Pillar 3 Disclosures 2019
Aegon Bank N.V.

AEGON Bank knab

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List of abbreviations used in this report

AAM	Aegon Asset Management
AEB	Aegon Bank NV
AENL	Aegon Nederland NV
AFD	Aegon Financiële Diensten (Aegon Financial Services)
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BE CPR	Best Estimate Constant Prepayment Rate
BIA	Basic Indicator Approach
bln	Billion
CACF	Crédit Agricole Consumer Finance
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCyB	Countercyclical Capital Buffer
CDD	Customer Due Diligence
CDS	Credit Default Swap
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CM	Capital Management
COREP	Common Reporting
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
DNB	De Nederlandsche Bank NV (Dutch Central Bank)
DO	Directie Overleg (Board meeting)
DV01	Dollar Value of one basis point
EAD	Exposure at Default
EAR	Earnings at Risk
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ERAC	Enterprise Risk & Audit Committee
ERM	Enterprise Risk Management
EU	European Union
EUR	Euro
FINREP	Financial Reporting
FRM	Financial Risk Management
FTE	Full Time Equivalent
FX	Foreign Exchange
GBP	Great British Pound
GL	Guidelines
G-SII	Global Systemically Important Institution
HQLA	High Quality Liquid Assets
HR	Human Resources
HY	Half Year
IAN	Internal Audit Nederland
IAS	Internal Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards

ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal Rating Based
IRRBB	Interest Rate Risk in the Banking Book
IRS	Interest Rate Swap
ISDA	International Swaps and Derivatives Association
IT	Information Technology
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LtV	Loan-to-Value
MB	Management Board
MDA	Maximum Distributable Amount
mln	Million
MVC	Model Validation Committee
NFRC	Non-Financial Risk Committee
NHG	Nationale Hypotheek Garantie (National Mortgage Guarantee)
NL	The Netherlands
NSFR	Net Stable Funding Ratio
ORM	Operational Risk Management
O-SII	Other Systemically Important Institution
PARC	Product Approval Review Committee
PARP	Product Approval & Review Process
PD	Probability of Default
QCT	Quality Control Team
RAS	Risk Appetite Statement
TRS	Technical Regulatory Standard
RW	Risk Weight
RWEA	Risk Weighted Assets
SB	Supervisory Board
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review & Evaluation Process
T2	Tier 2
TREA	Total Risk Exposure Amount
VaR	Value at Risk
Wft	Wet financieel toezicht (Dutch Financial Supervision Act)

1 Introduction

This report should be read in conjunction with the financial statements of Aegon Bank N.V. (AEB), as included in AEB's Annual Report 2019[1]. Through this Pillar 3 Disclosures document, AEB complies with applicable disclosure requirements, to the extent that certain disclosures are not included in the financial statements. There are no significant differences between the scope of consolidation for prudential purposes and the basis of consolidation used in the Annual Report. The information in this document has not been audited by AEB's external auditors.

1.1 Regulations

Since the introduction of the Basel II Capital Framework, codified in the Dutch Financial Supervision Act (*Wet financieel toezicht*; or *Wft*), requirements have been set to promote the transparency of financial institutions. Those requirements are set out in Pillar 3 'Disclosures and Market Discipline' of the Basel II Capital Framework. The Basel III Accord was adopted in 2010 and converted by the European Union (EU) into the Capital Requirement Regulation (575/2013) (CRR) and Capital Requirement Directive (2013/36/EU) (CRD IV)[2]. Specifically, Title II of CRD IV (Technical Criteria on Transparency and Disclosure) relates to disclosure requirements. Institutions have been required to apply the new rules since 1 January 2014, with full adoption on 1 January 2019[3].

1.1.1 Pillar 1: Regulatory Capital (minimum capital requirement)

Pillar 1 refers to the minimum capital to be held by banks to cover credit, operational and market risks.

- Credit risk: AEB uses the Standardized Approach (SA) for credit risk. This approach prescribes a standardized credit risk weighting, depending on the exposure class and rating category, to be applied to the exposures concerned in order to determine their contribution to the Total Risk Exposure Amount (TREA)[4].
- Operational risk: In order to determine the capital requirement for operational risk, AEB uses the Basic Indicator Approach (BIA). Accordingly, the capital requirement for operational risk is defined as 15% of the average 'relevant indicator' for the last three of twelve-monthly observations at the end of AEB's financial year. The elements of the relevant indicator are based on the Finrep template F02.00 and the indicator equals net operating income excluding the elements set out in Article 316-1 (b)[5] CRR[6].
- Market risk: AEB defines market risk as the risk of incurring losses on on-balance sheet and off-balance sheet items arising from adverse movements in market prices. Market risk is subdivided into the following risks: position risk (for assets in the trading book), foreign currency conversion (FX) risk, and commodities risk. AEB currently holds FX positions in Great British Pounds (GBP), meanings that it is exposed to FX risk. Because the net position in GBP remains below the 2% '*de*

[1] The 2019 annual report is available on our website at: https://www.aegon.nl/overaegon/jaarverslagen
[2] CRD IV comprises (i) Capital Requirements Directive (2013/36/EU) (CRD), which has been transposed into national law, and (ii) Capital Requirements Regulation (575/2013) (CRR), which is directly applicable to firms across the EU.
[3] In January 2015, the Bank for International Settlements published its "Revised Pillar 3 disclosure requirements", specifically focusing on disclosure requirements related to Pillar 1 of the Basel framework (credit, operational and market risk). The implementation date for these requirements is year-end 2016.
[4] The sum of the products of the credit-risk weight multiplied by the carrying value results in the risk-weighted assets (RWA) associated with the credit risk.
[5] Article 316(b): Institutions shall not use the following elements in the calculation of the relevant indicator: (i) realised profits/losses from the sale of non-trading book items, (ii) income from extraordinary or irregular items, (iii) income derived from insurance.
[6] The capital requirement multiplied by 12.5 produces the amount of RWA for operational risk.

minimis' threshold, AEB does not calculate own funds requirements for FX risk. As such, AEB is not required to hold capital for market risk under Pillar 1.

1.1.2 Pillar 2: Supervisory Review

Under Pillar 2, AEB's Management Board and process owners annually perform an integrated analysis of the bank's business model, balance sheet and associated risks under base and adverse scenarios. The risks identified, including Pillar 1 risks, are measured and aggregated, after which AEB estimates the appropriate capital requirements for each identified risk factor. The Management Board (MB) continuously monitors and, where necessary, takes action if certain risks materialize in excess of AEB's risk appetite limits.

1.1.3 Pillar 3: Disclosures and market discipline

Finally, the CRR lays down requirements for the disclosure of information to the public. These requirements are set out in Pillar 3 'Disclosures and Market Discipline'. AEB meets the Pillar 3 requirements by publishing this document as a specific schedule to its financial statements. AEB has prepared its Pillar 3 report in accordance with the CRR and CRD IV, as required by the supervisory authority. In addition to the Pillar 3 requirements as described in the CRR, the following guidelines were used:

- European Banking Authority (EBA) Regulatory Technical Standards (RTS) on disclosure of encumbered and unencumbered assets under Article 443 of the CRR;
- Supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;
- Implementing Technical Standards (ITS) with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- EBA guidelines on Liquidity Capital Ratio (LCR) disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013;
- EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013;
- EBA Guidelines on disclosure of non-performing and forborne exposures; and
- ITS with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

AEB does not apply any of the IFRS 9 transitional arrangements.

The Pillar 3 report is published annually and the 2019 Pillar 3 Disclosures document should be seen as an addition to AEB's Annual Report 2019.

1.2 COVID-19

We would like to draw the reader's attention to specific disclosures and risks on COVID-19 in AEB's annual report. In addition, we refer to Aegon N.V.'s Q1:20 update regarding Aegon Bank's Core tier-1 ratio and paragraph 5.5 in this Pillar 3 report.

2 General Information

Aegon Bank N.V. including its labels 'Knab' and 'Aegon Bank' ("AEB") is a public limited liability company organized and existing under Dutch law and registered (with number 30100799) at the Chamber of Commerce in Amsterdam, with its address at Thomas R. Malthusstraat 1-3, NL-1066 JR Amsterdam, The Netherlands. AEB is a wholly-owned subsidiary of Aegon Nederland N.V. ("Aegon Nederland" of "AENL"), established in The Hague, The Netherlands. Aegon Nederland is a subsidiary of Aegon Europe Holding B.V. Its ultimate parent is Aegon N.V. (together with its subsidiaries, the "Aegon group").

The Aegon group offers life insurances, pensions and asset management products in over 20 countries in the Americas, Europe and Asia, serving millions of customers. The Aegon group currently employs more than 28,000 people worldwide.

Aegon Bank operates through two distinct labels: Aegon and Knab, both supported by their own operations and customer service desk. As the Knab organization became more mature, and in an effort to further optimize customer service and cost efficiency, the decision was made to integrate the two operations and concentrate all of AEB's activities in one place, i.e. Amsterdam. Although no changes have been made to the products and services and both labels are still active, AEB has started using the Knab label as its primary brand. In this Pillar 3 report, we use AEB to refer to Aegon Bank N.V. as a whole.

Please refer to AEB's Annual Report 2018 for more information on the following topics.

2.1 Purpose and mission statement

AEB's (and Knab's) purpose and mission is to

"*make customers feel at ease when it comes to their finances, each and every day."*

This mission statement strongly aligns with Aegon Nederland's mission to "enable people to make conscious decisions about their financial future" . It also ties in with the Future Fit strategy to become the "customer-driven company of the future". This means doing the right thing in the best possible way in the interests of our customers. When money matters, we've got your back.

With the Knab operations reaching a substantial size, it was decided to integrate Aegon Bank and Knab so as to combine the strengths of the two banks in online/digital banking. Knab will be the single banking brand for Aegon Nederland, contributing to Aegon Nederland's 'scale-up for the Future' strategy. The integration is expected to improve overall customer satisfaction and to position the combined banks to operate more efficiently and to balance growth in an environment that is strongly control-focused, against the background of what is an increasingly challenging regulatory environment.

The combined bank now serves over 650,000 customers, offering daily banking services such as payment services, financial planning tools and alerts. It also provides third and fourth pillar future income products, such as savings and investment products (including tax friendly solutions), with a focus on long-term wealth accumulation. With these propositions, brought together under the strong Knab brand, we can deliver value to consumers and smart-scale enterprises today, tomorrow and in the future.

The integration has resulted from a comprehensive review of Aegon Bank's and Knab's strategy. Our customers live in a society where they are becoming increasingly responsible for their own financial situation. That is why we want to be the financial services provider of choice for entrepreneurial-minded people to help them manage their money matters, now and in the future. These are primarily self-employed and retail customers. Knab allows them to take control of their money matters simply and effortlessly and well-informed.

Knab values open and transparent communication, both internally and externally. We love to learn from our customers and work with them to improve our services further. We regularly invite customers to provide feedback, both online and offline. Our entrepreneurial mindset is constantly looking for new opportunities to deliver value to customers.

Our customers come to us for meaningful, understandable and easy-to-use products and services for their daily money requirements, such as payments, bookkeeping and wealth accumulation, such as (bank) savings and investments. Our customers appreciate our customer-centric, fair and human approach and our positive attitude towards financial services. To better help our customers we employ high-quality, automated and controlled processes. We use smart technology, without losing our human touch through our dedicated and highly skilled employees. This is how we have built a financially stable, sustainably profitable and regulatory-compliant bank.

Knab has defined the following goals:

- A customer-centric and fair bank that focuses on customer growth and a high NPS
- A financially stable, sustainably profitable and compliant organization
- A more independent bank, loosely affiliated with insurance company Aegon
- Motivated and dedicated employees

To achieve this, we focus on 5 leading medium-term KPIs:

- Customer NPS of +40 (r-NPS)
- Annual net customer growth of 70,000
- Cost—to-income ratio of 60%
- Return on Capital of 9%
- Improving employee NPS;

2.2 Main activities, products, services, and geographic areas

AEB offers banking solutions to Dutch consumers and small enterprises. In October 2019 AEB integrated its two business units Aegon Bank and Knab and has since continued to operate through these two labels. Going forward, Knab will be AEB’s main brand in the market.

Knab label

Launched in 2012, Knab was one of the Netherlands’ first fully online/digital banks. Although it operates under AEB’s banking license, Knab is perceived by the market as an autonomous bank with its own branding, marketing and culture and has since its launch grown a customer base of more than 250,000 customers. As an online bank, Knab offers payment accounts, savings and a basic investment product. Knab aims to be the best financial services platform for customers in the Netherlands by informing them about their personal financial situation and enabling them to achieve their financial goals. In fact, Knab’s mission is to make people feel at ease when it comes to their daily finances. This reflects Aegon's essential mission to help people achieve a lifetime of financial security.

Aegon label

The banking services provided through the Aegon label focus on customers whose income and wealth are in the middle-market segment, in line with Aegon Netherlands’ target group. AEB offers simple and high-quality products. These include both savings products focused on security and investment products focused on an appropriate risk/return profile tha meets the customer's needs and risk appetite. With these products, AEB reinforces Aegon Netherlands’ pension propositions. AEB's activities mainly focus on 'Banksparen' products. 'Banksparen' (Bank Savings) is a tax-deferred savings product that allows money to be deposited in a 'locked' bank account. The amount saved becomes available after a certain period of time and can be used for specific purposes such as a supplementary pension or paying off a mortgage. These products are sold predominantly through independent financial advisers, who remain a very important distribution channel.

2.3 Internal organizational structure

The operations of AEB's two labels are separate, but the supporting functions (in the context of the banking license) for both labels such as Risk & Compliance, Capital Management, Asset & Liability Management, Credit Risk Management, HR & Support, Strategic & Regulatory Affairs and Finance, and Control & Regulatory Reporting are shared and carried out at aggregate AEB level. AEB employs a holistic risk governance model to optimize business support and oversight, and has implemented a "three lines of defense" risk management model.

To enjoy benefits of scale, AEB has outsourced some of its activities, such as Marketing & Communications, first-line Customer Service, Facility & IT and Online, to Aegon Nederland, which has dedicated teams working on AEB's behalf. AEB remains accountable for the effective implementation and execution of those processes. Knab, on the other hand, either independently performs or sources the full range of its operations including IT, Client Contact Centre and Marketing & Development to support its rapid development and cement its culture.

In the past year, Knab has shown tremendous growth, particularly in banking products. In order to achieve further sustainable growth, enhance its governance and improve its efficiency, Knab launched a strategic review of its activities in 2018. The review findings are expected to be implemented by Knab and AEB in 2019 and 2020.

2.4 Underlying assumptions

2.4.1 Scope and reference date

AEB's Pillar 3 document covers the bank's full consolidated balance sheet at 31 December 2019, including the 'Aegon Bank' and 'Knab' labels that are part of its business. All amounts in this Pillar 3 report are stated in millions of euros (EUR), unless stated otherwise.

2.4.2 Basis of consolidation

The consolidated financial statements include the financial statements of AEB and its subsidiaries. Subsidiaries (including structured entities) are entities over which AEB exercises control. AEB controls an entity when AEB is exposed to or has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its control over the entity. Please refer to AEB's Annual Report 2019 for more information.

2.4.3 Accounting and risk principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and Part 9 of Book 2 of the Dutch Civil Code. Please refer to AEB's Annual Report 2019 for more information.

3 Overview of risk management

3.1 Introduction

AEB manages risks on behalf of its customers and stakeholders. The bank's Enterprise Risk Management (ERM) Framework provides the core structure that allows it to assess, control and manage all the risks to which it is exposed. The ERM Framework is therefore essential to ensuring AEB's financial strength.

The ERM Framework is a comprehensive framework. Not only does it define the principles for the way in which risk management is to be embedded in the bank's daily business activities, but it also sets out the policies and standards on how risk management should be part of AEB's strategic planning process. In addition, the framework ensures the identification, measurement and control of risks at all levels across the organization. It also provides a means to identify any new risks that could potentially arise. The framework covers risk measurement and reporting, and underlines the importance of general risk awareness among and appropriate behavior by our employees, management, and leadership.

At AEB, being entrepreneurial, one of our core values, implies that risks cannot be avoided. Like our clients, we know that understanding risk is the "conditio sine qua non" for doing business. AEB realizes that the essence of risk management is that "we know what we're doing". Therefore, under no circumstances will AEB accept risks arising from "not knowing what we're doing". AEB only takes risks that are understood and then only within the risk appetite defined by the management board. A strong risk management function, embedded within day-to-day management of the business and strategic planning, gives the bank a license to operate. It helps the bank to protect its reputation, lower the cost of capital, reduce costs, and ultimately minimize the risk of investigation, prosecution and fines, because the bank does things the right way. By effectively managing its risks, the bank can strengthen its position and build trust.

In other words, the role of risk management & compliance is:

"to be responsible, on behalf of the management board, for the supervision and oversight of the organization acting in a risk-aware manner and proactively advising the management board. In this context, AEB expects the risk management function to proactively support management by highlighting risk responsibilities and supporting management in the design and implementation of appropriate controls".

The risk strategy and its alignment with the corporate strategy is formulated in the bank's Risk Strategy. This strategy provides direction regarding the level of risk consistent with the requirements of the various stakeholders, such as our customers, shareholders, employees, regulators, and rating agencies. The risk management strategy ensures that the bank maintains a solvency and liquidity position at all times so that AEB can meet its obligations to its customers even when highly adverse scenarios unfold or material risk events occur. It is our strategy to be competitive in target markets, have reliable access to affordable funding, and provide stability to shareholders. Risk management supports the strategy by ensuring a common system for measuring risk, which creates a level playing field for competing for our resources. The execution of these building blocks is a continuous and iterative exercise, including periodic or ad hoc adjustments to the strategy and risk appetite based on new risk information or changes to the business or business environment.

3.2 Risk Governance

The Statutory Board consists of the CEO (Eric Rutten until 30 September and Nadine Klokke from 1 October 2019), CFO (Mike de Boer) and CRO (Ebbe Negenman). Together with the COO, they constitute the management board. AEB intends to extend AEB's management board with the roles of Chief Commercial Officer and Chief Technology Officer and to also appoint a Transition and Integration Manager.

AEB's organization chart is as follows:

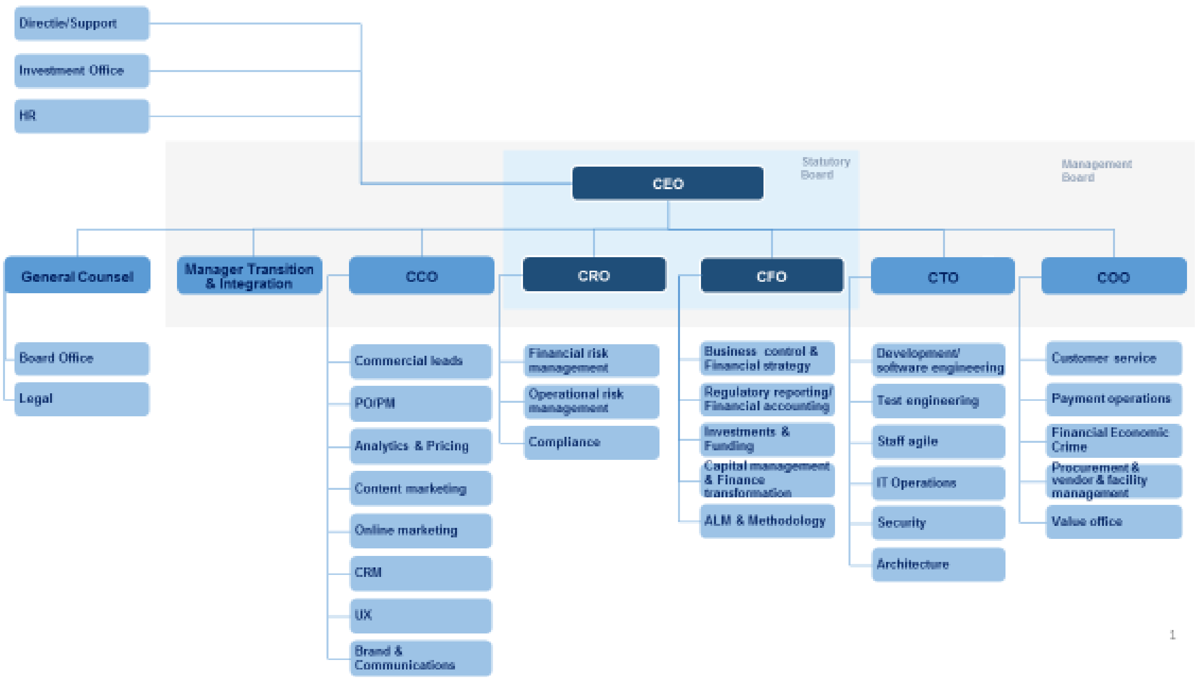

Figure 1: Organizational chart

In the first quarter of 2018, AEB initiated Project Horizon with the aim of improving risk management at the bank and putting in place a high-quality risk management organization in line with the bank's business strategy and growth ambitions. Project Horizon identified some 260 deliverables that would contribute to the bank's ambition to strive for excellence in risk control. In 2018, more than 90% of deliverables were completed according to plan. As a follow-up on Project Horizon, new and smaller projects were launched to ensure that all Horizon deliverables were fully embedded. Project Horizon finished in mid-2019. In 2018, in the course of Project Horizon, a separate Know Your Customer (KYC) work flow was set up which, in 2019, was assigned top priority by AEB executing a clear KYC optimization and enhancement program (the 'KYC Project'). AEB has made considerable progress in implementing improved KYC policies and processes. Major steps have been taken to improve our client on boarding systems and processes and to increase maturity of transaction monitoring. This has all laid a strong foundation for a strengthened KYC framework, implementing newly available technology. The KYC Project was based on a multidisciplinary approach, in which all relevant stakeholders participated and external subject-matter experts provided assistance. The result has been a revamped and robust KYC framework, including a revised Risk Appetite Statement. Further KYC improvements are expected to be made in 2020.

Regulation and supervision Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The aim of the Wft is to embed the cross-sectorial functional approach within the Dutch supervisory system.

The supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank ('DNB') and the Authority for the Financial Markets ('AFM'). DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank ('ECB'). In 2019, DNB has performed an on-site inspection of the risk management practices related to investments of Aegon Bank in consumer and SME loans originated via third party lending platforms. This inspection has resulted in an instruction (aanwijzing) of DNB to AEB to improve its credit risk framework (amongst others policies and procedures) for these loans. AEB fully endorses the improvements required by DNB and is working on the implementation thereof. The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers. The Dutch Data Protection Authority (Dutch DPA) supervises processing of personal data in order to ensure compliance with laws that regulate the use of personal data. The tasks and powers of the Dutch DPA are described in the General Data Protection Regulation (GDPR), supplemented by the Dutch Implementation Act of the GDPR.

Three lines of defense

AEB's risk governance structure is based on the "three lines of defense" model, as elaborated in the EBA Guidelines on Internal Governance (GL 44), 2011. The first line is basically the business itself, whose primary responsibility is to manage all risks arising from doing business. Risk management (the Risk Management & Compliance department) operates as the second line of defense. It occupies an independent position and has a monitoring and challenging role. Internal Audit Nederland is the third line of defense and primarily responsible for systematic evaluation and improvement of the effectiveness of risk management, control, and governance processes associated with the activities of the Aegon Nederland insurance companies and AEB. The following sections describe each line of defense.

3.2.1.1 First line of defense: the Business Lines

The bank's first line of defense is responsible for performance, operations, compliance and effective control of risks affecting the business. The first line of defense consists of the following departments:

- Capital Management and Financial Transformation;
- ALM (Asset & Liability Management) and Methodology;
- Investments and Funding;
- Business Control;
- Regulatory Reporting;
- Financial Control;
- Customer Service;
- Value Office;
- Business Information Services (IT);
- Operations;
- Marketing and Sales;
- Investment Office;
- Communications;
- Human Resources; and
- Legal, Board office and Regulatory Affairs.

The managers of the first-line departments are responsible for managing the risks arising from the activities conducted by their department. They own the business processes in their departments and are responsible for identifying the key risks in their departments and processes by performing Risk Control Self Assessments (RCSAs). They are also responsible for drawing up and maintaining process descriptions and work instructions, designing and executing controls, and monitoring procedures to ensure that any residual risk (after implementation of controls) remains within the risk appetite. They are also responsible for ensuring that the design and implementation of controls comply with the policies of AEB and, where applicable, those of Aegon Nederland and Aegon NV.

3.2.1.2 Second line of defense: Risk Management and Compliance

The second line of defense comprises oversight functions, with a key role being assigned to the risk management organization headed by the CRO. The Risk Management & Compliance Department is independent from the business lines and responsible for supervising and monitoring financial and non-financial risks and controls in the first line. Within the Risk Management & Compliance department, Compliance, Operational Risk Management (ORM) and Financial Risk Management (FRM) are segregated functions.

3.2.1.3 Third line of defense: Internal Audit

Internal Audit Nederland (IAN) is an independent centralized department at the level of Aegon Nederland. The Internal Audit Nederland Manual and Aegon Nederland Governance Guide help to ensure that the internal audit function meets the governance principles. The role, responsibilities, mandate and scope of IAN’s activities are also reflected in the Audit Charter. The Audit Manual prohibits independent auditors from having any operational responsibilities within the first line of defense. It also provides that Internal Audit Nederland’s director reports to Aegon Nederland’s CEO and AEB’s CEO and also has a reporting line to the chairperson of the supervisory board’s Risk & Audit Committee for Aegon Nederland and AEB.

Internal Audit Nederland has regular contact and consultations with the supervisory board’s Risk & Audit Committee and the external independent auditor to discuss risk analyses and audit plans.

Internal Audit Nederland also has frequent contact with DNB to discuss risk analyses, findings and audit plans.

3.2.1 Risk Committees

AEB has set up several risk committees composed of members of the management board and senior management. The risk committees are responsible for advising the MB on AEB's overall current and future risk appetite and strategy, and assisting the MB in overseeing the implementation of that strategy by senior management.

The Non-Financial Risk Committee (NFRC) meets monthly and monitors the development of the non-financial risk profile against the defined risk strategy and appetite, and decides on any mitigating action as and when required. In addition, the NFRC discusses, promotes awareness of, and supports the organization on all subjects and issues relevant to managing AEB’s non-financial risks. The NFRC also advises and supports the MB in its supervisory role and oversees the implementation of the non-financial risk strategy so as to assess its adequacy against the approved risk appetite and strategy.

The Enterprise Risk & Audit Committee (ERAC-Bank) meets quarterly and monitors, discusses, supports progress, and decides on all subjects and issues relevant to managing AEB’s financial and non-financial risks, taking the bank’s risk appetite into account.

AEB produces a comprehensive set of risk reports to measure, monitor and manage the risks inherent to its business, including monthly NFRC reports for the Statutory Board and quarterly ERAC-Bank reports.

The Credit Risk Committee (CRC) reports to the MB and discusses and reviews the policies, methodologies and procedures related to credit risk and counterparty risk within the bank prior to AEB’s Statutory Board’s final approval. The CRC also discusses and approves transactions involving credit risk. The committee meets monthly and is chaired by the CRO.

Asset and Liability Committees (ALCOs) discuss and approve AEB's financial risk profile, except for credit risk, which has been delegated to the CRC. ALCOs exist on tactical and strategic levels and they define the capital, interest rate mismatch, funding, liquidity and foreign exchange risk policies for AEB. The Strategic ALCO meets quarterly and the Tactical ALCO meets monthly. Both are chaired by the CFO.

The bank's Model Validation Committee (MVC) meets at least once every quarter and is chaired by the CRO. The committee is responsible for discussing all model validation findings from a technical perspective and for producing model validation reports and the opinions expressed therein.

3.3 Risk Appetite Framework

The risk appetite framework is defined as the overall approach, including policies, processes, controls and systems, through which risk appetite is defined, communicated and monitored. It covers the Risk Appetite Statement (RAS) and risk limits and outlines the roles and responsibilities for implementing and monitoring the risk appetite framework.

AEB's risk appetite framework determines the bank's risk profile and forms part of the process of developing and implementing its strategy and identifying the risks taken in relation to its risk capacity. The risk appetite framework does not include the processes for establishing the strategy, developing the business plan, or the risk measurement and aggregation models and systems. However, the framework is aligned with AEB's business plan, strategy development and capital planning, and provides a common framework and comparable measures for AEB's MB and senior management to communicate, understand, and assess the types and levels of risk that they are willing to accept. The framework identifies and assesses material risks for AEB and for its shareholders, depositors and customers.

The risk appetite process focuses on determining risk appetite at AEB level and across the different risk categories. It is therefore essentially a top-down process, based on AEB's ambition in terms of its risk profile, and dependent on its capital and liquidity levels and ambitions, the regulatory environment, and economic conditions.

Figure 2 – Aegon Bank NV's risk appetite process

3.4 Risk Embedding

AEB's ERM Framework is thoroughly embedded in its key functional areas. This section describes how risk considerations are taken into account in decision-making in terms of business planning, capital planning, liquidity planning, recovery planning, product development, and recruitment/human resources.

3.4.1 Capital Planning

The Internal Capital Adequacy Assessment Process (ICAAP) is aimed at ensuring AEB's capital adequacy in relation to the relevant risks and the bank's risk profile. As part of this forward-looking process, AEB identifies, assesses and, where possible, quantifies risks. Stress-testing and a forward-looking element are key parts of this process. The bank's management determines the capital required in relation to the bank's risk profile based on its internal standards for all relevant risks.

The bank reviews its ICAAP for current capital adequacy and expected capital adequacy over the (three-year) medium term. The review projects new activities alongside current activities. Assessing the bank's capital adequacy is done by means of a quarterly ICAAP update presented to AEB's Strategic ALCO. The update provides a comparison between the actual situation and projections so as to allow AEB's management to take any action if necessary.

3.4.2 Liquidity Planning

The Internal Liquidity Adequacy Assessment Process (ILAAP) document describes AEB's liquidity risk management and funding plan. ILAAP aims to ensure liquidity adequacy and to manage liquidity risk in relation to all other risks identified. As part of ILAAP, senior management identifies, assesses and, where possible, quantifies elements of liquidity risk. AEB assesses and identifies potential shortcomings and takes management action when needed. Stress-testing and projections of future liquidity needs are key control components of ILAAP.

AEB's senior management have an important part to play in ILAAP. They are actively involved in all elements of liquidity risk. The CFO and CRO are ultimately responsible and accountable for their specific line activities and tasks.

3.4.3 Product Development

Risk considerations form an integral part of AEB's product development and pricing policy. Product development and pricing decisions must take into account economic value creation requirements for shareholders, the fair treatment of customers, and the impact on statutory and regulatory requirements, speed of recouping capital expenditures, impact on financials, and impact on risk appetite statements and risk policies.

AEB uses its own Product Approval & Review Process (PARP) and takes part in meetings of the Product Approval Review Committee (PARC).

3.4.4 Recruitment/Human Resources

To ensure effective risk management, AEB also operates requirements for its employees, organizational culture, and risk awareness. The knowledge and skills that employees need to have are detailed in their job descriptions. The core values of both business lines clearly show the importance of risk awareness. Those values contribute to a culture where employees are involved in the organization and so there is a natural form of social control. AEB's core values are 'working together', 'exceeding expectations', and 'bringing clarity'. These values are in line with those of Aegon NV.

3.4.5 Business Continuity Plan and Recovery Plan

The Business Continuity Plan describes the steps that need to be taken in the case of a business interruption due to a disaster, and the advance planning and preparations necessary to minimize losses and to ensure the continuity of key (and time-sensitive) business functions during a major business interruption. AEB defines the resources, actions, tasks and data required in preparing for and recovering from such an emergency.

AEB's Recovery Plan is intended to reduce the likelihood of transitioning into a gone-concern scenario and subsequent resolution, and provides detailed actions that may be taken upon the occurrence of different stress scenarios so as to restore confidence, AEB's liquidity or capital position, or a combination of the above.

3.5 Stress Testing

AEB's stress-testing framework aims to adequately assess the bank's vulnerability to low-probability but plausible events, and to determine the adequacy of the bank's own funds, liquidity position and earnings to withstand financial losses or liquidity outflows.

The stress tests are forward-looking and address the main risks to which the bank may be exposed.

As part of its ICAAP and ILAAP, AEB tests its capital and liquidity adequacy periodically. The impact of extreme scenarios on AEB's earnings due to changes in interest rates is regularly assessed as part of the Interest Rate Risk in the Banking Book (IRRBB) report. The impact of credit risk exposures on AEB's solvency is assessed regularly by means of point-in-time scenarios and sensitivity analyses. The economic and regulatory capital in the stress scenarios needs to be sufficient to absorb the loss of equity and regulatory available capital, and the available liquidity needs to exceed the required liquidity under those stress scenarios.

The stress-test scenarios are designed, and parameter values set, annually. The validity of the assumptions is reviewed in the case of any significant market events, substantial changes to AEB's organization or strategy, or significant regulatory changes.

The results of the capital stress tests performed as part of the bank's ICAAP are presented quarterly to the Strategic ALCO, and the results of the liquidity stress tests are presented monthly to the Tactical ALCO. Additional stress tests may be performed on an ad-hoc basis.

AEB may also use stress tests as an internal communication tool across management levels to raise awareness and encourage discussions about existing and potential risks and possible management actions. Stress tests therefore support a variety of business decisions and processes as well as strategic planning.

AEB has designed an iterative process to review its stress tests. This means that some steps in the stress testing process are repeated. The stress-testing cycle consists of six steps, as shown in the figure below.

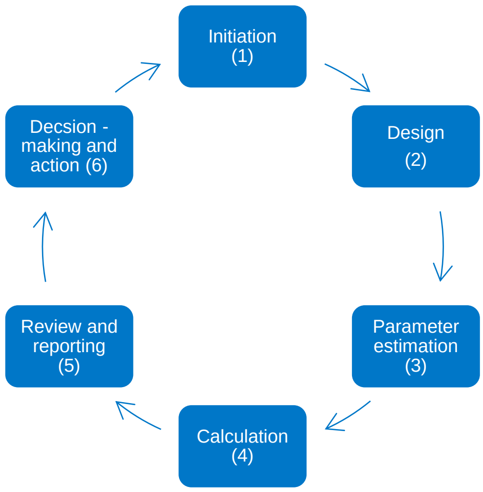

Figure 3: Stress-testing process

3.6 Climate Risk

Aegon Nederland regards itself as a responsible company that seeks to have a positive impact on society and the environment. It has therefore set up a team responsible for sustainability and corporate responsibility as part of its Strategy and Change office. Because AEB is a subsidiary of Aegon Nederland, its policies on sustainability topics also apply to AEB. Aegon Nederland has signed several commitments in relation to climate risk, including the Dutch Climate Agreement and Spitsbergen Agreement, which therefore also apply to AEB.

AEB is exposed to potential financial and non-financial risks resulting from the direct and indirect impact of climate change. These risks can be divided into physical and transitional risks:

- Physical risks: Risks arising from more frequent and severe climate events, which may include acute or chronic risks;
- Transitional risks: Risks resulting from the process of adjusting to a carbon-neutral economy.

As part of SREP 2020, AEB performed a self-assessment on the governance, strategy, measurement and management of climate-related risks for AEB. The main findings were that AEB has only limited exposure to climate risk although, at the same time, climate risk could be more embedded in its risk governance, strategy and measurement and management.

As regards the main asset classes (debt securities, mortgage loans, consumer loans, SME loans, and other assets), AEB considers itself exposed to climate risk mainly in an indirect way if climate risk-related matters were to impact the collateral value of mortgages (i.e. the housing market). A decrease in collateral value will increase AEB's capital requirements and impairment provision related to credit risk. The value of a residential property is subject to both transitional and physical climate risks. No specific criteria are currently used in mortgage origination with regard to a property's sustainability or carbon intensity . The portfolio is well-diversified but fully located within the Netherlands, therefore reducing the impact of potential climate risks.

On the liability side, climate-related risks for savings products are mainly reflected in reputational risk resulting from the increased focus of clients on the absence of a specific climate strategy or CO_2 emission targets.

In 2020, AEB set up a Responsible Business working group tasked with exploring this theme further and developing strategies and raising awareness across the organization of corporate responsibility and climate risk. The working group will also review the DNB's good practices on climate risk identification, assessment, monitoring, mitigation and management.

4 Capital Management

As part of its capital management policy, AEB identifies, assesses and, where possible, quantifies material risks. In accordance with internal requirements, AEB determines the amount of capital it needs to hold to cover those material risks relative to its risk profile now and in the years ahead, consistent with its strategy.

The capital planning process is at the heart of AEB's capital management, linking the company's mission statement, strategy and risk profile to its capital management. The assumptions underpinning the capital plan are reviewed and adjusted periodically throughout the year. The capital plan projections are also updated quarterly based on actual figures, and reported to the MB and ALCO to allow for frequent monitoring. Adjustments may be made on the basis of expected developments relative to actual outcomes, where necessary in accordance with existing contingency plans.

In 2019, the Bank's capital position in terms of CET1 capital improved by EUR 109 mln, driven mainly by a EUR 75 mln capital injection from Aegon N.V. to support the Bank's growth ambitions and EUR 34 mln in organic capital generation.

Metrics	**2018**	**2019**
CET1 capital	619	728
Tier 1 capital	629	737
Own funds	**629**	**737**
Leverage exposure	14,198	15,923
TREA	2,866	3,682
CET1 ratio	21.6%	19.8%
Tier 1 ratio	21.9%	20.0%
TCR	21.9%	20.0%
Leverage ratio	4.4%	4.6%

Table 1: Overview of key capital adequacy metrics at year-end 2018 and 2019

4.1 Own Funds

This section describes the definitions of the underlying elements of AEB's own funds in accordance with the CRR.

Common Equity Tier 1 Capital

The CET1 Capital deployed at AEB is wholly owned by Aegon Nederland in accordance with Article 50 of the CRR.

Additional Tier 1 Capital

AEB's AT1 Capital solely consists of 'Knab participations'. Until November 2017, AEB provided customers with the opportunity to buy 'participations' in AEB through the KNAB label. The participations had a fixed notional of EUR 5,000, no fixed maturity date and a coupon of 5% (subject to AEB's Maximum Distributable Amount; or MDA). Since November 2017, no new participations have been issued and participation holders can sell their participations to Aegon Nederland. Knab participations are considered AT1 Capital in accordance with Article 61 of the CRR.

Tier 2 Capital

AEB does not have any Tier 2 Capital instruments as at 31 December 2019.

4.2 Capital ratios

Total capital ratio

In 2019, AEB's total capital ratio decreased by 1.8%, reflecting a EUR 816 mln increase in TREA during the year and EUR 109 mln in CET1 capital growth due to a planned capital injection from Aegon N.V. (EUR 75 mln) and organic capital generation (EUR 34 mln). The increase in TREA was driven mainly by a one-off increase in TREA as a result of a high-risk classification for certain segments of the bank's unsecured loan portfolio in accordance with Article 128 of the CRR. The high-risk classification led to an increase of EUR 557 mln as at 31 December 2019. The total capital ratio reduction was offset by a decrease in the SREP capital requirement and a decrease in the bank's capital target by more than 2%. AEB aims to maintain a strong capital position, seeking a total capital ratio of 18% for 2020.

Leverage ratio

In accordance with Article 429 of the CRR, AEB is required to have a (non-risk weighted) leverage ratio above 3%. In accordance with Article 87 of the CRD IV, AEB is required to identify, monitor and manage the risk of excessive leverage. Internally AEB aims to have a leverage ratio above 4%.

As at 31 December 2019, AEB's leverage ratio stood at 4.6%, well above the internal and external requirements.

Managing excessive leverage

The total capital ratio, CET1 ratio and leverage ratio are reported to the ALCO on a monthly basis. In addition, three-to-five-year forecasts and comparisons with AEB's capital plan are reported to and discussed by the ALCO periodically. Internal buffers have been defined, including the actions to be undertaken if certain thresholds are breached.

SREP ratio

DNB annually reviews AEB's ICAAP as part of SREP and assesses whether AEB holds enough capital given its risk profile, its peers, and/or market conditions. Based on this assessment, AEB receives a SREP decision letter, in which DNB stipulates and substantiates AEB's specific SREP capital requirements. AEB's internal monitoring system includes various buffers to ensure that AEB meets SREP capital requirements.

4.3 Minimum Required Eligible Liabilities

In the coming years AEB plans to diversify its funding mix with the introduction of unsecured wholesale funding on its balance sheet. At the same time, anticipating the Minimum Required Eligible Liabilities (MREL) requirements for LSI banks – expected to be introduced in 2021 – AEB issued Senior Non-Preferred bonds in June 2019. AEB applied the Single Resolution Board default formula as an indication of the forthcoming MREL requirement.

5 Credit risk

5.1 Credit risk management

Risk management committee

During 2019, credit risk was monitored by the Credit Risk Committee (CRC), which reports to the MB. The CRC is responsible for monitoring the performance of the loan book and investment portfolio, focusing in particular on compliance with internal targets and limits as set out in the RAS. Chaired by the CRO, the committee members include management and senior representatives of business and risk departments. The CRC met on a monthly basis.

Risk measurement methodology

The capital required under Pillar 1 is calculated in accordance with the Standardized Approach (SA) as prescribed by the CRR. Under the SA, the CRR prescribes a standard classification of the exposures per asset class in order to determine the risk weight. Subsequently, the regulatory capital requirement is calculated by taking 8% of the total RWA.

In addition to monitoring the credit risk regulatory requirements, AEB also monitors credit risk developments in its portfolio through internal models, reports and dashboards. Expected losses under IFRS 9, unexpected losses via AEB's economic capital framework and Return on Risk Adjusted Capital (RORAC) assessments are monitored so as to manage portfolio credit risk. Additionally, compliance with the Credit Risk Policy is monitored on a monthly basis.

5.2 Credit portfolio

This section discusses AEB's exposure to credit risk in its:

- Retail portfolio, consisting of loans and advances to
  - Retail customers with the loan secured by mortgages on residential property (Mortgages);
  - Retail customers via unsecured loans (Consumer loans); and
  - SME customers via unsecured loans (SME loans).
- Non-retail portfolio, consisting of
  - Loans and advances to banks;
  - Loans and advances to the public sector; and
  - Interest-bearing securities.

The table below shows the movements in AEB's exposure to the various asset classes and related risk weights.

Asset category	Asset class	2018			2019		
		Leverage Exposure	RWA	RW%	Leverage Exposure	RWA	RW%
Non-retail	Bank	474	91	19%	696	132	19%
	Sovereign	1,506	-	0%	2,139	-	0%
	Public Sector Entities	334	12	4%	233	12	5%
	Securitization	495	114	23%	422	98	23%
	Corporate	146	109	75%	65	58	85%
	International Org.	54	-	0%	53	-	0%
	Development banks	52	-	0%	52	-	0%
	Subtotal non-retail	**3,060**	**326**	**11%**	**3,660**	**301**	**8%**
Retail	Mortgages	9,794	1,338	14%	10,754	1,479	14%
	Consumer loans	1,076	810	75%	1,158	1,393	120%
	SME loans	260	149	58%	335	226	67%
	Subtotal retail	**11,130**	**2,297**	**21%**	**12,247**	**3,098**	**25%**
Other	**Other**	**8**	**3**	**42%**	**16**	**9**	**60%**
Total credit risk exposure		**14,198**	**2,626**	**18%**	**15,923**	**3,408**	**21%**

Table 2: Credit risk exposures by asset class

Credit risk exposure increased by EUR 1,725 million compared to 31 December 2018, in line with AEB's growth strategy and primarily driven by increased exposure to mortgage loans and sovereigns. The overall risk weight percentage (RW%) increased in 2019, due to certain unsecured lending asset classes being reclassified as high risk (resulting in the application of a 150% RW%).

Detailed information on AEB's exposure at 31 December 2019 is provided in the Annual Report, Section *Consolidated financial statements 2019 of Aegon Bank N.V.*

Retail portfolio

The Retail portfolio mainly consists of loans secured by mortgages on residential property and unsecured loans to consumers and small and medium-sized enterprises (SMEs). AEB has agreements in place with a number of lending platforms to be able to invest in consumer loans and SME loans. In order to ensure the availability of eligible loans, for some of the platforms, AEB guarantees the purchase of loans for a limited number of months.

The loan loss provisions (impairment) for the retail portfolio increased by EUR 36 million in 2019. Key drivers of the increase in impairments were:

- The growth in exposure across all asset classes;
- Seasonal effects within the relatively young consumer loans and SME loans portfolios; and
- Recalibration and redevelopment of the IFRS 9 loan loss provisioning model.

Asset class	2018 Exposure (gross of impair.)	2018 Impair-ments	2018 Exposure (net of impair.)	2018 % impaired	2019 Exposure (gross of impair.)	2019 Impair-ments	2019 Exposure (net of impair.)	2019 % impaired
Mortgages	9,794	0	9,794	0%	10,754	2	10,659	0%
Consumer loans	1,194	75	1,120	6%	1,230	89	1,141	7%
SME loans	268	8	260	3%	361	28	333	8%

Table 3: Impairments in the retail loans portfolios

Secured by mortgages on residential property

AEB's mortgages are originated and serviced by Aegon Hypotheken B.V., a subsidiary of Aegon Nederland. Aegon Hypotheken B.V. has strict underwriting processes, which are aligned with AEB's credit risk appetite in terms of its mortgage portfolio. The table below shows that most of the mortgages are backed by a Nationale Hypotheek Garantie (National Mortgage Guarantee, namely 56% of the total mortgage portfolio). The majority of non-NHG covered mortgages are in the bucket below 80% LTV. AEB's strategy going forward is to maintain a high portion of NHGs in the mortgage portfolio. The significant NHG coverage and relatively low LTV results in low credit risk in the mortgage portfolio. The overall mortgage RW% of 14% has remained stable in recent years.

Mortgages	2018 Exposure (net of impairments)	2018 % of Total	2019 Exposure (net of impairments)	2019 % of Total
NHG guaranteed amount	5,551	57%	6,060	56%
LTV less than 80%	3,691	38%	4,176	39%
LTV more than 80%	552	6%	518	5%
Total	**9,794**	**100%**	**10,754**	**100%**

Table 4: Exposure to mortgages by LtV bucket at 31 December 2018 and 31 December 2019

Unsecured consumer loans and SME loans

AEB invests in consumer loans and SME loans through several third-party lending platforms. The lending platforms provide a variety of services related to origination, client management, and collection and receivables processes. AEB has specific mandate agreements (SLAs) in place with each servicer detailing AEB's credit risk appetite.

Table 5: Geographical distribution of consumer loans EAD by country on the following page shows the geographical distribution of consumer loans by country. The Dutch portfolio continued to decrease in line with expectations, because the Dutch consumer loans portfolio is a closed book and in run-off. The UK portfolio decreased slightly as it reached its target size. AEB is managing this portfolio at the current exposure level. The German portfolio grew substantially in 2019 and has now been placed in run-off to reduce the exposure to this country and asset class. The French portfolio was divested in 2019 due to being a small non-strategic portfolio and to reduce the related operational burden.

	2018			2019		
	Leverage Exposure	**RWA**	**RW%**	**Leverage Exposure**	**RWA**	**RW%**
Netherlands	215	162	75%	158	118	75%
Germany	431	324	75%	648	971	150%
UK	377	283	75%	353	304	86%
France	54	40	75%			
Total Consumer Loans	**1,076**	**810**	**75%**	**1,158**	**1,393**	**120%**

Table 5: Geographical distribution of consumer loans EAD by country

AEB's exposure to SME loans in the UK grew in line with its strategic plans in 2018. The Dutch SME loans portfolio remained limited in size, supporting separate account crowdfunding investments available for Knab clients.

	2018			2019		
	Leverage Exposure	**RWA**	**RW%**	**Leverage Exposure**	**RWA**	**RW%**
UK	258	148	57%	333	224	67%
Netherlands	2	1	76%	2	2	77%
Total SME loans	**260**	**149**	**58%**	**335**	**226**	**67%**

Table 6: Geographical distribution of SME loans EAD by country

Table 7: Industry distribution of UK loans EAD by industry on the following page shows the industry distribution of the UK loans portfolio. The portfolio is considered well-diversified across several industries. The *Services and other* category is a broad category encompassing many companies which are considered to have limited correlation. However, in line with AEB's updated methodology, diversification within the *Services and other* category is not factored into concentration risk calculations. AEB monitors distribution according to the Hirschmann Herfindahl Index using the RWA by industry.

	2019	
SIC category	**RWA**	**HHI**
Agriculture, Forestry and Fishing	1.4	0%
Construction	33.0	2%
Financial industry (bank and non-bank)	3.2	0%
Real estate (commercial)	4.7	0%
Manufacturing	20.6	1%
Mining and quarrying	0.4	0%
Wholesale and retail trade	39.2	3%
Services and other	97.7	19%
Transport, storage and utilities	10.2	0%
Not classified	15.3	0%
Total	**226**	**25%**

	2018	
SIC category	**RWA**	**HHI**
Agriculture, Forestry and Fishing	0.9	0%
Mining and Quarrying	0.2	0%
Manufacturing	13.5	1%
Electricity, gas, steam and air conditioning supply	0.3	0%
Water supply, sewerage, waste management and remediation	1.0	0%
Construction	20.9	2%
Wholesale and retail trade; repair of motor vehicles and motorcycles	24.2	3%
Transportation and storage	5.1	0%
Accommodation and food services	7.2	0%
Information and communication	11.0	1%
Financial and insurance	2.3	0%
Real estate	3.3	0%
Professional, scientific and technical	16.7	1%
Administrative and support services	15.5	1%
Public administration and defense; compulsory social security	0.1	0%
Education	1.8	0%
Human health and social work	5.7	0%
Arts, entertainment and recreation	3.8	0%
Other service activities	4.8	0%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0.3	0%
Extraterritorial organizations and bodies	0.1	0%
Not classified	9.4	0%
Total	**148**	**10%**

Table 7: Industry distribution of UK loans EAD by industry

Non-retail portfolio

The non-retail portfolio currently consists of an investment portfolio and a treasury portfolio (cash management). The portfolios are managed by Aegon Asset Management (AAM) and Aegon Group Treasury (Aegon NV's treasury department), respectively, under terms and agreements mandated by AEB.

For the exposure classes covered by the investment portfolio and treasury portfolio, credit quality steps are used to assign risk weights. For exposures to counterparties for which a credit assessment is available from an External Credit Assessment Institution (ECAI), AEB applies credit quality steps in accordance with the CRR. If no credit assessment or surrogate is available, the bank assigns a risk weight of 100%. For credit assessments of exposures to obligors, AEB uses the rating scales of and ratings assigned by S&P, Moody's, and Fitch.

Movements in the investment portfolio are monitored through periodic reporting. The reports detail fair market value changes for various exposure types[7] and rating grades and price and yield developments at ISIN level. Separate reports specific to asset-backed exposures monitor, amongst other things, the level of credit enhancement and collateral performance.

As at 31 December 2019, AEB's securitization activity was limited to its outstanding 2013 Kigoi B.V. transaction, with regard to which AEB continued to hold all notes issued by the SPV. The underlying assets of that transaction are Dutch consumer loan exposures. Because all the notes are held by AEB, the structure is consolidated in AEB's balance sheet, and risk weights for loans sold to the SPV are determined on a look-through basis. As at 31 December 2019, AEB had no specific assets earmarked for securitization. Nor did AEB undertake any securitization activities in 2019.

	2018		**2019**	
	Notional	**RWA**	**Notional**	**RWA**
The aggregate amount of on-balance sheet securitisation positions retained	212	184	153	112
The aggregate amount of off-balance sheet securitisation exposures retained	54	8	39	6

Table 8: Outstanding exposures securitized at 31 December 2018 and 31 December 2019

Past due, forborne and non-performing (defaulted) loans

A financial asset is:

- *Past due* when the counterparty fails to make payment due under the contract.
- *Forborne* when a concession has been granted to a borrower that is experiencing financial difficulties, reflected in either modified terms or a refinancing of the loan.
- *Non-performing/ Defaulted/ IFRS9 stage 3/ Credit-Impaired* when the obligor is
  - 90 consecutive days past due on a material credit obligation; or
  - unlikely to repay the loan in full.

Management of past due, forborne and non-performing (defaulted) loans has been outsourced operationally to AEB's lending partners in accordance with AEB's risk appetite as outlined in the SLA. Their collection departments will contact borrowers who are financial difficulty in order to:

- Understand the cause of the financial difficulties.
- Agree on forbearance measures appropriate to the borrower's situation that will optimise the expected return and recovery for AEB. If a solution cannot be found the loan will be formally cancelled, ensuring that further legal action can be taken against the borrower.

[7] Such as Asset Backed Securities (other than CDOs and CLOs), CDOs or CLOs, Sovereign Debt, Corporate Credits and Covered Bonds

- A cancelled loan will be managed by the lending partner's recovery department, possibly using a specialised debt collection agency. The recovery team may still be able to reach agreement on an adjusted repayment schedule instead of taking the matter to court.

AEB closely monitors the collection & recovery process and credit movements in its various retail portfolios using daily and monthly data deliveries as well monthly and quarterly reports. The data and reports are analysed by its dedicated credit risk team and used to:

- Inform the CRC about relevant movements in the portfolios; and
- Calculate the expected losses, economic capital, RORAC and other relevant credit risk measurement metrics.

Collateral obtained by taking possession

As at 31 December 2019, AEB did not carry any foreclosed assets on its balance sheet.

Required capital

Table 9: Capital required for credit risk below shows that the capital required for credit risk increased by EUR 22 million compared to 31 December 2017, driven by growth in the retail portfolio and offset slightly by the decrease in securitization positions.

Asset category	Asset class	2018	2019
Non-retail	Bank	7	11
	Sovereign	-	-
	Public Sector Entities	1	1
	Securitization	9	8
	Corporate	9	5
	Subtotal non-retail	**26**	**24**
Retail	Mortgages	107	118
	Consumer loans	65	111
	SME loans	12	18
	Subtotal retail	**184**	**248**
Other	Other	-	1
Total credit risk capital estimate		**210**	**273**

Table 9: Capital required for credit risk

5.3 Counterparty credit risk

Part of the non-retail bank portfolio is exposed to counterparty credit risk (CCR). AEB adopts the Standardized Approach to measure EAD for CCR. The RWA for counterparty credit risk (CCR) for derivatives is captured in the exposure classes Bank and Corporate in Table 9 (EUR 9 mln and EUR 1 mln, respectively, for 2018 and 2019). Given these amounts, AEB deems counterparty credit risk as small.

5.4 Credit valuation adjustment (CVA)

AEB enters into derivatives contracts for hedging purposes only. Derivatives are used to hedge interest rate risk and FX risk. By entering into these derivatives, AEB becomes exposed to credit value risk on the derivatives contract. Credit value risk is defined as the risk that the value of derivative positions taken by AEB will fluctuate driven by changes in the financial position of the counterparty to the derivatives contract.

Table 10: CVA risk capital estimate shows AEB's internal capital estimate for CVA risk at year-end 2018 and 2019. Since May 2016 AEB has used central clearing for all new Interest Rate Swaps (IRSs), which has reduced the credit valuation adjustment risk for AEB. Furthermore, all Over The Counter (OTC) derivatives and IRSs entered into before May 2016 have been transferred to a central clearing counterparty (CCP).

Risk type	2018	2019
CVA risk capital estimate	2	0

Table 10: CVA risk capital estimate

5.5 Impact of COVID-19 on credit risk

COVID-19 has impacted AEB's credit risk exposure. In particular, AEB's unsecured retail loans to Consumers and SMEs are the most affected by COVID-19. In Q2 2020, AEB increased its loan loss provisions (calculated under IFRS 9) to include the increase in risk due to COVID-19. Additionally, AEB has been working closely with the lending operations teams to ensure implementation of the guidelines and regulations that have been initiated to reduce the impact of the COVID-19 crisis. These include, but are not limited to, adjusted forbearance practices and reporting, and application of loan moratoria guidelines.

6 Operational Risk

AEB manages operational risk in accordance with the Bank's *Enterprise Risk Management Framework.* Reference is made to this framework for information about the Bank's risk structure and risk management principles. The Risk Appetite Statement (RAS) sets limits and is used to monitor and manage the risk profile.

Within the Bank, non-financial risks include, for example, risks related to its strategy, compliance and operational processes. AEB distinguishes different type of operational risks as set out in the risk taxonomy as defined in the ERM framework and AEB's Risk appetite statement. *The Operational Risk Management Policy* outlines requirements mandated by the Statutory Board for identifying, assessing, measuring, monitoring and reporting all operational risks associated with AEB's activities.

6.1.1 Internal capital estimate

AEB has adopted the Basic Indicator Approach (BIA) under Pillar 1 to determine regulatory required capital. The adequacy of the capital required is assessed according to an internal approach and additional capital is included under Pillar 2 for the part not captured under Pillar 1. Several approaches are applied to ensure that the Bank's required capital matches its risk profile. In summary, AEB determines its capitalization by factoring in the higher of the following outcomes:

- Realized losses in the past three years;
- Scenario analyses; and
- Results from Risk Control Self Assessments (RCSAs)

Please refer to AEB's *ORC Standard* for a complete overview of the methodology. Table 11: Internal capital estimate shows the resulting Pillars 1 and 2. The required capital decreased compared to last year, due mainly to a claim risk adjustment relating to products sold by former Aegon Financiële Diensten B.V. (AFD). The adjustment takes into account recent developments and the Bank's provisions (approx.. EUR 10 mln as at 31 December 2019).

Risk type	2018	2019
BIA (Pillar 1)	17.6	21.9
ERC add-on (Pillar 2)	63.8	54.4
Operational Risk capital estimate[8]	**81.4**	**76.3**

Table 11: Internal capital estimate

Overall, operational risks have led to EUR 3.5 mln in losses over the last three years (EUR 1.5 mln in 2017 and EUR 2 mln in 2019). Based on those losses, no add-on is required under Pillar 2. The total impact from the combined scenario is EUR 62.5 mln, which is higher than the capital required under Pillar 1. Because the RCSA results, as specified below, exceed the outcome from the scenario analysis, the RCSA results will determine the-add on under Pillar 2.

6.1.1.1 Results from Risk Control Self Assessments (RCSAs)

The results from the RCSAs of internal and outsourced processes are shown in Table 12: RCSA results. The risks identified are linked to the applicable risk category. For some risk categories, no material residual risks have been identified as part of the RCSAs. Expert judgement has been applied for risk categories for RCSA results which are unavailable or incomplete. If the RCSA indicates a need to hold additional capital over and above the Pillar

[8] Horizon add-ons for 2017 and 2018 have been incorporated into the ERC add-on.

1 requirements, the additional capital is reflected in the Economic Required Capital (ERC) result of specific risk categories under Pillar 2. The RCSA includes the Systemic Integrity Risk Analysis (SIRA) and Strategic Risk Assessment (SRA) results.

L1 risk taxonomy	RCSA results	ERC result
NFR 1 Strategic Risk	6,375,000	6,375,000
NFR 2 Governance Risk	1,170,000	1,170,000
NFR 3 Market Integrity	-	-
NFR 4 Company Integrity	-	-
NFR 5 Employee integrity	375,000	375,000
NFR 6 Client Integrity	1,770,000	4,000,000
NFR 7 Privacy Risk	1,525,000	1,525,000
NFR 8 Change (Projects)	-	2,000,000
NFR 9 Execution and Process Management	1,675,000	1,675,000
NFR 10 Reporting	-	2,000,000
NFR 11 Modeling	-	20,000,000
NFR 12 Outsourcing & Supplier	14,250,000	14,250,000
NFR 13 People Risk	400,000	400,000
NFR 14 Business Disruption and Technology System Failures	2,770,000	2,770,000
NFR 15 Cybercrime	-	1,000,000
NFR 16 Regulatory & Legal	200,000	1,000,000
Total ERC (ERC sum of all NFRs)		**58,540,000**
AFD claim risk		**17,800,000**
Total Pillar 2		**76,340,000**

Table 12: RCSA results

Table 11: Internal capital estimate shows that total Economic Required Capital (ERC) for credit risk based on the RCSAs and including the legal risk for AFD exposure (possible claims from Vliegwiel/Sprintplan products) exceeds the required capital under Pillar 1. Based on these results, the total Pillar 2 add-on is EUR 54.4 mln. AEB does not differentiate between the various operational risk sub-types. This result is also shown in Table 12: RCSA results as a Pillar 2 add-on so as to ensure that Pillars 1 and 2 add up to the total Operational Risk ERC.

6.1.2 Evaluation of exposures 2019

Based on the highest outcome of the tests performed (RCSA results), including AFD claim risk, the capital add-on is EUR 54.4 mln. The results from the RCSAs and scenario analyses have been used to quantify unexpected losses (UL) or tail risk for operational risk. Materialization of the values expected by the RCSAs is estimated to be extremely unlikely because they capture various risks across the organization that are not expected to occur simultaneously. Especially when past losses are taken into account, large future losses are deemed to be very unlikely. The scenarios comprise unlikely extreme events with a large impact clearly resulting from the tail. Even though large losses are deemed to be unlikely, AEB will need to have sufficient capital in place to absorb them if they occur. The capital has been based on the highest outcome and is deemed to be prudent and sufficient.

Assessment exposure scenarios

- **The hit & run scenario:** the exposure to this scenario is large and estimated in a prudent way. Even if this type of scenario were to occur, it would not be very likely that a fraudulent employee would be able to transfer this kind of money to accessible bank accounts. There are various controls in place to mitigate this risk. Moreover, the fraudulent employee would need to have the right credentials to be able to work at AEB and be willing to flee to a country that has no extradition treaty with the Netherlands. During 2019, this scenario and its impact remained unchanged; and
- **The modeling scenario:** We improved our controls regarding models and validated models according to a model validation planning. However, some models have not been validated yet, which led to a higher operational risk exposure. In 2019 a number of risk events relating to models and end user application occurred. One incident led to a loss of approximately EUR 1.2 mln. Given the loss incurred in 2019 and the model validations performed, the capital held for this risk category is deemed prudent and largely sufficient.

Assessment of RCSA results

Based on the 2019 RCSA results, AEB identified its operational risk exposure (Table 12: RCSA results) according to a few larger risk categories.

- **Strategy risk:** includes various risks regarding AEB's internal and external environments (e.g. low interest rates putting pressure on margins). Please refer to the Strategic Risk Assessment 2020 for further details;
- **Client integrity risk:** In 2019 various gaps were identified regarding this risk category. These gaps were reported to DNB and AEB is currently working on remedying them. Good progress was made in 2019. The capital requirement was set higher (EUR 4 mln) than the RCSA (SIRA) results necessitated. A prudent capital charge has been chosen because gap closure will continue throughout 2020;
- **Change risk:** AEB put in place organizational changes in 2019. Project One is an important project that focuses on integrating Aegon's and Knab's banking operations. Although the project is well-managed, there is a risk of not being able to meet budget requirements. The required capital has been set at EUR 2 mln;
- **Modeling risk**: This risk has been set in line with the capital from the modeling risk scenario;
- **Outsourcing and supplier risk:** Over the last few years, controls on outsourcing partners and suppliers have improved significantly. AEB's risk assessments of outsourcing partners and suppliers identified several potential risks involving the loan platforms. In 2019 AEB continued to work on risk mitigation. The operational risks identified by the RCSAs were used as a basis to define the capital requirement. It is very unlikely that those risks will all materialize in the same year. The capital held for these risks is therefore deemed to be sufficient; and
- **Cybercrime risk:** The impact of cybercrime risk has been capped by means of a shared insurance policy with Aegon Nederland. In 2019 losses regarding this risk category related to phishing incidents (approximately EUR 0.3 mln). The policy deductible is EUR 1 mln, which determines the capital required for this risk category.

6.1.3 Management assessment

Management's overall assessment is that the operational risk exposure will decrease in 2020. Management has agreed to adopt a new methodology to control the operational risk profile and defined various action plans for gap closure:

- The risk profile will be managed on the basis of set thresholds for losses and the number of amber/red risks identified for each risk category. This will shed more light on what risks drive the Bank's overall risk profile and what mitigation actions will need to be taken. This will contribute to reducing operational risk;

- Strategy risks have been identified. Board members have been assigned as risk owners for the most important risks. An action plan will be defined and executed in 2020;
- As regards client integrity risk, the KYC enhancement program is in place. Remediation will continue in 2020. Management expects that significant steps will be made in 2020 to mitigate this risk;
- Change risks will be tightly monitored in the agile cockpit. Management has a clear focus on cost reduction, which is also reflected in the strict management of projects. Although strict management is in place, some risk regarding the budget and unexpected costs will remain;
- In 2019 a link to TREA was used to quantify modeling risk. However, this is not suitable for all models in scope. In 2020 AEB will work on a new method to quantify modeling risk. The Bank will also continue to follow the model validation planning. In 2020 there will also be more focus on controlling the Bank's End User Computing (EUC), with the aim of reducing risks related to EUCs; and
- Outsourcing & supplier risks will continue to be mitigated in the coming year. In 2019 the focus was on gap closure. In 2020 the monitoring cycle will be implemented further and an automated process will be set up. For the loan platforms, AEB will be working on mitigating the risks identified.

7 Market Risk (FX Risk)

AEB is exposed to FX risk arising from two loan portfolios in the UK: (1) consumer loans portfolio serviced by Zopa, and (2) SME loans portfolio serviced by Funding Circle. As these loans are on the asset side of the balance sheet, there is an FX mismatch between assets and funding. These loans and future cash flows arising from them are in GBP, while all of AEB's funding is in EUR. A hedging program is in place which aims to fully hedge the proceeds arising from these GBP-denominated loan exposures on an IFRS equity neutral basis. The hedge takes into account expected losses on the outstanding loans. However, the actual losses may deviate from expectations and create a slight mismatch in the actual hedge. Therefore, currency risk in these loan portfolios is contingent on the realization of default and prepayment risks, amongst other risk drivers.

AEB also has foreign currency bank accounts at ABN AMRO, with cash balances denominated in AUD, CHF, GBP, NZD, SEK, USD and ZAR. These accounts are used to facilitate foreign currency payments by Knab customers. The exposure to these accounts has not been hedged because the amounts involved are very small and hence considered immaterial.

7.1 Internal capital estimate

Under the Standardized Approach described in Articles 351-354 of the CRR, AEB is not required to hold capital because its overall net FX position does not exceed 2% of the Bank's total own funds. AEB had a net position in GBP amounting to EUR -12 mln at 31 December 2019, after taking into account the hedging strategy to limit AEB's FX risk. The net position is 1.7% of AEB's total own funds, which were EUR 737 mln at 31 December 2019. The net FX position per currency is calculated by taking the difference between the short FX position and long FX position, where the amounts are denominated in the reporting currency. The capital requirement for FX risk under the Standardized Approach is determined by taking the total net FX position denominated in the reporting currency (EUR) and multiplying it by 8%.

The Bank's internal capital estimate (also referred to as ERC) for FX risk is calculated according to a Value-at-Risk (VaR) methodology with a 99.5% confidence level and a one-year horizon. ERC currency risk represents the sum of potential financial losses on foreign currencies during one year, without assuming any correlation structure between the currencies. The 99.5th percentile is calculated based on the daily time series of EUR/GBP exchange rates. The capital estimate captures the FX hedge and its possible mismatch in the case of default shocks.

The internal capital estimate was EUR 5.7 mln at 31 December 2019. In the previous year, the capital estimate for FX risk was based only on the Standardized Approach and therefore EUR nil. However, the outcome of the Value at Risk (VaR) methodology was EUR 5.7 mln at 31 December 2018.

Risk type	2018	2019
FX risk capital estimate	0.0	5.7

Table 13: Internal capital estimate in millions EUR

The Bank's GBP loan portfolio exposure grew by EUR 85 mln in 2019. The portfolio's total outstanding principal amounted to EUR 654 mln at 31 December 2018 and EUR 739 mln at 31 December 2019. Given that its gross GBP long position has become more material and will continue to grow, the Bank finds it more convenient to hold capital over and above the Pillar 1 capital requirement.

8 Interest rate risk in the banking book

8.1 Risk description

Interest rate risk in the banking book (IRRBB) is an important risk type inherent to our banking activities. If interest rates fluctuate, the Bank's net present value and net interest earnings will be impacted as a result of IRRBB materializing. Because this inherent risk can be mitigated through hedging and steering, an identification process is in place to detect interest rate risks in the Bank's balance sheet. Based on EBA guidelines on common procedures and methodologies for the SREP and an internal assessment, AEB has identified the following main and sub risks for IRRBB:

Risk category	Main risk	Sub risk
IRRBB	Gap risk	Parallel gap risk
		Non-parallel gap risk
	Basis risk	Tenor basis risk
		Reference curve basis risk
		Cross currency basis risk
	Option risk	Prepayment risk
		LTV migration risk
		Extension risk
		Savings withdrawal risk
		Pensioencomfort option risk
		Pipeline risk
CSRBB	Reinvestment risk	-
	Refunding risk	-
	Credit spread widening	-

Table 14: IRRBB main and sub risks identified by AEB

AEB's *IRRBB Risk Identification document* provides definitions of these risks and a detailed overview of the interest rate risk identification process and methods to describe IRRBB and Credit Spread Risk in the Banking Book (CSRBB) relevant to AEB. This is important in order to assess and define the required level of management, measurement, and reporting of IRRBB risks, which is facilitated by our *Interest Rate Risk Policy.* In accordance with the RAS, the Interest Rate Risk policy allows appropriate and effective management of IRRBB risks. AEB holds capital for IRRBB (see section 8.3 for estimates). The capitalization method is described in the *IRRBB Capitalization Methodology document.* The method is used for ICAAP under Pillar 2, for capitalization as part of the internal buffer and for the ERC in the RAS. All IRRBB policies and methodology documents are available upon request.

8.2 Risk measurement methodology

Following the Bank's risk identification process, the following risks are monitored for IRRBB capitalization purposes: gap risk, basis risk, prepayment risk and pipeline risk. Other identified IRRBB risks presented in Table 14 are not capitalized for. In particular, LTV migration risk, extension risk, savings withdrawal risk and *Pensioencomfort* option risk are deemed immaterial and therefore left out of scope for capitalization purposes. However, best estimates of savings withdrawal risk (via the VRS model) and *Pensioencomfort* option risk are taken into account for purposes of measuring and managing gap risk.

The IRRBB capital estimates are shown in Table 15. The estimates for gap and option risk (prepayment risk & pipeline risk) are based on the Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) metrics under 13 predefined interest rate scenarios. The capital estimate for basis risk is calculated in isolation from gap risk and option risk. Although this allows for a more simple and granular approach, this does not allow for potential diversification effects. Finally, the sum of gap risk, option risk and basis risk produces a total capital amount. The final IRRBB capital estimate is the maximum of the total EVE and EaR amounts observed under the 13 interest rate scenarios.

Capital for basis risk is calculated as the worst value loss stemming from adverse movements in the main reference indices.

8.3 Internal capital estimate

Table 14 shows the internal capital estimate for IRRBB at 31 December 2019. The capital estimate at 31 December 2019 is EUR 57.0 mln. The most adverse scenario for combined gap and option risk is the EBA ICAAP scenario developed by the European Systemic Risk Board (ESRB) for EBA 2020 stress test purposes. This is the most severe scenario for AEB because shocks are applied that substantially reduce interest rates without any interest rate floors being in place.

Risk type	2018	2019
Gap & option risk	72.6	46.7
Basis risk	-	7.3
Add-on: parameter uncertainty	-	3.0
IRRBB Pillar 2 capital estimate	**72.6**	**57.0**

Table 15: Internal capital estimate for IRRBB at 31 December 2019 and 2018

8.3.1 Evaluation of exposures 2019

The capital estimate for gap and option risk decreased by EUR 25.9 mln between 31 December 2018 and 31 December 2019. This can be explained as follows:

- The capitalization is triggered by the scenario with the most severe impact. For AEB's balance sheet position and the defined scenarios as at 31 December 2018, this was the -/-200 bps scenario, whereas the ICAAP EBA scenario was the most severe scenario as at 31 December 2019[9];

- As at 31 December 2018, the loss in EVE was EUR 72.6 mln, EUR 68.6 mln of which was due to application of a CPR shock (i.e. negative convexity from the prepayment option risk) and EUR 4.0 mln was due to application of an interest rate shock (i.e. gap risk);

- As at 31 December 2019, the loss in EVE was EUR 46.7 mln, EUR 70.1 mln of which was due to application of a CPR shock (i.e. negative convexity from the prepayment option risk). However, application of an interest rate shock (i.e. gap risk) had an offsetting effect, resulting in a gain of EUR 23.4 mln;

- The result for option risk at 31 December 2019 is comparable to the result at 31 December 2018. The slight increase can be explained by an increase in the portfolio. The result for gap risk was very different between 31 December 2018 and 31 December 2019. This can be explained by the DV01 position as at 31 December 2019, which was +28K. As a result, AEB was slightly under-hedged and thus exposed to interest rate increases (whereas the most severe scenario assumed a downward interest rate shock). The DV01 position as at 31 December 2018 was -/- 5K, exposing AEB to interest rate decreases (in line with the most severe scenario). Gap risk therefore had an offsetting effect as at 31 December 2019, whereas it increased the capital estimate as at 31 December 2018. As a result, the total capital estimate for gap and option risk was significantly lower as at 31 December 2019; and

- AEB also included pipeline risk for reset offers of mortgages in the above capital estimates at 31 December 2019. Because there was no hedge in place at 31 December 2019 to mitigate IRRBB risks arising from pipeline risk for reset offers of mortgages, AEB capitalized for this. Including the (unhedged) pipeline risk for reset offers, exposures in the IRRBB capital estimations at 31 December 2019 also showed an offsetting impact (approximately EUR 4.4 mln). This is due to the fact that the scenario resulting in the highest combined capitalization impact led to an increase in value of the pipeline reset offers. However, AEB has put in place methods to measure, hedge and monitor interest rate risk exposures arising from mortgages in the pipeline in a formalized manner.

AEB has introduced two add-ons to reflect risks that were previously not capitalized for:

- AEB improved its capital estimates by explicitly measuring the impact arising from basis risk compared to the previous year. This resulted in an additional IRRBB impact of approximately EUR 7.3 mln; and

[9] Note that the two scenarios are slightly different in terms of interest rate shock and CPR shock. However, the difference is reduced due to the fact that the -/-200 bps scenario was subject to a floor, which led to lower effective interest rate risk shocks. For example, the interest rate shock as at 31 December 2018 under the -/-200 bps scenario for the 10Y and 20Y points was approximately -185 bps and -160 bps, respectively. This is slightly more severe than the EBA ICAAP scenario as at 31 December 2019 (10Y: -84 bps and 20Y: -158 bps). Furthermore, the CPR shock was 2.29% for the -/-200 bps scenario as at 31 December 2018, and 1.79% for the EBA ICAAP scenario as at 31 December 2019.

- AEB included pipeline risk for reset offers of mortgages based on a best estimate of the acceptance rates of reset offers. However, AEB acknowledges that under this approach some pipeline risk remains. In order to take into account deviations between the best estimate of acceptance rates and actual acceptance rates, AEB applied an add-on of EUR 3 mln.

AEB monitored and assessed credit spread movements (CSRBB) in its Investment Portfolio as at 31 December 2019. Furthermore, risk due to credit spreads widening was accounted for through the internal buffer on top of the minimum regulatory requirements. At 31 December 2019 this amounted to EUR 12 mln.

9 Liquidity Management

9.1 Liquidity Risk Management Framework

Liquidity risk management is one of the core activities within the risk management process and as such vital for a bank's short-term and long-term financial health.

The primary goal of AEB's liquidity risk management is to ensure that the bank has sufficient liquidity available to support its strategy in normal and stressed conditions. AEB's liquidity needs are based on its risk appetite, business plans, and the requirements of external stakeholders, such as its customers, regulators and investors. AEB evaluates its risk appetite at least annually to ensure that risk limits and targets are still adequate.

9.2 Funding Strategy

AEB's funding strategy consists of a mix of savings deposits and wholesale funding, currently in the form of covered bonds and senior non-preferred notes.

The issuance of senior non-preferred notes in June 2019 has supported AEB's growth ambitions and resulted in a balanced mix of secured and unsecured funding instruments.

9.3 Current liquidity buffer

As at 31 December 2019, the liquidity buffer amounted to EUR 2,373 million (adjusted for haircuts). A substantial part of the buffer consists of cash held in the DNB account (EUR 1,866 million). The underlying assets making up the liquidity buffer are all EUR-denominated.

9.4 Liquidity Coverage Ratio

AEB uses the Liquidity Coverage Ratio (LCR) to monitor the short-term resilience of its liquidity risk profile. The aim is to ensure that AEB has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be easily and readily converted into cash in private markets to meet the bank's liquidity needs under a 30-calendar day liquidity stress scenario.

As at 31 December 2019, the LCR ratio was 212%, which is above internal limits and external requirements. AEB's current strong short-term liquidity position reflects the high amount in cash deposits held at DNB and the high quality of AEB's investment portfolio, a large part of which consists of Level 1 or Level 2 HQLA assets.

Please refer to the Appendix 11.5 for details on the Liquidity Coverage Ratio.

9.5 Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) requires AEB to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to AEB's regular sources of funding will erode its liquidity position in a way that would increase the risk of failure and potentially lead to broader systemic stress. The NSFR penalizes high reliance on short-term wholesale funding, encourages improved assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

As at 31 December 2019, the NSFR ratio was 147%, which is above internal limits and external requirements.

9.6 Liquidity Stress Testing

AEB's strength in terms of its liquidity buffer and liquidity survival period is also measured by means of liquidity stress testing (LST).

AEB uses several internally developed scenarios for LST purposes. The most severe scenario combines a large outflow of deposits, significant adverse changes in interest rates, higher defaults on assets and other factors that negatively affect liquidity.

As at 31 December 2019, the survival period under stress scenarios was above internal limits and external requirements.

9.7 Liquidity Stress Management and AEB's Recovery Plan

AEB's Recovery Plan ensures that in case of liquidity stress AEB has a wide range of measures available to address liquidity shortfalls. The Plan describes each of these measures and their potential impact and implementation process.

The Recovery Plan defines liquidity triggers that activate the Crisis Management Team, which in turn will decide on the measures to be taken.

9.8 Encumbered Assets

The Asset Encumbrance Ratio (AER) is related to liquidity risk. Elevated encumbrance implies that there are fewer assets available for liquidation or capable of being pledged when needed.

Monitoring the AER has become more important with the introduction of a covered bond program in 2015. As at 31 December 2019, AEB had four outstanding covered bonds with a notional equivalent of EUR 2,250 mln.

As at 31 December 2019, the AER was 19.4% and below internal limits and external requirements. An AER ratio below the requirement is preferred.

9.9 COVID-19 impact on liquidity subsequent to year-end

At the beginning of the COVID-19 crisis, there was a strong focus on liquidity risk. Indeed, due to increased uncertainty, there was limited access to liquidity, resulting in higher spreads. However, the ECB made clear that it was fully committed to the euro without limits. As a result, in the course of the crisis, spreads decreased to almost pre-crisis levels. Meanwhile, AEB has improved its liquidity position by means of a retained RMBS.

10 Remuneration

Remuneration policy
The remuneration of AEB's Board members is in line with AEB's remuneration policy. Aegon Bank pursues a careful, sound and sustainable remuneration policy. Similar to Aegon Nederland, AEB has adopted the Regulation on Sound Remuneration Policies (*Regeling beheerst beloningsbeleid*), and its remuneration policy meets the requirements stipulated in that regulation. AEB's remuneration policy covers the management board, management teams, senior management and other AEB employees, and complies with applicable national and international regulations, as well as the Governance Principles. The policy is also consistent with the Aegon Group Global Remuneration Framework (AGGRF 2019), drawn up by Aegon N.V., and takes into account developments in society. The remuneration policy is in line with Aegon Nederland's strategy, vision, core values and risk appetite.

Policy
In 2019, members of the Statutory Board were eligible for variable remuneration. AEB's new CEO, who joined the company on 1 October 2019, is not eligible for variable remuneration. This is in line with Aegon Nederland's intention to further reduce forms of variable pay and to abandon variable pay altogether from 2020. For variable compensation purposes, where this document refers to Aegon Bank's CEO, reference is made to the CEO who was in office until 30 September 2019. On 1 January 2020, Aegon Bank abolished all types of variable remuneration

In 2015, Aegon Group introduced a bonus pool. Due to the limited number of AEB employees eligible for variable pay, Aegon Bank's variable remuneration is part of Aegon Nederland's bonus pool.

Variable remuneration is based on performance and awarded according to predefined performance indicators at three levels: (i) Aegon N.V., (ii) Aegon Nederland N.V., and (iii) personal. The performance indicators are a mix of financial and non-financial criteria.

The maximum variable remuneration for AEB's CEO in 2019 is 20% of his fixed salary. The CEO is also a member of Aegon Nederland's Management Team. The 'on-target level' is 13.33%. For the other members of the management board, the maximum variable remuneration is 12% of their fixed salary, with the 'on- target' level being set at 8%.

Based on criteria laid down in the European Banking Authority Regulatory Technical Standards (EBA RTS), AEB designated a number of employees as Identified Staff in 2019. Management board members qualify as Identified Staff. Identified Staff are subject to specific rules on the payment of variable remuneration. The variable remuneration for Identified Staff is paid in cash and shares on a fifty-fifty basis. Aegon Bank's CEO receives 40% of the variable remuneration awarded upfront, with the remaining 60% being deferred evenly over 3 years following the performance year. Variable remuneration is paid to other Identified Staff as follows: 60% of the variable remuneration awarded is paid upfront, with 40% being paid conditionally, equally divided over a 3-year period following the performance year. An ex-post assessment may identify reasons for lowering these amounts or not paying any variable remuneration at all.

The vested shares of AEB's CEO and other Identified Staff are subject to a 1-year holding period, with the exception of shares withheld to cover payment of taxes due in connection with the vesting of the shares.

Governance
In accordance with AEB's remuneration policy, the supervisory board has the following duties and responsibilities: (i) approve the general principles of the remuneration policy, (ii) periodically assess the general principles of the remuneration policy, (iii) responsibility

for the management board's remuneration policy, (iv) review the remuneration of Identified Staff, (v) instruct the management board to implement the remuneration policy, and (vi) instruct Internal Audit to assess the implementation of the policy and procedures covered.

Under the governance provisions of AEB's remuneration policy, the supervisory board is authorized, following the results of an ex-post assessment, to suspend or cancel all or any part of the variable remuneration granted conditionally to Identified Staff ('malus clause').

Under the governance provisions of AEB's remuneration policy, the supervisory board is authorized to recover any variable remuneration previously paid to members of the management team and senior management if it was granted on the basis of inaccurate financial or other information ('claw-back' clause).

The remuneration policy and its implementation were discussed in meetings held by the supervisory board during 2019. The supervisory board also discussed the level of variable remuneration. The supervisory board approved the 2019 variable remuneration targets for Identified Staff within the framework set out in the AGGRF. The remuneration was in line with AEB's remuneration policy.

Policy implementation

In 2019 the actual pay-out of fixed and variable remuneration was in line with the remuneration policy. Variable remuneration for the Statutory Board and other Identified Staff was paid 50% in cash and 50% in Aegon N.V. shares. In 2019, in accordance with Aegon Nederland's remuneration policy, 40% of the 2018 variable remuneration was paid directly to Statutory Board members, with the remaining 60% being conditional. That 60% will be paid in three equal parts over a period of three years, unless an ex-post risk assessment identifies any reasons for lowering the amounts or not paying any variable remuneration at all. In 2019, there were no situations within AEB that required applying the claw-back clause to any variable remuneration awarded or already paid. An individual adjustment (malus) has been applied to 2019 variable compensation payable from 2020 onwards.

Supervisory board's review of remuneration

AEB's supervisory board discussed remuneration as part of its regular meetings. At the supervisory board meeting on 8 May 2019, the variable compensation granted to AEB's Board members was discussed, based on a review and an analysis conducted by the HR department and compliance departments of Aegon Nederland N.V.

The supervisory board's remit is to monitor the existence of a sound remuneration policy and to ensure that it policy is generally consistent with the sound and prudent management of AEB and the long-term interests of its shareholders.

The supervisory board must act in accordance with the principles laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, Aegon N.V.'s Global Remuneration Framework 2016, and Aegon Nederland's Remuneration Policy 2016.
At the balance-sheet date, no individual employed by AEB was paid a remuneration in excess of EUR 1 million.

For further information regarding remuneration please refer AEB's consolidated financial statements.

11 Appendix

All amounts in this Section are in euros.

11.1 Disclosure of Own Funds

	Common Equity Tier 1 capital: instruments and reserves	31-dec-19	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
1	Capital instruments and the related share premium accounts	514.187.868	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	179.221.970	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	9.359.389	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)
	Public sector capital injections grandfathered until 1 january 2018	0	483 (2)
5	Minority interests (amount allow ed in consolidated CET1)	0	84, 479, 480
5a	Independently review ed interim profits net of any foreseeable charge or dividend	26.154.076	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**728.923.303**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-1.241.872	
29	**Common Equity Tier 1 (CET1) capital**	**727.681.431**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	9.500.000	51, 52
31	of w hich: classified as equity under applicable accounting standards	0	
32	of w hich: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
	Public sector capital injections grandfathered until 1 january 2018	0	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480
35	of w hich: instruments issued by subsidiaries subject to phase-out	0	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**9.500.000**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**9.500.000**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**737.181.431**	
Tier 2 (T2) capital: instruments and provisions			
51	**Tier 2 (T2) capital before regulatory adjustment**	**0**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	
58	**Tier 2 (T2) capital**	**0**	
59	**Total capital (TC = T1 + T2)**	**737.181.431**	
60	**Total risk-weighted assets**	**3.686.935.663**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**19,74%**	92 (2) (a), 465
62	**Tier 1 (as a percentage of total risk exposure amount**	**19,99%**	92 (2) (b), 465
63	**Total capital (as a percentage of total risk exposure amount**	**19,99%**	92 (2) (c)
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)**	**98.845.838**	CRD 128, 129, 140
65	of w hich: capital conservation buffer requirement	92.173.392	
66	of w hich: countercyclical buffer requirement	6.672.447	
67	of w hich: systemic risk buffer requirement	0	
67a	of w hich: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7,74%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities w here the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	0	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities w here the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	0	36 (1) (i), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability w here the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	0	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

11.2 Leverage Ratio

Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amount
1	Total assets as per published financial statements	15.918.488.000
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	-118.285.432
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	176.191.368
7	Other adjustments	0
8	**Leverage ratio total exposure measure**	**15.976.393.936**

Leverage ratio common disclosure On-balance sheet exposures (excluding derivatives and SFTs)		CRR leverage ratio exposures
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	15.752.930.174
2	Asset amounts deducted in determining Tier 1 capital	0
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**15.752.930.174**

Derivative exposures		CRR leverage ratio exposures
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark to-market method)	47.272.393
11	**Total derivatives exposures (sum of lines 4 to 10)**	**47.272.393**

Securities financing transaction exposures exposures		
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0

Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	303.891.369
18	(Adjustments for conversion to credit equivalent amounts)	127.700.000
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**176.191.368**

Capital and total exposure mesure		
20	**Tier 1 capital**	**737.181.431**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**15.976.393.936**

Leverage ratio		
22	**Leverage ratio**	**4,61%**

Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**15.752.930.175**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	15.752.930.175
EU-4	Covered bonds	61.098.791
EU-5	Exposures treated as sovereigns	2.363.913.057
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	131.328.141
EU-7	Institutions	528.121.146
EU-8	Secured by mortgages of immovable properties	10.126.700.268
EU-9	Retail exposures	2.014.506.152
EU-10	Corporate	64.773.086
EU-11	Exposures in default	29.900.139
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	432.589.395

11.3 Countercyclical buffer

The total institution-specific countercyclical buffer rate is calculated according to the following formula:

$$ISCCB\ rate = \frac{\Sigma(CCyB_i * OFR_i)}{Total\ OFRCR}$$

$$ISCCB\ rate = \frac{\Sigma(CCyB_i * OFR_i)}{Total\ OFRCR}$$

Where:

ISCCB rate	The institution-specific countercyclical buffer rate.
CCyBi	Countercyclical buffer rate applicable to AEB's exposures to counterparty i.
OFRi	Own funds requirements for the relevant credit exposure to counterparty i.
Total OFRCR	AEB's own funds requirements for credit risk that relate to all of AEB's relevant credit exposures.

The countercyclical buffer rate for a particular country (CCyB) must be between 0% and 2.5% and may be calibrated by a public authority or body (a 'designated authority') that is responsible for setting the countercyclical buffer rate for that country in steps of 0.25% or multiples of 0.25%. Each designated authority must assess and set the appropriate countercyclical buffer rate for its Member State on a quarterly basis.

DNB has announced that the countercyclical buffer rate for the Netherlands is 0%. This means that a 0% CCyB rate applies to all exposures to obligors resident in the Netherlands. AEB checks quarterly whether DNB may have updated that decision. For other countries, AEB monitors possible changes to the CCyB rate and prepares an overview of all CCyB rates for countries to which it has exposures. This overview is updated on a quarterly basis.

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by country	10	20	30	40	50	60	70	80	90	100	110	120
Netherlands	13.458.033.041				118.392.465		132.966.370		2.291.432	135.257.802	51,63%	0,00%
Germany	801.684.269				-		77.704.485		-	77.704.485	29,66%	0,00%
France	101.452.701				55.348.832		-		885.413	885.413	0,34%	0,25%
United Kingdom	782.534.225				59.634.024		43.138.253		1.001.358	44.139.611	16,85%	1,00%
Spain	-				32.802.044		-		524.106	524.106	0,20%	0,00%
Ireland	-				131.363.440		-		2.214.195	2.214.195	0,85%	1,00%
New Zealand	-				-		-		-	-	0,00%	0,00%
Sweden	25.024.745				-		-		-	-	0,00%	2,50%
Belgium	32.071.833				-		-		-	-	0,00%	0,00%
Italy	-				16.570.636		-		264.741	264.741	0,10%	0,00%
Luxembourg	-				-		-		-	-	0,00%	0,00%
Other Countries	104.685.930				-		-		-	-	0,00%	0,00%
Austria	109.845.002				-		-		-	-	0,00%	0,00%
Czech Republic	-				-		-		-	-	0,00%	1,50%
Norway	8.374.097				-		334.964		-	334.964	0,13%	2,50%
Switzerland	-				-		-		-	-	0,00%	0,00%
Portugal	19.542.202				223.703		-		8.943	8.943	0,00%	0,00%
Denmark	30.027.951				-		-		-	-	0,00%	1,00%
United States	-				8.172.019		-		649.242	649.242	0,25%	0,00%
Finland	135.292.291				-		-		-	-	0,00%	0,00%
Total	**15.608.568.287**				**422.507.164**		**254.144.072**		**7.839.430**	**261.983.502**	**100%**	

Amount of institution-specific countercyclical capital buffer		
10	Total risk exposure amount	3.686.935.663
20	Institution specific countercyclical buffer rate	0,1810%
30	Institution specific countercyclical buffer requirement	6.672.447

11.4 Disclosure of Asset Encumbrance

Template A - Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	3.091.431.487				12.807.848.112	593.686.430		
030	Equity instruments					0	0		
040	Debt securities	186.959.012		186.959.012	186.959.012	877.307.030	593.681.099	877.307.030	593.681.099
050	of which: covered bonds					61.098.791	61.098.791	61.098.791	61.098.791
060	of which: asset-backed securities					422.162.437	138.536.506	422.162.437	138.536.506
070	of which: issued by general governments	124.605.954		124.605.954	124.605.954	220.295.774	220.295.774	220.295.774	220.295.774
080	of which: issued by financial corporations	62.353.058		62.353.058	62.353.058	568.331.625	284.705.694	568.331.625	284.705.694
090	of which: issued by non-financial corporations					88.679.632	88.679.632	88.679.632	88.679.632
120	Other assets	2.904.472.475				11.930.541.082	5.331		
121	of which: mortgage loans	2.475.000.000				7.688.716.320			

Template B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued	
			of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	3.091.431.487	186.959.012		

Template C - Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	**Carrying amount of selected financial liabilities**	**2.837.152.444**	**2.914.608.708**

11.5 Disclosure of LCR

		Total unweighted value	Total weighted value
Scope of consolidation (Consolidated)			
Currency and units (EUR)			
Quarter ending on (31/12/2019)			
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		2.326.765.751
CASH-OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	9.396.683.922	724.381.945
3	*Stable deposits*	4.848.107.988	242.405.399
4	*Less stable deposits*	4.518.443.765	451.844.377
5	Unsecured wholesale funding	220.586.644	85.094.657
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0
7	*Non-operational deposits (all counterparties)*	220.586.644	85.094.657
8	*Unsecured debt*	0	0
9	Secured wholesale funding		0
10	Additional requirements	365.126.229	321.927.866
11	*Outflows related to derivative exposures and other collateral requirements*	307.887.240	307.887.240
12	*Outflows related to loss of funding on debt products*	0	0
13	*Credit and liquidity facilities*	57.238.989	14.040.626
14	Other contractual funding obligations	147.365.057	137.365.057
15	Other contingent funding obligations	123.442.743	32.565.037
16	**TOTAL CASH OUTFLOWS**		1.301.334.563
CASH-INFLOWS			
17	Secured lending (eg reverse repos)	0	0
18	Inflows from fully performing exposures	183.674.047	159.918.632
19	Other cash inflows	874.121	874.121
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		0
EU-19b	(Excess inflows from a related specialised credit institution)		0
20	**TOTAL CASH INFLOWS**	184.548.168	160.792.753
EU-20a	Fully exempt inflows	0	0
EU-20b	Inflows Subject to 90% Cap	0	0
EU-20c	Inflows Subject to 75% Cap	184.548.168	160.792.753

21	**LIQUIDITY BUFFER**		**2.326.765.751**
22	**TOTAL NET CASH OUTFLOWS**		**1.140.541.810**
23	**LIQUIDITY COVERAGE RATIO (%)**		204%

11.6 Credit Risk Mitigation

Credit risk mitigation techniques are used to reduce the credit risk associated with an exposure. Credit risk mitigation techniques are applied through funded and unfunded credit protection.

2019 in thousands of EUR	Exposures unsecured-carrying amount	Exposures secured-carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	7,284,407	7,020,036	960,124	6,059,912	
Total debt securities	993,701	70,565	-	70,565	
Total exposures	8,278	7,091	960	6,130	
of which: defaulted	18,208	11,692	233	11,459	

2018 in thousands of EUR	Exposures unsecured-carrying amount	Exposures secured-carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	6,061,736	6,467,757	916,782	5,550,975	-
Total debt securities	1,246,203	70,673	-	70,673	-
Total exposures	7,308	6,538	917	5,622	-
of which: defaulted	17,719	8,246	231	8,015	-

11.7 Credit quality of forborne exposures

	Forborne exposure				Impairment		Collateral financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			Performing forborne	Non-performing forborne	Performing forborne	Non-performing forborne
			Of which defaulted	Of which impaired				
Loans and advances	**12.099.492,50**	**8.509.065,46**	**8.509.065,46**	**366.153,13**	**-128.542,77**	**-47.153,86**	**17.685.798,01**	**872.850,19**
Households	12.099.492,50	8.509.065,46	8.509.065,46	366.153,13	-128.542,77	-47.153,86	17.685.798,01	872.850,19
Loan commitments given		**62.408,42**						
Total	**12.099.492,50**	**8.571.473,88**	**8.509.065,46**	**366.153,13**	**-128.542,77**	**-47.153,86**	**17.685.798,01**	**872.850,19**

11.8 Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount									
	Performing exposures			Non-performing exposures						
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Of which defaulted
Loans and advances	**14.118.125.533,67**	**14.088.610.925,68**	**29.514.607,99**	**144.841.950,84**	**80.840.040,10**	**34.190.071,11**	**8.693.769,24**	**9.286.382,13**	**11.831.688,27**	**144.841.950,84**
Central banks	1.922.610.481,10	1.922.610.481,10	0,00	0,00	0,00	0,00	0,00	0,00		0,00
General governments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Credit institutions	96.478.525,08	96.478.525,08	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Other financial corporations	475.867.835,92	475.867.835,92	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Non-financial corporations	338.750.344,19	336.162.869,76	2.587.474,43	24.147.730,45	23.706.437,45	441.293,00	0,00	0,00		24.147.730,45
Of which SMEs	338.750.344,19	336.162.869,76	2.587.474,43	24.147.730,45	23.706.437,45	441.293,00	0,00	0,00		24.147.730,45
Households	11.284.418.347,38	11.257.491.213,82	26.927.133,57	120.694.220,39	57.133.602,65	33.748.778,10	8.693.769,24	9.286.382,13	11.831.688,27	120.694.220,39
Debt securities	**1.064.626.903,30**	**1.064.626.903,30**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
General governments	319.876.983,36	319.876.983,36	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Credit institutions	182.540.515,14	182.540.515,14	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Other financial corporations	473.529.772,81	473.529.772,81	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Non-financial corporations	88.679.631,99	88.679.631,99	0,00	0,00	0,00	0,00	0,00	0,00		0,00
Off-balance-sheet exposures	**355.143.114,44**			**70.956,01**						**70.956,01**
Credit institutions	60.000.000,00			0,00						0,00
Other financial corporations	30.477.323,61			0,00						0,00
Households	264.665.790,83			70.956,01						70.956,01
Total	**15.537.895.551,41**	**15.153.237.828,97**	**29.514.607,99**	**144.912.906,85**	**80.840.040,10**	**34.190.071,11**	**8.693.769,24**	**9.286.382,13**	**11.831.688,27**	**144.912.906,85**

11.9 Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		
Loans and advances	**14.118.125.533,67**	**13.752.444.383,58**	**365.681.150,09**	**144.841.950,84**	**3.145.990,16**	**136.331.065,68**	**-49.923.675,50**	**-24.644.209,60**	**-25.279.465,90**	**-69.273.953,97**	**-17.114,18**	**-69.224.958,98**	**9.155.659.453,80**	**20.715.443,39**
Central banks	*1.922.610.481,10*	*1.922.610.481,10*												
Credit institutions	*96.478.525,08*	*96.478.525,08*												
Other financial corporations	*475.867.835,92*	*475.867.835,92*												
Non-financial corporations	*338.750.344,19*	*320.883.419,40*	*17.866.924,78*	24.147.730,45		24.147.730,45	-11.689.663,54	-7.141.670,40	-4.547.993,14	-16.469.567,82	0	-16.469.567,82		
Of which SMEs	*338.750.344,19*	*320.883.419,40*	*17.866.924,78*	24.147.730,45		24.147.730,45	-11.689.663,54	-7.141.670,40	-4.547.993,14	-16.469.567,82	0	-16.469.567,82		
Households	*11.284.418.347,38*	*10.936.604.122,07*	*347.814.225,31*	120.694.220,39	3.145.990,16	112.183.335,23	-38.234.011,96	-17.502.539,20	-20.731.472,76	-52.804.386,15	-17.114,18	-52.755.391,15	9.155.659.453,80	20.715.443,39
Debt securities	**1.064.626.903,30**	**1.064.626.903,30**	**0,00**	**0,00**	**0,00**	**0,00**	**-360.861,84**	**-360.861,84**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
General governments	*319.876.983,36*	*319.876.983,36*					0,00	0,00						
Credit institutions	*182.540.515,14*	*182.540.515,14*					-16.130,05	-16.130,05						
Other financial corporations	*473.529.772,81*	*473.529.772,81*					-344.731,79	-344.731,79						
Non-financial corporations	*88.679.631,99*	*88.679.631,99*					0,00	0,00						
Off-balance-sheet exposures	***355.143.114,44***	***355.143.114,44***	***0,00***	***70.956,01***	***0,00***	***70.956,01***	***0,00***	***0,00***	***0,00***	***0,00***	***0,00***	***0,00***	***0,00***	***0,00***
Credit institutions	*60.000.000,00*	*60.000.000,00*		*0,00*										
Other financial corporations	*30.477.323,61*	*30.477.323,61*		*0,00*										
Households	*264.665.790,83*	*264.665.790,83*		*70.956,01*		*70.956,01*								
Total	***15.537.895.551,41***	***15.172.214.401,32***	***365.681.150,09***	***144.912.906,85***	***3.145.990,16***	***136.402.021,69***	***-50.284.537,35***	***-25.005.071,45***	***-25.279.465,90***	***-69.273.953,97***	***-17.114,18***	***-69.224.958,98***	***9.155.659.453,80***	***20.715.443,39***