BigTechs have already developed several preparatory activities, often by providing credit to users of their platform services. In the United States, Amazon is a major lender to numerous companies that have a webstore on its platform. Facebook and Uber are doing the same. The next step is expected to be facilitating and handling payments.

Apple Pay and Google Pay have existed for some time. However, with the allocation of the e-money licence in Ireland and PSD2 licences in Lithuania to Google, BigTechs are now one step closer again. This is one of the threats that the banking sector is currently facing. Google can grow their position in the payments industry if the company, which already has contextual customer data, such as location data, can combine with transaction data and permission to make payments.

Quite a few online banks are entering the (international) market. The number of customers of these online banks is showing a steady growth. There is also a trend of existing banks developing into new online banks (greenfield banks).

Future banking will not just be about technology though, especially when technology is no longer the distinguishing factor. It will then be about the value a bank can add. Soft core competencies such as knowledge, social skills and social involvement will in that case be important. And the extent to which a bank is able to protect itself against cyber-attacks (digital resilience) and is able to protect data, will also play a role in choosing a particular bank.

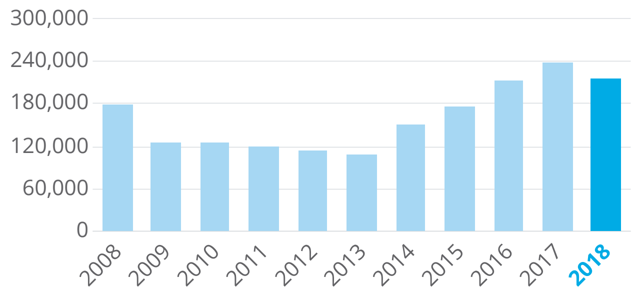
IMPACT OF ARTIFICIAL INTELLIGENCE

Professionals in the financial sector expect the industry will have undergone a complete transformation by 2030 as a result of the growing importance of Artificial Intelligence (AI). This can be concluded from the study entitled 'Jobs of the future: What will the financial sector look like in 2030', conducted by Hays.

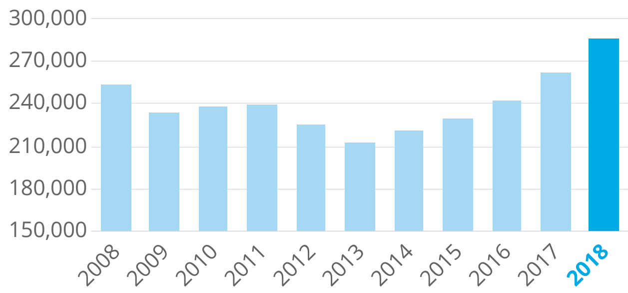
Of the survey respondents, 88% believe that all payment transactions will by then take place in real time. For example, most Dutch banks - including ASN Bank, RegioBank and SNS - are offering Instant Payments from the beginning of 2019. Transferring money to, or receiving money from, bank accounts at other banks will then be possible within seconds for more than 95% of all bank accounts in the Netherlands. According to 64% of the respondents, AI and big data will form the basis of every decision in the financial sector of the future.

The role of AI in the financial sector will increase even more as a result of the aforementioned entrants. AI, fed by a rich set of data - thanks to PSD2 - gives

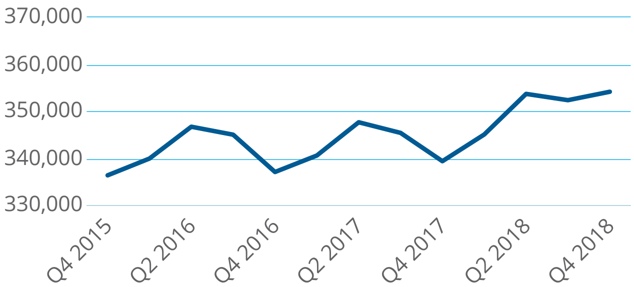
Number of homes sold



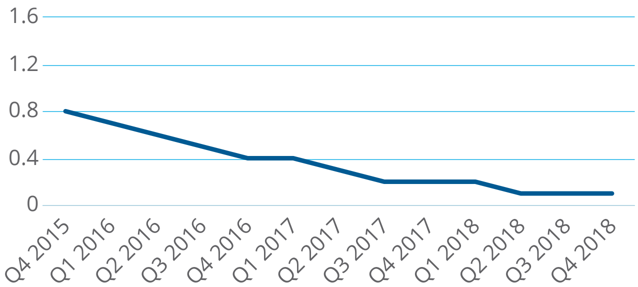
Average sales price (In €)



Total savings
(In € millions)



Average savings rate (in %)
(notice period < 3 months)



customers a simple overview of and insight into their financial situation. Smart models can subsequently help customers make the right decisions to optimally manage their finances. This is expected to be the same across the entire financial domain. Many application are aimed at enhancing customer experience and faster analysis possibilities, for example in the mortgage application process. We consider the enormous technical potential of AI to be an important tool to strengthen our mission of Banking with a human touch.

CYBERCRIME THREAT REMAINS HIGH

The Dutch financial sector remains under constant, significant and continuously evolving threat of cybercrime. Cyber-attacks are profitable, simple to execute and involve little risk for attackers. In the past, attackers focused mainly on financial institutions' customers. These days, however, cyber criminals increasingly attack financial institutions themselves, while using more advanced and sophisticated methods. And, as the DDoS attacks on the major banks in early 2018 have shown, attackers can simultaneously target multiple institutions. The Financial Stability Committee warns against this risk of advanced cyber-attacks that could jeopardise financial stability. The National Cyber Security Centre[1] (NCSC) also warns that cyber-attacks and system failures can have a major impact on and even be disruptive to society.

Damage caused by payment fraud in the Netherlands is on the rise for the first time after years of decline[2]. The rise manifested itself in internet banking and in fraud involving lost or stolen debit cards. Besides achieving financial gain and disrupting services, data theft is becoming an increasingly common target for cyber criminals.

Increasing security in the digital domain is a top priority for the government. DNB too, is increasing its attention toward cyber security: financial institutions are obliged to report cyber security breaches and the sector's cyber resilience is tested annually by means of Threat Intelligence Based Ethical Red Teaming (TIBER)[3]. In conclusion, the need to invest in our digital security remains as important as always. In addition, setting up interbank and public-private partnerships is necessary to continue to increase cyber resilience in a sustainable manner.

THE IMPORTANCE OF DATA AND PRIVACY IS GROWING

The automation and digitisation of the financial services sector is ongoing. Data, and the protection or control of data in particular, is becoming increasingly important. In this respect, legislation played an important role in 2018. The General Data Protection Regulation (GDPR) legislation was introduced and has contributed to increasing consumer awareness of the importance of privacy when using data. The regulation, known as the AVG (*Algemene verordening gegevensbescherming*) in the Netherlands, gives consumers rights to view data or have data removed.

Privacy awareness has been further strengthened by the debate on the Dutch Intelligence and Security Services Act, the so-called 'Dragnet' Act. In addition, the Cambridge Analytica scandal has proven that free use of services such as Facebook also has a downside.

PSD2 also gives rise to a data privacy debate, as a payment transaction always involves two parties, i.e. the payer and the recipient. If the payer shares his payment data, data from the receiving party is also unintentionally passed on.

In this new situation, it is of the utmost importance to make consumers aware of the opportunities and threats. Although data is at the heart of modern banking, customers should always retain ownership of their personal data and must be enabled to have control over their data and the use of their data.

We recognise the importance of privacy from the perspective of Banking with a human touch. We have translated this into a Data Vision, setting out how we deal with Data & Privacy and how we want to support our customers in that respect.

Customers have entrusted us with their money for over 200 years. We believe they should also be able to do the same with their personal data. In this context we have clearly set out the framework in the Data Vision for the way in which we – in this rapidly changing financial world - translate Data & Privacy into Banking with a human touch. At de Volksbank, customers always have ownership of their personal data; we never sell data to third parties and only use data with our customers' permission and always for the benefit of enjoying a financially carefree life.

We are convinced that a growing number of consumers need a bank that can be trusted completely when using customer data. A bank that considers their customers' privacy to be of paramount importance and that helps and protects customers. We can only make full use of technological possibilities if customers have confidence in us as an organisation and in the responsible way in which we handle their data and privacy.

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1 The 2018 Cyber Security Assessment Netherlands is an annual publication of NCSC (https:// www.ncsc.nl/)
2 Source: Dutch Payments Association (https:// www.betaalvereniging.nl/)
3 TIBER-NL goes Europe (https://www.dnb.nl/)

1.5 DEVELOPMENTS IN THE REGULATORY ENVIRONMENT

Banks operate in a heavily regulated environment. Regulatory and supervisory authorities impose requirements and conditions in areas such as capital and liquidity, corporate governance, culture and behaviour. This increases the resilience of individual banks and the stability of the financial system. Consumer protection is also an important objective of these regulations.

The laws and regulations affecting de Volksbank can be divided into two important focus areas: prudential supervision and customer interest. The introduction of PSD2 and Basel IV have the greatest impact on de Volksbank.

Prudential supervision

- Basel IV
- CRR II and CRD V
- BRRD, SRMR/MREL and bail-in
- Detailed reports (AnaCredit, Residential Real Estate and SHSG)
- Capital Markets Union (CMU)
- EBA Guideline on internal governance

Customer interests

- Payment Account Directive (PAD)
- General Data Protection Regulation (GDPR)
- Mortgage Credit Directive (MCD) and AFM guidelines
- Deposit Guarantee Scheme Directive (DGSD)
- Insurance Distribution Directive (IDD)
- Payment Service Directive 2 (PSD2)
- Markets in Financial Instruments Directive 2 (MiFID 2)
- Fourth Anti-Money Laundering Directive (AMLD)

In 2018, the ever-expanding laws and regulations continued to have an impact on our business operations. To implement these regulations in a timely and efficient manner, we have to adapt policies, procedures and documentation.

PRUDENTIAL SUPERVISION

In 2018, legislation and regulations relating to prudential supervision were again amended. The proposed changes to CRR II and CRD V and the Capital Markets Union (CMU) had been published earlier. Implementation of CRR II and CRD V is not expected until 2020 at the earliest. De Volksbank is following these regulations' developments closely so as to comply with them on time. In relation to the laws and regulations mentioned below, the following developments in 2018 are worth mentioning:

Basel IV

In December 2017, the Basel Committee on Banking Supervision (BCBS) reached agreement on the completion of the Basel III international framework for banks, also known as Basel IV.

An important part of the proposed reforms is the calculation of risk-weighted assets (RWA). It is proposed that the outcome of the RWA calculation based on a bank's internal models should not be less than 72.5% of the RWA based on the standardised models. This limit is known as an 'output floor'. Additionally, for RWA calculations - based on internal models - certain minimum levels should be applied in model parameters, the so-called 'input floors'.
The next step is the translation of Basel IV into European laws and regulations. The phase-in period of the implementation is expected to take five years, starting on 1 January 2022, followed by a full implementation on 1 January 2027.
De Volksbank is following the developments closely, paying particular attention to new rules on the RWA calculation for our retail mortgage portfolio.

Capital and liquidity requirements

De Volksbank continuously assesses from various angles whether the financial stability and continuity of the bank is guaranteed. Supervisory authorities are provided with the requested data and analyses in a timely manner, such as ICAAP, ILAAP, external stress tests, and recovery & resolution planning. Whenever possible, information from these analyses is actively made available for internal control and decision-making purposes (economic capital reports, internal stress tests). For further information on BRRD, SRMR/MREL and bail-in, see section 4.9.3 Developments in capital requirements.

Detailed reports (AnaCredit, Residential Real Estate and SHSG)

As from the second half of 2018 onwards, supervisory authorities request detailed information on retail mortgages (Residential Real Estate), commercial loans (AnaCredit) and securities held by de Volksbank itself (Statistics on holdings of securities by reporting banking groups, SHSG). To ensure timely submission, we have set up a new reporting process. European banks and the ECB are collaborating to organise information as efficiently as possible and to meet the banks' reporting requirements through an initiative entitled Bank's Integrated Reporting Dictionary (BIRD).

EBA Guidelines on internal governance

The amended EBA guidelines on internal governance will be in force with effect from 30 June 2018. These guidelines specify the arrangements, processes and mechanisms for internal governance to ensure controlled and ethical business operations. De Volksbank carried out a gap analysis and subsequently took actions to implement the necessary changes.

CUSTOMER INTERESTS

2018 was marked by the introduction of the Insurance Distribution Directive (IDD), the Markets in Financial Instruments Directive 2 (MiFID 2) and the Payment Service Directive 2 (PSD2). The latter was not incorporated into Dutch legislation on time; the directive will enter into force in 2019. This year again, de Volksbank will take the required measures to comply with this new legislation in good time. In addition, the following laws and regulations were developed in more detail in 2018:

Payment Account Directive (PAD)

The PAD is a European directive aimed at improving the transparency and comparability of current accounts. Details of the implementation were published by the European Commission on 30 January 2018; banks are to comply with the PAD as from 31 October 2018.
Banks are to use the same names for the services and related costs of a current account. They are also to make available a uniform and rule-bound overview of rates for each current account package for private individuals. Moreover, customers are provided with an annual statement of fees, i.e. a uniform overview stating all fees charged for the various payment services throughout the year, the so-called 'statement of fees'. De Volksbank implemented these PAD elements on time in 2018. The first time customers received this annual statement of fees was in early 2019

General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) came into force on 25 May 2018. De Volksbank started to take measures to implement the regulation as early as 2017.

For example, the information we provide to our customers and employees about the processing of their personal data has been brought into line with the regulation and we enable our customers and employees to easily exercise their legal rights as 'data subjects', such as their rights of access, erasure and objection. Furthermore, we record all processing of personal data in an internal processing register. We have also implemented the 'privacy by design' and 'privacy by default' principles: for every new project and every new product that is developed, we guarantee privacy from the start. We thus carry out Privacy Impact Assessments to check our systems and when developing new products and services.

Mortgage Credit Directive (MCD) and AFM guideline

In March 2017, the AFM (Netherlands Authority for the Financial Markets) published a guideline for calculating the financial loss in the event of an early repayment of the mortgage. This guideline gives concrete form to the European MCD. In the first half of 2018, we recalculated the fees charged for early renewals between 14 July 2016 and October 2017, and repaid any differences. Consumer organisations consider this new calculation method proposed by de Volksbank to be 'appropriate and fair'.

Deposit Guarantee Schemes Directive (DGSD)

Further to the European DGSD, a number of changes to the Dutch DGS went into effect on 1 January 2019. De Volksbank made the necessary adjustments in the course of 2018, thus reducing the payout deadline to customers to seven working days. We can now also provide DNB with information within three working days, after which it can pay out customers.

Fourth Anti-Money Laundering Directive (AMLD)

The fourth Anti-Money Laundering Directive (AMLD) has been implemented in the Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*). The amended *Wwft* came into effect on 25 July 2018. The Implementation Decree Wwft 2018 (*Uitvoeringsbesluit Wwft 2018*) was also published. The main amendments relate to the definition of the Ultimate Beneficial Owner (UBO) and Politically Exposed Persons (PEP). De Volksbank is working on the implementation of the new requirements in processes, systems and training and awareness for employees.

2.

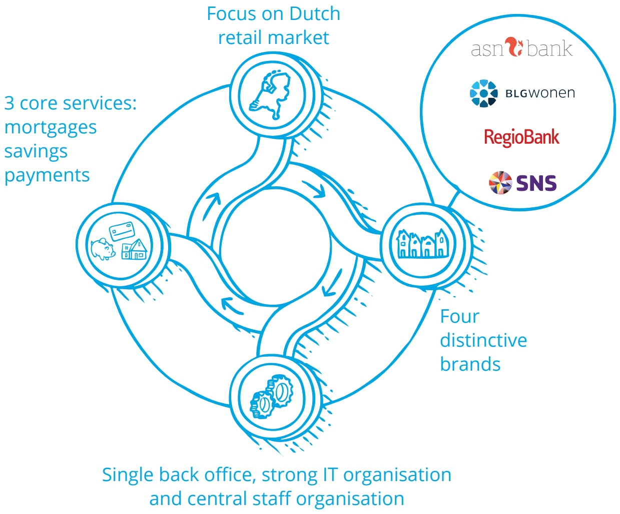
STRATEGY

PROFILE

Boasting a history that stretches back to 1817, de Volksbank is a bank at the heart of society. Virtually all of its legal predecessors were savings banks for the common good (*nutsspaarbanken or bondsspaarbanken*) -banks that were close to their customers thanks to their local character and social objectives. This history has been decisive for de Volksbank's unique profile as well as its strength, now shaped in a modern way.

We are a bank with a focus on the Dutch market, offering clear and transparent mortgage, savings and payment products to private individuals and smaller companies. De Volksbank also offers insurance and investment services and will always maintain its strong liquidity profile and capital structure.

De Volksbank is pursuing a multi-brand strategy with ASN Bank, BLG Wonen, RegioBank and SNS. Each of these brands has its own distinctive profile that meets the needs of its customer group. A single back office, a powerful IT organisation and a central staff organisation allow de Volksbank to operate effectively and with increasing efficiency.



2.1 MISSION, AMBITION AND OBJECTIVES

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

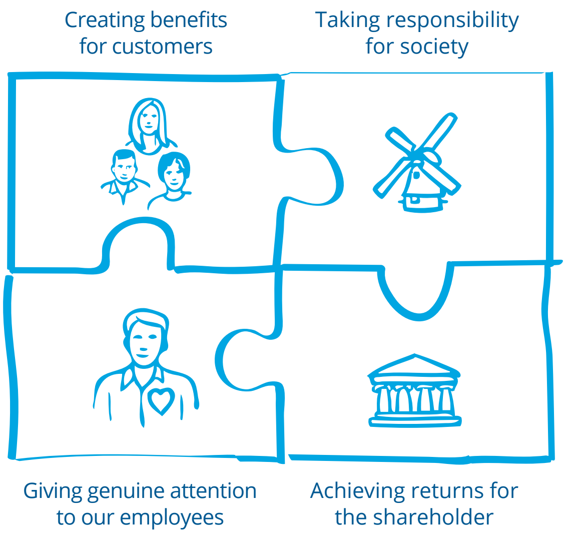
Accordingly, reaching back to our social roots, we are taking our responsibility to shape the banking trade based on what people really need. It means that our financial services are about benefit rather than return – about value rather than money. It particularly means that we are sincere in putting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

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

Our mission – Banking with a human touch – is described in our Manifesto and is geared to the public appeal to give meaning to helpful banking. To live up to this mission, de Volksbank has formulated the following ambition: optimising shared value.
This means that de Volksbank serves the joint interests of customers, society, employees and shareholder(s). Customers show that they trust us by giving us confidential access to their financial affairs, employees contribute their own commitment or human capital, society entrusts specific tasks to us, such as money creation, risk transformation and monitoring to counter money laundering and terrorism financing, and, finally, the shareholder invests financial capital. We attach responsibilities to this in the areas of sustainability and financial resilience.

We measure the progress in achieving our Banking with a human touch mission and shared value ambition on the basis of concrete main objectives for our four stakeholder groups that we defined in 2016.

Our ambition



BENEFITS FOR CUSTOMERS

In line with our ambition to be relevant and useful to customers by means of our various brands, we are a bank that makes customers feel at home, offers fair products and proactively contributes ideas. Each brand has its own distinct way of doing this.

- ASN Bank is working on sustainable progress by investing customers' money in projects and initiatives that have a positive impact on people, animals and nature.
- BLG Wonen aims to make housing affordable to people by being the most personal and expert financial services provider of the Netherlands. Together with independent advisers, BLG Wonen provides solid financial solutions.
- RegioBank distinguishes itself by being close to its customers, both literally and figuratively, with 515 Independent Advisers in villages and small towns.
- SNS aims to be a bank that comes up with clever ideas for ordinary Dutchmen about the management of their financial affairs.

As customer needs are at the heart of de Volksbank's operations, it is essential to adopt a way of working that starts with taking stock of what customers need. That is why we listen to what customers want, recognise their underlying emotions and see products as means to an end rather than ends in themselves. We call this a 'reversal of the bank model'. If we succeed in being relevant to customers, each of our brands will enjoy a greater appreciation of its services and, as a result, an increase in the number of customers.

To achieve this, we will implement innovations in the areas of:

- our product terms and conditions (based on the customer's needs);
- customer contact experience and frequency;
- the action that customers have to take to manage their financial affairs;

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

- We aim to improve the customer-weighted average of all brand-specific Net Promoter Scores (NPS) – which measure general customer satisfaction – to +10 in 2020. Other (supporting) KPIs we monitor to measure our benefits for customers include: the effort required to manage financial affairs (Customer Effort Score) and the intermediary adviser appreciation for our bank.
- It is our aim to increase our customer base to 1.5 million current account customers by 2020, with a focus on active current accounts. We regard the development of the number of these accounts as an important indicator for the quality of our brand-customer relationship. KPIs we measure to monitor the development of the customer relationship include: the number of active customers who have multiple products (multi-customers) and the duration of the customer relationship.

RESPONSIBILITY FOR SOCIETY

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

- Financial resilience is a precondition for the well-being of individuals in society. It is, in fact, one of the reasons for our establishment two hundred years ago. Our mission falls back on this history. We aim to encourage our customers and help them increase their financial resilience. A key aspect in this process is whether customers are financially confident.
- We seek to reduce the negative impact of our activities on the climate. Our objective is to achieve climate neutrality in our balance sheet and reduce the CO2 emissions from our own business operations (see also Section 3.3.2 Sustainability).

Translated into (measurable) objectives and critical performance indicators, this means that:

- In 2017, we started developing the Financial Confidence Barometer, an unbiased, quantitative measuring instrument that indicates the extent to which we successfully contribute to making our customers financially resilient. Our aim for 2020 is that more than 50% of our customers will indicate that the bank is ready to help them when they have financial stress. In the January 2018 baseline measurement, 40% of our customers stated that they felt this to be true. Our goal is obviously that ultimately everyone feels that the bank is there for the customer in case of financial stress.
- We aim for a 45% climate-neutral balance sheet by 2020 (100% by 2030).

GENUINE ATTENTION FOR OUR EMPLOYEES

Giving genuine attention to autonomy, personal growth and professionalism, we enable our employees to implement our mission and strategy.

Our way of banking seeks to create value for all our customers, employees, society and the shareholder. Creating value starts with genuine attention for our employees. We will accomplish our mission by investing in our employees as individuals and professionals, as they are the ones who put banking with a human touch into practice every day.

De Volksbank is a hospitable bank that sets great store by employees feeling welcome and being themselves. We give them the freedom to come up with new initiatives. We listen to each other, give feedback and help each other get the most out of ourselves and others.

To us, genuine attention also means that we offer our employees the option of developing their potential. We challenge them to use their talents and skills to continuously improve our services to customers. Wherever we see room for improvement, we seize the opportunity. Even a small step may make a difference. Managers have an ongoing dialogue with employees about their talents and ambitions. The de Volksbank Academy, talent development programmes and leadership training may contribute to the development of employees' talents and ambitions.

This is how de Volksbank and its brands ASN Bank, BLG Wonen, RegioBank and SNS seek to create genuine attention for employees, resulting in colleagues who do their job with commitment and engagement. Together, we accomplish our unique mission: Banking with a human touch.

Our target is a score of 8 or higher in 2020 for both commitment and engagement, and we aim for an employee NPS (eNPS) of 40 in 2020. We intend to phrase a new objective during the course of 2019, which will replace the employee NPS and align more closely with giving genuine attention to our employees.

RETURNS FOR THE SHAREHOLDER

De Volksbank is a retail bank that stands out with its focus and simplicity. Our focus is on the Dutch retail and SME customers, whom we offer clear and simple products. This calls for a financially sound and stable bank with activities with a low risk profile and matching returns for our shareholder(s).

Translated into (measurable) objectives and KPIs, this means that de Volksbank:
- uses a target Return on Equity (RoE) of 8%.
- intends to pay out a dividend of between 40% and 60% of the adjusted profit[4] to the shareholder.

OTHER OBJECTIVES

Other objectives relate to our capitalisation and the efficiency of our business operations. Translated into (measurable) objectives and KPIs, this means that de Volksbank aims at:
- a CET1 capital ratio of at least 15%, and a leverage ratio of at least 4.25%. The objective for the CET1 capital ratio includes Pillar 2 Guidance and an ample management buffer, on top of the SREP requirement of 10.5%. For the time being, we will apply these objectives both under current regulations and under Basel IV standards. In 2018 we investigated whether there is reason to revise our capital objectives, in particular on the basis of the combined impact on the capital ratios of Basel IV, the TRIM (Targeted Review of Internal Models) outcomes, and the impact of IFRS 9 on stress testing. See also Section 4.9 Capital management.
- a target range for the cost/income ratio (operating expenses excluding regulatory levies divided by total income) of 50% to 52% for 2020.

We intend to provide an update of our targets in the second half of 2019. This will also include an update of our capital targets.

2.2 THREE STRATEGIC PILLARS

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

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

[4] Reported net profit adjusted for fair value movements of the former DBV mortgage portfolio and related derivatives and items, such as goodwill write-offs and profits or losses on divestments, when material.

2.3 SWOT ANALYSIS

STRENGTHS

- The Manifesto connects employees with de Volksbank's mission: Banking with a human touch
- Distinct market position due to the formulated ambition: optimising shared value for our four stakeholder groups
- Focus on clear and transparent financial products in the area of mortgages, savings and payments, to the Dutch retail segment
- Multiple distinctive brands that are close to their specific customer groups
- Reputation of a frontrunner and expert in the field of sustainability
- The robust IT structure ensures stability
- De Volksbank is highly capitalised, so we are regarded as a healthy, robust bank

WEAKNESSES

- The focus on the Dutch retail segment entails a concentration risk
- The low interest rate environment is causing increased demand for mortgages with longer maturities. As a retail bank, it is challenging for de Volksbank to be able to make a competitive offer
- The (spontaneous) brand awareness of some of de Volksbank's brands is limited compared to the compentition
- The business operations require improvements in the areas of process control, data infrastructure and data quality.
- Our capacity to change is relatively limited in terms of resources (number of available hours)
- Achieving a climate-neutral balance sheet is challenging. To be able to achieve our goal, it is necessary to persuade our mortgage customers to make their home more sustainable

OPPORTUNITIES

- Consumers attach increasing importance to social banking, including a commitment to sustainability
- Increased demand from society for transparent and responsible investment policies
- Greater consumer need for simple and transparent products and an individual approach
- Confidence in banks is put to the test by a steady stream of negative incidents. This creates opportunities for banks that are able to maintain customer confidence
- Public debate on privacy is starting, with technology companies putting pressure on the right to privacy. This presents an opportunity for de Volksbank to adopt a privacy-friendly attitude
- Major banks are withdrawing from sparsely-populated areas

THREATS

- The growing regulatory and supervisory pressure is material for the banking industry and for de Volksbank, leading to increased costs and placing a burden on our capacity to change
- Cost reductions at other banks and low cost levels from other providers of banking products, put pressure on de Volksbank's relative cost position. This can undermine our competitive position
- There are indications that the Dutch housing market is becoming overheated. Given de Volksbank's focus on mortgages, a housing market stagnation would have a major impact on the bank
- The net interest margin is under pressure as a result of low interest rates and persistent competition
- New entrants, including non-financial players, pose a strategic threat in specific parts of the value chain: the possible loss of direct contact with the customer
- Cybercrime is a significant threat to the bank and its customers
- Due to a labour market shortage, it is a challenge to attract and retain employees with the required knowledge and skills

2.4 VALUE CREATION FOR OUR STAKEHOLDERS

Our stakeholders

As a bank, we are at the heart of a society where the call for sustainable business operations that take account of society and the climate is growing louder and louder. We actively heed this call by responding to the wishes and expectations of customers, society (public authorities, educational and knowledge institutions, civil society organisations and industry associations), employees and the shareholder(s). That is why we regularly engage in dialogue with them to exchange ideas and share experiences in a constructive manner.
We also act as a guest speaker at various conferences and events. De Volksbank presented itself in three venues on 14 November: an annual institutional investor conference, a female senior executive event and a discussion evening on fossil funding by banks. In November we were also one of the guest speakers at the UN Forum on Business and Human Rights.

In a continuous dialogue, we share and assess our vision and strategy and identify the expectations that are key to our stakeholders. We include the insights in our process of strategy formation and report on them in our annual report. We also use the outcome to improve our products and services, to increase our customers' financial resilience and to reduce our ecological footprint. We do not keep track of the frequency of contacts with our stakeholders.

Advisory Council

De Volksbank has an Advisory Council that considers the future plans, dilemmas and issues we face from a social perspective. The members of our Advisory Council originate from different sections of civil society, thus creating additional critical power and advice that help de Volksbank improve its social positioning. The composition of the Advisory Council remained unchanged in 2018: Gerhard van den Top (Chair), Giuseppe van der Helm, Henriëtte Prast, Jaap Smit, Melek Usta, Peter Verhaar and Fokko Wientjes.

The Advisory Council met three times in 2018. The Advisory Council became acquainted with the members of ASN Bank's Advisory Council and the historical backgrounds and current roles of the two councils were discussed during the meeting of 2 July

2018. Topics discussed with the Board of Directors included de Volksbank's future governance, financial resilience, sustainable housing, the vision of the use of algorithms and retail payment transactions. In addition to the joint meetings with the Board of Directors, there were consultations with individual members of the council. Members of the council were also consulted outside the scope of the Advisory Council.

Lobbying

As from 2016, de Volksbank no longer has a special department that engages in lobbying activities and maintains contact with political parties and policymakers.
We are (passively) in touch with government authorities, legislators and policymakers through our membership of associations for the banking sector such as the Dutch Banking Association (NVB), the European Savings and Retail Banking Group (ESBG) and the World Savings and Retail Banking Institute (WSBI). For a complete list of memberships of associations, please refer to our website: https://www.devolksbank.nl/verantwoord-ondernemen, under memberships & treaties.

Materiality survey

Just like we did in 2016, in 2018 we conducted a materiality survey among our stakeholders. To this end, we approached stakeholders known to us from our four stakeholder groups. The feedback showed that representatives from all groups responded. We started documenting the latest insights, trends, developments and market surveys. On this basis, 23 topics were qualified as the most important ones, which were then presented to stakeholders in an online survey. In order to get a good impression of what is on our stakeholders' minds, all questions were put to all stakeholders. We faced the limitations of the new privacy law when addressing external stakeholders, which meant that we could write to relatively few external stakeholders. The issues that emerge from the materiality analysis show us where to find the opportunities and possibilities to create value for all our stakeholders. For more information about the determination of materiality, see the appendix 'About the non-financial information in this report'.

In the definitive determination of the most material topics, we merged the topic 'Human rights' with 'Responsible investing'. This was because they are logically an extension of each other given our focus on human rights in our responsible investment policy. This has brought the number of material topics to 22. Compared with 2017, the topics 'Climate-neutral balance sheet' and 'Human rights and responsible investing' moved to the top 10.
This meant that the topics 'Responsible risk management' and 'Ethical conduct' fell out of the top 10. The five most material topics of 2017 are included in the list of the ten most material topics of 2018, which is the focus of this annual report.

For the definition of the aforementioned material topics, please refer to About the non-financial information in this report in the Materiality determination section.

Top 10 material topics

Material topic	Shared value	Reference
Privacy & safety of customer data		§ 1.4 / 1.5 / 3.1 3.2 / 3.7
Simple & transparent products		§ 2.2 / 2.3 / 3.1 3.2 / 4.1 / 4.2 / 4.10
Human rights & responsible investing		§ 3.3.2
Customer support		§ 1.4 / 2.1 / 3.2
Compliance with laws and regulations		§ 1.5 / 3.10 / 4.3 4.4 / 4.5 / 4.9 4.10 / 4.11
Climate-neutral balance sheet		§ 2.1 / 3.1 / 3.3 3.3.2
Financial resilience		§ 1.2 / 3.1 / 3.3 3.3.1 / 4.1
Availability of services		§ 3.2
Healthy, stable bank		§ 2.1 / 3.5 4.1 / 4.9
Technological innovations		§ 2.2 / 3.1 3.7 / 4.3

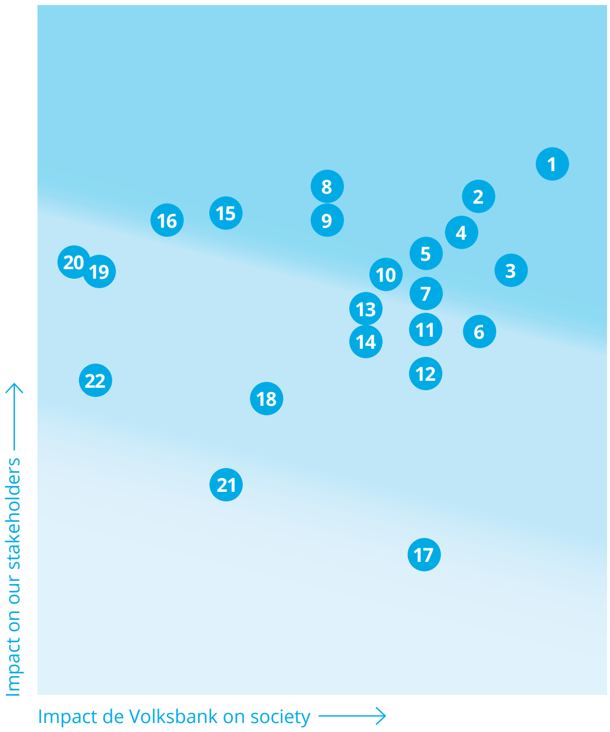
customers society

employees shareholder

The value creation process

We have prepared this value creation model based on the capitals of the International Integrated Reporting Council (IIRC). In our business model, we create value using four of the six capitals. Important on the 'input' side are our staff's knowledge and experience and the funds that customers entrust to us. We deliberately opted not to include manufactured capital (including buildings) as it is of minor importance in our sector. We also decided not to include the pillar of natural capital (biodiversity), even though biodiversity is in fact one of the pillars of our sustainability policy. We are working on a methodology for clarifying our impact on biodiversity. As soon as it has been fine-tuned, it will apply to de Volksbank's sustainability policy.

Materiality matrix



1. Privacy & customer data safety	12. Responsible risk management
2. Simple & transparent products	13. Collaboration with stakeholders
3. Human rights & responsible investing	14. Regional services
4. Customer support	15. Ethical banking
5. Compliance with laws and regulations	16. Committed and engaged employees
6. Climate-neutral balance sheet	17. Responsible return
7. Financial resilience	18. Responsible remuneration policy
8. Availability of services	19. Responsible tax policy
9. Healthy, stable bank	20. Fair pricing
10. Technological innovations	21. Employee diversity
11. Sustainable products & services	22. Circular economy

Sustainable Development Goals (SDGs)

De Volksbank's sustainability vision pictures a sustainable, just and fair society – a society where people have freedom of choice and action, while being considerate of others and acting with a view to the future in a way that respects people, animals and nature. This is a society without poverty or inequality where everyone has access to education, housing and healthcare.

As these components also take centre stage in the vision underlying the United Nations' SDGs, it is not surprising that our sustainability policy is rooted in the same reports, treaties and conventions as the SDGs. For a more detailed explanation, please refer to the Appendix 'About the non-financial information in this report'.

Seeking to identify to which SDGs our sustainability policy contributes, we compared the SDGs with our core activities and reviewed our entire value creation process. In conjunction with our materiality matrix, this resulted in the following SDGs for de Volksbank.

SDG 1: No poverty

The objectives here are combating poverty and increasing financial resilience, with a focus on both extreme financial poverty and other dimensions of poverty.

SDG 8: Decent work and economic growth

Good and fair working conditions for all employees, with sufficient options for personal development and contributions to economic growth, including through technological developments.

SDG 12: Responsible consumption and production

Simple and transparent products and investments in sustainable production.

SDG 13: Climate action

Working on a reduction in CO2 emissions and a climate-neutral balance sheet.

SDG 17: Partnerships for the goals

Developing partnerships with governments, civil society organisations and the business world to reach the sustainability goals.

Value creation model

de volksbank

Input

Social capital: Our relationship with society

- Strong relationship with stakeholders (customers, employees, financial partners, social institutions)
- A bank (since 1817) originating from savings banks for the common good
- High scores in sustainability benchmarks

Human capital: Our employees

- More than 200 years of know-how and experience
- Genuine attention for employees
- ESG knowledge
- Relevant training

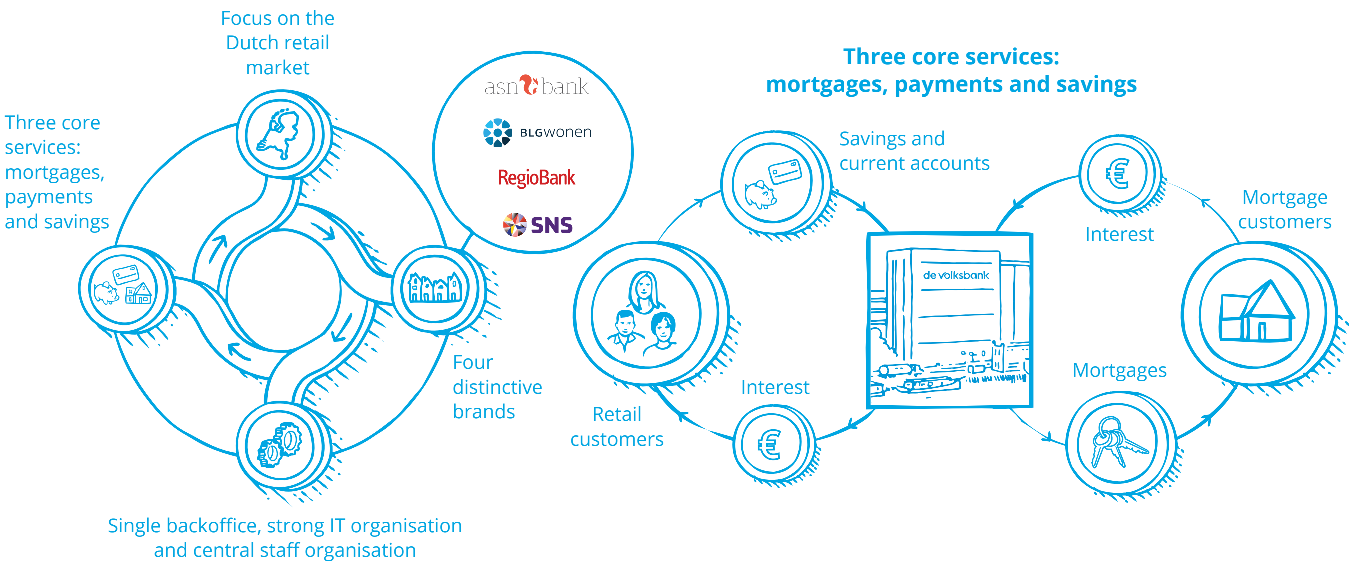
Intellectual capital: Innovation

- Innovating as a smart adopter
- Driving force of ESG initiatives such as the Platform Carbon Accounting Financials (PCAF), Living wage Platform (LWP) and financial resilience of customers

Financial capital

- Shareholders' equity
- Entrusted funds
- Wholesale funding
- Prudent risk management

Business model



Output/outcome

- Satisfied customers
- Transparent products
- Growth in (current account) customers
- Privacy and safety monitoring
- Contribution to good housing
- Financial resilience of customers

- Committed and engaged employees
- Embedding sustainability in policies

- High level of availability of digital services
- Recognition PCAF methodology
- Affiliation financial institutions to LWP
- Climate-neutral balance sheet
- Sustainable investments

- Financially sound bank with a solid capital position
- Return on equity

SDGs

2.5 OPTIONS FOR THE FUTURE

In the fall of 2018, NL Financial Investments (NLFI) issued its second progress report on the privatisation of de Volksbank. In June 2016, NLFI indicated that de Volksbank needed a two to three year period to decide on privatisation. This period will end around mid-2019. Based on the latest NLFI report, the Minister of Finance has drawn the conclusion that de Volksbank will at least need this period to elaborate the shared valued ambition and further strengthen its social identity.

As soon as de Volksbank is ready for privatisation, the NFLI will advise the Minister of Finance accordingly. If this is not feasible by mid-2019, NLFI will again issue another progress report and give an indication of the timeline expected at that point in time.

3.

PROGRESS ON STRATEGY

Progress on strategic pillars and shared value objectives

In this chapter we will elaborate on the progress of our strategy on the basis of the three strategic pillars. Subsequently, we describe the developments and achievements with regard to our shared value objectives and the commercial and financial results.

Shared value objectives

	31-12-2018	31-12-2017	Target 2020
CUSTOMERS			
Customer-weighted average NPS[1]	-1	-3	+10
ASN Bank	18	17	
BLG Wonen	-22	-24	
RegioBank	12	7	
SNS	-11	-13	
Current account customers (in 1,000)	1,488	1,409	1,500
SOCIETY			
Climate-neutral balance sheet[1]	37%	27%	45%
Financial resilience	49%[2]	40%[3]	>50%
EMPLOYEES			
Employee NPS (eNPS)[1]	-20	-2	+40
Commitment	7.4	7.6	8.0
Engagement	7.2	7.4	8.0
SHAREHOLDER			
Return on Equity (RoE)	7.6%	8.7%[4]	8.0%
OTHER			
Cost/income ratio	58.7%	55.4%[4]	50-52%
Common Equity Tier 1 ratio	35.5%	34.1%	> 15.0%
Leverage ratio	5.5%	5.5%	> 4.25%

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

2 Based on the moving avarage of the past 6 months. The figures cannot be compared due to a change in methodology. For the methodology, please refer to Section 3.3.1 Financial resilience.

3 Baseline measurement January 2018.

4 Adjusted for the impact of incidental items (see chapter on Financial results).

3.1 THE THREE STRATEGIC PILLARS

De Volksbank is putting its mission, Banking with a human touch, into practice by focusing on the following three pillars:

1. Strengthening our social identity
2. Simplifying and enhancing our business operations
3. Implementing our innovation strategy as a smart adopter

STRENGTHENING OUR SOCIAL IDENTITY

At the end of 2017, de Volksbank launched the Banking with a human touch programme. The objective is to offer organisation-wide support in realising different customer propositions. The aim is that employees, customers and other stakeholders experience de Volksbank as a bank that banks with a human touch. By means of internal workshops and communication, we direct our employees' thinking and acting towards four principles: know your customer, trust the customer and each other, place responsibility close to the customer and ensure good multidisciplinary cooperation.

In strengthening our social identity, we focus primarily on the impact on the climate in our chain and the financial resilience of our customers.

We developed various initiatives over the past year. Many of these initiatives are discussed in detail in the sections on Shared value and Brand identities. Some bank-wide initiatives are:

- The number of investments in sustainable projects increased, particularly in four wind farms, as did investments in green bonds.
- The pilot in which financial advisers themselves have the authority to accept mortgages has been successful at SNS and will be expanded with three intermediaries from BLG Wonen. By depositing the mandate, with due observance of the strict acceptance conditions, with the advisers, they can more rapidly give a customer certainty about the mortgage application.
- We have optimised the service for our customers by returning some important responsibilities and authorisations, such as address changes, adding or removing account holders, to employees in our SNS shops.
- We apply the human touch by drawing up accessible and simple mortgage conditions. In this way, we not only want to lay down what customers have to comply with, but above all, we want to express more clearly what they can expect from *us* during the term of their mortgage. The crux of this is that we are there for our customers, even when they are facing temporary financial difficulties. This contributes to a more equal relationship with our customers, based on mutual trust. We expect to communicate this actively with our customers in 2019.
- We have responded to the more relaxed rules of the National Mortgage Guarantee (*NHG*) that make it possible to meet the needs of older customers. As from June 2018, our brands offer a mortgage for seniors, the *NHG-Seniorenhypotheek*.
- To gain insight into what our customers consider important in our services and to optimise these services, we are going to set up an inspiration room. This will make it even easier for employees to involve customers of the various brands personally in the development of services and products at an early stage.
- De Volksbank considers it important that all customers can continue to live in their home without financial worries. In order to make potentially vulnerable customers with an interest-only mortgage financially resilient in the future, we offer them solutions/opportunities. Some 150,000 potentially vulnerable customers have now been contacted individually, and an (online) dialogue has been conducted with some 20,000 of them. An online tool has been made available to less vulnerable customers, the interest-free check. In this

context, our brands supported the nationwide campaign entitled *'Aflossingsblij'*, which calls on homeowners with interest-only mortgages nearing maturity to take action and consider their personal situation.
- The way in which we bank with a human touch also manifests itself when customers are unable to pay back their mortgage. To help these customers better still, a customer is assigned a designated mortgage specialist, and there is more frequent contact with the customer. Customers appreciate this; the customer satisfaction score for our Arrears Management department at the end of 2018 was 7.8 on average.
- We stopped outsourcing new debts that are in arrears in 2017, and in February 2018, we started bringing back some 6,000 customer files from debt collection agencies and are now managing the default loans ourselves.
- By introducing the ASN Mortgage, de Volksbank wants to give a new boost to making the existing housing stock more sustainable. The ASN Mortgage is explained in more detail in Section 3.11 Identity of the brands.
- In preparation for the introduction of PSD2, we have developed a 'master switch' that allows customers to turn the passing on of payment data to third parties on or off at any time. In 2018, together with Privacy First, we took the initiative to draw up the privacy code of conduct. The further development of this code was handed over to the Dutch Payments Association in 2019.

Saskia Veraa - SNS customer

"In September, we wanted to buy a house and since we had taken out a mortgage with SNS before, we made an appointment for an exploratory talk with adviser Pim. This way we would have a clear picture of our options in the event that we would like to make an offer.

When we made an offer after our meeting, we reached agreement with the sellers fairly quickly and then we could apply for a mortgage. We obviously had to supply all the documents for this. Because Pim helped us, we heard immediately whether we were supplying the right documents.

Then we went on holiday, and you do have some hope that the mortgage will be arranged when you come back. When we returned, we were surprised that the mortgage was actually arranged."

SIMPLIFYING AND ENHANCING OUR BUSINESS OPERATIONS

More efficient organisation

At the end of 2016, we expressed the expectation that the number of jobs at de Volksbank would fall by 800-900 by 2020, approximately half of which involved our permanent staff. The number of permanent employees fell by 361, from 3,354 FTEs at the end of 2016 to 2,993 FTEs. This decrease is largely the result of natural attrition and, to a lesser extent, of the departure of employees whose jobs have become redundant. In the same period, the number of external employees increased by 153 FTEs to 804 FTEs to fill temporary shortages. For example for regulatory and compliance-related projects, extra activities related to bringing back customers from debt collection agencies, personally approaching vulnerable customers with an interest-only mortgage and an increase in absenteeism.

In 2017, the top management's structure was simplified. It is our ambition to significantly reduce the number of senior management positions in the period up to 2020. So far, we have accomplished a reduction from 47 to 32. The number of middle management positions has been reduced in line with the decrease in the total number of staff positions.

Simpler services and products for our customers

SNS has the ambition to achieve a larger share of franchisees for the SNS shops. This will increase our reach throughout the Netherlands, enable us to follow market movements more quickly and reduce costs. We have already found quite a few franchisees who have the right (entrepreneurial) qualities *and* who want to work towards ensuring the Netherlands is financially healthy. There are currently 55 franchisees and 118 franchise shops, which is an increase compared to the end of 2017 (51 franchisees and 105 franchise shops).

We improve the speed of the processes for our customers through the simplification of our business operations. The speed of our mortgage quotation and application processes, for example, has increased by 75% and 42% respectively. We considerably simplified this process by removing the brand-specific variations in our back-office processes, which allowed us to increase mortgage production while offering the same quality, using fewer employees.

To make our business operations simpler, we also adjust our product range. In 2018, we started to reduce the number of mortgage products that meet the needs of our customers. The product range will be equal for all brands. At BLG Wonen, the first mortgage product has been successfully migrated and customers have switched. We will have cleaned up the portfolio within the next two years. We will say goodbye to old software and systems, save on management and be able to implement changes in laws and regulations more easily.

Eric Kops - SNS customer

"In 2018 I saw a house that I wanted to buy. It was a rented house that was to be sold. I wanted to explore my financial options; that was how I ended up at SNS. The SNS ads caught my attention, and when acquaintances of mine told me about their good experiences with Jelle, an SNS adviser nearby, I made an appointment.

In the first meeting we talked everything through to see what my options were. Jelle was immediately clear about what was possible and what wasn't possible; I liked that. Afterwards, he even joined me when I viewed the house. I then made an offer, which was readily accepted.

I then had to send in the required documents. Because Jelle checked the documents I was sending in, this process was completed fairly quickly, and that gave me a certain sense of security. I was surprised that the mortgage was approved so soon after that, but when I then heard that my adviser participated in a pilot project to give customers certainty more rapidly, that explained it."

Process efficiency

At the end of 2017, *ASN Beleggingsfondsen Beheer B.V.* (ABB) received its own Alternative Investment Fund Manager (AIFM) licence from the Dutch Authority for the Financial Markets (*AFM*). We now manage the investment funds ourselves. This is less expensive than outsourcing and in this way we retain ultimate responsibility for the sustainable investment policy of the funds

To keep the costs of the current account affordable for our csutomers, we are going to remove an intermediary link in the payment process and carry out a larger part of the payment transactions ourselves. This cost saving allows us to keep the costs for customers at the same level as much as possible, and to invest in innovation such as Instant Payments[5].

IMPLEMENTING OUR SMART ADOPTER INNOVATION STRATEGY

The pace of technological developments is fast. Innovation is increasingly taking place on a global scale. De Volksbank has opted for an innovation strategy of Smart Adopter. In doing so, we closely follow technological developments related to our core banking services and are fast and agile in offering relevant innovations to our customers. We distinguish ourselves in the field of innovation applications that truly contribute to Banking with a human touch. In this respect, we see a major role for Artificial Intelligence (AI).

Speed and agility

We follow trends and developments in the field of technology and fintech, whereby we strive to quickly implement innovations in the market ourselves.

To enable us to quickly implement and test innovations in our existing and new banking services, particularly in the field of financial resilience, we introduced the beta app Sl!m. This is a copy of our brands' payment apps, with the same level of security and the same features that we use to test new functionalities with a select group of customers. In Sl!m we developed 'Payment Request' (*Betaalverzoek*), after which this functionality was incorporated into the mobile apps of ASN Bank, RegioBank and SNS.

Artificial Intelligence

The distinctive character of our innovation strategy lies in the way in which we put our mission into practice. In the digital world, the use of AI is particularly suited to create more personal services. In the first half of 2018 we created an AI Centre of expertise and set up a new infrastructure for data analysis. Although there are several possibilities of using AI in the service to our customers, we find it important that they are aware that algorithms are used to provide the service. In line with our privacy and data vision, we think about how we use algorithms and what control the customer has in this respect. We started a pilot project in the field of the mortgage approval process. In this pilot we include the analysis of payment behaviour through an AI model of a customer’s transaction data. In Sl!m, we also developed the 'My Budget' functionality, which gives customers - on the basis of AI - insight into what they have left to spend at the end of the month after all fixed costs have been paid.

Innovations in core banking processes

Together with other Dutch banks, our brands ASN Bank, RegioBank and SNS have joined the initiative to introduce Payconiq, the European payment service, in the Netherlands. Payconiq makes paying easier. The link between Payconiq and the banks anticipates the introduction of the new European directive on payment transactions (PSD2).
By combining the account details of customers who bank with several of our brands, they have the option to manage all their accounts integrally from one statement.
Customers of ASN Bank, RegioBank and SNS can now send a payment request via Whatsapp, SMS or email in the Mobile Banking app. An amount can be paid directly using an iDEAL payment link or QR code. The functionality has a calculation tool and works for all banks.

Partnering

In the field of social banking, our collaboration with Umpqua Bank (US) and CUA (Australia) as regards the Give and Go app has led to a growing number of users on this platform. Customers can choose their own adviser to help them with any questions they may have. In the second half of 2018, the focus of the pilot was on intensifying the relationship between customers and advisers. The app will be introduced to SNS customers at the beginning of 2019.

We collaborate with startups and other external parties, among other things through the proven 'Start-up Synergy' format. We scout startups that can build a workable solution together with us within 6 weeks.

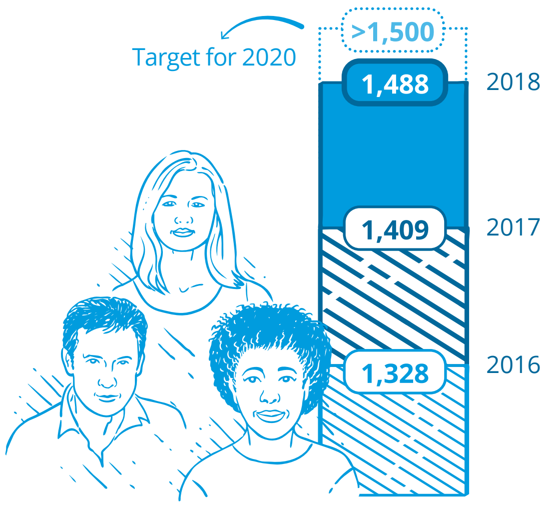
This year, during the annual de Volksbank Hackathon, which lasts 24 hours and in which participants work on different topics and technologies, we welcomed a significantly higher number of external partners. One of the parties present was Schluss, an independent organisation committed to digital identity, just like we are. This collaboration resulted in an initiative to develop a tool for a secure way of exchanging data in which customers keeps control over their data.

[5] With Instant Payments, the amount paid is credited to the recipient’s account within seconds.

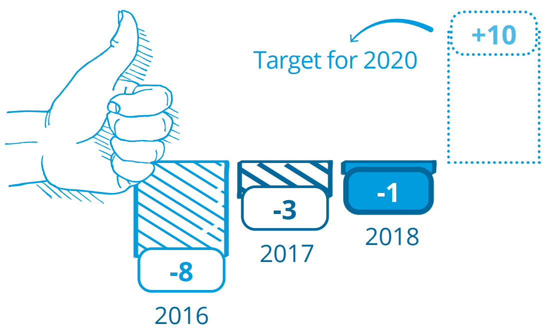
3.2 BENEFITS FOR CUSTOMERS

We aim to be a bank that makes customers feel at home and that looks from its customers' perspective by coming up with fair banking products. The extent of our success is measured by surveying customer satisfaction and the growth in the number of current accounts.

CURRENT ACCOUNT CUSTOMERS
(in thousands)



CUSTOMER-WEIGHTED **NPS**



NPS AND NUMBER OF CUSTOMERS

Net Promoter Score

The customer weighted average of all brand-specific Net Promoter Scores (NPS) improved from -3 at year-end 2017 to -1 at year-end 2018. The NPS of all brands improved. ASN Bank and RegioBank continue to be among the select group of Dutch banks with a positive NPS. SNS continued its steady trend towards a positive NPS; compared to -39 in 2013, the score was now -11. And finally, at BLG Wonen the NPS improved slightly to -22. In the second half of 2018, the customer-weighted NPS dropped slightly, after having reached break-even level in the first half.

Number of customers

In 2018, ASN Bank, BLG Wonen, RegioBank and SNS together welcomed 230,000 new customers. Setting this off against the number of customers who left the bank, our customer base increased by 74,000. This was mainly attributable to the successful growth in the number of customers with a current account.

The number of current account customers rose by 79,000 (163,000 gross) to 1,488,000 at year-end 2018.

BANKING CONFIDENCE MONITOR

To achieve our strategic goals it is important that the confidence in our bank, and in the banking sector as a whole, improves. De Volksbank is working with the sector on restoring consumer confidence. To make this transparent, global market research specialist Ipsos was commissioned by the Dutch Banking Association (NVB) to conduct independent research into consumer confidence in banks and the quality of the banks' services. The fourth Banking Confidence Monitor was published on 21 November 2018.

According to the latest figures, consumer confidence in the banking sector has again risen slightly, to 3.0 on a scale of 1 to 5 (2017: 2.9). These findings are based on customer surveys conducted by Ipsos among more than 12,000 consumers, the Customer interest dashboard of the Netherlands Authority for the Financial Markets (AFM) and measurements performed by the banks themselves of the availability of online banking, mobile banking and iDEAL. The Confidence Monitor includes the results of ASN Bank, RegioBank and SNS.

This time, the Banking Confidence Monitor contained an extra section: the findings of an in-depth consumer survey into debt and what consumers expect from their bank in this respect. It was decided to conduct this survey because figures from the Dutch National Institute for Family Financial Information (Nibud), Panteia (a policy research and market research company) and the Dutch Association of Municipal Money-Lending and Debt Counselling Institutions (NVVK) reveal that many Dutch consumers have debts, a considerable proportion of which has serious debt problems. It is a major social problem. The survey reveals that consumers appreciate the role of banks as regards avoiding, noticing and resolving (serious) debts.

In addition to the consumer survey, the Banking Confidence Monitor contains the AFM's opinion on the extent to which banks put their customers' interests first. As from 2018, this Customer Interest Dashboard will only focus on products and services that the AFM believes may pose risks to customers with the aim to prevent banks from offering products and services that are not, or no longer, in the interest of customers. The AFM is positive about the banks' initiatives, but does expect them to make extra efforts to limit customer risks as much as possible, for example by converting or adjusting loans with limited repayments. As for revolving loans, the AFM encourages banks to further improve their risk monitoring. With respect to (semi-)automatic investing, the AFM sees room for improvement in asking further questions about a customer's risk appetite. Banks could also obtain more information about a customer's financial position. The AFM is also of the opinion that too few mortgage providers automatically adjust the risk premium for mortgage loans to a customer's risk class.

The banking sector will respond to the AFM's call and continues to work on restoring confidence in the sector. Hence banks will not only ask customers what they think about banks at present, but also what their expectations are looking to the future. They will investigate banking services that are not, or no longer, investigated by the AFM and share these results several times a year. The sector thus hopes to gain even better insight into what it is really all about in banking: improving consumer confidence.

In addition to the banking sector, Ipsos annually measures the level of consumer confidence in other sectors. The highest confidence score are recorded for the science, technology and retail trade sectors, although these scores did not rise in 2018. Consumer confidence in the banking sector rose and the sector now takes sixth place.

Banking Confidence Monitor scores [1]

Section	Sector	SNS	ASN Bank	RegioBank
CONFIDENCE & PERCEPTION				
Confidence in banking sector[2]	3	2.9	2.7	2.9
Confidence in own bank[2]	3.3	3.4	3.8	3.7
Customer orientation[2]	3.4	3.5	3.7	4.0
Transparancy[2]	3.6	3.7	4.1	4
Expertise[2]	3.8	3.8	4.1	4.1
PRODUCT & ADVICE				
Consumer credit[3]	2.6	-	-	-
(Semi)automatic capital[3]	1.8	-	-	-
Risk premiums for mortgages[3]	1.9	1.5	-	-
SERVICE & USE				
Online services[2]	4.3	4.5	4.6	4.4
Customer contacts[2]	3.7	3.9	3.8	4.2
Handling of complaints[2]	3.3	3.6	3.2[4]	-
AVAILABILITY IN %				
- Online banking[5]	99.70	99.74	99.81	99.80
- Mobile banking[5]	99.70	99.79	99.72	99.66
- iDeal[6]	99.59	99.56	99.60	99.64

1 BLG Wonen does not participate in the Confidence Monitor as the sample size is not large enough. In addition, as far as the AFM modules are concerned, the number of questions for BLG Wonen is very limited.
2 Customer research by Ipsos (1-5 scale).
3 Figures from the AFM Customer Interest Dahboards (1-5 scale). Comparison with 2017 is not possible due to adjustments in the AFM Customer Interest Dahboards.
4 This figure is based on 26 customers.
5 Measured from July 2017 to June 2018.
6 Concerns own measurements from the third quarter of 2017 up to and including the second quarter of 2018

REPUTATION

An organisation's reputation is the sum of its stakeholders' experiences and expectations. By following the reputation of de Volksbank within the sector, we are able to reduce reputation risks and make better use of communication opportunities. De Volksbank focuses on a clear and distinctive profile, driven by its 'Banking with a human touch' mission.

De Volksbank's reputation is measured by the RepTrak® Reputation Model, a measurement model developed by the Reputation Institute. It is a scientific and widely used standard in the field of reputation measurement and management. We benchmark our scores and perform trend analyses. The measurements are performed among Dutch consumers on a monthly basis.

Despite de Volksbank's relatively new name, the bank's reputation is developing positively. The results of the RepTrak® study show an increase from 64.4 (2016) to 68.6 (2017). The score rose again 2018, to an average of 69.3 on an annual basis, thus demonstrating that our performance is in line with that of our peers.

BANKING SERVICES ACROSS THE COUNTRY

De Volksbank is close to its customers. With 202 SNS shops and 515 RegioBank branches - managed by Independent Advisers - across the country there is always a bank nearby, enhancing customers' personal contact with their bank. For further explanation see 3.11 Identity of the brands: RegioBank and SNS.

PRIVACY AND SECURITY OF CUSTOMER DATA

De Volksbank sees the adequate and reliable use of data as a crucial tool for providing high-quality services. The data vision developed by us in 2017 was updated in 2018. The importance of privacy was one of the elements that we tightened up.

We recognise the value of privacy, and position ourselves as *the* reliable party that manages customer data with the same level of security and reliability as the savings entrusted to us. In order to enable customers to enjoy a financially carefree life, we build trust and data-based relationships with them. Our customers are in control of their own data and we support them in using and sharing this data consciously.

Customers determine how we use and disclose their data. We only disclose this data with customers' explicit consent or request. The customer can also rely on us to never sell his data to third parties. This means that individualised data cannot be used for purposes other than those for which the data was provided without our customers' consent. If necessary, we do share data with the Dutch Tax and Customs Administration, police or security services.

In addition, we have a duty of care towards our customers. We help them handle their data carefully. We make sure that our customers know what data third parties may have access to, and how any such parties can put this data to use.

The General Data Protection Regulation (GDPR) came into force on 25 May 2018. De Volksbank started taking measures to implement the GDPR as early as 2017. For example, the information we provide to our customers and employees about the processing of their personal data has been aligned with the regulation and we enable our customers and employees to easily exercise their legal rights as 'data subjects', such as their rights of access, removal and objection. Furthermore, we record all processing of personal data in an internal processing register.

AVAILABILITY OF SERVICES AND CYBER RESILIENCE

It is important for customers to have 24/7 availability of our payment services such as debit cards, iDeal and online and mobile banking. Over the past year, the availability of these services has been good.

In addition to customer interests, the interests of the supervisory authorities also play a role. We are aware of the high standards they set for the banking sector and are continuously working on improvements. With regard to future developments, such as PSD2 and instant payments, we will also ensure that the availability of the systems meets our customers' requirements.

Banks play an important role in the economy in everyday life. Society must be able to rely on the fact that money and data are safe with banks and that banking services do not falter. De Volksbank stays focused on fighting and preventing cybercrime. We have a Cyber Resilience organisation that combats cyber-attacks in a structured and effective way and increases our digital resilience. Their activities are part of de Volksbank's Integrated Control Framework (ICF). In 2018, we suffered limited interruptions to our services as a result of cyber-attacks or system failures and our 'payment brands' met the availability standard of 99.76% during peak hours for iDEAL and payment terminals.

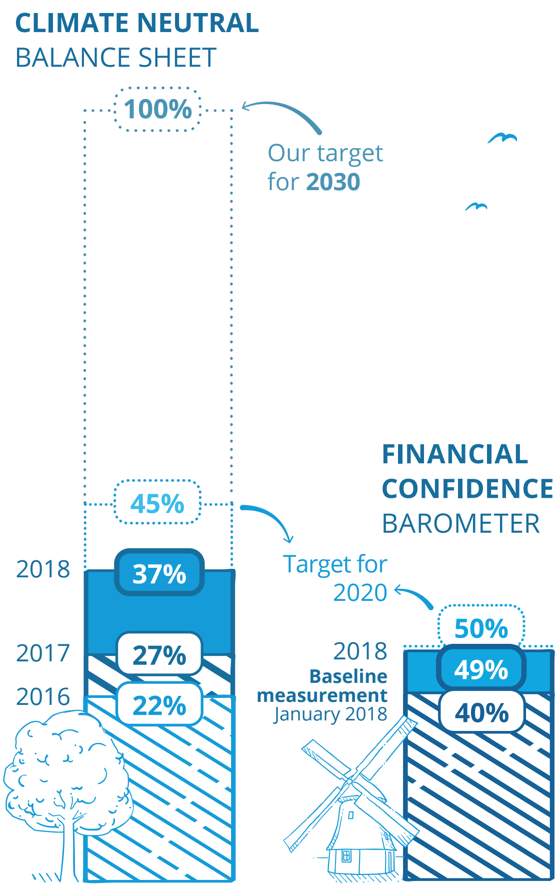
With the support of colleagues from the Cyber Resilience and (IT) line organisation, we take measures to prevent the loss of internal data or customer data based on current threat assessments. We also invest substantially in interbank and cross-sector collaboration.

DDoS (Distributed Denial of Service) attacks, aimed at making IT systems inaccessible to customers, are a common occurrence. Phishing is another common phenomenon whereby criminals try to capture bank details by misleading a customer or employee by means of false emails. To combat this, de Volksbank's transaction traffic is continuously monitored and, in addition, the financial sector are increasingly joining forces. Laws and regulations in the field of cyber security and computer crime are also being tightened up and we will take measures to continue to comply with these laws and regulations.

In 2019, we expect new forms of fraud due to the introduction of PSD2. We also expect DDoS attacks to continue to increase in size and numbers, for example through 'cybercrime as a service'. This is a new development in which ready-made services are offered on the internet for use by cyber criminals who do not possess all the technical knowledge themselves. The number of mobile channel fraud offences is also expected to rise (e.g. through WhatsApp). In order to resist the aforementioned developments, it is very important for us to seek more far-reaching forms of cross-sector partnerships.

3.3 RESPONSIBILITY FOR SOCIETY

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



3.3.1 FINANCIAL RESILIENCE

Financial resilience is a prerequisite for the well-being of individuals in society. Two hundred years ago, we were founded partly for this purpose. Our mission goes back to this history. We want to encourage and help our customers increase their financial resilience. Our commitment to financial resilience consists of three components: skills, concerns and financial position. The SNS Financial Resilience Centre of Expertise develops our services and initiatives in these three areas.

Financial education and financial skills

De Volksbank encourages the teaching of financial skills by providing financial education in primary schools, special needs schools and lower secondary education groups.

Eurowijs

On average, we annually reached more than 190,000 pupils with our Eurowijs teaching materials in 2017 and 2018. The Facebook page has over 6,000 followers. De Volksbank employees gave more than 800 Eurowijs guest lessons in 2018. In September 2018, Eurowijs launched its new website, followed in November 2018 by the new website for children: Eurowijs kids. In October 2018, Eurowijs celebrated its fifth year of existance with a number of festivities. On 12 October 2018, the third Eurowijs Day was held at 3e Van der Huchtschool in Soest. That day, 21 directors and managers gave Eurowijs guest lessons in groups 1 to 8. Eurowijs opened trade on the Amsterdam Stock Exchange by sounding the gong on 23 October 2018.

The table below shows that we reached fewer pupils in 2018 than in 2017. This is mainly due to the major success in 2017 of the National Education Fair in Utrecht, where teaching materials for 40,000 pupils were requested.

Eurowijs

	2014	2015	2016	2017	2018
Number of pupils reached	12,561	18,980	104,387	221,572	165,818

Bank employees teach children about money

During National Money Week, from 12 to 16 March 2018, de Volksbank employees gave 351 guest lessons in several primary schools in the Netherlands. With these lessons, we reached 8,775 pupils in groups 6, 7 and 8.

Financial confidence

Together with behavioural scientists of the Behavior Change Group and the National Institute for Family Finance Information (Nibud), which was involved as an adviser, we quantified financial confidence in our Financial Confidence Barometer at the end of 2017. The Barometer gives insight into why people have concerns and what they are concerned about. We have seen that four psychological factors play a role in financial concerns: a sense of control, self-confidence in case of financial difficulties, the degree of financial planning, and a tendency to display avoidance behaviour. Since the second quarter of 2018 we have conducted this survey on a monthly basis among 1,280 citizens of the Netherlands, 530 of whom are customers of de Volksbank's brands. We use the results to get to know our customers better and improve our services. For instance, we have successfully completed the pilot project for the 'Give and Go' app, in which customers may select a personal adviser whom they can contact at any time. The app will be introduced to SNS customers in early 2019.

Ger Janssen - RegioBank customer

"About 15 years ago I became a RegioBank customer because I liked the idea of having a branch nearby. When I took out a mortgage at the time, I knew it had to be repaid at the end of the term, but you stop thinking about that.

When a RegioBank adviser recently called me, I was a little surprised, because I have everything taken care of. He proposed to go over my financial situation, and especially my situation when I retire. Luckily my house is worth more than my mortgage, so I don't have to worry about that.

I would like to stay in the house where I live now, which is why my adviser advised me to refinance the mortgage with a new term. So that's what I did. Afterwards, I understood why they had contacted me so soon and why they wanted to discuss my mortgage."

Financial Resilience Score

In early 2018, we made financial resilience measurable in a KPI. In a monthly survey, we ask 530 of our customers whether they notice that the bank, i.e. de Volksbank, is ready to assist them in case of financial stress. Respondents answer the question on a scale of 1 (totally disagree) to 100 (totally agree). The first baseline measurement, taken in January 2018, resulted in a score of 40. We then set the target for 2020 at 50. Starting from the second quarter, we asked the same question but replaced 'the bank' with the names of our specific bank brands. This arouses more recollections from customers' own experience than associations with banks in general, and largely explains the improvement in the survey result in December: 49.

Financial position

To assess customers' financial position, we look at the balance in income and expenditure, the amount of any savings buffer and the risk of problematic debts. Customers can contact us about expected payment problems and we also contact vulnerable customers ourselves. For example, in 2018 we proactively contacted approximately 150,000 customers with an interest-only mortgage to encourage them to repay or build up capital. An (online) dialogue was then conducted with approximately 20,000 of them. In this context, our brands also supported the nationwide campaign entitled '*Aflossingsblij*', which calls on homeowners with interest-only mortgages nearing maturity to take action and consider their personal situation. In 2018, we also retrieved approximately 6,000 customer files from debt collection agencies and now manage debt arrears ourselves.

Our preventive management programme helps customers who find it difficult to make ends meet, due to unemployment or divorce, for example. In mid-2018, we also started contacting customers with revolving credit to assess whether their credit facility still matches their financial position.

Financial resilience is equally important for our staff. We offer them support when they experience or expect financial difficulties. We also offer employees a departure scan upon a reorganisation to give them insight into their financial position when they leave, and financial coaching to identify the consequences when they suffer a loss of income.

Preventive management

We improved our preventive management in 2018 with the aim of making a positive contribution to our customers' financial resilience.

In 2018, we approached 1,749 customers. The drop compared to 2017 is primarily the result of our assessment against GDPR legislation. The Mortgage Support Team helped 407 customers through prevention programmes. Despite falling unemployment rates and fewer customers with payment arrears, the percentage of vulnerable customers we supported rose in 2018. This may be a sign that the threshold for accepting help is becoming lower.

We managed to prevent 86% of the customers that received preventive assistance from us from falling back in arrears within the twelve months. This percentage is testament to the success of our method.

Ina Ekkelenkamp - SNS customer

"I took out a mortgage with SNS in 2007. At the time it was with an intermediary, who clearly explained to me what 'interest-only' meant, so I was aware that I had to repay my mortgage at the end of the term.

At the end of last year an SNS adviser, Jan, called me to schedule a service meeting to discuss my mortgage. During the meeting we not only explored whether I could continue to pay my mortgage, but I was also given every opportunity to ask questions. I found that very pleasant. It allowed me to ask questions about prepayments, and I also received useful money-saving tips.

Whereas I first only thought of SNS as the bank that provided my mortgage, I now truly feel that they actually come up with ideas to help me. The service meeting confirmed that feeling."

Mortgage test tool and Mortgage check

Preventive management uses the Mortgage Test Tool to identify any future payment problems at an early stage. As the tool did not live up to expectations, BLG Wonen and RegioBank decided in April to stop using it. Up to and including April, 8,751 customers used the calculation tool.

The Mortgage Check also gives customers an answer to the question whether their mortgage still matches their personal situation. In 2018, 15,746 unique customers filled in the Mortgage Check, which is an increase compared with 2017 (14,000). Also, 1,786 customers availed themselves of the option of having a face-to-face meeting. The Mortgage Check also tips off customers about how they may reduce monthly mortgage payments.

Preventive management and Mortgage test tool

	2018	2017
Letters sent to customers with increased risk profile	1,749	3,725
Visits of mortgage test tool RegioBank and BLG Wonen	8,751	14,781
Mortgage Support Team programmes completed	407	761
Success ratio of Mortgage Support Team[1]	86%	84%
Hypotheekcheck	15,746	14,000

1 The succes ratio relates to the percentage of customers who were prevented from falling into arrears, measured one year after completion of the prevention programme.

3.3.2 SUSTAINABILITY

Following the decision in 2016 to adopt ASN Bank's sustainability policy throughout de Volksbank, in 2017 we started implementing it in other parts of the organisation and laid the foundations for embedding ASN Bank's sustainability policy in processes that apply throughout de Volksbank. We do this by means of a 'House of Policies Sustainability', for which a clear structure was set up in 2018. Until the end of 2018, we continued implementing the ASN sustainability policy within de Volksbank, such as in the trading activities of Financial Markets and in Risk Management processes.

Facility Management also incorporated the three pillars climate change, biodiversity and human rights into its sustainability policy in 2018. The main principles are consume less, use longer and reuse, in the belief that the use of irreplaceable raw materials (which become increasingly scarce) should be minimised and emissions should be reduced. The ensuing objectives are the following:

1. climate-neutral business operations: our CO2 emissions[6] are reduced by 50% in 2020 compared with 2014;
2. full offsetting of the remaining CO2 emissions will be achieved by purchasing Gold Standard Credits[7] after the end of the financial year or at the beginning of the new financial year;
3. all products (goods) that are purchased as from the end of 2018 meet at least one of the nine Rs of a circular mindset: Refuse, Reduce, Reuse, Repair, Refurbish, Remanufacture, Repurpose, Recycle, Recover.

Our sustainability policy rests on three pillars: climate change, human rights and biodiversity. This has been

6 The CO2 emissions are measured in accordance with the Green House Gas Protocol criteria and reported annually in this annual report.
7 The purchase process for the certificates was started at the beginning of 2019. We will receive the certificates as soon as this process has been completed.

recorded in various policy documents, which we will flesh out on several points where necessary.

Climate

We began carbon accounting in 2015; our aim is to reduce the CO2 emissions related to our loans and investments (indirectly). We use a methodology developed by ASN Bank and other parties, which is based on applicable international standards, such as the Greenhouse Gas Protocol (GHG).

This methodology operates as a pair of scales. On the one side are the positive CO2 impacts, i.e. investments that avoid CO2 emissions, such as wind turbines and solar parks. On the other side are the negative CO2 impacts, i.e. investments that emit CO2, such as mortgages, government bonds and investments in companies.

The positive and negative impacts must be in balance in 2030 in order to create a climate-neutral balance sheet. We will achieve this goal particularly by increasing our investments in renewable energy projects and reducing our emissions caused by financed properties. In addition, we reduce the CO2 emissions from our own business operations, and we formulated a target for our investment funds in 2018, which are also required to have a climate-neutral balance sheet by 2030.

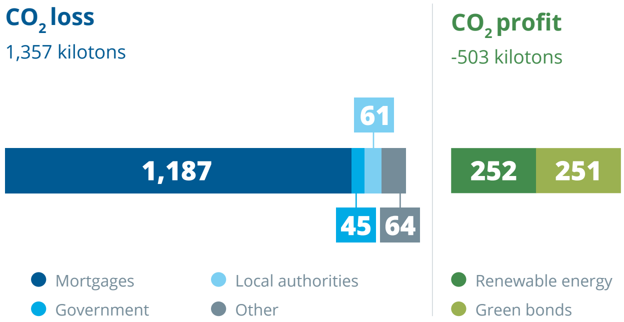
Climate-neutral balance sheet

We aim for a 45% climate-neutral balance sheet by 2020, rising to 100% by 2030. At year-end 2018, our balance sheet was 37% climate-neutral (2017: 27%). The increase is mainly due to an increase in the positive CO2 impacts to 503 kilotons (2017: 355 kilotons). The total CO2 loss on our balance sheet, mainly caused by the mortgage portfolio, amounted to 1,357 kilotons (2017: 1,331 kilotons).

New project financings that have made a significant contribution are mainly four wind farms: Nobelwind, Rentel, Northwester 2 and Merkur Offshore. In addition, we financed a solar farm from GCV Zonne-energie and purchased an extra note in the Green for Growth fund.

There has also been a net growth in green bonds, which in turn also finance projects in sustainable energy and energy efficiency, enabling us to realise CO2 profits.

Climate-neutal balance sheet



ASN Bank is the initiator and chair of PCAF, the Platform Carbon Accounting Financials. In PCAF, we collaborate with eleven other financial institutions to develop a uniform climate impact calculation methodology. It has not yet been possible for us to apply the methodology to our entire bank balance sheet. As we intend to apply the methodology to our entire bank balance sheet and do not wish to cause any confusion by using different methodologies at the same time, in this annual report we still report according to the methodology published on our website. We generally use more conservative assumptions in our own methodology than the PCAF methodology does, for example in the case of mortgage emissions where we also include the pre-waste phase of electricity consumption. We therefore expect that the adoption of the PCAF methodology will lead to differences in de Volksbank's climate neutrality.

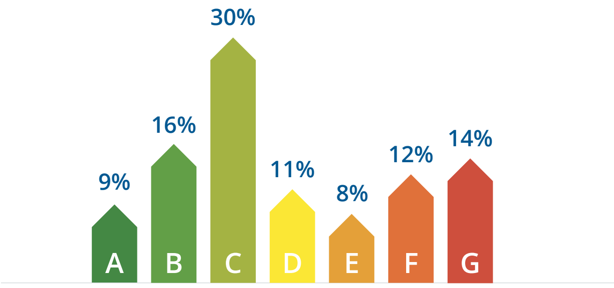
PCAF presented its second report in late November 2018. It addresses the further development of the joint method (see the website), but above all the sharing of best practices by participants who apply the method in practice. The report consists of two parts: a stakeholder report about how financial institutions all over the world can be inspired to take up the PCAF method and a technical report setting out the method and examples from practice. PCAF has been copied internationally as Amalgamated Bank, the largest US union-owned bank, has announced that it will launch the US version of PCAF.

Making homes more sustainable

As 88% of our CO2 loss in the balance sheet is caused by the homes for which we have provided mortgages, we monitor the energy labels and the CO2 emissions within our mortgage portfolio. We actively reduce emissions by encouraging our customers to make their homes more sustainable. This is very beneficial to customers, since a sustainable home consumes less energy.

We measure the degree of sustainability by means of energy labels. The average energy label of our mortgage portfolio remained unchanged at 'D' in 2018. Among our customers, 25% have a home with energy label A or B. In our portfolio, 25% of the homes have a definitive energy label.

Energy labels in our mortgage portfolio



Based on the RVO database year-end 2018.
25% of the homes has a definitive energy label.

Incidentally, a higher grade energy label does not necessarily mean that the energy consumption and thus the CO2 emissions of a home are reduced. For this reason, we intend to calculate the CO2 emissions of the residential portfolio based on actual energy consumption. At the end of 2018, we agreed with grid managers Enexis, Liander and Stedin that we will receive the actual energy consumption of our residential portfolio in an anonymous form.

As regards the homes that we finance with energy labels C to G, there is room for improvement. We attempt to bring about this improvement by training advisers to encourage customers directly or through an adviser to take energy-saving measures.

In 2018, sustainable housing became one of the standard topics in customers' conversations with our advisers. We offer advisers tools to start a dialogue with customers, such as the home energy check on the Slimwoner website, a platform of our partner Natuur & Milieu. The home energy check was improved in 2018. Slimwoner started offering offline advice in 2018. Our customers receive an energy-efficiency adviser at home, at a reduced rate, to assess their home.

SNS has started a pilot project in which customers receive a customised offer from the Personal Adviser. Customers are invited to the shop, where the adviser follows the steps in an advisory tool. This gives customers insight into savings opportunities and financing options.

In 2018, de Volksbank organised three expert sessions about Sustainable Housing for the financial advisers of SNS, the RegioBank Independent Advisers and external advisers of BLG Wonen. Advisers were given information about energy-efficient living and were taught how to discuss this topic during the financial advisory consultation.

All of de Volksbank's brands contacted current account and mortgage customers with an offer for energy-saving measures on several occasions during the course of 2018. Nearly 5,200 quotations were approved for insulation measures and solar panels through Slimwoner. Of the customers who visited Slimwoner in response to a news report published by one of our brands 13% indicated that they had requested a quotation through a provider other than Slimwoner.

In addition to the efforts we make for our customers, we set great store by sharing our sustainable housing objective and activities with employees, (social) partners and stakeholders. For this reason, we organised a Sustainable Housing seminar for external parties in January 2018. We also shared our vision of increased sustainability in the private residential market during a round-table discussion in the House of Representatives centred on sustainability in the owner-occupied housing sector.

Diny van de Loo - SNS adviser

"My husband and I had been thinking about making our home more sustainable for quite some time. My job as a customer adviser at SNS resulted in a more concrete plan. At SNS we want to show our customers the options they have for sustainable housing, since this is in the public interest.

That is how we got in touch with Best Duurzaam in February 2018. This is an initiative of expert volunteers who consider, among other things, how the town of Best can be made more sustainable. They examined our house to look for options for saving energy, such as appliances and lighting. We also discussed solar panels. We requested a quotation and the solar panels have now been installed. Since a sustainable world starts with you, we do everything that is within our power. And every day it is nice to see how many kilowatts our solar panels have already produced!

I can now share this experience with customers. SNS recently introduced the option of offering customers an ASN Mortgage that provides financial support to promote sustainability."

Responsible investing/lending

De Volksbank rules out investments in companies and loans to companies involved in corruption, financial, tax, environmental and/or social scandals. De Volksbank also rules out investments in arms, fossil fuels and child labour.

Sustainability is key in the investment policy of ASN Beleggen. Direct and indirect investments are first assessed against the sustainability policy, which is built on the three pillars of climate change, human rights and biodiversity. ASN Beleggen is managed by ASN Beleggingsinstellingen Beheer (ABB), which is part of de Volksbank. ASN Beleggen consists of 12 investment funds, each having its own investment policy and a characteristic risk and return profile. Please refer to the website https://beleggingsfondsen.asnbank.nl for more detailed information. Annual reports and interim reports are also available here. The ASN Investment Funds are offered through ASN Bank. Other brands of de Volksbank, as well as other banks and advisers (distribution partners), may also offer these funds to their customers. ASN Beleggen makes both sustainable and financially responsible investments in companies, authorities, microfinance institutions (MFIs), green bonds, including social and sustainable bonds, and financing projects.
We opt for positive selection in the decision whether to approve or disapprove direct/indirect investments. We select companies that engage in future-proof operating activities. We exclude activities such as arms, nuclear energy, fossil fuels and fur, as well as companies that, if they run a risk of becoming involved in child labour, do not address this risk and incorporate safeguards to prevent such involvement. We view a country more positively as it scores higher on topics such as income inequality, discrimination and corruption.

We continuously assess whether investments still meet our sustainability criteria. We regularly adjust these criteria, which may lead us to add companies to our investment universe or, on the contrary, remove them. Engaging with listed companies in our investment universe, we ask them to make their policies and activities more sustainable and explain any potential misconduct. Misconduct often relates to human rights, but may also emerge in the areas of the environment and governance. We engage in intensive dialogue with several industries, such as the garment industry (see the human rights section below).

Climate-neutral business operations

De Volksbank's business operations are net climate-neutral. We achieve this by purchasing as much green energy as possible. Where this is not yet available or is only available to a very limited extent, such as for car fuels and district heating, we offset our CO2 emissions by purchasing Gold Standard Credits after the end of the financial year or at the beginning of the new financial year. This is invested in projects in Brazil to combat deforestation, to support the community and to increase biodiversity.

We have taken a major step by adapting our company car scheme with effect from 1 January 2017, with the starting point now being a fully electric fleet. At the end of 2018, more than 1 in 4 leased cars (29%) were fully electric. Effective 1 January 2019, the commuting scheme was also amended. It is now based on everyday flexibility and encourages bicycle use and the use of public transport.

Circularity guides our internal business operations. The purchase of products meets at least one of the nine Rs (Reduce, Refuse, Reuse, Repair, Refurbish, Remanufacture, Repurpose, Recycle, Recover). An example is that when replacing the conference chairs in our large offices, we opted for reuse of the bases of the chairs and seats and armrests made of recycled PET bottles. Another example are the coffee cups from the large offices, which are part of a closed loop: they are recycled and turned into toilet paper that is used in these same offices. For more information, please refer to the Section on Climate-neutral business operations in the Appendix About the non-financial information in this report.

Human rights

Traditionally, human rights are a vital part of the ASN Bank sustainability policy. We applied the basic principles of this policy to all of de Volksbank's activities in 2018. In this regard, we are guided by the UN Guiding Principles on Business and Human Rights, which prescribe that every company must analyse the most salient human rights risks. We performed this analysis in 2018 and it revealed that the largest human rights risks for de Volksbank are found in ASN Bank's investment funds. We focus on mitigating our impact on these risks. Please refer to our 2018 Human Rights Report for more information. By publishing this Report, we comply with the arrangement made in the IRBC agreement for the banking sector signed by us to report on our most salient human rights risks and mitigating measures in line with the UN Guiding Principles on Business and Human Rights.

A living wage in the garment industry

One of the most salient human rights risks we have identified is the receipt of a living wage in the garment industry. It confirms a choice that ASN Bank made in 2015. At the time, we decided that we would focus our efforts concerning the human rights theme on this topic and this industry. Collaborating with Erasmus University, we developed a methodology to assess companies on the living wage theme. We used this methodology to analyse the 14 garment companies in our investment universe in 2016 and 2017.

In 2018, we updated the original methodology and aligned it with the aforementioned UN Guiding Principles toegether with the international accountancy firm Mazars. We used this methodology to reanalyse the 14 garment companies and published the results in the report 'Living Wage Report 2018'. The Report is available on the websites of ASN Bank and de Volksbank. We explained our work in panels on international conferences of the OECD (Paris) and the UN (Geneva). We also obtained independent assurance for our assessment process.

Platform Living Wage Financials (PLWF)

Since 2015, ASN Bank has teamed up with pension administrator MN and Triodos Investment Management on the issue of living wages in the garment industry. This year, we discussed this issue with other financial institutions in the Netherlands, which resulted in the incorporation of the Platform Living Wage Financials (PLWF; see www.livingwage.nl). In this platform, we collaborate with ten financial institutions, one of which is not Dutch (Amundi). Together, we encourage the garment and other companies we invest in to dedicate themselves to a living wage in their own production facilities or at their suppliers if production has been outsourced.
The financial institutions in PLWF jointly manage more than € 1,000 billion.

Biodiversity

ASN Bank has set itself the goal of having a net positive impact on biodiversity with its loans and investments by 2030. For this purpose, it has developed a methodology in the past few years to calculate the biodiversity impact, in order to use the results to aim for an increase in the positive impact and a reduction in the negative impact. As soon as this methodology has been fine-tuned, it will also apply to de Volksbank's sustainability policy.

Cooperation

In 2018, ASN Bank joined forces with the French bank CDC Biodiversité, ACTIAM and the German impact investor Finance in Motion with the aim of mainstreaming biodiversity footprinting. In November, this group launched a Common Ground paper discussing how to make a proper biodiversity footprint.

External benchmarks

Our sustainability policy and activities are rated by independent institutions.

Oekom

The German firm oekom research, which assesses companies all over the world for the sustainability of their investment policy, raised de Volksbank's rating from C+ to B- at the end of March 2018. This places de Volksbank among the three leaders in the financial sector (Mortgages & Public sector). According to oekom, this high score reflects the integration of sustainable and social aspects in the business operations and policies of de Volksbank.

Sustainalytics

Sustainalytics conducts worldwide research into the policies of companies in the areas of sustainability and corporate governance. As of December 2018, with a score of 90 for ESG performance, de Volksbank is number 1 out of 341 banks analysed worldwide. According to Sustainalytics, this high score stems from de Volksbank's leading position in environmental, social and governance issues.

Fair Bank Guide

Every two years, the Fair Bank Guide (*Eerlijke Bankwijzer*) assesses the investment policy of the seven most important Dutch banks. In the current study, they are rated based on eight sustainability themes, five risk sectors and their business practices related to remuneration and transparency. Since 2017 the ASN Sustainability Policy has applied to de Volksbank as a whole, i.e. to ASN Bank, BLG Wonen, RegioBank and SNS. That is why the Fair Bank Guide assessed de Volksbank as a whole for the first time. In this study, published in December, de Volksbank obtained the highest total score.

Our policy scores improved by three points for the financial services sector and by two points for the fishing industry. The scores for animal welfare, human rights, forestry and food also rose. Unfortunately, our score for the Gender Equality theme was unsatisfactory, as were the scores of the other banks. Although our score of five was the highest score, it does signal that progress should be made on this topic. The recent appointments to the Board of Directors of Marinka van der Meer on 1 September 2018 and the intended appointment of Mirjam Verhoeven show that de Volksbank most certainly has aspirations in this area.

The Fair Bank Guide also regularly examines how Dutch banks deal with such matters as arms, fossil energy and a living wage in practice.

Do they invest money in these matters or do they not? The practical study ‘Investments in energy companies’ examining the funding of energy companies by the seven banks and seven insurance companies, which was also published in 2018, revealed that de Volksbank and Triodos had the highest score and funded only the production of renewable energy and not the production of fossil energy. Only between 0% and 16% of the funding provided by other banks and insurance companies is made up of renewable energy; between 100% and 84% of their funding consists of fossil energy.

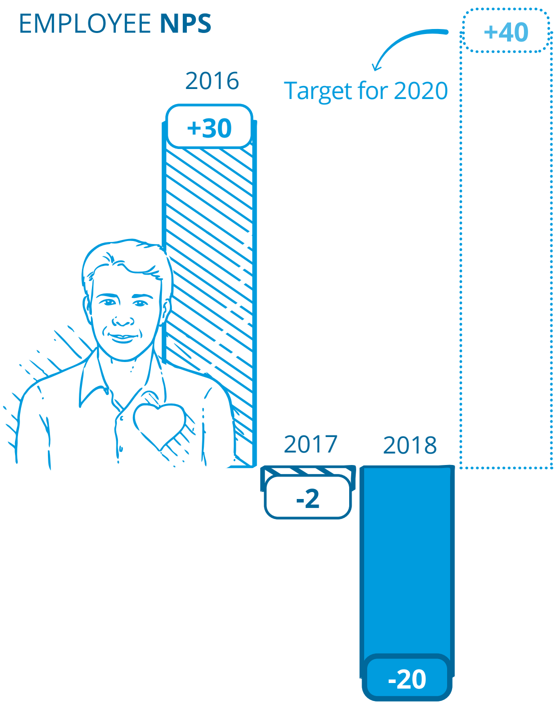
DZ Bank
In the EESG (Economic, Environmental, Social and Governance) rating model of DZ Bank, de Volksbank scores 82 points. In December 2018, this was the highest score in the banking sector. The average for all sectors is 44 points. The sector-specific sustainability threshold for banks is 54 points. De Volksbank does not violate any exclusion criteria and is not involved in any gross EESG controversies. De Volksbank is classified as sustainable and has received the DZ Bank Seal of Quality for Sustainability 12/2018.

MSCI
In 2018, de Volksbank received an A rating – on a scale from AAA to CCC – from MSCI ESG Ratings.

MSCI ESG Ratings helps investors identify environmental, social and governance (ESG) risks.

3.4 GENUINE ATTENTION FOR OUR EMPLOYEES

De Volksbank's ambition for employees is that they find meaning in their work: employees must be able to develop their potential and contribute to our mission and social objectives.



Through our ambition, we add value by aiming for committed and engaged employees who would recommend de Volksbank as an employer. Committed and engaged employees are passionate about the organisation and their work; they make every effort to continuously improve themselves and the organisation.

In 2018 we consulted with employees to phrase a more specific definition of shared value for employees, which is better suited to our mission Banking with a human touch: giving genuine attention to autonomy, personal growth and professionalism, we enable our employees to implement our mission and strategy. With effect from 2019, the term 'genuine attention for our employees' has replaced 'meaning for employees' as the definition of shared value for employees. We expect to boost our employees' commitment and engagement by giving genuine attention.

OBJECTIVES

KPIs	October 2018	May 2018	October 2017	Target 2020
Employee NPS	-20	-14	-2	+40
Engagement	7.4	7.7	7.6	8.0
Commitment	7.2	7.4	7.4	8.0

We have set the following goals for the end of 2020:

Commitment-passionate about the organisation: 8
Commitment is the degree to which employees feel connected with the organisation. Committed employees feel that they are a good fit for the organisation, support the organisation's objectives *and* enjoy working in the organisation.

Engagement-passionate about the work: 8
Engagement indicates that the work that employees do energises them, that they are proud of the work they do and that they feel that their work is worthwhile. They make every effort to continuously improve themselves and the organisation.

Employee NPS-employee Net Promoter Score: +40
The eNPS indicates the degree to which employees recommend de Volksbank as an employer. It is measured in the same way as the NPS for customers. Marks on a 1 to 10 scale determine if an employee is a 'promoter' (9-10), a 'passive' (7-8) or a 'detractor' (0-6). A positive NPS requires the percentage of promoters to be higher than the percentage of detractors.

Seeking to measure whether we are on track to reach these targets, we conducted employee surveys in May and October 2018. Engagement has remained fairly stable; in October 2018 we saw a slight decline, from 7.4 to 7.2, for the first time. Commitment is high and rose from 7.6 to 7.7 in May 2018, and then declined slightly to 7.4 in October 2018. The eNPS decreased further to -20. Although the percentage of promoters rose from 13.4% to 15.3%, the increase in the percentage of detractors was higher (from 27% to 35%).

The employee surveys reveal that our ambitious objective for the eNPS score (+40 in 2020) is hard to reach in a period of reorganisations and employment contraction in the banking sector. Employees would not readily recommend that other people start working at de Volksbank, because of the reorganisations and employment prospects. This means that recommending de Volksbank as an employer is not a good indicator of how employees experience working at de Volksbank. What is more, the factors that have the greatest impact on the eNPS – employment, sector image – can hardly be influenced, if at all.

We intend to set a new objective during the course of 2019, which will replace the eNPS and align more closely with what we seek to achieve with shared value for employees: genuine attention for our employees. We will do so based on dialogue sessions we held in 2018 with various groups of employees to ensure that the objective dovetails with the needs and experiences of our employees and offers sufficient guidance in putting shared value for employees into practice in the right way. The new objective will be explained in more detail in 2019.

CULTURE AND BEHAVIOUR

Accomplishing the mission of Banking with a human touch requires a cultural and behavioural transformation. Attention was paid to this in several ways within de Volksbank.

Code of conduct

In 2018, all employees were asked to reconfirm the ‘Common Sense, Clear Conscience’ code of conduct. This code includes the practical details of our mission Banking with a human touch and explains what we expect of our employees. It sets the frameworks within which employees can be audacious and can take responsibility in implementing the strategy and optimising the shared value. Since responsibility also means that employees will face dilemmas in practice, the code of conduct includes a step-by-step dilemma plan. A strategic compass was also developed: a way to help employees let the strategy and the Manifesto shine through in their decisions more clearly. Finally, employees and teams are able to attend workshops to further enhance their contribution to the mission.

Working differently

At de Volksbank, we seek to place responsibilities close to the customer and low in the organisation, allowing every employee to be confident and feel free to act on what customers need. This requires different methods of organisation.
The three specific forms of ‘working differently’ that are already applied within the bank are agile working (using scrum, for instance), Design thinking (a method in which possible solutions are creatively sought based on an understanding of the customer’s problems) and Holacratic working, known as ‘*Vaart*’ at de Volksbank (a different way of organising matters around the organanisation's core objective). In the years ahead, we will further optimise the organisation.

How we work

In early 2018, de Volksbank employees started with ‘This is how I work’ (‘*Zo werk ik*’), a new, more personal way of planning, evaluating and appreciating their work. Employees are no longer in dialogue with their managers and colleagues once or twice a year about their performance and development, but regularly and continuously. The method works with short-term goals (derived from the long-term strategy), appreciation of the contribution made once a target is reached and asking colleagues for tips and tops.

This first year was marked by experimenting with this new way of planning, evaluating and appreciating work. We organised information meetings and workshops to help employees get started. We will further fine-tune this way of working in 2019 and we will continue to bring it to the employee’s attention.

Ethical conduct

We are working on a culture in which our employees are conscious of the importance of ethical conduct. We have an internal code of conduct for this purpose. We pay attention to moral dilemmas and how employees can deal with them. De Volksbank employees completed an e-learning module covering customer integrity in 2018, just like they did in 2017. Examples from practice and tests were used to train them in recognising signs indicating an increased integrity risk. Continuous attention to this topic is essential on account of the risks associated with our core activities, such as money laundering, tax evasion and financing of terrorism.

LEADERSHIP AND TALENT MANAGEMENT

The further development of leadership skills of all staff of de Volksbank and its brands, is important to successfully put our mission of Banking with a human touch into practice. We therefore invest in the talent development of all employees. At the same time, we also use a targeted talent management approach to attract and retain rare target groups and to fill (future) key positions.

Professional and personal development

We offer all our employees a great deal of room and opportunities for professional and personal development. This is in the interest of our customers, the organisation and employees themselves. In this way, employees keep their professional knowledge and abilities up-to-date, use their talents and increase their employability and value in the labour market.
Employees not only develop themselves through training courses, talent programmes, leadership training courses and the de Volksbank Academy, but also - and especially - in their everyday work. We challenge employees to use their talent and expertise to continuously improve our services to customers. There is room to take on new tasks, to take an internship and to come up with new initiatives. We give feedback and help each other to get the best out of ourselves and others.

Activities for managers

For managers, we organised personal leadership sessions in 2018. In addition, we organised the 'Werkplaats' twice; a meeting for managers to share knowledge and get inspiration. New managers participated in the Management programme at de Volksbank. Senior managers followed a Lifelong Learning programme, spanning several sessions, in 2018. The purpose of the programme is to keep the expertise of senior management up to date and broaden it where necessary.

Activities for all employees

Employees were able to participate in several activities in 2018. For instance, we had a Winter School and Summer School with inspiration and Career Café sessions were organised at several locations, each having a different theme. In order to help employees get started with ‘This is how I work’ we organised several activities, including speed dates with a career adviser or goal coach, an Escape Room to make

employees aware of their digital skills and workshops centred on audacity, setting goals and the wow factor in their career.
Financial resilience is important not only for our customers, but also for our employees. That is why we offer them the option of strengthening their financial resilience. In 2018, we did this partly by giving personal advice and through financial resilience workshops and training.

In 2018, we invested € 9.2 million in employee training (2017: € 7.7 million). On average, this is € 3,072 per FTE (2017: € 2,400). Training costs increased in 2018 due to the reorganisations in which extra attention and budget is available for the development and sustainable employability of employees.

Young talent

A new approach to young talent was developed in 2018. We distinguish two approaches:
1. Starters work and learn in a position and can participate in various, individual and joint development activities. This applies to all disciplines relevant to the bank.
2. Young up-and-coming experts work and learn in a challenging two-year trainee programme. They are experts in the fields of Finance & Risk, IT, Brand & Marketing, Data Science & Innovation.
On 1 September 2018 four new trainees started in the programme, bringing the total number of trainees within de Volksbank to 13.

Jong Volk organises several activities for employees aged 35 and below. Participating in these activities allows them to get to know the organisation better, expand their network and improve themselves. In 2018 a trip abroad, a football tournament, the event 'Learning together – Discover your future' as well as other events were organised.

INCLUSIVE AND DIVERSE ORGANISATION

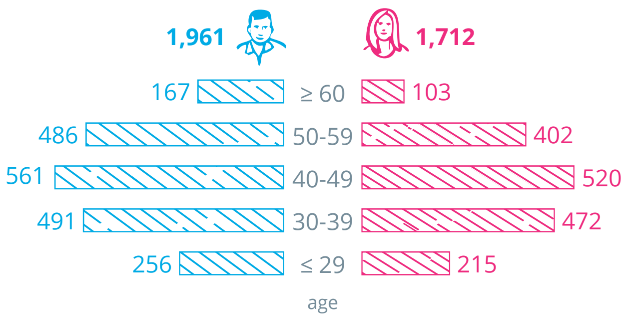
An inclusive and diverse organisation is a prerequisite to Banking with a human touch. With a various brands, we focus on a variety of customers. We consider it important that our employees mirror this variety and that employees can be themselves, feel at home at de Volksbank.
Employees bring out the best in themselves when they can be themselves regardless of their background, gender, religion, culture and orientation. It is necessary to continue to pay attention to this.In 2018 we did so, for example, by organising workshops for managers, the annual Coming Out Day on 11 October and our presence in the Amsterdam Canal Parade on 8 August. We also examined how the recruitment process may be improved in such a way as to increase diversity in job applications. The study produced valuable information. The recommendations in terms of awareness, making contact and external statements will help de Volksbank add more cultural diversity to the recruitment process.

Our aim is to bring together a variety of competencies, experience, motives and personal characteristics when composing teams. Along with professional competence, diversity is a guiding principle in filling vacancies. Despite its already diverse composition of personnel, de Volksbank can do better.

Gender balance

At de Volksbank, 53% of employees are male and 47% are female.
Of all managers, 30% are female. This means that we have reached our target of 30% for 2018. Our goal is to strike an even better gender balance in management positions in the next few years, with a target of 35% for 2019 and 35-40% for 2020.
The proposed appointment of Mirjam Verhoeven as a member of de Volksbank's Board of Directors means that the Board of Directors consists of three women and two men from the moment of appointment. As a result, the target for 2019 of at least 40% of the management positions being filled by women and at least 40% being filled by men has already been reached (target for 2018: 20%).

Male/female distribution by age



Gender balance

based on number of employees	2018	
	male	female
Total	53%	47%
Managers	70%	30%
PART-TIME/FULL-TIME		
Part-time	23%	77%
Full-time	67%	33%
TEMPORARY/PERMANENT CONTRACTS		
Temporary	50%	50%
Permanent	53%	47%

People with a distance to the labour market

We offer work experience or a job to a number of people who are distanced from the labour market. We have included the following objectives in de Volksbank's 2018-2020 collective agreement:
• inflow of six employees in regular positions;
• inflow of four additional employees in positions at a minimum wage level;
• ten work experience placements for at least six months.

In 2018, we made it a priority to create work for this category of people. Three employees from this category are employed in regular positions within de Volksbank. Furthermore, jobs were created through a number of procurement contracts. Ten jobs were filled in collaboration with our caterer Albron and five jobs were created through *Stichting ICT vanaf Morgen*[8] These employees are not employed by de Volksbank, but are working at de Volksbank through our partners. In future procurement contracts for facility services, inclusiveness has been incorporated as an important condition.

ORGANISATIONAL CHANGES AND SUSTAINABLE EMPLOYABILITY

De Volksbank is evolving rapidly. Several departments were reorganised in 2018 to add more customer focus, simplicity and/or efficiency to the work. This also resulted in a reduction in the number of internal jobs to 2,993 FTEs. The number of external staff rose to 804 FTEs in 2018, which was necessary for temporary projects or to absorb temporary capacity shortages.

	2018	2017	2016
STAFFING			
Number of internal FTEs	3,112	3,292	3,347
Number of internal FTEs at year-end	2,993	3,231	3,354
Full-time/part-time ratio	69%/31%	70%/30%	70%/30%
Inflow	8.1%	7.5%	11.5%
Outflow	15.1%	11.2%	10.4%
FLEXIBLE DEPLOYMENT			
Temporary contracts	9.00%	11%	12.8%
Number of external FTEs	804	714	651
Number of external (fte) / total fte	21%	18%	16%

Of de Volksbank employees, 99% are covered by the collective agreement. Nearly all employees who do not fall within the scope of the collective agreement are senior management members.

In view of developments in the organisation and the banking sector, sustainable employability is important for all employees. Employees whose position will change or be eliminated are offered counselling well in advance and are subject to a proper redundancy plan in which sustainable employability takes centre stage. This redundancy plan is in force in the period 2017-2020.

If a department reorganises, employees are given the opportunity to prepare for this. They may spend a maximum of 10% of their working time and a budget of € 5,000 on increasing their employability and labour market opportunities, both within and outside de Volksbank.

The Works Council is closely involved in the organisational changes and the ensuing staffing consequences and issued a recommendation.

OCCUPATIONAL HEALTH AND VITALITY

Absenteeism due to illness increased to an average of 4.4% (2017: 3.9%). This increase is partly explained by the organisational changes in 2018. Absenteeism due to illness is usually not related to work, but when it is, work pressure and psychological stress are the most common work-related causes of absenteeism. The workload is discussed at departmental level and if there is reason to do so, action is undertaken to tackle the workload.

Since September 2018, employees can choose to participate in #AllesGoed ('#EverythingWell'). This is a preventive medical examination that gives employees insight into their health. It consists of questionnaires, a number of medical tests and an advisory interview with a vitality coach about the possible steps towards better health. About half of the employees made use of this.

As from 1 July 2019, de Volksbank will operate a policy of self-insurance, i.e. bear its own risk, for employees and former employees who have been sick for two years and who will be covered by the Dutch Return to Work (Partially Disabled Persons) Regulations (*Werkhervatting gedeeltelijk arbeidsgeschikten*; WGA). De Volksbank already bore its own risk for the first two years of sickness. De Volksbank lives up to its social responsibility by taking control of the counselling for this vulnerable group. We have every confidence that we will succeed in reducing absenteeism rates by offering the right counselling.

SOCIALLY RESPONSIBLE TERMS OF EMPLOYMENT

We attach value to socially responsible terms of employment package, i.e. a set of terms of employment that are in line with de Volksbank's ambition to optimise shared value for employees, customers, society and shareholder(s).

Striving for simplicity in our terms of employment, we have limited the remuneration policy for all of de Volksbank's employees to three pages. De Volksbank has no schemes in place for variable or special remuneration. We focus on employees who have made a deliberate choice for de Volksbank as an employer.

The collective agreement, the redundancy plan and the pension scheme have been agreed for three years and are in force until the end of 2020. This way, we have made long-term arrangements for the main terms of employment, ensuring that employees know where they stand. In 2018, the Works Council discussed several requests for consent in the area of HR, such as the preventive health check-up.

De Volksbank intends to reduce its CO2 emissions, partly through its terms of employment package. In 2017 we introduced a new lease policy, in which electric cars are the starting point. The policy is a success, with more than 81 fully electric cars currently being in use (end of 2017: 36) – that is more than 25% of our fleet.

In 2018 the Works Council approved the sustainable commuting transport scheme. Effective 1 January 2019, the scheme offers employees more flexibility in their decision to travel by train or cycle to the office more often and thereby reduce their car use.

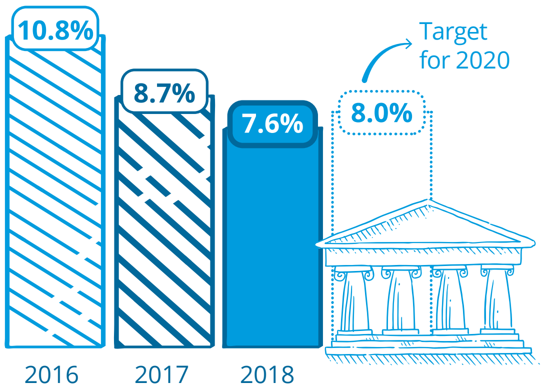
8 This foundation offers people with a distance to the labour market the opportunity to participate in society again in a flexible working environment with the guidance of experienced job coaches by refurbishing redundant ICT equipment to reduce the flow of ICT waste for a more sustainable world.

It is agreed in the collective agreement that de Volksbank will introduce a Personal Choice Budget (*IKB*). This budget was developed in 2018, in collaboration with trade unions and the Works Council, and was made available to all employees on 1 January 2019.
It gives employees more flexibility in some of their terms of employment, allowing them to adapt these terms to their personal needs.

3.5 RETURN FOR THE SHAREHOLDER

De Volksbank is a financially sound and stable bank with low-risk activities. In this respect, we set a return on equity (ROE) objective of 8.0% in 2020.

RETURN ON **EQUITY**



Return on equity

The RoE was 7.6%, this is lower than in 2017 (8.7%, adjusted for incidental items). This decline, with a very solid capital position, was entirely attributable to lower net profit, primarily caused by lower income.

Dividend

De Volksbank intends to pay out a dividend to the shareholder in the range of 40% and 60% of the adjusted net profit. For 2018, we propose a dividend of € 161 million. This comes down to a pay-out ratio of 60%.

3.6 OTHER TARGETS

Ratios

	2015	2016	2017	2018
Common Equity Tier 1 ratio (%)	25.3%	29.2%	34.1%	35.5%
Leverage ratio (%)	4.7%	5.2%	5.5%	5.5%
Adjusted cost/income ratio (%)	53.4%	54.5%	55.4%	58.7%

Capital

Our current capitalisation objectives are a CET1 capital ratio of more than 15%, based on current regulations, and a leverage ratio of at least 4.25%.

The CET1 capital ratio rose to 35.5% (year-end 2017: 34.1%), despite a 2 percentage point negative impact due to the implementation of IFRS 9 with effect from 1 January 2018. The increase was more than fully compensated by the addition of net profit and a € 0.4 billion decrease in risk-weighted assets (RWA) compared to year-end 2017.

Based on the agreement reached on Basel IV regulations in December 2017, we expect our RWA to go up by approximately 45% and our CET1 capital ratio to decrease by approximately 11 percentage points as a consequence.

The leverage ratio stood at 5.5% (year-end 2017: 5.5%), well above our minimum target. The leverage ratio remained unchanged, despite a slight decrease in the CET1 capital and a € 0.3 billion increase in the risk exposure.

Cost / income ratio

In 2016, we defined a target range of 50% to 52% for 2020 for the cost / income ratio, defined as operating expenses excluding regulatory levies divided by total income. In 2018, the cost / income ratio stood at 58.7% (2017 adjusted for incidental items: 55.4%).
The increase was almost entirely attributable to the lower total adjusted income. The decrease in total income was in line with our expectations in view of the low interest rate environment.
However, savings ensuing from our cost reduction programme were offset by additional costs related to new laws and regulations, for example in transaction monitoring, risk management and data management, as well as salary increases under the collective agreement, including higher social security contributions.

3.7 TECHNOLOGY AND INNOVATION

De Volksbank operates in a rapidly digitising world where the information technology (IT) we use is becoming ever faster and cheaper and – as a result – increasingly available to all. The growing use of smartphones in particular is contributing to this development. People and organisations are increasingly connected through networks and digital platforms that can be accessed at any time and at any place. They feel that matters offered in an online ecosystem are offered in an increasingly direct, user-friendly and personally relevant way. Customers expect the same from their financial services providers. IT is essential for us when serving our customers and offering them at least the experience they expect.

In this process, technology is highly relevant for strengthening our position as a modern and forward-looking bank having a social identity. 'Banking with a human touch' means that we use technology in such a way that the relationship that our customers have with us becomes easier and more personal. The social platform solutions we have developed in-house, for instance, facilitate personal contact between customers and bank employees. Seeking to make people financially resilient and self-reliant, we offer them insight, clarity and prospects in their financial position. These are data-intensive services that require us to actively – as well as selectively – take our place in the new ecosystem as we choose to take a privacy-friendly attitude.

Simplicity and efficiency

The correct use of technology is decisive for the simplicity and efficiency of our business operations. We achieve this on the one hand by automating an increasing number of manual, simple and/or repetitive activities and turning them into full straight-through processing (STP) in our customer channels. We also increasingly use robotic process automation: a virtual 'colleague' takes over simple work where possible, allowing our professionals to engage in activities that are more interesting to them and that offer more value for customers. We also possess the right applications and accounts for the support desired.

On the other hand, we aim for our IT systems to be simple and easily adjustable (agile). Conscious lifecycle management ensures that our IT systems and applications remain modern, effective and tidy. Our IT agility is the result of a smart organisation underpinned by a service-based architecture, combined with agile working methods of the IT organisation.

De Volksbank aims for an effective and efficient business model as all its brands are supported by central middle and back offices and staff departments (the 'multi-brand/single platform' principle). We develop and maintain new functionalities at a single location, which are then made available to all our brands and customers. The set-up of a special 'platform' organisation within IT & Change – characterised by a modern, highly standardised technical infrastructure and low costs – is in line with this principle. Our management and development processes have been automated to a large degree, resulting in reliable services and hardly any disruptions for customers.

Improvements in the IT domain

Transformation of the IT organisation and infrastructure

De Volksbank has commenced an IT & Change transformation with a view to achieving its own ambitions and as a fitting answer to changing customer needs and expectations. An agile way of working is the new point of departure as we seek to provide services to customers more rapidly and respond to changing conditions more effectively. Business and IT colleagues work together in small, permanent multidisciplinary teams to develop products and services that directly create customer value.

In 2018, this translated into a change for the IT business from a more traditional organisation encompassing software development alongside infrastructure & management to an agile Value and Platform organisation. For this purpose, the transition to permanent multidisciplinary teams was implemented in 2018.

We make the Value teams autonomously responsible for both the development and the operation of their products to the maximum extent possible, which is also known as 'DevOps' ('you build it, you run it'). To this end, the teams have been equipped with IT tools for the building, continuous integration, testing, deployment and running of new products.

The Platform teams develop and offer these tools in the form of automated platform services. Examples of these platforms are virtualisation of infrastructure resources (including container technology), private and public cloud facilities, 'low-code' programming environments (more configuration, less code programming) for rapid process automation, and standard tools and components for website and app development.

We continue and renew our organisation based on a service-oriented architecture with the aim of enhancing the agility of our IT systems. Small, standardised, functional services are flexibly linked as building blocks to form comprehensive solutions through Application Programming Interfaces (APIs). This allows us to flexibly unlock the functionalities of our back and middle office systems and make them available to our customer channels: mobile, internet and shop. These APIs also allow us to offer services to, or acquire them from, our ecosystem of partners and FinTechs, which contributes to de Volksbank being an 'open' bank.

Back office and data management modernisation

Data is used more and more intensively. The importance of data quality and attention to data sensitivity and risks are primary concerns. We place high demands on these with a view to controlled and responsible business operations.

The Finance & Risk information supply has been simplified and made more transparent. We have further reduced the diversity of systems, calculation modules and data collections by creating even more clarity and consistency in data definitions and derivations. Controlled reporting and the provision of data to regulatory authorities demand that we keep a focus on improving our 'data backbone', consisting of the chain of accessible source systems, the corporate data warehouse and the applications to which data is supplied.

Our Business Intelligence Competence Center (BICC) is professionalising its services to meet the changing needs of the organisation. Data is increasingly only prepared (and no longer analysed) to form the data sets required, which other departments may analyse and use by means of tools subject to controlled provision.

We have installed and set up our Big Data Platform to enable us to work with data that is unstructured (text, images, speech, etc.) or originates from external sources, in addition to structured data from our own source accounts. We have developed applications running on this platform that provide financial insight. The platform is also an important tool in achieving our ambitions concerning Artificial Intelligence (AI), since smart algorithms are developed (trained) using big data.

Putting our privacy vision into practice, we have equipped our systems containing personally identifiable data with anonymisation or masking and/or we have limited the rights of access to this data to authorised individuals only.

To achieve the ambitions for growth of our mortgage business, we are updating and simplifying applications in the distribution chain: advice, assessment and acceptance. The replacement of our middle office system with a standard solution is in full swing and we are making service and management processes completely STP. This will speed up the process of bringing new functionalities online for our customers and advisers and will accelerate and automate customer processes.

3.8 COMMERCIAL DEVELOPMENTS

	31-12-2018	31-12-2017
CUSTOMERS AND CURRENT ACCOUNTS		
Total number of customers (in 1,000)	3,202	3,128
Total number of current account customers (in 1,000)	1,488	1,409
Market share new current accounts[1]	24%	20%
Mortgages		
Retail mortgages (gross in € billions)	47.3	46.0
Market share new mortgages (in #)	7.3%[2]	6.8%
Market share mortgage portfolio (in €)[3]	6.6%[2]	6.5%
Savings		
Retail savings (in € billions)	37.4	36.8
Market share retail savings	10.6%	10.7%

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 2018 figures because market size figures were not yet available.

3 Based on CBS data. Market shares as at 31-12-2017 have been adjusted due to market size figures adjusted by CBS.

Customers and current accounts

In 2018, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 230,000 new customers. Setting this off against customers who left the bank, the number of customers rose by 74,000. This was mainly attributable to the successful growth in the number of customers with a current account.

The number of current account customers rose by 79,000 (163,000 gross) to 1,488,000 at year-end 2018. Net growth was slightly below that of 2017 (81,000) on account of an 18,000 adjustment in inactive current account customers[9].

The high inflow of current account customers also led to a record number of customers using the Dutch interbank account switching service in 2018, nearly 37,000 in total.

De Volksbank's market share in new current accounts rose to 24% (year-end 2017: 20%) over the past year. ASN Bank, RegioBank and SNS all increased their market share. Especially in the first and third quarter, we welcomed many new current account customers. The successful marketing campaigns of the aforementioned brands for payment products for young people strongly contributed to this growth.

The market share in new current accounts has been 20% or more since 2014, significantly higher than the market share on a total portfolio basis of approximately 8%[10].

Mortgages

Although the tight housing market caused the number of mortgages taken out to fall somewhat, the average principal of mortgages rose. In the market for new retail mortgages, the share of mortgages with a fixed-rate period of more than 10 years remained high at more than 50%.

9 Current accounts with a balance of nil or less and on which no customer-driven transaction has taken place for at least 13 months.

10 Based on the market share of all existing current accounts as at 1 January 2018: Ipsos market research.

De Volksbank's new mortgage production increased to € 5.9 billion, from € 5.5 billion in 2017 (+7%), partly driven by price increases. Our capital position enabled us to grow our mortgage portfolio further, while continuing to monitor our margins. The market share of new retail mortgages rose to 7.3%[11] (2017: 6.8%). Based on the total retail mortgage portfolio, the market share increased slightly to 6.6%, from 6.5% at year-end 2017.

Interest rate renewals amounted to nearly € 3.3 billion, a considerable drop compared to 2017 (nearly € 5.1 billion). Of these renewals, approximately one fourth consisted of early renewals (2017: nearly 35%). The number of early renewals fell owing to the fact that a large part of the portfolio had seen interest rate renewals in previous years. In 2017, the number of regular interest rate renewals rose due to the high level of mortgage production in 2007, mostly mortgages with a 10-year fixed-rate period.

The total level of repayments of € 4.6 billion was slightly up (7%) compared to 2017 (€ 4.3 billion), despite a slight decrease in the number of people moving house. Contractual repayments gradually went up, in line with the changing composition of the mortgage portfolio, mainly reflected in an increase in annuity mortgages. Bridging loan repayments also went up.

Thanks to the controlled growth in mortgage production and the high level of customer retention, de Volksbank managed to grow its retail mortgage portfolio from € 46.0 billion at yearend 2017, to € 47.3 billion (gross book value). The demand for mortgages with a fixed-rate period of 15 years or more remained high. At year-end 2018, € 8.6 billion of the portfolio consisted of this type of mortgage (18.3%), compared to € 8.0 billion (17.9%) at year-end 2017. The share of mortgages with a fixed-rate period of 10 to 15 years has also increased, from 61% to 64% of the total mortgage portfolio.

11 Up to and including the 3rd quarter of 2018 due to the late availability of the total market size.

Savings

De Volksbank's retail savings balances rose to € 37.4 billion compared to € 36.8 billion at yearend 2017. The Dutch retail savings market grew slightly to € 354 billion, from € 341 billion at year-end 2017, both as a result of autonomous growth and a market size adjustment by DNB, the Dutch Central Bank. The market share of 10.6% was virtually stable compared to year-end 2017 (10.7%).

3.9 FINANCIAL RESULTS

Results 2018 compared to 2017

Profit and loss account

in € millions	2018 (IFRS 9)	2017 (IAS 39)	Change
Net interest income	908	924	-2%
Net fee and commission income	44	49	-10%
Other income	6	55	-89%
Total income	**958**	**1,028**	**-7%**
Operating expenses excluding regulatory levies	562	560	0%
Regulatory levies	47	43	9%
Total operating expenses	**609**	**603**	**1%**
Impairment charges	-12	-24	50%
Result before taxation	**361**	**449**	**-20%**
Taxation	93	120	-23%
Net result	**268**	**329**	**-19%**
Fair value movements former DBV mortgages and related derivatives	-	13	
Total incidental items	-	13	
Adjusted net result	**268**	**316**	**-15%**
Cost/income ratio[1]	58.7%	54.5%	
Adjusted cost/income ratio[2]	58.7%	55.4%	
Return on Equity (RoE)[3]	7.6%	9.1%	
Adjusted Return on Equity (RoE)[4]	7.6%	8.7%	
Net interest margin (bps)[5]	1.47%	1.50%	
Cost/assets ratio as a % of average assets[6]	0.91%	0.91%	

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

Net profit

Net profit fell to € 268 million, compared to € 329 million in 2017 (-19%). In 2017 the net result contained € 13 million in incidental items, consisting entirely of positive unrealised value movements of former DBV mortgages and related derivatives. As a result of the reclassification of the former DBV mortgages from fair value to amortised cost, volatility in the income statement was eliminated from 2018 onwards.

Net profit, adjusted for incidental items, decreased by € 48 million (-15%). This drop was attributable to € 53 million lower adjusted income (-5%), € 6 million higher total operating expenses and a € 12 million lower net release of loan loss provisions.

The Return on Equity (RoE) was 7.6%, a decrease compared to 2017 (adjusted: 8.7%), driven by a lower adjusted net result.

The cost / income ratio stood at 58.7% (2017 adjusted for incidental items: 55.4%). This increase was almost entirely attributable to lower total adjusted income.

Income

Breakdown income

in € millions	2018 (IFRS 9)	2017 (IAS 39)	Change
Net interest income	908	924	-2%
Net fee and commission income	44	49	-10%
Investment income	3	26	-88%
Result on financial instruments	2	28	-93%
Other operating income	1	1	0%
Total income	**958**	**1,028**	**-7%**
Fair value movements former DBV mortgages and related derivatives	-	17	
Adjusted income	**958**	**1,011**	**-5%**
Net interest margin (bps)	1.47%	1.50%	

Total adjusted income went down by € 53 million to € 958 million (-5%), mainly driven by lower other income and to a lesser extent to lower net interest income.

Net interest income

Net interest income declined slightly by € 16 million to € 908 million (-2%).

Income on mortgages was lower because of (early) renewals in 2017 and 2018 at lower mortgage rates. Furthermore, new mortgage production was concluded at lower rates than those of the mortgages repaid in 2018. These effects were partly compensated by the controlled growth of the mortgage portfolio.

Lower interest expenses on account of savings rate reductions largely compensated lower interest income on mortgages.

Interest expenses related to derivatives used to manage the interest rate risk were higher. This increase was mainly attributable to high new mortgage production and interest rate renewals at longer fixed-rate maturities and the full effect of an improved model in 2017 to estimate early repayments and renewals.

Finally, net interest income was positively impacted by the full annual effect of a different classification of distribution fees[12] paid by RegioBank, which was carried out in 2017. The lower net interest income is reflected in a net interest margin that declined modestly to 147 bps, compared to 150 bps in 2017.

Net fee and commission income

Net fee and commission income declined by € 5 million to € 44 million. Of this decline, € 10 million was explained by a different classification of the distribution fees paid by RegioBank. In addition, commission income was higher, driven by an increase in assets under management and fees received with respect to a credit facility made available to the Deposit Guarantee Fund.

Investment income

Investment income fell by € 23 million to € 3 million, largely due to lower realised gains on fixed-income investments, sold as part of asset and liability management and optimisation of the investment portfolio. In 2017, results - particularly on the sale of French bonds for risk management purposes - were relatively high, while 2018 saw a negative result on the run-off of positions in Italian fixed-income securities. In addition, the potential to realise gains on the investment portfolio decreased as a result of a change to the valuation standard of part of the liquidity portfolio from fair value to amortised cost.

Result on financial instruments

The result on financial instruments decreased by € 26 million to € 2 million. Of this amount, € 17 million was attributable to positive fair value movements of former DBV mortgages and related derivatives that were included in the 2017 income. As a result of the reclassification of the former DBV mortgages from fair value to amortised cost, this source of volatility in the income statement was eliminated from 2018 onwards. Adjusted for the swing in fair value movements of former DBV mortgages and related derivatives, the results on financial instruments declined by € 9 million, driven by lower trading results.

12 In 2017, RegioBank changed its commission fee model from a savings balance model to a customer model. As a result, distribution fees paid are classified as fee and commission expenses and no longer as interest expenses. As 2017 was a transitional year, the full effect is visible in 2018.

Expenses

Operating expenses and FTE

in € millions	2018 (IFRS 9)	2017 (IAS 39)	Change
Staff costs	402	381	6%
Depreciation of (in)tangible assets	21	21	0%
Other operating expenses	186	201	-7%
Total operating expenses	**609**	**603**	**1%**
Regulatory levies (other operating expenses)	47	43	9%
Adjusted operating expenses	**562**	**560**	**0%**
Cost/income ratio	58.7%	54.5%	
Adjusted cost/income ratio	58.7%	55.4%	
Cost/assets ratio as a % of average assets	0.91%	0.91%	
FTE			
Total number of internal FTEs	2,993	3,231	-7%
Total number of external FTEs	804	714	13%
Total number of FTEs	**3,797**	**3,945**	**-4%**

Total operating expenses rose by € 6 million to € 609 million. At € 47 million, regulatory levies were € 4 million higher than in 2017. Adjusted for this increase, operating expenses rose marginally by € 2 million to € 562 million.

The adjusted operating expenses were positively impacted by a lower addition to non-credit risk related provisions and by further efficiency improvements. Savings ensuing from our cost reduction programme were offset by additional costs related to new laws and regulations, for example in transaction monitoring, risk management and data management, as well as salary increases under the collective agreement, including higher social security contributions.

In 2018, the addition to non-credit risk related provisions amounted to € 11 million and included a € 22 million addition, included in staff costs, almost entirely consisting of additional restructuring charges. These expenses were related to further initiatives to simplify and improve our business operations.

The addition to the restructuring provision was partly compensated by an € 11 million release of provisions, included in other operating expenses. The release mainly related to provisions for the compensation of SME customers under the Uniform Recovery Framework for SME Interest Rate Derivatives.

The major part of the additions to non-credit risk related provisions of € 20 million in 2017 was included in staff costs (€ 16 million). Additions related to, among other things, additional restructuring charges (€ 8 million). There were also expenses for preventing ATM explosive attacks, extra expenses for changes in our debt collection management policy to help customers whose consumer loan impedes a switch to a different mortgage provider and expenses for getting into personal contact with potentially vulnerable customers with an interest-only mortgage.

Regulatory levies amounted to € 47 million, € 15 million of which was related to the resolution fund contribution (2017: € 10 million) and € 32 million to the ex-ante Deposit Guarantee Scheme contribution (2017: € 33 million). The raise in the resolution fund contribution reflects a higher contribution for all Dutch banks as the growth of the fund lagged behind the growth of covered deposits.

The adjusted operating expenses divided by the average total assets remained stable at 91 bps. Compared to year-end 2017, the number of internal employees declined from 3,231 to 2,993 FTE (-7%), primarily as a consequence of efficiency and reorganisation measures.

The number of external employees rose from 714 to 804 FTE, primarily as a result of filling temporary staff shortages for regulatory and compliance-related projects, bringing back customers whose debts had previously been handed over to debt collection agencies and getting into personal contact with potentially vulnerable customers with an interest-only mortgage.

Impairment charges

in € millions	2018 (IFRS 9)	2017 (IAS 39)	Change
Retail mortgage loans	-8	-21	62%
Other retail loans	-1	6	-
SME loans	-5	-9	44%
Other commercial loans and loans to the public sector	1	-	-
Investments	1	-	-
Total impairment charges	**-12**	**-24**	**50%**
Cost of risk total loans	-0.03%	-0.05%	
Cost of risk retail mortgage loans	-0.02%	-0.05%	
Cost of risk SME loans	-0.75%	-1.10%	

As from 1 January 2018, we make loan loss provisions in accordance with the requirements of IFRS 9. Previously, loan loss provisions were only made for incurred losses; under IFRS 9, loan loss provisions are made on the basis of expected losses. Under IFRS 9 a 3-stage model is used that reflects the extent to which the credit risk on a customer or a loan has increased over time. For further information, please refer to 4.6.3 Introduction of IFRS 9.

In 2018, under IFRS 9, the total net release of provisions for credit risk amounted to € 12 million. In 2017, this release was € 24 million, under IAS 39.

The net release of impairment charges on retail mortgages was € 8 million, equalling 2 bps of gross outstanding retail mortgages. This release was the result of an improved economic outlook in scenarios used to determine the loan loss provision, resulting in a decrease in stage 2 loans. Stage 3 loans also fell due to improving economic conditions. The positive impact of this was partly offset by an additional provision of € 6 million for stage 3 loans that have been in default for more than 5 years.

In 2017, the net release of impairment charges on retail mortgages amounted to € 21 million, thanks to a substantial decline in impaired retail mortgages as a result of improved macroeconomic conditions and a rise in house prices.

The net release of impairment charges on other retail loans amounted to € 1 million, compared to an addition of € 6 million in 2017. This swing was almost entirely attributable to additional expenses in 2017 related to parameter adjustments of provisioning models, such as the introduction of minimum coverage ratios for impaired loans, rising linearly to 100% for retail loans 24 months or more in arrears.

The net release of provisions on the SME loan portfolio amounted to € 5 million. Stage 2 loans decreased as a result of the improved economic outlook in scenarios used to determine the loan loss provision, such as unemployment and the number of bankruptcies. Stage 3 loans also declined as a result of the recovery. These positive factors were partly offset by an additional provision of € 4 million for stage 3 loans that have been in default for more than 5 years.

The decrease in the impaired SME loan portfolio in 2017 resulted in a total net release of impairment charges of € 9 million in that year.

OUTLOOK

As a result of international trade tensions, the Brexit and downward adjusted macroeconomic expectations for a number of European countries, including Germany, economic growth in the Netherlands is expected to slow down in 2019. Unemployment will not be able to fall much further, while the price rise in the housing market will level off and the number of transactions will decrease further. Given the weaker macroeconomic outlook, we expect the current low interest rate climate in Europe to continue in the short to medium term. As a result, net interest income is projected to be lower than in 2018.

The projected reduction in total operating expenses in 2019 is not expected to fully compensate lower interest income.

On the basis of the revised macroeconomic estimates, we expect that loan impairments will no longer show a release, but will remain limited.

All things considered, we expect the net result for 2019 to be slightly lower compared with 2018.

3.10 TAXATION

Tax paid in 2018

De Volksbank accounted for € 93 million in corporation tax on the result for 2018. The effective tax rate was 26% (2017: 27%), at a nominal rate of 25%. The higher tax rate compared to the nominal rate was the result of the valuation of a net deferred tax asset at the lower corporation tax rates that will apply in 2020 and 2021. The higher tax rate resulting from this was partly compensated by a tax gain on adjustments related to the settlement of the tax return for the year 2016.

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 2018 are as follows:

- Payroll tax and social security contributions: € 111 million.
  These are taxes and social security contributions that are withheld from employees' wages but, being part of the salary costs, are for account of and paid by de Volksbank.
- Non-recoverable VAT: € 42 miljoen.
  Most financial services provided by de Volksbank are exempt from VAT. No VAT is charged for these services to the customer. VAT charged to the bank by its suppliers cannot be reclaimed from the Tax & Customs Administration. The non-deductible VAT thus leads to an increase in the costs for de Volksbank.
- Bank tax:
  As in the previous year, de Volksbank does not owe any bank tax in 2018 as the taxable amount on which de Volksbank owes bank tax remains below the exemption threshold of the levy.

General tax policy

To achieve our mission, we have defined our ambition according to the 'shared value principle' and take our responsibilities towards society. This also means making a contribution to the financing of public expenditure. Health, safety, education and other public expenditure are paid for from tax revenues, and we are well aware of that. We are happy to pay our share of the tax revenues. Taxation not only has a budgetary function (financing public expenditure), but an instrumental function too. If de Volksbank is granted a tax benefit as intended by tax legislation, we have no objection to this.

Naturally, we comply with all relevant tax laws and regulations. In doing so, we not only check whether we comply with the rules in purely legal terms, but also and above all whether we comply with the underlying intentions of those laws and regulations. In other words, we will take the legal and social standards into account and will assume that the outcome of taxation is a fair one.

With that in mind, it is not appropriate to push the limits as regards to taxation. We do not devise or set up any tax-aggressive structures to obtain an incidental tax benefit. Nor do we let tax considerations play a decisive role. However, this does not mean that we do not take tax aspects into account. Taxation can, for example, play a role in the products for our customers, such as the deductible interest when providing a mortgage.

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

De Volksbank has and maintains a proactive, open relationship with the Dutch Tax and Customs Administration, which is characterised by transparency and mutual trust. This was emphasised in 2017 by signing an agreement with the tax authorities in relation to the so-called Horizontal Monitoring. This implies that we regularly share information about relevant developments that could be important to our tax position as well as any tax-related points for discussion and positions. In doing so, we not only highlight our own point of view, but we also highlight arguments that may argue against our own position.

When we make mistakes, we will discuss them with the tax authorities and try to find a solution. We then pay any taxes due, accept other consequences and learn from our mistakes so they can be prevented in the future. We ensure that our customers experience as few negative effects as possible.

In recent years, we have seen an increasing focus on the tax policies of internationally operating companies and, more specifically, on tax evasion. We endorse the international legislative initiatives in this area, such as the Organisation for Economic Cooperation and Development (OECD) initiative on Base Erosion and Profit Shifting (BEPS) and the resulting changes in local legislation, even though not all parts are equally relevant to de Volksbank as we operate mainly in the Netherlands.

Within the context of the Know-Your-Customer procedures for corporate customers, we form an opinion on their tax attitude. De Volksbank does not want to invest in, nor provide loans to companies involved in tax scandals.

Tax policy on customers

De Volksbank uses procedures and measures to identify, verify and accept customers that comply 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 counties.

De Volksbank does not provide direct tax advice to customers, nor does the bank want to facilitate tax-aggressive structures for its customers.

Tax policy on specific tax positions and transactions

It follows from the general tax policy that de Volksbank does not cooperate in transactions of which tax savings are the main objective. We therefore check if a particular transaction or a position is robust, has sufficient economic reality (substance) and does not lead to negative effects. By this we mean the following:

- *Robustness*
  The position or transaction must be consistent with relevant (tax) laws and regulations and (tax) case law, whereby prior consultation with the tax authorities will take place.
- *Substance*
  The tax position or transaction in question must be relevant from an economic, business, and social perspective, ruling out that taxation is a motive for the transaction and plays a decisive role.
- *Negative consequences*
  Prior to the transaction to be carried out or the position to be taken, we make a considered and reasonable assessment of whether there is a chance of reputational damage or any other material negative (tax) consequences.

3.11 IDENTITY OF THE BRANDS

asn bank

	2018	2017
CUSTOMER SATISFACTION		
NPS	18	17
Average customer satisfaction rating	8.0	8.0
NUMBERS (IN 1,000)		
Totaal number of customers	701	667
Gross growth number of customers	57	41
Number of current account customers	280	239
Gross growth number of current account customers	54	35

We encourage sustainable progress

Ever since its foundation in 1960, ASN Bank has been helping to create a better world – now and for future generations. Its starting point in this process is its sustainability policy, which is based on three pillars: human rights, climate change and biodiversity. ASN Bank only invests in forward-looking companies, sectors and countries that respect people, animals and nature. This is how ASN Bank encourages sustainable progress.

ASN Bank makes 'sustainable banking' accessible and attractive to every one of us: accessible by offering clear and easy-to-understand products, and attractive by demonstrating that its products make you feel good *and* bring in good money. The more customers, the more positive influence ASN Bank is able to exert, which is why its ambition is to serve one million satisfied customers in 2025.

In 2018, ASN Bank provided insight how customers contribute to sustainable progress by banking with ASN Bank. Consultancy firm Navigant (formerly Ecofys) calculated that money in an ASN account produces 71% fewer CO2 emissions than money in an account with an average Dutch bank (source: Ecofys, ASN Bank Climate Benchmark). ASN Bank shows this to customers through appealing examples, such as a comparison with car kilometres and trees in your back garden. In this way, the bank demonstrates that everyone in the Netherlands can contribute to sustainable progress even by depositing just a few euros in an ASN account.

In 2018, ASN Bank took a new step as a driver of sustainable progress when it launched the ASN Mortgage and the ASN Sustainable Housing loan.

Customer promises

In 2018, ASN Bank reviewed and updated its customer promises in collaboration with (potential) customers.

1. All our investments are sustainable; we are transparent about them

We invest the money that customers entrust to us only in countries, companies and projects that have been approved after having undergone a sustainability review in accordance with our sustainability policy. This policy is publicly available. All investments are published stating the name and amount. This proves that ASN Bank does not invest any funds in the arms industry, nuclear energy, coal, oil and gas. We do, however, finance governments, housing, sustainable energy and healthcare. We share our methodologies to measure sustainable progress with others companies in the sector.

2. Banking with ASN Bank yields a return and contributes to a sustainable world

ASN Bank pays savings rates that are in line with the market; the interest rates on youth savings accounts have been among the highest in the Netherlands for years. Independent price comparison website MoneyView awarded the terms and conditions of *ASN Ideaalsparen* with five stars in 2018. In the long term, the return on the ASN Investment Funds is comparable to that of similar, non-sustainable investment funds. Customers receive interest on their current account; the costs of this account are among the lowest in the market.

ASN Bank invests the money that customers have entrusted to it in line with its sustainability policy. *ASN Ideaalsparen* and the ASN Credit Card involve support of sustainability projects of ASN Bank's partners. Customers contribute to these projects without incurring higher costs.

3. We help to bring innovative, sustainable ideas to life

We use the online platform For the World of Tomorrow to help develop innovative, sustainable ideas. We also bring carefully selected projects from the crowdfunding platform OnePlanetCrowd to our customers' attention. In this way, wer are helping several sustainable (start-up) businesses to raise capital.

4. We ensure that sustainability is within everyone's reach

This customer promise was new in 2018. It requires that we come up with solutions for people who do not have the means to implement sustainable measures. For these people we already have a sound basis with our banking products and the new, sustainable ASN Mortgage. In 2019, ASN Bank will explore more options for living up to this promise.

What did ASN Bank achieve in 2018?

Customer satisfaction

With the aim of further enhancing customer satisfaction, the process for becoming a customer became simpler and faster in 2018. Customers are now able to identify themselves directly online. A welcome programme was also designed to assist new customers and enthuse them about banking with ASN Bank. The programme is a success, as the 2018 Customer Experience Excellence Analysis found that ASN Bank offers the best customer experience in the financial services sector. The public also chose the website asnbank.nl as the Beste Website of the Year 2018 in the Banks and Investment category.

Customer base
ASN Bank adapted its brand strategy two years ago, seeking to increase brand awareness among a wider, younger target group. This is necessary if ASN Bank is to reach the goal of 'having one million satisfied customers in 2025'. The focus on a younger target group does not mean that ASN Bank loses sight of the current target group, as these customers have brought the bank to where it is today.

The new strategy is visible in the way of communicating, such as through the debit card, the website, the *Goedgeld* customer magazine and the sustainability event ACT. ASN Bank also addresses the new target group through its campaigns with the Forest of Fabulous Creatures, including the campaign featuring *Databeessie*, a tiny 'data creature' that provides concrete figures behind sustainable banking. This was a success in 2018, with an increasing number of people knowing ASN Bank and being aware of what it stands for. The number of customers in the target group aged 18 to 25 rose by 13.2% compared to 2017.

Payments
Of the new current account customers, well over 10,000 were young customers thanks to the successful campaign for youth payment products. The high inflow of current account customers resulted in a record number of customers using the interbank Switching Service.

Savings
The total balance of retail savers at ASN Bank rose by 4%. Interest rates remained low in 2018. Low interest rates may make it financially more attractive for customers to redeem their mortgage or to fund renovations than to save.

Investments
ASN Bank offers its customers the option of investing in the ASN Investment Funds. The number of investing ASN Bank customers increased by 4,645 in 2018.

Mortgages
ASN Bank intends to give a new boost to the sustainability measures implemented in existing homes. The climate has a lot to gain from simple measures in homes that are not very energy efficient. Aiming to make sustainability measures in homes accessible and affordable to all, the bank wants to remove the financial barriers with the new ASN Mortgage, which was introduced in November. Customers can take out an ASN Sustainable Housing loan at a low interest rate simultaneously with their ASN Mortgage, enabling them to make their home more sustainable in an affordable and accessible way. They may take out the ASN Sustainable Housing loan for energy-saving measures as from € 2,500, regardless of the home's energy label. Interested parties take out the ASN Mortgage in an SNS Shop.

Mobile and online banking
The majority of the customers, over 500,000, used ASN Online Banking to bank digitally in 2018. Of the customers using digital banking, 38% also use mobile banking services. Mobile banking customers log on more frequently than online banking customers: 79% of digital banking sessions are on mobile telephones.

Community of entrepreneurs For the World of Tomorrow
ASN Bank helps bring innovative, sustainable ideas to life by means of For the World of Tomorrow, its community of sustainable entrepreneurs and initiatives. The purpose of the community is to help sustainable startups and businesses grow and thereby speed up the sustainability process in the Netherlands. The community has been in existence for eleven years and had 560 members on average in 2018. Advice, workshops and knowledge, publicity, networks and funding helped these members move forward.

For the World of Tomorrow supported two crowdfunding campaigns: *Rebelz op de Binckhorst* and *Studio JUX* reached their target partly thanks to the support given by the community. In the autumn, For the World of Tomorrow organised the eleventh edition of the ASN Bank World Award. No fewer than 199 entrepreneurs submitted their ideas to this startup competition. The winners, Proud Breast, fairf and Olayers, divided the prize money of € 40,000. MAKUS won the public award of € 8,632.

Another purpose of the community is to inspire people and inform them of sustainability initiatives. This was done through more than two hundred blogs, several podcasts and the web series *Dit is Morgen* ('This is Tomorrow'), which highlighted innovative ideas. In 2018 the website www.voordewereldvanmorgen.nl welcomed more than 640,000 unique visitors, an increase of 38% compared to 2017. The social media channels were also used intensively, with the number of followers on Instagram rising by 69%.

Plans for 2019 and beyond
ASN Bank will continue to encourage the financial services sector to measure and improve its impact on human rights (a living wage), climate and biodiversity. It will do so by working on this itself – thereby setting an example – and by collaborating with other financial institutions to the maximum extent possible.

Following the introduction of the ASN Mortgage and the ASN Sustainable Mortgage loan in 2018, ASN Bank intends to launch new sustainable housing services. In addition, the bank is continuously exploring options to improve its payment, savings and investment services, using its customers' wishes as a starting point.

BLGwonen

	2018	2017
CUSTOMER SATISFACTION		
NPS	-22	-24
Average customer satisfaction rating	7.5	8.1
NUMBERS (IN 1,000)		
Totaal number of customers	244	234
Gross growth number of customers	25	22

We make housing accessible to everyone

BLG Wonen boasts a long history involving housing and the promotion of home ownership that started upon its incorporation in 1954, when miners in the Province of Limburg were given the chance to buy a home.
Housing issues have existed since time immemorial. In the past, the housing market was inaccessible to many miners. Nowadays, single people, self-employed persons and first-time buyers experience difficulties in the housing market. To BLG Wonen, having your own home is a basic condition for happiness, security and well-being. It is for this reason that BLG Wonen aims for increased home ownership, believing that far more people should be able to buy a home. Together with independent advisers and with a personal approach, BLG Wonen focuses on financial solutions.

Customer promises

1. We do not see customer files, we see people

In 2017 BLG Wonen launched a programme to actively welcome new customers with a personal video and a telephone call. This translated into a higher NPS.

2. We find the best solution together

Anything can happen during the term of a mortgage. That is why BLG Wonen has come up with mortgage solutions specifically geared to changes in life. For instance, an expert divorce desk was set up and BLG Wonen developed a campaign targeting the group of next-home buyers.

3. You can always call on us

Taking a big step in digitisation, BLG Wonen’s website has been redesigned to help it live up to this customer promise. In 2018, BLG Wonen conducted campaigns to further enhance its name recognition. It did so through TV and radio commercials (‘A mortgage that gives you space’) and a campaign for making a maintenance plan.

Collaboration with advisers

BLG Wonen works together with a nationwide network of more than 2,900 independent advisers. The continuous strengthening and improvement of this network are high on the agenda. In 2018, BLG Wonen set up a panel of advisers. A panel meeting is held twice a year to present, assess and debate topics such as sustainability, digitisation and the application process. This produces valuable information that BLG Wonen uses to further improve its services to its advisers.

Just like last year, BLG Wonen won the *Zilveren Spreekbuis* in 2018 too. This prize, which signifies appreciation of the advisers, is awarded to the mortgage provider that has shown the most positive growth in brand development and services (based on market research company *Blauw’s* 2018 Mortgage Provider Survey).

What did BLG Wonen achieve in 2018?

Customer base

A major share of the customers are from the Randstad conurbation and other urban areas. The customers include many first-time buyers and young next-home buyers, in line with the market.

Customer satisfaction

In 2018, BLG Wonen implemented improvements in the area of mortgages that led to an increase in the NPS. For example, we introduced the customer newsletter and more opportunities for customers in online banking.

Mortgages

The growing housing market and improved economic climate triggered growth at BLG Wonen in several areas, with its overall name recognition increasing from 9% at year-end 2017 to 11% at year-end 2018 and the number of mortgage applications rising by approximately 3%. This growth is explained by the market developments as well as by the national brand campaigns, persistently competitive pricing and special attention for existing customers.

Plans for 2019 and beyond

BLG Wonen is a major player in the mortgage market. Its 65 years of expertise and wide-ranging mortgage solutions now allow many people in the Netherlands to live in affordable and sustainable homes. BLG Wonen is continuously looking for ways to further improve its mortgage and capital accumulation services. It will continue to do so in 2019, using its customers’ wishes as a starting point.

That BLG Wonen's mission of 'making housing accessible to everyone' is still relevant, is evident from the fact that there are still groups for whom home ownership is out of reach. That is why BLG Wonen has dedicated itself to the theme of ‘Good housing for everyone’. Reaching back to its roots, BLG Wonen feels a responsibility to fulfil a social role in society in addition to its commercial role. To this end, BLG Wonen will seek to collaborate with other players in and outside the financial services sector to improve and/or facilitate home ownership in 2019.

RegioBank

	2018	2017
CUSTOMER SATISFACTION		
NPS	12	7
Average customer satisfaction rating	8.0	8.5
NUMBERS (IN 1,000)		
Totaal number of customers	665	646
Gross growth number of customers	43	47
Number of current account customers	292	268
Gross growth number of current account customers	33	39

We are the bank nearby

RegioBank and its legal predecessors have been in existence for almost a century. RegioBank works with 515 Independent Advisers who run their own businesses, mostly insurance firms, and who are located in villages and small towns. As such, RegioBank has the largest number of brick-and-mortar offices of all the banks in the Netherlands. RegioBank's Independent Advisers provide personal services to customers close to home. They know what is happening in the area and contribute to social cohesion in villages and small towns.
The Independent Advisers give advice on savings and payment products exclusively for RegioBank.
For mortgages, they also offer products of other providers. In 2018, RegioBank developed many initiatives in co-creation with its Independent Advisers. This included such aspects as process improvements, the set-up of campaigns and a Facebook group for exchanging ideas with the Independent Advisers. The bank also organised an Adviser meeting in a new style, where interaction took centre stage.

RegioBank's name recognition increased in villages and towns with up to 20,000 inhabitants in 2018. Its overall name recognition was up from 72% to 76%. The bank actively presented itself, both online and through national and local media.

The Dutch Consumers' Association annually asks customers for their opinion about their current accounts. In the August 2018 Banking Monitor, RegioBank was awarded the highest score of all banks. Its overall rating was 9.2, and customers rewarded the bank with 8.6 points for service, internet and mobile banking.

RegioBank's website was also awarded a prize. Customers chose regiobank.nl as the 'Best Website of the Year' in the Banks and Investment category. Organised by Multiscope and Emerce, the Website of the Year election is an annual online public award for the best and most popular websites.

Customer promises

1. You are welcome at our office

The 515 brick-and-mortar offices of RegioBank's Independent Advisers make customers feel welcome. It is easy for customers to drop in and ask a question. As from 2018, RegioBank offers its products and services through Independent Advisers at six new locations, three of which in new towns (Lemmer, Zaandam and Boxtel).

2. You receive personal attention from us

RegioBank surveys the satisfaction of its customers every year. The 2018 survey once again shows that customers truly feel this personal attention. Of the customers, 96% indicate that they are satisfied or very satisfied with the customer-friendly attitude of their adviser, and 94% indicate that they are satisfied or very satisfied with the personal attention they receive from their adviser.

3. An adviser who knows you

RegioBank's Independent Advisers are familiar and trusted faces in the neighbourhood. They know their customers and their situation and are in a position to start a discussion on banking affairs. In November 2018, for example, RegioBank informed its customers with a *Zilvervloot* savings account of the maximum amount they could still save in 2018, helping customers obtain the maximum bonus.

4. We are a bank for the whole family

All people, no matter their age, can find products and services at RegioBank suited to them. Introducing *JongWijs* in 2016, RegioBank helps parents and their children with financial education. In the summer of 2018, RegioBank conducted a campaign targeted at children who were about to enter secondary school. This is a new phase of life in which parents and children may wonder, for example, whether the children need their own current account and debit card. The *JongWijs* package covers these topics. In two years' time, over 36,000 *JongWijs* packages were opened. Children and their parents are sent useful money tips every year. This is how RegioBank helps parents with the financial education of their children.

What did RegioBank achieve in 2018?

Payments

The product range was expanded with a credit card from International Credit Services (ICS), which can be requested with the Plus Current Account and the Youth Current Account.

In September, RegioBank launched a payment campaign helping local businesses. When switching to RegioBank, the customer received a gift voucher that could be redeemed at a local business, such as the baker's or the butcher's. This campaign brought about five hundred local deals in total.

Savings

In 2018, RegioBank welcomed nearly 41,000 new savings customers and its savings volume grew by more than € 200 million.

RegioBank opened nearly 12,000 new *Zilvervloot* savings accounts in 2018. Despite the lower interest rate on savings, this youth product with a nice bonus has remained popular among parents and grandparents.

Just like last year, the campaigns centred on customers' savings goals. Saving for a goal makes saving concrete and purposeful. RegioBank makes saving useful as well as fun for children. During the Children's Savings Weeks, children who came to the office with their piggy bank could choose a present.

For the fourth time in a row, RegioBank achieved the maximum score in the MoneyView ProductRating. The rating was developed to offer all market parties a system clarifying at a single glance how a product performs compared with competitive products. RegioBank was again given five stars in the category 'Price' for *Eigen Huis Sparen*, a home savings account to build up capital to buy a house or pay off your mortgage.

Mortgages

RegioBank expanded the online options for mortgage customers in 2018, and now enables customers to make online transfers to their offset mortgage and submit and record expense claims for their home construction/improvement account.

Businesses

The Independent Advisers play an important and active role in the local business community, and for self-employed persons and small business owners in particular. In order to facilitate this target group in the best possible way the business process was adapted in 2018 with a new application process and clear acceptance criteria. In 2019, RegioBank will again focus on developing new products with input from its Independent Advisers to ensure that the products meet the needs of its local customers.

Local quality of life

Through its Independent Advisers, RegioBank is an advocate of the local quality of life.

This is also visible on the online platform *VoordeBuurt*, where visitors find examples and useful tips in the areas of healthcare, facilities and clubs. These neighbourhood initiatives are shared on social media with the aim of reaching the entire country. *VoordeBuurt* has more than 9,000 followers on Facebook and Twitter combined.

RegioBank seeks to help social initiators through its partnership with the *Oranje Fonds*, a Dutch Foundation that provides clubs and foundations with funds to strengthen the social side of society. In 2018, as in 2017, it helped the *OranjeFonds* in the fundraising for and by local associations and foundations. Furthermore, the first steps were taken in setting up a local fund to support local connectedness.

This year, the bank was again the main sponsor of the Netherlands' largest recreational bicycle event, the four-day bike tour (*Fietsvierdaagse*) in Drenthe in the north-eastern part of the country. Advisers are also present at local fairs and events.

Plans for 2019 and beyond

In 2019, RegioBank will further live up to its brand and customer promises and will deepen its social mission Local Quality of Life by adding existing and new propositions to the business operations.

SNS

	2018	2017
CUSTOMER SATISFACTION		
NPS	-11	-13
Average customer satisfaction rating	7.6	7.6
NUMBERS (IN 1,000)		
Totaal number of customers	1,592	1,580
Gross growth number of customers	105	92
Number of current account customers	917	901
Gross growth number of current account customers	76	63

We help you with money-smart tips

SNS is there for those who want to bank with a no-nonsense bank. It aims to be a home base for anything to do with finances. This covers not only the products that the bank traditionally offers, such as a current account or a mortgage, but is also – and especially – wider in scope: what do customers value, where do they need help or what keeps them awake at night? SNS is the perfect bank to understand what people in the Netherlands are looking for regarding their financial affairs. The bank stands by its customers in their financial life and makes them financially resilient to increase both their welfare and their well-being. SNS achieves this by standing shoulder to shoulder with its customers, in a simple and human way.

Customer promises

1. We continually make the Netherlands financially smarter

SNS is committed to improving the financial knowledge of the Dutch, giving everyone more insight into their financial affairs and a better overview by making customers aware of their financial position and enabling them to improve it if they so desire. In 2018 SNS organised a theme night for the elderly centred on cybercrime prevention, which was followed by 17 local workshops on Secure Online Banking. Other local initiatives are the Financial Café in collaboration with *Humanitas* and workshops to inform customers of their interest-only mortgages.

In 2018, online banking was made available to customers under administration or under guardianship. A customer under administration is now allowed to independently make payments from their own basic bank account, turn on balance alerts and use the online housekeeping book. This was a frequently heard request made by administrators and is viewed as a first step towards preparing customers for full management of their finances when they are no longer under administration.

2. We always speak in plain terms

SNS speaks in plain language, not in complicated bank language. This makes banking for customers much easier. All texts are to the point, clear, personal, flawless and carefully edited. Wherever a text is not clear, it will be modified. For instance, SNS is continuously working on making finances easier to understand for its customers. The process of rewriting all system communications (over 1,000 texts) in plain language was as good as finished in 2018.

3. Banking with SNS really yields benefits

In 2017 *SNSCombinatievoordeel* was launched, conferring benefits on customers with active SNS current accounts, including a higher interest rate on savings. A total of 495,000 customers now enjoy the *Combinatievoordeel* benefit, which is 5.1% growth compared to 2017.

4. We send alert messages if things can be improved for you

Since customers do not look into their banking affairs every day, SNS gives them a heads-up if it believes anything can be improved in terms of payment behaviour, insurance or mortgages. These alert messages help people obtain insight into and an overview of their financial affairs and may urge customers to take rapid decisions in busy periods. Several alerts were added in 2018, such as the storm alert for customers with SNS Home Insurance. New alerts for insurance customers will follow in 2019. This is how we encourage our customers to proactively consider their cover and thus save money.

What did SNS achieve in 2018?

Shops

SNS grew from 197 to 202 shops in 2018 and will continue to open shops in 2019. It intends to grow to 211 shops. What is new is the development of a community store concept in Maastricht. The idea is that the community store should be a place for learning and for meeting and inspiring one another on the theme of financial resilience. The development of the community store is SNS's concrete implementation of Banking with a human touch.

Payments

Customers receive a number of extras with the SNS current account: interest on the balance of up to € 5,000, free overdraft for the first three days, a second bank card at no additional charge, and purchase protection insurance. More than 11,980 people used the switching service to switch to SNS. SNS's production share in new current account customers stood at 11%.

Savings

Despite the historically low interest rates on savings, the savings balance at SNS increased. The number of savings customers grew more than expected in the slipstream of growth in the number of current accounts. Although the lower market rates also led SNS to lower savings rates twice, SNS still offers higher interest rates than the major banks.

A new product in the savings accounts range is *SNS Jongerensparen*, which includes a current account and a savings account for young people aged 12 to 25.

Investments

Savings rates are low and the investment results were satisfactory in the past few years. Nevertheless, SNS perceived great resistance among its customers to investing some or all of their savings. In 2018, several surveys were conducted among customers and advisers to discover the cause of this resistance and find out how it could be removed. The results were used to further develop the Goal Planner (*Doelplanner*), the current investment navigation tool that was only suitable for investing but not for saving. The new and improved Goal Planner encompasses more than just investment, as customers determine how they will reach their capital target with a combination of saving and investing that suits them. The Goal Planner will be launched in early 2019.

Mortgages

In 2018, SNS launched a nationwide campaign to bring out into the open for the first time that SNS allows people to choose from several mortgage providers. Since November, SNS is the only mortgage provider to also advise the new ASN Mortgage.

The SNS Mortgage Term Monitoring Service still takes an important place in the customer contact strategy for mortgages. SNS itself comes forward if it might be possible to lower customers' mortgage rates. In addition, customers are contacted once every two years to check whether they want a personal meeting. In 2018 SNS contacted more than 113,000 customers via this service.

SNS community

SNS engages in open dialogue with customers, asking them to share ideas about banking affairs and related topics in the online SNS Community, via the SNS Customer Panel and during the SNS Customer Days. Steadily growing, the SNS Community now has more than 32,000 members and 4,000 topics. In 2019, the bank wants to use the Community mainly for conversations about financial resilience.

Plans for 2019 and beyond

In 2019, SNS will again commit itself to strengthening the financial resilience of its customers and the Netherlands to make people feel comfortable about their financial affairs. It will do so by taking its customers' financial life as its starting point, by being there at important moments in their lives and by making smart suggestions on how to improve things. It intends to transform itself from a product and transaction-focused bank to a broader, comprehensive financial services provider, with an open platform and a human touch.

4.

RISK MANAGEMENT

IFRS 7 and Pillar 3

In chapter 4 Risk management, we provide the information that is required on the basis of IFRS 7 and IAS 1. 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.

EDTF references

An initiative of the Financial Stability Board, the Enhanced Disclosure Task Force (EDTF) is an international task force consisting of users and authors of financial institutions' annual reports. The task force issued 32 recommendations for risk disclosures of banks. De Volksbank supports the recommendations. The Additional Information section explains how the EDTF recommendations have been incorporated in the Annual Report and the Pillar 3 Report.

4.1 RISK MANAGEMENT OBJECTIVES EDTF 1

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

Risk management and shared value

Benefits for customers
Working on a sound and long-term relationship with the customer that is based on mutual trust, we support our customers in controlling their own financial position. Risk management sees to such matters as clear and transparent products, and reliable and controlled processes.

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

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

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

4.2 MODERATE RISK PROFILE EDTF 7

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

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

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

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

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

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

4.3 TOP RISKS EDTF 3 EDTF 7 EDTF 32

Developments inside and outside de Volksbank may affect the achievement of our strategic objectives (see also Section 2.1 Mission and ambition). De Volksbank has analysed these developments and has taken measures to align their potential impact with our risk appetite. De Volksbank evaluates the main top risks on an annual basis. It adjusts these risks if necessary.

In this chapter we describe the top risks of 2018, while also looking ahead to 2019 and considering the most recent developments. The arrows display the trend in the movement of the risk. We do not take into account the effect of mitigating measures limiting the risk.

Some measures were completed in 2018, others are not yet completed or are permanent in nature.

4.3.1 TOP RISKS RESULTING FROM EXTERNAL DEVELOPMENTS EDTF 3 EDTF 7

Risk	Risk description	Trend	Measures
Sustained low interest rates	Sustained low interest rates have put pressure on the profitability of the mortgage portfolio for a prolonged period of time, which translates into limited upward potential in the future.	↗	• Steer on cost control. • Continuous improvement of customer behaviour models for asset & liability management. • Stress testing and the strategy take into account the sustained low interest rates.
Accommodating monetary policy and overheated housing market	Interest rates rise and house prices decline due to the accommodating monetary policy being restored to normal, which reduces the affordability of mortgage rates and lowers the value of homes of existing mortgage customers to below the mortgage sum.	↘	• Stress testing is carried out to determine the capital buffers required. Our buffers are adequate. • Acceptance policy that tests through-the-cycle resilience. • Monitoring all relevant developments and taking measures where needed (e.g., adjusting acceptance criteria). • Aim for cost control.
Loss of the direct customer relationship	Technological developments, the introduction of PSD2, new entrants and the trust in the banking sector that has not yet been restored cause the bank to lose direct contact with customers and thus the knowledge of each customer's financial position and needs.	→	• Stepping into the role of aggregator in preparation for PSD2. • Rolling out and incorporating our strategy of Banking with a human touch in our products and services as a distinguishing feature so as not to become interchangeable. • A focus on innovation and adapting services in order to continue to be relevant for the customer and retain the relationship with the customer.
Competition in the mortgage market	As our balance sheet options for offering long-term mortgages are inadequate and we lack an excellent mortgage process, we are insufficiently competitive in the mortgage market.	→	• Continuously streamlining the mortgage process and aiming for cost control. • Offering execution-only mortgages. • Exploring options for increasing the share of long-term mortgages on the balance sheet.

4.3.2 TOP RISKS RESULTING FROM INTERNAL CAUSES EDTF 3 EDTF 7

Risk	Risk description	Trend	Measures
Compliance with laws and regulations	As the capacity to identify the large number of (new) laws and regulations, to set up adequate compliance or to consistently monitor compliance is insufficient, relevant laws and regulations are insufficiently complied with.	→	• Introducing improvements in our policy in response to the amended Money Laundering and Terrorism Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*, Wwft) and immediate implementation of these improvements. • Increased attention within de Volksbank by classifying regulatory compliance risk as a sub-risk of compliance risk. • Defining and implementing responsibilities and processes for the constant monitoring of laws and regulations (prudential as well as non-prudential).
Provision of reliable and adequate information	Inadequate data quality, definition differences and numerous manual acts have resulted in incorrect internal reports and reports to the regulatory authority.	↗	• Improved embedding of the existing data governance in an adequate organisation. • Conducting a definition study. • A focus on data management (strategic programme).
Shortage of competencies and employability of staff	An overheated labour market, an insufficient ability to recruit and retain the required knowledge and skills within cost targets will result in a lack of the right mix of competencies and talents in due course.	↗	• Starting and maintaining collaborative ventures with educational institutions, startups and tech partners. • Strategic resource planning by Human Resources and developing a plan to control this risk.
Focus, realisation and committed and engaged employees	An insufficient focus and inadequate coordination, collaboration and communication about the approach means that the bank does not use its resources efficiently and effectively and employees lose their commitment or do not put in the capacity (to change) that the bank desires.	↗	• A focus on clear choices, including the associated consequences (choosing priorities). • A top-down translation and communication of the targets to be reached, striking a balance between internal entrepreneurship and central coordination.

4.4 RISK APPETITE AND RISK INDICATORS EDTF 2 EDTF 3 EDTF 7

De Volksbank has divided the main types of risk into financial and non-financial risks, which will be discussed in Sections 4.6 Credit risk up to and including 4.10 Non-financial risks.

The classification of the types of risk is evaluated annually and adjusted where necessary. Such adjustments may be required as a result of, for example, new regulations, internal and external developments or a change of strategy or risk capacity. The risk classification remained virtually unchanged in 2018. See also Sections 2.1 Mission and ambition and 2.3 SWOT analysis.

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

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

The table below presents the bank's risk appetite and shows how we score with our current risk profile in relation to the risk appetite. Every quarter, the indicators are reported to the risk committee that controls the relevant risk. See the glossary at the end of this annual report for the definitions of the types of risk.

Risk Appetite Statement	Relative score	Note to the score
BUSINESS RISK • People-oriented, social, sustainable bank; • Stable profit for the shareholder(s); • Timely adaptation to (market) developments.		The pressure on our net interest income and the importance of cost control remain unchanged.
CAPITAL ADEQUACY • Monitoring a sound and well-diversified capital position in line with the bank's low-risk activities.		We have a strong level of capitalisation in the short and medium terms. Regulations in the distant future may impact the capitalisation.
CREDIT RISK • Control is such that it does not threaten our financial position (capital and liquidity).		The credit risk on our portfolios has again decreased. This is due to an increase in the number of new (financially strong) customers and a decrease in the number of customers in arrears.
INTEREST RATE RISK IN THE BANKING BOOK • Protecting and stabilising net interest income, economic values and capital due to interest rate movements and credit spreads.		The risk models were further refined, partly due to new laws and regulations and customer behaviour, to improve asset & liability management. This will still be a focus area in 2019.
MARKET RISK • Monitoring risks in the trading book caused by movements of market variables.		We have a limited market risk appetite in the trading book. The indicators are within our limits.
LIQUIDITY RISK • Monitoring a strong liquidity and funding position, so that financial obligations can be met at any time and the consequences of bank-specific and market-wide stress factors can be absorbed.		We have a strong liquidity and funding position. Our funding is mainly made up of stable customers' savings and long-term wholesale funding.
OPERATIONAL RISK • Effective, high-quality processes, acceptance of low error rates; • Sufficient and competent employees and a pleasant working environment; • Efficient and stable IT environment; • Low tolerance for disruptions of integrity and continuity of systems and reliability, confidentiality and integrity of information.		Improvements in process control are being implemented, although at a slower pace than desired. Knowledge in the area of operational risk management is enhanced by means of training. Dynamics in the organisation result in high work pressure. IT control is high. The threat of cybercrime is persistent, significant and continues to evolve.

Risk Appetite Statement	Relative score	Note to the score
REPORTING RISK • Reasonable degree of assurance that the information provided is reliable.		Insight into processes and internal control have been improved. Data management is not at the desired level and will be a focus area in 2019.
COMPLIANCE RISK • No tolerance of violations of company standards and values or laws and regulations.		Changes in laws and regulations result in continuous adjustments of our processes and systems. However, some desirable adjustments were not made in 2018.
MODEL RISK • Controlled model development and strong model governance; • Limited model risk by avoiding products with complex features.		Model adjustments were implemented to comply with new regulations. The ECB conducted an extensive model study in 2018.
LEGAL RISK • Excellent business processes in place to help prevent claims; • Settlement of any claims with due care.		The situation with regard to procedures, contracts and legal awareness is stable. Improvements were introduced in such areas as interest-only mortgages, comprising the application of Banking with a human touch.
CHANGE RISK • We want to be able to proactively adapt to changing circumstances; • We want effective change management in which we achieve objectives that are in line with de Volksbank's strategy.		There are a large number of change programmes, which require a lot of resources and knowledge. This means that results are not always achieved in good time. Improvements have been made to the management of the change programmes.

Legend

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

Climate

De Volksbank is aware of the increasing risks that may arise as a result of climate change. Two risks can be distinguished here: transition risks and physical risks. Transition risks are risks resulting from the process of transitioning into a climate-neutral economy. Physical risks arise from climate-related damage, such as storm, hail and floods. We mitigate transition risks by only investing in companies that meet our sustainability criteria, by encouraging people to make their homes more sustainable, and by setting ourselves the goal of making a positive contribution to a sustainable society. The next evaluation of the risk classification will include an assessment of whether climate-related risks should be added to the risk classification. See also the additional information on corporate responsibility and climate-neutral business operations 3.3.2 Sustainability paragraph Climate.

Stress testing EDTF 8

In addition to risk indicators, we use stress testing to gain insight into the sensitivity to changes in the underlying causes and the interrelationship of risks. We apply an extreme yet plausible macroeconomic scenario to our capital and liquidity position several times each year. We calculate the impact it would have on the bank, thereby bringing to light any potential vulnerabilities. See also Sections 4.6.2 Management and control, 4.7.3 Figures, ratios and trends, 4.8.2 Management and control, and 4.9.2 Management and control for the use of stress testing in relation to capitalisation and credit, market and liquidity risks.

4.5 RISK MANAGEMENT ORGANISATION EDTF 5

Risk management is the balance between taking risks, creating and controlling opportunities, and value protection and creation. The risk management pursued must provide a reasonable level of assurance that de Volksbank's objectives will be achieved and value will be created for its environment. Demonstrably controlled and responsible business operations are prerequisites for turning these objectives into reality.

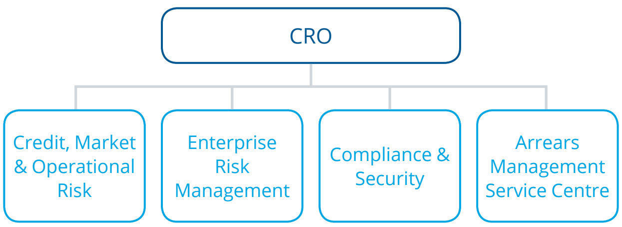
The Integrated Control Framework (ICF) is the instrument that de Volksbank uses to improve controlled business operations. The ICF is in line with the COSO Enterprise Risk Management framework[13]. It creates clear frameworks that ensure streamlined control processes with the appropriate infrastructure and steers the organisation to the right culture.

The risk management process consists of four interconnected annual cycles: the performance of the strategic risk analysis (SRA) and the tactical risk analysis (TRA) and the adoption of risk appetite statements (RAS) and the risk strategy. Together, these components form a solid foundation enabling the bank to proactively manage the risks affecting the achievement of the strategic objectives.

4.5.1 DEVELOPMENTS IN 2018 EDTF 5

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

The risk management organisation in 2018 was as follows:

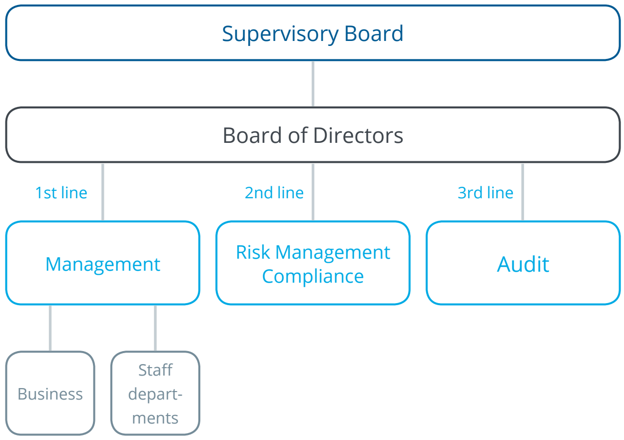


4.5.2 RISK GOVERNANCE AUDITED EDTF 5

Three lines of defence

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

[13] Source: Coso ERM: Aligning risk with strategy and performance, June 2016 edition

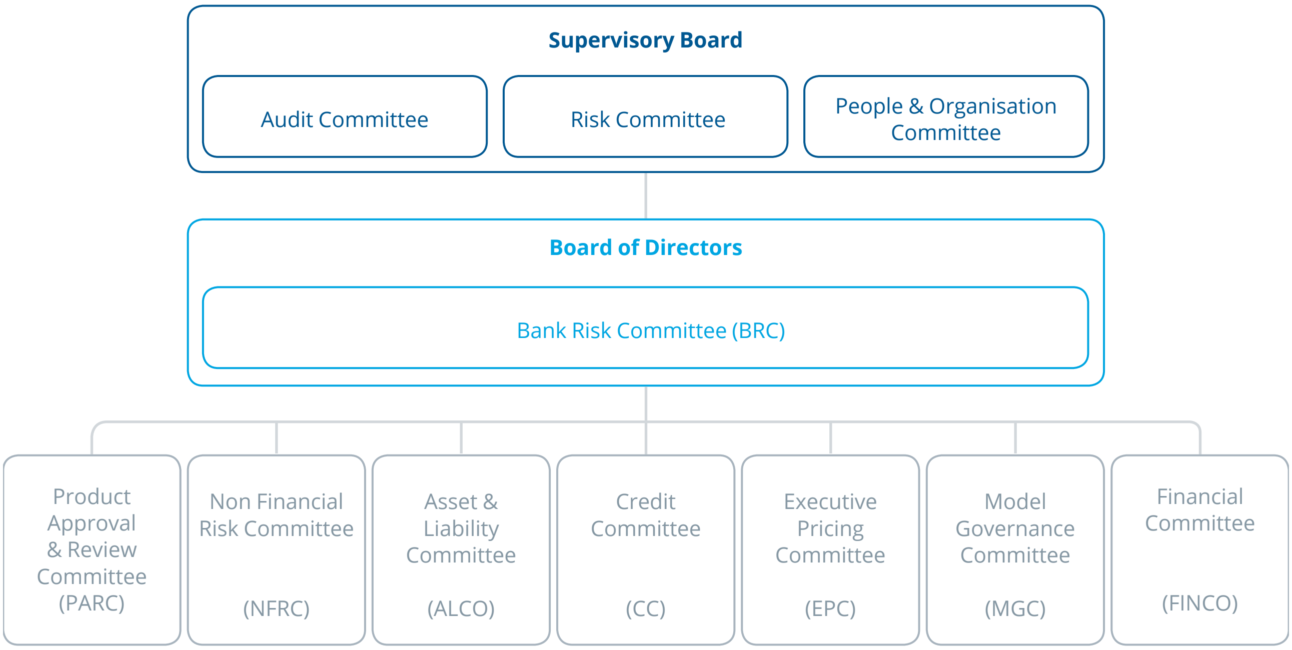


In this model, the first line of defence (the business) is responsible for setting up and executing their own processes. They identify the risks, assess and report on these risks and measure them against the risk appetite that has been determined. The second line supports the business, sets frameworks,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

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

The Board of Directors bears ultimate responsibility for risk management. In this process, it is supported by risk committees (see also the glossary for an explanation), with representatives from the first and second lines in each committee. Each risk committee is chaired by a member of the Board of Directors. The third line does not have permanent representation in the risk committees, but it may attend meetings at all times.

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



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

4.5.3 RISK CULTURE EDTF 6

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

Risk culture propagation

Culture is a decisive factor in risk management and risk awareness and, as such, is part of the ICF. We want the risk culture to be propagated by the entire organisation. The Board of Directors and employees are aware of their role, of their serving as an example and of their responsibilities. The Board of Directors bears ultimate responsibility and approves the risk policy. Members of the Board of Directors chair the various risk committees and, by doing so, also put the Board of Directors' involvement in risk management into practice.

Clear governance EDTF 5

We have set up a clear governance structure with risk committees where discussions are held between the business, which controls the risks, and the risk organisation, which monitors the risks and associated control. Decision-making on risks follows the lines of governance and is assessed against the risk guidelines. If and when risk limits are exceeded or the risk appetite is not adhered to, we discuss this in the risk committees. A risk committee presents a point of discussion to the Board of Directors where necessary.

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

Risk guidelines

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

Development of risk awareness

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

Internal Code of conduct

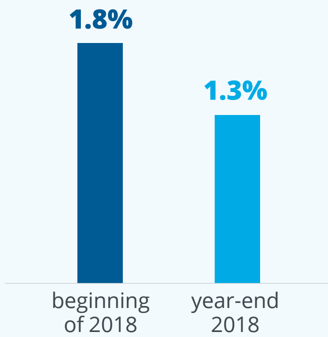
An internal Code of conduct guides the ethical actions that we expect of all our employees. We pay attention to moral dilemmas and how employees can deal with them. A well-spread network of confidants offers staff the opportunity to broach the subject of any malpractices.

Remuneration policy

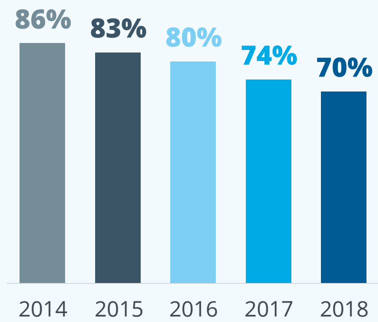
Our remuneration policy takes into account the right balance between risk and return. Our ambition dictates that, in addition to financial return, other aspects are important as well. We set goals that are aimed at creating shared value for all stakeholders. De Volksbank cancelled variable remuneration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

4.6 CREDIT RISK EDTF 2 EDTF 3

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

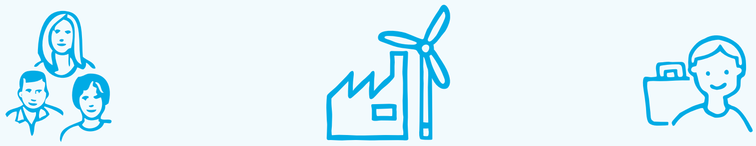


Stage 3 loans expressed as a % of total loans and advances dropped in 2018



Average Loan-to-Value retail mortgages

Loans and advances to customers



93% Retail mortgages

5% Other commercial loans and loans to the public sector

2% SME loans

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

4.6.1 RISK PROFILE EDTF 26

We internally assess the credit standing of our customers or counterparties and attempt to estimate to the best of our ability the probability of our customer being unable to meet the contractual obligations arising from the loan agreement. The potential result is a financial loss for the bank.

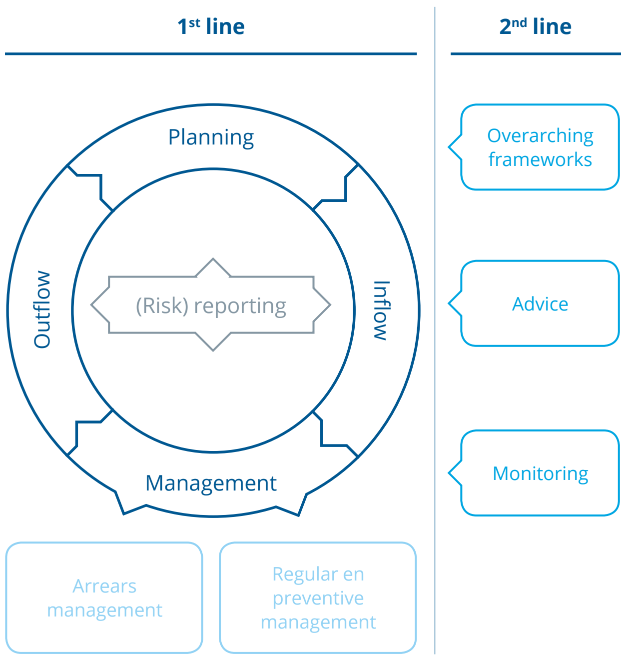
As part of our credit risk management, we cluster loans in portfolios. Policy has been prepared to prevent any undesirable concentration risk from arising, which is actively monitored. The fact is that de Volksbank has a high concentration of retail mortgage loans in the Netherlands, which corresponds with our strategy of being a retail bank that only operates in the Netherlands. The other portfolios on de Volksbank’s balance sheet, which are also in line with our strategy, are much smaller in size. We have set out in our policy framework which features we use to place customers and loans in one of our portfolios. One criterion is the type of customer: natural person, SME customer, government authority or financial institution. We also distinguish based on the presence of cover: mortgage collateral versus unsecured loans (such as revolving credit, credit facilities on current accounts or personal loans). Another type of security that may be considered is a government guarantee or a guarantee issued by a fund, such as the National Mortgage Guarantee (NHG). Our policy also prescribes the maximum exposure to a single counterparty so as to prevent us from running into financial problems ourselves if the relevant counterparty is no longer capable of meeting its obligations to us. The exposure limits are regularly reassessed.

Within de Volksbank, reports are drawn up in line with the clustering applied, ensuring effective monitoring and the implementation of adjustment measures where necessary. The paragraphs below describe the various credit risk portfolios and the underlying characteristics in more detail.

4.6.2 MANAGEMENT AND CONTROL AUDITED EDTF 7 EDTF 27

In credit risk management, we take into account the individual customer. On a portfolio level we also manage the risk based on inflow, outflow, size and status of the healthy portfolio and the arrears portfolio.

De Volksbank’s credit management process is represented visually below.



Retail mortgages

In the provision of new mortgage loans (inflow) we put customers' interests first and use our internal standards, which are in line with the legal frameworks. Customers must be able to pay interest and make repayments now and in the future. We use the acceptance scorecard to predict long-term affordability and see to it that the mortgages provided meet our internal standards regarding the customer's income and the collateral value. We limit credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee of Nationale Hypotheek Garantie (NHG). See also Section 4.6.11 Risk mitigation on risk-mitigating measures.

The Dutch economy was going through an economic boom last year. Therefore, we tightened our risk acceptance in 2018 with regard to the inflow of new customers. This should prevent us from registering too large an increase in the expected loss or exceeding the long-term objective if and when the economic tide turns.

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

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

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

Interest-only and 'Aflossingsblij'

In 2018, our attention continued to focus on interest-only mortgages. A number of customers with interest-only mortgages believe they will never be required to redeem (repay) the loan. We actively contact customers whom we consider to be in a high-risk category. This may be, for instance, because their mortgage is nearing maturity and given their age it is likely that they will retire, which may result in a drop in income. This way, we find out whether these customers can be refinanced based on their retirement income and whether they have accumulated any capital to make full or partial repayments at the end of the term. De Volksbank is also one of the banks participating in the *Aflossingsblij* campaign of the Dutch Banking Association (NVB), which seeks to create nationwide awareness of the characteristics of this type of mortgage. The AFM monitors our activities in the context of interest-only mortgages.

Preventive management and arrears management for retail customers

De Volksbank regards a bond of trust with the customer as the basis for a long-term customer relationship. We manage the credit risk through an active and specific policy on customers in arrears.

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

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

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

Forbearance

We may apply a forbearance measure in situations where a customer has 'financial concerns' and is expected to be unable to meet their future financial obligations or to do so in time. This is a non-commercial concession: an arrangement with the customer entailing a temporary or permanent modification of the loan, the terms and conditions of the loan and/or the conditions of payment. We may apply this measure to prevent payment problems from accumulating or situations in which the loan has to be called in early.

Other retail loans

We hold a portfolio of limited size containing personal loans, revolving credit and overdraft facilities (a credit limit on a current account). We no longer provide new personal loans or revolving credit on our own balance sheet.

SME loans

We record our SME customers' payment behaviour and use this information in risk models to monitor long-term affordability for our customers. The models calculate the probability of default – the failure to make contractually agreed payments (interest and any repayments) – and the expected loss for the bank in the event of default. In 2017, we started a risk-driven review of our customers based on the model results, with the model results being used to set priorities for the reviews. The model largely determines which customers we will proactively contact first. We continued and further fine-tuned this process in 2018.

Preventive management and arrears management for SME customers

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

Other commercial loans and loans to the public sector

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

Investments

De Volksbank has a bond portfolio for liquidity management purposes, which requires counterparties to meet stringent requirements and have good ratings. The investments – except for the shares – are also part of the Financial Markets portfolio.

Reporting

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

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

Loan loss provisions (IFRS 9)

As from 1 January 2018, we have been under an obligation to form loan loss provisions in accordance with the requirements of IFRS 9. These new guidelines make the provisions inherently more volatile, as anticipated macroeconomic developments must be included in the calculations. Based on our risk models, we make monthly calculations for all our customers to estimate their risk of running into financial difficulties. Section 4.6.3 Implementation of IFRS 9 discusses the details of the determination of loan loss provisions under IFRS 9.

Stress testing and sensitivity analyses EDTF 8

De Volksbank conducted several stress tests in 2018, both internal stress tests and stress tests imposed by the supervisory authority. Those stress tests shed light on the possible consequences for the credit risk using specific models. We examine how sensitive the portfolios are to fluctuations of macroeconomic parameters. Just like other banks, de Volksbank is sensitive to these fluctuations.

However, thanks to its strong capital and liquidity position, the bank has proven capable of withstanding the extreme scenarios applied. Further details are included in the chapter on Capital management, Section 4.9.2 Management and control.

4.6.3 IMPLEMENTATION IFRS 9 AUDITED EDTF 27

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

IFRS 9 ECL models and loan portfolios

De Volksbank distuingishes the following specific loan portfolios for which loan loss provisions are determined:

- retail mortgage loans;
- other retail loans;
- SME loans;
- sustainable and private loans of the ASN Bank brand ('ASN portfolio');
- Financial Markets portfolio.

De Volksbank uses a specific model for every portfolio (as described in 4.6.2 Management and control) to estimate customers' creditworthiness and the Expected Credit Loss (ECL). The ECL models are 'Point-in-Time' (PIT), which means that they give a current estimate of the credit loss expected on a loan with a view to the present economic situation (economic cycle).

Credit risk management of ECL models

To manage its customer groups in the various loan portfolios, de Volksbank calculates several customer risks using its credit risk models on a monthly basis. Monitoring customer developments and portfolio development is of the utmost importance if we are to make proper estimates of expected losses arising from credit risk. We have provisions in place for these losses and we maintain capital for unexpected losses.

Model techniques

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

The 'survival model' technique was used for the retail mortgage and SME loan portfolios. This is a method for calculating the month-on-month Probability of Default, Probability of Cure and Probability of Foreclosure. A special feature of these models is that they determine the customer's creditworthiness over two horizons: 1) the 12-month horizon (the probability of the customer defaulting on payments in the next 12 months (12-month PD)), and 2) the remaining term of the loan horizon (the probability of the customer defaulting on payments at any time during the remaining term of the loan (PD lifetime)). We make the calculations for three different macroeconomic scenarios: a basic (base), a slightly increasing (up) and a slightly decreasing (down) scenario. The results of these scenarios lead to the weighted final values through a weight allocation. In addition, loss rates are determined in case of foreclosure and cure. The various probability components and the corresponding expected losses are applied to the projected outstanding principal to determine the total expected loss. This forecast is based on scheduled mortgage payments and possible additional repayments.

A specific method has also been developed for the portfolio containing other retail loans (revolving credit, personal loans, current accounts – overdrafts). Rather than calculating an individual PD, we opted to assign every customer a rating that determines whether an increased credit risk exists. The factors that are decisive for the rating include registered arrears, use of the limit available and the possession of multiple debt products. Customers are divided into stages based on their rating. Historical observations (default rates) have been used to set an average PD for each stage, and historical data have been used to determine an average product-specific LGD. We determine the expected loss (ECL) by multiplying the stage-dependent PD and product-specific LGD by the amount of the credit facility.

We use another modelling technique for the ASN portfolio and the Financial Markets portfolio, in which the PD – now and in the future – is derived from Credit Default Swap (CDS) curves correlated with the counterparty's creditworthiness (credit rating). Specific CDS curves have been selected for various portfolio components. The credit ratings originate from well-known rating agencies such as Standard & Poor's and Moody's. For the loss rates to be applied (Loss Given Defaults (LGD)), we use generic sector-related rates that are annually reviewed and therefore up to date and Point-in-Time (PIT). Both the PD and the LGD are applied to the outstanding principal. The expected loss (ECL) is determined by multiplying these components.

Forward-looking information

We use three scenarios in our provisions calculations, in which we also make the forward-looking information available to the ECL models. The three scenarios describe the expected macroeconomic future (base), a slightly worse situation (down) and a slightly better situation (up). An independent team of macroeconomic experts drafts the scenarios, estimating for each scenario a forward-looking trend of the various macroeconomic drivers. In making these estimates, the macroeconomic experts also look at trend lines and forecasts of external parties, such as Eurostat, Statistics Netherlands (CBS) and the CPB Netherlands Bureau for Economic Policy Analysis. All three scenarios describe a realistic development of the macroeconomy. Weights are also linked to the scenarios, reflecting the probability of the scenario becoming a reality considering current economic projections. The development of macroeconomic variables is predicted four years ahead in the scenarios. After that four-year period, the models extrapolate the value of the macroeconomic variables to the 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 produce a weighted average 12-month ECL and a lifetime ECL.

For the retail mortgages, we use the average mortgage rate, the actual house price and the unemployment rate as macroeconomic parameters. For SME loans, we use the unemployment rate and the number of bankruptcies. The model for other retail loans uses the unemployment rate. In the Financial markets and ASN Bank ECL model, the macro-economic impact is incorporated in the CDS curves.

The ALCO approves the scenarios and the corresponding weights. The scenarios that are prepared for the determination of the provisions are also used to draw up – i.e. calculate the effects of – the Operational Plan. The scenarios and the weights are assessed on a quarterly basis and adjusted where necessary.

The parameters used in the three scenarios are displayed in the table below. The protective measures from the US and the rising trade tensions between China and the US are the main reasons for the increase in weight of the down-turn scenario during the year.

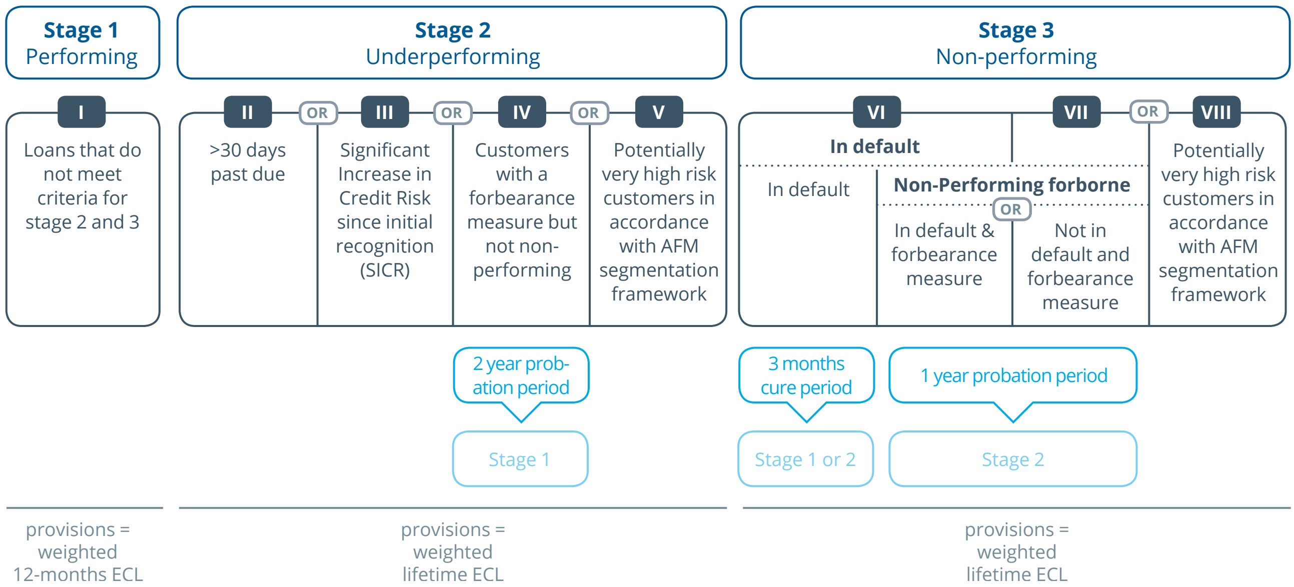
Scenarios 31-12-2018

Macro Economic Parameter	Scenario	Weight	2019	2020	2021	2022	Long Term Average
Average Mortgage Rate	Base	50%	2.9%	2.9%	3.3%	3.7%	3.7%
	Up	15%	3.2%	3.6%	4.0%	4.4%	3.8%
	Down	35%	1.9%	1.9%	2.1%	2.3%	3.6%
Real House Price (in €)	Base	50%	316,430	326,981	335,441	346,772	486,541
	Up	15%	319,830	341,208	359,892	374,377	488,674
	Down	35%	305,266	301,305	300,536	307,553	483,511
Unemployment Rate	Base	50%	3.6%	3.6%	3.8%	3.9%	5.8%
	Up	15%	3.3%	2.9%	2.6%	2.6%	5.7%
	Down	35%	3.8%	4.6%	5.2%	5.4%	5.8%
Number of Bankruptcies (monthly)	Base	50%	322	321	327	325	362
	Up	15%	297	257	234	226	329
	Down	35%	350	408	461	477	409

Scenarios 1-1-2018

Macro Economic Parameter	Scenario	Weight	2018	2019	2020	2021	Long Term Average
Average Mortgage Rate	Base	50%	3.0%	3.2%	3.2%	3.6%	3.8%
	Up	30%	3.2%	3.5%	3.8%	4.1%	3.9%
	Down	20%	2.2%	2.2%	2.3%	2.3%	3.6%
Real House Prices (in €)	Base	50%	285,246	295,087	302,553	311,947	439,128
	Up	30%	285,554	298,033	309,686	321,795	438,976
	Down	20%	265,526	262,472	260,963	263,964	434,509
Unemployment Rate	Base	50%	4.0%	3.9%	4.1%	4.2%	5.8%
	Up	30%	4.0%	3.8%	3.8%	3.8%	5.8%
	Down	20%	4.6%	5.3%	6.0%	6.5%	6.0%
Number of Bankruptcies (monthly)	Base	50%	292	290	297	298	357
	Up	30%	290	277	269	262	347
	Down	20%	375	440	505	545	451

Stage allocation



IFRS 9 includes three stages reflecting the extent to which the credit risk on a loan has risen over time. 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 loans that have shown no significant increase in credit risk since they were provided. For these loans, a provision is formed for expected losses (ECL) in the next 12 months.

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

Once the credit risk has significantly deteriorated, a loan is moved from stage 1 to stage 2. De Volksbank also uses a number of additional criteria to assess whether a loan is to be placed in stage 2, in those cases there is a significant decrease in creditworthiness. The provision is formed based on losses expected until maturity (lifetime ECL). A loan is part of stage 2 if at least one of the following conditions is met:

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

III. The credit rating is subject to significant deterioration (SICR trigger).

It has been determined for each individual portfolio when a customer's credit rating is subject to significant deterioration (Significant Increase in Credit Risk (SICR)). This deterioration is assessed by comparing the current credit rating (PD) with the credit rating we assigned to the customer upon origination. The assessment method for each ECL portfolio is indicated below.

- For the retail mortgage and SME loan ECL models, customers are classified into PD classes (buckets) according to their individual credit rating calculated at origination. Depending on the PD bucket to which the customer's loan has been assigned, the current credit rating may show a capped relative deterioration compared to the moment of origination.
- For the portfolio containing other retail loans, the customer receives a rating. If this rating exceeds a pre-determined limit, the credit facility is placed in stage 2.
- For loans in the ASN portfolio, it is assessed whether the current PD shows a pre-determined relative and absolute deterioration compared with the PD at origination. 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 PD upon initial recognition of the bond or loan. If a pre-determined relative and absolute deterioration in the external credit rating and PD exists, the bond or loan will be placed in stage 2.

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

The loans of customers that were subjected to a forbearance measure and which do not meet the prudential non-performing criteria are included in stage 2. This category contains 1) loans of customers which were subjected to a measure during the prudential performing status and 2) loans of customers which 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 loan is included in stage 1.

V. Potentially very high-risk customers according to the AFM methodology
Since June 2018, we have used the segmentation methodology prescribed by the AFM for classifying retail mortgage customers in various exposure classes. The AFM segmentation is based on the Loan-to-Value, the redemption type, the remaining mortgage term, the time remaining until retirement, and the remaining period in which the mortgage is tax deductible. Customers who are classified in the 'significantly increased risk' (very high risk) category based on the AFM methodology are placed in stage 2, unless the customer's loan is regarded as being credit impaired then it is placed in stage 3.

Stage 3: Lifetime ECL credit impaired (VI-VII)
If a loan is credit impaired, it is included in stage 3. The provision is formed based on losses expected until maturity (lifetime ECL). A loan is credit impaired in the following situations:

VI. Customers in default
De Volksbank applies a specific default definition to every portfolio for which loan loss provisions are determined under IFRS 9. For the mortgage portfolio – de Volksbank's largest portfolio – a customer goes into default once three monthly instalments have not been paid *and* the past-due amount exceeds a threshold value. A customer also goes into default if we consider it unlikely that the customer will be able to comply with his obligations in the future. Furthermore, customers may go into default due to special events, such as the consequences of a divorce or in the event of fraud. Customers only lose their default status once the arrears have been cleared in full and a three-month probation period has expired.

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

VII. Non-performing loans of customers subject to a forbearance measure
In addition to the inclusion of loans in default in stage 3, loans of customers who are subject to a forbearance measure, who meet the prudential non-performing criteria and who are not in default are assigned to stage 3. These are loans that were included in stage 2 after a one-year probation period and that are reassigned to stage 3 following a new forbearance measure and/or 30 days in arrears.

VIII. Potentially very high-risk customers according to the AFM methodology
De Volksbank regards a small group of mortgage customers as credit impaired based on the AFM segmentation (see category V), who have therefore been placed in stage 3.

4.6.4 FIGURES, RATIOS AND TRENDS AUDITED EDTF 26

Credit risk exposure
The following table presents the credit risk exposure based on the Exposure at Default (EAD) from regulatory report (see Section 4.9.5 Figures, ratios and trends). The provisions have been deducted from the receivables, but any collateral or other credit risk mitigating instruments have been disregarded.

Credit risk exposure Audited

in € millions	2018	2017
Cash and cash equivalents	815	2,180
Loans and advances to banks	3,589	2,643
Loans and advances to customers	50,536	49,459
Investments	4,782	4,932
Derivatives	732	1,075
Other	488	427
On-balance sheet exposure to credit risk	**60,942**	**60,716**
Liabilities from irrevocable facilities and guaranties	1,827	1,576
Repurchase commitment	868	1,040
Off-balance sheet exposure to credit risk	**2,694**	**2,616**
Total maximum exposure to credit risk	**63,636**	**63,332**

Despite growth in the mortgage portfolio, the total credit risk exposure remained almost the same in 2018. Cash and cash equivalents have declined compared to year-end 2017, but this was mostly offset by an increase of loans and advances to banks. These changes are mostly the result of liquidity management considerations. Making up approximately 80% of the total at year-end 2018, the Loans and advances to customers category continues to be the most substantial category on the balance sheet.

The Cash and cash equivalents category concerns DNB deposits and loans and advances to credit institutions with a remaining maturity of less than one month. The Loans and advances to banks category concerns loans and advances to credit institutions with a maturity of one month or more. Investments category mainly involves government bonds of EU Member States or euro-denominated government bonds. The derivative position mainly ensues from the hedging of the interest rate risk in the banking book (including the securitisation programmes).

Loans and advances to customers by category and region EDTF 26

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

Loans and advances to customers Audited

in € millions	2018	2017
Retail mortgages	47,262	45,934
Other retail loans	86	114
Exposure retail loans	**47,348**	**46,048**
SME loans	702	737
Other commercial loans and loans to the public sector	2,486	2,674
Total	**50,536**	**49,459**

Loans and advances by region Audited

in € millions	2018	2017
the Netherlands	49,822	48,660
EMU excl. the Netherlands	674	751
Other	40	48
Total	**50,536**	**49,479**

Total loans and advances to customers 2018

Total gross loans and advances to customers rose by € 1.1 billion to € 50.7 billion in 2018, which was entirely driven by an increase in retail mortgages. Other retail loans and SME loans showed a limited decrease, as did other commercial loans and loans to the public sector. Thanks to favourable macroeconomic conditions, the strong housing market and efforts of the Arrears Management department to help customers with financial problems, the risk profile of the loan portfolio improved compared to the end of 2017. As a result, the loan loss provisions fell from € 166 million as at 1 January 2018 to € 131 million at the end of 2018. The stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) dropped from 1.8% to 1.3%; the stage 3 coverage ratio rose from 14.0% to 15.4%.

Loans and advances to customers 31 December 2018 Audited EDTF 28

IFRS 9 in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	44,236	-2	44,234	94.5%	0.0%
Retail other loans	74	-	74	67.3%	0.0%
SME loans	558	-1	557	75.1%	0.2%
Other commercial loans and loans to the public sector	2,281	-1	2,280	91.6%	0.0%
Total loans and advances to customers stage 1	**47,149**	**-4**	**47,145**	**94.0%**	**0.0%**
STAGE 2					
Retail mortgages	2,039	-10	2,029	4.4%	0.5%
Other retail loans	14	-2	12	12.7%	14.3%
SME loans	99	-7	92	13.3%	7.1%
Other commercial loans and loans to the public sector	208	-2	206	8.4%	1.0%
Total loans and advances to customers stage 2	**2,360**	**-21**	**2,339**	**4.7%**	**0.9%**
STAGE 3					
Retail mortgages	549	-46	503	1.2%	8.4%
Other retail loans	22	-22	-	20.0%	100.0%
SME loans	86	-33	53	11.6%	38.4%
Other commercial loans and loans to the public sector	-	-	-	-	-
Total loans and advances to customers stage 3	**657**	**-101**	**556**	**1.3%**	**15.4%**
TOTAL STAGE 1, 2, 3					
Retail mortgages	46,824	-58	46,766		0.1%
Other retail loans	110	-24	86		21.8%
SME loans[1]	743	-41	702		5.5%
Other commercial loans and loans to the public sector	2,489	-3	2,486		0.1%
Total loans and advances stage 1, 2, 3	**50,166**	**-126**	**50,040**		**0.3%**
IFRS value adjustments retail mortgages[2]	496	-	496		
Total loans and advances to customers	**50,662**	**-126**	**50,536**		**0.2%**
Off-balance sheet items[3]	2,444	-5	2,440		0.2%
Total maximum credit exposure loans and advances to customers	**53,106**	**-131**	**52,976**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 614 million.

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

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

Loans and advances to customers 1 January 2018 Audited

IFRS 9 in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	42,366	-3	42,363	93.0%	0.0%
Retail other loans	92	-	92	64.3%	0.0%
SME loans	558	-1	557	70.5%	0.2%
Other commercial loans and loans to the public sector	2,394	-	2,394	89.8%	0.0%
Total loans and advances to customers stage 1	**45,410**	**-4**	**45,406**	**92.4%**	**0.0%**
STAGE 2					
Retail mortgages	2,467	-18	2,449	5.4%	0.7%
Other retail loans	17	-2	15	11.9%	11.8%
SME loans	123	-12	111	15.5%	9.8%
Other commercial loans and loans to the public sector	273	-1	272	10.2%	0.4%
Total loans and advances to customers stage 2	**2,880**	**-33**	**2,847**	**5.9%**	**1.1%**
STAGE 3					
Retail mortgages	718	-53	665	1.6%	7.4%
Other retail loans	34	-32	2	23.8%	94.1%
SME loans	110	-36	74	13.9%	32.7%
Other commercial loans and loans to the public sector	-	-	-	0.0%	0.0%
Total loans and advances to customers stage 3	**862**	**-121**	**741**	**1.8%**	**14.0%**
TOTAL STAGE 1, 2, 3					
Retail mortgages	45,551	-74	45,477		0.2%
Other retail loans	143	-34	109		23.8%
SME loans[1]	791	-49	742		6.2%
Other commercial loans and loans to the public sector	2,667	-1	2,666		0.0%
Total loans and advances stage 1, 2, 3	**49,152**	**-158**	**48,994**		**0.3%**
IFRS value adjustments retail mortgages[2]	295	-	295		
Total loans and advances to customers	**49,447**	**-158**	**49,289**		**0.3%**
Off-balance sheet items[3]	2,615	-8	2,607		0.3%
Total maximum credit exposure loans and advances to customers	**52,062**	**-166**	**51,896**		**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million.

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

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

Loans and advances to customers 31 December 2017 Audited

in € millions	Gross amount	Specific provision	IBNR pro-vision	Book value loans	Loans in arrears	Non-default loans[1]	Default loans[1]	Loans in arrears	Impaired ratio	Coverage ratio[2]
Remaining principle amounts	45,552	-44	-28	45,480	541	264	277	1.2%	0.6%	15.9%
IFRS value adjustments[3]	454			454						
Retail mortgage loans	**46,006**			**45,934**						
Retail other loans	142	-27	-1	114	37	3	34	26.1%	23.9%	79.4%
Total retail loans	**46,148**	**-71**	**-29**	**46,048**	**578**	**267**	**311**	**1.3%**	**0.7%**	**22.8%**
SME loans[4]	786	-47	-2	737	104	-	104	13.2%	13.2%	45.2%
Other commercial and semi-public loans	1,849	-	-	1,849	-	-	-	-	-	-
Loans to the public sector	825	-	-	825	-	-	-	-	-	-
Total loans and advances to customers	**49,608**	**-118**	**-31**	**49,459**	**682**	**267**	**415**	**1.4%**	**0.8%**	**28.4%**

1 A customer is in default if the period in arrears is more than three months or when a customer is deemed unlikely to fulfil the payment obligations. 'Non-default loans' include customers of which the period in arrears is less than three months. 'Default loans' and 'Non-default loans' combined form the amount 'Default loans'.

2 In 2017 the coverage ratio was considered as the specific provision held as part of the total loans in default.

3 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

4 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million.

4.6.5 RETAIL MORTGAGES EDTF 28

Main developments in 2018

The rebound of the Dutch economy continued in 2018, contributing to the further improvement of the quality of the retail mortgage portfolio. The collateral value of mortgages rose in the wake of a further rise in house prices, having a positive impact on the average Loan-to-Value (LtV), which improved from 74% to 70%. In 2018, total exposure to retail mortgages rose by € 1.3 billion to € 47.3 billion. This growth is partly explained by the rising house prices resulting in higher average mortgage principal per customer.

The increase in total exposure was mitigated by an increase in the number of redemptions. Due to the low savings rate, it remains attractive for customers to make (accelerated) repayments.

For retail mortgages the share of stage 1 loans is high and rose to 94.5% in 2018. New production and positive macroeconomic conditions also led to an increase in stage 1 retail mortgages in absolute terms. In addition, stage 2 and 3 loans moved to better stages, partly due to the active customer-oriented policy of the Preventive and Arrears Management departments. As a result, the inflow to stage 3 was also limited.

The favourable economic climate also contributed to the fewer customers running into financial problems. As a result, the stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) dropped to 1.2%.

The absolute exposure of stage 3 retail mortgages amounted to € 549 million at the end of 2018. A provision totalling € 46 million had been formed for this, which translated into a stage 3 coverage ratio of 8.4% (beginning of 2018: 7.4%). The increase of the coverage ratio was fully driven by an additional provision for stage 3 (default) loans that have been in default for more than 5 years.

De Volksbank uses the customer data available to establish which customers with an interest-only mortgage will likely be unable to repay or refinance the principal at the end of the term. For this reason, approximately 160 customers were classified as 'very high risk' and placed in stage 3 at the end of 2018. A provision was made for this in the amount of € 2 million (2017: € 4 million).

During the course of 2018, the AFM also issued tightened guidelines for interest-only customer groups that we must also classify as potentially carrying an increased risk. These guidelines led us to identify another 1,200 customers in 2018, whom we placed in stage 2. At the end of 2018, de Volksbank maintained provisions totalling € 1 million in stage 2. Stage 2 loans that were not in arrears and for which a significant deterioration in credit risk was found decreased with € 438 million to € 1,786 million.

Key figures EDTF 28

Exposure to retail mortgages 31-12-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	44,236	-2	44,234	94.5%	0.0%
Stage 2	2,039	-10	2,029	4.4%	0.5%
Stage 3	549	-46	503	1.2%	8.4%
Total stage 1,2,3	**46,824**	**-58**	**46,766**	**100.0%**	**0.1%**
IFRS value adjustments[1]	496	-	496		
Total retail mortgages	**47,320**	**-58**	**47,262**		**0**
Off-balance sheet items[2]	1,796	-1	1,795		0.0%
Total maximum credit risk exposure retail mortgages	**49,116**	**-59**	**49,057**		**0.1%**

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

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

Exposure to retail mortgages 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	42,366	-3	42,363	93.0%	0.0%
Stage 2	2,467	-18	2,449	5.4%	0.7%
Stage 3	718	-53	665	1.6%	7.4%
Total stage 1,2,3	**45,551**	**-74**	**45,477**	**100.0%**	**0.2%**
IFRS value adjustments[1]	295	-	295		0
Total retail mortgages	**45,846**	**-74**	**45,772**		**0**
Off-balance sheet items[2]	1,967	-1	1,966		0.1%
Total maximum credit risk exposure retail mortgages	**47,813**	**-75**	**47,738**		**0.2%**

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

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

Exposure to retail mortgages 31-12-2017 Audited

IAS 39 in € millions	Gross amount	Provisions	Book value	Impaired ratio	Coverage ratio[1]
Retail mortgages	45,438	-72	45,366	0.6%	15.9%
IFRS value adjustments[2]	454		454		
Total retail mortgages	**46,006**	**-72**	**45,934**	**0.6%**	**15.9%**

1 In 2017 the coverage ratio was considered as the specific provision held as part of the total loans in default.

2 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Movements in provisions Audited EDTF 28

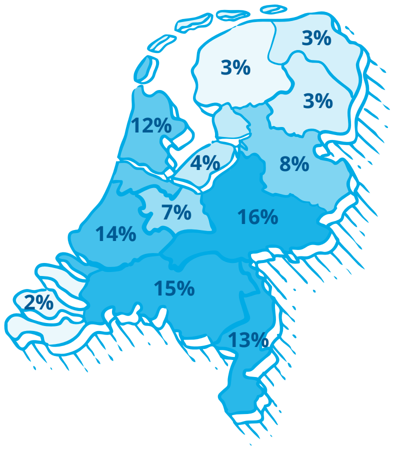
The table below shows the movements in the provision.

Statement of changes in provisions for retail mortgages Audited

				2018 (IFRS 9)			2017 (IAS 39)
in € millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Specific**	**IBNR**	**Total**
Closing balance prior period				72	80	34	114
IFRS value adjustments				2			
Opening balance	**3**	**17**	**54**	**74**	**80**	**34**	**114**
Transfer to stage 1	-	-	-	-	-	-	-
Transfer to stage 2	-	2	-2	-	-	-	-
Transfer to stage 3	-	-2	2	-	-	-	-
Changes due to change in credit risk	1	-5	5	1	-16	-5	-21
New financial assets originated or purchased	-	1	1	2	-	-	-
Financial assets that have been derecognised	-	-1	-5	-6	-	-	-
Write-offs	-2	-2	-9	-13	-22	-1	-23
Net increase/decrease	**-1**	**-7**	**-8**	**-16**	**-**	**-**	**-**
Other changes	-	-	-	-	2	-	2
Closing balance	**2**	**10**	**46**	**58**	**44**	**28**	**72**

Retail mortgages by region and brand

Breakdown of mortgage portfolio by province



Retail mortgages by brand

in € millions	2018		2017[1]	
BLG Wonen	18,639	40%	16,419	36%
RegioBank	7,378	16%	6,962	15%
SNS	20,700	44%	22,057	49%
Total remaining principle amounts	**46,717**	**100%**	**45,438**	**100%**
Credit provision	-58		-72	
Accrued interest	107		114	
IFRS value adjustments[2]	496		454	
Total retail mortgages	**47,262**		**45,934**	

1 From 2018 onwards the former DBV portfolio is categorised under the label BLG Wonen. The comparative figures has been adjusted accordingly.
2 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Retail mortgages by redemption type, fixed-rate period and year of origination

Interest payments on mortgages 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. As a result, the share of annuity and linear mortgages in the total retail mortgage portfolio is increasing. The total gross amount of these mortgages also increased. The share of full or partial interest-only mortgages in the mortgage portfolio dropped from 55% in 2017 to 52%.

The bank is pursuing an active policy to reduce the share of interest-only mortgages in the portfolio by means of its internal Interest-only programme and the *Aflossingsblij* campaign, a joint initiative of the Dutch banks to make people aware that they need to repay their interest-only mortgage. When the interest-only mortgage expires, a repayment or refinancing problem may arise in relation to the acceptance criteria applicable at that time. In such cases, the bank will seek to retain the customer relationship and look for a suitable solution.

In the past few years, the Dutch government has also tightened the (tax) policy as regards the maximum percentage that may be provided as an interest-only mortgage and as regards the deduction of mortgage rates. De Volksbank applies a policy of financing no more than 50% of the fair value of the collateral by means of an interest-only mortgage. As further additional financing must be in the form of a loan that will be repaid, the share of interest-only mortgages in the overall portfolio will continue to fall.

Retail mortgages with a fixed-rate period of ten years or more grew and mortgages with a fixed-rate period of less than ten years decreased. This followed on from persistently low mortgage rates, logically leading customers to select a longer fixed-rate period for a new mortgage or interest rate renewal. In all, the share of mortgages with a fixed-rate period between ten and fifteen years increased from 61% in 2017 to 64%.

Retail mortgages by redemption type

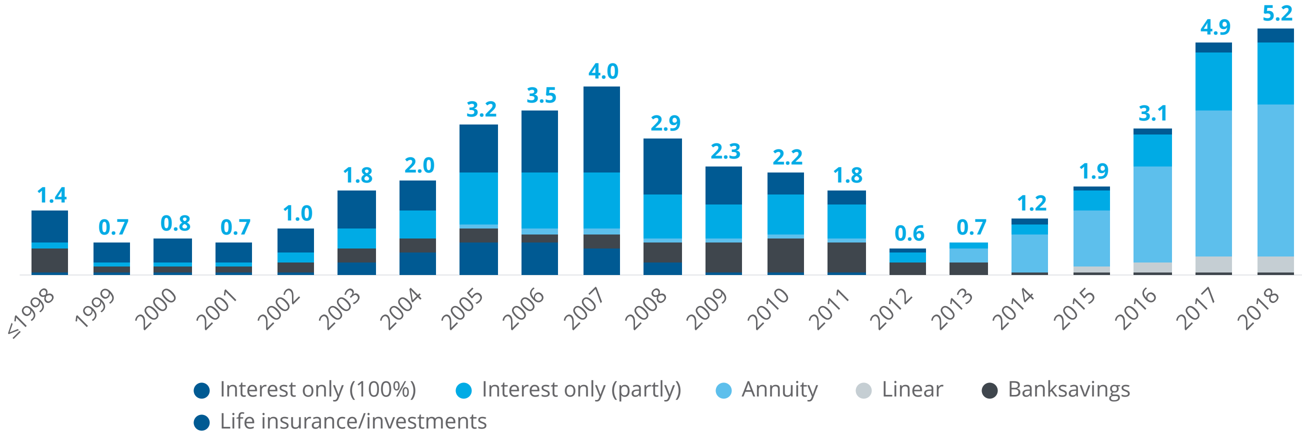
in € millions	2018		2017	
Interest-only (100%)	11,654	25%	12,344	27%
Interest-only (partially)	12,740	27%	12,474	27%
Annuity	11,086	24%	8,571	19%
Lineair	1,025	2%	796	2%
(Bank) savings[1]	5,704	12%	6,201	14%
Life/investments[2]	4,006	9%	4,620	10%
Other	502	1%	432	1%
Total remaining principle amounts	**46,717**	**100%**	**45,438**	**100%**
Credit provision	-58		-72	
Accrued interest	107		114	
IFRS value adjustments[3]	496		454	
Total retail mortgages	**47,262**		**45,934**	

1 As from 2018, the guaranteed savings deposits accrued in a policy with the insurer will no longer be accounted for under Life insurance but under (Bank) savings. The comparative figure has been adjusted accordingly.
2 As from 2018, the guaranteed savings deposits accrued in a policy with the insurer will no longer be accounted for under Life insurance but under Bank savings. The comparative figure has been adjusted accordingly.
3 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Interest-only (100%) mortgages by LtV bucket

In percentages	2018	2017
LtV ≤ 75%	86%	81%
LtV >75 ≤ 100%	11%	14%
LtV >100 ≤ 110%	2%	3%
LtV >110 ≤ 125%	1%	1%
LtV > 125%	0%	1%
Total	**100%**	**100%**

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



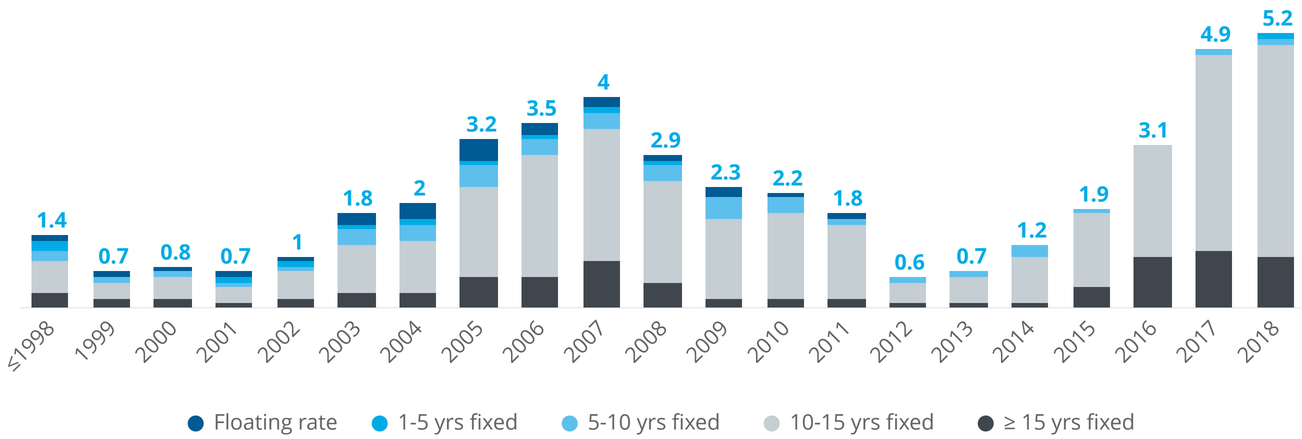
1 Amounts in this chart do include mortgage renewals, but do not include mortgages that have been executed but have not yet been processed in the system.
2 The mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.6 billion.

Retail mortgages by fixed-rate maturity

in € millions	2018		2017	
Floating rate	2,398	5%	2,754	6%
≥ 1 and < 5-year fixed-rate	1,196	3%	1,331	3%
≥ 5 and < 10-year fixed-rate	3,944	8%	5,108	11%
≥ 10 and < 15-year fixed-rate	30,102	64%	27,810	61%
≥ 15-yr fixed-rate	8,573	18%	8,001	18%
Other	504	1%	434	1%
Total remaining principle amounts	**46,717**	**100%**	**45,438**	**100%**
Credit provision	-58		-72	
Accrued interest	107		114	
IFRS value adjustments[1]	496		454	
Total retail mortgages	**47,262**		**45,934**	

1 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Retail mortgages by year of origin and by fixed rate maturity (in € billions)[1,2]



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

Retail mortgages by Loan-to-Value-bucket

The Loan-to-Value (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 mortgages to be newly provided was lowered to 100%. A low LtV represents favourable security for the loan based on the collateral value. Any NHG guarantee issued for a loan serves as additional security. A low LtV is favourable to customers and the bank, as it reduces the likelihood of a mortgage loan balance. When we provide mortgages, we therefore apply a lower risk surcharge in our mortgage rates as the LtV drops. In addition, customers may request a reduction in the surcharge if the LtV has fallen during the term of the contract, if they submit the collateral's current value. In addition to the low interest on savings, this is another reason for customers to make additional repayments.

A large part of our current mortgage portfolio consists of loans (63%) taken out prior to 2013. Consequently, the impact of the lending policy, which was tightened in the past few years, is visible in the figures to a limited extent only. The credit risk profile of the portfolio is expected to improve in the years ahead on the back of the stricter lending conditions and criteria.

The weighted average indexed LtV of the retail mortgages improved to 70%, from 74% at the end of 2017. To determine this LtV for reporting purposes, we index collateral values every month on the basis of house price developments. The rising house prices led to a shift of loans to a lower LtV bucket.

The amount of an NHG guarantee on a mortgage decreases on an annuity basis, regardless of the redemption type. In the table below, the NHG category shows the loans outstanding that are fully or partly covered by an NHG guarantee. The limit for an NHG guarantee was raised to € 265,000 in 2018. As the average house price rose during the course of 2018, the NHG limit has been set at € 290,000 as from 1 January 2019.

The share of NHG mortgages in new mortgage production was stable in 2018 at around 28% (2017: 35%). The share also remained virtually flat at 30% at portfolio level.

Breakdown retail mortgages by LtV bucket

in € millions[1]	Stage 1	Stage 2	Stage 3	2018 (IFRS 9) Total		2017 (IAS 39) Total	
NHG[2]	12,870	395	80	13,345	30%	13,184	30%
- of which LtV ≤ 75%	5,182	103	22	5,307	12%	4,320	10%
- of which LtV >75 ≤ 100%	6,981	224	41	7,246	16%	7,299	17%
- of which LtV >100 ≤ 110%	562	37	8	607	1%	1,129	3%
- of which LtV >110 ≤ 125%	131	19	4	154	0%	381	1%
- of which LtV > 125%	14	12	5	31	0%	55	0%
Non-NHG	29,261	1,585	457	31,303	70%	30,160	70%
- of which LtV ≤ 75%	18,146	549	133	18,828	42%	16,546	38%
- of which LtV >75 ≤ 100%	9,507	639	150	10,296	23%	9,840	23%
- of which LtV >100 ≤ 110%	1,240	189	49	1,478	3%	2,345	5%
- of which LtV >110 ≤ 125%	302	100	45	447	1%	1,090	3%
- of which LtV > 125%	66	108	80	254	1%	339	1%
Principal amounts excluding savings deposits	**42,131**	**1,980**	**537**	**44,648**	**100%**	**43,344**	**100%**
Provisions				-58		-72	
IFRS value adjustments[3]				496		454	
Accrued interest				107		114	
Saving deposits				2,069		2,094	
Total retail mortgages				**47,262**		**45,934**	
Weighted average indexed LtV				**70%**		**74%**	

1 LtV based on indexed market value of collateral.

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

3 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Arrears in retail mortgages and arrears management EDTF 28

The table below shows the arrears in retail mortgage loans. A customer is in arrears if the payment of the interest and/or redemption amount is late by more than one day. In practice, this amounts to the overdue payment of the agreed monthly instalment.

The table below shows the retail mortgage loans in arrears. The recorded backlogs show improvements compared to the beginning of 2018. The total amount of loans more than 90 days in arrears has decreased, and there are also fewer loans up to 30 days in arrears. Loans that are not in arrears, but are included in stage 2 or stage 3, are customers who have been granted forbearance measures or customers who have been assessed as very high-risk customers under the Interest-only programme. The number of these loans also fell. The improvements in the portfolio in combination with the growth led to an increase in the total amount of loans in stage 1.

Retail mortgages in arrears 31-12-2018 Audited

IFRS 9 in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	44,236	44,236	-	-	-	0.0%
Stage 2	2,039	1,786	206	47	-	12.4%
Stage 3	549	300	41	75	133	45.4%
Subtotal	**46,824**	**46,322**	**247**	**122**	**133**	**1.1%**
IFRS value adjustments[1]	496	-	-	-	-	
Total	**47,320**	**46,322**	**247**	**122**	**133**	

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

Retail mortgages in arrears 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	42,366	42,348	18	-	-	0.0%
Stage 2	2,467	2,220	204	40	2	10.0%
Stage 3	718	407	64	78	170	43.5%
Subtotal	**45,551**	**44,975**	**286**	**118**	**172**	**1.3%**
IFRS value adjustments[1]	295	-	-	-	-	
Total	**45,846**	**44,975**	**286**	**118**	**172**	

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

Retail mortgages in arrears 31-12-2017 Audited

IAS 39 in € millions	Gross amount	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
No arrears	44,879	-	-	-	0.0%
Non-default loans in arrears	280	-	280	-	0.6%
Default loans in arrears	279	-	110	169	0.6%
Subtotal	**45,438**	**-**	**390**	**169**	**1.2%**
IFRS value adjustments[1]	454	-	-	-	
Total	**45,892**	**-**	**390**	**169**	

1 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Internal rating grade of retail mortgages EDTF 15

The table below shows the breakdown of the retail mortgage portfolio by credit quality class, corresponding to the classes used in the ECL models.

PD-risk category retail mortgages Audited

Internal rating grade	2018 (IFRS 9) Stage 1	Stage 2	Stage 3	Total
1	38,620	1	-	38,621
2	4,881	-	-	4,881
3	250	-	-	250
4	80	1	-	81
5	225	10	1	236
6	130	16	1	147
7	50	168	7	225
8	-	399	19	418
9	-	480	42	522
10	-	394	40	434
11	-	344	49	393
12	-	226	77	303
13 (default)	-	-	313	313
Total	**44,236**	**2,039**	**549**	**46,824**
Credit provision	-2	-10	-46	-58
IFRS value adjustments[1]				496
Carrying amount	**44,234**	**2,029**	**503**	**47,262**

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

4.6.6 OTHER RETAIL LOANS EDTF 26 EDTF 28

Main developments in 2018

The size of other retail loans continued to decrease, from € 143 million gross as at 1 January 2018 to € 110 million at year-end 2018. The drop was caused by repayments of personal loans and revolving credit. Furthermore, the debit balances on current accounts dropped. In 2018, de Volksbank transferred the management – and, accordingly, the exposure and associated credit risk – of its credit card products to International Card Services (ICS). The amount of loans and advances in arrears dropped from € 33 million per 1 January 2018 to € 22 million.

In other retail loans, the share of stage 3 loans is relatively high. This was partly due to the fact that in the past, ongoing collections for product costs could cause a negative balance. At the beginning of 2018, an automatic blockade was set up for dormant accounts with a low or negative balance that prevents bank charges from still being collected, which would lead to overdrafts. As a result, and through clean-up actions, the number of dormant accounts is decreasing.

The share of stage 3 loans is also high for revolving credit and personal loans. Since October 2011, this type of credit is no longer granted and the portfolio is being phased out. The provision for these loans rises linearly to 100% of the loans outstanding in a period of 24 months.

Other retail loans are unsecured, which means that almost full provisions need to be made for them in stage 3. The stage 3 coverage ratio was 100% as at the end of 2018 (beginning of 2018: 94.1%).

Key figures

Exposure to other retail loans 31-12-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	74	-	74	67%	0%
Stage 2	14	-2	12	13%	14%
Stage 3	22	-22	-	20%	100%
Total other retail loans	**110**	**-24**	**86**	**100%**	**22%**
Off-balance sheet items[1]	464	-4	461		0.8%
Total maximum credit risk exposure other retail loans	**574**	**-28**	**547**		**4.8%**

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

Exposure to other retail loans 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	92	-	92	64.3%	0.0%
Stage 2	17	-2	15	11.9%	11.8%
Stage 3	34	-32	2	23.8%	94.1%
Total other retail loans	**143**	**-34**	**109**	**100.0%**	**23.8%**
Off-balance sheet items[1]	576	-7	570		1.2%
Total maximum credit risk exposure other retail loans	**719**	**-41**	**679**		**5.7%**

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

Exposure to other retail loans 31-12-2017 Audited

IAS 39 in € millions	Gross amount	Provisions	Book value	Impaired ratio	Coverage ratio[1]
Total other retail loans	142	-28	114	23.9%	79.4%

1 In 2017 the coverage ratio was considered as the specific provision held as part of the total loans in default.

Statement of changes in provisions for other retail loans Audited

				2018 (IFRS 9)			2017 (IAS 39)
in € millions	Stage 1	Stage 2	Stage 3	Total	Specific	IBNR	Total
Closing balance 31 December 2017 (IAS 39)				28	25	1	26
IFRS value adjustments				6			
Opening balance	**-**	**2**	**32**	**34**	**25**	**1**	**26**
Transfer to stage 1	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-
Changes due to change in credit risk	-	-	5	5	2	-	2
Financial assets that have been derecognised	-	-	-3	-3	-	-	-
Write-offs	-	-	-12	-12	-	-	-
Net increase/decrease	**-**	**-**	**-10**	**-10**	**2**	**-**	**2**
Closing balance	**-**	**2**	**22**	**24**	**27**	**1**	**28**

Arrears in other retail loans 31-12-2018 Audited

IFRS 9 in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	74	74	-	-	-	0.1%
Stage 2	14	12	2	-	-	12.3%
Stage 3	22	2	-	1	19	89.3%
Total	**110**	**88**	**2**	**1**	**19**	**19.3%**

Arrears in other retail loans 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	92	92	-	-	-	0.1%
Stage 2	17	15	2	-	-	13.4%
Stage 3	34	3	-	1	30	89.5%
Total	**143**	**110**	**2**	**1**	**30**	**22.9%**

Arrears in other retail loans 31-12-2017 Audited

IAS 39 in € millions	Gross amount	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
No arrears	102	-	-	-	0.0%
Non-default loans in arrears	3	-	3	-	2.2%
Default loans in arrears	34	-	4	30	24.5%
Total	**139**	**-**	**7**	**30**	**26.6%**

4.6.7 SME LOANS EDTF 26

Main developments in 2018

In early 2018, de Volksbank launched an initiative to provide loans to small enterprises, offering self-employed persons and small businesses possibilities to obtain funding where this generally proves difficult in the market. We provided new loans in 2018, in the form of a pilot project. We also help existing customers by financing or refinancing them if this does not produce excessive total exposure (business loans with a maximum of € 1 million).

SME loans declined from € 791 million (gross) at the end of 2017 to € 743 million at the end of 2018. This decrease is more limited than in previous years due to lower repayments.

The loans in arrears dropped relatively faster, from € 45 million in the beginning of the year € 35 million at the end of 2018. Loans that are not in arrears and did not decrease in value are divided into seven exposure classes. In 2018, 74% of these loans were categorised in the first four best exposure classes. The collateral predominantly consists of property.

The share of stage 1 loans in SME loans is smaller than in retail mortgages. We are making every effort to make more SME customers financially resilient and transfer them to stage 1.

The stage 3 loans dropped from € 110 million at the beginning of 2018 to € 86 million at the end of 2018. Foreclosures resulted in lower stage 3 loans, and loans also moved to better stages. The stage 3 coverage ratio was 38.4% (beginning of 2018: 32.7%). The increase was mainly driven by an additional provision for stage 3 (default) loans that have been in default for more than 5 years.

Key figures EDTF 28

Exposure to SME loans 31-12-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	558	-1	557	75.1%	0.2%
Stage 2	99	-7	92	13.3%	7.1%
Stage 3	86	-33	53	11.6%	38.4%
Total SME loans	**743**	**-41**	**702**	**100.0%**	**5.5%**
Off-balance sheet items[1]	36	-	36		0.0%
Total maximum credit risk exposure SME loans	**779**	**-41**	**738**		**5.3%**

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

Exposure to SME loans 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	Provisions	Book value	Stage ratio	Coverage ratio
Stage 1	558	-1	557	70.5%	0.2%
Stage 2	123	-12	111	15.5%	9.8%
Stage 3	110	-36	74	13.9%	32.7%
Total SME loans	**791**	**-49**	**742**	**100.0%**	**6.2%**
Off-balance sheet items[1]	38	-	38		-
Total maximum credit risk exposure SME loans	**829**	**-49**	**780**		**5.9%**

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

Exposure to SME loans 31-12-2017 Audited

IAS 39 in € millions	Gross amount	Provisions	Book value	Impaired ratio	Coverage ratio[1]
Total SME loans	786	-49	737	13.2%	45.2%

1 In 2017 the coverage ratio was considered as the specific provision held as part of the total loans in default.

Statement of changes in provisions for SME loans Audited

in € millions	Stage 1	Stage 2	Stage 3	2018 (IFRS 9) Total	Specific	IBNR	2017 (IAS 39) Total
Closing balance 31 December 2017 (IAS 39)				49	70	4	74
IFRS value adjustments				-			
Opening balance	**1**	**12**	**36**	**49**	**70**	**4**	**74**
Transfer to stage 1	-	-	-	-	-	-	-
Transfer to stage 2	-	1	-1	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-
Changes due to change in credit risk	-	-5	5	-	-9	-	-9
New financial assets originated or purchased	-	-	-	-	-	-	-
Financial assets that have been derecognised	-	-1	-4	-5	-	-	-
Write-offs	-	-	-3	-3	-17	-2	-19
Net increase/decrease	**-**	**-5**	**-3**	**-8**	**-26**	**-2**	**-28**
Other changes	-	-	-	-	3	-	3
Closing balance	**1**	**7**	**33**	**41**	**47**	**2**	**49**

Arrears in SME loans 31-12-2018 Audited

IFRS 9 in € millions	Gross 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	99	97	2	-	-	2.0%
Stage 3	86	53	9	6	18	38.4%
Total	**743**	**708**	**11**	**6**	**18**	**4.7%**

Arrears in SME loans 1-1-2018 Audited

IFRS 9 in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears[1]	% in arrears
Stage 1	558	558	-	-	-	0.0%
Stage 2	123	117	6	-	-	4.9%
Stage 3	110	71	5	4	30	35.5%
Total	**791**	**746**	**11**	**4**	**30**	**5.7%**

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

Arrears in SME loans 31-12-2017 Audited

IAS 39 in € millions	Gross amount	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears[1]	% in arrears
No arrears	682	-	-	-	0.0%
Default loans in arrears	104	-	3	101	13.2%
Total	**786**	**-**	**3**	**101**	**13.2%**

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

PD-risk category SME loans 2018

	2018 (IFRS 9)			
Internal rating grade	Stage 1	Stage 2	Stage 3	**Total**
Not rated	9	-	-	9
1	352	2	-	354
2	110	2	-	112
3	48	-	-	48
4	25	2	-	27
5	9	26	-	35
6	5	47	-	52
7	-	20	-	20
8 (default)	-	-	86	86
Total	**549**	**99**	**86**	**743**
Credit provision	-1	-7	-33	-41
Carrying amount	**557**	**92**	**53**	**702**

4.6.8 OTHER COMMERCIAL LOANS AND LOANS TO THE PUBLIC SECTOR EDTF 26 EDTF 28

The portfolio of other commercial loans and loans to the public sector breaks down as follows:

Other commercial loans and loans to the public sector Audited

in € millions	**2018 (IFRS 9)**	**2017 (IAS 39)**
Private loan to VIVAT	708	702
Sustainable project funding ASN Bank	640	518
Other private loans	559	629
Gross other commercial and semi-public loans	**1,907**	**1,849**
Provisions other commercial and semi-public loans	-3	-
Other commercial and semi-public loans	**1,904**	**1,849**
Cash loans	115	248
Other private loans	467	577
Loans to the public sector	**582**	**825**
Total other commercial loans and loans to the public sector	**2,486**	**2,674**

Other commercial and semi-public loans

The portfolio of other SME loans is characterised by mostly secured loans with an extremely low credit risk profile. The majority of loans (91%) are found in stage 1. An amount of € 180 million of the loans is classified as stage 2; a € 2 million provision has been made for this. This portfolio does not contain any loans and advances in stage 3.

Private loan to VIVAT

A private loan has been provided to insurer VIVAT. Offset mortgages are securitised as part of de Volksbank's securitisation programme, in which respect the savings policy is issued by VIVAT and the mortgage is provided by de Volksbank. VIVAT receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. The private loan issued to VIVAT carries no credit risk for de Volksbank, as – in the event of default – it will be set off against the savings premiums that the customer has deposited with de Volksbank (which are of the same size). The loan must be considered encumbered. At year-end 2018, the loan amounted to € 708 million (2017: € 702 million). For more information, see the explanation to note 10 Other amounts due to customers to the financial statements.

ASN Bank sustainable loans

ASN Bank has a sustainable loan portfolio, comprising project loans to mainly organisations in the renewable energy sector that contribute to a sustainable society. We mitigate concentration risk by a thorough knowledge of the sector, geographical distribution of investments and diversification by type of energy production (solar, wind, thermal storage) and underlying suppliers (solar panels, wind turbines). A major part of the loans we extend involve government-guaranteed electricity prices and purchase contracts. In 2018 we were able to participate in a number of new projects and added € 122 million to the total exposure of this portfolio, which totalled € 640 million at the end of 2018.

Rates are under pressure and returns are low in the sustainable loans market. In addition to our internal return targets, we also consider the social relevance of these loans (CO2 reduction) in our decisions on the relevant loan. The bank only funds the project if it satisfies the targets set.

Other private loans

Other private loans are mostly ASN Bank loans provided to housing corporations, healthcare institutions and companies owned by or affiliated with the government. Such organisations align well with the social objectives of the ASN Bank brand and de Volksbank. Most of these loans are secured by a government guarantee, a guarantee issued by the Social Housing Guarantee Fund (WSW) or a guarantee issued by the Guarantee Fund for the Health Care Sector (WfZ). As a result of the guarantees issued, this portfolio generally has an extremely low risk. Scheduled repayments translate into a year-on-year decline of the portfolio.

Private loans per sector

in € millions	**2018**	**2017**
Financial institutions	708	702
Central governments	115	248
Local governments	224	278
Renewable energy	539	411
Residential construction	365	397
Health and welfare services	231	267
Water extraction and management	198	228
Development assistance	3	42
Other	106	101
Gross other private loans and loans to the public	**2,489**	**2,674**
Provisions	-3	-
Total other private loans and loans to the public	**2,486**	**2,674**

Loans and advances to the public sector

Loans and advances to the public sector are mostly loans provided to Dutch municipalities and provinces and government-guaranteed loans to institutions. The credit risk on these loans and advances is very low.

The majority of the portfolio of loans and advances to the public sector are found in stage 1 (87%), as was the case at the beginning of 2018. An amount of € 78 million of the loans is classified as stage 2; a provision of less than € 1 million has been made for this. This portfolio does not contain any loans and advances in stage 3.

As fewer cash loans were provided to the public sector, at year-end 2018 the total loans and advances decreased compared to 2017.

Loans and advances to the public sector Audited

in € millions	2018	2017
the Netherlands	467	577
Belgium	90	248
Germany	25	-
Total	**582**	**825**

4.6.9 INVESTMENTS AUDITED

De Volksbank has a bond portfolio for liquidity management purposes, which requires counterparties to meet stringent requirements and have good ratings. The investments – except for the shares – are part of the loan portfolio of Financial Markets. All investments in this portfolio are stage 1, and a € 3 million provision has been made for them (1 January 2018: € 2 million).

Inspired by local economic developments and the downgrade of the Italian authorities by rating agencies, de Volksbank fully phased out its exposure to Italy in 2018.

The table below shows the investments subject to credit risk, based on the EAD from the regulatory report. This implies that for 2017 the investments valued at fair value through P&L (€ 162 million) are excluded (also see note 3 Investments from the consolidated financial statements).

Breakdown of investments Audited

	2018				2017
in € millions	Fair value through P&L	Fair value through OCI	Amortised costs	Total	
Government bonds	-	1,546	1,626	3,172	3,490
Lower governments	-	55	116	171	413
Greenbonds and sustainable bonds	-	15	595	610	487
Other (corporate) bonds	-	292	531	823	526
Equity	3	3	-	6	16
Total	**3**	**1,911**	**2,868**	**4,782**	**4,932**

Breakdown of investments (rating) Audited

	2018				2017
in € millions	Fair value through P&L	Fair value through OCI	Amortised costs	Total	
AAA	-	1,251	1,518	2,769	2,707
AA	-	635	1,088	1,723	1,945
A	-	22	262	284	234
BBB	-	-	-	-	30
< BBB	-	-	-	-	-
No rating	3	3	-	6	16
Total	**3**	**1,911**	**2,868**	**4,782**	**4,932**

Breakdown of investments (countries) Audited

in € millions	2018				2017
	Fair value through P&L	Fair value through OCI	Amortised costs	Total	
Germany	-	784	627	1,411	1,488
Netherlands	-	403	742	1,145	1,169
France	-	72	473	545	699
Belgium	-	287	340	627	577
Austria	-	134	228	362	396
Luxembourg	-	104	199	303	245
Ireland	-	16	132	148	118
Finland	-	32	101	133	122
Switzerland	-	56	12	68	58
Italy	-	-	-	-	30
Sweden	-	23	-	23	26
Other countries	3	-	14	17	4
Total	**3**	**1,911**	**2,868**	**4,782**	**4,932**

Green bonds

Green bonds allow de Volksbank to invest in fixed-income securities in the fields of renewable energy, energy reduction and biodiversity. These bonds contribute to achieving our internal objective of having a fully climate-neutral balance sheet by 2030.

4.6.10 INTEREST RATE DERIVATIVES

In the context of asset & liability management, we use interest rate derivatives. These positions involve a counterparty risk, which is hedged by collateral when it exceeds a contractually agreed value. A maximum loan amount has been agreed for each counterparty, which is known as the credit line.

4.6.11 RISK MITIGATION EDTF 26 EDTF 29 EDTF 30

Offsetting of financial assets and liabilities Audited

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 in bankruptcy. If these conditions are not met, amounts will not be offset.

The following table discloses the potential effect of netting arrangements and collateral agreements on the financial position of de Volksbank. We included the potential effect of rights of set-off associated with de Volksbank's recognised financial assets and recognised financial liabilities.

The amounts eligible for offsetting pursuant to the International Swaps and Derivatives Association (ISDA) contracts are related to derivatives amounting to € 452 million (2017: € 706 million).

The other financial collateral of € 484 million included in amounts due to banks as at year-end 2018 (2017: € 1,305 million) relates to repo transactions with government bonds as collateral.

Financial assets and liabilities 2018 Audited

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	732	-	732	452	133	-	147
Total financial assets	**732**	**-**	**732**	**452**	**133**	**-**	**147**
Derivatives	1,120	-	1,120	452	593	-	75
Amounts due to banks	1,116	-	1,116	-	-	484	632
Total financial liabilities	**2,236**	**-**	**2,236**	**452**	**593**	**484**	**707**

1 Related amounts not set off in the balance sheet value.

Financial assets and liabilities 2017 Audited

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	1,075	-	1,075	706	157	-	212
Total financial assets	**1,075**	**-**	**1,075**	**706**	**157**	**-**	**212**
Derivatives	1,252	-	1,252	706	361	-	185
Amounts due to banks	2,683	-	2,683	-	-	1,305	1,378
Total financial liabilities	**3,935**	**-**	**3,935**	**706**	**361**	**1,305**	**1,563**

1 Related amounts not set off in the balance sheet value.

Collateral EDTF 30

Retail mortgages

We subject the inflow to monitoring to ensure that the mortgage loans provided meet adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee by NHG. Of the Internal Ratings-Based (IRB) exposure class ‘Retail mortgages’, € 13.0 billion (2017: € 12.9 billion), i.e. almost 30%, of the exposure comes under the NHG guarantee scheme (see the next table).

Every month, collateral values are indexed based on house price developments. We do so using indices (by municipality and type of collateral) that we purchase from third parties. For our portfolio management, we adjust the collateral value both upwards and downwards. This means that where developments are negative, the Loan-to-Value will be adjusted but the surcharge that the bank passes on to customers will not be raised.

In the most extreme scenario – foreclosure, that is, forced sale of the collateral – the bank instructs an appraiser of its choosing to (re)value the collateral.

SME portfolio

We verify the value of immovable property in this portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform more frequent checks. The revaluation period for property depends on the amount of debt. If the debt (the exposure) exceeds € 1 million, the property must be revalued once every three years; no revaluation is required if the debt is lower. A revaluation may also be initiated as part of the (arrears) management process. As soon as we commence the arrears management process for a credit facility that has been declared to be in default, we have a revaluation conducted as a standard procedure. A revaluation is also made if, upon a check, the information received indicates that the value of the property has dropped sharply in comparison to general market prices.

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

The table below shows how exposures were collateralised as at year-end 2018.

The standardised exposure classes concern the book values increased by off-balance sheet commitments. The IRB exposure class retail mortgages concerns the EAD of on-balance sheet mortgages increased by off-balance sheet commitments.

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

Guarantees for ‘Corporates’ are government-issued guarantees for, for example, healthcare institutions or housing corporations. The collateral of loans and advances to banks predominantly consists of financial collateral. The collateral of SME loans predominantly consists of property.

We do not use credit derivatives as collateral.

Exposure secured by collateral, guarantees and credit derivatives

in € millions	Exposure at default 2018	Exposure at default 2017	Secured by guarantees 2018	Secured by guarantees 2017	Secured by collateral 2018	Secured by collateral 2017
STANDARDISED EXPOSURE CLASSES						
Central governments and central banks	5,217	6,872	-	-	-	-
Regional governments or local authorities	2,508	2,545	-	-	-	-
Public sector entities	103	29	320	37	-	-
Multilateral developments banks	389	289	-	-	-	-
International organisations	27	20	-	-	-	-
Financial institutions	1,852	1,471	1,737	1,691	860[1]	58
Corporates	1,054	745	658	937	712	1,310
Retail excl. mortgages	286	354	0	-	12	32
Secured by mortgages immovable property	424	390	0	-	-	1
Exposures in default	58	64	0	-	0	2
Items associated with particular high risk	0	1	-	-	-	-
Covered bonds	51	40	-	-	-	-
Equity exposures	7	17	-	-	-	-
Other Items	334	287	-	-	-	1
Total standardised approach	**12,311**	**13,124**	**2,715**	**2,665**	**1,584**	**1,403**
IRB EXPOSURE CLASSES						
Retail mortgages	45,905	44,951	13,041[2]	12,879[2]	44,598[3]	42,922[3]
Securitisation	85	74	-	-	-	-
Total IRB approach	**45,990**	**45,025**	**13,041**	**12,879**	**44,598**	**42,922**
Total exposure	**58,301**	**58,149**	**15,756**	**15,543**	**46,183**	**44,325**

1 Including LCH counterparties, these were in 2017 reported at corporates.
2 The amount of a NHG guarantee on retail mortgages decreases on an annuity basis.
3 This collateral concerns the market value of the mortgage collateral to the maximum of the mortgage loan. The amount does not include collateral value regarding off balance exposures that are included in the EAD.

The table below shows the ratios of the collateral obtained as mentioned in the table 'Exposure secured by collateral, guarantees and credit derivatives 2018'.

Collateral concentration Audited

	2018	2017
Guarantees	25%	26%
COLLATERAL:		
- of which real estate	72%	72%
- of which financial collateral	3%	2%
Total	**100%**	**100%**

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 a counterparty risk: the risk that the counterparty to a transaction defaults before the final settlement of the cashflows associated with the transaction has taken place.

In order to curb the counterparty risk on derivative transactions, the bank applies the following risk-mitigating 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 the type of transaction that the CCP does not support or very short-term transactions entailing extremely high costs of central clearing. Of the eligible derivatives, 83% 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 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 mitigates the credit risk on derivatives by means of the provision and acquisition of collateral in the form of cash and/or marketable securities. In order to hedge counterparty risk, the industry standard is to provide cash and government bonds of creditworthy governments as collateral in derivative transactions. If a counterparty remains in default, the bank will terminate the derivative 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 include the following:

- De Volksbank checks every day whether the fair value development of positions with collateral arrangements are proportionate to the collateral received or to be provided;
- De Volksbank settles forward exchange transactions via the Continuous Linked Settlement system, a global settlement system that limits settlement risk by means of payment versus payment and payment netting;

- De Volksbank continuously monitors the market conditions to assess whether the assets available still meet the requirements to serve as collateral;
- A valuation function assesses whether the fair value used for the collateral is plausible.

De Volksbank agreed in a number of ISDA/CSAs with the counterparty that de Volksbank will provide more collateral if de Volksbank's credit rating deteriorates.

4.7 MARKET RISK EDTF 2 EDTF 3

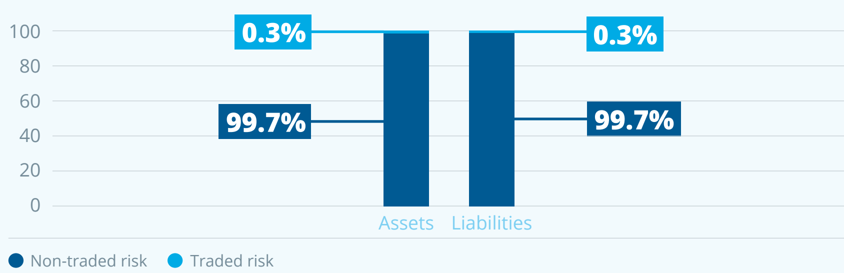
Due to the persistently low market rates and the expectation that they will rise slowly, we kept the duration of equity low. Our trading positions are limited.

€83m

Volume of Earnings at Risk year-end 2018

Duration of equity

Market risk exposure year-end 2018



Market risk may arise because de Volksbank concludes contracts and enters into obligations with customers and professional counterparties. We enter into these contracts and obligations to provide services to customers and to raise funding, to allocate funds and for other transactions as part of balance sheet management. Market risk occurs in the banking book and the trading portfolio.

4.7.1 RISK PROFILE EDTF 24

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. Other risks that may be qualified as market risk are very limited for de Volksbank. With an equity exposure of € 6 million, the equity risk is small. The exchange rate risk is minimised by transferring that risk from the banking book to the trading portfolio on a daily basis, where this risk is also controlled on a daily basis. The banking book does not contain any exposure to commodities. The limited trading portfolio contains exposures to interest rates, credit spreads and exchange rates.

Market rates showed a limited decrease in 2018 as compared to 2017. Although this had only limited impact on our exposure to interest rate risk, the low interest rate level still results in high prepayments on our mortgages that are comparable to the level of 2017.

4.7.2 MANAGEMENT AND CONTROL AUDITED EDTF 7 EDTF 25

Interest rate risk in banking book

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

In the assessment and management of interest rate risks we take into account matters such as:

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

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

Long-term interest rate risk: EVE

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

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

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

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

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

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

Short-term interest rate risk: EaR

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

Market risk in the trading book EDTF 8

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

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

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

4.7.3 FIGURES, RATIOS AND TRENDS EDTF 22 EDTF 23 EDTF 24

Market risk profile in the banking book
Interest rate risk

Specification interest rate risk

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

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

The current, historically low, market rates are taken into account when controlling the market rate risk. The interest rate risk measures were changed in two ways in 2018. The main change was mentioned above, involving a different calculation of the EVE and the corresponding duration of equity. The duration calculated based on the risk-free market rate is lower than the duration based on our own curve. The previous methodology would have resulted in a duration of 2.2. In addition, the implementation of IFRS 9 caused us to split up the measure for credit spread risk in the liquidity portfolio. It was split up into two different parts as per 1 January 2018: Hold to Collect for Sale (HTCS) and Hold to Collect (HTC). Both parts of the portfolio apply a different limit. Also, the measurement is now based on a 99% confidence interval (application of this rate would yield a measurement of € 132 million for 2017).

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

Developments in Earnings-at-Risk

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

Market risk exposure trading and non-trading risk

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

Sensitivity interest rates Audited

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

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

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

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

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

Market risk exposure trading and non-trading risk Audited

The overview below shows the balance sheet broken down by the risks associated with the banking book and the trading portfolio.

The overview shows that, in view of its activities, de Volksbank is particularly sensitive to the market interest rate risk of the banking book.

Sensitivity analyses illustrate the market interest rate risk run by the banking activities. The table calculates the impact of an immediate parallel shift of the market yield curve of +100 or -100 basis points on the market value of equity, net interest income and IFRS equity. The reported outcomes are before taxation.

Market value of equity

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

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

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

EaR

A parallel interest rate shift of +100 basis points yielded a positive impact on net interest income of € 53 million at year-end 2018 (2017: € 49 million), predominantly triggered by the rate hike boosting income from hedging instruments.

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

Fair value of mortgages valued at market value

As from the introduction of IFRS 9 on 1 January 2018, mortgages are no longer accounted for at fair value; instead, amortised cost is applied as the accounting principle for all mortgages. The analysis below therefore shows the sensitivity of the mortgages at fair value by approximation during 2017. This sensitivity was no longer present in 2018.

A parallel shift of +100 basis points had a negative impact on mortgages accounted for at fair value and a positive impact on the related derivatives. These effects are reversed in the event of a parallel shift of -100 basis points. The negative impact of the aforementioned upward shift on mortgages accounted for at fair value was greater than the positive impact of the derivatives, resulting in an overall negative impact of € 3 million. These effects were reversed in the event of a parallel shift of -100 basis points.

Impact of HTCS portfolio on IFRS equity

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

Market risk profile in the trading book Audited

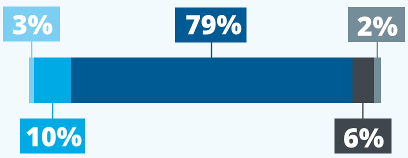
De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the year, the total VaR limit for the trading book remained stable at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

4.8 LIQUIDITY MANAGEMENT AND FINANCING EDTF 2 EDTF 3

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

€ 15.2 bn
Volume of liquidity buffer

Fundingmix



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

Wholesale funding maturing in 2018 vs liquidity buffer

- Wholesale funding maturing in 2019
- Liquidity buffer

A-/A3
Long-term senior unsecured credit rating at S&P, Fitch and Moody's

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

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

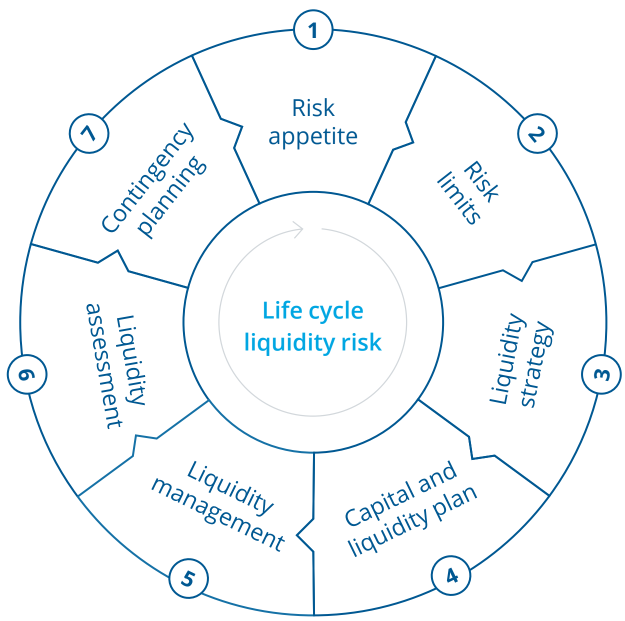
4.8.1 RISK PROFILE EDTF 18

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

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

4.8.2 MANAGEMENT AND CONTROL AUDITED EDTF 4 EDTF 7 EDTF 8 EDTF 18

Liquidity risk management laid down in a cycle



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

The liquidity management cycle includes the following elements:

1. Every year, we determine the risk appetite for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives.
2. We then use the risk appetite for liquidity risk as a basis for determining the level above which we feel comfortable, using specific risk indicators. In addition, we set an intervention ladder with risk indicator specific ranges to be used when follow-up action is required.
3. We review the liquidity strategy every year, laying down the guidelines for ensuring a balance sheet structure with maximum efficiency. In this process, we take account of the liquidity management objective: an adequate liquidity and funding profile.
4. At least once per year we set measures in the capital and liquidity plan to meet the expected funding and liquidity needs ensuing from the operational plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal standards and work out various scenarios. We make adjustments to achieve the desired liquidity position based on business plans, risk limits and the requirements imposed by supervisory authorities, rating agencies and investors.
5. Liquidity management is an ongoing operational process and comprises the identification, measurement and management of the bank's liquidity position in line with its risk appetite, risk limits, policy and guidelines.
6. We determine the liquidity adequacy on a monthly basis (in the Liquidity Adequacy Assessment Report) and monitor it on a quarterly basis (in the Financial Risk Report) and on an annual basis (in the Internal Liquidity Adequacy Assessment Process Report). We compare the current risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity position, risk appetite, policy or guidelines and to improve the risk management process. The (internal) assessment of the adequacy of our liquidity position and liquidity risk management is part of the ILAAP, which constitutes input for the ECB's Supervisory Review & Evaluation Process (SREP).
7. The recovery plan contains possible measures to strengthen the liquidity position in adverse circumstances. Our annual update of the recovery plan contributes to the bank's continuity (see also Section 4.9.2 Management and control).

Management instruments

Cash position

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

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

Liquidity buffer

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

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

Liquidity stress testing EDTF 8

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

- a strong outflow of savings and current account balances;
- a lack of funding options in money and capital markets;
- a decline in the fair value of bonds in the liquidity buffer;
- additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating;
- a decline in the fair value of derivatives;
- a possible liquidity outflow in the event that committed credit lines are drawn.

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

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

Key liquidity ratios

De Volksbank's LCR is based on the LCR Delegated Act definition. The purpose of the LCR is to test whether banks have sufficient liquid assets to absorb a thirty-day stress scenario. The NSFR serves to determine the extent to which longer-term assets are financed with more stable forms of funding. For both liquidity standards, a (future) regulatory minimum of 100% applies.

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

4.8.3 FIGURES, RATIOS AND TRENDS AUDITED EDTF 4 EDTF 18 EDTF 20

In 2018 the bank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements.

Key liquidity indicators

	2018	2017
LCR	177%	177%
NSFR	>100%	>100%
Loan-to-Deposit ratio	106%	107%
Liquidity buffer (in € millions)	15,152	10,751

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum requirement of 100% in 2018. At year-end 2018, the LCR stood at 177% (2017: 177%). The ratio between loans outstanding and deposits attracted, the Loan-to-Deposit ratio, dropped from 107% at year-end 2017 to 106% at year-end 2018, which was caused by a growth in deposits that exceeded the growth in loans:

- Deposits grew by € 1.3 billion, € 0.6 billion of which as a result of an increase in retail savings and the remainder primarily as a result of an increase in current account balances;
- Loans increased by € 1.0 billion, driven by growth in retail mortgages.

Liquidity buffer composition Audited

in € millions	2018	2017
Cash position[1]	2,447	3,753
Sovereigns	2,393	1,759
Regional/local governments and supranationals	975	850
Other liquid assets	437	421
Eligible retained RMBS	8,900	3,968
Liquidity buffer[2]	**15,152**	**10,751**

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

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

The liquidity buffer remained high and rose to € 15.2 billion at the end of 2018 (2017: € 10.8 billion). This was more than sufficient to withstand the combined severe stress scenario for a certain period of time (see also Section 4.8.2 Management and control).

In 2018, the cash position decreased by € 1.3 billion to € 2.4 billion. The funding need, which mainly resulted from € 1.3 billion retail mortgage growth and the € 0.7 billion wholesale funding redemptions, was more than met through an increase in deposits totalling € 1.3 billion and the issue of € 1.8 billion in wholesale funding. However, the resulting net cash inflow was offset by a € 2.3 billion lower volume of money market funding with a remaining term to maturity of more than ten days at year-end 2018 relative to year-end 2017.

The liquidity value of other liquid assets in the liquidity buffer rose to € 12.7 billion at the end of 2018 (2017: € 7.0 billion):

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

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

4.8.4 ENCUMBERED AND UNENCUMBERED ASSETS AUDITED EDTF 19

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

Encumbered and unencumbered assets Audited

	2018				2017			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
in € millions[1]	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution	9,973		51,604		9,637		51,285	
Equity instruments	-	-	6	6	-	-	18	18
Debt securities	2,120	2,189	3,202	3,252	1,705	1,705	3,268	3,268
Other assets	8,310		48,196		7,550		43,690	
- of which mortgage loans	*6,939*		*40,046*		*6,842*		*38,814*	

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

Total encumbered assets

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

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

The decrease in 2018 compared to ultimo 2017 is primarily caused by the lower volume of repo transactions and a USD tender. This decrease is partly compensated by the additional inclusion of encumbrance from offset mortgages based on an offset mortgage arrangement with VIVAT and a loan provided to VIVAT to fund (sub-)participations in the securitisation entities. At year-end 2018, this encumbrance amounted to € 1.7 billion.

The total encumbered assets mainly consist of pledged mortgages related to covered bonds and securitisation transactions. The total amount of liabilities related to these encumbered assets is € 8.4 billion (2017: € 7.5 billion). They mainly consist of bonds issued within the covered bond programme and by the securitisation entities. Covered bonds involve overcollateralisation, which means that the volume of encumbered mortgages exceeds the notional principal of the covered bond.

Unencumbered assets

The unencumbered part of the assets amounts to € 51.2 billion and may partly be converted into cash, for example by securitisations. Securitised mortgages of which the bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral for instance in a repurchase transaction.

Potential collateral deposit

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 71 million with counterparties. We include this potential collateral deposit as outflow in the LCR and the combined severe liquidity stress test.

Collateral received

The bank received a total amount of € 174 million in collateral at year-end 2018 (2017: € 212 million). This consists almost entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

4.8.5 FUNDING STRATEGY EDTF 21

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

De Volksbank uses retail savings as its primary funding source. The bank also attracts funding from the capital market, aiming for diversification of funding sources. To this end, we use various funding instruments spread over terms, markets, regions and types of investors.

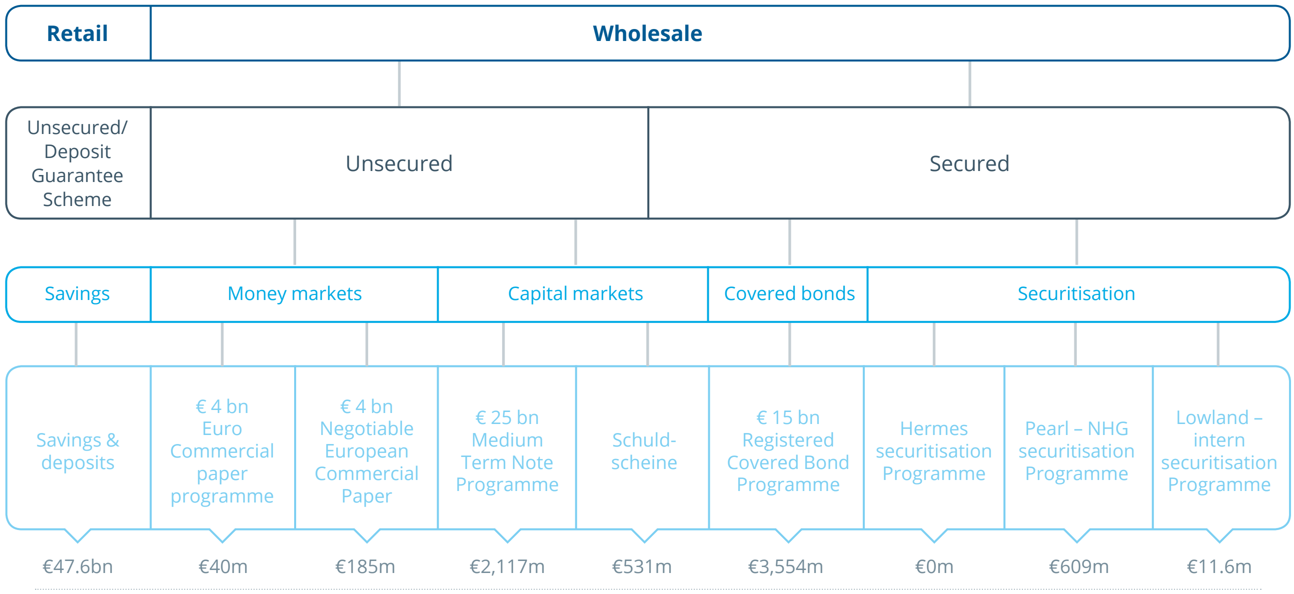
The bank issues capital market funding with a term in excess of one year by means of:

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

The covered bond programme not only permits the issue of public covered bonds but also private placements. In addition, we obtain long-term funding using our liquid assets as collateral, for example in repo transactions.

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

The overview below presents the various public funding programmes (including maximum amounts and outstanding nominal value) available to the bank at year-end 2018. In addition, the overview includes other important funding sources.



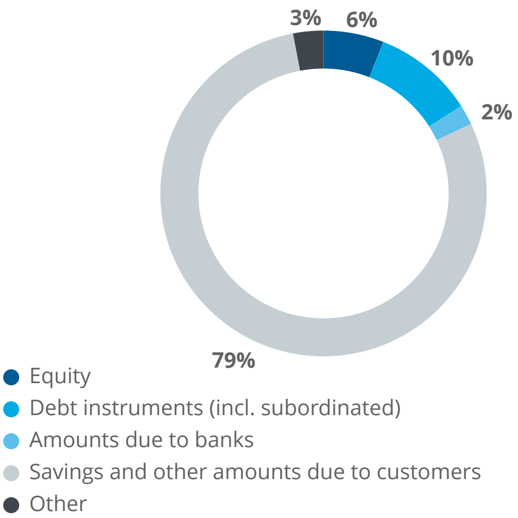
Outstanding amounts as per year-end 2018

Through our different brands, we attract term deposits, savings deposits and current account balances from retail customers. In addition, the bank funds itself through savings balances and current account balances from SME customers. In 2018, funding from customers increased to € 47.2 billion, from € 45.9 billion at year-end 2017.

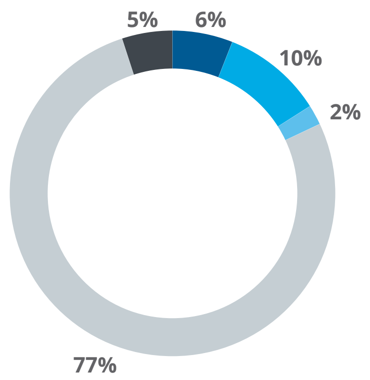
The diagrams below provide an overview of the composition of the total liabilities at the end of 2018 and 2017 based on the book value. The percentage of our funding that is made up of savings and other amounts due to customers rose from 77% at year-end 2017 to 79%.

The figures provide an overview of the outstanding wholesale funding with an original term of more than one year at year-end 2017 and 2018. In the balance sheet, this wholesale funding is included under debt instruments, amounts due to banks and other amounts due to customers. The information presented is based on the nominal value of the (hedged) positions. This nominal value differs from the IFRS valuation in the balance sheet, which is mainly based on the amortised cost price.

Equity and liability mix 2018: € 60.9 billion



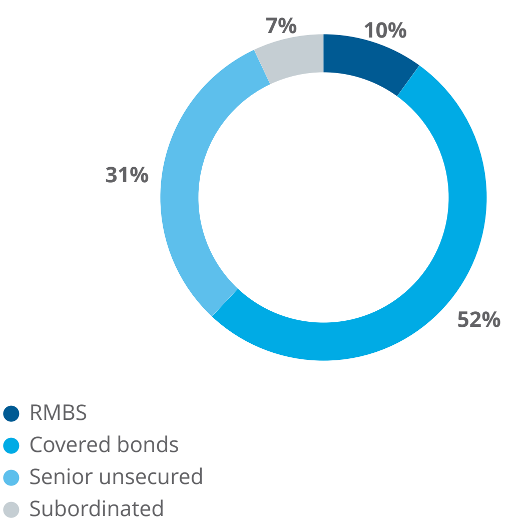
Equity and liability mix 2017: € 60.9 billion



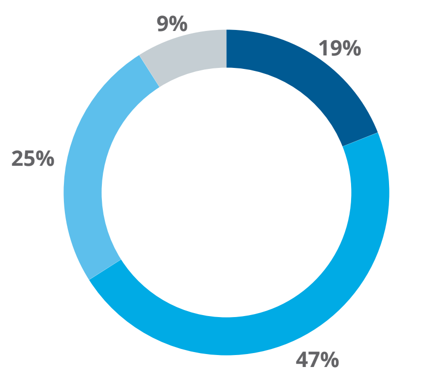
In 2018 de Volksbank successfully executed a number of wholesale funding transactions, namely:
- € 0.5 billion in senior unsecured debt (public transaction) with a maturity of five years;
- € 0.4 billion in senior unsecured debt (private placement transaction) with a maturity of 1.5 years;
- € 0.5 billion in covered bonds (public transaction) with a maturity of ten years;
- € 0.4 billion in covered bonds (private placement transactions) with a maturity of fifteen to twenty years.

In addition to the financing transactions executed, the wholesale funding mix changed in 2018 (from € 5.8 billion to € 6.9 billion), primarily due to the redemption of:
- debt certificates under the Holland Homes Oranje securitisation (€ 0.4 billion);
- senior unsecured funding (€ 0.2 billion).

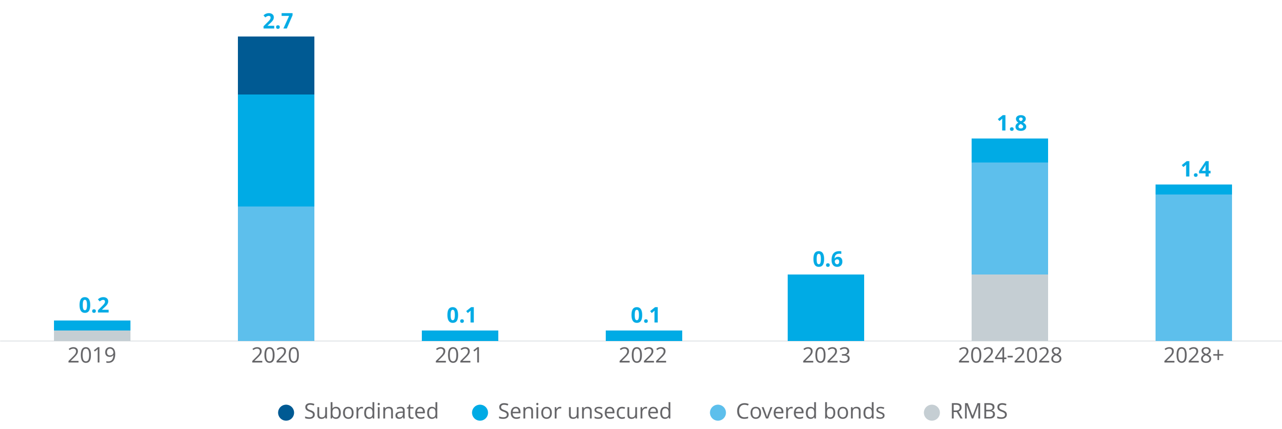
Wholesale funding mix 2018: € 6.9 billion



Wholesale funding mix 2017: € 5.8 billion



Wholesale funding maturity calendar (in € billions)



The above figure presents an overview of the outstanding wholesale funding maturities with an original term to maturity of more than one year. It is assumed that this funding will be redeemed on the first possible dates. In 2019, we expect to mainly issue senior – preferred or non-preferred – notes and covered bonds to meet our wholesale funding needs.

Maturities of assets and liabilities Audited

We can break down the assets and liabilities according to the remaining contractual term. The net (assets minus liabilities) maturing nominal amounts per maturity are an indication of:
- the liquidity risk;
- obligations that may not be met in time from inflows.

The tables below represent the bank's liquidity profile at year-end 2018 and 2017 on the basis of the remaining contractual maturity. The cashflows have not been discounted. Non-maturity savings and current account balances are presented in the '<1 month' column. In the tables, we maintain the contractual maturity without taking behavioural aspects such as mortgage prepayments into account.

The bank's asset & liability management does take behavioural aspects into account. A shorter term to maturity is used for mortgages due to anticipated prepayments. A longer term to maturity is used for non-maturity savings and balances in customers' current accounts because under normal circumstances 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. Allocation of this collateral over the maturity buckets is conducted in accordance with the maturity classification of the derivative contracts.

Remaining contractual maturity of assets and liabilities 2018 Audited EDTF 20

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

1 This relates to the provision on investments

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

The table below provide a breakdown of the above liquidity profiles for financial liabilities and derivatives on the liability side of the balance sheet at year-end 2018. The table also present the related future cashflows, such as interest payments (these have not been discounted).

Maturity schedule for financial liabilities 2018 Audited

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	19	519	-	538
Debt certificates	132	43	245	2,498	3,327	6,245
Savings	32,862	51	468	2,429	1,809	37,619
Other amounts due to customers	7,414	24	265	1,075	2,887	11,665
Amounts due to banks	900	29	8	117	64	1,118
Total	**41,308**	**147**	**1,005**	**6,638**	**8,087**	**57,185**

Maturity schedule for derivatives on the liabilities 2018 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	26	54	240	727	-49	998
Currency contracts	68	38	11	5	-	122
Total	**94**	**92**	**251**	**732**	**-49**	**1,120**

Remaining contractual maturity of assets and liabilities 2017 Audited EDTF 20

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments (interest bearing)	101	-	433	1,607	2,953	-	5,094
Derivatives	131	83	71	280	510	-	1,075
Loans and advances to customers	648	61	473	2,357	46,069	-149[1]	49,459
Loans and advances to banks	2,091	38	78	100	336	-	2,643
Other assets	2,265	-	20	144	-	192	2,621
Total assets	**5,236**	**182**	**1,075**	**4,488**	**49,868**	**43**	**60,892**
LIABILITIES							
Shareholders' equity	-	-	-	-	-	3,714	3,714
Subordinated debts	3	-	-	498	-	-	501
Debt certificates	546	62	308	1,694	2,310	-	4,920
- of which senior unsecured	-	-	*28*	*631*	*160*	-	*819*
- of which covered bonds	-	-	*21*	*996*	*1,438*	-	*2,455*
- of which RMBS	*376*	-	-	*67*	*711*	-	*1,154*
- of which CP/CD (short term)	*150*	*64*	*260*	-	-	-	*474*
Derivatives	225	71	146	186	624	-	1,252
Savings	32,236	73	224	2,351	1,872	-	36,756
- of which due on demand	*32,114*	-	-	-	-	-	*32,114*
Other amounts due to customers	6,261	18	277	689	3,061	-	10,306
- of which senior unsecured	-	-	*144*	*192*	*366*	-	*702*
- of which covered bonds	-	-	-	*269*	*78*	-	*347*
Amounts due to banks	2,452	16	24	90	101	-	2,683
- of which senior unsecured	-	-	-	*35*	-	-	*35*
- of which other wholesale	-	-	-	-	-	-	-
- of which secured (short term)	*2,264*	-	-	-	-	-	*2,264*
- of which other	*188*	*16*	*24*	*55*	*101*	-	*384*
Other liabilities	590	-	14	27	84	45	760
Total equity and liabilities	**42,313**	**240**	**993**	**5,535**	**8,052**	**3,759**	**60,892**

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

Maturity schedule for financial liabilities 2017 Audited EDTF 20

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	19	538	-	557
Debt certificates	527	64	363	1,761	2,489	5,204
Savings	32,170	73	316	2,587	1,957	37,103
Other amounts due to customers	6,667	38	333	842	3,127	11,007
Amounts due to banks	2,450	16	25	90	101	2,682
Total	**41,814**	**191**	**1,056**	**5,818**	**7,674**	**56,553**

Maturity schedule for derivatives on the liabilities side 2017 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	110	52	287	474	131	1,055
Currency contracts	134	50	11	2	-	197
Total	**245**	**102**	**298**	**476**	**131**	**1,252**

4.8.6 CREDIT RATINGS

Main developments in 2018

In 2018, Moody's long-term credit rating for de Volksbank's senior unsecured debt went up one notch to A3. S&P's and Fitch's credit ratings remained unchanged in 2018.

Rating ambition

De Volksbank strives for solid long-term stand-alone ratings that fit 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. 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.

Rating changes in chronological order

On 13 April 2018, Moody's raised de Volksbank's long-term credit rating by one notch from Baa1 (positive outlook) to A3 with a stable outlook. Its short-term rating remained unchanged at P-2. According to Moody's, the rating upgrade reflected de Volksbank's low risk profile and very strong capital position.

On 6 August 2018, S&P published a report on de Volksbank affirming de Volksbank's long-term rating at A- (positive outlook). According to S&P, the rating reflects the recovery of de Volksbank's commercial franchise and its very strong capital position. The positive outlook is related to the favourable domestic operating environment, which may ultimately result in a credit rating upgrade.

On 13 November 2018, Fitch affirmed de Volksbank's long-term credit rating at A- (stable outlook). According to Fitch, this rating reflects the high-quality loan book, the moderate risk profile and the high risk-weighted capital ratio of de Volksbank.

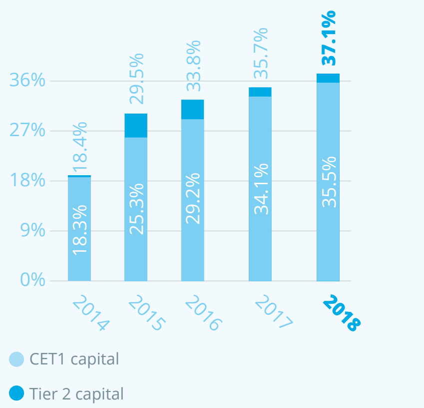
The S&P, Moody's and Fitch rating reports are available on de Volksbank's website.

	Long term rating	Short term rating	Outlook
S&P	A-	A2	Positive
Moody's	A3	P-2	Stable
Fitch	A-	F2	Stable

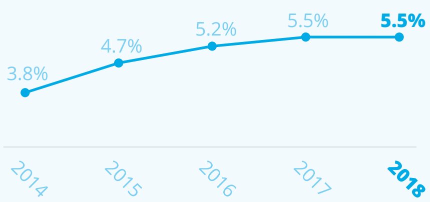
4.9 CAPITAL MANAGEMENT EDTF 2 EDTF 3

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

Total capital ratio

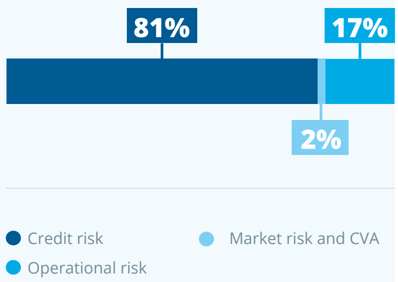


Leverage ratio



35.5%
Common Equity Tier 1 ratio year-end 2018

Risk-weighted assets



The primary objective of capital management is to ensure that the amount of available capital is sufficient at all times to allow de Volksbank to implement its 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 interests of customers and investors, with an adequate return for shareholders. We also apply internal targets that must be met. These targets are consistent with our aim of being a stable bank that performs activities with a low risk profile.

De Volksbank's capital figures as presented are the consolidated figures, as the capital requirements of supervisory authorities and our internal targets apply to this level.

4.9.1 CAPITAL REQUIREMENTS EDTF 4

CRR/CRD IV requirements

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

The OCR is defined as the level at which the maximum distributable amount of dividend (Maximum Distributable Amount, MDA) is curtailed by regulations. The OCR includes the Pillar 1 capital requirement of 8.0%, the Pillar 2 CET1 requirement of 2.5% (together the Total SREP Capital Requirement, TSCR) and the Combined Buffer Requirement (CBR) of 3.50%.

CRR/CRD IV requirements as of 1 March 2019 EDTF 9

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

The CBR, to be held in the form of CET1 capital, consists of a capital conservation buffer, a capital buffer for Other Systemically Important Institutions (O-SII buffer[14]) and a 'countercyclical capital buffer'. The capital conservation buffer and the O-SII buffer have been fully phased-in starting 2019. The capital conservation buffer equalled 2.50% as from 1 January 2019 and the O-SII buffer for de Volksbank equalled 1.0% on 1 January 2019. Both buffers will remain at this level based on the SREP-decision taking effect per 1 March 2019. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising when credit growth is excessive. Each quarter DNB sets the level of the buffer for the Netherlands, which, in principle, varies from 0% to 2.5%[15].

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

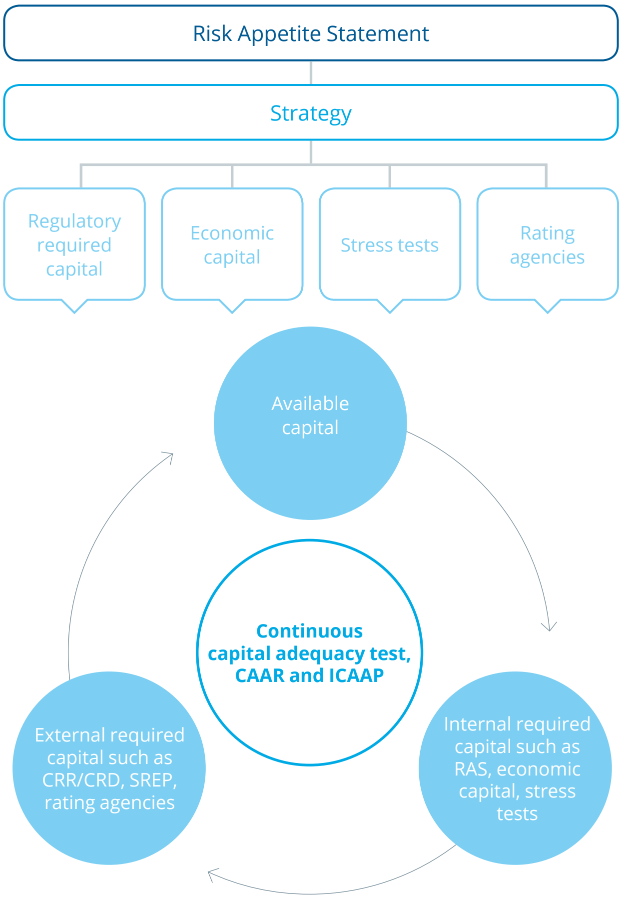
Internal minimum level EDTF 9

De Volksbank aims for a CET1 capital ratio of at least 15.0%, and a leverage ratio of at least 4.25%. The objective for the CET1 capital ratio includes Pillar 2 Guidance and a management buffer, on top of the SREP requirement of 10.5%. One of the purposes of the management buffer is to absorb the combined impact of the final Basel III standards, also known as Basel IV, and the impact of stress testing on our capital ratios. We are presently consulting with our shareholder to determine whether there is any reason to review our targets, using our up-to-date insight into the potential impact that Basel IV may have on our capital ratios. We intend to present any changed targets in the 2019 interim report.

4.9.2 MANAGEMENT AND CONTROL AUDITED EDTF 7

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

Our capital management process is presented in the figure below.



Regulatory capital and MREL EDTF 9

The minimum amount of capital required by law (regulatory capital) is based on the risk-weighted capital ratios (CET1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required (leverage ratio). As described in Section 4.9.1 Capital requirements, the minimum risk-weighted capital ratios follow from the SREP. In addition to the capital ratios required by law, de Volksbank calculates and reports the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) in both a risk-weighted and a non-risk-weighted manner.

14 The O-SII buffer applies to the highest consolidation level rather than to a sub-consolidated, solo bank level.
15 DNB has the discretion to set the countercyclical capital buffer above 2.5%.

Economic capital EDTF 7

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

1. Our calculations of economic capital include all risks from which material losses may ensue according to internal insight. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.

2. Using our own insight to guide us, we translate our risk appetite into internal capital requirements, partly on the basis of the desired rating (see also Section 4.8.6 Credit ratings).

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

Stress testing EDTF 8

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

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

For the scenarios whose impact is calculated in a stress test, we estimate the development of unemployment, economic growth, interest rates and other factors. These macroeconomic variables impact, for example, the net interest margin, the creditworthiness of the outstanding loan portfolio and the fair value of the interest-bearing investment portfolio. This subsequently results in a deterioration of the bank's capital position. The stress test results are used to analyse the bank's sensitivity to various types of stress and to determine the management buffers that we consider in setting the internal minimum levels of the capital ratios.

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

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

Rating agencies

The bank's creditworthiness is also assessed by rating agencies, i.e. by S&P, Moody's and Fitch. When determining a rating, rating agencies look at aspects such as the bank's capital position. To ensure that our capital ratios are in line with our rating ambition, we include the corresponding capital requirements in our capital planning. Please refer to Section 4.8.6 Credit ratings for more information about our credit ratings.

Continuous capital adequacy assessment EDTF 9

Capital Adequacy Assessment Report

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

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

Internal Capital Adequacy Assessment Process

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

Recovery plan and contingency planning

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

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

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

In addition to a description of the available measures and the conditions to be satisfied before they can be implemented, the recovery plan also contains an analysis of the expected recovery resulting from these measures. The analysis is supported by a number of (severe) stress scenarios in which the effectiveness of these measures has been assessed ('recoverability assessment').

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

4.9.3 DEVELOPMENTS IN CAPITAL REQUIREMENTS EDTF 4 EDTF 12

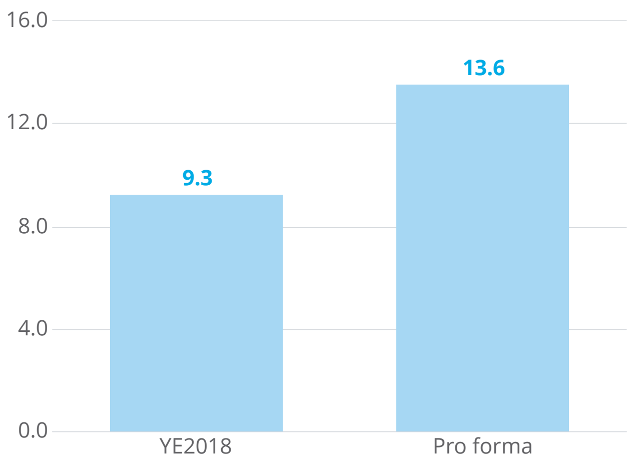
Basel IV

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV.

Based on the balance sheet position at year-end 2018, we estimate that our RWA will grow by approximately 45%[16] due to Basel IV, and that our CET1 capital ratio will decrease by approximately 11 percentage points . The largest effect comes from the output floor (from 50% phased in from 2022 to 72.5% phased in from 2027) on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM[17]. The changes in internal ratings based approaches and the standardised measurement approach for operational risk are expected to have a limited effect on de Volksbank's RWA.

Basel IV impact after 72.5% floor

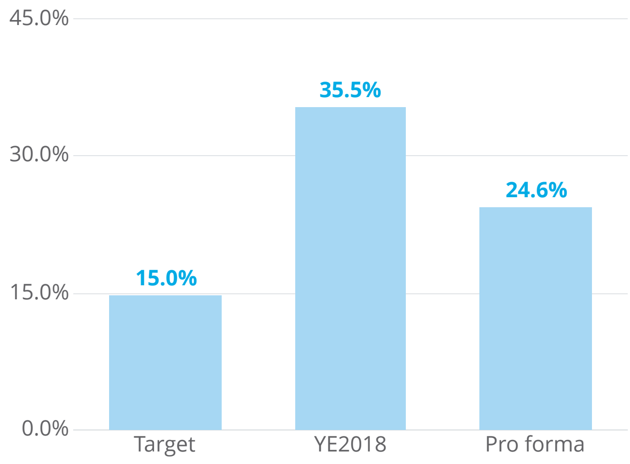
RWA in € billions



[16] Starting from (1) loan-splitting for retail mortgages, (2) the application of NHG as credit risk-mitigating measure, and (3) the assumption that 90% of the retail mortgages meet the document requirements.

[17] Particuliere Hypotheken Interne Rating Model (Internal Rating Model for Retail Mortgages).

Basel IV impact on (fully phased-in) CET1 ratio



The next step is the translation of Basel IV into European laws and regulations. De Volksbank closely monitors the developments, paying particular attention to new rules regarding retail mortgages. We adjust our capital planning if necessary.

If the Basel IV regulations are implemented in European legislation without change, we estimate that, on the basis of our balance sheet position at year-end 2018, our CET1 capital ratio under the fully phased-in Basel IV framework will still amply exceed our minimum objective of 15%. This will allow us to both continue our growth path and pay out dividend.

Targeted Review of Internal Models

As de Volksbank uses models developed internally, the bank is part of the Targeted Review of Internal Models (TRIM) carried out by the supervisory authority. It is a project that assesses such aspects as the degree of compliance with laws and regulations, the modelling technique used, including data lineage, and the model's applicability to the portfolio concerned. The final review report has not given de Volksbank a reason to expect any significant impact on the bank's RWA.

Provision for Non-Performing Exposure (NPE)

In order to encourage harmonisation between European banks, the ECB has issued guidelines for the level of provisions for non-performing loans. This may have an impact on the CET1 capital ratio and the leverage ratio of de Volksbank in the years to come.

IFRS 9

As from 1 January 2018 de Volksbank is required to apply the IFRS 9 Classification and Measurement and the IFRS 9 Expected Credit Loss (ECL) impairment requirements. As from 1 January 2018, the DBV mortgages have been reclassified from fair value to amortised cost. The classification is now in line with our other mortgages and the volatility in the income statement on account of fair value changes in the DBV mortgage portfolio has been eliminated.

In addition, de Volksbank reviewed the accounting principles of part of its liquidity portfolio. On this basis, it was decided to change the accounting principles for part of the portfolio from fair value (available for sale) to amortised cost (hold to collect). Please refer to the IFRS 9 section of the financial statements for a more detailed explanation of the reclassifications.

Finally, the transition to expected loss recognition under IFRS 9 resulted in an increase in loan loss provisions.

These changes had a total impact of approximately -2 percentage points on the CET1 capital ratio and of -0.3 percentage points on the leverage ratio

IFRS 16
IFRS 16 has been in force since 1 January 2019 and requires (nearly) all leases to be reported on the balance sheet. For de Volksbank, these are buildings, cars and IT equipment. Accordingly, the balance sheet will grow by € 76 million as from 1 January 2019, and a decrease in the CET1 capital ratio by 0.3 percentage points is expected on account of the relatively high risk weights.

Gone-Concern Capital: MREL
As from 1 January 2016, it is mandatory (under the BRRD) for shareholders and creditors to contribute at least 8% of the total liabilities to a recapitalisation in case of resolution, under certain conditions 20% of the RWA, before any funds from the Single Resolution Fund may be called upon. To enable effective application, a minimum requirement under the Dutch BRRD Act is introduced for own funds and eligible liabilities (Minimum Requirement for Own Funds and Eligible Liabilities, MREL). These MREL instruments can serve as an easy bail-in buffer to absorb losses in a resolution.

At the beginning of February 2017, the Single Resolution Board (SRB) informed us that it supports the designation of de Volksbank as the resolution entity. On 6 June 2018, the SRB set the MREL for de Volksbank at 8.0% of total liabilities and shareholders' equity. The SRB also decided that de Volksbank must comply with the MREL on 1 January 2020 at the latest. Furthermore, the BRRD and the SRB's 2018 MREL policy lead us to expect that the MREL of de Volksbank – as an Other Systemically Important Institution (O-SII) – must, for at least 17.5% of the RWA, consist of subordinated instruments.

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

4.9.4 CAPITAL STRUCTURE AUDITED EDTF 10 EDTF 11
De Volksbank has a strong capital position, in terms of both risk-weighted capital ratios and the leverage ratio. Based on our balance sheet position at year-end 2018 we estimate that the CET1 capital available will also exceed our target, even assuming that Basel IV with respect to the capital floor based on the revised Standardised Approach for credit risk RWA will be implemented in European legislation without changes. This will allow us to continue our growth path and pay out dividend from our profits.

The table on the next page shows the capitalisation at prudential consolidated level. The CET1 capital at consolidated level is equal to the CET1 capital at solo bank level. At consolidated level, the effective amount of Tier 2 capital is lower than at solo bank level as a result of the EBA interpretation of CRR Article 82 regulations for financial holding companies. The developments in capitalisation are described below.

Shareholders' equity decreased by € 143 million to € 3,571 million in 2018, particularly as a result of the impact of IFRS 9 (€ 212 million) and the dividend payout for 2017 (€ 190 million), partly compensated by a € 268 million profit retention.

In order to determine shareholders' equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders' equity. After profit appropriation by the General Meeting of Shareholders (GMS) in April 2018, non-eligible (interim) profits as at year-end 2017 in the amount of € 226 million were added to the CET1 capital after deduction of the dividend payout of € 190 million. Non-eligible retained earnings of € 20 million from previous years were likewise added at the end of 2017.

Net profit for the first nine months of 2018 was added to CET1 capital (€ 90 million) after deduction of 60% dividend reservation. The profit not yet eligible as CRD IV equity for 2018 amounts to € 178 million and consists of the dividend reservation on the net profit for the first three quarters and the full net profit for the fourth quarter of 2018.

At the end of 2017, de Volksbank changed its accounting policy with respect to prepayment charges and interest rate averaging surcharges received for early mortgage repayments. As a result, the other reserve increased by € 20 million at year-end 2017, which also counted towards CET1 capital after the GMS of April 2018.

The implementation of IFRS 9 with effect from 1 January 2018 triggered a drop in shareholders' equity for CRD IV purposes of € 212 million. This drop was the result of a reclassification of DBV mortgages from fair value to amortised cost (€ 118 million), a change of the measurement basis for part of the liquidity portfolio from 'available for sale' to 'hold to collect' (€ 80 million) and an increase in the loan loss provisions (€ 14 million).

In order to determine the CET1 capital under CRD IV, shareholders' equity was subject to a number of regulatory adjustments for CRD IV purposes, for which a phase-in process applied until year-end 2017. Full phase-in applies with effect from 2018, with a phase-in adjustment of 0% instead of 20% at year-end 2017. Total remaining regulatory adjustments amounted to € 80 million at the end of 2018 (2017: € 129 million) and consisted mainly of a prudential adjustment for the cashflow hedge reserve and a deductible item under the IRB shortfall. The latter dropped from € 56 million to € 41 million.

On balance, the CRD IV CET1 capital decreased by € 26 million to € 3,313 million in 2018.

Capitalisation Audited

	CRD IV fully phased in		CRD IV transitional
In € millions	2018	2017	2017
Capital instruments	381	381	381
Share premium	3,787	3,787	3,787
Retained earnings	268	329	329
Accumulated other comprehensive income (OCI)	51	140	140
Other reserves	-916	-923	-923
Shareholders' equity	**3,571**	**3,714**	**3,714**
Non-eligible interim profits	-178	-226	-226
Non-eligible previous years'retained earnings	-	-20	-20
Shareholders' equity for CRD IV purposes	**3,393**	**3,468**	**3,468**
Cashflow hedge reserve	-30	-36	-36
Fair value reserve	-	-	-20
Other prudential adjustments	-3	-3	-3
Total prudential filters	**-33**	**-39**	**-59**
Intangible assets	-6	-14	-14
IRB shortfall[1]	-41	-62	-56
Total capital deductions	**-47**	**-76**	**-70**
Total regulatory adjustments to shareholders' equity	**-80**	**-115**	**-129**
CRD IV CET 1 capital	**3,313**	**3,353**	**3,339**
Additional Tier 1 capital	-	-	-
Tier 1 capital	**3,313**	**3,353**	**3,339**
Eligible Tier 2	500	500	500
IRB shortfall[1]	-	-	-6
Impact EBA interpretations CRR Article 82	-348	-329	-344
Tier 2 capital	**152**	**171**	**150**
Total capital	**3,465**	**3,524**	**3,489**

1 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. During the transitional phase the shortfall (initially equally divided over Tier 1 and Tier 2 capital) is attributed for a growing part to Tier 1 capital.

Tier 2 capital instruments Audited

	Maturity date	First possible call date	Nominal amount	
in € millions			2018	2017
Bond loan	5-Nov-2025	5-Nov-2020	500	500

Subordinated Tier 2 notes with a nominal value of € 500 million were issued in 2015. The book value of these notes totalled € 499 million in 2018 (2017: € 498 million).

On 3 November 2017, the EBA published its interpretation of CRR Article 82, which has consequences for financial parent holding companies with a single subsidiary and a strong capital position, such as de Volksholding B.V. In the consolidated capitalisation, a haircut is applied to the Additional Tier 1 and Tier 2 capital issued to third parties by de Volksbank N.V. This haircut is related to the surplus of available capital in relation to the minimum capital requirements.

The rationale behind this EBA interpretation is based on the consideration that the subordinated assets at the level of a subsidiary cannot fully serve to absorb risks arising from the specific activities of a holding company. Although de Volksholding B.V. has no other activities than holding the shares in de Volksbank N.V., this correction does apply to de Volksholding B.V. As a result, the effective amount of Tier 2 capital at consolidated level is lower than at solo bank level: at year-end 2018, the effective amount of Tier 2 capital was € 152 million at consolidated level, versus € 500 million at solo bank level. De Volksbank intends to incorporate de Volksholding in de Volksbank by means of a legal merger. This will mitigate the impact of the EBA interpretation, and the Tier 2 capital issued will effectively and fully be for de Volksbank. Subject to all required approvals, including those from NLFI and the supervisory authorities, we expect the merger to be completed in the first half of 2019.

4.9.5 FIGURES, RATIOS AND TRENDS EDTF 4 EDTF 9 EDTF 13 EDTF 14

Risk-weighted assets (RWA)

Pillar 1 sets the minimum capital requirements on the basis of the RWA for three types of risk: credit risk, market risk and operational risk.

De Volksbank avails itself of an Advanced Internal Ratings Based (Advanced IRB or AIRB) model, called PHIRM, to determine the credit risk in its retail mortgage portfolio. Please refer to Section 4.6.5 Retail mortgages for more information on our internal model. We use the Standardised Approach (SA) – rather than internal models – to calculate the credit risk of other portfolios (including non-retail mortgages and loans to government authorities, businesses and financial institutions) and to calculate market risk and operational risk. Please refer to Section 4.7 Market risk for more information on market risk. Operational risk is described in Section 4.10 Non-financial risks.

The table below shows the risk-weighted assets per type of risk, exposure category and method of calculation.

Risk weighted assets (RWA) and capital requirement Audited EDTF 16

	EAD[1]		RWA		8% Pillar 1 capital requirement	
in € millions	2018	2017	2018	2017	2018	2017
CREDIT RISK IRB APPROACH						
Retail mortgages[2]	45,905	44,951	5,487	6,071	439	486
Securitisation positions	85	74	6	6	-	-
Other	-	-	-	-	-	-
Total credit risk IRB approach	**45,990**	**45,025**	**5,493**	**6,077**	**439**	**486**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	5,217	6,872	137	160	11	13
Regional governments and local authorities	2,508	2,545	-	-	-	-
Public sector entities	103	29	1	6	-	-
Multilateral developments banks	389	289	-	-	-	-
International organisations	27	20	-	-	-	-
Financial institutions	1,852	1,471	366	303	29	24
Corporates	1,055	745	941	652	76	52
Retail excl. mortgages	286	354	180	265	14	21
Secured by mortgages immovable property	424	390	197	195	16	16
Exposures in default	58	64	62	65	5	5
Items associated with particular high risk	-	1	-	1	-	-
Covered bonds	51	40	5	4	-	-
Shares	7	17	7	17	1	1
Other Items	334	287	261	156	21	12
Total credit risk standardised approach	**12,311**	**13,124**	**2,157**	**1,824**	**173**	**144**
MARKET RISK STANDARDISED APPROACH						
- Traded debt instruments	-	475	-	44	-	4
- Shares	-	-	-	-	-	-
OPERATIONAL RISK						
- Standardised approach	-	-	1,544	1,633	123	131
Total market- and operational risk	**-**	**475**	**1,544**	**1,677**	**123**	**135**
Credit Valuation Adjustment (CVA)	-	-	147	203	12	16
Total	**58,301**	**58,624**	**9,341**	**9,781**	**747**	**781**

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.

2 To determine the RWA of retail mortgages a regulator-approved model is used.

Exposure at Default Audited EDTF 26

The Exposure at Default (EAD) has decreased from € 58.6 billion at year-end 2017 to € 58.3 billion at the end of 2018. The EAD of the retail mortgage portfolio grew from € 45.0 billion to € 45.9 billion in 2018. Other major changes in 2018 were attributable to a € 1.65 billion decrease in loans to central banks and central governments and an increase in exposure to financial institutions in the amount of € 381 million. In addition, exposure to corporates increased by € 310 million.

The EAD for market risk decreased by € 475 million to € 0 due to the reclassification of traded debt instruments as a result of the implementation of IFRS 9.

RWA decreased by € 0.4 billion to € 9.3 billion. This decline was mainly caused by a € 584 million reduction related to the credit risk of the retail (non-SME) mortgage portfolio, calculated according to the Internal Ratings Based (IRB) approach. The decrease was mainly driven by a further improvement of this portfolio's credit quality, particularly as a result of improved economic conditions, which is reflected in lower probabilities of default (PDs) and loss given defaults (LGDs). The average risk weighting (RWA density) of retail mortgages declined from 13.5% at year-end 2017 to 12.0%.

The RWA for credit risk calculated under the Standardised Approach rose by € 333 million to € 2.2 billion. This increase was partly the result of de Volksbank's participation in a credit facility made available to the Deposit Guarantee Fund and by an increase in the sustainable loans provided by ASN Bank.
RWA for operational risk, market risk and Credit Valuation Adjustment (CVA) together decreased by € 190 million to € 1.7 billion.

In December 2014, de Volksbank was given permission to use its IRB model to calculate the capital requirement of its mortgage portfolio. This was subject to the compulsory condition to develop a new Margin of Conservatism (MoC) model, for which de Volksbank filed an application in December 2016. In September 2017, the ECB communicated its final findings arising from the IRB model review. De Volksbank must apply a MoC surcharge on PDs and LGDs until the findings identified in the review have been resolved. In 2018 de Volksbank launched a project to resolve the ECB's findings. As part of this project a new version of the IRB model was developed, which will be put into use in 2019 and may result in a different risk weight for the mortgage portfolio.

The exposure to credit risk is included below based on the Exposure at Default (EAD) from the regulatory report using the balance sheet based on IFRS standards. The table shows which adjustments need to be made to arrive at the EAD.

Total Exposure at Default (EAD) Audited

in € millions	2018	2017
Total assets (IFRS balance sheet total)	60,948	60,892
Items that are not subject to credit risk exposure	-6	-176
On-balance sheet exposure to credit risk	60,942	60,716
OFF-BALANCE SHEET COMMITMENTS		
Credit facilities and guarantees	1,827	1,576
Repurchase commitment	868	1,040
Total maximum exposure to credit risk	**63,636**	**63,332**
Valuation adjustments[1]	-3,781	-3,470
Recalculation off-balance credit facilities and guarantees to EAD[2]	-1,553	-1,713
Total Exposure at Default	**58,302**	**58,149**
Credit risk risk-weighted assets/total exposure at default	13.1%	13.6%

1 Under 'Valuation adjustments' adjustments are made for hedge accounting, the balance of netting derivative positions and an add-on for potential future exposure and credit risk mitigating items (particularly collateral).

2 Off-balance commitments are converted into EAD using a conversion factor. The repurchase commitments have a conversion factor of zero and therefore have no weighting for EAD.

Breakdown of retail mortgages by rating grade

EDTF 15

In order to weigh the credit risk in this portfolio, we use an internally developed AIRB (Advanced Internal Ratings Based) model. It consists of models for Probability of Default (PD), (Downturn) Loss Given Default (LGD) and Exposure at Default (EAD). The rating model calculates the likelihood of a customer running into payment problems within one year and the resulting losses expected for the bank. We use the results to determine the risk-weighted assets (RWA) of the retail mortgage portfolio. They form the basis of the loan loss provision calculations, but also serve as input for the management process and internal risk reports.

The RWA density of retail mortgages decreased from 13.5% at year-end 2017 to 12.0%. In December 2014, de Volksbank was given permission to use its AIRB model to calculate the capital requirement of its mortgage portfolio.

As we use an internally developed model, the supervisory authority exercises control by means of a Targeted Review of Internal Models (TRIM). The supervisory authority assesses the degree of compliance with laws and regulations, the modelling technique used and the model's applicability to the portfolio concerned. Based on findings, if any, the supervisory authority may give instructions, demand adjustments (known as Margin of Conservatism provisions) or even impose sanctions. The TRIM project was completed in the second quarter of 2018 and de Volksbank is still awaiting final results.

PD-Risk category retail mortgages

	Average LGD		Obligor grade		EAD		RWA (or band)	
Internal rating grade	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
1	8.79%	8.87%	0.08%	0.07%	11,010	10,665	200	195
2	9.66%	9.88%	0.21%	0.19%	7,004	6,069	302	267
3	11.97%	12.68%	0.32%	0.32%	10,422	8,991	744	680
4	15.77%	15.79%	0.47%	0.43%	8,129	8,110	1,008	1,008
5	18.13%	18.87%	0.72%	0.71%	3,421	3,952	662	796
6	18.88%	19.93%	1.05%	1.23%	846	979	220	268
7	15.41%	15.41%	1.30%	1.26%	2,162	2,802	525	680
8	20.99%	20.77%	1.76%	2.01%	925	1,058	372	420
9	16.22%	17.10%	3.36%	3.44%	659	770	301	369
10	14.80%	15.17%	7.02%	6.87%	565	610	345	380
11	15.94%	17.29%	13.81%	13.36%	179	258	155	240
12	15.07%	15.41%	23.67%	21.80%	194	215	179	202
13	16.57%	17.26%	44.68%	41.85%	159	186	150	182
Default	18.01%	20.63%	100.00%	100.00%	230	286	324	384
Total					**45,905**	**44,951**	**5,487**	**6,071**

Development RWA EDTF 14 EDTF 16

in € millions	2018	2017
Opening amount	9,781	10,824
CREDIT RISK STANDARDISED APPROACH		
Development portfolio	333	-398
Movements in credit risk CVA	-56	-131
Total movement Credit risk standardised approach	**277**	**-529**
CREDIT RISK IRB		
Re-risking (calls securitisation-programmes)	-	-
Movement investor position securitisation	-	2
Model updates	-	-
Methodology and policy	-	41
MoC impact	-	503
Development portfolio (including PD and LGD migrations)	-584	-977
Total movement IRB-approach	**-584**	**-431**
Market risk development	-44	-44
Market risk sale of portfolio	-	-
Operational risk	-89	-39
Total movement	**-440**	**-1,043**
Closing amount	**9,341**	**9,781**

Capital ratios EDTF 9

The table below presents the development of capital ratios in 2018:

Capital ratios

	CRD IV fully phased in		CRD IV transitional
in € millions	**2018**	2017	2017
CRD IV common equity Tier 1 capital	3,313	3,353	3,339
Tier 1 capital	3,313	3,353	3,339
Total capital	3,464	3,525	3,489
Total capital de Volksbank stand-alone	3,813	3,853	3,833
Risk-weighted assets	**9,341**	**9,781**	**9,781**
Exposure measure as defined by the CRR	60,625	60,350	60,345
Common equity Tier 1 ratio	35.5%	34.3%	34.1%
Tier 1 capital ratio	35.5%	34.3%	34.1%
Total capital ratio	37.1%	36.0%	35.7%
Total capital ratio de Volksbank stand-alone	40.8%	39.4%	39.2%
Leverage ratio	5.5%	5.6%	5.5%

De Volksbank's fully phased-in CET1 capital ratio rose to 35.5% from 34.3% at year-end 2017, mainly driven by the decline in risk-weighted assets. The CET1 capital ratio thus remained well above our target of at least 15%.

The fully phased-in total capital ratio rose from 36.0% to 37.1%. Without the adjustment for the EBA interpretation, the total capital ratio would have been 40.8%.

Leverage ratio EDTF 9

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

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

Leverage ratio

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

At year-end 2018, the leverage ratio remained flat at 5.5% (rounded) compared to year-end 2017 (transitional), despite a limited decrease in CET1 capital (€ 26 million) and an increase in the leverage ratio denominator (€ 0.3 billion). The leverage ratio denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR).

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

MREL EDTF 4

The table below presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank N.V. as a resolution entity.

MREL

in € millions	2018	2017
CET1 capital	3,313	3,339
Tier 2 capital	500	494
Total capital	**3,813**	**3,833**
Other eligible unsecured liabilities with remaining maturity of more than 1 year	1,941	1,435
Total capital including other eligible liabilities	**5,754**	**5,268**
Risk exposure measure as defined by the BRRD (MREL)	59,412	59,499
Risk-weighted assets	9,341	9,781
MREL BRRD		
MREL (Total capital)	6.4%	6.4%
MREL (Total capital including other eligible liabilities)	9.7%	8.9%
MREL RISK WEIGHTED ASSETS		
MREL (Total capital)	40.8%	39.2%
MREL (Total capital including other eligible liabilities)	61.6%	53.9%

Including total capital and all other unsecured liabilities that are MREL eligible according to the current BRRD, the non-risk-weighted MREL ratio was 9.7% (2017: 8.9%). The eligible liabilities rose by € 486 million to € 5,754 million. The € 20 million decline in the capital position was more than compensated for by the issue of senior unsecured debt worth € 500 million in June 2018 and € 400 million in October 2018. On the other hand, de Volksbank decided on the instructions of the Single Resolution Board (SRB) that € 133 million in outstanding structured unsecured debts would be disregarded in the determination of MREL-eligible liabilities for the time being. The exposure measure as defined by the BRRD dropped by € 87 million to € 59.4 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,813 million) amounted to 40.8% (year-end 2017: 39.2%). They are both subordinated to other outstanding liabilities.

Current views on future subordination requirement regulations have led de Volksbank to apply the basic assumption in its capital planning that the minimum non-risk-weighted MREL requirement of 8% must fully consist of subordinated liabilities on 1 January 2024 (Tier 1 capital, Tier 2 capital and Senior Non-Preferred (SNP) notes). Given this point of departure and based on our current capital position, we expect to issue SNP notes totalling € 1.0 to € 1.5 billion in the next few years. De Volksbank is closely monitoring the developments concerning a potential MREL subordination requirement. We will adjust our capital planning if necessary.

4.9.6 DIVIDEND

De Volksholding has set a dividend payout target range of 40% - 60% of net adjusted result. In line with this policy, de Volksholding paid NLFI a dividend of € 190 million for 2017 in April 2018. This implies a payout ratio of 60%, the top of the target range we use.

Given our solid capital position, we expect to pay out a 60% dividend for 2018, too. It will amount to € 161 million, which corresponds to a payout ratio of 60%.

4.10 NON-FINANCIAL RISKS EDTF 2 EDTF 3 EDTF 31

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

Operationeel risico

Reporting risk

Compliance risk

Model risk

Legal risk

Reputational risk

Change risk

99.63%

Average availability of iDEAL in 2018

Besides financial risks, de Volksbank also runs non-financial risks caused by internal factors and external developments, as described in Section 4.3 Top risks. They show that 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 originate from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, or from external events. They manifest themselves in events such as fraud, damage to property or a failure to comply with laws and regulations. Since the damage ensuing from these events may be financial loss or harm to our reputation, it is essential that we have a timely and adequate understanding of the risks we run, that we respond to these risks and implement appropriate control measures.

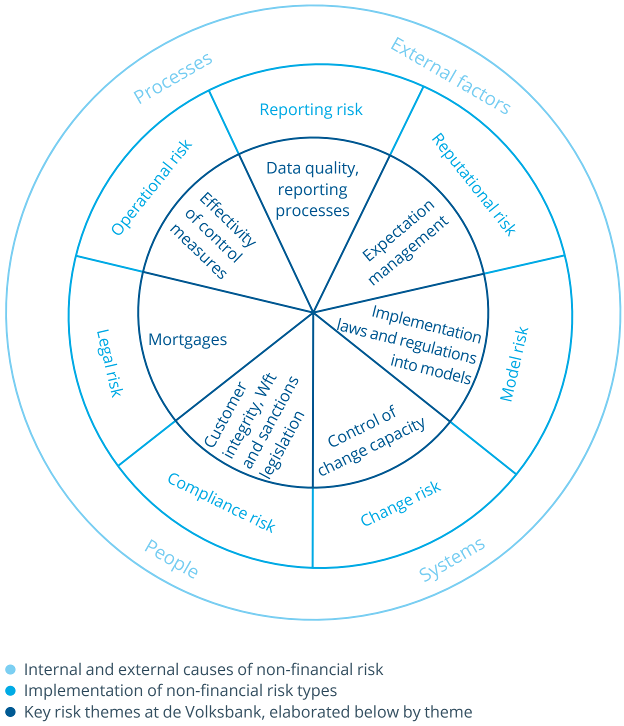
4.10.1 RISK PROFILE

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

4.10.2 TYPES OF RISK AND AREAS OF FOCUS EDTF 31 EDTF 32

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

This section discusses the main developments seen in 2018.



TYPE OF RISK	DEVELOPMENTS IN 2018
Operational	**DESCRIPTION** Operational risk is the risk resulting from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, or from external events. In our business operations, we seek to manage and control our risks in a responsible manner. This includes effective and efficient processes that guarantee high quality to our customers and that are easy to carry out by our employees. Our improvement cycle is primarily aimed at minimising error rates and being demonstrably in control. **DEVELOPMENTS** In 2018, we made progress with further strengthening the organisation with regard to controlling non-financial risks. We designed a risk management application, dubbed the Integrated Risk Management (IRM) tooling, to simplify the recording of information on controlled business operations and enable us to perform more in-depth analyses of the effectiveness of our risk management. The roll-out of the application will be completed in 2019. Other improvement processes were the registration of and follow-up on operational risk incidents, and resolving weaknesses found in our system of control measures. A more detailed control testing method allowed us to establish more points for improvement, including further rationalisation of the controls to the key controls having the greatest impact. The implementation of these improvements commenced in 2018 and will continue in 2019. They further increase our understanding of the quality and predictability of our business processes and allow us to take more targeted measures. We have enhanced the knowledge of operational risk management within the bank by training and educating our employees. Interruption of services resulting from cyber-attacks and system failure remained very limited and within the limits set by us and supervisory authorities. The same goes for losses – for which customers were compensated – ensuing from phishing malware and skimming of debit cards and credit cards. We periodically test the operation of the continuity facilities of the main bank systems. It has been established that, after a disruption, all systems are operational within the required period of time.
Change	**DESCRIPTION** Change risk is the risk that we do not achieve our strategic objectives or do not achieve them in a timely fashion. It may arise through the inadequate design, execution or implementation of changes or the use of resources. The risk may manifest itself if choices are inconsistent with the strategic priorities, or as a result of an insufficient capacity or competency to change. **DEVELOPMENTS** In 2018 we carried out several strategic programmes, which rely heavily on the organisation's capacity to change. The number of programmes underway was large and they require a great deal of resources and expertise. This sometimes makes it difficult to set the right priorities and creates the risk that the results of our change programmes will not be achieved in a timely manner. For this purpose, we introduced improvements in the control of the strategic programmes, including a tool that gives more guidance to accomplish our mission, the 'Strategic Compass'. The IFRS 9 and Transaction Monitoring strategic programmes were successfully completed in 2018.

The following programmes were added to the portfolio of strategic programmes:

- DaVinci – which is intended to help us serve customers better and more efficiently, i.a. through product harmonisation, process automation and creating channel uniformity;
- RAP Margin of Conservatism – a Remedial Action Plan to align our internal credit model, PHIRM – which is also used to calculate RWA and provisions – with current and new statutory requirements;
- Customers want to undertake business (Klant Wil Ondernemen) – a programme for the execution of the new vision, the corresponding processes and performance for small business customers.

The programmes continuing in 2019 pursue the active management of both effective use of resources and limitation of complexity.

Compliance

DESCRIPTION

Compliance risk is the risk that the company and/or its employees fail to observe written and unwritten rules of integrity and conduct correctly or completely and may be held accountable in that regard. It also pertains to the risk of doing business with unethical customers, insufficient transparency in our products, as well as to crime, fraud and corruption.

As part of compliance, we focus on raising awareness and measuring ethical conduct among our employees as well as the integrity of our products and our customers. In its Manifesto, de Volksbank propagates a culture of Banking with a human touch. Together with our 'Common Sense, Clear Conscience' code of conduct and the promise made with the Bankers' Oath, they serve as a guideline for our employees in their contact with customers. Transparent and fair products match de Volksbank's standards and values. We therefore aim to simplify our product range and make sure that our advertising is clear and simple. De Volksbank maintains relationships with a large number of customers and considers it important to know its customers well. This allows us to offer suitable products and prevents us from entering into any relationship with persons or organisations with whom or which we may not conclude agreements under laws and regulations (Money Laundering and Terrorism Financing (Prevention) Act (Wwft), Sanctions Act). De Volksbank also sets great store by preventing and combating fraud and crime.

DEVELOPMENTS

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

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

As regards revolving credit, we set up a process to assess whether the credit provided to customers is still appropriate under current conditions. In 2018, not all themes displayed a compliance risk within the limits of our risk appetite.

Legal

DESCRIPTION

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

DEVELOPMENTS

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

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

Model

DESCRIPTION

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

DEVELOPMENTS

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

Improvement processes were carried out for a number of models to adapt them to new regulations. For PHIRM – the set of credit models for our mortgage portfolio – this resulted in new models for both IFRS 9 (in use since 2018) and capitalisation calculations

	(submitted to the supervisory authority for approval in late 2018). In 2018 an extensive model review of the PHIRM models that the bank currently uses was also conducted on the ECB's behalf (TRIM). The models we use to manage and control interest rate risk are also subject to change. This is partly because of the effect that customer behaviour has on the models, in the event of repayments on mortgages and savings maturity, for example, and partly because of new requirements imposed by regulations.
Reporting	**DESCRIPTION** Reporting risk is the risk that the company's financial and/or non-financial reporting contains material inaccuracies or is materially incomplete or is not available to its internal and external stakeholders in time. **DEVELOPMENTS** We seek to provide reliable information both internally and externally. Good quality of the underlying data and data management is paramount in that regard. In 2018, we continued working on our understanding of processes and internal control, in order to improve our management of the risk of inaccuracies or omissions in the reports. In 2018, we carried out adjustments in various processes for the purpose of providing reliable information both internally and externally, particularly in the area of forbearance and the process involving periodic and new reporting to supervisory authorities. The requirements of more and increasingly detailed reports to the supervisory authorities further increased. The processes in question were further automated and improvements were carried out in data management of the reporting chain. To avoid that data inaccuracies are not discovered and remedied until the end of the reporting process, the data quality monitoring has explicitly been shifted to the source and the Data Management Framework has been put into operation. This method was implemented for some of the relevant processes in 2018. Further implementation and process improvements will continue in the years ahead. Despite the improvements, this still exceeds the limits of our risk appetite. Through the implementation of the renewed processes, increased maturity of data management and the central and consistent availability of data, we aim to improve reporting and data management.
Reputation	**DESCRIPTION** Reputation risk is the risk that our stakeholders are losing confidence in the bank. We regard reputation as a major bank asset, and securing a good reputation is paramount to the successful execution of the bank's strategy. Reputation risk is often created if other types of risk are inadequately controlled. Controlling reputation risk through properly set up reputation management where each party's responsibilities are clear (1st line) is a key precondition to the bank. For 2019, the positioning of reputation risk in the risk taxonomy is reconsidered to permanently secure the importance of the bank's reputation in the execution of the strategy. **DEVELOPMENTS** We monitor our reputation, for instance, in the media and among our customers. The customer-weighted average Net Promoter Score (NPS) for our brands improved from -3 at the end of 2017 to -1, which means that the percentage of customers who highly rate our brands has risen. More customers are satisfied and loyal and would recommend our brands.

4.11 MANAGEMENT STATEMENT PILLAR 3

In-Control Statement

The Board of Directors of de Volksholding is responsible for the set-up, presence and effectiveness of the (risk) management and control system. Because de Volksholding for itself does not have any activities, this concerns the set-up, presence and effectiveness of the (risk) management and control system of de Volksbank.
This system is designed to manage risks, to ensure that de Volksbank is not prevented from achieving its strategic, operational and financial objectives, that reporting on financial and non-financial performance indicators is reliable and that laws and regulations are complied with. This makes an important contribution to the realisation of de Volksbank's ambition: to optimise shared value by creating benefits for customers, taking responsibility for society, giving genuine attention to its employees and achieving returns for its shareholders.

De Volksbank applies the 'three lines of defence' model with a clear organisational structure and accompanying accountability structure, as laid down in governance and risk committees (see also Section 4.5.2 Risk governance).

De Volksbank's risk management is also further refined in the annual Operational Plan (OP) cycle, which translates strategic objectives and risk appetite for the coming years into i.a. key risk indicators and operational objectives. The main risks associated with the OP implementation are identified. This cycle is carried out in all parts of the company. The business units report on their performance and any need to adjust risks. The effectiveness of the essential control measures and controls is regularly examined and tested.

De Volksbank has a structured process of completion of internal In-Control Statements at department level, which are then weighted, tested and aggregated at board level for de Volksbank as a whole.

In 2018, the Board of Directors assessed the strategic, operational, financial, reporting and compliance risks, as included in Section 4.3 Top risks. In addition, the Board of Directors periodically assessed the effectiveness of the design and operation of the risk management and control system, as included in Section 4.5.2 Risk governance. The Board of Directors manages a portfolio of House in Order projects that further improve the operation of the risk management and control system. The results were shared with the Audit Committee and the Supervisory Board, and discussed with the external auditor.

Based on the above, the Board of Directors declares that:

- The risk management and control system functioned properly in 2018;
- 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 2019.

However, the internal risk management system does not provide absolute assurance that inaccuracies, fraud or non-compliance with laws and regulations have been or can be prevented at all times.

Relevant developments

In 2018, De Volksbank completed a number of major projects and programmes on the theme of credit risk. This contributed to better control of this risk and the process surrounding it. The internal control and responsible business operations were again raised to a higher level. The processes in the area of Finance and Risk will improve as a result of ongoing projects concerning data and data quality.

In this way, de Volksbank will continue to ensure that processes continue to be carried out adequately, reports remain reliable, legislation and regulations are continuously complied with and that de Volksbank is and remains demonstrably in control in line with its (mission and) ambition.

Control over financial reporting

The management and control systems for financial reporting constitute an integral part of the risk management and control systems of de Volksbank. The most important elements for the management of financial reporting are the:

- Finance Management Team, which sets the framework for policy and organisation of financial accounting systems and processes;
- Accounting Manual of de Volksbank, which describes the principles in the field of financial reporting;
- business units, which are responsible for the execution of the activities and therefore for recording transactions and reports accurately and faithfully;
- system of financial key controls within the administrative and reporting departments, to monitor the proper functioning of the management and control system for financial reporting;
- Finance Management Team's assessment, partly based on the results of the key controls, of periodic management reports and KPI dashboards with an analysis of financial and non-financial figures;
- subsequent approval by the Board of Directors, after which the findings on the reporting process, together with the financial reporting itself, are discussed in the Audit Committee;
- the external
auditor reports on the system of financial key contro
ls insofar as this results from
the audit of the financial statements. The
key issues of this audit are included in the Report of the external
auditor. The findings are discussedwith de Volksbank's financialand risk committees and the Au
dit Committee.

We declare that it can be stated with a reasonable degree of certainty that in 2018 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 2018 of de Volksholding 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 assets, the financial position as at 31 December 2018 and the result, and companies included in the consolidation;
- the 2018 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 business during the financial year; and
- the 2018 annual report describes the main risks de Volksbank is facing.

Utrecht, 6 March 2019

Board of Directors

Maurice Oostendorp (Chair)
Jeroen Dijst
Marinka van der Meer
Annemiek van Melick

5.

REPORT OF THE SUPERVISORY BOARD

INTERVIEW WITH THE CHAIRMAN OF THE SUPERVISORY BOARD

Jan van Rutte

Looking back at 2018, what are you most proud of?
The first thing that springs to mind is the commitment and engagement employees have shown in putting our mission 'Banking with a human touch' into practice every day. Just like in 2017, Supervisory Board members visited shops and branch offices of ASN Bank, BLG Wonen, RegioBank and SNS, as well as a number of central departments. During my visits, I found that the customer's perspective and interest are considered in everything. This is not a hype, or an approach only on paper, but it has permeated the entire organisation. Customers experience and feel this, and that makes me proud!

De Volksbank wants to stand out in the Dutch banking landscape with its mission and its brands. But is there any demand for all this?

People increasingly call on banks to take social responsibility, and this call was particularly noticeable last year. There is a demand for financial institutions that focus on what customers truly need, on helpful banking, which is about benefits rather than returns and about making customers financially resilient. This goes hand in hand with the appeal, including in the coalition agreement and in a recent report of the Scientific Council for Government Policy (WRR), to create more diversity in the financial services sector. Based on its mission, de Volksbank finds itself in an excellent position to step into this role.

In 2018, the Supervisory Board regularly discussed with the Board of Directors the progress made on the implementation of the strategic plan. A lot of effort is visibly put into substantiating the mission Banking with a human touch. Examples are the improved accessibility and simplification of the mortgage conditions and acceleration of the quotation and application process. But there is still a lot of work to be done. Focus and acceleration continue to be of the essence if we are to achieve the envisaged distinctive customer propositions.

To what extent did de Volksbank succeed in making its business operations simpler and more efficient in 2018?

The nature of a bank that serves the interests of customers, society, employees and shareholders entails that it must make its processes simpler, more transparent and more efficient. In 2018, I once again witnessed that many steps were taken in this respect. At nearly every meeting, Supervisory Board members reflected on the 'House in Order' programmes set up for this purpose and pertaining to the Customer Wants a Home (Klant Wil Wonen) chain, data management, privacy and customer integrity. Attention also centred on correctly addressing the supervisory authorities' findings. Improving internal business operations is key to and a precondition for a stand-alone future of the bank. In practice, this means that the efficient deployment of people and resources is of the utmost importance.

According to NLFI, de Volksbank will need until at least mid-2019 before it will be ready for privatisation. How was the Supervisory Board involved in this privatisation process?

The Supervisory Board discussed the bank's future with the Board of Directors several times in 2018. Various topics were reviewed, such as the capital and return targets, options regarding the ownership structure and future governance. In November 2018, NLFI noted in its progress report that although de Volksbank is well on its way, it is not ready for privatisation at this time on conditions that are acceptable to the State. De Volksbank must further develop its shared value strategy and strengthen its identity as a social bank. A proper positioning of de Volksbank upon privatisation also requires a better balance between costs and income. The Supervisory Board and the Board of Directors extensively considered this progress report issued by NLFI.

In addition to its supervisory and advisory roles, the Supervisory Board also acts as the Board of Directors' employer. How did the Supervisory Board fulfil these various roles in 2018?

The employer role was given a great deal of attention last year. A number of changes took place on both the

Board of Directors and the Supervisory Board in 2018. On 28 September 2018, Marinka van der Meer was appointed member of the Board of Directors and Chief Customer Officer. At the end of June 2018, Alexander Baas indicated that he would step down from the Board of Directors as from 1 January 2019 in order to do where his heart lies and focus entirely on the position of Director of Customers, Payments and Savings (KBS). On behalf of all Supervisory Board members, I would like to thank Alexander once again for his dedication as a Chief Operations Officer. On 30 October 2018, the Supervisory Board announced its intention to appoint Mirjam Verhoeven (currently Chief Information Officer, Director of Innovation at de Volksbank) as his successor. The appointment is subject to approval by the supervisory authorities; this approval has not yet been received on the date of publication of this annual report.

We also welcomed two new Supervisory Board members: Jos van Lange with effect from 1 May 2018 (as a Supervisory Board member, RC chairman and AC member) and Aloys Kregting with effect from 24 August 2018 (as a Supervisory Board member, AC member and POC member). They have succeeded Charlotte Insinger and Ludo Wijngaarden, both of whom stepped down from the Supervisory Board at the GMS on 19 April 2018 in accordance with the rotation schedule. On behalf of all Supervisory Board members, I would like to thank Charlotte and Ludo once again for their dedication to de Volksbank.

In addition to these succession issues, our employer role demanded that we extensively discuss themes that are prerequisites for the furtherance of the mission and strategy, such as culture and collaboration, as well as major issues like qualitative and quantitative staffing and talent management.

In its role of supervisor and advisor, the Supervisory Board has always closely monitored the progress made on the implementation of the strategy. The Board of Directors actively involves the Supervisory Board in exploring options for future organisational and ownership structures and the corresponding constructive dialogue with NLFI and the Minister of Finance. De Volksbank's ambitions in terms of shared value, sustainability and long-term value creation are always taken into account in this process.

What will the focus be in 2019?

Just like last year, 2019 will be an important year in terms of preparations for the privatisation. The Supervisory Board will oversee this process in consultation with the Board of Directors and NLFI. A second – related – point of supervision focus is the progress made on the execution of the strategy and what this means for employees and the organisation. The Supervisory Board regards compliance with laws and regulations as a third key focus area, particularly because of the assessment the Board of Directors must continuously make in the deployment of people and resources available, which also involves interdependencies and tight schedules.

What are the main challenges for the next few years?

A significant challenge for de Volksbank is to carve out and retain its distinctive position in the banking landscape. Customers should experience and feel that de Volksbank is there for them, even in times of hardship. I am confident that the further elaboration of Banking with a human touch will produce more concrete results in this regard in the period ahead and that the bank will succeed in achieving this goal.

The target of achieving a 100% climate-neutral balance sheet by 2030 remains another major challenge. Many steps still need to be taken to further reduce CO_2 losses and increase CO_2 profits. The Spitsbergen Ambition, presented by the financial services sector in June 2018, may provide an additional boost. Incidentally, ASN Bank made a significant contribution to the creation of this ambition.

The main challenges are reaching the desired maturity level of internal business operations and a future-proof balance between cost and income. These are key preconditions for a privatisation of de Volksbank.

In conclusion, on behalf of all Supervisory Board members, I would like to express my appreciation of the committed and enthusiastic efforts made by the members of the Board of Directors and the constructive collaboration in 2018. I am confident that we will continue to communicate effectively in 2019 as well.

Utrecht, 6 March 2019

COMPOSITION OF THE SUPERVISORY BOARD

As at 31 December 2018, the Supervisory Board comprised of de Volksholding B.V. Jan van Rutte (Chairman), Monika Milz (Vice Chair), Sonja Barendregt - Roojers, Aloys Kregting and Jos van Lange. The composition of the Supervisory Board changed in 2018.
Charlotte Insinger and Ludo Wijngaarden stepped down at the combined General Meeting of Shareholders of de Volksbank and de Volksholding B.V. (GMS)19 April 2018 in accordance with the retirement schedule. Jos van Lange was appointed as a member of the Supervisory Board, Chairman of the Risk Committee (RC) and member of the Audit Committee (AC) with effect from 1 May 2018. Aloys Kregting was appointed as a member of the Supervisory Board, member of the AC and member of the People and Organisation Committee with effect from 24 August 2018. Monika Milz was appointed Vice Chair with effect from 22 November 2018.

The composition of the Supervisory Board is such that its members can operate independently of each other and of the Board of Directors, within the scope of the Supervisory Board's profile. In addition to its supervisory role, the Supervisory Board also fulfilled the role of employer, adviser and sparring partner of the Board of Directors in 2018.

MEETINGS

The Supervisory Boards of de Volksbank and de Volksholding convened eleven times, whether or not combined. Most members of the Supervisory Board attended all meetings, with an overall attendance percentage of 96%. The availability of Supervisory Board members for consultation between meetings was good.

Members of the Board of Directors are permanent attendees at the meetings of the Supervisory Board. For the first hour of each meeting, the Supervisory Board meets in private. In 2018, just one (informal) meeting was held in the absence of the Board of Directors. During this meeting, topics discussed included the (self) evaluation of the Supervisory Board.

TOPICS DISCUSSED IN 2018

In their meetings in 2018 the Supervisory Board paid attention to the:

MISSION AND STRATEGY

The status of the implementation of the strategy, which was tightened in 2016, is regularly discussed with the Board of Directors. Together with the Board of Directors, the Supervisory Board is preparing for an independent future for de Volksbank. Various subjects are discussed, including the desired diversity in the financial sector, the various options for privatisation, de Volksbank's Shared Value strategy, capital targets and the returns pursued by de Volksbank. An important topic in this context is the exploration of the governance structure that would fit the strategy of de Volksbank. The Supervisory Board is actively involved in this exploration by the Board of Directors. The Supervisory Board is also closely involved in the Board of Director's constructive dialogue with NLFI and the Minister of Finance on the future of de Volksbank.

QUALITY ASSURANCE OF SUPERVISORY FUNCTION AND SELF-EVALUATION

Lifelong learning sessions contribute to the enhancement and, where required, broadening of the Supervisory Board's expertise. In 2018, the Supervisory Board, jointly with the Board of Directors, attended two lifelong learning sessions on the following topics:
- the role of the Supervisory Board in the decision-making process;
- Interest Rate Risk Banking Book (IRRBB).

In addition, a number of Supervisory Board members visited shops and offices of ASN Bank, BLG Wonen, RegioBank and SNS and a number of central departments were visited.

Each year, the Supervisory Board evaluates its own performance. In any case once every three years, this evaluation is performed under the guidance of an external adviser. At various points throughout 2018, the Supervisory Board reflected on the follow-up of the points for improvement from its 2017 self-assessment. For example, the objectives for the POC have been clarified, enabling the Supervisory Board to be an inspiring example by the way in which it fulfils its role as an employer. Attention was also paid to the way in which de Volksbank gives substance to a professional talent management organisation.
In addition, to further increase its effectiveness, the Supervisory Board evaluated how the meeting went at the end of each meeting.

In early 2019, the Supervisory Board evaluated its own performance in 2018 in two sessions, one of which was supervised by an external adviser. On the basis of statements, both the members of the Supervisory Board and the members of the Board of Directors gave scores for the performance of (the individual members of) the Supervisory Board. The conclusion was that the Supervisory Board functions well and can be satisfied with both the good and the critical scores in all dimensions, which also appear to fit in well with the self-image of the member of the Supervisory Board in question. The meetings are sufficiently effective and the Supervisory Board is sufficiently well-informed and diverse.

The Supervisory Board also evaluated the way in which the committees of the Supervisory Board function. One of the conclusions was that the division of roles between the AC and the RC has been further tightened and that good arrangements have been made with the Board of Directors to ensure that the provision of information to these committees is more in line with the needs of the Supervisory Board. The POC was given a stronger focus on content in 2018. This is of great importance in view of the various internal reorganisations, cost developments and the currently large number of vacancies. A catch-up effort is also underway to provide the Shared Value ambition for employees the basis that fits in with de Volksbank's mission.

The discussion of the self-evaluation of the Supervisory Board and its committees also revealed a number of points for improvement. The Supervisory Board determined that a more uniform onboarding programme for new members of the Supervisory Board, members of the Board of Directors, senior managers and Lifelong Learning programme for the Supervisory Board is required. In addition, the Supervisory Board wants to build in more room for reflection outside the meeting agenda and work more systematically on the numerous relationships that the Supervisory Board maintains.

Finally, in January 2019, the Supervisory Board and the Board of Directors evaluated the cooperation between the Supervisory Board and the Board of Directors. This discussion included placing and prioritising agenda items, proactively sharing dilemmas, providing feedback and the dynamics between the Board of Directors and the Supervisory Board.

RELATIONSHIP AND CONSULTATIONS WITH THE SHAREHOLDER

NLFI is the sole shareholder of de Volksholding. De Volksholding, in turn, is the sole shareholder of de Volksbank. NLFI, de Volksholding and de Volksbank have signed a Memorandum of Understanding (MoU) as an amendment to the Articles of Association of de Volksbank and de Volksholding. The MoU contains supplementary arrangements about the manner in which statutory powers are exercised in the day-to-day operations. The Supervisory Board periodically meets with NLFI, held in accordance with a schedule that is drawn up annually. In these meetings, topics discussed include the quarterly figures and the evaluation of the Board of Directors and the Supervisory Board. In addition to this, the combined general meeting of shareholders (GMS) of de Volksbank and de Volksholding is prepared in joint consultation. The GMS was held on 19 April 2018.

As the sole shareholder of de Volksholding, NLFI reports periodically to the Minister of Finance by means of an annual progress report. This report provides an overview of the extent to which de Volksbank is implementing its strategy and whether de Volksbank is ready for a future separate from the Dutch State. The Minister of Finance then informs the House of Representatives of the state of affairs. In its first report in September 2017, NLFI concluded that de Volksbank would need at least two to three more years to be ready for privatisation. The second progress report of November 2018 concluded that although de Volksbank has made a good start, the remaining time of the original two to three years is certainly needed to be sufficiently prepared for a decision on the future. In that time de Volksbank would have to make further improvements with regard to cost control, a low risk profile, internal reporting and underlying data.

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

Prior to publication, the 2018 financial statements were discussed in (combined) meetings of the Board of Directors of de Volksbank and de Volksholding and in the combined meetings of the Supervisory Boards of de Volksholding and de Volksbank. On 6 March 2019, EY – de Volksholding's external auditor in 2018 - issued an unqualified auditor's report on the 2018 financial statements. On 6 March 2019, the Supervisory Board adopted the financial statements in the combined meeting of the Supervisory Boards of de Volksbank and de Volksholding. At this meeting, the Supervisory Board approved the Board of Directors' proposal to pay a dividend of € 161 million to NLFI, its sole shareholder.

6.

CORPORATE GOVERNANCE

6.1 COMPOSITION, APPOINTMENT AND FUNCTIONING OF THE BOARD OF DIRECTORS

COMPOSITION OF THE BOARD OF DIRECTORS

The Supervisory Board of de Volksholding B.V. draws up a profile for the Board of Directors in consultation with the Board of Directors of de Volksholding B.V. This profile describes the required know-how, suitability, expertise, integrity and availability of (the members of) the Board of Directors. In addition, this profile sets out relevant aspects of diversity, such as nationality, age, gender and background regarding education and professional experience. The profile for the Board of Directors is subsequently adopted by the GMS and published on the website of de Volksbank.

De Volksbank and de Volksholding form a personal union. The Boards of Directors and Supervisory Boards of de Volksbank and de Volksholding are, therefore, made up of the same individuals.

Left to right: Jeroen Dijst, Marinka van der Meer, Annemiek van Melick, Alexander Baas and Maurice Oostendorp

Maurice Oostendorp
1956 - Nationality: Dutch

Maurice Oostendorp has been appointed Chairman of the Board of Directors on 30 September 2015 for the period up to and including 17 August 2019. Maurice is Chief Executive Officer. Other board positions held by Maurice are: Member of the Supervisory Board of the Nederlandse Waterschapsbank (NWB), member of the Advisory Board of Women in Financial Services in the Netherlands (WIFS) and member of the Board of the Dutch Banking Association (NVB). Before joining de Volksbank, Maurice was CFRO of SNS REAAL N.V. Prior to that, he served as CFO and member of the Board of Directors at Coöperatie VGZ. Maurice began his career at ABN AMRO, where he held several positions, among them Director General Group Finance.

Alexander Baas
1966 – Nationality: Dutch

Alexander Baas was appointed as a member of the Board of Directors on 30 September 2015 for the period up to and including 30 September 2019 as Chief Operations Officer. Alexander stepped down as a member of the Board of Directors with effect from 1 January 2019. Another board position held by Alexander is: member of the Board of the Betaalvereniging Nederland. Alexander began his career at Bondsspaarbank MNO in 1988, after which he worked at Raadgevend Ingenieursbureau Intercai Nederland since 1991. After joining de Volksbank (and its predecessors in title) in 1997, Alexander held various IT positions. In 2005, he was appointed Director SNS IT/CIO of SNS Bank N.V.

Jeroen Dijst
1971 – Nationality: Dutch

Jeroen Dijst was appointed to the Board of Directors of de Volksbank on 1 September 2016. This term of office will expire on the date of the GMS in 2020. Jeroen is Chief Risk Officer and holds no other board positions. Before joining de Volksbank, Jeroen served as Managing Director of Asset & Liability Management/ Treasury and member of the Management Group at ABN AMRO. Prior to that, Jeroen served as CRO and member of the Board of Directors of Fortis Bank Nederland. Jeroen began 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 of Directors on 28 September 2018. This term of office will expire on the date of the GMS in 2022. Marinka is Chief Customer Officer and holds no other board positions. Before joining de Volksbank, Marinka was CEO of Argenta Nederland and previously held various positions in the banking and insurance sectors. She started her career at ING in 2004, after studying Economic Psychology at the Catholic University of Brabant.

Annemiek van Melick
1976 – Nationality: Dutch

Annemiek van Melick was appointed as a member of the Board of Director of de Volksbank for the period from 30 September 2015 up to and including 30 September 2019. Annemiek is Chief Financial Officer. In addition, Annemiek is a member of the Supervisory Council of the Dutch Banking Association (NVB). Annemiek joined SNS REAAL N.V. in 2008, first of all in the position of Director of Corporate Strategy, Mergers & Acquisitions of SNS REAAL N.V. She was appointed Chief Financial & Risk Officer of SNS Bank N.V. in 2012. Annemiek has ample experience in the financial services sector and employers include Goldman Sachs in London.

APPOINTMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS
The GMS appoints a member of the Board of Directors on the nomination of the Supervisory Board. The Supervisory Board appoints the Chairman of the Board of Directors with prior approval of the GMS. The GMS suspends and dismisses a member of the Board. The Supervisory Board is also authorised to suspend a member of the Board.

Marinka van der Meer was appointed as a member of the Board of Directors and CCO on 28 September 2018. She succeeds Rob Langezaal, who stepped down from the Board of Directors on 1 January 2018. Alexander Baas stepped down from the Board of Directors on 1 January 2019 to focus completely on the position of Director of the Customer, Payments and Savings (*KBS*). On 30 October 2018, the Supervisory Board announced its intention to appoint Mirjam Verhoeven as a member of the Board of Directors and COO. This planned appointment is subject to approval by the supervisory authorities and the Works Council and this approval has not yet been received by the date of publication of this annual report.

Composition of the Board of Directors on 31 December 2018

Name	Appointed until
Maurice Oostendorp	18 August 2019
Alexander Baas	1 October 2019[1]
Annemiek van Melick	1 October 2019
Jeroen Dijst	General meeting 2020[2]
Marinka van der Meer	General meeting 2022[3]

1 Stepped down from the Board of Directors with effect from 1 January 2019.
2 Until the date of the General Meeting in 2020.
3 Until the date of the General Meeting in 2022.

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

The Articles, the MoU and the Regulations for the Board were not amended in 2018.

The Board meets if there are topics that are subject of the decision-making of de Volksholding and decides by majority vote. Because of the personal union, meetings of the Boards of Directors of de Volksbank and de Volksholding usually take place in combination.

6.2 COMPOSITION, APPOINTMENT AND FUNCTIONING OF THE SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD (ON 31 DECEMBER 2018)
The Supervisory Board is composed such that it has sufficient expertise to properly perform its duties. The Supervisory Board draws up a profile for the members of the Supervisory Board, specifying the required know-how, suitability, integrity and availability of the (members of the) Supervisory Board. In addition, this profile will include relevant aspects of diversity, such as nationality, age, gender and background in terms of education and professional experience. In essence, the diversity policy of de Volksbank is aimed at recognising and valuing - differences between - people, both customers and employees, in order to make an optimal contribution to accomplishing the strategy. The diversity policy also applies to the Supervisory Board. The profile for the Supervisory Board is adopted by the GMS and published on the website of de Volksbank. When appointing a new member, the Supervisory Board will nominate a candidate to the GMS, taking this profile into account.

De Volksbank and de Volksholding form a personal union. The boards of directors and supervisory boards of de Volksbank and de Volksholding are, therefore, made up of the same individuals.

Left to right: Jan van Rutte, Aloys Kregting, Monika Milz, Jos van Lange and Sonja Barendregt-Roojers

Jan van Rutte

1950 – Nationality: Dutch

Jan was appointed as a member and Chairman of the Supervisory Board of de Volksholding on 30 September 2015, and reappointed on 19 April 2018. In principle, his term of office will expire on 19 April 2022. If in 2022, a GMS takes place between 1 April 2022 and 1 May 2022, the term of office shall expire on the date of that GMS.

Other board positions held by Jan are:
- Member of the Supervisory Board of PGGM N.V.
- Member of the Supervisory Board of Bank Nederlandse Gemeenten N.V.
- Member of the Supervisory Board of ORMIT Holding B.V.
- Member of the Supervisory Board of Nederlandse Investeringsinstelling N.V.
- Member of the Supervisory Council of Stichting Health Center Hoenderdaal
- Member of the Board of Stichting ABN AMRO Foundation
- Member of the Board of Stichting Administratiekantoor Aandelen KAS BANK

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

Sonja Barendregt-Roojers

1957 – Nationality: Dutch

Sonja Barendregt-Roojers was appointed as a member of the Supervisory Board of de Volkholding on 1 September 2017. Her term of office will expire on the first GMS to be held after 1 September 2021.

Other board positions held by Sonja are:
- Member of the Supervisory Board of ASR Nederland N.V.
- Member of the Supervisory Board of Robeco Institutional Asset Management B.V.

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

Aloys Kregting

1967 – Nationality: Dutch

Aloys Kregting was appointed to the Supervisory Board of de Volksholding on 24 August 2018. His term of office expires at the time of the conclusion of the GMS in 2022. The principal position held by Aloys is Chief Information Officer (CIO) at AkzoNobel N.V. In addition, Aloys is a member of the Supervisory Board of the UMC Utrecht. Until 31 December, Aloys was a member of the Supervisory Board of Ordina N.V. Aloys started his career in 1992 at KPN as IT Manager. He then worked for Unilever as IT Manager from 1999 to 2008 and CIO from 2004. In the period from 2008 to 2016, Aloys worked for DSM. During this period he held the positions of CIO and CSO. Aloys has been working as CIO at AkzoNobel since 2016.

Jos van Lange

1956 – Nationality: Dutch

Jos van Lange was appointed as a member of the Supervisory Board of de Volksholding on 1 May 2018. His term of office will expire at the close of the GMS in 2022.

Other board positions held by Jos are:
- Member of the Board of NMB Bank in Tanzania
- Member of the Board of Governors of Tilburg University
- Member of the Supervisory Board of Zuyderland Medisch Centrum

- Chairman of the Supervisory Board of the Central Bureau on Fundraising (CBF) (monitors fundraising by charities)
- Chair of the Catholic Higher Education Foundation – Tilburg University
- Member of the Investment Advisory Committee of DELA (insurance company)
- Chairman Stichting Landgoed Kasteel Geldrop (Geldrop Castle Foundation)

Jos held the position of CEO at Rabo Vastgoedgroep from May 2013 until July 2017 and of CFRO from December 2006 to May 2013. Prior to that, he held various positions at Rabobank since 1980, both in financial and business-oriented positions.

Monika Milz

1957 – Nationality: German and Dutch

Monika Milz, was appointed as a member of the Supervisory Board of de Volksholding on 30 September 2015 and reappointed on 20 April 2017, in accordance with the reinforced right of recommendation of the Works Council of de Volksbank. Monika was appointed Vice Chair of the Supervisory Board of de Volksholding on 22 November 2018. Monika's term of office expires at the next GMS after 20 April 2021.

Other positions held by Monika are:

- Member of the Supervisory Board of HandelsVeem Beheer B.V.
- Member of the Supervisory Board of Zuidema Beheer B.V.
- Member of the Board of Stichting Parnassia
- Member of the Board of Stichting Arbo Unie

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

PROFILE

Core competenties members of the Supervisory Board

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

APPOINTMENT OF MEMBERS OF THE SUPERVISORY BOARD

	Initial appointment date	End date current appointment	Year of birth	Gender
Jan van Rutte	09-2015	04-2022	1950	M
Sonja Barendregt-Roojers	09-2017	09-2021	1957	F
Aloys Kregting	08-2018	08-2022	1967	M
Jos van Lange	05-2018	05-2022	1956	M
Monika Milz	09-2015	04-2021	1957	F

The GMS appoints the Chair of the Supervisory Board and can dismiss or suspend the Chair. The Supervisory Board can make a proposal to the GMS to this effect. The GMS appoints the members of the Supervisory Board on recommendation of the Supervisory Board. One third of the members of the Supervisory Board is appointed in accordance with the reinforced right of recommendation of the Works Council of de Volksbank. The GMS suspends and dismisses members of the Supervisory Board.
On 19 April 2018, Charlotte Insinger and Ludo Wijngaarden stepped down from the Supervisory Board in accordance with the retirement schedule. On 1 May 2018, Jos van Lange was appointed as a member of the Supervisory Board, as Chair of the Risk Committee and member of the Audit Committee. On 24 August 2018, Aloys Kregting was appointed as a member of the Supervisory Board.

FUNCTIONING OF THE SUPERVISORY BOARD

In performing its duties and responsibilities, the Supervisory Board continuously weighs up the interests of all its stakeholders to reflect the ambitions with respect to the Manifesto and shared value ambition as much as possible. The Supervisory Board members operate independently of each other within the meaning of the Dutch Corporate Governance Code.

The Articles of Association of de Volksbank (Articles) contain regulations on the functioning of the Supervisory Board and a list of its duties and the decisions of the Supervisory Board that need to be approved by the GMS. In addition to the Articles, NLFI, de Volksholding and de Volksbank signed a Memorandum of Understanding (MoU). In addition, as in the MoU, the Regulations for the Supervisory Board (Regulations) contain additional practical agreements on the way in which the Supervisory Board is to exercise its duties and powers.

The Articles and the MoU were not amended in 2018. The Regulations for the Supervisory Board were last amended on 13 December 2018.

The Supervisory Board meets at least twice a year, and resolutions are passed by a majority of the votes cast. Because of the personal union, meetings of the supervisory boards of de Volksbank and de Volksholding take place in combination.

6.3 LEGAL STRUCTURE OF DE VOLKSHOLDING

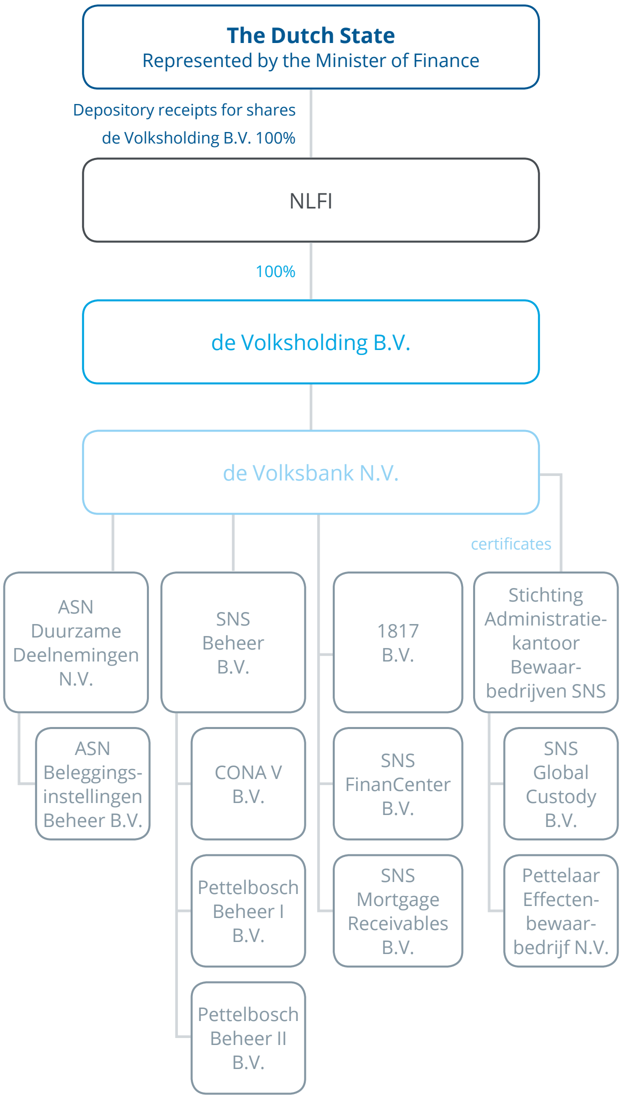
De Volksbank is a wholly-owned subsidiary company of de Volksholding. De Volksholding is a holding company and has neither independent activities nor employees. NLFI holds 100% of the share capital of de Volksholding on behalf of the Dutch State. NLFI, established by the Minister of Finance, is a foundation with a statutory duty. It was established to ensure commercial, non-political governance of financial institutions in which the Dutch State is shareholder, and a transparent separation of interests.

In future, de Volksbank intends to focus more on its core activities (for more information on these core activities see Chapter 2 Strategy - Profile. In this context, ASN Vermogensbeheer B.V. was sold to the management and investor Quadia on 31 August 2018. The company will continue independently under the name of Fair Capital Partners.

In addition, de Volksbank wants to simplify its legal structure. In this context, Holland Woning Financiering N.V. merged with de Volksbank on 30 June 2018 and de Volksbank intends to merge with de Volksholding. In that case, de Volksholding will be wound up and NLFI will become a direct shareholder in de Volksbank). This merger is related to the impact of the interpretation by the European Banking Authority (EBA) of Article 82 of the Capital Requirements Regulation[18] (CRR) on the capital position of de Volksbank (see also Section 4.9.4 Capital structure). This merger is expected to be completed in the first half of 2019. The merger is subject to, among other things, obtaining a declaration of no objection from the relevant supervisory authorities and the approval of NLFI.

The overview on the right shows all 100% shareholdings as at 31 December 2018.

For more information see www.devolksbank.nl



6.4 UPDATE EC COMMITMENTS

The European Commission (EU) has set de Volksbank a number of conditions and restrictions. These conditions and restrictions follow from the nationalisation of SNS REAAL (currently SRH N.V.) in 2013 and ran until the end of the restructuring period on 31 December 2017. Mid-2018, the EU indicated that it was satisfied with the way in which the conditions and restrictions in the restructuring plan had been implemented by de Volksbank and formally confirmed the end of the restructuring period.

18 Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

6.5 REMUNERATION REPORT

The members of the Board and the Supervisory Board do not receive any remuneration from de Volksholding for their activities as these activities are part of their responsibilities as a member of the Board and member of the Supervisory Board of de Volksbank, respectively. De Volksbank does, however, pay remuneration for both the position of member of the Board and member of the Supervisory Board of de Volksholding, respectively, and the position of member of the Board and member of the Supervisory Board of the Volksbank, respectively. The Remuneration Report covers the remuneration of the Board and the compensation of the Supervisory Board of de Volksbank for the year 2018. For more information on the remuneration policy of de Volksbank, we refer you to Section 6.7 of the Annual Report of de Volksbank on our website www.devolksbank.nl.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Before result appropriation and in € millions	Notes[1]	31-12-2018	31-12-2017
ASSETS			
Cash and cash equivalents	1	815	2,180
Derivatives	2	732	1,075
Investments	3	4,782	5,094
Loans and advances to banks	4	3,589	2,643
Loans and advances to customers	5	50,536	49,459
Tangible and intangible assets	6	69	81
Tax assets	7	133	132
Other assets	8	292	228
Total assets		**60,948**	**60,892**
EQUITY AND LIABILITIES			
Savings	9	37,376	36,756
Other amounts due to customers	10	10,841	10,306
Amounts due to customers		**48,217**	**47,062**
Amounts due to banks	11	1,116	2,683
Debt certificates	12	5,822	4,920
Derivatives	2	1,120	1,252
Tax liabilities	7	15	45
Other liabilities	13	487	590
Provisions	14	98	125
Subordinated debts	15	502	501
Total other liabilities		**9,160**	**10,116**
Share capital		-	-
Other reserves		3,303	3,385
Retained earnings		268	329
Shareholders' equity		**3,571**[2]	**3,714**
Minority interests		-	-
Total equity		**3,571**	**3,714**
Total equity and liabilities		**60,948**	**60,892**

1 The references next to the balance sheet items relate to the notes to the consolidated balance sheet.

2 The equity statement in the company financial statements is leading for the legal distribution of equity components.

CONSOLIDATED INCOME STATEMENT

in € millions	**Notes[1]**	**2018**	**2017**
INCOME			
Interest income	22	1,330	1,423
Interest expense	22	422	499
Net interest income		**908**	**924**
Fee and commission income	23	110	104
Fee and commission expenses	23	66	55
Net fee and commission income		**44**	**49**
Investment income	24	3	26
Result on financial instruments	25	2	28
Other operating income	26	1	1
Total income		**958**	**1,028**
EXPENSES			
Staff costs	27	402	381
Depreciation and amortisation of tangible and intangible assets		21	21
Other operating expenses	28	186	201
Impairment charges	29	-12	-24
Total expenses		**597**	**579**
Result before taxation		**361**	**449**
Taxation	30	93	120
Net profit atributable to shareholder		**268**	**329**

1 The references next to the income statement items relate to the notes to the consolidated income statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Other consolidated statement of comprehensive income

in € millions	**2018**	**2017**
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Other changes in comprehensive income	2	1
Total items never reclassified to profit or loss	**2**	**1**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedgereserve	-5	-8
Change in fair value reserve	-4	-34
Total items that are reclassified to profit or loss	**-9**	**-42**
Other comprehensive income (after tax)	**-7**	**-41**

Total comprehensive income for the period

in € millions	**2018**	**2017**
Net profit	268	329
Other comprehensive income (after tax)	-7	-41
Total comprehensive income for the period	**261**	**288**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity 2018

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 31 December 2017 (IAS 39)	-	4,117	6	36	98	-872	329	3,714
Changes in accounting policies	-	-	-	-	-80	-134	-	-214
Balance as at 1 January 2018 (IFRS 9)	**-**	**4,117**	**6**	**36**	**18**	**-1,006**	**329**	**3,500**
Transfer of net result 2017	-	-	-	-	-	139	-139[3]	-
Unrealised revaluations	-	-	-	-2	-	-	-	-2
Realised revaluations through P&L	-	-	-	-3	-4	-	-	-7
Realised revaluations through equity	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	2	-	2
Amounts charged directly to total equity	**-**	**-**	**-**	**-5**	**-4**	**2**	**-**	**-7**
Net result 2018	-	-	-	-	-	-	268	268
Total result 2018	**-**	**-**	**-**	**-5**	**-4**	**141**	**129**	**261**
Dividend pay-out	-	-	-	-	-	-	-190	-190
Total changes in equity 2018	**-**	**-**	**-**	**-5**	**-4**	**141**	**-61**	**71**
Closing balance	**-**	**4,117**	**6**	**31**	**94**	**-731**	**268**	**3,785**

1 Issued capital is € 1

2 The revaluation reserve consists of revaluations of property in own use.

3 The result after deducting the dividend payment of € 190 million.

Consolidated statement of changes in equity 2017

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Opening balance	-	4,117	4	44	132	-1,085	349	3,561
Transfer of net result 2016	-	-	-	-	-	214	-214[3]	-
Unrealised revaluations	-	-	-	-4	-19	-	-	-23
Realised revaluations through P&L	-	-	-	-4	-15	-	-	-19
Realised revaluations through equity	-	-	2	-	-	-	-1	1
Other movements	-	-	-	-	-	-	-	-
Amounts charged directly to total equity	**-**	**-**	**2**	**-8**	**-34**	**-1**	**-**	**-41**
Net result 2017	-	-	-	-	-	-	329	329
Total result 2017	**-**	**-**	**2**	**-8**	**-34**	**213**	**115**	**288**
Dividends	-	-	-	-	-	-	-135	-135
Total changes in equity 2017	**-**	**-**	**2**	**-8**	**-34**	**-872**	**-20**	**153**
Closing balance	**-**	**4,117**	**6**	**36**	**98**	**-872**	**329**	**3,714**

1 Issued capital is € 1

2 Revaluations of property in own use are included in the revaluation reserve.

3 The result after deducting the dividend payment of € 135 million.

CONSOLIDATED CASHFLOW STATEMENT

in € millions	Notes[1]	2018	2017
CASHFLOW FROM OPERATING ACTIVITIES			
Operating profit before tax		361	449
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible and intangible assets	6	21	18
Changes in other provisions and deferred tax	7.14	-17	18
Impairment charges and reversals	29	-12	-24
Unrealised results on investments through profit or loss	24	-	63
Tax paid		-55	-131
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances and liabilities to customers	5.1	-542	-1,251
Change in advances and liabilities to banks	4.11	-2,513	1,509
Change in savings	9	620	-162
Change in trading portfolio	3	162	669
Change in other operating activities		-127	-158
Net cashflow from operating activities		**-2,102**	**1,000**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment	6	1	1
Sale and redemption of investments and derivatives	2.3	2,947	2,699
Purchase of intangible assets	6	-	-2
Purchase of property and equipment	6	-12	-9
Purchase of investments and derivatives	2.3	-2,926	-2,554
Net cashflow from investment activities		**10**	**135**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	15	-	-
Issues of debt certificates	12	3,020	5,202
Redemption of subordinated loans	15	-	-
Redemption of debt certificates	12	-2,103	-5,933
Paid dividends		-190	-135
Net cashflow from financing activities		**727**	**-866**
Net decrease of cash and cash equivalents		**-1,365**	**269**
Cash and cash equivalents as at 1 January	1	2,180	1,911
Change in cash and cash equivalents	1	-1,365	269
Cash and cash equivalents as at 31 December		**815**	**2,180**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		1,583	1,852
Dividends received		-	-
Interest paid		693	916

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 Volksholding's significant accounting policies and critical accounting estimates or judgments relating to the annual financial statements. If an accounting policy or a critical accounting estimate relates to a specific note, it is included within the disclosures of the relevant note.

To combine disclosures where possible and to reduce duplication, the IAS 1 Risk and Financial instrument disclosures and IFRS 7 Risk disclosures regarding capital management and risks related to of financial instruments have been integrated in Chapter 4 Risk management. These disclosures are an integral part of the Consolidated Annual Financial Statements and as such, support the compliance to these IFRS requirements

GENERAL INFORMATION

De Volksholding B.V. (referred to as 'de Volksholding'), is a public limited liability company incorporated under the laws of the Netherlands. De Volksholding's registered office is located at Croeselaan 1, 3521 BJ Utrecht (CC 63650185).

All shares of de Volksholding are held by Stichting administratiekantoor beheer financiële instellingen (NLFI). De Volksholding B.V. is the parent company of de Volksbank.

Adoption of the financial statements

The consolidated financial statements of de Volksholding for the year ended 31 December 2018 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 6 March 2019. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 25 April 2019. The General Meeting of Shareholders has the possibility to amend the financial statements.

Based on the articles of association of de Volksholding, the adoption of the (consolidated) annual financial statements by the Board of Directors requires prior approval from the General Meeting of Shareholders of de Volksholding (NLFI).

BASIS OF PREPARATION

Statement of IFRS compliance

De Volksholding prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, de Volksholding prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements.

Changes in published Standards and Interpretations effective in 2018

De Volksbank has applied IFRS 9 since 1 January 2018. A further explanation of the impact of IFRS 9 on de Volksbank's accounting principles is included in the section 'IFRS 9'. Comparative figures have not been adjusted in response to the application of IFRS 9. For the accounting policies regarding the IAS 39 comparative figures reference is made to the annual report of 2017.

IFRS 15 is effective as of 1 January 2018. IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to separate performance obligations in a contract and the related revenue recognition at any time. However, the requirements of IFRS 15 shall not apply to contracts that fall within the scope of the lease standard or financial instruments standard.

In 2018, the following standards and interpretations issued by the International Accounting Standards Board (IASB and the IFRS Interpretations Committee (IFRIC) respectively, became mandatory, and are adopted by the European Union.

- Annual improvements to IFRS standards 2014-2016 cycle
- Amendments to IFRS 2
- Amendments to IAS 40
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

With the exception of IFRS 9, 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 2018

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2018 and effective for accounting periods beginning on or after 1 January 2019 were not early adopted by de Volksbank.

- IFRS 16 Leases (EU-endorsed)
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long term interestsin associates and joint ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to IFRS 3 Business Combinations
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 1 and IAS 8: Definition of Material

The changes that are most relevant and may have a material impact on the financial statements of de Volksbank are discussed below.

IFRS 16 Leases

IFRS 16, the new standard on leases will become effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between "operational" and "financial" lease for lessees. It requires lessees to recognise nearly all leases on the balance sheet, which will reflect their right to use an asset for a period of time and the associated liability for payments. The introduction of IFRS 16 will result in an increase in assets and liabilities on the balance sheet.

IFRS 16 contains a number of practical expedients. In accordance with these practial expedients, leases shorter than twelve months, leases of which the value of the underlying asset is less than € 5000 and initial direct cost are excluded from recognition in the balance sheet.

In 2018 all lease contracts are identified and the effect of applying IFRS 16 is determined.

De Volksbank will apply IFRS 16 as of 1 January 2019 using the cumulative retrospective transition method. Comparative figures will not be adjusted. On transition de Volksbank will make use of the practical expedient to classify lease contracts applying IFRS 16 the same as when IAS 17 was applied.

Extension and termination options are taken into account when determining the lease liability if these options are reasonably certain to be exercised. The discount rate is based on internally developed interest rate curves which are used in risk management.

The introduction of IFRS 16 will have an increasing effect of € 76 million on the assets of de Volksbank which are 100% risk weighted in prudential reporting. In addition, equity will be negatively affected by € 2 million. The effect on profit or loss is nil.

Because in the off-balance sheet commitments operational lease contracts are not discounted, service costs are included and certain options are taken into account, differences arise with the IFRS 16 lease liability. As a result, the off-balance sheet commitments are higher compared to the IFRS 16 lease liability.

Changes in accounting policies, estimates and presentation

Change in presentation

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

With effect from 2018, ‘deferred tax assets’ or as the case may be 'deferred tax liabilities' and 'corporation tax' have been merged in the item 'tax assets' or as the case may be 'tax liabilities'.

With effect from 2018, ‘property and equipment’ and ‘intangible assets’ have been merged in the item ‘tangible and intangible assets’.

With effect from 2018, interest on derivatives involved in a hedge relationship are recognised separately in interest income and interest expenses and are no longer offset against the interest on the hedged item.

With effect from 2018, exchange rate differences are reclassified from Investment income to Result on financial instruments. With this change in presentation the results on exchange rate differences of the hegded position and the instrument used to cover the exchange rate risk are netted under Result on financial instruments.

For all of the above changes in presentation, the comparative figures have been adjusted accordingly.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements in as far as these have not been affected by the introduction of IFRS 9. Further explanation of changes resulting from the introduction of IFRS 9 is included in section 'IFRS 9'. 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

General

The preparation of the consolidated financial statements requires de Volksbank to make 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.

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. The main accounting principles involving the use of estimates concern the methods for determining the fair value of assets and liabilities, determining impairments on loans and advances and determining other provisions.

For detailed information and disclosure of the accounting estimates and assumptions reference is made to the next sections and the notes to the financial statements items.

The use of estimates and assumptions in the preparation of the financial statements

Valuation of certain balance sheet items is highly dependent on the use of estimations and assumptions. Further disclosure is made on the use of estimations and assumptions in the specified accounting principles of these balance sheet items. The use of estimations and assumptions concern the following sections:
• Impairment losses on loans and receivables – refer to chapter 4 Risk management;
• Valuation of fair value of financial instruments (including prepayment assumption mortgages and amortisation hedge accounting) – refer to note 17 Specific disclosures of financial instruments;
• Employee commitments, restructuring provisions and other provisions– refer to note 14 Provisions.

Basis for consolidation

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksbank, are consolidated in accordance with IFRS 10 Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which control is transferred to de Volksbank. They are de-consolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of these de Volksbank financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksbank.

Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between de Volksbank and its associates are eliminated to the extent of de Volksbank's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currencies are recorded in the income statement under 'investment income' or 'result on financial instruments', depending on the balance sheet item to which they relate.

Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, more specifically, the date on which de Volksbank commits itself to buy or sell the asset or liability. For "loans and advances to customers" and "amounts due to customers" settlement date accounting is used.

Derecognition

A financial asset is derecognised when the rights to receive cashflows from the asset have expired. De Volksbank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition. A transfer only qualifies for derecognition if either:

- De Volksbank has transferred substantially all the risks and rewards of the asset; or
- De Volksbank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Offsetting of financial instruments

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

CASHFLOW STATEMENT

The cashflow statement is prepared according to the indirect method, and distinguishes between cashflows from operational, investment and financing activities. Cashflows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cashflow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cashflow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cashflow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

ACQUISITIONS AND DISPOSALS

In 2018 there are no acquisitions or other disposals.

IFRS 9

1 Classification and measurement

For financial assets, IFRS 9 distinguishes the accounting policies amortised cost, fair value through equity and fair value through profit or loss. The accounting policy depends on the business model that incorporates the financial asset and the cashflow characteristics. IFRS 9 distinguishes three different objectives that a business model may have:

1. Hold to Collect ('HTC'): the underlying objective is achieved by collecting contractual cashflows from corresponding financial assets until maturity, unless specific circumstances arise;
2. Hold to Collect and Sell ('HTCS'): both contractual cashflows are collected and assets are sold in the interim to achieve the underlying objective;
3. Other: this includes trading portfolios that are mainly managed based on buy and sell transactions.

In addition to the above business model analysis, the classification and measurement of financial assets are determined on the basis of the cashflow characteristics of individual instruments. In this respect, a distinction is made between standard loan agreements and other instruments. The cashflows from a standard loan agreement solely consist of interest payments and principal repayments ('Solely Payments of Principal and Interest', or SPPI). Interest payments must be pure compensation for the time value of money, credit risk and other customary basis risks, such as liquidity risk surcharges and costs. Derivative contracts are measured at fair value, irrespective of their underlying business model.

A financial asset is measured at amortised cost if it is held as part of the HTC business model and the SPPI criteria are met. Amortised cost is determined using the effective interest method less any impairment losses.

Financial assets held as part of the HTCS business model that meet the SPPI criteria are measured at fair value through equity. Financial assets in this category are subsequently measured at fair value less any impairment losses. Unrealised gains and losses resulting from fair value adjustments are recognised in total comprehensive income.

Fair value changes of equity investments are recognised in OCI or in profit or loss. This choice is made for each equity investment separately.

Financial assets held as part of the Other business model and financial assets that do not meet the SPPI criteria are measured at fair value through profit or loss. Realised and unrealised gains and losses are recognised directly in the income statement.

IFRS 9 transition accounting allows de Volksbank to reconsider the treatment of a part of the mortgage portfolio, the DBV mortgages, historically elected to be accounted for at fair value. As a result, de Volksbank has decided to change the measurement basis to amortised cost, resulting in a step down from fair value to amortised cost on 1 January 2018. De Volksbank also changed the measurement basis for part of its liquidity portfolio from available for sale to amortised cost.

The impact of IFRS 9 on the classification and measurement of financial liabilities is limited.

Impairments

IFRS 9 replaces the incurred loss models under IAS 39, broadening the scope of the impairment requirements. Under IFRS 9 de Volksbank records expected credit loss provisions for credit exposures measured at amortised cost and fair value through OCI, including expected credit losses on loan commitments and financial guarantee contracts (off- balance sheet positions). This is done using Expected Credit Loss (ECL) models.

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well.

De Volksbank distinguishes specific portfolios for which loan loss provisions are determined under IFRS 9. Various techniques were used for the individual portfolios to arrive at the ECL models. Please refer to Section 4 Risk management for more information about the portfolios.

Hedge accounting

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 IAS 39 hedge accounting rules. For the time being, de Volksbank has decided to continue to apply the IAS 39 hedge accounting requirements.

Reclassification of financial assets (1)

in € millions	Measurement category		Carrying amount		Difference
	IAS 39	IFRS 9	IAS 39	IFRS 9	
FINANCIAL ASSETS					
Cash and cash equivalents	Loans and receivables	Amortised cost	2,180	2,180	-
Loans and advances to banks	Loans and receivables	Amortised cost	2,643	2,643	-
Loans and advances to customers - Former DBV mortgages[1]	Fair value through P&L	Amortised cost	1,688	1,527	-161
Loans and advances to customers - Other	Loans and receivables	Amortised cost	47,634	47,626	-8
Derivatives - Trading	Fair value through P&L	Fair value through P&L	264	264	-
Derivatives - Hedging	Fair value through P&L	Fair value through P&L	690	690	-
Derivatives - Asset and Liability management	Fair value through P&L	Fair value through P&L	121	121	-
Investments - Available for sale - HTCS business model	Available for sale	Fair value through other comprehensive income	4,932	2,172	-2,760
Investments - Available for sale - HTC business model[1]	Available for sale	Amortised cost	-	2,651	2,651
Investments - Held for trading	Fair value through P&L (held for trading)	Fair value through P&L	162	162	-

1 Reclassification is elected by de Volksbank.

Reclassification of financial assets (2)

in € millions	Carrying amount IAS 39 as at 31-12-2017	Remeasurement		Carrying amount IFRS 9 as at 1-1-2018	Impact on retained earnings
		IAS 39 carrying amount[1]	Increase in provisions		
FINANCIAL ASSETS					
Cash and cash equivalents	2,180	-	-	2,180	-
Loans and advances to banks	2,643	-	-	2,643	-
Loans and advances to customers - Former DBV mortgages[2]	1,688	-160	-1	1,527	-120
Loans and advances to customers - Other	47,634	-	-8	47,626	-7
Derivatives - Trading	264	-	-	264	-
Derivatives - Hedging	690	-	-	690	-
Derivatives - Asset and Liability management	121	-	-	121	-
Investments - Available for sale - HTCS business model	4,932	-2,759	-1	2,172	-80
Investments - Available for sale - HTC business model[3]	-	2,652	-1	2,651	-1
Investments - Held for trading	162	-	-	162	-
Off-balance sheet commitments			-8		-6

1 In addition to the IFRS 9 classification and measurement adjustments, de Volksbank reclassified its accrued interest for financial assets from other assets to the balance sheet item to which the accrued interest relates as from 1 January 2018. This adjustment is not included in above table.

2 The effective interest rate of the reclassified former DBV mortgages determined on 1 January 2018 is 4.65%. The interest revenue in 2018 is € 4.4 million. The fair value of the reclassified DBV mortgages as per 31 December 2018 is € 1.446. The fair value loss that would have been recognised in profit or loss during the reporting period, if the DBV mortgages would not had been reclassified, is € 20.8 million after tax.

3 The fair value of the reclassified liquidity portfolio as per 31 December 2018 is € 2,534 million. The fair value loss that would have been recognised in other comprehensive income during the reporting period, if the liquidity portfolio would not had been reclassified, is € 23.4 million after tax.

Impact first adoption of IFRS 9 on equity

in € millions	Carrying amount IAS 39 as at 31-12-2017	Remeasurement	Increase in loan loss provisions	Carrying amount IFRS 9 as at 1-1-2018
Issued share capital	381	-	-	381
Share premium reserve	3,787	-	-	3,787
Revaluation reserve	6	-	-	6
Cashflow hedge reserve	36	-	-	36
Fair value reserve	98	-80	-	18
Other reserves	-923	-120	-14	-1,057
Retained earnings	329	-	-	329
Total equity	**3,714**	**-200**	**-14**	**3,500**

As of 1 January 2018 the reclassification of the DBV mortgages from fair value to amortised cost has a negative impact on IFRS equity and CET1 capital of € 119 million (after tax). As a result of the reclassification, the current volatility for value adjustments in the income statement related to the DBV mortgage portfolio will be eliminated.

The change in measurement for part of the liquidity portfolio has a negative impact on IFRS equity and CET1 capital of € 80 million (after tax).

Finally, the transition to expected loss recognition under IFRS 9 results in an increase in loan loss provisions. This has a negative impact on IFRS equity of € 14 million (after tax) and due to the decrease of the IRB shortfall, a negative effect of € 11 million on CET1 capital. The anticipated fully phased-in effect of the reclassification of the DBV mortgages and liquidity portfolio, and the increase in the provisioning levels, amounts to approximately -2 percentage points on the CET1 ratio and -0.3 percentage point on the leverage ratio as at 1 January 2018.

The accounting method for the tax implications of IFRS 9 has been discussed with the Dutch Tax and Customs Administration.

Impact first adoption of IFRS 9 on provisions

in € millions	Balance IAS 39 as at 31-12-2017	Change due to reclassification	Increase in provisions	Balance IFRS 9 as at 1-1-2018
Loans and advances at amortised cost	148	1	9	158
Debt instruments at fair value through other comprehensive income	-	-	1	1
Loan commitments and financial guarantee contracts	-	-	8	8
Total	**148**	**1**	**18**	**167**

First time adoption of IFRS 9 does not impact the IAS 37 provisions.

Staging provisions for loans and advances

in € millions	Opening balance IFRS 9 as at 1-1-2018
Stage 1	6
Stage 2	33
Stage 3	121
Off-balance sheet items	8
IFRS 9 provisions as at 1 January 2018	**168**

Please refer to Section 4 Risk management for the quantitative impact that IFRS 9 has on the capital position and capital ratios.

1 CASH AND CASH EQUIVALENTS

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash, the non-restricted demand deposits with the Dutch Central Bank (DNB) and advances from the banking activities to credit institutions with an original remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairments.

Specification cash and cash equivalents

in € millions	2018	2017
Non-restricted demand deposits at Dutch Central Bank[1]	576	1,894
Short-term bank balances	190	240
Cash	49	46
Total	**815**	**2,180**

1 The restricted demand deposits at Dutch Central Bank are reported in the note 'Loans and advances to banks'.

As at the end of December 2018, € 33 million of the short-term bank balances was encumbered on account of securitisations (2017: €26 million).

2 DERIVATIVES

Accounting policy for Derivatives

General

Derivatives are recognised at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed prices.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a discounted cashflow model or an option valuation model. De Volksbank recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	2018	2017	2018	2017	2018	2017
Derivatives held for cashflow hedge accounting	2	11	-	-	2	11
Derivatives held for fair value hedge accounting	448	679	853	804	-405	-125
Derivatives related to economic hedges that do not qualify for hedge accounting	103	121	70	169	33	-48
Derivatives held for trading	179	264	197	279	-18	-15
Total	**732**	**1,075**	**1,120**	**1,252**	**-388**	**-177**

Most derivatives are held to hedge against undesired markets risks. This is explained in note 18 Hedging and hedge accounting.

Statement of changes in derivatives

in € millions	2018	2017
Opening balance	-177	-328
Purchases	-	23
Settlements	8	-68
Revaluations	-283	174
Exchange rate differences	44	22
Other	20	-
Closing balance	**-388**	**-177**

The derivatives held for trading and derivatives that are held for asset and liability management that do not qualify for hedge accounting are not included in the tables below.

Derivatives for hedging purposes 2018

	Nominal amounts				Fair value	
in € millions	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
INTEREST RATE CONTRACTS						
Swaps and FRAs	1,690	19,690	7,645	29,025	447	851
Options	540	-	635	1,175	-	-
CURRENCY CONTRACTS						
Swaps	-	13	113	126	3	2
Total	2,230	19,703	8,393	30,326	450	853

Derivatives for hedging purposes 2017

	Nominal amounts				Fair value	
in € millions	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
INTEREST RATE CONTRACTS						
Swaps and FRAs	7,653	18,506	6,951	33,110	662	804
Options	-	-	1,240	1,240	-	-
CURRENCY CONTRACTS						
Swaps	-	57	84	141	28	-
Total	7,653	18,563	8,275	34,491	690	804

3 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 (“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 (“HTCS”). The cash flows of the investment shall solely consist of interest payments and principal repayments. When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as ‘investment income’. De Volksbank applies the average cost method to determine these results, where necessary.

Fair value changes of equity investments are recognised in OCI or in profit or loss. This choice is made for each equity investment separately.

Fair value through profit or loss

An investment is measured at fair value through profit or loss if it is held as part of a portfolio with an underlying business model that qualifies as ‘other’ and/or the investment does not meet the IFRS 9 criteria that the cash flows of the investment solely consist of interest payments and principal. A business model 'other' is a business model that does not qualify as 'HTC' or 'HTCS' and may consist of trading portfolios. Realised and unrealised gains and losses are recognised directly in the income statement under 'Investment income'. Interest income earned on securities is recognised as interest income under 'Interest income'. Dividend received is recorded under 'Investment income'.

Impairment losses investments

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’. For further information on impairments losses on financial assets and the model-based assumptions for the determination of expected credit losses, please refer to 4.6.3 Implementation IFRS 9 .

Investments: overview

in € millions	2018	2017
Fair value through P&L (held for trading)	3	162
Fair value through other comprehensive income	1,911	-
Amortised cost	2,868	-
Available for sale (IAS 39)	-	4,932
Total	**4,782**	**5,094**

The total value of investments dropped from € 5,094 million in 2017 to € 4,782 million in 2018, mainly because the relative amount of sales exceeded purchases. Part of the investments has been pledged as collateral for amounts due to banks (repos). This is explained in more detail in note 20 Transferred and encumbered assets.

End of 2018 the investments in structured entities amounted to € 85.1 million (2017: € 74.5 million).

Fair value through profit or loss: listing

	Equity investments		Fixed-income investments		Total	
in € millions	2018	2017	2018	2017	2018	2017
Listed	-	-	-	162	-	162
Unlisted	3	-	-	-	3	-
Total	**3**	**-**	**-**	**162**	**3**	**162**

Fair value through profit or loss: statement of changes

	Equity investments		Fixed-income investments		Total	
in € millions	2018	2017	2018	2017	2018	2017
Closing balance previous period (IAS 39)	-	-	162	831	162	831
Change in accounting policies IFRS 9	2		-		2	
Opening balance (IFRS 9)	**2**		**162**		**164**	
Revaluations	1	-	-	-	1	-
Change in investments held for trading[1]	-	-	-162	-669	-162	-669
Closing balance	**3**	**-**	**-**	**162**	**3**	**162**

1 Purchases and disposals in the trading portfolio are reported as net amount under the line item "change in investments held for trading".

Fair value through other comprehensive income 2018: listing

in € millions	Equity	Fixed-income investments	Total
Listed	-	1,908	1,908
Unlisted	3	-	3
Total	**3**	**1,908**	**1,911**

Fair value through other comprehensive income 2018: statement of changes

in € millions	Equity	Fixed-income investments	Total
Closing balance 31 December 2017 available for sale (IAS 39)	16	4,916	4,932
Change in accounting policies IFRS 9	-2	-2,759	-2,761
Increase in provisions due to IFRS 9	-	-1	-1
Opening balance fair value through OCI (IFRS 9)	**14**	**2,156**	**2,170**
Reclassifications	-	-48	-48
Purchases and advances	1	711	712
Disposals	-	-126	-126
Redemptions	-	-792	-792
Revaluations	-12	16	4
Amortisation	-	-9	-9
Closing balance	**3**	**1,908**	**1,911**

The provision for fixed-income investments measured at fair value through other comprehensive income amounted to € 1 million at the end of 2018 (2018 opening balance: € 1 million). The negative revaluation of € 10 million under Shares is the result of improved insight into the rights accompanying a specific stake.

Fair value through other comprehensive income 2018: valuation

in € millions	Equity	Fixed-income investments	Total
(amortised) Cost price	8	1,877	1,885
Unrealised gains in value	-5	31	26
Total	**3**	**1,908**	**1,911**

Amortised cost 2018: listing

in € millions	Fixed-income investments
Listed	2,868
Unlisted	-
Total	**2,868**

Amortised cost 2018: statement of changes

in € millions	Fixed-income investments
Closing balance 31 December 2017	-
Change in accounting policies IFRS 9	2,652
Increase in provisions due to IFRS 9	-1
Opening balance (IFRS 9)	**2,651**
Reclassifications	48
Purchases and advances	2,214
Disposals	-31
Redemptions	-2,006
Revaluations	6
Impairments	-1
Amortisation	-13
Closing balance	**2,868**

The provision for investments at amortised cost amounted to € 1 million at the end of 2018 (2018 opening balance: € 1 million).

Available for sale 2017: listing (IAS 39)

in € millions	Equity	Fixed-income investments	Total
Listed	-	4,916	4,916
Unlisted	16	-	16
Total	**16**	**4,916**	**4,932**

Available for sale 2017: statement of changes (IAS 39)

in € millions	Equity	Fixed-income investments	Total
Opening balance	21	5,118	5,139
Purchases and advances	-	2,531	2,531
Disposals and redemptions	-7	-2,624	-2,631
Revaluations	2	-67	-65
Amortisation	-	-28	-28
Other	-	-14	-14
Closing balance	**16**	**4,916**	**4,932**

Available for sale 2017: valuation (IAS 39)

in € millions	Equity	Fixed-income investments	Total
(amortised) Cost price	10	4,707	4,717
Unrealised gains in value	6	209	215
Total	**16**	**4,916**	**4,932**

4 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. 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	2018	2017
Deposits	3,185	2,226
Other	-	23
Restricted demand deposits at Dutch Central Bank[1]	404	394
Total	**3,589**	**2,643**

1 The restricted demand deposits at Dutch Central Bank are reported in the note 'Loans and advances to banks'.

The Loans and advances to banks amount for € 878 million of the total deposited collateral on derivative transactions (2017: € 673 million).

Other loans and advances to banks in 2017 relate to reverse repurchase contracts (€ 23 million).

5 LOANS AND ADVANCES TO CUSTOMERS

Accounting policy for loans and advances to customers
Loans and advances to customers are measured at amortised cost using the effective interest method less any impairment losses.

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

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well. De Volksbank applies a specific default definition for each portfolio for which loan loss provisions are determined under IFRS 9. For more information about the stage allocation process, please refer to section 4.6.3 Implementation IFRS 9.

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

Specification loans and advances to customers

in € millions	Loans		Provisions		Book value	
	2018	2017[1]	2018	2017	2018	2017
Retail mortgages	47,320	46,006	-58	-72	47,262	45,934
Other retail loans	110	142	-24	-28	86	114
SME loans	743	786	-41	-49	702	737
Other commercial loans and loans to the public sector	2,489	2,674	-3	-	2,486	2,674
Total	**50,662**	**49,608**	**-126**	**-149**	**50,536**	**49,459**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

De Volksbank has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 17.7 billion (2017: € 13.8 billion), of which € 11.6 billion (2017: € 7.0 billion) is on own book and a loan of € 4.5 billion (2017: € 4.5 billion) is provided by Woonhuishypotheken B.V.. Woonhuishypotheken B.V. is a fully consolidated subsidiary of de Volksbank. There is a limited transfer of risks and benefits for the securitised mortgage claims. Therefore, they are not derecognitised from the balance sheet. Further information on securitisation transactions is provided under note 12 Debt certificates and for more information about intragroup transactions see note 19 Related parties. More information regarding asset encumberance can be found in note 20 Transferred and encumbered assets

Under the other loans and advances, € 708 million (2017: € 702 million) relates to loans and advances to VIVAT. VIVAT is participating in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. The same amount is recognised as financing from VIVAT in the note 10 Other amounts due to customers.

The total provision for loans and advances to customers decreased in 2018. Both the retail mortgage portfolio and the SME portfolio contributed to this decrease, reflecting the improved market developments. In 2018 de Volksbank changed its methodology for the determination of provisions for loans that have been in default for more than 5 years. A provision is made for these loans that is at least equal to the existing collateral shortfall. This adjustment resulted in an addition to the provisions of € 10 million in 2018. Please refer to Section 4.6 Credit risk for a more detailed explanation of the provisions.

Section 4.6 Credit risk contains more information about loans and advances to customers. Section 4.6.2 Management and control includes information about how the loan portfolio is subdivided and how it is managed. Section 4.6.3 Implementation of IFRS 9 describes the breakdown of the stages and gives information on the models used. Quantitative and qualitative information about the portfolios is provided in Section 4.6.4 Figures, ratios and trends up to and including Section 4.6.8 Loans and advances to the public sector.

Statement of changes in loans and advances to customers 2018 (gross)

IFRS 9 in € millions	Retail mortgages	Other retail loans	SME loans	Other[1]	Total
Closing balance 31 December 2017 IAS 39	46,006	142	786	2,674	49,608
Change in accounting policies IFRS 9	-160	-	0	0	-160
Opening balance 1 January 2018 IFRS 9	**45,846**	**142**	**786**	**2,674**	**49,448**
Reclassifications	-7	-	15	-12	-4
Advances	6,153[2]	-	35	8,864[3]	15,052
Redemptions	-4,866[2]	-	-94	-9,052[3]	-14,012
Divestments	-	-4	-	-	-4
Change in fair value as a result of hedge accounting	190	-	-	-	190[4]
Movement in accrued interest	-8	-	1	-2	-9
Movement in current accounts	-	-28	-	5	-23
Other movements	12	-	-	12	24
Closing balance	**47,320**	**110**	**743**	**2,489**	**50,662**

1 Other commercial loans and loans to the public sector.

2 The advances and redemptions mentioned in this table include conversions of € 237 million for new production and -/- € 305 million for redemptions.

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

4 At year-end 2018, the fair value as a result of hedge accounting amounted to € 463 million (2017: € 274 million).

Movement in current accounts of € 28 million (2017: € 52 million) relates to short-term exposures.

Statement of changes in loans and advances to customers 2017 (gross)

in € millions	Retail mortgages	Other retail loans	SME loans	Other	Total
Opening balance	45,061	194	909	2,818	48,982
Advances	5,434[1]	-	35	9,353[2]	14,822
Redemptions	-4,224[1]	-	-158	-9,485[2]	-13,867
Change in fair value as a result of hedge accounting	-238	-	-	-3	-241[3]
Exchange rate differences	-	-	-	-6	-6
Change in mortgage loans at fair value through P&L	-12	-	-	-	-12
Movement in accrued interest	-9	-	-	-2	-11
Movement in current accounts	-	-52	-	-	-52
Other movements	-6	-	-	-1	-7
Closing balance	**46,006**	**142**	**786**	**2,674**	**49,608**

1 The advances and redemptions mentioned in this table include conversions of € 178 million for new production and -/- € 242 million for redemptions.

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

3 At year-end 2017, the fair value as a result of hedge accounting amounted to € 274 million (2016: € 515 million).

Statement of changes in specific provision loans and advances to customers

	2018 (IFRS 9)					2017 (IAS 39)			
in € millions	Retail mortgages	Other retail loans	SME loans	Other[1]	Total	Retail mortgages	Other retail loans	SME loans	Total
Closing balance prior period	72	28	49	-	149	114	26	74	214
Changes in accounting policies IFRS 9	2	6	-	1	9	-	-	-	-
Opening balance	**74**	**34**	**49**	**1**	**158**	**114**	**26**	**74**	**214**
Changes due to change in credit risk	1	5	-	2	8	-21	7	-9	-23
Originations and acquisitions	2	-	-	-	2	-	-	-	-
Derecognitions	-6	-12	-5	-	-14	-	-	-	-
Write-offs	-13	-3	-3	-	-28	-23	-5	-19	-47
Net increase/decrease	**-16**	**-10**	**-8**	**2**	**-32**	**-44**	**2**	**-28**	**-70**
Other changes	-	-	-	-	-	2	-	3	5
Closing balance	**58**	**24**	**41**	**3**	**126**	**72**	**28**	**49**	**149**

1 Other commercial loans and loans to the public sector.

6 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Accounting policy for Property and Equipment

Land and buildings in own use

Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based on yearly valuations, performed by external, independent valuators.

Increases in the fair value exceeding the cost price are recognised in the revaluation reserve in shareholders' equity. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are recognised in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are performed on land and buildings.

Upon the sale of a property, the part of the revaluation reserve related to the sold property, within equity, is transferred to 'other reserves'.

IT equipment and other assets
All other tangible assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the assets and is depreciated on a straight- line basis over the useful life, taking into account any residual value. The estimated useful life can vary from 3 to 10 years.

Results on the sale of property and equipment are recognised as part of 'other operating income'.

Accounting policy for intangible Assets
General
Intangible assets are measured at cost net of accumulated amortisation and, if applicable, accumulated impairment losses.

Software
Costs that are directly related to the development of identifiable software products that de Volksbank controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible assets. The direct costs comprise external costs and staff costs directly attributable to software development. All other costs associated with the development or maintenance of software are included as an expense in the period during which they are incurred.

The capitalised development costs for software are amortised on a straight-line basis over the useful life, with a maximum of five years. Every reporting date an assessment is carried out for possible impairments.

Other intangible assets
The other intangible assets of de Volksbank consist of the distribution network of former Regiobank and are amortised in accordance with the straight-line method over their useful life or amortised on the basis of the profit flows from the underlying portfolios, which is in general between five and fifteen years. If objective indications require so, an impairment test will be performed.

Accounting policy for impairments of intangible assets
General
An intangible asset measured at amortised cost is subject to impairment if its book value exceeds the realisable value from continued use (value-in-use) or sale of the asset. The realisable value of assets is estimated if there are indications of impairment of the asset. Intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Software and other intangible assets
On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indicators of possible impairments.

Reversal of impairments on intangible assets
Except for goodwill, if applicable, impairment losses on intangible assets are reversed if there is proof that a change in the estimates of the realisable value occurred after the impairment loss was recognised. The reversal is included under 'impairment charges' in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Specification tangible and intangible assets

in € millions	2018	2017
Land and buildings in own use	16	17
IT equipment	14	12
Other tangible assets	33	38
Total property and equipment	**63**	**67**
Internally developed software	4	10
Distribution channel RegioBank	2	4
Total intangible assets	**6**	**14**
Total	**69**	**81**

Statement of changes in property and equipment

	Land and buildings		IT equipment		Other tangible assets		Total	
in € millions	2018	2017	2018	2017	2018	2017	2018	2017
Accumulated acquisitions costs	21	48	30	28	76	85	127	161
Accumulated revaluations	-	-8	-	-	-	-	-	-8
Accumulated amortisation and impairments	-5	-23	-16	-16	-43	-47	-64	-86
Closing balance	**16**	**17**	**14**	**12**	**33**	**38**	**63**	**67**
Opening balance	17	17	12	13	38	43	67	73
Reclassifications	-	-1	-	-	-	1	-	-
Revaluations	-	2	-	-	-	-	-	2
Investments	-	-	8	5	4	4	12	9
Divestments	-1	-1	-	-	-	-	-1	-1
Disposals	-	-	-	-	-	-1	-	-1
Depreciation	-	-	-6	-6	-9	-9	-15	-15
Closing balance	**16**	**17**	**14**	**12**	**33**	**38**	**63**	**67**

At year-end 2018 the renovations to the leased office premises, which are not yet in use, amount to € 0.4 million (2017: € 0.3 million).

Statement of changes in intangible assets

	Internally developed software		Distribution channel RegioBank		Total	
in € millions	2018	2017	2018	2017	2018	2017
Accumulated acquisition costs	15	18	21	21	36	39
Accumulated amortisation and impairments	-11	-8	-19	-17	-30	-25
Closing balance	**4**	**10**	**2**	**4**	**6**	**14**
Opening balance	10	9	4	6	14	15
Capitalised costs	-	5	-	-	-	5
Depreciation capitalised costs	-4	-4	-	-	-4	-4
Depreciation purchases	-	-	-2	-2	-2	-2
Divestments	-2	-	-	-	-2	-
Closing balance	**4**	**10**	**2**	**4**	**6**	**14**

RENTAL INCOME

Future rental income based on irrevocable operational leases

in € millions	2018	2017
< 1 year	3	3
1 - 5 year	6	6
> 5 year	-	-
Total	**9**	**9**

VALUATION OF LAND AND BUILDING IN OWN USE

Land and buildings in own use with a fair value of more than € 1 million are valued by an external surveyor every year, with the exception for the building of ASN Bank in The Hague. Other land and buildings in own use are valued once every three years.

The valuations were carried out in Januari 2019.

Valuation of land and buildings in own use

in € millions	Appraised book value	Total book value	% Appraised book value
2018	**12**	**16**	**77%**
2017	12	17	71%
2016	11	17	65%

DETERMINATION OF THE FAIR VALUE OF PROPERTY AND EQUIPMENT HIERACHY

De Volksbank classifies land and buildings in own use, as in previous years, as level 3. These assets are measured based on yearly valuations. The main parameters for these valuations are the market rental value and the expected return. As these parameters are not directly observable in the market, we classify land and buildings in own use as level 3.

7 TAX ASSETS AND LIABILITIES

Accounting policy for tax assets and liabilities

Corporate tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any Corporate income tax includes dividends withholding tax, which is settled through the corporate income tax return. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

Accounting policy for deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless de Volksbank can determine the time at which these temporary differences will end and if it is probable that these differences will not end in the near future. Deferred tax assets are assessed at the balance sheet date.

The most significant temporary differences arise from the revaluation of property and equipment, certain financial assets and liabilities, including derivative contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value of the acquired net assets and (b) the tax value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realization included in the income statement together with the deferred revaluations.

Specification tax assets and liabilities

	Tax assets		Tax liabilities	
in € millions	**2018**	2017	**2018**	2017
Corporate income tax	63	22	-	-
Deferred taxes	70	110	15	45
Total	**133**	**132**	**15**	**45**

Corporate income tax

Corporate income tax receivable and payable for the years up to and including 2016 is irrevocable. The return for 2016 was filed in 2018 and definitively assessed in August 2018. The corporate income tax due by the various subsidiaries of the fiscal unity for corporate income tax purposes based on the final assessment as well as the return filed has been settled with the head of the fiscal unity, i.e. de Volksbank. The corporate income tax return for 2017 must be filed before 1 May 2019.

Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

in € millions	**2018**	**2017**
Deferred tax assets	70	110
Deferred tax liabilities	15	45
Total	**55**	**65**

Origin of deferred tax assets and liabilities 2018

in € millions	Balance as at 31 December 2017 (IAS 39)	Changes in accounting policies	Balance as at 1 January 2018 (IFRS 9)	Change through P&L	Change through equity	Other movements[1]	Closing balance
Intangible assets	-1	-	-1	-	-	-	-1
Property and equipment	1	-	1	1	-	-	2
Investments	-32	27	-5	-	1	-	-4
Derivatives	-12	-	-12	-	2	-	-10
Loans and advances to customers	90	-	90	-25	-	-7	58
Provisions	17	-	17	-9	-	-	8
Other	2	-	2	-	-	-	2
Total	**65**	**27**	**92**	**-33**	**3**	**-7**	**55**

1 Concerns the impact of a corporate tax rate reduction thorugh the P&L and through equity.

Origin of deferred tax assets and liabilities 2017

in € millions	Opening balance	Change through P&L	Change through equity	Closing balance
Intangible assets	-1	-	-	-1
Property and equipment	2	-	-1	1
Investments	-43	-	11	-32
Derivatives	-15	-	3	-12
Loans and advances to customers	115	-25	-	90
Provisions	18	-1	-	17
Other	2	-	-	2
Total	**78**	**-26**	**13**	**65**

Specification tax-effect changes shareholders' equity

in € millions	2018	2017
Change in cashflow hedge reserve	2	3
Change in fair value reserve	1	11
Change in other reserve	-	-1
Total	**3**	**13**

Tax-deductible losses

in € millions	2018	2017
Total tax-deductible losses	-	1
Deferred tax assets calculated on tax-deductible losses	-	-
Average tax rate	25.0%	25.0%

Deferred tax assets (DTA) as at year-end 2018 mostly related to a temporary valuation difference in loans and advances to customers. The remaining term of this temporary valuation difference is 2,5 years.

Pursuant to an agreement concluded with the Dutch Tax and Customs Administration in 2016, the financial instruments in the tax return may be valued on the basis of the same accounting principles as those that apply to the financial statements for reporting purposes. Coordination with the Tax and Customs Administration was necessary because of the application of IFRS 9.

8 OTHER ASSETS

Accounting policy for other assets

Other assets consist of taxes, other receivables and accrued assets. The net amount of advances and provisions in relation to the Deposit Guarantee Scheme (DGS) is accounted for under other receivables.

Specification other assets

in € millions	2018	2017
Accrued assets	148	185
Other advances	143	43
Total	**292**	**228**

De Volksbank implemented a change in the presentation of accrued interest. It was previously reported under other assets, but it has been reclassified to the corresponding asset with effect from 2018. Comparative figures have been adjusted accordingly.

Other accrued assets include the advanced contribution of de Volksbank to the Dutch Central Bank of € 57 million (2017: € 54 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank.

9 SAVINGS

Accounting policy for savings

Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of households. Upon initial recognition, savings, are measured at fair value, Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these savings by using the effective interest method.

Specification savings

in € millions	2018	2017
Due on demand	32,871	32,114[1]
Other savings	4,505	4,642[1]
Total	**37,376**	**36,756**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities.These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

The bank savings accounts amount to € 3,452 million (2017: € 3,442 million). The life-course savings accounts amount to € 178 million (2017: € 192 million).

10 OTHER AMOUNTS DUE TO CUSTOMERS

Accounting policy for other amounts due to customers

Other amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits, cash and mortgage deposits.

Upon initial recognition other amounts due to customers are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these amounts owed by using the effective interest method.

Specification other amounts due to customers

in € millions	2018	2017
Private loans	913	1,194
Private loans securitisation programme	708	702
Due on demand	6,470	5,916
Mortgage deposits	461	374
Savings deposits	2,263	2,094
Accrued interest	26	26[1]
Total	**10,841**	**10,306**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities.These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

Under private loans, € 591 million relates to debt instruments (Schuldscheine) issued by pension funds and insurance companies (2017: € 660 million).

A part of the private loans is issued by the covered bond programme of de Volksbank. The bookvalue of the private loans amounts to € 361 million (2017: € 347 million). Additional repayment security was given by the Covered Bond Company for these private loans. For more information about the covered bond programme, reference is made to note 12 Debt certificates .

The private loans under the securitisation programme of € 708 million (2017: € 702 million) relate to the amount for which VIVAT participates in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. For securitised offset mortgages, account is taken of the savings part accrued by means of a sub-participation of VIVAT in the securitisation entity. VIVAT receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. This means that the amount in private loans recognised under loans and advances to customers is the same amount as the loan that de Volksbank has provided to VIVAT.

As part of an offset mortgage arrangement, de Volksbank and insurer Vivat have agreed that the savings premiums the insurer receives from the customer will be held with the bank. These savings premiums and the interest credited (the savings capital designated for mortgage redemption) mean that, in principle, the insurer has an unsecured claim against the bank. To spread the insurer's default risk, a cession/retrocession agreement has been concluded under which the insurer transfers the savings capital to the bank in exchange for a partial and joint right to the offset mortgage claims. In 2018, the savings capital accrued totalled € 1.550 million (2017: € 1,613 million).

11 AMOUNTS DUE TO BANKS

Accounting policy for amounts due to banks

Amounts due to banks comprise unsubordinated debts to credit institutions. Amounts due to banks include private loans, current accounts and repos.

Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these amounts owed by using the effective interest method.

Specification amounts due to banks

in € millions	2018	2017
Due on demand	180	212
Deposits and certificates	417	1,129
Repo-contracts	484	1,305
Private loans	34	35
Accrued interest	1	2[1]
Total	**1,116**	**2,683**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

Liabilities related to repo-contracts, hedged by means of a temporary sale of investments, amounted to € 484 million in 2018 (2017: € 1,305 million).

In 2017, de Volksbank was able to recognise $ 1.1 billion (€ 959 million) by subscribing to a 3-week ECB tender loan. This item is recognised under deposits and certificates. Its counterpart is recognised under cash and cash equivalents. The transaction was settled in January 2018.

Under private loans, € 34 million (2017: € 35 million) relates to the placement of debt instruments (Schuldscheine) with banks.

12 DEBT CERTIFICATES

Accounting policy for Debt Certificates

Debt certificates include the non-subordinated bonds and other debt certificates with a fixed or variable interest rate. Outstanding debt certificates are measured at fair value upon initial recognition, which ordinarily corresponds to the issue proceeds (the fair value of the payment received) net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

When de Volksbank purchases its own debt securities, these debt securities are derecognised.

Specification debt certificates

in € millions	2018	2017
Medium-term notes (MTN)	4,937	3,294[1]
Certificates of deposits	225	472
Debt certificates issued under Hermes, Pearl and Lowland Securitisation programmes	609	711
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	51	443
Balance as at 31 December	**5,822**	**4,920**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Issued under securitisation programmes		Classified as Fair value through P&L		Total	
in € millions	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Closing balance previous period (IAS 39)	3,294	3,915	472	-	711	1,303	443	526	4,920	5,744
Change in accounting policies IFRS 9	-		-		-		-3		-3	
Opening balance (IFRS 9)	**3,294**		**472**		**711**		**440**		**4,917**	
Issues	1,751	2,479	1,269	472	-	2,251	-	-	3,020	5,202
Redemptions	-94	-3,011	-1,516	-	-102	-2,837	-391	-85	-2,103	-5,933
Revaluations	-	-63	-	-	-	-	-	2	-	-61
Amortisation	4	-	-	-	-	-	2	-	6	-
Mutation accrued interest	10	-28	-	-	-	-	-	-	10	-28
Other adjustments	-28	2	-	-	-	-6	-	-	-28	-4
Closing balance	**4,937**	**3,294**	**225**	**472**	**609**	**711**	**51**	**443**	**5,822**	**4,920**

MEDIUM TERM NOTES
Specification Medium Term Notes

in € millions[1]	Coupon rate	Book value 2018	Nominal value 2018	Book value 2017	Nominal value 2017
De Volksbank N.V.	Fixed	4,308	4,242	3,037	2,950
De Volksbank N.V.	Structured	189	160	222	191
De Volksbank N.V.	Floating	440	432	35	27
Total		**4,937**	**4,834**	**3,294**	**3,168**

1 MTN's before 2017 were issued under the name SNS Bank N.V.

The Medium Term Notes comprise both private loans and public loans that are issued under the EMTN programme.

Under the line item Medium Term Notes, € 1.8 billion (2017: € 2.5 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 program de Volksbank undertakes upon request of the CBC, to offer to transfer eligible assets to the CBC, provided that the CBC shall only request a transfer of eligible assets if it determines that the Asset Cover Test has been breached. The Asset Cover Test is an arithmetic test that determines the minimum amount of assets needed to cover the liabilities guaranteed by the CBC.

Of the Medium Term Notes issued in 2018, € 0.5 billion was issued in a public transaction in June with an interest rate of 0.75% and a maturity of 5 years. In addition, € 0.4 billion was issued in a private transaction in October 2018 with a floating rate and a maturity of 1.5 years.

CERTIFICATES OF DEPOSIT

Certificates of Deposit are debt securities with a fixed interest rate and a short-term maturity. At the end of 2018, de Volksbank issued € 225 million (2017: € 472 million) in Certificates of Deposit.

SECURITISATION PROGRAMMES

De Volksbank entered into securitisation programmes to obtain funding and to improve liquidity. Within the programme de Volksbank sells mortgage receivables originated by itself to a Special Purpose Vehicle (SPV). The SPV issues securitised notes which are eligible collateral for the European Central Bank. In most programmes, de Volksbank acts as investor of the securitised notes. As the SPVs are set up for the benefit of de Volksbank and there is limited transfer of risks and rewards, de Volksbank continues to consolidate the SPVs.

Debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

De Volksbank has securitised part of the mortgage loans. In these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans were transferred at nominal value plus a deferred compensation. A positive result within the separate companies leads to the creation of a positive value of the deferred compensation. De Volksbank thus retains an economic interest in these companies. On the basis of this economic interest and other criteria established by IFRS for dominant control, de Volksbank has these companies fully consolidated in the financial statements.

Securitisation transactions have a so called call + step-up structure. This means that after a specific call date, the company will have the right to early redeem the bonds. 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. All notes issued under the securitisation programmes with a call date in 2018 (Lowland 2 and Lowland 3) have been called. An overview of the securitisations as at 31 December is provided below:

Overview debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

in € millions	Initial principal	Start of securitisation	Book value 2018	Book value 2017	First call-option date	Contractual expiration
Pearl 1	1,014	09-2006	687	789	18-03-2016	01-12-2038
Lowland 2	1,917	07-2013	-	1,178	18-07-2018	18-10-2042
Lowland 3	2,613	12-2013	-	1,724	18-12-2018	18-09-2045
Lowland 4	4,114	02-2017	4,067	4,051	18-02-2022	18-02-2054
Lowland 5	5,027	05-2018	5,007	-	18-05-2023	18-05-2055
Lowland 6	2,500	10-2018	2,492	-	18-10-2023	18-10-2055
Total	**17,185**		**12,253**	**7,742**		
On own book			-11,644	-7,031		
Total			**609**	**711**		

In 2018, de Volksbank holds bonds, issued under the securitisation programmes, with an amortised cost of € 11.6 billion (2017: € 7.0 billion).

Part of the senior tranches of Pearl 1 and Lowland 4 securitisations are held for own account and qualify as eligible assets at the European Central Bank.

In 2018, the debt certificates issued under the Lowland 2 and Lowland 3 securitisation programme were redeemed.

On 23 May 2018, de Volksbank issued a new securitisation named Lowland 5 for an amount of € 5,027 million. On 22 October 2018 de Volksbank issues a new securitisation named Lowland 6 for an amount of € 2,500 million.

Holland Homes securitisation programmes

Besides its regular securitisation programmes, de Volksbank has securitised part of its mortgages through the Holland Homes transactions. Companies established for the purpose of these transactions (special purpose entities, SPEs) are funded through long-term bonds issued by these SPEs. The obligations to bondholders and the income from the mortgages are matched by means of interest rate swaps

The Holland Homes securitisation transaction, at year-end 2018 € 51 million, has a so-called clean-up call structure. This means that if the amount of outstanding notes is less than 10% of the initial outstanding notes (notional), the issuer has the option to redeem the bonds.

Specification Holland Homes securitisatisation programme

in € millions	Initial principal	Start of securitisation	Book value 2018	Book value 2017	Date put-option	Contractual expiration
Holland Homes (MBS 2000-1)	350	11-2000	51	67	n.a.	24-09-2030
Holland Homes (MBS (Oranje)	1,601	04-2006	-	376	18-07-2018	31-12-2083
Total	**1,951**		**51**	**443**		
On own book			-	-		
Total			**51**	**443**		

In 2018 the debt certificates Holland Homes Oranje were redeemed.

13 OTHER LIABILITIES

Accounting policy for other liabilities

Other liabilities consist of creditors, other taxes and accrued liabilities.

Specification other liabilities

in € millions	2018	2017
Other taxes	16	15
Other liabilities	471	575
Total	**487**	**590**

14 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 mainly consists 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	2018	2017
Employee commitments	16	16
Restructuring provision	42	41
Other provisions	35	68
Provision for credit losses off-balance sheet items	5	-
Total	**98**	**125**

See note 16 Legal proceedings for a more detailed explanation of the main pending legal proceedings against de Volksbank.

The restructuring provision was reassessed in 2018. An amount of € 21 million was added to the restructuring provision. This addition was related to further initiatives to simplify and improve our business operations. The restructuring provision runs up to and including 2020 and are predominantly long-term in nature.

In 2018, the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives declined by € 20 million to € 2 million; it is included in the other provisions. The administrative processing and payment of compensation was virtually completed in 2018; only a few customers are still awaiting payment. On balance, € 8 million was released and € 12 million paid in 2018.

Part of the other provisions consists of compensations to customers in connection with the risk surcharge of offset mortgages (€ 1.4 million) and the costs required to be made to bring back customer files from debt collection agencies (€ 4.6 million). The employee commitments and other provisions are predominantly long-term in nature.

Statement of changes in other provisions

	Employee commitments		Restructuring provision		Other provisions		Provision for credit losses off-balance sheet items		Total	
in € millions	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Closing balance previous period (IAS 39)	16	17	41	39	68	64	-	-	125	120
Change in accounting policies	-		-		-		8		8	
Opening balance (IFRS 9)	**16**		**41**		**68**		**8**		**133**	
Additions	1	-	21	8	-	16	-	-	22	24
Withdrawals	-1	-1	-20	-6	-	-12	-1	-1	-45	-19
Releases	-	-	-	-	-10	-	-2	-		-
Closing balance	**16**	**16**	**42**	**41**	**35**	**68**	**5**	**5**	**98**	**125**

15 SUBORDINATED DEBTS

Accounting policy for subordinated debts

Subordinated debt is measured at fair value upon initial recognition, which ordinarily corresponds to the proceeds net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

The subordinated debts of de Volksbank form part of the eligible own funds which is used in determining the solvency position of de Volksbank.

The (Tier 2) bonds have a book value of € 502 million as at 31 December 2018 (2017: € 501 million). These subordinated debts were placed in 2015 for a total amount of € 500 million. The bonds, with a maturity of ten years, have a fixed coupon rate of 3.75% and with a one-off option to redeem or to adjust the rate after five years.

Statement of changes subordinated debts

in € millions	2018	2017
Opening balance	501	504
Revaluations	1	-3
Closing balance	**502**	**501**

16 OFF-BALANCE SHEET COMMITMENTS

Accounting policy for contingent liabilities and commitments

Contingent liabilities are liabilities not recognised in the balance sheet whose existence is contingent on one or more uncertain future events that may or may not occur in the future not wholly within the control of de Volksbank. It is not possible to make a reliable estimate of such liabilities. This includes liabilities from pledges and guarantees given, liabilities from irrevocable facilities and repurchase commitments.

The contingent liabilities are stated based on the maximum potential credit risk. In determining the maximum potential credit risk it is assumed that all the counterparties will no longer fulfil to their contractual obligations and that all the existing collateral is without value.

Impairment losses for off-balance sheet items

Impairment losses for off-balance sheet items such as loan commitments and financial guarantee contracts are recognised in line item 14 Provisions. For further information on impairment losses, please refer to note 5 Loans and advances to customers.

CONTINGENT LIABILITIES

Specification contingent liabilities

in € millions	2018	2017
Liabilities from pledges and guarantees given	17	16
Liabilities from irrevocable facilities	1,348	1,040
Repurchase commitments	868	1,040
Total	**2,233**	**2,096**

The irrevocable facilities mainly consist of credit facilities pledged to customers, but against which no claim has yet been made. These facilities are pledged for a fixed term and at a variable interest rate. Collateral has been secured for the majority of the irrevocable credit facilities. The increase in irrevocable facilities is caused primarily by a credit facility made available to the Deposit Guarantee Fund, which commenced in 2018.

Some of the collateralised loans and advances of € 623 million (2017: € 718 million) were sold in the past by a legal predecessor of de Volksbank. This sales transaction entails that, as legal successor, de Volksbank has a repurchase obligation on the interest repricing date and/or is obliged to convert the form of repayment of the loans and advances. The repurchase price is equal to the outstanding principal adjusted for accrued savings capital that is intended for mortgage repayments.

In addition, de Volksbank and SRLEV agreed in 2015 that de Volksbank would (re)purchase a mortgage portfolio from SRLEV. The value of the mortgage portfolio to be repurchased was € 245 million as at 31 December 2018 (2017: € 321 million). The mortgages are repurchased on a monthly basis if a loan component meets certain conditions, such as interest repricing date and conversion of the form of redemption.The repurchase price is equal to the outstanding principal adjusted for accrued savings capital that is intended for mortgage repayments.

Maturity calendar repurchase commitments

in € millions	2018	2017
< 1 year	43	38
1 - 5 year	36	82
> 5 year	789	920
Total	**868**	**1,040**

GUARANTEE AND COMPENSATION SYSTEMS

The European Deposit Guarantee Scheme Directive was implemented in Dutch legislation on 26 November 2015. The Deposit Guarantee Scheme Directive establishes common standards across the EU and aims to strengthen the protection of depositors. It ensures that depositors will continue to benefit from a guaranteed coverage up to € 100,000 in case of bankruptcy. This will be backed by funds that will be collected from the banking sector. A significant component of the rules is a pre-funded Deposit Guarantee Scheme (DGS). In the new DGS, banks will pay quarterly contributions into a new Deposit Guarantee Fund (DGF). The level of the contribution paid by de Volksbank depends on the amount of guaranteed deposits at de Volksbank and the risk profile, partly in relation to the other banks that are part of the Scheme. The target size of the Fund is equal to 0.8% of the total guaranteed deposits of the banks collectively, a target that needs to be reached by 2024. De Volksbank paid € 32 million to the DGS in 2018 (2017: € 33 million).

In order to finance an orderly winding up of failing banks, a National Resolution Funds (NRF) was established in 2015, which is ex-ante financed by contributions raised from the banks. The NRF will be replaced by the Single Resolution Fund (SRF) as of 2016. The SRF will be built up over eight years, reaching a target level of at least 1% of the amount of covered deposits of all credit institutions of all the participating member states. De Volksbank contributed € 14 million (2017: € 10 million) to the NRF in 2018.

FUTURE COMMITMENTS

The future minimum operating lease commitments relate to leased premises.

Maturity calendar future minimum operating lease commitments

in € millions	2018	2017
< 1 year	14	15
1 - 5 year	48	48
> 5 year	29	38
Total	**91**	**101**

The moment the future operating lease commitments are incurred, they are recognised under the item Other operating expenses. The most important contracts have renewal options. Under the operating leases there are no options to acquire property and no imposed restrictions. Part of the buildings are sublet to third parties. For a period of up to 1 year, this future rental income amounts to € 3 million (2017: € 3 million), and for a period of 1 to 5 years to € 4 million (2017: € 6 million).

The future payment obligations for company car contracts stand at € 2 million for a period up to one year (2017: € 2 miljoen) and € 4 million (2017: € 2 miljoen) for a period exceeding one year. There is no commitment for a period longer than 5 years.

De Volksbank concluded some large long-term IT support contracts in the amount of € 29 million (2017: € 25 million).

Maturity calendar future IT commitments

in € millions	2018	2017
< 1 year	12	10
1 - 5 year	16	13
> 5 year	1	2
Total	**29**	**25**

LEGAL PROCEEDINGS

De Volksbank and its subsidiaries are and may become from time to time involved in governmental, legal and arbitration proceedings that relate to claims by and against it which ensue from its normal business operations. The most important proceedings are described below.

Madoff

In 2010, three Madoff 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. A similar proceeding was initiated by one of these funds against SNS Global Custody in the British Virgin Islands (BVI). These proceedings have now been settled in de Volksbank's favour in the highest instance and have thus ended.

The funds claim repayment of payments they made to the beneficial owners for redemptions of investments. In line with these lawsuits, Madoff's trustee initiated proceedings against de Volksbank and SNS Global Custody. At first instance, de Volksbank was successful in proceedings against Madoff's trustee, but the trustee has appealed. In the proceedings against the feeder funds, the Court of New York ruled in de Volksbank's favour on a preliminary question concerning the choice of forum. The Court also held that de Volksbank was in the right regarding three substantive points. In view of the complexity of the Madoff cases and the range of procedural options (such as appeal) that are still available, no reliable estimate can be made at this time as to whether de Volksbank will ultimately be bound to pay any sum.

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 2017 no provisions were made in respect of possible legal actions by former holders and other affected parties. As the outcomes of possible legal proceedings cannot be predicted with certainty, it cannot be ruled out that a negative outcome may have a material negative financial impact on the capital position, results and/or cashflows of de Volksbank.

Inquiry proceedings by Dutch Investors' Association

In November 2014 the Dutch Investors' Association (Vereniging van Effectenbezitters; 'VEB') filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (the 'Enterprise Chamber') for an inquiry into the management of SNS REAAL, currently SRH, SNS Bank, currently de Volksbank, and the former SNS Property Finance, currently Propertize.. Other parties concerned have joined these proceedings. SRH, de Volksbank and Propertize disputed the authority to file a petition for an inquiry. The Enterprise Chamber granted the request related to SRH and rejected the request related to Propertize. The decision related to de Volksbank has so far been deferred by the Enterprise Chamber. SRH appealed against the decision to grant the request in October 2015. De Volksbank and Propertize joined this application for cassation. On 4 November 2016, the Supreme Court held that the VEB had locus standi to request an inquiry against SRH and remitted the case back to the Enterprise Chamber.

On 26 July 2018, the Enterprise Chamber ruled that the Dutch Investors' Association (VEB) also had locus standi to request an inquiry against de Volksbank. The Enterprise Chamber also ordered an inquiry on eight topics into the management and course of events at SRH and de Volksbank for the period from 1 January 2006 to 1 February 2013. On 2 August, the Enterprise Chamber appointed three investigators and subsequently, on 7 November 2018, approved the investigation plan and budget they had submitted. The investigators expressed an expectation that the inquiry will last until mid-2020. SRH and de Volksbank have stated that they will cooperate with the investigation. De Volksbank has formed a provision for the investigation costs that will be incurred. Furthermore, on 26 October 2018 SRH and de Volksbank brought an appeal to the Supreme Court against the petition for awarding the inquiry. It is not clear when a decision may be expected.

Guarantees pursuant to section 2:403, Volume 2 of the Dutch Civil Code for Propertize et al.

In the context of the transfer of Propertize et al., SRH and de Volksbank have withdrawn the 403 Guarantees issued for Propertize et al. in the past. This withdrawal has become irrevocable for all creditors, with the exception of Commerzbank. Commerzbank raised an objection to the withdrawal of the 403 Guarantees. This objection was declared well-founded up to the highest instance in a Supreme Court decision of 31 March 2017.

Other proceedings relevant to de Volksbank

In addition, there are proceedings to which de Volksbank is not a party or in which it is not the direct subject of investigation, but the course and results of which may have a material impact on de Volksbank's position.

This applies to the compensation proceedings before the Enterprise Chamber initiated by former holders of expropriated securities and capital components of SRH and de Volksbank. Following initial proceedings leading to a Supreme Court ruling on the basic principles for the assessment of the value of the expropriatedsecurities and capital components, the Enterprise Chamber has appointed three experts.The experts presented their final report on 27 April 2018. A hearing was held before the Enterprise Chamber in November 2018. A decision is expected on 29 March 2019. The Enterprise Chamber will determine whether any compensation must be paid to the parties entitled to the expropriated securities and assets and, if so, what the amount of the compensation will be. Any ensuing damages arising from these proceedings will be paid by the Dutch State.

Other

Interest rate derivatives

In the past, de Volksbank entered into interest rate derivatives with customers. This involves a small portfolio, and no further interest rate derivatives have been entered into with customers since 2010. At the AFM's request, de Volksbank reassessed its customers' interest rate derivatives in 2014 and 2015 in order to establish whether customers had been adequately advised in the past.

In December 2015, the AFM informed de Volksbank that the reassessment of the interest rate derivatives by the banks, including de Volksbank, contained shortcomings and that a new reassessment of the interest rate derivatives might have to be carried out. The Minister of Finance subsequently appointed three independent experts (the Committee of Experts) to set up a uniform recovery framework in collaboration with the banks. This uniform recovery framework defines how the new reassessments are to be conducted and what corrective action should be taken.

De Volksbank started implementing the Recovery Framework in 2017. At year end, de Volksbank has made an offer to all customers with a derivative that fall within the scope of the Recovery Framework and informed all customers that fall outside the scope. The administrative processing of the offers made was as good as finished at year-end. On the basis of the Recovery Framework as published on 19 December 2016, de Volksbank has reviewed the provision maintained for compensation. At year-end 2018, an amount of € 21.5 million was recognised for this purpose, see note 14 Provisions.

17 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.

Overview of financial assets and liabilities by measurement base 2018

in € millions	Amortised cost	Fair value through profit or loss	Fair value through OCI	Total
Cash and cash equivalents	815	-	-	815
Derivatives	-	732	-	732
Investments	2,868	3	1,911	4,782
Loans and advances to banks	3,589	-	-	3,589
Loans and advances to customers	50,536	-	-	50,536
Total financial assets	**57,809**	**735**	**1,911**	**60,454**
Derivatives	-	1,120	-	1,120
Amounts due to banks	1,116	-	-	1,116
Savings	37,376	-	-	37,376
Other amounts due to customers	10,841	-	-	10,841
Debt certificates	5,822	-	-	5,822
Subordinated debt	502	-	-	502
Total financial liabilities	**55,658**	**1,120**	**-**	**56,777**

Overview of financial assets and liabilities by measurement base 2017

in € millions	Amortised cost	Fair value through profit or loss - Trading	Fair value through profit or loss - Other	Available for sale	Total
Cash and cash equivalents	2,180	-	-	-	2,180
Derivatives	-	264	811	-	1,075
Investments	-	162	-	4,932	5,094
Loans and advances to banks	2,643	-	-	-	2,643
Loans and advances to customers[1]	47,771	-	1,688	-	49,459
Total financial assets	**52,594**	**426**	**2,499**	**4,932**	**60,451**
Derivatives	-	279	973	-	1,252
Amounts due to banks[1]	2,683	-	-	-	2,683
Savings[1]	36,756	-	-	-	36,756
Other amounts due to customers[1]	9,999	-	307	-	10,306
Debt certificates[1]	4,477	-	443	-	4,920
Subordinated debt[1]	501	-	-	-	501
Total financial liabilities	**54,416**	**279**	**1,723**	**-**	**56,418**

1 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

Notes to the valuation financial assets and liabilities

The following techniques and assumptions have been used to determine the fair value of financial instruments.

Investments

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, creditworthiness and maturity of the relevant investment.

Loans and advances to customers

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, Loan-to-Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

Derivatives

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model to determine their fair value. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

Loans and advances to banks

Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

Other assets

Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents

The book value of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Subordinated debt

The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by de Volksbank or the entity within de Volksbank Group whose contractual obligation it is, differentiated to maturity and type of instrument.

Debt certificates
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, determined by maturity and type of instrument.

Amounts due to customers
The fair value of readily available savings and term deposits differs from the nominal value because the interest is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. De Volksbank's Funds Price-curve (FTP) was used for savings not covered by the DGS.

Amounts due to banks
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other liabilities
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

Hierarchy in determining the fair value of financial instruments
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

More detailed explanation of the level classification
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair value based on published stock prices in an active market
For all financial instruments in this valuation category, stock prices are observable and publically available from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds, including investment funds for the account of policyholders whose underlying investments are listed.

Level 2 – Fair value based on observable market data
The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have been issued by brokers, but which are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

Level 3 – Fair value not based on observable market data
A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

Hierarchy financial assets and liabilities 31 December 2018

IFRS 9 in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through P&L	3	-	-	3	3
Investments - fair value through OCI[1]	1,911	1,857	50	4	1,911
Derivatives	732	-	664	68	732
Loans and advances to customers[2]	-	-	-	-	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised costs[1]	2,868	2,870	73	-	2,943
Loans and advances to customers	50,536	-	-	53,028	53,028
Loans and advances to banks	3,589	-	-	-	3,589
Other assets	292	-	-	-	292
Cash and cash equivalents	815	-	-	-	815
Total financial assets	**60,746**	**4,727**	**787**	**53,103**	**63,313**
Financial liabilities measured at fair value					
Derivatives	1,120	-	1,050	70	1,120
Debt certificates[2]	-	-	-	-	-
Financial liabilities not measured at fair value					
Subordinated debts	502	-	526	-	526
Debt certificates	5,822	-	-	5,911	5,911
Savings	37,376	-	33,493	4,352	37,845
Other amounts due to customers	10,841	-	10,971	-	10,971
Amounts due to banks	1,116	-	1,120	-	1,120
Other liabilities	487	-	-	-	487
Total financial liabilities	**57,264**	**-**	**47,160**	**10,333**	**57,980**

1 Since the introduction of IFRS 9, a part of the investments which were measured at available for sale under IAS 39, are measured at amortised cost.

2 Since the introduction of IFRS 9, the part of the Loans and advances to customers, and of the Debt certificates which were measured at fair value under IAS 39, are remeasured at amortised cost.

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 2017

IAS 39 in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through P&L	162	162	-	-	162
Investments - available for sale	4,932	4,761	154	17	4,932
Derivatives	1,075	-	992	83	1,075
Loans and advances to customers[1]	1,688	-	-	1,688	1,688
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[2]	47,771	-	-	50,368	50,368
Loans and advances to banks	2,643	-	-	-	2,643
Other assets[3]	228	-	-	-	228
Cash and cash equivalents	2,180	-	-	-	2,180
Total financial assets	**60,679**	**4,923**	**1,146**	**52,156**	**63,276**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,252	-	1,083	169	1,252
Debt certificates[1]	443	-	-	443	443
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts[3]	501	-	537	-	537
Debt certificates[1]	4,477	-	-	4,462	4,462
Savings[3]	36,756	-	34,167	3,266	37,433
Other amounts due to customers[3]	10,306	-	10,413	-	10,413
Amounts due to banks[3]	2,683	-	2,683	-	2,683
Other liabilities[3]	590	-	-	-	590
Total financial liabilities	**57,008**	**-**	**48,883**	**8,340**	**57,813**

1 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost.

2 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost. De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

3 De Volksbank changed the presentation for the interest accrued on assets and liabilities. It was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018. Compartive figures have been adjusted accordingly.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the fair value hierarchy, which is discussed in the beginning of the paragraph. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below.

Change in level 3 financial instruments 2018

IFRS 9 in € millions	Fair value through profit or loss	Fair value through OCI	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	-	17	1,688	83	169	443
Change in accounting policies	2	-2	-1,688	-	-	-443
Purchases/advances	-	1	-	-	-	-
Unrealised gains or losses recognised in P&L[1]	1	-	-	-15	-94	-
Unrealised gains or losses recognised in OCI[2]	-	-12	-	-	-	-
Movement accrued interest	-	-	-	-	-5	-
Sale/settlements	-	-	-	-	-	-
Closing balance	**3**	**4**	**-**	**68**	**70**	**-**

1 These are included in the line item Result on financial instruments.

2 These are included in the line item Fair value reserve.

Change in level 3 financial instruments 2017

IAS 39 in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	22	1,850	141	247	526
Purchases/advances	-	-	-	-	-
Unrealised gains or losses recognised in P&L[1]	-	-12	-56	-76	2
Unrealised gains or losses recognised in other comprehensive income[2]	2	-	-	-	-
Movement accrued interest	-	-	-2	-2	-
Sale/settlements	-7	-150	-	-	-85
Closing balance	**17**	**1,688**	**83**	**169**	**443**

1 These are included in the line item Result on financial instruments.

2 These are included in the line item Fair value reserve.

Breakdown level 3 financial instruments

in € millions	2018	2017
Equity	4	17
Derivatives	68	83
Loans and advances to customers	-	1,688
Total assets	**72**	**1,788**
Derivatives	70	169
Debt certificates	-	443
Total liabilities	**70**	**612**

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 2018

IFRS 9 in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
ASSETS					
Loans and advances to customers	Discounted cashflow	Discount curve	-	-	-
		Pre-payment rate	-	-	-
Derivatives		Discount curve	68	6	6
		Pre-payment rate	68	2	2
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	-	-	-
		Pre-payment rate	-	-	-
Derivatives		Discount curve	70	4	3
		Pre-payment rate	70	4	3

The introduction of IFRS 9 as from 1 January 2018 means that no more mortgages are reported at fair value as from this date.

A change in the prepayment assumption of -1% has a positive impact on the value of the derivatives of € 2 million. With a 1% higher prepayment assumption the negative impact is € 3 million. In addition, a lower discount assumption of 0.5% has a positive impact of € 6 million and a higher discount assumption of 0.5% has a negative impact of € 6 million on the value of the derivatives.

Sensitivity non-market observable parameters financial instruments level 3 2017

IAS 39 in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
ASSETS					
Loans and advances to customers	Discounted cashflow	Discount curve	1,688	33	31
		Pre-payment rate	1,688	7	7
Derivatives		Discount curve	83	8	8
		Pre-payment rate	83	3	3
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	443	-	-
		Pre-payment rate	443	-	-
Derivatives		Discount curve	169	5	5
		Pre-payment rate	169	5	5

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to adjustments. The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve.

The level 3 derivatives relate to securitisation transactions. Here there is a relationship between the fair values this is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programmes Hermes, Pearl and Lowland, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-by-back by de Volksbank.

The next table presents the fair value changes caused by the credit risk.This no longer holds true for 2018, since loans and advances to customers and debt certificates are no longer measured at fair value as a result of the introduction of IFRS 9 on 1 January 2018.

Changes fair value caused by credit risk

in € millions	Carrying amount	Accumulated changes in fair value due to credit risk
	2017	
Loans and advances to customers	1,688	35
Total assets	**1,688**	**35**
Debt certificates	443	-
Total liabilities	**443**	**-**

Transfers between categories 2018

No significant movements occurred in 2017 and 2018.

18 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 IAS 39 Financial Instruments: Recognition and Measurement.

Under IFRS, derivatives are measured at fair value in the balance sheet and any change in the fair value is accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, causing volatility in the results. In these cases, hedge accounting is applied to mitigate as much as possible the accounting mismatch and

volatility. The IFRS 9 standard provides users with the option of starting to apply the IFRS 9 hedge accounting rules or to continue to apply the IAS 39 hedge accounting rules. De Volksbank has decided to continue to apply the IAS 39 hedge accounting requirements.
De Volksbank can designate certain derivatives as either:

1. a hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
2. a hedge of the variability of future cashflows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cashflow hedge).

Both at the inception of the hedge and on an ongoing basis, de Volksbank assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or variability of the cashflows of the hedged item, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome. Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in the income statement in the line item 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 IAS 39 conditions for hedge accounting or for which it is not cost-efficient to apply hedge accounting, are recognised directly in the profit and loss account.

Fair value hedge accounting

Fair value hedges are hedge relationships by which a derivative hedges the exposure to changes in the fair value of a hedged item that is attributable to a hedged risk. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the Income statement within 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. During 2017 the amortisation approach is refined. The refined approach determines the amortisation period on the underlying remaining interest rate maturity of the hedged item. As a result, value adjustment for individual contracts are amortised over the respective maturity bucket. The moment the hedged position is no longer recognised, i.e. is sold or redeemed, the non-amortised part of the fair value adjustment of the hedged asset is recognised directly in the profit and loss account.

De Volksbank applies fair value hedge accounting for portfolio hedges of interest rate risk as allowed under the EU carve out version of IAS 39. Amongst others the EU carve out enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument in the bank's macro fair value hedging model and removes some of the limitations in macro fair value hedge accounting with respect to underhedging strategies. In addition, some restrictions on under-hedging strategies for fair value macro hedge accounting do not apply. De Volksbank applies micro fair value hedging to hedge separate hedged positions, which may be assets or liabilities. The carved out version of IFRS 9/IAS 39 as adopted by the EU is used, which permits to exclude negative credit spreads in the hedge relationship for hedging micro fair value hedging.

Cashflow hedge accounting

Derivatives can be designated to hedge the risk of variability of future cashflows of a recognised asset or liability or highly probable forecast transaction. Hedge ineffectiveness for cashflow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cashflow in the cashflow hedge. The effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in the cashflow hedge reserve as a separate component of shareholders' equity. Any ineffective part of the cashflow hedge is recognised in Results financial instruments immediately. The valuation of the hedged item included in the cashflow hedge relationship, remains unchanged.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cashflow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cashflow hedge reserve fully remains in the cashflow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

Derivatives for hedging purposes 2018

	Fair value hedges			Cashflow hedges			Economic hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative		Positive	Negative
Interest rate contracts - macro hedging	24,541	274	745	-	-	-	-	-	-
Interest rate contracts - micro hedging	5,658	174	107	-	-	-	9,803	103	70
Currency contracts -micro hedging	23	-	1	103	2	-	-	-	-
Total	**30,222**	**448**	**853**	**103**	**2**	**-**	**9,803**	**103**	**70**

Derivatives for hedging purposes 2017

	Fair value hedges			Cashflow hedges			Economic hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative		Positive	Negative
Interest rate contracts	34,150	656	804	200	7	-	9,512	121	169
Currency contracts	73	23	-	68	4	-	-	-	-
Total	**34,223**	**679**	**804**	**268**	**11**	**-**	**9,512**	**121**	**169**

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.

Economic hedges relate to the hedges that are held for balance sheet management and hedges held for trading purposes.

HEDGING

De Volksbank uses derivatives for the following objectives:

- To hedge the basis risk;
- To manage the duration of the shareholders' equity;
- To hedge specific embedded options in mortgages. It concerns mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to customers;
- To convert fixed-rate funding into floating-rate funding;
- To hedge the quotation risk when offering mortgages if the new business of fixed-rate mortgages is substantial;
- To hedge foreign exchange risks by converting non-euro funding into euro funding; and
- To hedge risks associated with investment portfolios.

HEDGE ACCOUNTING

In most of the hedging strategies explained above, de Volksbank applies hedge accounting. In addition to the main distinction between fair value hedges and cashflow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. Micro hedging is a technique used to hedge individual contracts. Macro hedging is a technique used to hedge the risk on a portfolio of contracts. De Volksbank applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in the banking book (macro hedge)

The portfolio hedged comprises fixed-rate mortgages of de Volksbank. These are mortgages that have a fixed-rate interest period of more than 6 months. The hedging instruments are interest rate swaps entered into as part of the interest rate risk management in the ALM process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a retrospective and a prospective basis and are measured using the dollar offset method.

Hedging embedded derivatives in mortgages (micro hedge)

The mortgage portfolio contains mortgages with interest rate derivatives embedded in the mortgage. These 'embedded options' are hedged by purchasing mirrored interest rate derivatives in the market. The two mortgage products for which hedge accounting is applied are the *Rentedemperhypotheek* and the *Plafondhypotheek*. The hedge covers the interest rate risk that results from writing the embedded interest rate option to the customer.The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a retrospective and a prospective basis and are measured using the dollar offset method.

Hedging the interest rate risk on funding (micro hedge)

De Volksbank conducts micro hedging to convert fixed-rate funding into floating interest rates by means of interest rate swaps. If such funding is denominated in a foreign currency, cross-currency swaps are entered into. In addition to converting foreign currencies into euros and fixed-rate funding into floating-rate funding, de Volksbank also uses derivatives to convert structured funding into floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. The funding programme also includes interest rate structures such as floating-rate coupons with a multiplier or a leverage factor. De Volksbank fully hedges the interest rate risk on these structures. The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a retrospective and a prospective basis and are measured using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating interest rate with interest swaps and interest rate futures. The country or credit spread is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments.The hedge is set up and terminated at least once a month. Effectiveness assessments are performed on a retrospective and a prospective basis and are measured using the dollar offset method.

Cashflow hedges

Hedging floating interest rate cashflows

De Volksbank applies 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. The future cashflows are derived from the projected balance sheet resulting from the asset and liability management models that form the basis for interest rate risk management. In the projected balance sheet, the assets and liabilities are allocated until maturity into clusters where these assets and liabilities are repriced. The interest rate swaps are allocated to these clusters based on the repricing index and maturity. Where the availability of the projected cashflows in the clusters is not constant, the cashflows are evaluated on a monthly basis. Changes in the cashflow projections may result in revision of the hedge relationship to enable effective hedging to continue. The accrued value of the derivatives is included in shareholders' equity over the remaining term of the hedge. In 2018, no transactions were concluded in order to hedge the quotation risk. The value accrued in shareholders' equity was € 41.5 million positive (gross) as at 31 December 2018 (2017: € 48.6 million positive (gross)). There were no hedges at the end of 2018.

Hedged items in fair value hedges

in € millions	Carrying amount	Hedge adjustment included in the carrying amount
MICRO HEDGES		
Financial assets measured at fair value through other comprehenisve income/Investments - interest	1,908	15
Financial assets measured at amortised cost/Investments - interest	2,764	70
Financial liabilities measured at amortised cost/Issued debt - interest	-2,321	-149
MACRO HEDGES		
Hedged items in portfolio hedge of interest rate risk	43,826	463[1]

1 The macro hedge adjustment of € 463 million consists of € 330 million active hedges and € 133 million for discontinued hedges which are amortised.

Maturity hedging instruments in fair value hedges

Nominal amount (in € millions)	< 1 month	> 1 month - 3 months	Maturity > 3 months - 1 year	> 1 year - 5 years	> 5 years
INTEREST RATE RISK					
Hedge of investments	-	-	225	1,579	1,702
Hedge of loans and advances	-	-	-	68	-
Hedge of issued debt		6	54	1,656	439

Effectiveness fair value hedges

in € millions	2018	2017
Fair value movements hedging instruments	-216	204
Fair value movements hedged item attributable to hedged risks	217	-203
Ineffectiveness fair value hedge accounting (macro hedges)	**1**	**1**
Fair value movements hedging instruments	-52	-29
Fair value movements hedged item attributable to hedged risks	53	30
Ineffectiveness fair value hedge accounting (micro hedges)	**1**	**1**

19 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 Volksholding could be de Volksbank, associated companies, joint ventures, SNS REAAL Pensioenfonds, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administration.

Transactions with related parties have been conducted under normal market terms and conditions ('at arm's length'), except where stated otherwise. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

POSITIONS AND TRANSACTIONS RELATED PARTIES

Fiscal unity

De Volksbank and its subsidiaries and/or group companies formed a fiscal unity for corporate income tax and VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

For more information about the current corporate income tax receivables and payables reference is made to note 7 Tax assets and liabilities of the consolidated financial statements.

Mortgage-related intragroup transactions and positions

The mortgage-backed loan that ASN Bank provided to Woonhuishypotheken B.V., a fully consolidated subsidiary of de Volksbank, amounted to € 4.5 billion (2017: € 4.5 billion) as at 31 December 2018. The underlying mortgages were originally initiated by SNS and RegioBank.

Other transactions

De Volksbank pays pension premiums for its employees to the SNS REAAL pension fund in the amount of € 39 million (2017: € 39 million).

POSITIONS AND TRANSACTIONS WITH MANAGERS IN KEY POSITIONS OF DE VOLKSBANK

In 2018, the managers in key positions comprised the members of the Board of Directors of de Volksbank and a temporary replacement for one of the members of the Board of Directors.One of these members was a Board member who resigned from the Board of Directors on 1 January and performed other work until 1 July. The other members temporarily replaced one of the members of the Board of Directors. At the end of 2018, 5 persons were regarded as managers in key positions (end of 2017: 5 members).

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	**2018**	2017	**2018**	2017	**2018**	2017
Fixed annual income	1,680	1,945	466	-	2,146	1,945
Pension contribution	90	100	13	-	103	100
Termination benefits	-	-	311	-	311	-
Total	**1,770**	**2,045**	**790**	**-**	**2,560**	**2,045**

'Fixed annual income' includes all remuneration components paid by the employer with the exception of pension accrual and any termination benefits recorded separately in the table.

'Pension contribution' means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee. Extra (salary) payments to compensate for the loss of pension above € 105,075 (2018) are included in the table under fixed annual income.

As from 1 January 2018, Rob Langezaal resigned as statutory director of de Volksbank. He left the company on 1 July 2018. Until his departure, he performed other work and his remuneration remained unchanged. The employer has paid compensation of one fixed annual salary in connection with the termination of the employment contract.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate[1]		Redemptions		Advances	
in € thousands	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Mortgage loans[2]	300	970	3.60%	3.42%	214	14	300	-

1 The average interest rate is the interest paid as a percentage of the average outstanding mortgage loan balances.

2 The decrease in outstanding mortgage loans is caused by the termination of the employment contract of one of the senior management members.

The table above provides an overview of the loans granted to managers in key positions that were outstanding on 31 December 2018. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

The remuneration of individual members of the Board of Directors and members of the Supervisory Board are explained in more detail in the Remuneration report which is part of de Volksbank's financial statements.

SUBSIDIARIES DE VOLKSBANK N.V.

Overview subsidiaries de Volksbank B.V.

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	Utrecht	100%
CONA V B.V.	Utrecht	100%
Pettelbosch Beheer I B.V.	Utrecht	100%
Pettelbosch Beheer II B.V.	Utrecht	100%
SNS FinanCenter B.V.	Utrecht	100%
SNS Mortgage Receivables B.V.	Utrecht	100%
1817 B.V.	Utrecht	100%
ASN Beleggingsinstellingen B.V.	The Hague	100%
Stichting Administratiekantoor Bewaarbedrijven SNS	Utrecht	100%
SNS Global Custody B.V.	Utrecht	100%
Pettelaar Effectenbewaarbedrijf N.V.	Utrecht	100%
ASN Duurzame Deelnemingen N.V.	Utrecht	100%

Above mentioned subsidiaries are consolidated in a public annual report.

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.

For more information regarding the consolidated structured entities see Section 12 Debt certificates.

20 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, securitization notes held by the bank itself which qualify as eligible collateral for the European Central Bank.

The next table shows the transferred assets from which the contractual rights to receive a cashflow have been transferred. The transferred assets mainly consist of securitised mortgages that have been transferred to a third party. The related liabilities are also presented in this table. The structured entities for the securitisations are consolidated.

Transferred assets

	Securitisations		Repo Transactions	
in € millions	**2018**	2017	**2018**	2017
Debt certificates	-	-	484	1,275
Loans and advances	751	1,400	-	-
Total transferred assets as per year-end	**751**	**1,400**	**484**	**1,275**
Amounts due to banks	-	-	484	1,305
Debt certificates	660	1,154	-	-
- Issued under securitisation programmes Hermes, Pearl and Lowland	609	711	-	-
- Issued under securitisation programme Holland Homes	51	443	-	-
Total transferred liabilities as per year-end	**660**	**1,154**	**484**	**1,305**

In 2018, the transferred assets amounted to € 1,235 million (2017: € 2,675 million). The reduction of the transferred assets is mainly caused by a reduction of the outstanding debt securities.

For more information see note12 Deb certificates - Medium Term Notes and 12 Debt certificates - Securitisation programmes of the consolidated financial statements.

Encumbered assets

in € millions	**2018**	**2017**
Other investment instruments	987	1,913
- Of which debt securities	987	1,913
Loans and advances	8,278	7,554
Cash and cash equivalents	33	21
Loans and advances to banks	404	394
Closing balance	**9,702**	**9,882**

The encumbered assets consist of the assets put up as collateral and the mandatory cash reserve at DNB. The encumbered assets are shown at book value at the end of the year.On the balance sheet date, there were no significant restrictions accompanying financial assets from minority interests.

Collateral received

De Volksbank received a total amount of €174 million in collateral at year-end 2018 (2017: € 212 million). This consists almost entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

21 POST BALANCE SHEET EVENTS

De Volksbank intends to incorporate de Volksholding in de Volksbank by means of a legal merger. Subject to all required approvals, including those from NLFI and the supervisory authorities, we expect the merger to be completed in the first half of 2019.

On 23 January, De Volksbank issued € 500 million in a public covered bond transaction.

22 NET INTEREST INCOME

Accounting policy for Net Interest Income

Interest income

Interest income comprises interest income on financial assets that is attributable to the period. Interest on financial assets is almost completely accounted for using the effective interest method. A limited part of the interest income relates to financial assets, mainly derivatives in a hedge relationship and trading positions, measured at fair value through profit or loss and is recognised based on nominal interest rates.

The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, de Volksbank calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with the related direct costs, are included in the net interest income in the period to which they relate.

For credit-impaired assets valued at amortised cost (i.e. less any impairment losses) interest income consists of the time-value of money.

Interest expenses

Interest expenses comprise interest expenses arising from financial liabilities. Interest expenses on financial liabilities that are valued at amortised cost are accounted for using the effective interest method whereas interest expenses on financial liabilities that are classified at fair value through profit or loss are accounted for based on nominal interest rates.

Specification net interest income

in € millions	2018	2017
Interest income	1,330	1,423
Interest expenses	422	499
Net interest income	**908**	**924**

At year-end the interest income includes € 19 million (2017: € 13 million) interest income on impaired assets.

Specification interest income

in € millions	2018	2017
Mortgages	1,214	1,330
Other loans and advances to customers	91	70
Loans and advances to banks	3	4
Investments	6	8
Amounts due to banks	12	8
Other	4	3
Total	**1,330**	**1,423**

At year-end 2018 an amount of € 12 million (2017: € 8 million) in negative interest was received on amounts due to banks, which is classified as interest income. The negative interest expenses on amounts due to banks are driven by the negative short-term EURIBOR interest rates.

Total interest income for financial instruments measured at amortised cost amounts to € 1,574 million, and € 10 million for financial instruments through other comprehensive income. Included in interest income is € 254 million of interest expenses related to derivatives involved in a hedge relation, the hedged positions concern both mortgages and investments.

Specification interest expenses

in € millions	2018	2017
Debt certificates	8	12
Subordinated debt	19	19
Savings	215	300
Other amounts due to customers	152	140
Amounts due to banks	21	13
Loans and advances to banks	5	15
Derivatives	2	-
Total	**422**	**499**

At year-end 2018 an amount of € 5 million (2017: € 15 million) in negative interest was paid on loans and advances to banks. The negative interest income on loans and advances to banks is driven by the negative short-term EURIBOR interest rates.

Total interest expenses for financial instruments measured at amortised cost amount to € 488 million. Included in interest expenses is € 69 million of interest income related to derivatives involved in a hedge relation, the hedged position concerns debt certificates.

23 NET FEE AND COMMISSION INCOME

Accounting policy for net fee and commission income

Fee and commission income

Fee and commission income consist of income from securities transactions of clients, asset management and other related services offered by de Volksbank. Fees and commission income are recognised in the reporting period in which the services are rendered.

Fee and commission expenses

Commission expenses and management fees are accounted for as ‘fee and commission expense’ to the extent services are acquired in the reporting period.

Specification net fee and commission income

in € millions	2018	2017
FEE AND COMMISSION INCOME		
Money transfer and payment charges	36	36
Advice and agency activities	11	11
Management fees	48	38
Insurance agency activities	15	15
Other activities	-	4
Total fee and commission income	**110**	**104**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	-	-
Money transfer and payment charges	8	8
Management fees	21	19
Securities activities	1	1
Fee franchise	36	21
Other activities	-	5
Total fee and commission expenses	**66**	**54**
Total	**44**	**49**

24 INVESTMENT INCOME

Accounting policy for Investment Income
Investment income consists of dividend income and unrealised and realised and revaluations.

Dividend income
Dividend income is recognised in the income statement when entitlement is established. For listed securities, this is the date on which these securities are quoted ex-dividend.

Unrealised and realised revaluations
This includes the unrealized and realized revaluations for investments in the following categories:
- Amortised cost (realised);
- Fair value through other comprehensive income (realised);
- Fair value through profit or loss (unrealised and realised).

Investments included in a fair value hedge accounting relationship are reported in Result financial instruments.

Breakdown of investment income [1]

in € millions	2018				2017	
	Fair value through P&L	Fair value through OCI	Amortised costs	Total	Available for sale	Total
Realised gains	-	6	-4	2	21	21
Other result on investments	1	-	-	1	5	5
Total	**1**	**6**	**-4**	**3**	**26**	**26**

1 With effect from 2018, exchange rate differences on investments have, for an amount of € 15 million, been reclassified from 'investment income' to 'result on financial instruments'. In this way, the currency results of the hedged positions and of the instrument used to hedge the currency risk are netted under 'result on financial instruments'.

The realised profit on the sale of investments at amortised cost of € 4 million negative concerns the phase-out of Italian fixed-income positions for risk management purposes.

25 RESULT ON FINANCIAL INSTRUMENTS

Accounting policy for result on financial instrument
This line item includes revaluation result on derivatives and other financial instruments classified as fair value through profit and loss. 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 18 Hedging and hedge accounting). Fair value movements in the hedged item attributable to hedged risk are also included in this line item as well as the ineffective portion of any gains or losses of hedge relations.

Furthermore, this line item includes realised results from buy backs of own debt certificates.

Specification result on financial instruments

in € millions	2018	2017
Ineffectiveness fair value hedge accounting	2	2
Ineffecitveness cash flow hedge accounting	-	-
Trading results derivatives, investments and other financial instruments[1]	4	13
Fair value movements of mortgages measured at fair value	-	17
Result on buy back of debt instruments	-3	-4
Other	-1	-
Totaal	**2**	**28**

1 With effect from 2018, exchange rate differences on investments have, for an amount of € 15 million, been reclassified from investment income to result on financial instruments. In this way, the foreign currency results of the hedged positions and of the instrument used to hedge the currency risk are netted under result on financial instruments. 1. The netted foreign currency result in 2018 is less than € 1 million.

In 2018, unrealised gains on former DBV mortgages and related derivatives were nil. As a result of the reclassification of the former DBV mortgages from fair value to amortised cost, the volatility in the income statement on account of fair value changes of the DBV mortgage portfolio has been eliminated from 2018 onwards. In 2017, the result on financial instruments was € 17 million positively impacted by unrealised gains on former DBV mortgages and related derivatives, both accounted for at fair value with changes through the profit and loss account.

26 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.

The total other operating income in 2018 amounted to € 1 million (2017: € 1 million).

27 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 14 Provisions.

Specification staff costs

in € millions	2018	2017
Salaries	180	186
Pension costs	40	39
Social security	34	29
Other staff costs	148	127
Total	**402**	**381**

The increase in staff costs is largely caused by an increase in other staff costs due to the additions to the restructuring provision.

The pension rights of the majority of employees of de Volksbank are included in the defined contribution plan of the independent Stichting Pensioenfonds SNS REAAL. De Volksbank pays a fixed annual contribution for the accrual of new rights; a fixed percentage of 24% of gross wages was paid in 2018 (2017: 23.6%). 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% (2017: 4.5% of pensionable earnings (after deduction of the contribution-free amount). The existing administration agreement with Stichting Pensioenfonds SNS REAAL has been extended by three years until 31 December 2020. For the yearly contribution of de Volksbank with a range between 22% and 24%. The premium for 2019 consists of 24%. The additional contribution of the employees increased by 0.5% to 5%.

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and vocational education and training costs. The cost of hiring staff amount to € 99 million (2017: € 89 million) and lease commitments of the fleet amount to € 3 million (2017: € 3 million) and an addition to the restructuring provision of € 21 million (2017: € 8 million).

Number of FTEs

in numbers	2018	2017
Number of FTEs	2,993	3,231

The revised Regulation on Sound Remuneration Policies (RBB) was activated as from 1 January 2012. Under this new regulation, which came into force on 1 January 2013, a possible variable remuneration granted to de Volksbank staff is 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.

Specification phantom shares (awarded in financial year)

	Shares (in numbers)		Fair value per share (in €)	
	2018	2017	**2018**	2017
Total	-	2	-	4,195

The variable remuneration in phantom shares for the senior staff is removed in 2017. For a limited number of staff the variable remuneration is awarded.

The value development of the phantom shares is based on the development of de Volksbanks' results, possibly adjusted for non-recurring income or expenses. The value of the phantom shares is paid in phases and in cash, one part after 1 year and the remaing part after the specified period of time (4 years). For 2018, no phantom shares will be awarded. The actual amount awarded in 2017 was € 8,000. At year-end 2018, the total amount of liabilities arising from the phantom shares is € 525.042 (2017: € 516,906).

28 OTHER OPERATING EXPENSES

Accounting policy for other operating expenses
Costs are recognised in the period in which services have been provided and to which the payments relate. This line item includes costs for housing, information technology, marketing, consultancy and other operating costs and prudential costs.

Specification other operating expenses

in € millions	2018	2017
Housing costs	18	19
Information technology costs	27	28
Marketing and public relations costs	30	31
Consultancy costs	22	18
Prudential costs	46	43
Other costs	43	62
Total	**186**	**201**

The housing costs also comprise € 14 million (2017: € 16 million) in costs on account of lease commitments. Prudential costs include an amount of € 14 million (2017: € 10 million) in relation to de Volksbank's annual contribution to the Resolution Fund and € 32 million (2017: € 33 million) relates to Deposit Guarantee Scheme (DGS). Other costs comprise costs for payment transactions, securities management and printed matter.

29 IMPAIRMENT CHARGES (REVERSALS)

Accounting policy for impairment charges/(reversals)
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. In addition, intangible assets, property and equipment, associated companies, investments, receivables and other assets may be subject to impairment. An impairment is recognised in the income statement. The accounting principles for impairment are explained in more detail in the accounting principles of the balance sheet items that are subject to impairments.

Specification impairment charges

in € millions	2018	2017
Retail mortgages	-8	-21
Other retail loans	-1	6
SME loans	-5	-9
Other commercial loans and loans to the public sector	1	-
Investments	1	-
Total impairments	**-12**	**-24**

Impairment charges were positively affected by the improved economic outlook in scenarios used to determine the loan loss provision, resulting in a decrease in stage 2 loans. In addition, there was a decrease in stage 3 loans because of recovery. The positive impact this had was partly negated by an additional provision of € 10 million for stage 3 loans that were in default for more than 5 years (€ 6 million for retail mortgages and € 4 million for SME loans).

30 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	2018	2017
In financial year	57	86
Prior year adjustments	-3	8
Corporate income tax due	**54**	**94**
Due to temporary differences	39	26
Deferred tax	**39**	**26**
Total	**93**	**120**

Reconciliation between the statutory and effective tax rate

in € millions	2018	2017
Statutory income tax rate	25.0%	25.0%
Result before tax	361	449
Statutory corporate income tax amount	**90**	**112**
Exemptions	1	-
Prior year adjustments (including tax provision release)	-3	8
Impact deferred corporate tax rate reduction	5	-
Total	**93**	**120**
Effective tax rate	25.7%	26.7%

COUNTRY BY COUNTRY REPORTING
On the basis of Article 89 (1) of CRD IV, financial institutions are required to disclose the Member States and third countries where they operate. De Volksbank is not active abroad and does not have any subsidiaries abroad. All its activities take place in the Netherlands.

Name	De Volksbank
Nature of activities	Credit institution
Geographical location	The Netherlands
Turnover	€ 958 million
Number of FTEs on a full-time basis	3.797
Profit before tax	€ 361 million
Tax on profit	€ 93 million
Public subsidies received	n.a.

DIVIDEND

The Board of Directors of de Volksholding proposes to pay out a dividend of € 161 million (2017: € 190 million) to the shareholder NLFI.

Utrecht, 6 March 2019

Board of Directors
Maurice Oostendorp (Chair)
Annemiek van Melick
Jeroen Dijst
Marinka van der Meer

Supervisory Board
Jan van Rutte (Chair)
Sonja Barendregt-Roojers
Aloys Kregting
Jos van Lange
Monika Milz

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

Before result appropriation and in € millions	Notes	31-12-2018	31-12-2017
ASSETS			
Subsidiaries	1	3,571	3,714
Total assets		**3,571**	**3,714**
EQUITY AND LIABILITIES			
Share capital	2	-	-
Share premium reserve	2	3,196	3,196
Other statutory reserves	2	-113	-22
Other reserves	2	220	211
Retained earnings	2	268	329
Total equity		**3,571**	**3,714**
Total equity and liabilities		**3,571**	**3,714**

COMPANY INCOME STATEMENT

in € millions	2018	2017
Result on subsidiaries after tax	268	329
Other results after tax	-	-
Net result	**268**	**329**

PRINCIPLES FOR THE PREPARATION OF THE COMPANY FINANCIAL STATEMENTS

When preparing the company financial statements, de Volksholding B.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.

For additional information on items not explained further in the notes to the company balance sheet, reference is made to the notes to the consolidated financial statements.

On 30 June 2018 Holland Woningfinanciering N.V. legally merged with de Volksbank N.V. As a result of the merger, the assets and liabilities of Holland Woningfinanciering N.V. are recognised in the company financial statements of de Volksbank N.V. as per 31 December 2018. This merger is accounted for as a transaction under common control, whereby carry-over accounting is applied on the assets and liabilities of Holland Woningfinanciering N.V. as at the date of the merger for the company financial statements of de Volksbank N.V. The merger has no impact on the comparative figures and total equity or result.

On 29 December 2017 Woningfonds B.V. legally merged with de Volksbank N.V. As a result of the merger, the assets and liabilities of Woningfonds B.V. are recognised in the company financial statements of de Volksbank N.V. as per 31 December 2017. This merger is accounted for as a transaction under common control, whereby carry-over accounting is applied on the assets and liabilities of Woningfonds B.V. as at the date of the merger for the company financial statements of de Volksbank N.V. The merger has no impact on the comparative figures and total equity or result.

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.

Subsidiaries are all companies and other entities in respect of which de Volksholding B.V. has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by de Volksholding B.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.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cashflow and fair value reserve of the subsidiaries are reflected in the other statutory reserve, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the other statutory reserve.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with de Volksholding B.V. accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 SUBSIDIARIES

Statement of changes in subsidiaries

in € millions	2018	2017
Openingsbalans	3,714	3,561
Capital contribution/Share premium	-	-
Revaluations	-221	-41
Result	268	329
Dividend	-190	-135
Closing balance	**3,571**	**3,714**

2 EQUITY

Statement of changes in equity 2018

in € millions	Issued share capital[1]	Share premium reserve	Other statutory reserves	Other reserves	Retained earnings	Total equity
Balance as at 31 December 2017 (IAS 39)	-	3,196	-22	211	329	3,714
Changes in accounting policies	-	-	-80	-134	0	-214
Balance as at 1 January 2018 (IFRS 9)	**-**	**3,196**	**-102**	**77**	**329**	**3,500**
Transfer of net result 2017	-	-	-	139	-139[2]	-
Unrealised revaluations	-	-	-2	-	0	-2
Realised revaluations through P&L	-	-	-7	-	0	-7
Other movements	-	-	-2	4	0	2
Amounts charged directly to total equity	**-**	**-**	**-11**	**4**	**0**	**-7**
Net result 2018	-	-	-	-	268	268
Total result 2018	**-**	**-**	**-11**	**143**	**129**	**261**
Dividend pay-out	-	-	-	-	-190	-190
Total changes in equity 2018	**-**	**-**	**-11**	**143**	**-61**	**71**
Closing balance	**-**	**3,196**	**-113[3]**	**220**	**268**	**3,571**

1 Issued capital is € 1
2 The result after deducting the dividend payment of € 190 million.
3 The other statutory reserves include a negative revaluation reserve for an amount of € 115 million.

Statement of changes in equity 2017

in € millions	Issued capital[1]	Share premium reserve	Other statutory reserves	Other reserves	Retained earnings	Total Equity
Opening balance	-	3,196	18	-2	349	3,561
Transfer of 2016 net result	-	-	-	-	-	-
Unrealised revaluations	-	-	-23	-	-	-23
Realised revaluations through P&L	-	-	-19	-	-	-19
Realised revaluations through equity	-	-	2	-	-	2
Other changes	-	-	-	-1	-	-1
Amounts charged directly to equity	**-**	**-**	**-40**	**-1**	**-**	**-41**
Net result 2017	-	-	-	-	329	329
Total result 2017	**-**	**-**	**-40**	**-1**	**329**	**288**
Dividenduitkering	-	-	-	-	-135	-135
Total changes in equity 2017	**-**	**-**	**-40**	**213**	**-20**	**153**
Closing balance	**-**	**3,196**	**-22[2]**	**211**	**329**	**3,714**

1 Issued capital is € 1
2 The other statutory reserves include a negative revaluation reserve for an amount of € 26 million.

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	**2018**	2017	**2018**	2017
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**

3 RELATED PARTIES

Positions and transactions between de Volksholding B.V. and subsidiaries

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	Utrecht	100%
CONA V B.V.	Utrecht	100%
Pettelbosch Beheer I B.V.	Utrecht	100%
Pettelbosch Beheer II B.V.	Utrecht	100%
SNS FinanCenter B.V.	Utrecht	100%
SNS Mortgage Receivables B.V.	Utrecht	100%
1817 B.V.	Utrecht	100%
ASN Beleggingsinstellingen B.V.	The Hague	100%
Stichting Administratiekantoor Bewaarbedrijven SNS	Utrecht	100%
SNS Global Custody B.V.	Utrecht	100%
Pettelaar Effectenbewaarbedrijf N.V.	Utrecht	100%
ASN Duurzame Deelnemingen N.V.	Utrecht	100%

4 AUDIT FEES

Notes to the audit fees

	EY Accountants	EY Accountants
in € thousands, excluding applicable VAT	**2018**	2017
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,145	1,021
Other assurance services	1,189	1,152
Tax advisory services	-	-
Other non-audit services	-	-
Total	**2,334**	**2,173**

The audit fees for de Volksholding are also included in the table above.

The audit fees relate to the financial year to which the financial statements pertain, regardless of whether the external auditor and the audit firm performed the work during the financial year.

In addition to the statutory audit and the performance of other statutory audits, the auditor also provides a number of other assurance services. These other assurance services consist of the assessment of interim financial information, the assessment of the non-financial information as included in this annual report and activities relating to separation of assets, prospectuses and bond issues. Furthermore, these activities include reporting activities to the regulatory authority and securitisations and the covered bond programme in relation to mortgage pools within the context of outsourcing.

PROFIT OR LOSS APPROPRIATION

De Volksholding proposes to pay out a dividend of € 161 million (2017: € 190 million) to the shareholder NLFI. The dividend payment will be charged from the retained earnings for 2018. The profit after dividend payment for the financial year 2018 will be added to the other reserves.

Utrecht, 6 March 2019

Board of Directors
Maurice Oostendorp (Chair)
Annemiek van Melick
Jeroen Dijst
Marinka van der Meer

Supervisory Board
Jan van Rutte (Chair)
Sonja Barendregt-Roojers
Aloys Kregting
Jos van Lange
Monika Milz

PROVISIONS REGARDING PROFIT OR LOSS APPROPRIATION

PROVISIONS OF THE ARTICLES OF ASSOCIATION REGARDING PROFIT OR LOSS APPROPRIATION

Article 33

1. The net result shall be at the free disposal of the General Meeting of Shareholders.
2. The company may only make distributions to shareholders and other persons entitled to the distributable profits in so far as its equity exceeds the total amount of its issued share capital plus the reserves required to be held by law.
3. Distribution of profits shall only take place upon adoption of the financial statements from which it appears that such distribution is allowed.

Article 34

1. Dividends shall be made payable fourteen days of declaration of dividend, unless the General Meeting of Shareholders determines another on a motion by the Board of Directors.
2. Dividends that have not been collected within five years after having been made payable shall revert to the company.
3. If the General Meeting of Shareholders so determines on a motion by the Board of Directors, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of the provisions in article 2:105, paragraph 4 of the Dutch Civil Code.
4. A deficit may only be offsett against reserves required by law in so far as permitted by law.

INDEPENDENT AUDITOR'S REPORT

To: the shareholders and supervisory board of de Volksholding B.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL REPORT

OUR OPINION

We have audited the financial statements 2018 of de Volksholding B.V. (‘the company’), based in Utrecht. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the financial position of de Volksholding B.V. as at 31 December 2018, and of its result and its cash flows for 2018 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 Volksholding B.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- the consolidated balance sheet as at 31 December 2018;
- the following statements for 2018: the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cashflow statement;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

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 Volksholding B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIALITY

Materiality	EUR 18 million (2017: EUR 20 million)
Benchmark applied	5% of the result before taxation (2017: 5%)
Explanation	Based on our professional judgment, the result before taxation is an appropriate quantitative indicator of materiality for de Volksholding B.V. as it is one of the key performance measures for the users of the financial statements. The applied benchmark is consistent with the wider industry and is the standard for listed and regulated entities.

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 have agreed with the supervisory board that misstatements in excess of EUR 0.9 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

De Volksholding B.V. is at the head of a group of entities. The consolidated financial statements of de Volksholding B.V. represent the financial information of this group. In order to obtain sufficient and appropriate audit evidence about the group's financial information we have performed a full-scope audit on the consolidated financial information for the group as a whole. The audit procedures performed for the group are performed by one audit team.
By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Compared to the audit of the financial statements 2017 of de Volksholding B.V. there has been a change in key audit matters. We identified the implementation of IFRS 9 Financial Instruments as of 2018 as a key audit matter given the impact on the opening balance and disclosures. Further, due to amongst others increased regulations for banks, we identified the estimate of other, non-credit, provisions and related disclosure as a key audit matter. As part of the IFRS 9 adoption, de Volksholding B.V. reclassified the DBV mortgage portfolio from fair value through profit and loss to amortized cost. As such, we no longer consider the fair value measurement of this portfolio a key audit matter. Further, the key audit matter 'Change in accounting for the recognition of prepayment charges on early mortgage renewals' is no longer applicable as this specifically related to 2017.

Implementation IFRS 9 Financial Instruments

Key audit matter	On 1 January 2018, a new accounting standard for financial instruments (IFRS 9) became effective. It has changed the classification and measurement of assets and liabilities on the balance sheet, and the calculation of impairment on assets. De Volksholding B.V. applied the principles of IFRS 9 retrospectively and included a transitional disclosure on the first time adoption in the note IFRS 9 to the annual financial statements. As permitted under the transition provisions, the 2017 comparative information has not been restated to comply with IFRS9. As part of the implementation process, de Volksholding B.V.updated its processes, internal controls, methodologies, models and systems to report under the new accounting standard. The total net impact on equity as at 1 January 2018 is a EUR 214 million reduction, of which EUR 200 million relates to classification and measurement of financial assets and EUR 14 million to impairments. For hedge accounting de Volksholding B.V. decided to continue applying IAS 39 including the application of the EU carve-out. Regarding classification and measurement de Volksholding B.V. classified a significant part of its bond portfolio on the basis of the hold to collect business model. Under this classification, bonds and other securities are carried at amortized cost as these are held to collect the contractual cash flows. Furthermore, as permitted by the transitional provisions of IFRS 9, de Volksholding B.V. decided to revise the accounting classification of certain residential mortgages from fair value through profit and loss as applied under the previous accounting standard to amortized cost. For the purpose of implementing the new impairment calculation methodologies, de Volksholding B.V. redeveloped its models and methodologies to accommodate the requirements for expected credit losses of IFRS 9. The new standard requires considerable judgment, interpretation, changes and increased data requirements and the implementation resulted in a significant impact on equity as at 1 January 2018. Therefore we considered this area as a key audit matter.
Our audit approach	As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from the previous standard. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made with regard to the implementation. A transition project was executed by de Volksholding B.V. to ensure the adequacy of the first time adoption of IFRS 9. We have read the minutes from the program board and reviewed the updated accounting policies and provision policies to verify they agree with finalized interpretations. For classification and measurement, we assessed the internally prepared documentation and performed an overall assessment of the results of the business model and the solely payments of principal and interest testing as performed by de Volksholding B.V. In addition, we have performed our own independent assessment on classification and measurement by analyzing contracts and other source documentation, based on a sample. We also performed substantive procedures on the calculations of the carrying value of the bonds and mortgages remeasured at amortized cost. We performed walkthroughs to obtain an understanding of the new loan impairment calculation process and we have assessed the implementation impact as at 1 January 2018. We also assessed the company's documentation of and performed substantive and analytical review procedures over data, models, and the impairment calculation, supported by our internal specialists. We specifically inspected the appropriateness of the assumptions used for the probability of default at origination. Finally, we assessed the accuracy of the IFRS 9 transitional disclosures in the note IFRS 9 and whether these are in compliance with requirements of EU-IFRS.
Key observations	Overall, we assess that the impact of the adoption of IFRS 9 in the 2018 opening balance sheet is fairly stated and that the related disclosures meet the requirements of EU-IFRS.

Estimation of impairment losses on mortgages

Key audit matter	The retail mortgage loan portfolio of de Volksholding B.V.is measured at amortized cost, less a provision for impairment losses. Impairment allowances represent the company's best estimate of expected losses. At 31 December 2018 total gross mortgage loans of EUR 47.3 billion and EUR 58 million of expected credit loss provisions are reported and disclosed in note 5 of the financial statements. With the adoption of IFRS 9, a new calculation method for impairment provisions is introduced based on expected credit losses (ECL), rather than the incurred loss model previously applied under IAS 39. This required substantial changes to the calculation methodologies, processes and controls of de Volksholding B.V. to embed the complexities and new concepts of the accounting standard such as lifetime projection horizons, allocation of loans to credit risk staging and use of forward looking information. The work undertaken included a review over the models used to calculate the expected losses, and also considered the controls governing the origination, maintenance and necessary adjustments to the data used by these models. Specific attention is paid to how macroeconomic events impact the calculation of the expected losses through the application of forward looking economic information. The appropriateness of loan loss provisions is a key area of judgment for the board of directors. The identification of impairment and the determination of the recoverability of mortgage loans are inherently uncertain processes involving assumptions and factors including the financial condition of the counterparty and expected future cash flows. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Given the relative size of the mortgage portfolio of de Volksholding B.V., the introduction of new and complex accounting requirements with respect to calculating provisions for expected impairment losses and the subjectivity involved in the judgments made, we considered this to be a key audit matter.
Our audit approach	We tested the design and operating effectiveness of controls across the processes relevant to the ECL calculations. This included the allocation of assets into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, post model adjustments, production of journal entries and disclosures. With the support of our internal modelling specialists, we assessed the adequacy of the ECL provisioning models used by de Volksholding B.V. and verified whether the models were adequately designed and implemented, as well as the periodic evaluation of parameters used in the models. We performed an overall assessment of the provision levels by stage to determine if they were reasonable considering the risk profile of the mortgage portfolio, arrear and credit risk management practices and the macroeconomic environment. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of loans on appropriate staging. We tested the data used in the ECL calculation by reconciliation to source systems. With the support of our internal economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weights and the severity and magnitude of modelled downside scenarios. We tested the appropriateness and the associated considerations of post model adjustments and recalculated a sample of these amounts. We also assessed completeness of the adjustments based on sector information, portfolio characteristics and considering inherent model uncertainties. Finally, we assessed the completeness and accuracy of the disclosures relating to the provision for impairment losses, as disclosed in note 5 to the financial statements, to evaluate compliance with disclosure requirements included in EU-IFRS.
Key observations	Based on our procedures performed we consider the provision for impairment losses on mortgages to be reasonable and in compliance with EU-IFRS. The disclosures relating to the provision for impairment losses meet the requirements of EU-IFRS..

Estimate of other, non-credit, provisions and related disclosure

Key audit matter	In accordance with the accounting criteria set under IAS 37, de Volksholding B.V. provides for liabilities and charges related to, among others, restructuring, customer care and claims and litigation. At 31 December 2018, a total of EUR 98 million (2017: EUR 125 million) for these non-credit related provisions are recognized and detailed in note 14 of the financial statements. Developments at de Volksholding B.V. with regard to the internal organization and client and product offerings, as well as heightened regulatory scrutiny, give rise to more management attention in recording 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. Similarly, considerable judgment is needed in the determination of adequate disclosures of provisions for liabilities and charges. Therefore, we consider this a key audit matter.
Our audit approach	We performed walkthrough procedures regarding the design of controls by de Volksholding B.V. to identify, monitor and disclose provisions for liabilities and claims, and to assess the completeness and accuracy of data used to estimate provisions. For significant provisions made, such as related to internal restructuring measures, we assessed and challenged the provisioning methodology and tested the underlying data and assumptions used. For cases which were settled during 2018, such as compensations for derivatives sold to small and medium enterprises in the past, we verified the actual outflows and considered whether further risk existed. On a regular basis, we inquired with the risk, compliance, internal audit and legal departments of de Volksholding B.V. to understand and discuss the existing and potentially new obligations, and regulatory matters. We examined the relevant internal reports as well as regulatory and legal correspondence to assess developments and overall completeness and we performed follow-up procedures to examine the company's assessment of the impact on the financial statements and the adequacy of risk management disclosures. Where appropriate, we involved our regulatory and conduct risk specialists. Finally, we assessed the disclosures provided on the other provisions whether they complied with the accounting standards.
Key observations	We are satisfied that the other provisions are within a reasonable range and recognized and disclosed in accordance with EU-IFRS.

REPORT ON OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- At a glance;
- Report of the board of directors, including general trends and developments, strategy, progress on strategy and risk management;
- Report of the supervisory board;
- Corporate governance;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the Report of the board of directors and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

ENGAGEMENT
We were engaged by the supervisory board as auditor of de Volksholding B.V. on 12 October 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

NO PROHIBITED NON-AUDIT SERVICES
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS
The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as the board of directors 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 scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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;
- 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;
- concluding on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an company to cease to continue as a going concern;
- 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

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, 6 March 2019

Ernst & Young Accountants LLP

signed by A.B. Roeders

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.
Advanced Measurement Approach (AMA)	Assets, including investment funds and assets of individuals and institutions, that are professionally managed to maximise investment returns.
Asset & Liability Comité (ALCO)	Risk committee that takes decisions on how to optimally control interest income, capital and the liquidity position. The ALCO is also responsible for identification, controlling and management of these risks with a view to achieving long-term growth.
Basel III	The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards prescribe higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.
Basis point (BPS)	One hundredth of 1 percentage point.
Business risk	The risk that business earnings and franchise value decline and/or deviate from expectations because of uncertainty in business income or in the expenses incurred to generate business income.
Capital adequacy	Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.
Capital adequacy risk	The risk that the capital position is insufficient to serve as a buffer for the occurrence of unexpected losses that may arise if one or more risks to which the Company is exposed manifest themselves.
CO2	A greenhouse gas that is produced primarily through the burning of fossil fuels and that contributes to climate change. Also known as carbon dioxide.
Compliance risk	The risk that the Company and / or its employees do not completely or accurately comply with the (ratio) of written and unwritten rules of corporate integrity and conduct and may be held responsible for such conduct, which may lead to loss of reputation and / or financial loss.
Concentration risk	The risk arising from large individual exposures or accumulation of similar individual exposure (s) within or between categories of risks
Core Tier 1-ratio	The bank's core capital, excluding preference shares, expressed as a percentage of total risk exposure amount.
Counterparty Valuation Adjustment (CVA)	The market value of counterparty credit risk compared to the (total) market value of a derivative.
Coverage ratio	The coverage ratio gives the coverage of the specific IFRS loan loss provision formed in relation to the impaired default loans, expressed as a percentage.
Covered bonds (CB)	Covered bonds (CB) are secured long-term funding Instruments (bonds). This type of bond differs from a standard bond by recourse to a pool of assets (cover assets). In a default event, the bondholder has recourse to the issuer and this pool of assets.
Credit Comité	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 equivalent	Sum of the costs of replacement transactions (when counterparties fail to fulfil their obligations) and the potential future credit risk, reflected in a mark-up percentage on the principal of the contract. The mark-up percentage depends on the nature and remaining term of the contract.
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-impaired financial asset	A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows of that financial asset have occured.
de Volksbank	de Volksbank N.V.
de Volksholding	de Volksholding B.V.
Duration of equity	The duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve.
Economic capital	An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.
Executive Pricing Comité (EPC)	Risk committee that aims for a sustainably profitable portfolio by weighing volume, risk and return within the frameworks of external regulations, risk policy and our Manifesto.
Exposure at Default (EAD)	The EAD is the expected counterparty credit exposure at the time of default.
Financial Comité (FinCo)	Committee that is responsible for controlling the financial and consolidation processes, management information and internal and external reporting. The FINCO is also charged with the management of cost/ benefit, treasury and tax matters.
GMS	General meeting of shareholders of de Volksholding B.V.

Term	Definition
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.
IBNR loan loss provision	A general IFRS loan loss provision made for incurred but not reported losses.
In arrears	A customer is in arrears if the payment of any interest and/or redemption amount is late by more than one day.
In default	A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations.
Impaired default loans	Loans whose customers are in default and where a specific IFRS loan loss provision has been made.
Impairment losses on loans and other receivables	Charge to the income statement to cover possible loan losses on non-performing loans.
Interest rate risk banking book	The current or prospective risk to the economic value, capital and earnings of the banking book arising from adverse movements in interest rates.
International Financial Reporting Standards (IFRS)	The IFRS, formerly known as International Accounting Standards (IAS), are drawn up and recommended by the International Accounting Standards Board. With effect from the financial year 2005, all listed companies in the EU are required to report under IFRS.
Legal risk	The risk related to a failure to adhere to (i) applicable laws and regulations or unexpected interpretation thereof, (ii) agreements; and related to (iii) non-contractual liability, resulting in financial loss, regulatory sanctions or damage to the Company's reputation. As a result, the Company may be held liable for any current and future claims or may incur damages itself, for example as a result of incorrectly drawn up contracts or incorrect product documentation
Liquidity Coverage Ratio (LCR)	The Liquidity Coverage Ratio (LCR) is an indicator that provides insight into whether sufficient liquid assets are available to absorb a 30-day stress scenario.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses. In addition, liquidity risk is understood to mean the likelihood that the balance sheet structure will develop in such a way that the Company is excessively exposed to disruptions in its funding sources.
Market risk	The risk that equity, the result or continuity is threatened by movements in the level and/or volatility of market prices to which the Company is exposed.
Model Governance Comité (MGC)	Risk committee that monitors the quality and uniformity of all financial risk and valuation models.
Model risk	The risk of making decisions based on inadequate or erroneous model output, caused by improper implementation, application or interpretation of the models.
MoU	Memorandum of Understanding as mutually agreed upon by NLFI, de Volksholding B.V. and de Volksbank N.V.
Net Stable Funding Ratio (NSFR)	The NSFR aims to determine the extent to which longer-term assets are funded with stable forms of funding.
NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
Non-default	A customer is non-default when the customer is not in arrears or when the customer is in arrears but not in default.
Non-Financial Risk Comité (NFRC)	Risk committee that is responsible for controlling the risk frameworks and risk appetite for non-financial risks. Its responsibilities include setting standards and limits in the area of non-financial risks.
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, from human failures or errors, or external events such as fraud or criminal acts.
Options	The contractual right, during a certain period or on a specified date, to purchase (call option) or to sell (put option) a certain number of underlying shares or currency at an agreed price.
	People and Organisation Committee of the supervisory board of de Volksbank N.V.
Preventive management	A joint project of SNS, RegioBank and BLG Wonen that provides customers with looming payment problems with preventive assistance.
Product Approval & Review Comité (PARC)	Risk committee that is charged with the approval and periodic evaluation of new and existing products and services that we offer to our customers. The risk profile of existing and new products and services is controlled on the basis of legislation and regulations, customers' interests and our Manifesto.
RC	Risk committee of the supervisory board of de Volksbank N.V.
Repo	A repo, also known as a repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a certain date.
Reporting risk	The risk that the financial and / or non-financial reporting of the institution contains incorrect or incomplete information of substantial importance, or that internal and external stakeholders cannot take note of in a timely manner.
Reputation risk	The risk that the institution's reputation is tarnished and targets are not met because insufficient account is taken of the Company's image and opinion shared by the outside world (including customers, counterparties, shareholders and regulators).
Residential Mortgage Backed Securities (RMBS)	RMBS, or mortgage securitisations, are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cashflows to bondholders.
Return on equity (ROE)	Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.

Term	Definition
Specific loan loss provision	A specific IFRS loan loss provision for impairment made if there is objective evidence that de Volksbank will not be able to collect all the amounts in accordance with the original contract.
Standardised approach (Basel II and III)	The standardised approach for credit risk calculates the credit risk according to a standardised methodology, using external credit assessments.
Stresstest	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 Volksholding B.V.
the SB	The supervisory board of de Volksholding B.V.
the Secretary	The company secretary of de Volksholding B.V.
the Articles	The articles of association of de Volksholding B.V.
Unencumbered 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.

ABBREVIATIONS

Abbreviations	Description	Abbreviations	Description
AC	Audit Committee	ICAAP	Internal Capital Adequacy Assessment Process
AFM	The Netherlands Authority for the Financial Markets	ICF	Integrated Control Framework
AFS	Available for Sale	IFRS	International Financial Reporting Standards[1]
AIRB	Advanced Internal Rating Based-benadering[1]	IIRC	International Integrated Reporting Council
ALCO	Asset & Liability Committee[1]	ILAAP	Internal Liquidity Adequacy Assessment Process
ALM	Asset Liability Management	IRB	Internal Rating Based (approach)
AQR	Asset Quality Review	ISDA	International Swaps and Derivatives Association
ASN	Algemene Spaarbank voor Nederland	KPI	Key Performance Indicator
AuM	Assets under Management[1]	LCP	Liquiditeit Contingency Plan
BCBS	Basel Committee for Banking Supervision	LCR	Liquidity Coverage Ratio[1]
BLG	Bouwfonds Limburgse Gemeenten	LGD	Loss Given Default
BRC	Bank Risk Committee	LTRO	Long Term Refinancing Operation
BRRD	Bank Recovery and Resolution Directive	LtV	Loan to value
BSM	Balance Sheet Management	MBS	Mortgage Backed Securities
CA	Collective Agreement	MFH	Mixed Financial Holding
CAAR	Capital Adequacy Assessment Report	MGC	Model Governance Committee[1]
CC	Credit Committee[1]	MREL	Minimum Requirement for own funds and eligible liabilities
CCO	Chief Commercial Officer	MVO	Corporate social responsibility
CD	Certificates of Deposit	NFRC	Non-Financial Risk Committee[1]
CDO	Collaterised Debt Obligation	NHG	National Mortgage Guarantee
CEO	Chief Executive Officer	NLFI	Stichting administratiekantoor beheer financiële instellingen
CFO	Chief Financial Officer	NPS	Net Promoter Score
CLO	Collaterised Loan Obligation	NRA	National Resolution Authority
CO2	Carbon dioxide[1]	NSFR	Net Stable Funding Ratio[1]
COO	Chief Operations Officer	PARC	Product Approval and Review Committee[1]
COR	Central Works Council	PD	Probability of Default
CP	Commercial Paper	RAROC	Risk Adjusted Return On Economic Capital
CRD	Capital Requirements Directive	RAS	Risk Appetite Statement
CRO	Chief Risk Officer	RC	Risk Committee
CRR	Capital Requirements Regulation	ReNomCo	Remuneration- en Nomination Committee of the SB
CSA	Credit Support Annex	RMBS	Residential Mortgage Backed Securities[1]
CVA	Credit Valuation Adjustment[1]	ROE	Return on Equity
DMA	Disclosure on Management Approach	RWA	Risk Weighted Assets
DNB	Dutch Central Bank	SA	Standardised Approach
EAD	Exposure at Default[1]	SB	Supervisory Board
EaR	Earnings at Risk	SME	Small Medium Entities
EBA	European Banking Authority	SPV	Special Purpose Vehicle
EC	European Committee	SRB	Single Resolution Board
ECB	European Central Bank	SREP	Supervisory Review and Evaluation Process
EDTF	Enhanced Disclosure Task Force	STP	Straight Through Processing
EMTN	European Medium Term Note	SWOT	Strengths, Weaknesses, Opportunities & Threats
EPC	Executive Pricing Comité[1]	TLAC	Total Loss-Absorbing Capacity
ES	Expected Shortfall	VaR	Value at Risk
ESCB	European System of Central Banks	Wft	Financial Supervision Act
EU	European Union	WfZ	Guarantee fund for the health care
EVE	Economic Value of Equity	WSW	Social Housing Guarantee Fund
FinCo	Financial Comittee[1]		
FTE	Full Time Equivalent		
GMS	General Meeting at Shareholders		
GRI	Global Reporting Initiative		
IAS	International Accounting Standard		
IBNR	Incurred but not Reported		

1 See for further information the definition list.

ABOUT THE NON-FINANCIAL INFORMATION IN THIS REPORT

SUSTAINABILITY POLICY PRINCIPLES

In addition to the Brundtland Report, our sustainability policy is based on important and globally recognised reports, treaties and conventions. The foundations of our human rights policy are the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. The fundamental labour rights of the International Labour Organization (ILO) also provide input for our labour policy. In 2017 we fine-tuned it further using the guidelines of the Organisation for Economic Co-operation and Development (OECD).

Our climate change policy is rooted in the findings of the Intergovernmental Panel on Climate Change (IPCC), the UN Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Montreal Protocol and the Paris Agreement. The Convention on Biological Diversity underlies our biodiversity policy.

The 2030 Agenda for Sustainable Development states that the global Sustainable Development Goals (SDGs) are grounded in the Universal Declaration of Human Rights. The UN Guiding Principles on Business and Human Rights, as well as the ILO standards, are also considered highly relevant in this regard. The green aspect of de Volksbank's sustainability policy and the SDGs formulated by the United Nations are based, among other things, on the agreements made in Paris and Kyoto. The biodiversity-related SDGs are based on the Convention on Biological Diversity, just like they are at de Volksbank.

SCOPE AND BOUNDARIES

We present our non-financial information for the calendar year 2018 to inform our stakeholders of our role in society related to our mission ‘Banking with a human touch’, our strategy and our objectives. We define ‘non-financial information’ as information pertaining to the non-financial issues emerging as relevant from our determination of materiality.

The scope of the non-financial information presented in this annual report, including the GRI Content Index and appendices, covers de Volksbank N.V. and its business units and brands. They are jointly referred to as ‘de Volksbank’ in this annual report. Where possible, we also report data and results regarding previous years. The appendices contain both less material and more specified data, for example broken down by business unit. The performance of our suppliers, customers and other actors in our value chain is not included in our figures, unless explicitly stated otherwise. Where non-financial data relate to business units of the organisation, this will be indicated.

Forward-looking information is reported in the report in a clearly recognisable manner as ‘plans for 2019’ and ‘ambitions’. In many cases, goals are based on (well-founded) estimates and assumptions.

MANAGEMENT APPROACH TO CORPORATE RESPONSIBILITY

Corporate responsibility is rooted at the heart of de Volksbank. Our organisation model encourages individual responsibility and the involvement of employees in social and sustainable banking by assigning responsibilities decentrally as much as possible.

The Chairman of the Board of Directors bears responsibility for the development and implementation of the corporate responsibility policy. The current main issues relating to corporate responsibility have been assigned to separate departments, as follows:

1. The climate neutral balance sheet and implementation of ASN Bank’s sustainability policy for de Volksbank have been assigned to ASN Bank's Sustainability & Research department. Once every quarter, the results of the climate neutral balance sheet are discussed and approved by the Climate Neutral Committee chaired by the CFO of de Volksbank.
2. Sustainable housing and financial resilience have been assigned to the Marketing department.
3. The ‘Banking with a human touch’ programme encourages corporate responsibility by supporting employees, line management and teams to further implement Banking with a human touch, resulting in modifications to services, advice, policy, processes, systems and behaviour. The programme provides support and advice to line management in order to effect change.
4. The HR department is responsible for implementing corporate responsibility in relation to staff, including, for example, the diversity policy. For more information, please refer to Section 3.5 Genuine attention for our employees.
5. The Integrated External Reporting (IER) department is responsible for coordinating all non-financial issues in the annual report, including stakeholder engagement.

De Volksbank also has an Advisory Council in order to obtain sufficient feedback from the outside world about issues that are important to the organisation, in addition to stakeholder engagement. The Council consists of members from the worlds of business, politics and science and from social organisations and deals with issues ranging from strategic to operational issues and from corporate responsibility and Manifesto to brand positioning.

Please refer to the Section 2.4 Value creation for our stakeholders for more information on the Advisory Council.

INVESTMENT POLICY

The investment policy of de Volksbank relates to all financing and investments. De Volksbank issues loans (notably mortgages) to retail customers and small and medium-sized enterprises. ASN Bank also issues private placements to local governments, healthcare institutions and educational institutes. Moreover, ASN

Bank is active in sustainable project financing (such as wind turbine projects and solar parks).

ASN Bank's investment policy is prepared and developed by the Sustainability Expertise Centre (SEC). ASN Bank takes the lead in maintaining and implementing the investment policy and the policy to arrive at a climate neutral balance sheet by 2030 and in developing other human rights and biodiversity initiatives. The SEC keeps in touch with external parties including NGOs, other financial institutions, academics, politicians and the media. Furthermore, the SEC prepares the sustainability policy of *ASN Beleggingsfondsen*, which otherwise autonomously determines its policy.

In addition, relationships exist with commercial departments and staff departments to provide support in determining objectives (KPIs) and actually putting those objectives into practice.

DATA COLLECTION AND REPORTING

GUIDELINES

This report was published on 7 March 2019 and drawn up in accordance with the 'core' option of the GRI Standards guidelines of the Global Reporting Initiative (GRI). The process of determining material issues and reporting priorities is presented in the Section on Determination of materiality in this appendix. The report provides an overview of the main developments and performance of de Volksbank in 2018 and is based on the topics that the Board of Directors and our stakeholders have labelled as material. More static issues, such as our responsible investment policy and responsible procurement policy, are reported on our website. The same goes for less material topics. In accordance with the recommendations from the International Integrated Reporting Council (IIRC), this report shows how we created financial and non-financial value for our stakeholders in 2018. Where reclassifications have taken place compared to the previous annual report, this is explicitly described.

DATA COLLECTION

The quantitative and qualitative information in this report was collected on the basis of qualitative interviews and quantitative data requests. For this purpose, we consulted those responsible within the business units and staff departments (project managers, policy officers, programme managers, etc.). They provided the quantitative data requested and manage the non-financial issues on a daily basis. Additional information, such as data concerning the composition of our mortgage portfolio, information on employees and environmental performance, was retrieved from central or specific information systems. The reported non-financial data relate to the reporting year 2018. These do not include the environmental performance of the business operations, which are reported on the basis of the actual results for the fourth quarter of 2017 up to and including the third quarter of 2018.

REPORTING PROCESS

The contents of the annual report were subsequently reviewed and verified within the business units and by the various staff departments. In 2018, the internal audit department examined matters including corporate responsibility, ASN sustainable loans, shared value KPIs, remuneration and privacy. The results and follow-up actions of these studies are communicated to the Board of Directors and Audit Committee and monitored on a quarterly basis.

In 2016, we introduced a set of objectives to put our strategy into practice. In 2017 we started executing our fine-tuned strategy, with a focus on creating shared value for our stakeholders. In the same year, the KPI for financial resilience was further developed, and we began work on our Financial Barometer to measure the financial concerns of Dutch people and our customers. This also includes questions about the extent to which our customers believe we have helped them to be financially confident.

CALCULATION OF CO2 EMISSIONS – CLIMATE-NEUTRAL OPERATIONS

Our business operations are net climate neutral. We achieve this by purchasing as much green energy as possible. Where this is not yet available or is only available to a very limited extent, such as for car fuels and district heating, we offset the CO2 emissions by purchasing Gold Standard credits[19] after the end of the financial year or at the beginning of the new financial year[20]. These are used to invest in projects in Brazil to combat deforestation, support the community and increase biodiversity, thus reducing CO2 emissions. Our climate neutrality does not stop us from continuing our efforts to reduce our absolute energy consumption and to avail ourselves of more green energy sources. We have taken a major step by adapting our company car scheme in which our starting point is to have a fully electric fleet. In order to monitor our progress, we annually report the CO2 emissions of our own operations on the basis of scopes 1, 2 and 3 of the Greenhouse Gas Protocol.

Scope 1: all direct CO2 emissions caused by fuels that we ourselves purchase and consume (natural gas for office heating and the fuel for our company cars). They provided the quantitative data requested and manage the non-financial issues on a daily basis.
Scope 2: indirect CO2 emissions from our operations (electric energy consumption).
Scope 3: other indirect CO2 emissions from energy we did not personally purchase or emit directly, including commuting by our employees who have no company car and consumption by third parties from which we obtain services (such as air travel).

[19] The Gold Standard Premium Quality Carbon Credits is a standard for reduced carbon emissions via small-scale renewable energy projects in developing countries, enabling them to profit from climate funds.

[20] The purchase process for the certificates was started at the beginning of 2019. We will receive the certificates as soon as this process has been completed.

CALCULATION OF CO2 EMISSIONS – CLIMATE-NEUTRAL INCOME STATEMENT

De Volksbank signed the PRI Montreal Pledge in 2015. This means that we report in a transparent way on the impact our investments have on the climate. In our annual report, we report on our climate neutral income statement to indicate where we stand in achieving our objective to be climate neutral with all our assets on the balance sheet in 2030. The climate neutral income statement identifies the climate impact, expressed in CO2 emissions, of all of de Volksbank's relevant balance sheet items, which include all balance sheet items, except for cash and cash equivalents and derivatives. This means that 91%[21] of all balance sheet items qualify for the climate-neutral balance sheet. The GHG Protocol 'Corporate Value Chain Standard' offers guidance to identify and report on scope 3 emissions. These also include emissions from assets, which are reported under scope 3, category 15, Investments. Category 15 is the most material category for banks. As no method existed to identify category 15 emissions, de Volksbank has adopted, and for some operating activities expanded, the methodology developed by ASN Bank.

The CO2 calculations were set up in collaboration with external consultancy firm Navigant and are performed in accordance with the operational control method of the GHG Protocol. SEC collects data and makes calculations for the climate-neutral income statement every quarter. Navigant checks the calculations and analyses the results. The results are presented as an income statement comparable with prevailing financial accounting methods. The results are discussed and approved by the by the Climate Neutral Committee chaired by the CFO of de Volksbank. The data are also reported in QBRs and risk reports.

De Volksbank's CO2 emissions are shown as a loss for the climate and the emissions avoided are seen as a profit for the climate balance sheet. In order for us to achieve full climate neutrality, the CO2 loss must be equal to the CO2 profit. We identify the margin of uncertainty of the calculations resulting from assumptions made in the methodology. In 2018, the total margin of uncertainty was 16% (2017: 18%). The data on assets avoiding CO2 are relatively reliable (6% margin of uncertainty) compared with assets causing CO2 (20% uncertainty). The uncertainty on the loss side is mainly caused by the fact that we do not yet have insight into the actual energy consumption of our mortgage customers. Instead, we work with average gas and electricity consumption for each energy label. The energy labels have been obtained from the database of the Netherlands Enterprise Agency (RVO). For definitive labels we work with the most recent year-end label composition, which allows us to also include any changes in definitive labels in our calculations. The provisional energy labels are based on the RVO database from April 2018. At the end of 2018, network operators Enexis, Liander and Stedin agreed with each other that we would receive the actual energy consumption of our residential portfolio anonymised. The lack of Eurostat data on CO2 emissions in a number of European countries also contributes to the uncertainty. This prevents us from making a reliable calculation of the climate impact of some government bonds. Instead, we work with the average climate impact of the countries whose figures we do have.

The complete methodology has been published on our website and offers a detailed overview of the calculations made, the definitions used and the methodology. Insight is also provided into the assumptions made and the limitations that are inherent in the methodology. There were no changes in the methodology in 2018. It will be examined in 2019 whether our climate-neutral balance sheet can be calculated using the methodology of the Platform Carbon Accounting Financials (PCAF). Chaired by de Volksbank, the PCAF is a collaborative venture of eleven Dutch financial institutions that works towards a transparent and clear methodology for identifying financed emissions. Adopting the PCAF methodology may impact the calculation of our climate-neutral balance sheet. Our own methodology is slightly more conservative than the PCAF methodology on a number of points, for instance in the calculation of CO2 emissions of our mortgage portfolio. As a result, we expect that the adoption of the PCAF methodology will translate into lower emissions.

CLIMATE-NEUTRAL BUSINESS OPERATIONS

Over 99% of our total CO2 impact is caused by the assets on our balance sheet and only 1% by our offices and transportation. We nevertheless believe that our aim to be a sustainable bank is not credible without having green business operations. That is why we have set ourselves the aim of achieving 100% climate-neutral business operations. We also want to continue to save energy in order to continually reduce the CO2 emissions that need to be offset.

In 2018, as in previous years, our business operations were 100% climate neutral as we offset our CO2 emissions with Gold Standard certificates[22]. On balance, used more energy compared to 2017. More flights were taken than in 2017 and the total energy consumption of the shops increased. A major decrease was achieved with the company cars as we switched to electric cars. The trains of the Dutch Railways (NS) were also CO2 neutral throughout the reporting year. In the reporting year 2017, one quarter was not yet CO2 neutral.

Transportation is the key cause of emissions from business operations, accounting for half (50%) of such emissions. We have taken a major step by adapting

21 Since cash and cash equivalents are irrelevant asset classes for the climate-neutral balance sheet, a recalculation has been made for 2017. As a result of this recalculation, the percentage of the climate-neutral balance sheet for 2017 has dropped from 92% to 89%.

22 The purchase process for the certificates was started at the beginning of 2019. We will receive the certificates as soon as this process has been completed.

our company car scheme with effect from 1 January 2017, with the starting point now being a fully electric fleet. At the end of 2018, more than one in four of our company cars (29%) were fully electric. Effective 1 January 2019, the commuting scheme was also adapted; it is now based on everyday flexibility and the use of bicycles and public transport is further encouraged.

Category	Units	2018	2017	Change
ENERGY CONSUMPTION OF LARGE OFFICES AND OWN RETAIL NETWORK				
Green gas	GJ	7,429	5,630	32%
Natural gas (grey)	GJ	176	413	-58%
District heating	GJ	6,440	6,166	4%
Generators	GJ	-	-	0%
Green energy	GJ	23,621	23,353	1%
Grey energy	GJ	699	637	10%
Total energy consumption[1]	**GJ**	**38,364**	**36,199**	**6%**
Energy consumption per FTE	GJ	12	11	12%
Energy consumption per m²	GJ	1	1	1%
SHARE OF GREEN ENERGY CONSUMPTION				
% green energy	% of total	97%	97%	0%
% green energy consumption	% of total	81%	80%	1%
CO2 EMISSIONS				
Heating	tonnes	563	464	21%
Lease cars	tonnes	1,601	1,914	-16%
Scope 1	**tonnes**	**2,164**	**2,378**	**-9%**
Electricity	tonnes	4,384	3,505	25%
Scope 2	**tonnes**	**4,384**	**3,505**	**25%**
Flights	tonnes	101	73	38%
Commuting	tonnes	1,685	2,133	-21%
Business travel	tonnes	816	658	24%
Scope 3	**tonnes**	**2,602**	**2,863**	**-9%**
Gross CO2 emissions	tonnes	9,150	8,746	5%
Net CO2 emissions	tonnes	4,623	4,587	1%
CO2 in tonnes per FTE	tonnes	1.4	1.4	1%
MODE OF TRANSPORT				
Company cars	km	7,203,894	8,161,568	-12%
Flights	km	572,401	350,065	64%
Commuting (car)	km	6,897,597	6,326,341	9%
Commuting (public transport)	km	14,485,477	15,144,017	-4%
Business travel (car)	km	3,709,559	2,988,740	24%
Total mode of transport	**km**	**32,868,928**	**32,970,731**	**0%**
Kilometres per FTE	*km*	10,634	10,129	5%
PAPER CONSUMPTION				
Paper	tonnes	296	403	-27%
Paper in kg per FTE	*kg per fte*	96	124	-23%
WASTE				
Residual waste	tonnes	119	118	1%
Biodegradable waste	tonnes	47	47	0%
Small chemical waste	tonnes	0	1	-40%
Business waste	tonnes	8	13	-38%
Paper and cardboard waste	tonnes	77	102	-25%
Plastic	tonnes	7	10	-30%
Total waste	**tonnes**	**258**	**291**	**-11%**
Share of waste	*%*	46%	41%	13%
Waste in kg per FTE	*kg per fte*	84	89	-6%

1 To determine the CO2 emissions of our business operations we use the emission factors given at CO2-emissiefactoren.nl. In order to control our emissions throughout the year, we keep the emission factors in a year as constant as possible, in accordance with our policy. As from December 2017 the emission factors for electricity and gas were updated. These new factors are included in the calculations as from the first quarter of 2018.

HOW WE OBTAIN THE RESULTS FOR OTHER NON-FINANCIAL ISSUES

De Volksbank measures the Net Promoter Score (NPS) for all brands on a quarterly basis. This is the relational NPS, which involves the customer expressing a satisfaction rating (in terms of probability of recommendation) in general and not specifically in the context of any concrete contact or concrete transaction. The survey is conducted by an external party. A representative sample is drawn from an external consumer panel for each brand on a quarterly basis. The sample size varies per brand and ranges from 500 to 1,000 customers. The NPS indicates the ratio between the so-called detractors (customers who will probably not recommend, and possibly even advise against, their bank) and promoters (customers who will probably recommend their bank). A score between 1 and 6 means that the customer advises against de Volksbank's brands as financial service providers. Scores 7 and 8 are considered passive scores, and customers giving a score of 9 or 10 are promoters. The total result of the NPS for de Volksbank is calculated as a weighted average based on the total number of customers per brand and is reported based on the result in the last quarter. Reporting for the brands is also based on the result in the last quarter of the reporting period.

The eNPS is measured twice a year as part of the employee survey, which is conducted by a third party among all of de Volksbank's employees. In the survey, employees are asked whether they would recommend de Volksbank as an employer to others. The calculation of eNPS equals the calculation of NPS.

We report the availability rates of online banking and mobile banking in line with the methodology for the NVB's Confidence Monitor. The rates represent the availability during prime time hours, which is reviewed internally for any inaccurate outcomes, such as online unavailability at the measurement points, and adjusted where necessary. The scores for iDEAL are based on the period from Q3 2017 up to and including Q2 2018 and have been calculated according to our own methodology. The scores for online banking and mobile banking are based on the period July 2017 up to and including June 2018. Prime time hours for online and mobile banking are considered to be the following time periods: on workdays and Saturdays from 7 a.m. to 1 a.m., and on Sundays and public holidays from 8 a.m. to 1 a.m. The night hours are not included because the banks usually perform system maintenance during those hours. The standards set for iDEAL availability are:

- prime time from 6.30 a.m. to 1 a.m.: 99.76%
- non-prime time from 1 a.m. to 6.30 a.m.: 98.50%

DETERMINATION OF MATERIALITY

The materiality determination is performed every year before the annual report is published, which allows us to tailor the information we provide to the information needs of our stakeholders. Upon approval of the Board of Directors, the materiality determination will be included in the annual report. Last year, we conducted a materiality survey among approximately 200 internal and external stakeholders. We started documenting the latest insights, trends, developments and market surveys. On this basis, we identified 23 topics as most important. These were then presented to stakeholders in an online survey. When we tried to contact our external stakeholders, we faced the limitations of the new privacy law. As a result, we were able to contact only relatively few of them. As changes were made to the topics in 2018, we chose to link them to the topics of 2017. We did so for the following reasons:

- The scores of 2017 were the result of several years of polishing. It is valuable to understand which topics may be cancelled and which ones are new.
- In order to preserve continuity in the matters to be reported, it is paramount that topics from the previous year are also sufficiently presented.

The following steps were completed in the materiality determination for the reporting year 2018:

1. Longlist materiality analysis

The first step in the materiality analysis was to identify all possible topics that are important to de Volksbank. To this end, the standard longlist for the financial sector was supplemented with subjects from various relevant sources, including de Volksbank itself.

2. Shortlist of material topics

The shortlist was prepared based on the longlist. When selecting topics to be shortlisted, we looked at topics that:

- came up frequently in the various frameworks;
- were frequently reported by industry peers and chain partners;
- were frequently in the news;
- are part of the current strategy;
- de Volksbank specifically wished to present to its stakeholders.

This selected resulted in 23 material topics.

3. Prioritising and classifying material topics

External prioritisation

When the shortlist was determined, the topics were prioritised. Several stakeholder groups – which were representative of de Volksbank's external environment – were asked to provide their perspective. The purpose of the survey was to determine which topics stakeholders consider material, as provided in the foundations of the GRI Standards. The stakeholders were asked to indicate for the 23 topics (on a scale from 1 to 7) to what extent they considered them important for de Volksbank. Each topic was accompanied by definitions for a better understanding. At the end of the questionnaire, stakeholders were also asked whether they missed any topics in the questionnaire. This did not result in any new insights for de Volksbank.

Internal prioritisation

Internal prioritisation took place during a session with employees who jointly represented a cross-section of the various disciplines within de Volksbank. During the session, they determined for each theme its relevance with regard to the economic and social impact for the company.

The internal group was asked to rate each topic with a score between 1 and 7 (1 being a low impact and 7 being a high impact). In response to this session, the material topic of human rights was merged with the material topic of responsible investing. This was because they are logically an extension of each other on account of de Volksbank's policy, with its focus on human rights in its responsible investment policy. We thus arrived at 22 material topics.

4. Determining material topics and the final matrix

The materiality matrix was drafted based on the results thus obtained.

- The y-axis represents prioritisation from the perspective of external stakeholders.
- The x-axis in the matrix presents the impact score, based on the scores of the internal prioritisation from the aforementioned step 3.

Compared with 2017, the topics 'Climate-neutral balance sheet' and 'Responsible investing' moved to the top 10. This meant that the topics 'Responsible risk management' and 'Ethical conduct' fell out of the top 10. All of the most material topics of 2017 are among the most material themes selected for 2018.

The materiality matrix and a table showing all material topics has also been included in this report at Section 2.4 Value creation for our stakeholders. The table reflects how we report on topics. The 10 most material topics stated at the top right corner are reported extensively in the annual report.

Most material topics

De Volksbank's most material themes are explained in the table below.

Material topics	Definition
1 Privacy & safety of customer data	De Volksbank aims for optimal monitoring of customer data to protect customers' privacy as much as possible and to guarantee the safety of their data.
2 Simple and transparent products	We are continously working on customer products that are both understandable and tailored to their needs. We aim to provide customers with accessible and transparent information about our products and services.
3 Human rights and responsible investing	To make a positive impact, we aim to invest all the funds entrusted to us. Human rights play an important role in our investment decisions. With the criteria we use, we are committed to improving the human rights situation in our chains.
4 Customer support	We aim to help customers, not just with questions or complaints, but also by offering proactive solutions.
5 Compliance with laws and regulations	We strictly adhere to laws and regulations. Nowadays, this is also about the social standard when interpreting laws and regulations or unwritten rules, particularly in the financial sector.
6 Climate-neutral balance sheet	We want to make a positive contribution to the climate. That is why we, as the only bank in the world so far, have the ambition to have a climate-neutral balance sheet. One way we do this is by reducing the CO2 emissions of our mortgage portfolio by helping homeowners in making their homes more sustainable.
7 Financial resilience	We aim to make the Netherlands financially resilient by helping our customers improve their financial position, increase their financial skills and reduce their financial concerns.
8 Availability of services	We consider it important that our (digital) services are always available to our customers and are well protected while respecting privacy protection.
9 Sound and stable bank	We are committed to a financially sound bank with solid returns and a strong capital position.
10 Technological innovations	We want to use of technological innovations to continuously improve our products and services, and to ensure the continuity and safety of our business operations.

Reporting year 2019 (Annual report 2019)

In the reporting year 2019, the materiality determination will be reviewed, as was the case in the reporting year 2017.

EXTERNAL ASSURANCE

In order to give our stakeholders more confidence in the reliability, completeness and transparency of our data and information, we asked audit firm EY to verify the non-financial information in this annual report and to issue an assurance report with a 'limited level of assurance' in that respect. EY performed its work in accordance with Dutch Assurance Standard 3810N 'Assurance engagements relating to sustainability reports' as drawn up by the Netherlands Institute of Chartered Accountants (NBA). The non-financial information is described in Chapters 2 and 3 (with the exception of sections 3.5, 3.6 and 3.9) of the annual report, and in the appendices About the non-financial information in this report, Additional stakeholder information, and the GRI Content Index. All appendices form an integral part of this annual report. Internally the FinCo (Financial Committee) is involved in the external verification of non-financial information. No assurance is provided for forward-looking information.

EXTERNAL BENCHMARKS

Oekom research

See Section 3.3.2. Sustainability, External benchmarks.

Sustainalytics

See Section 3.3.2. Sustainability, External benchmarks.

Fair Bank Guide

See Section 3.3.2. Sustainability, External benchmarks.

Fair Bank Guide

See Section 3.3.2. Sustainability, External benchmarks.

Transparency benchmark

Our annual report has been assessed in the annual Transparency Benchmark of the Ministry of Economic Affairs. From now on, the Transparency Benchmark will be carried out once every two years. The next edition will be in 2019 and will relate to the 2018 annual report. Although the approach and execution will remain the same as at the time of the annual review, the assessment criteria were updated in 2018 to place more focus on supply chain transparency and the Sustainable Development Goals (SDGs).

The award of the Crystal Prize (*Kristalprijs*) related to the Transparancy Benchmark will continue to be an annual event. The first award ceremony without the Transparancy Benchmark took place in November 2018. In a year in which no Transparancy Benchmark is carried out, the Crystal Jury will make a selection of the most transparent examples on a specific theme. In 2018, the theme was chain transparancy and responsibility.

EU DIRECTIVE TABLE

Topic	Subtopic	Added (yes/no)	Chapter / Page reference
Business model	General description	Yes	De Volksbank, At a Glance
	Organisation and governance structure	Yes	General tax policy
	Markets in which the institution operates	Yes	At a glance, Ch. 2 Strategy: Profile
	Strategy and objectives	Yes	Ch. 2 Strategy, Progress on strategic pillars and shared value objectives
	Main trends and factors that could have an impact on the institution's future development	Yes	SWOT analysis, Ch. 1 General trends and Developments
Relevant social and staff issues: Financial resilience	The policy pursued, including due diligence	Yes	3.1 The three strategic pillars, 3.3.1 Financial resilience About the non-financial information in this report: Management approach Corporate Responsibility, Data collection
	Results of the policy pursued	Yes	3.3 Responsibility for society, 3.3.1 Financial resilience
	Main risks associated with own business operations and within the value chain	Yes	4.1 Risk management objective 4.6 Credit risk 4.10.2 Risk types and areas of focus (compliance risk)
	Controlling these risks	Yes	4.1 Risk management objective 4.4 Risk appetite and risk indicators (credit risk) 4.5. Risk management organisation 4.10.2 Risk types and areas of focus (compliance risk)
	Non-financial performance indicators	Yes	Progress on strategic pillars and shared value objectives 3.3.1 Financial resilience
Relevant social and staff issues: Customer support	The policy pursued, including due diligence		2.1. Mission and ambition: Benefits for customers 3.2 Benefits for customers
	Results of the policy pursued		3.1 The three strategic pillars (i.a. inspiration area)
	Main risks associated with own business operations and within the value chain		4.1 Risk management objective 4.3 Top risks 4.5 Risk management organisation
	Controlling these risks		4.1 Risk management objective 4.5 Risk management organisation 4.10.2 Risk types and areas of focus
	Non-financial performance indicators	No	KPI yet to be established, comes closest to the supporting KPI: Customer Effort Score: These results are not disclosed.
Relevant environmental issues	The policy pursued, including due diligence	Yes	2.2 The three pillars 3.3 Responsibility for society: climate-neutral balance sheet, biodiversity About the non-financial information in this report: Management approach Corporate Responsibility, Investment policy, Calculation of CO2 emissions, climate-neutral income statement, Calculation of CO2 emissions, climate-neutral operations
	Results of the policy pursued	Yes	At a glance: income statement 2.2 Strategic objectives and KPIs 3.3 Responsibility for society: climate-neutral balance sheet

Topic	Subtopic	Added (yes/no)	Chapter / Page reference
	Main risks associated with own business operations and within the value chain	Yes	2.3 SWOT analysis 4.4 Risk appetite and risk indicators
	Controlling these risks	Yes	4.1 Risk management objective 4.4 Risk appetite and risk indicators 4.5 Risk management organisation
	Non-financial performance indicators	Yes climate neutrality/No, biodiversity	3.3 Responsibility for society: climate-neutral balance sheet A KPI has been established for climateneutrality. In the field of bio diversity, de Volksbank aims to have a net positive effect through financing and investment by 2030. Work on a methodology is under way, to be followed by a KPI.
Relevant issues related to respecting human rights	The policy pursued, including due diligence	Yes	3.3 Responsibility for society: human rights (living wagein the garment industry)
	Results of the policy pursued	Yes	3.3 Responsibility for society: human rights
	Main risks associated with own operations and within the value chain	Yes	3.3 Responsibility for society: human rights (living wage in the garment industry)
	Controlling these risks	Yes	3.3 Responsibility for society: human rights (living wage in the garment industry)
	Non-financial performance indicators	Yes	3.3 Responsibility for society: human rights (living wage in the garment industry)
Relevant issues related to combating corruption and bribery	The policy pursued, including due diligence	Yes	3.2 Benefits for customers 3.10 Taxation: General tax policy
	Results of the policy pursued	Yes	4.10.2 Risk types and areas of focus
	Main risks associated with own business operations and within the value chain	Yes	1.4 Developments in the sector 4.10.2 Risk types and areas of focus
	Controlling these risks	Yes	4.5 Risk management organisation 4.5.1 Developments in 2018 4.10.2 Risk types and areas of focus
	Non-financial performance indicators	No	De Volksbank continuously adapts its policy to relevant laws and regulations and does not accept any form of corruption or bribery. The same applies to investments and financing.
Understanding the diversity policy (Board of Directors and Supervisory Board)	The policy pursued	Yes	6.1 Composition, appointment and performance Board of Directors 6.2 Composition, appointment and performance Supervisory Board 3.4 Genuine attention for the employee (inclusive and diverse organisation)
	Diversity objectives	Yes	3.4 Genuine attention for the employee
	Description of how the policy has been implemented	Yes	3.4 Genuine attention for the employee
	Results of the policy pursued	Yes	3.4 Genuine attention for the employee

DE VOLKSBANK VALUES YOUR OPINION ON THIS ANNUAL REPORT

We invite all stakeholders, including civil society organisations, to ask questions, express complaints and share tips via verantwoord.ondernemen@devolksbank.nl.

EDTF REFERENCES

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
	General			
1	Present all related risk information together in any particular report	Chapter 3 Risk management 4.1 Risk management objectives	Pillar 3 rapportage 2.1 bij Risk management objectives	
2	Define the bank's risk terminology and risk measures and present key parameter values used	4.4 Risk classification and risk appetite 4.6 Credit risk 4.7 Market risk 4.8 Liquidity management and financing 4.9 Capital management 4.10 Non-financial risks	2.1 at Risk appetite and risk indicators 3.1 Management and control 4 Credit risk and general information on CRM 9.1 Liquidity management 10 Market risk 12 Operational risk	
3	Describe and discuss top and emerging risks. Include quantitative disclosures and changes in risk exposures	4.3 Top risks 4.4 Risk classification and risk appetite 4.6 Credit risk 4.7 Market risk 4.8 Liquidity management and financing 4.9 Capital management 4.10 Non-financial risks	2.1 at Risk appetite and risk indicators 3.1 Management and control 4. Credit risk and general information on CRM 9 Liquidity risk 10 Market risk 12 Operational risk	
4	Once the applicable rules are finalised, outline plans to meet each new key ratio and provide them	4.8.2 Capital requirements 4.8.3 Figures, ratios and trends 4.9.1 Capital requirements 4.9.5 Developments in capital requirements 4.9.5 Figures, ratios and trends 4.9.5 at MREL	3.4 Macroprudential supervisory measures - at Capital requirements	
	Risk governance and risk management strategies/business model			
5	Summarise the bank's risk management organisation, risk management processes and risk management key functions	4.5 Risk management organisation 4.5.2 Risk governance 4.5.3 at Clear governance	2.2 at Risk management organisation 2.2 at Risk governance 2.2 at Clear governance 9.1 at Risk governance	
6	Provide a description of the bank's risk culture. Procedures and strategies to support the culture	4.5.3 Risk culture	2.2 at Risk culture	
7	Describe the key risks from the bank's business models and activities. Risk appetite and describe how the bank manages such risks	4.2 Moderate risk profile 4.3 Top risks 4.4 Risk classification and risk appetite 4.6.2 Management and control - credit risk 4.7.2 Management and control - market risk 4.8.2 Management and control - liquidity risk 4.9.2 Management and control - capital management 4.9.2 at Economic capital	2.1 at Moderate risk profile 2.1 at Risk appetite and risk indicators 3.1 at Management and control - own funds 3.1 at Economic capital 4.1 at Management and control - credit risk 9.1 at Management and control - liquidity risk 10.2 Interest rate risk not include in the trading portfolio	
8	Describe the use of stress testing within the bank's governance and capital framework	4.4 at Stress testing 4.6.2 at Stress testing and sensitivity analysis 4.7.2 at Market risk in the trading book 4.8 Management and control 4.8.2 at Liquidity stress testing	3.1 at Stresstesting 9.1 at Liquidity stress testing	
	Capital adequacy and risk-weighted assets			

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
9	Provide minimum Pillar 3 capital requirements, surcharges, counter cyclical and conservation buffers, minimal internal ratios	4.9.2 at Regulatory capital and MREL 4.9.2 at Continuous capital adequacy assessment 4.9.5 Figures, ratios and trends 4.9.5 at Capital ratio's 4.9.5 at Leverage ratio	3.1 at regulatory capital and MREL 3.1 at Continuous capital adequacy assessment 3.3 Capital requirements 3.4 Macroprudential supervisory measures 3.5 Leverage ratio	
10	Provide an overview of the main components of capital, including capital instruments and regulatory adjustments. Reconciliation accounting B/S to regulatory B/S	4.9.4 Capital structure	1.3 Consolidation scope 3.2 Own funds 3.5 Leverage ratio at table Reconciliation of accounting assets and the leverage ratio exposure	Scope of consolidation is the same. Also includes de Volksholding
11	Flow statement of movements in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital	4.9.4 Capital structure	3.2 Own funds	
12	Qualitatively and quantitatively discuss capital planning, of the required or targeted level of capital and how this will be established	4.9.3 Developments in capital requirements	3.3 Capital requirements	Quantitative capital planning
13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks	4.9.5 Figures, ratios and trends	3.3 Capital requirements	
14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk. Information on significant models	4.9.5 Figures, ratios and trends 4.9.5 at table Risk weighted assets (RWA) and capital requirement	3.3 Capital requirements 5.2 Quantitative information regarding the use of the Standardized approach 6 Credit risk and credit risk mitigation under the IRB-approach 10.1 Capital requirements for market risk using the standardized approach 12.1 Capital requirements - operational risk	Models: downturn parameters, methodology LGD
14	Idem for market risk and operational risk	4.9.5 Figures, ratios and trends 4.9.5 at table Risk weighted assets (RWA) and capital requirement	3.3 Capital requirements 6 Credit risk and credit risk mitigation under the IRB-approach 10.1 Capital requirements for market risk using the standardized approach 12.1 Capital requirements - operational risk	
15	Tabulate credit risk in the banking book showing average probability of default (PD), LGD, exposure at default (EAD). For non-retail the PD bands against external credit ratings	4.6.5 at Portfolio breakdown by internal rating grade	5.2 Quantitative information regarding the us of the Standardized approach 6 Credit risk and credit risk mitigation under the IRB-approach	
16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type	4.9.5 at table Risk weighted assets (RWA) and capital requirement	6.2 Quantitative information regarding the use of the IRB-approach	Standardized approach used for Market and Operational risk. Limited impact

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
17	Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including assessment of model performance and model validation against default and loss	4.9.5 at table Development RWA	6.2 Quantitative information regarding the use of the IRB-approach	
	Liquidity			
18	Describe how the bank manages its potential liquidity needs. Provide a quantitative analysis of the components of the liquidity reserve held to meet these needs. Explanation of possible limitations on the use of the liquidity reserve	4.8.1 Risk profile - Liquidity management 4.8.2 Management and control - liquidity management 4.8.3 Figures, ratios and trends	9 Liquidity risk 9.1 at Risk profile	
	Funding			
19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet category	4.8.4 Encumbered and unencumbered assets	9.3 Encumbered and unencumbered assets	
20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Disclose instruments separately... Management's approach to determining the behavioural characteristics of financial assets and liabilities	4.8.5 at table Remaining contractual maturity of assets and liabilities		Maturity schedule off-balance sheet items
21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight	4.8.5 Funding strategy	9.2 at Concentration of funding and liquidity sources	
	Market risk			
22	Information on the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures	4.7.3 Figures, ratios and trends - market risk	10 Market risk 10.2 Interest rate risk not included in the trading portfolio	Linkage income statement
23	Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk	4.7.3 Figures, ratios and trends - market risk	10 Market risk 10.2 Interest rate risk not included in the trading portfolio	
24	Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time, reasons for back-testing exceptions and how results are used to enhance the parameters of the model	4.7.1 Risk profile - market risk 4.7.3 Figures, ratios and trends - market risk	10.2 Interest rate risk not included in the trading portfolio	Standardized approach. Limited impact
25	Description of risk management techniques to measure and assess the risk of loss beyond reported risk measures and parameters. Discuss how market liquidity horizons are considered and applied within such measures	4.7.2 Management and control - market risk	10.2 Interest rate risk not included in the trading portfolio - at Management and control	Standardized approach. Limited disclosure due to low materiality
	Credit risk			
26	Provide information on the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type	3.7.1 Risk profile - credit risk 3.7.3 Figures, ratios and trends, credit risk 3.7.3 at Loans and advances to customers by category and region 3.7.3 at Exposure at default 3.7.5 Other retail loans 3.7.6 SME loans 3.7.10 Risk mitigation	4.2 General quantitative information regarding credit risk 5.2 Quantitative information regarding the us of the Standardized approach 6.2 Quantitative information regarding the use of the IRB-approach	
27	Describe the policies for identifying impaired or non-performing loans. including how the bank defines impaired or non-performing, restructured	4.6.2 Management and control (See also annual accounts note 5 Loans and advances to customers)	4.1 General qualitative information regarding credit risk - at	Quantitative forbearance information

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
28	and returned-to-performing (cured) loans. Explanations of loan forbearance policies Reconciliation of opening and closing balances of non-performing or impaired loans and allowance for loan losses. Include an explanation of the effects of loan acquisitions on ratio trends, and information about restructured loans	4.6.4 at table Loans and advances to customers 4.6.4 Movement in provision 4.6.5 Retail mortgage arrears / arrears management 4.6.6 Other retail loans 4.6.7 Key figures - Exposure SME loans	Management and control 4.2 at table Ageing of past-due exposures 4.2 at table Non-performing and forborne exposures	
29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk from its derivatives transactions. Quantify notional derivatives exposure, including whether derivatives are OTC or traded on recognised exchanges. If derivatives are OTC,quantify how much is settled by central counterparties and how much is not	4.6.11 Risk mitigation	4.3 at Collateral 5.1 Qualitative information regarding the use of the Standardized Approach 7 Counterparty credit risk (CCR)	Breakdown OTC derivatives to central counterparty
30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Discuss the use of mitigants to manage credit risk arising from market risk exposures and single name concentrations	4.6.11 Risk mitigation 4.6.11 at Collateral	4.3 at Collateral 5.1 Qualitative information regarding the use of the Standardized Approach 6.1 Qualitative information regarding the use of the IRB-approach 7 Counterparty risk 9.3 Encumbered and unencumbered assts	
	Other risks			
31	Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing	4.10 Non financial risks 4.10.2 Types of risks and focus areas	11.2 Risks 12 Operational risk 12.3 Types of risk and areas of focus of non-financial risks	
32	Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress	4.3. Top risks 4.10.2 Types of risks and focus areas	12.3 Types of risk and areas of focus of non-financial risks	

DISCLAIMER

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