Interim financial report 2019

Press release

2019

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

2019 Interim results

Utrecht, 16 August 2019

Banking with a human touch put further into practice, continued increase in customer satisfaction

- Various initiatives taken in response to the growing need for a bank with a strong social identity
- Developments in shared value scores:
  - Customers: customer-weighted Net Promoter Score positive for the first time: +1 (year-end 2018: -1)
  - Society: 41% climate-neutral balance sheet (year-end 2018: 37%); Financial Confidence Barometer stable at 49
  - Employees: introduction of a KPI for 'genuine attention' that is more in line with our mission; initial score for June 2019: 7.6 on a scale of 1 to 10
  - Shareholder: a Return on Equity of 8.6% (first half of 2018: 8.5%), based on a strong capital position

Growth in current account customers, mortgage portfolio and savings deposits

- Net growth in the number of current account customers by 43,000 to 1.53 million; market share of new current accounts of 21%
- Increase in mortgage portfolio by € 1.2 billion to € 48.5 billion
- Market share of new mortgages lower at 6.6% (full year 2018: 7.2%); limited decrease in new mortgage production to € 2.8 billion (first half of 2018: € 2.9 billion)
- Increase in retail savings by €1.1 billion to € 38.5 billion; market share of savings decreased slightly to 10.4% (2018: 10.6%)

Increase in net profit to € 154 million, mainly driven by lower operating expenses

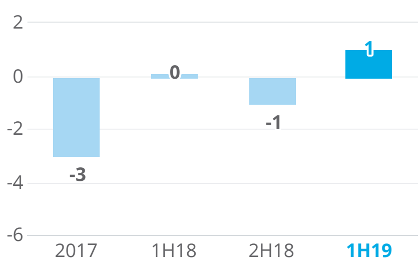
- Net profit of € 154 million, an increase compared to both the first half of 2018 (€ 149 million) and the second half of 2018 (€ 119 million)
- Total income of € 471 million, lower compared to the first half of 2018 (€ 480 million) and the second half of 2018 (€ 478 million), as a result of a decline in net interest income; decline in net interest margin to 1.40% (2018: 1.47%)
- A decrease in operating expenses excluding regulatory levies to € 255 million (first half of 2018: € 272 million, second half of 2018: € 290 million), mainly driven by lower staff and marketing costs and a positive revaluation of € 7 million related a previous contribution made under the Deposit Guarantee Scheme
- Improvement in cost/income ratio (excluding regulatory levies) to 54.3% (first half of 2018: 56.7%, second half of 2018: 60.8%), driven by lower operating expenses
- A release of loan loss provisions of € 13 million (first half of 2018: a release of € 16 million, second half of 2018: a charge of € 4 million)

Unvaryingly strong capital position

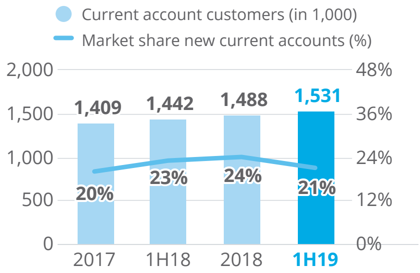
- An increase in Common Equity Tier 1 capital ratio to 37.1% (year-end 2018: 35.5%); leverage ratio 5.3% (year-end 2018: 5.5%)
- The total capital ratio rose to 42.7% (year-end 2018: 37.1%), notably as a result of the merger between de Volksbank N.V. and de Volksholding B.V.

Key figures

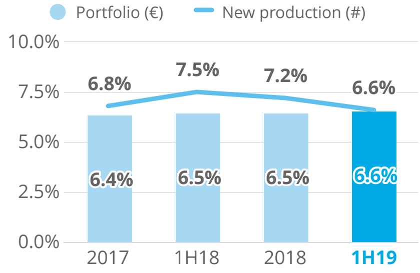
Net Promoter Score[1]



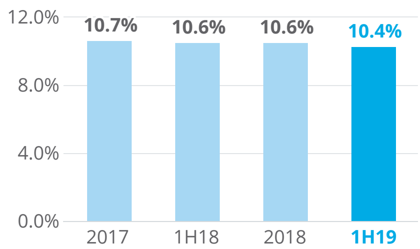
Current account customers[2]



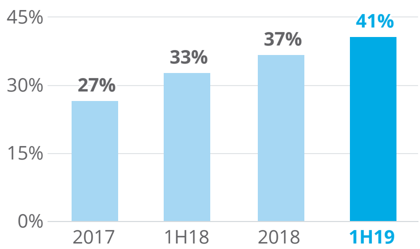
Market share of retail mortgages[3]



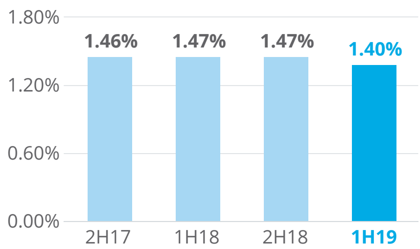
Market share of retail savings



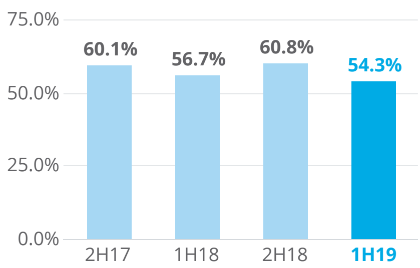
Climate-neutral balance sheet



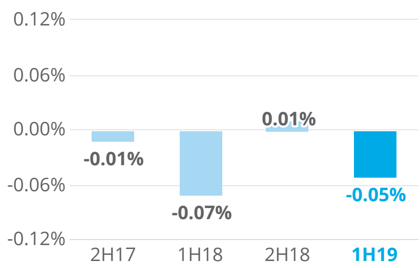
Net interest margin



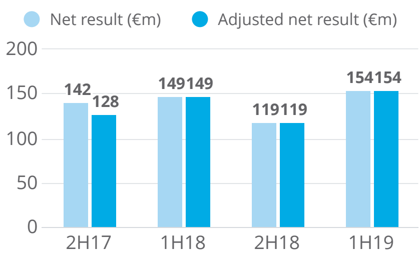
Adjusted cost/income ratio[4]



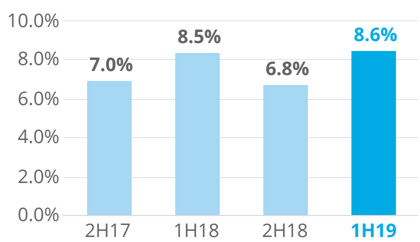
Cost of risk total loans



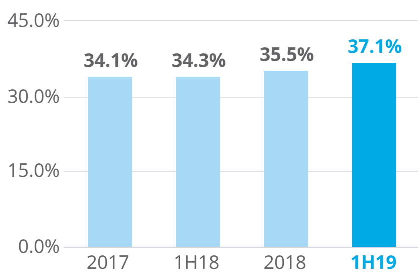
Net result / adjusted net result[4]



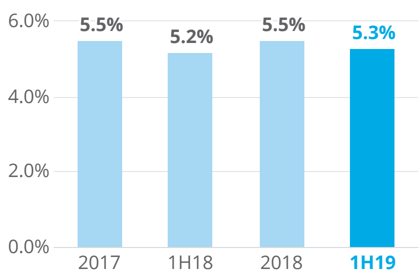
Adjusted return on equity[4]



Common Equity Tier 1 ratio[5]



Leverage ratio[5]



1 Customer-weighted average NPS of all brands. Source: market research company Miles Research.
2 Source: market share of new current accounts: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period looking back over the last 12 months.
3 Market share of the portfolio concerns the first quarter of 2019.
4 Up to and including 2017 adjusted for incidental items. As from 2018 there are no such items.
5 Up to and including 2017 on a transitional basis. As of 2018 CRD IV fully phased in.

Foreword

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

“De Volksbank looks back on a very good first half of 2019. We made progress in implementing our mission of banking with a human touch, and our three core activities - payments, savings and mortgages - showed growth. Our net profit was slightly up.

In the first six months of 2019, we took some more steps to strengthen our social identity:

- ASN Bank completed and published the calculation of its biodiversity impact. The objective of ASN Bank for 2030 is: a net positive impact of all its investments and loans on biodiversity. It also participated in a biodiversity working group as part of the Dutch Central Bank’s Sustainable Finance Platform.
- BLG Wonen organised a National Housing Debate in which the ‘rent statement’ was the central topic. This statement serves as an addition to income data and allows a tenant to demonstrate – partly on the basis of rent paid – that he or she can afford to pay mortgage costs now and in the future. BLG Wonen will launch a pilot project in September in which it will provide mortgages to these so-called ‘high-rent tenants’ based on such a rent statement.
- SNS is setting up its organisation in such a way that its customers can contact fixed teams of employees in the more than 200 SNS shops, regardless of the topic and the means of communication selected (telephone, chat, face-to-face contact), before the end of the year.
- RegioBank has launched a fund (*Voordebuurt Fonds*) to promote neighbourhood activities, together with *Oranje Fonds*, a Dutch Foundation that provides clubs and foundations with funds to promote participation in society. RegioBank intends to use this Fund to support social initiatives that contribute to local cohesion in the villages and small towns where it has branch offices. *Oranje Fonds* assesses the applications and supervises the execution of the initiative.
- The climate neutrality of our balance sheet improved by 4 percentage points to 41% compared to the end of 2018. This improvement was driven by an increase in financing for renewable energy projects and investments in green bonds.
- We published a Green Bond Framework that elaborates on the principles underlying green bonds. Based on this framework, we can issue green bonds and use the proceeds to finance activities that contribute to lower CO2 emissions.

Customers increasingly appreciate our approach of banking with a human touch; in June we obtained a positive customer-weighted Net Promoter Score of +1 for the first time. The rise in the number of current account customers at our brands continued: following an increase of 79,000 customers in 2018, the increase in the first half of 2019 totalled 43,000 customers. Our mortgage portfolio and the savings entrusted to us also grew.

De Volksbank climbed from sixteenth place to thirteenth place in the Dutch Reputation Ranking of April 2019, which is based on an annual survey of the reputations of the largest Dutch companies. Our individual bank brands also scored well. Consumers gave RegioBank a score of 9.3, the highest mark in the annual customer satisfaction survey conducted by the Dutch Consumers’ Association among 14,000 consumers, followed by ASN Bank with a score of 9.1. SNS scored well with an 8.0. BLG Wonen was not covered in the survey because this brand does not offer current accounts.

The pressure on our income exerted by the consistently low interest rate environment means that simplification and improvement of our operations continues to be an essential element of our strategy. As indicated earlier, we expect improvements in our operational processes to lead to a structural reduction in the number of employees. Converted into FTEs, we envisage a reduction of 800 to 900 employees compared with 2016. We have achieved a reduction of 312 FTEs so far, 104 of which in the first half of 2019. For the first time since 2016, the decrease pertained primarily to external employees.

In implementing our innovation strategy as a smart adopter, in the first six months of 2019 we worked together with several partners to develop new services. Thus, we worked with Schluss, Innovalor and the government to develop a 'proof of concept' to give our customers more control over their data. And, together with customers, we test concepts aimed at financial resilience in Sl!m, our beta app.

Seeking to experiment with platforms, we created Meegeven.nl, a platform containing a digital safe especially for surviving relatives who are charged with the task of settling the financial affairs of a deceased person. Since we are seeing progress in the developments in blockchain projects, we also renewed our contract with the Dutch Blockchain Coalition and will actively participate in mortgage distribution chain and digital identity projects.

In line with 2018, interest income was under pressure in the first half of 2019 as a result of the sustained low interest rate environment. Operating expenses dropped compared with both the first and the second half of 2018, mainly thanks to lower staff and marketing costs and a positive revaluation related to a previous contribution made under the Deposit Guarantee Scheme. A lower contribution to the resolution fund also translated into lower regulatory levies.

Driven by developments regarding the Dutch housing market and unemployment rates that were more positive than previously expected, loan loss provisions were released, just as in the first half of 2018. The quality of the mortgage portfolio improved further, which was reflected in a drop in stage 2 and 3 loans.

This ultimately led to a net profit of € 154 million, an increase compared with both the first and the second half of 2018.

Since the drop in operating expenses excluding regulatory levies exceeded the drop in income, the cost/income ratio improved to 54.3%. The Return on Equity rose marginally to 8.6%, up from 8.5% in the first half of 2018. This means that we are above the level of our 2020 target of 8%. This figure of 8% remains a major point of reference in the next few years. The return was achieved with an unvaryingly strong capital position when compared with other European banks.

In early 2019, we introduced a new definition of shared value for our employees. The first survey to establish the new KPI for this shared value was conducted in April 2019. With an employee response of 86%, the new KPI ‘genuine attention’ received a score of 7.6. The second survey will be conducted in October 2019. The results of this survey will be used to determine the target for 2020 and beyond.

As announced when publishing the 2018 annual results, we adjusted our capital targets in the first half of 2019. For the end of 2020, our new target for the CET1 capital ratio is at least 19%, calculated based on a full phase-in of Basel IV, and for the leverage ratio a minimum of 4.75%. With these ratios, we aim to maintain a capital base that is stronger than average and to safeguard de Volksbank’s moderate risk profile. Capital expected to sustainably exceed our minimum targets is available for distribution, subject to regulatory approval.

The ongoing geopolitical tensions and a deterioration of macroeconomic prospects have led us to make a downward adjustment to our interest rate outlook. We anticipate that the consistently lower interest rate environment will continue to exercise downward pressure on our income in the near future.

For the second half of 2019, we foresee a lower profit than in the first six months. The pressure on income will intensify, we expect higher operating expenses excluding regulatory levies for the second half and the release of loan loss provisions is finite. For 2019 as a whole, we expect a net profit in line with that of 2018.

Our mission increasingly translates into a distinct positioning that leads to a growing customer base and an increase in customer satisfaction. These developments strengthen our firm belief that we will continue to further develop the value that all our stakeholders can derive from banking with a human touch.''

Developments in shared value ambition

PROGRESS ON OBJECTIVES

We measure the progress in achieving our 'Banking with a human touch' mission, and the realisation of our shared value ambition by means of specific key business objectives for our four stakeholder groups:

Objectives	30-6-2019	31-12-2018	30-6-2018	Target 2020
BENEFITS FOR CUSTOMERS				
Customer-weighted average Net Promoter Score (NPS)[1]	+1	-1	0	+10
ASN Bank	+16	+18	+19	
BLG Wonen	-17	-22	-24	
RegioBank	+12	+12	+10	
SNS	-7	-11	-8	
Current account customers (in 1,000)	1,531	1,488	1,442	1,500
RESPONSIBILITY FOR SOCIETY				
Climate-neutral balance sheet[1]	41%	37%	33%	45%
Financial confidence barometer[2]	49%	49%	na	>50%
GENUINE ATTENTION FOR OUR EMPLOYEES				
Genuine attention	7.6	na	na	na
RETURNS FOR THE SHAREHOLDER				
Return on Equity (RoE)	8.6%	7.6%	8.5%	8.0%
OTHER OBJECTIVES				
Cost/income ratio	54.3%	58.7%	56.7%	50-52%
Common Equity Tier 1 ratio	37.1%	35.5%	34.3%	≥ 19.0%
Leverage ratio	5.3%	5.5%	5.2%	≥ 4.75%

1 For the KPI measurements, reference is made to the 2018 Annual Report, chapter About the non-financial information.

2 Based on the moving average of the past 6 months. For the methodology, please refer to the Annual Report 2018, Section 3.3.1 Financial resilience.

Benefits for customers

We aim to be a bank where customers feel at home, that looks from its customers' perspective by coming up with fair banking products. Growth in the number of current accounts and the positive customer satisfaction, as expressed in the Net Promoter Score (NPS), indicate that customers appreciate our mission of Banking with a human touch.

NET PROMOTER SCORE

The customer-weighted average of all brand-specific NPS[1] reached a positive score for the first time, improving to +1. The NPS of ASN Bank and RegioBank remained virtually stable and both brands are among the select group of Dutch banks with a positive NPS. The NPS at SNS improved from -11 to -7 and at BLG Wonen from -22 to -17.

NUMBER OF CURRENT ACCOUNT CUSTOMERS

The number of current account customers rose by 43,000 (76,000 gross) to 1.53 million at the end of June 2019, with which the bank has already met its year-end 2020 objective of 1.5 million current account customers.

Responsibility for society

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

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

CLIMATE-NEUTRAL BALANCE SHEET

We aim for a 45% climate-neutral balance sheet[2] by 2020, rising to 100% by 2030. As at 30 June 2019, our balance sheet was 41% climate neutral (year-end 2018: 37%). The increase primarily resulted from financing renewable energy projects, particularly four wind farms, and investments in green bonds. The total CO2 profit from sustainable funding and green bonds amounted to 536 kilotons (year-end 2018: 503 kilotons).

The average energy label of the homes we finance showed a slight improvement. Despite the mortgage portfolio increasing, the total calculated CO2 loss from these loans remained virtually stable. The total CO2 loss of our balance sheet, primarily caused by the mortgage portfolio, amounted to 1,315 kilotons (year-end 2018: 1,357 kilotons). The decrease was mainly the result of a lower CO2 loss from bonds in local authorities.

FINANCIAL RESILIENCE

We want to encourage and help our customers to increase their financial resilience. In early 2018, we made financial resilience measurable in a KPI. In a monthly survey, we ask 530 of our customers if they notice that the bank is there to help them in case of financial stress. The respondents answer the question on a scale of 1 (totally disagree) to 100 (totally agree). The score on the KPI for the first half of 2019 was 49, unchanged compared with the score for the second half of 2018.

The ninth Money Smart Week took place at the end of March. The Money Smart Week is organised by the Money Wise Platform, an initiative of the Ministry of Finance in which partners from various sectors join forces to promote responsible financial behaviour in the Netherlands. All Dutch banks combined gave over 4,000 guest lessons at a large number of primary schools throughout the country. Colleagues of de Volksbank gave nearly 500 guest lessons in which they taught children aged 4-14 about money, including 211 *Eurowijs* lessons. *Eurowijs* ('euro wise') is an initiative of de Volksbank and its brands and provides free teaching materials for primary and lower secondary education groups as well as for special education.

Genuine attention for employees

In early 2019, we introduced a new approach to shared value for employees that fits in with our mission: based on genuine attention for autonomy, personal growth and professionalism, we want our employees to be able to achieve our mission and strategy. The new approach was developed with the input of our employees and contains the following elements:

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

In 2019, we will replace the employee Net Promoter Score (eNPS) as the most important shared value objective for employees with a new KPI that is more in line with what de Volksbank is aiming for and what our employees are asking for. We will continue to measure the eNPS, but no longer as the most important objective.

The new shared value KPI for employees (in short: 'genuine attention') is measured by means of a questionnaire on the following themes: mission & strategy, trust, open & people-oriented, facilitating leadership and professionalism & personal growth. Each theme has a specific focus on an element that is of value to employees. We measure each theme separately and the total of the themes, with each question and each theme carrying equal weight.

The first survey into the new approach to shared value for employees was conducted in April 2019. With an employee response rate of 85.6%, the average result for the 'genuine attention' KPI was a 7.6 on a scale of 1 to 10.

A second survey into the shared value for employees will be conducted in October. At that time, we will also measure the eNPS and employee commitment and engagement again. Although commitment and engagement were not included in the survey in April 2019, they will remain the main supporting indicators of shared value for employees.

The KPI of an eNPS of 40 by 2020 will be dropped. Based on the survey results, we will determine new 'genuine attention' objectives for 2020 and beyond in October. We will report on this, and on

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2 Using the climate-neutral balance sheet, we identify the climate impact, expressed in CO2 emissions, of all our relevant balance sheet items.

the progress of the supporting indicators of shared value for employees, in our 2019 Annual Report.

Returns for the shareholder

RETURN ON EQUITY

De Volksbank aims to be a financially sound and stable bank. For the Return on Equity (RoE), we pursue a target of 8% by 2020 as formulated in 2016.

The RoE was 8.6%, slightly up compared to the first half of 2018 (8.5%). This increase, with a very solid capital position, was entirely attributable to a higher net profit.

Other objectives

CAPITAL

We revised our capitalisation objectives in the first half of 2019. For 2020, we aim for a leverage ratio of at least 4.75% (previously at least 4.25%) and a CET1 capital ratio of at least 19% based on the estimated full phase-in of Basel IV rules (previously: at least 15%).

The target for the leverage ratio is thus in line with the anticipated leverage ratio of comparable European banks and includes a large management buffer to withstand severe stress situations. After the full phase-in of Basel IV, the minimum leverage ratio target of 4.75% is expected to be in keeping with a risk-weighted CET1 capital ratio target of at least 19%. Both the leverage ratio and the risk-weighted target are thus well above the regulatory requirements and offer ample buffers for 2020, in view of the current uncertain geopolitical climate and the highly unfavourable interest rate environment for de Volksbank, as well as the uncertainties with respect to future regulations.

The CET1 capital ratio rose to 37.1% (year-end 2018: 35.5%), primarily driven by the decrease in risk-weighted assets (RWA). This kept the CET1 capital ratio well above our target of at least 19%.

Based on the agreement reached on Basel IV regulations in December 2017, we expect our RWA to go up by approximately 48% and our CET1 capital ratio to go down by approximately 12 percentage points as a consequence.

The leverage ratio decreased to 5.3%, from 5.5% at year-end 2018, primarily driven by an increase in the denominator of the leverage ratio (by € 2.5 billion), in line with the increase in the balance sheet total.

COST/INCOME RATIO

In 2016, we defined a target range of 50% to 52% for 2020 for the cost/income ratio, defined as operating expenses excluding regulatory levies divided by total income. Due to the increased pressure on interest income, we do not expect to achieve this target range in 2020.

In the first half of 2019, the cost/income ratio stood at 54.3% (first half of 2018: 56.7%). This decrease was entirely attributable to lower operating expenses excluding regulatory levies.

Options for the future

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

We expect NLFI to issue another progress report in the second half of 2019.

Outlook

The effects of the international trade tensions will continue to impact international economic conditions for some time to come. Being a small open economy, the Netherlands is more sensitive to this than average. As a result, less favourable export developments may trigger a slowdown of economic growth in the next few quarters, despite the counterweight provided by a consistently robust domestic demand. Brexit presents a clear downward risk.
Unemployment rates are not expected to drop any further. Price rises in the housing market will flatten out, with a slightly lower number of transactions.
As a result of the weaker macroeconomic outlook, the current low interest rate environment will persist for a longer period of time on account of an extremely liberal policy stance on the part of the ECB.

In line with the developments in the first half of 2019, we expect net interest income in 2019 to be lower compared to 2018, mainly due to lower interest income on mortgages.

The expected decrease in total operating expenses in 2019 compared to 2018 will largely compensate for lower interest income.

For the second half of 2019, we no longer expect a net release of loan loss provisions.

All things considered, we expect the net result for 2019 to be in line with 2018.

Macroeconomic developments

THE DUTCH ECONOMY

The Dutch economy lost some momentum in the first six months, driven by the exports being under pressure from unfavourable developments of global trade and the slump in the German industry, ensuing partly from this development. The growth in private consumption and investments held up reasonably well. The deceleration of growth has not had any noticeable adverse impact on the labour market so far. The number of jobs continued to rise substantially, with the strong growth in the number of permanent contracts being especially striking. The unemployment rate dropped by 0.2 percentage points during the reporting period, to a record low of 3.4% of the labour force. Wage growth accelerated slightly but remained subdued, especially in light of inflation, which rose to 2.7% at the end of the reporting period on the back of higher indirect taxes and rising oil prices.

INTEREST RATES AND GOVERNMENT BOND YIELDS

The developments in the money and capital markets were largely determined by adjustments of central banks' policy intentions. In the United States, policymakers at the Federal Reserve (Fed) left a clear mark by cancelling their proposed interest rate hikes at the start of the year. In June, the Fed was getting ready for an interest rate cut, which was actually implemented at the end of July. In the eurozone, the European Central Bank (ECB) left the deposit rate unchanged at -0.4%, keeping money market rates extremely low throughout the first half of the year. Responding to disappointing global economic figures, the ECB also lowered its growth and inflation projections in March and in June ECB President Draghi even hinted at an interest rate reduction and/or a resumption of the bond-buying programme. March also saw the announcement of a new series of long-term financing facilities (TLTROs) to preserve favourable lending conditions for – mainly Southern European – banks. The combination of lower growth and inflation expectations and a more relaxed stance of central banks translated into a strong fall in bond yields on an international scale. Reflecting these developments, the Dutch 10-year yield dropped by 54 basis points to a record low of -0.15% at the end of June 2019 and has since dropped even further.

HOUSING AND MORTGAGE MARKET

In the housing market, the drop in the number of homes for sale came to an end. A slight increase was even visible in the cities, but the supply and demand ratios remained tight on balance. The average price rise flattened out slightly and amounted to 6.9%, where an 8.9% increase was seen in the same period last year. Higher prices and the sustained low level of supply supported the continued drop in the number of home sales. The number of transactions totalled 99,937, nearly 5% less than in the same period last year.

Commercial developments

Commercial developments

	30-6-2019	31-12-2018	30-6-2018
CUSTOMERS AND CURRENT ACCOUNTS			
Total number of customers (in 1,000)	3,238	3,202	3,160
Total number of current account customers (in 1,000)	1,531	1,488	1,442
Market share new current accounts[1]	21%	24%	23%
MORTGAGES			
Retail mortgages (gross in € billions)	48.5	47.3	46.7
Market share new mortgages (in #)	6.6%	7.2%	7.5%
Market share mortgage portfolio (in €)[2]	6.6%[3]	6.5%	6.5%
SAVINGS			
Retail savings (in € billions)	38.5	37.4	37.7
Market share retail savings	10.4%	10.6%	10.6%

1 Source: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.

2 Based on CBS data. Market shares as at 30-06-2018 and 31-12-2018 have been adjusted due to market size figures adjusted by CBS.

3 First quarter 2019 figures because market size figures are not yet available.

Customers and current accounts

In the first half of 2019, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 108,000 new customers. Netted with customers who left de Volksbank, the number of customers rose by 36,000. This increase was mainly attributable to the successful growth in current account customers.

The number of current account customers rose by 43,000 (76,000 gross) to 1,531,000 at the end of June 2019. Net growth was up compared to the first half of 2018 (33,000) as a result of an adjustment for inoperative current account customers in 2018.

At 21%, the market share in new current accounts remained high (year-end 2018: 24%). This market share has exceeded 20% since 2014, considerably higher than the market share of approximately 8% on a total portfolio basis.

Mortgages

Measured in numbers, the mortgage market contracted by 13% compared to the first half of 2018 due to a shortage of homes in the market. In euros, the mortgage market shrank by 9.5% to € 46 billion. The contraction in euros was less than the decline in numbers because the average principal showed an increase.

In a contracting mortgage market, de Volksbank's new mortgage production declined to € 2.8 billion, from € 2.9 billion in the first half of 2018. The market share of new retail mortgages amounted to 6.6%, lower compared to the full year 2018 (7.2%). On a total retail mortgage portfolio basis, the market share increased slightly to 6.6%.
Interest rate renewals amounted to nearly € 1.3 billion, a decline compared to the first half of 2018 (nearly € 1.7 billion). Approximately one fifth of these renewals were early renewals (first half of 2018: 30%). The number of early renewals decreased as a large part of the portfolio had already been renewed in previous years. The first half of 2018 saw more regular interest rate renewals due to the high mortgage production in 2008, predominantly mortgages with a 10-year fixed-rate period.

The total level of repayments amounting to € 2.4 billion was up compared to the first half of 2018 (€ 2.1 billion). This was partly due to a growing portfolio, a higher number of people moving house and an increase in bridge loan redemptions. In line with the changing composition of the mortgage portfolio, mainly reflected in an increase in annuity mortgages, contractual redemptions also increased gradually.

Since the mortgage production exceeded repayments by € 0.4 billion, de Volksbank achieved continued growth in the retail mortgage portfolio. IFRS valuation adjustments related to hedge accounting also increased as a result of lower interest rates, from € 0.5 billion at year-end 2018 to € 1.3 billion. On balance, the retail mortgage portfolio grew from € 47.3 billion at year-end 2018 to € 48.5 billion (gross book value) at the end of June 2019.

The demand for fixed-rate mortgages with a term of 15 years or longer remained strong. At the end of June 2019, € 8.9 billion (18.8%) of the portfolio consisted of this type of mortgage, versus € 8.6 billion (18.3%) at year-end 2018. The share of 10-15 year fixed-rate mortgages also increased, from 64% to 65% of the total mortgage portfolio.

Savings

De Volksbank's retail savings balances rose to € 38.5 billion compared with € 37.4 billion at year-end 2018. The Dutch retail savings market grew to € 370 billion, from € 354 billion at year-end 2018. The market share was down to 10.4% (year-end 2018: 10.6%).

Financial results

The chapters on Financial results and Risk management include information that is required under IAS 34. The information is only part of the external auditor's review report on this interim financial report if the text or table is labelled 'Reviewed'.

Profit and loss account

in € millions	1st half 2019	1st half 2018	Change	2nd half 2018
Net interest income	442	455	-3%	453
Net fee and commission income	25	21	19%	23
Other income	4	4	0%	2
Total income	**471**	**480**	**-2%**	**478**
Operating expenses excluding regulatory levies	255	272	-6%	290
Regulatory levies	23	29	-21%	18
Total operating expenses	**278**	**301**	**-8%**	**308**
Impairment charges	-13	-16	19%	4
Result before taxation	**206**	**195**	**6%**	**166**
Taxation	52	46	13%	47
Net result	**154**	**149**	**3%**	**119**
Cost/income ratio[1]	54.3%	56.7%		60.8%
Return on Equity (RoE)[2]	8.6%	8.5%		6.8%
Net interest margin (bps)[3]	1.40%	1.47%		1.47%
Cost/assets ratio as a % of average assets[4]	0.81%	0.88%		0.94%

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

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

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

4 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.

NET PROFIT

Compared to the first half of 2018, net profit increased by € 5 million to € 154 million. The increase was attributable to € 23 million lower total operating expenses, partly offset by € 9 million lower income and a € 3 million lower net release from impairments. In addition, the effective tax rate was slightly higher than in the first half of 2018.

Compared to the second half of 2018, net profit increased by € 35 million. This increase was predominantly attributable to € 30 million lower total operating expenses and a € 17 million swing in impairments, partly offset by € 7 million lower total income.

The Return on Equity (ROE) amounted to 8.6%, slightly up compared to the first half of 2018 (8.5%) due to a higher net result, partly offset by higher average equity.

The cost/income ratio stood at 54.3%, a decline compared to the first half of 2018 (56.7%). The impact of lower total income was more than compensated by lower operating expenses excluding regulatory levies.

Income

Breakdown income

in € millions	1st half 2019	1st half 2018	Change	2nd half 2018
Net interest income	442	455	-3%	453
Net fee and commission income	25	21	19%	23
Investment income	8	-3	367%	6
Result on financial instruments	-5	7	-171%	-5
Other operating income	1	-	0%	1
Total income	**471**	**480**	**-2%**	**478**
Net interest margin (bps)	1.40%	1.47%		1.47%

Total income fell by € 9 million to € 471 million (-2%), driven by lower net interest income.

Compared to the second half of 2018, total income fell by € 7 million, also predominantly driven by lower net interest income.

NET INTEREST INCOME

Net interest income declined by € 13 million to € 442 million (-3%). This was mainly due to lower income on mortgages as a result of (early) interest rate renewals at lower rates. In addition, new mortgage production was concluded at substantially lower rates than the rates of mortgages repaid in the second half of 2018 and the first half of 2019. These effects were partly compensated by the growth of the mortgage portfolio.

Lower income on mortgages was mainly compensated by lower interest expenses related to the use of derivatives to manage interest rate risk, notably as a result of the expiry of derivative contracts and reductions in savings interest rates.

The net interest margin decreased from 1.47% to 1.40% , driven by both lower net interest income and higher average assets.

Net interest income was € 11 million lower compared to the second half of 2018. This decline was particularly attributable to lower income on mortgages and lower compensation received for loss of interest on account of early renewals.
Lower income on mortgages was for the most part compensated by lower interest rate expenses related to derivatives and savings rates reductions.

NET FEE AND COMMISSION INCOME

Net fee and commission income increased by € 4 million to € 25 million. This increase was mainly driven by higher commissions received for payment transactions and mortgage advice.

In comparison to the second half of 2018, net fee and commission income rose by € 2 million, particularly as a result of higher commissions received for payment transactions.

INVESTMENT INCOME

Investment income rose from € 3 million negative to € 8 million, largely due to higher realised results on fixed-income investments sold as part of asset and liability management and the optimisation of the investment portfolio. The negative result in the first half of 2018 was mainly related to the reduction in Italian fixed-income investments.

RESULT ON FINANCIAL INSTRUMENTS

The result on financial instruments showed a swing from € 7 million positive to € 5 million negative. This was mainly attributable to lower trading results and a lower result due to hedging ineffectiveness of derivatives, for example on mortgage-related derivatives.

Expenses

Operating expenses and FTE

in € millions	1st half 2019	1st half 2018	Change	2nd half 2018
Staff costs	186	200	-7%	202
Depreciation of (in)tangible assets	16	11	45%	10
Other operating expenses	76	90	-16%	96
Total operating expenses	**278**	**301**	**-8%**	**308**
Regulatory levies (included in other operating expenses)	23	29	-21%	18
Adjusted operating expenses	**255**	**272**	**-6%**	**290**
Cost/income ratio	54.3%	56.7%		60.8%
Cost/assets ratio as a % of average assets	0.81%	0.88%		0.94%
FTE				
Total number of internal FTEs	3,015	3,155	-4%	2,993
Total number of external FTEs	678	771	-12%	804
Total number of FTEs	**3,693**	**3,926**	**-6%**	**3,797**

Total operating expenses fell by € 23 million to € 278 million, of which € 6 million as a result of lower regulatory levies.

Regulatory levies amounted to € 23 million, of which € 7 million was related to the resolution fund contribution (first half of 2018: € 14 million) and € 16 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution (first half of 2018: € 15 million). The contribution to the resolution fund for 2018 was based on the situation in 2016, the year in which the legal merger between SNS Bank N.V., ASN Bank N.V. and RegioBank N.V. took place. Because of this, ASN Bank's and RegioBank's secured deposits were not taken into account in the methodology used by the Single Resolution Board (SRB) to determine the annual contribution in 2018.

Adjusted for regulatory levies, operating expenses decreased by € 17 million to € 255 million, primarily as a result of a decrease in staff and marketing costs. On balance, the impact of exceptional items on total operating expenses was slightly positive. However, there was a significant impact on individual line items. The first half of 2019 included a positive revaluation of € 7 million related to a previous contribution made under the DGS in relation to the insolvency of DSB, and of € 2 million related to reorganisation costs. The first half of 2018 included the release of a provision of € 10 million mostly related to the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives, and a provision of € 9 million for reorganisation costs.

Staff costs decreased by € 14 million, of which € 7 million due to lower reorganisation costs. A reduction in the number of FTEs by 104 also contributed to the staff cost reduction.

Depreciation of tangible assets and amortisation of intangible assets amounted to € 16 million, an increase of € 5 million. This reflects the impact of the implementation of IFRS 16 Leases. This has resulted in a shift between other operating expenses (offices) and depreciation (also see Accounting principles on page 39).

Other operating expenses excluding regulatory levies fell by € 8 million, mainly as a result of the aforementioned positive revalation related to the DGS and a € 5 million shift between other operating expenses and depreciations as a result of the impact of IFRS 16 Leases. Marketing costs also decreased. These positive effects were partly offset by the release of a provision related to the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives in the first half of 2018.

Adjusted operating expenses divided by average total assets improved from 88 basis points (bps) in the first half of 2018 to 81 bps as a result of both lower adjusted operating expenses and higher average total assets.

Compared to the second half of 2018, total operating expenses fell by € 30 million. Regulatory levies increased by € 5 million, which was more than entirely due to the fact that the annual contribution to the resolution fund is fully recognised in the first half of the year. Excluding regulatory levies, the operating expenses declined by € 35 million, of which €10 million was related to lower reorganisation costs. In addition, the first half of 2019 was positively impacted by the aforementioned positive revaluation related to the DSG and lower staff, consultancy and marketing costs.

Compared to year-end 2018, the total number of employees declined by 104 to 3,693 FTEs. The number of internal employees rose from 2,993 to 3,015 FTEs. This increase was largely due to filling in vacancies that had temporarily been filled in by external employees. This, and the progress of reorganisations and completion of projects, has resulted in the number of external employees dropping from 804 to 678 FTEs.

IMPAIRMENT CHARGES REVIEWED

Impairment charges Reviewed

in € millions	1st half 2019	1st half 2018	Change	2nd half 2018
Retail mortgage loans	-8	-8	0%	-
Other retail loans	-	-2	-	1
SME loans	-3	-7	57%	2
Other commercial loans and loans to the public sector	-1	-	-	1
Investments	-1	1	-	-
Total impairment charges	**-13**	**-16**	**19%**	**4**
Cost of risk total loans	-0.05%	-0.07%		0.01%
Cost of risk retail mortgage loans	-0.03%	-0.03%		0.00%
Cost of risk SME loans	-0.69%	-1.98%		0.51%

In the first half of 2019, we saw a net release of provisions for credit risk of € 13 million, a decrease compared to the € 16 million release in the first half of 2018.

The net release of impairments on retail mortgages amounted to € 8 million, equal to the first half of 2018. In both periods, the release followed from improved economic conditions, specifically the Dutch housing market and unemployment. This resulted in a decrease in stage 2 and stage 3 loans[3].

In the first half of 2019, there were no impairments on other retail loans. The net release of € 2 million in the first half of 2018 was largely attributable to lower debit balances on current accounts.

The net release of impairments on the SME loans amounted to € 3 million (first half of 2018: € 7 million). The release was attributable to a decrease in stage 2 loans due to the improved economic outlook used in scenarios to determine the loan loss provision. Stage 3 loans also decreased, mainly due to a recovery of customers in default.

Compared to the second half of 2018, total impairments showed a swing from a charge of € 4 million to a release of € 13 million. This was largely caused by an additional provision of € 10 million in the second half of 2018 for stage 3 loans that had been in default for more than 5 years. Of this provision, € 6 million was related to retail mortgages and € 4 million to the SME loan portfolio.

Taxation

De Volksbank recognised € 52 million in corporate income tax on the result for the first half of 2019, which corresponds to an effective tax rate of 25%, equal to the nominal rate. In the first half of 2018, the effective tax rate was lower at 23% as a result of a tax gain on the adjustment of the tax result for 2016.

[3] For an explanation on the stages, refer to chapter 'Credit risk'.

Risk management

Banking activities involve risks. To identify the main types of risk, de Volksbank annually carries out a Strategic Risk Assessment (SRA). In the first half of 2019, the SRA resulted in a number of adjustments to the risk classification. We thus introduced two new types of risks: the sustainability risk and the organisational risk.

Sustainability risk is the risk of financial and/or reputational damage as a result of ecological and/or social developments.
In 2016, de Volksbank adopted the ASN Sustainability Policy for the entire bank. Since then, sustainability has been embedded in all parts of the organisation and business activities and has become an explicit part of risk management.

Organisational risk is the risk that the bank is not able to respond quickly and in a controlled way to changes that may negatively impact the bank's business model with an adequate infrastructure and streamlined management processes. This type of risk also includes the capacity to change.

Both types of risk will be worked out in greater detail in the second half of 2019. Indicators to monitor these risks will be established in the process.

Credit risk Reviewed

in € millions	30-6-2019	31-12-2018	30-6-2018
Retail mortgage loans[1]	48,455	47,320	46,726
Other retail loans	90	110	123
SME loans	730	743	753
Other commercial loans and loans to the public sector	2,383	2,489	2,726
Total loans and advances to customers[2]	**51,658**	**50,662**	**50,328**

CREDIT RISK INDICATORS			
Total loans and advances to customers			
Loans and advances in stage 3	595	657	759
Stage 3 ratio	1.2%	1.3%	1.5%
Stage 3 coverage ratio	14.6%	15.4%	14.0%
Retail mortgage loans			
Retail mortgage loans in stage 3	500	549	634
Stage 3 ratio	1.1%	1.2%	1.4%
Stage 3 coverage ratio	8.4%	8.4%	7.6%
In arrears	0.9%	1.1%	1.1%
NHG guaranteed	30%	30%	30%
Weighted average indexed LtV	68%	70%	72%

1 Including IFRS value adjustments.

2 Gross carrying amounts.

Loans and advances to customers Reviewed

Total gross loans and advances to customers rose by € 1.0 billion to € 51.7 billion in the first half of 2019, entirely driven by an increase in retail mortgages. Other retail loans and SME loans showed a slight decrease, as did other commercial loans and loans to the public sector.
The risk profile of the loan portfolio continued to improve not only thanks to favourable macroeconomic conditions, in particular the strong housing market, but also thanks to the efforts of the Arrears Management department. Loan loss provisions consequently fell from € 131 million as at 31 December 2018 to € 112 million as at 30 June 2019. The stage 3 ratio - stage 3 loans expressed as a percentage of total loans and advances - dropped from 1.3% to 1.2%; the stage 3 coverage ratio decreased from 15.4% to 14.6%.

As from 1 January 2018, we form loan loss provisions in accordance with the IFRS 9 requirements. IFRS 9 includes three stages reflecting the extent to which the credit risk on a customer or loan has risen over time. The stages are decisive for the calculation method and the amount of the provision to be formed.

- Stage 1 includes customers that have shown no significant increase in credit risk since origination. For these customers, a provision is formed on the basis of expected credit losses (ECL) in the next 12 months.
- Once the credit risk has significantly increased, customers are moved from stage 1 to either stage 2 or stage 3. In this case, the provision is formed on the basis of losses expected until maturity (lifetime ECL).
- Customers are moved to stage 3 if:
  - they are considered to be in default; mainly customers who, according to the internal definition of default, are more than 90 days in arrears
  - they are defined as non-performing and subject to a forbearance measure[4]
  - they have an interest-only mortgage whereby the risk of non-repayment of the mortgage at the end of its term is deemed very high.

Stage 2 contains customers that do not qualify for stage 3, but for whom a significant increase in credit risk has been identified. There is proof of a significant increase in credit risk when a customer has been in arrears for more than 30 days, or when a forbearance measure is applicable to one of the customer's contracts. Customers who have an interest-only mortgage and who have been identified as being subject to increased credit risk are also placed into stage 2, unless their mortgages are considered to be credit impaired. Finally, if the Probability of Default (PD) of a customer at the reporting moment is significantly higher than the PD at origination, even in the absence of the aforementioned criteria, this customer is placed in stage 2.

RETAIL MORTGAGES REVIEWED

In the first half of 2019, the growth of the Dutch economy contributed to a further improvement in the quality of the retail mortgage portfolio. In this period, the total exposure to retail mortgages rose by € 1.2 billion to € 48.5 billion. Rising house prices resulted in a higher collateral value of mortgages, having a positive impact on the average Loan-to-Value (LtV), which improved from 70% to 68% since year-end 2018.

The number of stage 2 customers fell, primarily due to the decrease in the number of customers in arrears. The inflow of customers in arrears is falling, while a large portion of the new inflow is resolved within a short period of time. A drop in the number of performing customers for whom a forbearance measure is applied also contributed to a decrease in stage 2.

The share of customers in default stabilised. In the first half of 2019, the inflow was limited and compensated by the outflow. Continuous improvement of the portfolio's quality is also reflected in the decreasing number of non-performing customers with forbearance measures. In addition, a small group of customers in stage 3 have interest-only mortgages. This number is steadily decreasing.
The gross exposure to stage 3 retail mortgages at the end of June 2019 amounted to € 500 million. A provision totaling € 42 million has been formed for this, translating into a stage 3 coverage ratio of 8.4% (year-end 2018: 8.4%). The stage 3 ratio, i.e. stage 3 loans expressed as a percentage of total loans and advances, dropped from 1.2% to 1.1%.

The share of stage 1 loans continued to increase gradually to 95.4% of the total retail mortgages (December 2018: 94.5%). This increase is mainly explained by the new production volumes as well as by the high recovery rates in stage 2 and stage 3.

OTHER RETAIL LOANS REVIEWED

Other retail loans continued to decrease, from € 110 million gross at year-end 2018, to € 90 million. This drop was mainly caused by repayments of revolving facilities and a decrease in debit balances on current accounts. The amount of loans in stage 2 dropped from € 14 million at year-end 2018, to € 11 million.

The share of stage 3 loans is relatively high compared to the retail mortgage and SME loans. This is partly caused by active current accounts on which a negative balance may arise due to continuous direct debits for product costs.

As from October 2011, revolving credit and personal loans are no longer provided and both portfolios are being phased out. Other retail loans are unsecured, which means that almost full

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[4] We may apply a forbearance measure in situations where a customer has 'financial concerns' and is expected to be unable to meet his future financial obligations or to do so in time. This is a non-commercial concession: an arrangement with the customer entailing a temporary or permanent modification of the loan, the terms and conditions of the loan and/or the conditions of payment.

provisions need to be made for them in stage 3. After getting into stage 3, the provision for stage 3 loans rises linearly to 100% of the loans outstanding over a period of 24 months.

SME LOANS REVIEWED

SME loans declined from € 743 million (gross) at the end of 2018 to € 730 million. In the first half of 2019, new production of mortgage loans to small businesses increased. Nevertheless, the total amount of regular loan redemptions was still higher than the total volume of newly originated SME mortgages. A new execution-only mortgage product to enhance new production of SME loans is being developed.

Stage 3 loans dropped from € 86 million at year-end 2018 to € 80 million, partly due to foreclosures, but also due to the recovery of stage 3 customers who moved to a better stage, thus contributing to an increase in stage 1 loans. As at the end of June 2019, the stage 3 coverage ratio was 38.8% (December 2018: 38.4%).

COMMERCIAL LOANS AND LOANS TO THE PUBLIC SECTOR

Other commercial loans and loans to the public sector are mostly secured loans with a very low credit risk profile. The majority of loans (96%) are allocated to stage 1, as was the case at year-end 2018 (92%). We placed € 91 million in stage 2, for which a provision in the amount of € 1 million has been made. This portfolio does not contain any stage 3 loans.

Loans and advances to customers as at 30 June 2019 Reviewed

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	45,005	-2	45,003	95.4%	0.0%
Other retail loans	64	-	64	71.1%	0.0%
SME loans	565	-1	564	77.4%	0.2%
Other commercial loans and loans to the public sector	2,292	-1	2,291	96.2%	0.0%
Total loans and advances to customers stage 1	**47,926**	**-4**	**47,922**	**95.2%**	**0.0%**
STAGE 2					
Retail mortgages	1,657	-9	1,648	3.5%	0.5%
Other retail loans	11	-1	10	12.2%	9.1%
SME loans	85	-6	79	11.6%	7.1%
Other commercial loans and loans to the public sector	91	-1	90	3.8%	1.1%
Total loans and advances to customers stage 2	**1,844**	**-17**	**1,827**	**3.7%**	**0.9%**
STAGE 3					
Retail mortgages	500	-42	458	1.1%	8.4%
Other retail loans	15	-14	1	16.7%	93.3%
SME loans	80	-31	49	11.0%	38.8%
Other commercial loans and loans to the public sector	-	-	-	--	-
Total loans and advances to customers stage 3	**595**	**-87**	**508**	**1.2%**	**14.6%**
TOTAL STAGE 1, 2, 3					
Retail mortgages	47,162	-53	47,109		0.1%
Other retail loans	90	-15	75		16.7%
SME loans[1]	730	-38	692		5.2%
Other commercial loans and loans to the public sector	2,383	-2	2,381		0.1%
Total loans and advances stage 1, 2, 3	**50,365**	**-108**	**50,257**		**0.2%**
IFRS value adjustments retail mortgages[2]	1,293	-	1,293		
Total loans and advances to customers	**51,658**	**-108**	**51,550**		**0.2%**
Off-balance sheet items[3]	2,286	-4	2,282		0.2%
Total maximum credit exposure loans and advances to customers	**53,944**	**-112**	**53,832**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 661 million.

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

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

Loans and advances to customers as at 31 December 2018 Reviewed

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

1 Gross SME loans include mortgage-backed loans for a gross amount of € 614 million.
2 Consisting of fair value adjustments from hedge accounting and amortisations.
3 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Statement of changes in provisions for loans and advances to customers Reviewed

in € millions	1st half 2019					1st half 2018				
	Retail mortgages	Other retail loans	SME loans	Other[1]	Total	Retail mortgages	Other retail loans	SME loans	Other[1]	Total
Opening balance	**58**	**24**	**41**	**3**	**126**	**74**	**34**	**49**	**1**	**158**
Change in credit risk	3	4	-2	-1	4	-	1	-5	1	-3
Originations and acquisitions	2	-	-	-	2	1	-	2	-	3
Derecognitions	-5	-3	-	-	-8	-3	-1	-4	-	-8
Write-offs	-5	-10	-1	-	-16	-11	-6	-2	-	-19
Net increase/decrease	**-5**	**-9**	**-3**	**-1**	**-18**	**-13**	**-6**	**-9**	**1**	**-27**
Closing balance	**53**	**15**	**38**	**2**	**108**	**61**	**28**	**40**	**2**	**131**

1 Other commercial loans and loans to the public sector.

LOAN LOSS PROVISIONS REVIEWED

Loan loss provisions dropped by € 18 million in the first half of 2019. This is less than in the same period in 2018, when provisions decreased by € 27 million.

Changes in credit risk of existing customers may lead to either an addition or release of the provision formed earlier. An addition is made when a customer's credit risk profile deteriorates; the provision is released when the risk profile of a customer improves. If a customer is moved to stage 3, the provision on his loan increases. This explains the increase in credit risk for retail mortgages and other retail mortgages. However, the inflow in stage 3 remained limited in the first half of 2019 and was compensated by the outflow.

The provision decreased by € 8 million due to the outflow of customers because the customer as a result of full repayment of the loan by the customer.

Finally, write-offs decreased by € 3 million to € 16 million. De Volksbank manages its default portfolio i.a. by actively writing-off loans that are considered uncollectible, especially in the other retail loans portfolio. In the other retail loans portfolio the provisions decreased due to the write-offs in the amount of € 10 million in the first half of 2019, which is € 4 million higher than for the same period last year.

Retail mortgages

ARREARS

The table below shows the retail mortgages in arrears. There was a decrease in the total amount of loans more than 90 days in arrears, and there were also fewer loans up to 30 days in arrears. Loans that are not in arrears, but that are included in stage 2 or stage 3, are related to customers with forbearance measures or customers who have been assessed as potentially very high-risk customers according to the AFM segmentation framework. The total amount of these loans also fell. Improvements in the portfolio, in combination with portfolio growth, led to an increase in the total exposure to stage 1 loans.

Retail mortgages in arrears as at 30 June 2019

in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	45,005	45,005	-	-	-	0.0%
Stage 2	1,657	1,465	156	34	2	11.6%
Stage 3	500	280	35	69	116	44.0%
Subtotal	**47,162**	**46,750**	**191**	**103**	**118**	**0.9%**
IFRS value adjustments[1]	1,293	-	-	-	-	
Total	**48,455**	**46,750**	**191**	**103**	**118**	

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

Retail mortgages in arrears as at 31 December 2018

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

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

LOAN-TO-VALUE

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

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

The weighted average indexed LtV of the retail mortgages improved to 68%, from 70% at year-end 2018. To determine this LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of loans to lower LtV buckets.

If a mortgage is provided with a National Mortgage Guarantee (NHG), this provides additional security. The table below shows the loans outstanding that are fully or partly covered by an NHG guarantee. The maximum amount of a loan that is covered by an NHG guarantee was raised to € 265,000 in 2018. As the average house price rose over the course of 2018, the NHG limit has been set at € 290,000 as from 1 January 2019. This limit is raised to € 307,400 in case of investments in energy saving measures.

Retail mortgages by LtV bucket

	30-6-2019					31-12-2018				
in € millions[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**		Stage 1	Stage 2	Stage 3	Total	
NHG[2]	**12,938**	**340**	**74**	**13,352**	**30%**	**12,870**	**395**	**80**	**13,345**	**30%**
- of which LtV ≤ 75%	5,925	111	23	6,059	13%	5,182	103	22	5,307	12%
- of which LtV >75 ≤ 100%	6,560	190	40	6,790	15%	6,981	224	41	7,246	16%
- of which LtV >100 ≤ 110%	368	21	5	394	1%	562	37	8	607	1%
- of which LtV >110 ≤ 125%	73	7	3	83	0%	131	19	4	154	0%
- of which LtV > 125%	12	11	3	26	0%	14	12	5	31	0%
Non-NHG	**29,969**	**1,269**	**416**	**31,654**	**70%**	**29,261**	**1,585**	**457**	**31,303**	**70%**
- of which LtV ≤ 75%	19,412	503	140	20,055	45%	18,146	549	133	18,828	42%
- of which LtV >75 ≤ 100%	9,448	519	150	10,117	22%	9,507	639	150	10,296	23%
- of which LtV >100 ≤ 110%	871	125	33	1,029	2%	1,240	189	49	1,478	3%
- of which LtV >110 ≤ 125%	173	47	32	252	1%	302	100	45	447	1%
- of which LtV > 125%	65	75	61	201	0%	66	108	80	254	1%
Principal amounts excluding savings deposits	**42,907**	**1,609**	**490**	**45,006**	**100%**	**42,131**	**1,980**	**537**	**44,648**	**100%**
Credit provision				-53					-58	
IFRS value adjustments[3]				1,293					496	
Accrued interest				105					107	
Savings deposits				2,051					2,069	
Total retail mortgages				**48,402**					**47,262**	
Weighted average indexed LtV				**68%**					**70%**	

1 LtV based on indexed market value of collateral.

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

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

RETAIL MORTGAGES BY REDEMPTION TYPE, FIXED-RATE PERIOD AND YEAR OF ORIGINATION

In the past few years, the Dutch government has tightened the (tax) policy as regards the maximum percentage that may be provided as an interest-only mortgage and the mortgage interest tax relief. Currently, interest payments on mortgage loans provided after 1 January 2013 are only tax deductible if the mortgage is paid off through an annuity or linear scheme over a maximum period of thirty years. This rule does not, however, apply to the interest-only mortgages originated before 1 January 2013 and that were renegotiated after this date. For these mortgage loans, tax benefits remain applicable if certain conditions are met. De Volksbank applies a policy of financing no more than 50% of the fair value of the collateral by means of an interest-only mortgage. Further additional financing must be in the form of a loan that will be repaid. As a result, both the gross amount and the share of annuity and linear mortgage loans in the total retail mortgage portfolio is increasing. The share of full or partial interest-only mortgages dropped slightly from 52% as of year-end 2018 to 51%.

De Volksbank is pursuing an active approach to reduce the share of interest-only mortgage loans in the portfolio by means of its interest-only programme entitled *Klant Wil Rustig Blijven Wonen* ('Customer wants to continue to live worry-free in their home') and the national campaign entitled *Aflossingsblij* ('Redemption-happy').
Within the scope of this *Klant Wil Rustig Blijven Wonen* programme we are contacting all customers with an interest-only mortgage to assess their financial situation at maturity date. The *Aflossingsblij* campaign is a joint initiative by the Dutch banks to call on homeowners with interest-only mortgage loans nearing maturity to repay their loan. For customers with an interest-only mortgage, a repayment or refinancing problem may arise regarding the acceptance criteria applicable when the loan expires. When this happens, we will look for a suitable solution.

Retail mortgages with a fixed-rate period of ten years or more grew and mortgages with a fixed-rate period of less than ten years fell. This was driven by persistently low mortgage rates, leading customers to select a longer fixed-rate period for a new mortgage or interest rate renewal. In all, the share of mortgages with a fixed-rate period of ten years or more increased from 82% in 2018 to 84%.

Retail mortgages by redemption type

in € millions	30-6-2019		31-12-2018	
Interest-only (100%)	11,361	24%	11,654	25%
Interest-only (partially)	12,778	27%	12,740	27%
Annuity	12,119	26%	11,086	24%
Lineair	1,086	2%	1,025	2%
(Bank) savings[1]	5,417	12%	5,704	12%
Life insurance/investments	3,772	8%	4,006	9%
Other	524	1%	502	1%
Total remaining principal amounts	**47,057**	**100%**	**46,717**	**100%**
Credit provision	-53		-58	
Accrued interest	105		107	
IFRS value adjustments[2]	1,293		496	
Total retail mortgages	**48,402**		**47,262**	

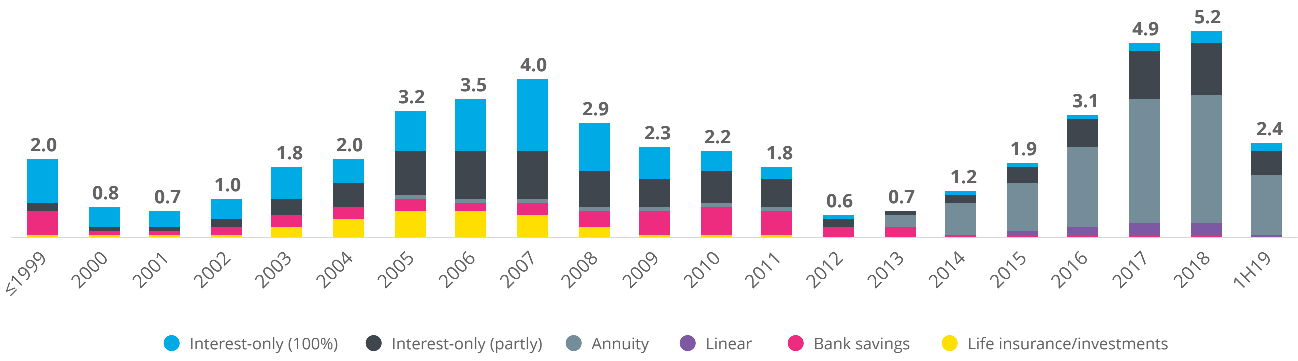
1 The guaranteed savings deposits accrued in a policy with the insurer are accounted for under (Bank) savings.

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

Interest-only mortgages (100%) by LtV bucket

In percentages	30-6-2019	31-12-2018
LtV ≤ 75%	88%	86%
LtV >75 ≤ 100%	10%	11%
LtV >100 ≤ 110%	1%	2%
LtV >110 ≤ 125%	1%	1%
LtV > 125%	0%	0%
Total	**100%**	**100%**

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



1 The amounts in this chart do include conversions of mortgages, but do not include mortgages that have been executed but have not yet been processed in the system, bridge loans, and 'extra ruimte' mortgages.

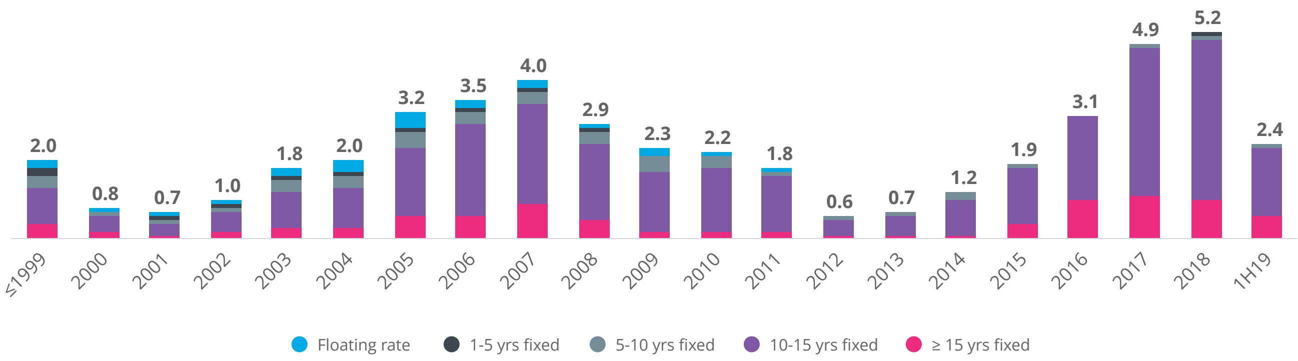
2 2018 includes € 0.6 billion of retail mortgages from the acquisition of RegioBank.

Retail mortgages by fixed-rate maturity

in € millions	30-6-2019		31-12-2018	
Floating rate	2,307	5%	2,398	5%
≥ 1 and < 5-year fixed-rate	1,215	3%	1,196	3%
≥ 5 and < 10-year fixed-rate	3,409	7%	3,944	8%
≥ 10 and < 15-year fixed-rate	30,735	65%	30,102	64%
≥ 15-yr fixed-rate	8,867	19%	8,573	18%
Other	524	1%	504	1%
Total remaining principal amounts	**47,057**	**100%**	**46,717**	**100%**
Credit provision	-53		-58	
Accrued interest	105		107	
IFRS value adjustments[1]	1,293		496	
Total retail mortgages	**48,402**		**47,262**	

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

Retail mortgages by origination and fixed-rate period (in € billions)[1,2]



1 The amounts in this chart do include conversions of mortgages, but do not include mortgages that have been executed but have not yet been processed in the system, bridge loans, and 'extra ruimte' mortgages.

2 2018 includes € 0.6 billion in retail mortgage loans originating from the acquisition of RegioBank.

Interest rate risk in the banking book

De Volksbank aims for stable interest income, both in the short term and in the long term.

The most important factor for managing the interest rate position and interest rate risk of the banking book is interest income sensitivity to market rate changes. The short-term impact of these changes is measured by means of the Earnings-at-Risk (EAR) method, and the long-term impact by means of a method that we call Economic Value of Equity (EVE).

When determining the EaR, the change in income resulting from deviations from the projected interest rate developments is measured on a one-year horizon. The deviating interest rate scenarios are calibrated using statistical analysis, taking into account an interest rate floor, i.e. it is assumed that market interest rates cannot fall below a certain level. For this floor, we assume a proportional movement of -1% for the overnight interest rate, up to 0% for 20-year (and longer) interest rates.

At the end of June 2019, the EaR amounted to € 75 million before taxation (year-end 2018: € 83 million). Downward adjustments to the interest rate forecast and our corresponding positioning are the main reason for the decrease compared to year-end 2018, leading to a lower short-term interest rate sensitivity. Moreover, an improvement in the calibration method of the interest rate scenarios has contributed to the decrease in the EaR.

In the short term, interest income is most sensitive to the 'steepener scenario'. In this scenario, the short-term interest rate will continue to fall and the long-term interest rate will rise, leading to a steeper interest rate curve. This results in a decline in interest income from derivatives, variable-rate mortgages and cash. In this steepener scenario, margins on demand deposits will also tighten, putting further pressure on expected income.

When applying the EVE methodology, we take future incoming and outgoing cashflows and calculate their economic value based on current market rates. Duration of equity and key rate durations are the key control measures of EVE sensitivity. Duration of equity measures the relative decreasein the EVE in the event of a parallel interest rate increase of 1 basis point (0.01%). The key rate durations represent EVE sensitivity to such an interest rate shift at specific points on the yield curve, enabling us to identify sensitivity to non-parallel shifts in the market yield curve.

Partly because of the continuing downward trend in capital market interest rates, we have adjusted our first-half 2019 interest rate forecast downwards. In response to this, we increased the duration of equity to 2.4 (year-end 2018: 1.4). This higher duration has a favourable effect on interest income if the projected interest rate development materialise.

Market risk

De Volksbank has a limited trading book. Market risk is managed using portfolio limits for a one-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. Throughout the first half of 2019, the total VaR limit for the trading book remained stable at € 2 million. This limit reflects the relatively low risk profile of these activities.

Non-financial risks

In the first half of 2019, we implemented a risk management application that simplifies the recording of information on controlled business operations and allows us to better analyse the effectiveness of our risk management.

OPERATIONAL RISK

We encountered several risk incidents and IT disruptions over the past six months. This has prompted us to tighten internal control measures related to customer fraud and IT processes. To give an example, we give priority to changes that contribute to the continuity and stability of the system landscape.
Despite a slight reduction in DDos attacks, we note an increasing number of cyberattacks. This remains a permanent point of attention. We also pay attention to Brexit; we monitor the developments and have made preparations to absorb the possible effects of a Brexit. We will, for instance, existing financial contracts with counterparties in the United Kingdom will be transferred to entities with a European jurisdiction. Although the timely follow-up of audit points in 2019 improved slightly, we need to pay continued attention to further improvement.

REPORTING AND DATA MANAGEMENT

We strive to provide reliable internal and external information, whereby high-quality underlying data and data management is of great importance. In 2018, we drew up a new data management policy that is the basis for an integrated approach to quality improvement. In the first quarter of 2019, a strategic programme was launched to further improve and control the start-to-finish reporting processes, associated data flows and supporting application landscape.

COMPLIANCE

De Volksbank continuously updates its measures to protect the interests of its customers, society, the shareholder and its employees. Changes in laws and regulations that de Volksbank is required to comply with follow one another at a rapid pace. The implementation of anti-money laundering and anti-terrorist financing measures, for example, requires constant attention and we proactively inform customers with revolving loans and interest-only mortgages. All these developments require continuous changes to be made to our processes, systems and organisation. As a result, we also note the increasing importance in having more overall insight into our compliance with the regulatory obligations incumbent on us. The compliance function will therefore be reviewed and further strengthened in the period ahead.

CAPACITY TO CHANGE

This year again, we will implement several strategic programmes, which are making heavy demands on our organisation's capacity to change. Although priorities have been set in the programme portfolio, the number of change initiatives remains high and requires a great deal of capacity and expertise, which means that the risk that objectives will not be achieved in time remains. We are in the process of strengthening the management and the risk management of the programme portfolio. We are also constantly improving our prioritisation and making more appropriate adjustments in case of deviations.

Capital management

Capitalisation

CRR/CRD IV requirements as at 1 March 2019

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

With effect from 1 March 2019, de Volksbank is required to meet a minimum total capital ratio of 14.0% (Overall Capital Requirement, OCR), of which at least 10.5% consists of CET1 capital. This requirement ensues from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2018 and from the resulting SREP decision, which came into effect on 1 March 2019.

De Volksbank has adjusted its capital targets for 2020 to a leverage ratio of at least 4.75% (previously: at least 4.25%) and a CET1 capital ratio of at least 19.0%. (previously: at least 15%) based on the fully phased-in Basel IV rules.

Our capital targets are related to the concentration risk arising from our business model with a focus on three core products – mortgages, savings and payments – and on the Dutch retail market. Although providing residential mortgages is a relatively low-risk activity, we adopt a prudent approach in our capital management and in determining the capital targets. We believe that these targets dovetail with our mission of banking with a human touch – we aim to be a safe and reliable bank to all.

Our leverage ratio target of at least 4.75% is in line with the expected leverage ratio of comparable European banks and includes an ample management buffer to withstand severe stress situations involving unfavourable conditions that may greatly impact the net interest margin and credit losses. The management buffer also factors in other uncertainties, such as the impact of fluctuations in the macroeconomic environment and the impact that the elaboration and implementation of Basel IV may have on non-risk-weighted targets.

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

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

Capitalisation

	CRD IV fully phased-in		
in € millions	**30-6-2019**	**31-12-2018**	**30-6-2018**
Shareholders' equity	3,578	3,571	3,456
Non-eligible interim profits	-154	-178	-119
Shareholders' equity for CRD IV purposes	**3,424**	**3,393**	**3,337**
Cashflow hedge reserve	-28	-30	-32
Other prudential adjustments	-3	-3	-2
Total prudential filters	**-31**	**-33**	**-34**
Intangible assets	-4	-6	-10
IRB shortfall[1]	-38	-41	-47
Total capital deductions	**-42**	**-47**	**-57**
Total regulatory adjustments to shareholders' equity	**-73**	**-80**	**-91**
CRD IV CET 1 capital	**3,351**	**3,313**	**3,246**
Additional Tier 1 capital	-	-	-
Tier 1 capital	**3,351**	**3,313**	**3,246**
Eligible Tier 2	500	500	500
Impact EBA interpretations CRR Article 82	-	-348	-344
Tier 2 capital	**500**	**152**	**156**
Total capital	**3,851**	**3,465**	**3,402**
Risk-weighted assets	**9,029**	**9,341**	**9,452**
Risk exposure as defined by the CRR	63,110	60,625	62,013
CET1 ratio	**37.1%**	**35.5%**	**34.3%**
Tier 1 ratio	37.1%	35.5%	34.3%
Total capital ratio	42.7%	37.1%	36.0%
Leverage ratio	5.3%	5.5%	5.2%

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

Shareholders' equity rose by € 7 million to € 3,578 million in the first half of 2019, particularly as a result of the net profit reported for the first half of 2019 (€ 154 million) and an increase in the fair value reserve (by € 18 million), which was mainly cancelled out by the dividend payout for 2018 (€ 161 million).

In order to determine shareholders' equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders' equity. After profit appropriation by the General Meeting of Shareholders in April 2019, non-eligible (interim) profits as at year-end 2018 in the amount of € 178 million were added to the CET1 capital after deduction of the dividend payout of € 161 million.

The interim profit not yet eligible as CRD IV equity for 2019 is the full net profit for the first half of 2019 (€ 154 million).

In order to determine CET1 capital, shareholders' equity is subsequently subjected to a number of regulatory adjustments for CRD IV purposes. Total regulatory adjustments amounted to € 73 million negative at the end of June 2019 (2018: € 80 million negative) and consisted mainly of a prudential adjustment for the cashflow hedge reserve and a deductible item related to the IRB shortfall. The latter dropped from € 41 million to € 38 million.
On balance, CRD IV CET1 capital rose by € 38 million to € 3,351 million.

Risk-weighted assets (RWA)

in € millions	**30-6-2019**	**31-12-2018**	**30-6-2018**
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based (IRB)	5,318	5,487	5,781
Credit risk - standardised approach (SA)	2,027	2,157	1,831
Securitisations	7[1]	6	6
Operational risk	1,544	1,544	1,633
Market risk	-	-	27
Credit Valuation Adjustment (CVA)	133	147	174
Total	**9,029**	**9,341**	**9,452**

1 Including € 1.5 million relating to Simple, Transparant and Standardised (STS) securitisations.

In the first half of 2019, risk-weighted assets (RWA) decreased by € 312 million to € 9.0 billion. This decline was mainly caused by a € 169 million reduction related to the credit risk of the retail mortgage portfolio, calculated according to the Internal Ratings Based (IRB) approach.

This portfolio's credit quality improved further, particularly as a result of improved economic conditions. This improvement was reflected in lower Probabilities of Default (PDs) and Loss Given Defaults (LGDs). The average risk weighting (RWA density) of retail mortgages declined from 12.0% at year-end 2018 to 11.5%.

RWA for credit risk calculated under the Standardised Approach (SA) dropped by € 130 million to € 2.0 billion. One of the causes for this decrease was a decline in risk-weighted exposures to banks as counterparties (RWA decrease of € 144 million). RWA for operational risk, the Credit Valuation Adjustment and the revised securitisation framework remained virtually unchanged at € 1.7 billion.

De Volksbank's CET1 capital ratio rose to 37.1% from 35.5% at year-end 2018, mainly driven by the decline in RWA. The CET1 capital ratio thus remained well above our new target of at least 19%.

The legal merger between de Volksbank N.V. and de Volksholding B.V. was completed on 30 March 2019. The merger mitigates the consequences of the EBA interpretation of CRR Article 82 regulations for financial holding companies, which means that de Volksbank's Tier 2 capital is fully effective again as from 30 March 2019.

The total capital ratio was up from 37.1% to 42.7%, partly as a result of this merger.

LEVERAGE RATIO

The leverage ratio dropped from 5.5% at year-end 2018 to 5.3%, mainly driven by an increase in the leverage ratio denominator (by € 2.5 billion). The denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR). The increase in this risk exposure was in line with the growth of the balance sheet total (€ 3.0 billion). The increase in the leverage ratio denominator was partly compensated by an increase in CET1 capital (€ 38 million).

The 5.3% leverage ratio is well above the regulatory requirement and our new target of at least 4.75%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount necessary to meet risk-weighted capital requirements. This is the consequence of the focus on retail mortgages, a low-risk activity with a correspondingly low risk weighting.

Expected impact of Targeted Review Internal Models

As de Volksbank uses models developed internally, the bank was part of the Targeted Review of Internal Models (TRIM) that the supervisory authority carried out in 2018. This is an investigation that examines such aspects as the degree of compliance with laws and regulations, the quality and completeness of the data used in terms of content, the modelling technique used, including data lineage, and the model's applicability to the portfolio concerned. The supervisory authority used TRIM to phrase additional obligations regarding data improvement, data lineage and the further development of de Volksbank's credit risk model. Acting in anticipation of the completion of this model, the supervisory authority has imposed a temporary mandatory adjustment of the model parameters. This mandatory adjustment is effective as from 22 July 2019 and will therefore be observable in capital ratios as from the end of the third quarter of 2019. Based on an estimation of the impact on our balance sheet position as at the end of June 2019, we expect a resulting increase of € 10 million in the IRB shortfall and an RWA increase of € 0.8 billion.

Based on the capitalisation at the end of June 2019, these adjustments are estimated to impact de Volksbank's CET1 capital ratio by -3.1%. An increase in the IRB shortfall is expected to affect the leverage ratio by 2 basis points.

Developments in capital requirements

BASEL IV

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV.

Based on the balance sheet position as at the end of June 2019, we expect our RWA to increase by approximately 48%[5] and due to the full phase-in of Basel IV and, consequently, our CET1 capital ratio to decrease by approximately 12 percentage points. The largest effect is caused by the output floor (with phase-in of 50% in 2022, to 72.5% in 2027) on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal modelling approach on the basis of PHIRM[6]. The aforementioned RWA impact from the TRIM is based on the internal modelling approach and will therefore no longer apply effectively when the RWA is determined under full phase-in of Basel IV. We expect the changes in internal modelling approaches and the standardised measurement approach for operational risk expected under Basel IV to have a limited effect on the RWA of de Volksbank.

The next step is the translation of Basel IV into European laws and regulations. De Volksbank closely monitors the developments, paying particular attention to new rules regarding retail mortgages. We will adjust our capital planning if necessary.

We estimate that, following the full phase-in of Basel IV, our CET1 capital ratio will still exceed our target of at least 19%[7]. This will allow us to both continue our growth path and pay out dividend.

PRUDENTIAL PROVISION FOR NON-PERFORMING EXPOSURE (NPE)

In order to encourage harmonisation within EU banks, in April 2019 CRR requirements became effective for the level of provisions or other capital adjustments for non-performing loans (exposures) provided as from 26 April 2019. Additional prudential provisions may have to be formed for long-term NPEs. This may have an impact on the CET1 capital ratio and the leverage ratio of de Volksbank in the years to come.

IFRS 16 Leases

The new accounting standard IFRS 16 Leases has been in force since 1 January 2019. IFRS 16 requires (nearly) all leases to be reported on the balance sheet. Accordingly, the balance sheet grew by € 76 million as from 1 January 2019 (100% risk weight) and the CET1 capital ratio decreased by 0.3 percentage points.

MREL

On 6 June 2018, the Single Resolution Board (SRB) set the Minimum Requirement for own funds and Eligible Liabilities (MREL) for de Volksbank at 8.0% of total liabilities and own funds. By its resolution of 27 May 2019, the SRB confirmed this and directed that the transition period ceased to apply to de Volksbank since de Volksbank already met this requirement. Furthermore, the BRRD and the SRB's 2018 MREL policy lead us to expect that the MREL for de Volksbank – as an Other Systemically Important Institution (O-SII) – must consist of subordinated instruments for at least 17.5% of RWA.

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

Based on its current views on the future MREL subordination requirement regulations, de Volksbank's capital planning is based on the assumption that the minimum non-risk-weighted MREL requirement of 8% must fully consist of subordinated liabilities on 1 January 2024 (Tier 1 capital, Tier 2 capital and SNP notes). Given this starting point and based on our current capital position, we expect to issue SNP notes totaling € 1.0 to € 1.5 billion in the next five years. De Volksbank is closely monitoring the developments concerning a potential MREL subordination requirement. We will adjust our capital planning if necessary.

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5 Starting from (1) loan-splitting for retail mortgages, (2) the application of NHG as a credit risk-mitigating measure, and (3) the assumption that 93% of the retail mortgages meet the document requirements.

6 Internal Rating Model for Retail Mortgages ('Particuliere Hypotheken Interne Rating Model' (PHIRM)).

7 Based on our balance sheet position as at the end of June 2019 and assuming that the Basel IV rules are implemented in European legislation without change.

MREL

in € millions	30-6-2019	31-12-2018	30-6-2018
CET1 capital	3,351	3,313	3,246
Tier 2 capital	500	500	500
Total capital	**3,851**	**3,813**	**3,746**
Other eligible unsecured liabilities with remaining maturity > 1 year	1,542	1,941	1,632
Total capital including other eligible liabilities	**5,393**	**5,754**	**5,378**
Risk exposure measure as defined by the CRR (TLAC)	63,110	-	61,464
Risk exposure measure as defined by the BRRD (MREL)	61,751	59,412	61,196
Risk-weighted assets	9,029	9,341	9,452
MREL BRRD			
MREL (Total capital)	6.2%	6.4%	6.1%
MREL (Total capital including other eligible liabilities)	8.7%	9.7%	8.8%
MREL RISK WEIGHTED ASSETS			
MREL (Total capital)	42.7%	40.8%	39.6%
MREL (Total capital including other eligible liabilities)	59.7%	61.6%	56.9%

The table above presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank.

Including total capital and all other unsecured liabilities eligible for MREL according to the current BRRD, the non-risk-weighted MREL ratio stood at 8.7% (2018: 9.7%).

Total capital and eligible liabilities dropped by € 361 million to € 5,393 million. The main reason for this decrease was that the short-term unsecured bond of € 400 million issued in October 2018 entered the final year of its term in April 2019, on account of which this loan was no longer MREL eligible from then on. This decrease was partly compensated by the supervisory authority's confirmation in June 2019 that the structured unsecured debts – which were excluded in year-end 2018 MREL figures – qualify for MREL. This allows de Volksbank to include these debts in its eligible liabilities again as at the end of June 2019 (€ 133 million). The risk exposure measure as defined by the BRRD rose by € 2.3 million to € 61.8 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,851 million) amounted to 42.7% (year-end 2018: 40.8%). They are both subordinated to other outstanding liabilities.

Dividend

De Volksbank has set a dividend payout target range of 40% - 60% of adjusted net result. In line with this policy, de Volksbank paid NLFI a dividend of € 161 million for 2018 in April 2019. This implies a payout ratio of 60%, the top of the applied target range.

For 2019, we again expect to pay out a dividend of 60% of the adjusted net result.

Liquidity and funding

Liquidity

In the first half of 2019, de Volksbank maintained a strong liquidity position that amply met both internal targets and regulatory requirements.

Key liquidity indicators

	30-6-2019	31-12-2018	30-06-2018
LCR	147%	177%	156%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio	103%	106%	105%
Liquidity buffer (in € millions)	15,953	15,152	15,343

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum of 100%. At 30 June 2019, the LCR stood at 147% (year-end 2018: 177%). In the first half of 2019, we revised our interpretation of regulations and guidelines on the treatment of mortgage offers in the LCR. As a consequence, we assume a higher liquidity outflow, resulting in a lower LCR from 30 June 2019.

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio, dropped to 103%, from 106% at year-end 2018, caused by a growth in deposits that exceeded the growth in loans:

- Deposits grew by € 1.5 billion, of which € 1.1 billion as a result of an increase in retail savings and the remainder mainly as a result of an increase in current account balances;
- Loans rose by € 0.3 billion, driven by growth in retail mortgage loans. We do not take into account the € 0.8 billion increase in fair value from hedge accounting.

Liquidity buffer composition

in € millions	30-6-2019	31-12-2018	30-6-2018
Cash position[1]	3,570	2,447	4,240
Sovereigns	2,149	2,393	1,046
Regional/local governments and supranationals	871	975	819
Other liquid assets	431	437	426
Eligible retained RMBS	8,932	8,900	8,812
Liquidity buffer	**15,953**	**15,152**	**15,343**

1 The cash position, presented above, comprises central bank reserves, current account balances held at correspondent banks and contractual wholesale cashflows maturing within ten days or less. As a result, the cash position deviates from the cash and cash equivalents balance in the balance sheet.

The liquidity buffer remained high and amounted to € 16.0 billion as at 30 June 2019 (year-end 2018: € 15.2 billion).

In the first half of 2019, the cash position increased by € 1.1 billion to € 3.6 billion. The funding need mainly resulted from a € 0.6 billion increase in collateral placed in respect of derivative transactions in the form of cash and growth in the retail mortgage portfolio (adjusted for the increase in fair value from hedge accounting) of € 0.3 billion. The funding need was more than met by a € 1.5 billion increase in deposits and the issue of € 0.8 billion in covered bonds, increasing the cash position.

The liquidity value of other liquid assets in the liquidity buffer amounted to € 12.4 billion as at 30 June 2019 (year-end 2018: € 12.7 billion):

- The value of unencumbered sovereign debts in the liquidity buffer declined by € 0.2 billion, predominantly due to a higher use of sovereign debts as collateral for (repo) transactions;
- The liquidity value of eligible retained RMBS remained virtually stable at € 8.9 billion.

As at 30 June 2019, € 0.9 billion in assets with more than a 10-day horizon had been invested for cash management purposes (year-end 2018: € 0.4 billion). These loans are also available as short-term liquid assets.

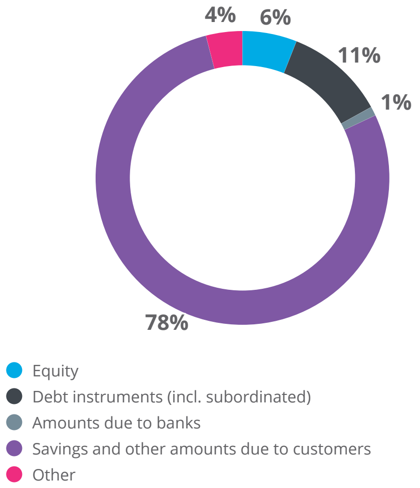
Funding

Retail savings are de Volksbank's main source of funding. In addition, the bank attracts capital market funding, with the aim of diversifying its sources of funding. To this end, we use various funding instruments spread over maturity, market, region and type of investors.

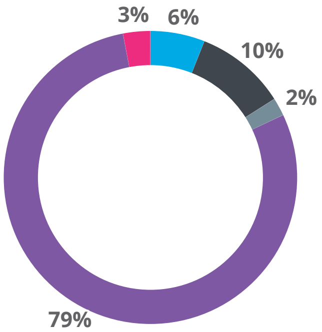
Through our brands we attract term deposits, demand deposits and current account balances from retail customers. In addition, funding takes place through savings deposits and current account balances from SME customers. In the first half of 2019, financing from customers increased to € 48.7 billion, from € 47.2 billion at year-end 2018.

The diagrams below provide an overview of the composition of the total liabilities as at 30 June 2019 and at year-end 2018, based on the book value. The percentage of our funding that is made up of savings and other amounts due to customers fell to 78%, from 79% at year-end 2018.

Equity and liability mix 30 June 2019: € 63.9 billion



Equity and liability mix 31 December 2018: € 60.9 billion



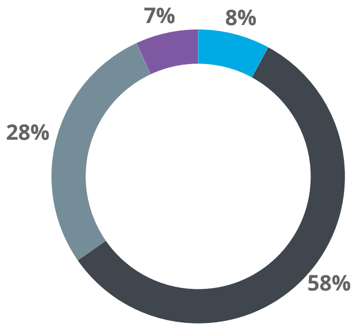
In the first half of 2019, de Volksbank successfully executed a number of capital market funding transactions, namely:

- the issue of € 0.5 billion in covered bonds (public transaction) with a maturity of seven years;
- the issue of € 0.3 billion in covered bonds (private placements) with a maturity of fifteen to twenty years.

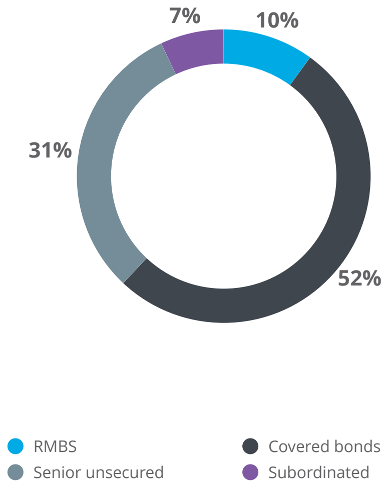
In addition to these financing transactions, the capital market funding mix changed in the first half of 2019 (from € 6.9 billion to € 7.5 billion), primarily due to the redemption of:

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

Capital market funding mix 30 June 2019: € 7.5 billion (nominal value)

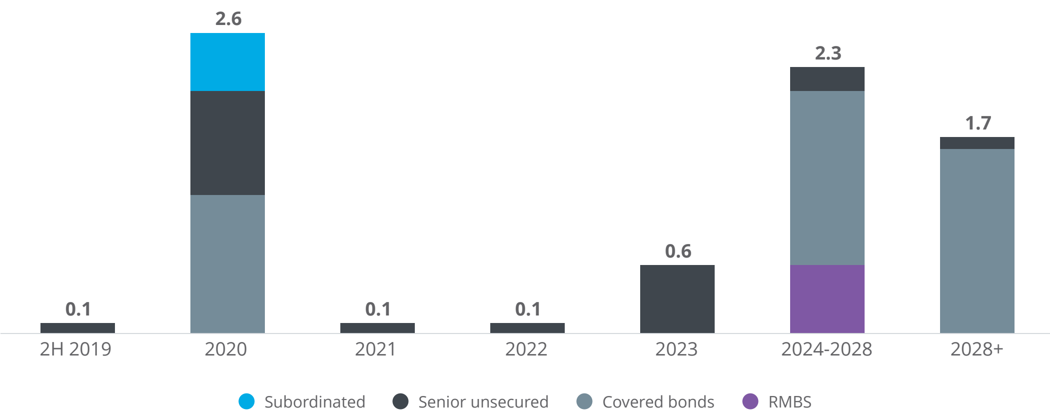


Capital market funding mix 31 December 2018: € 6.9 billion (nominal value)



The figure below presents an overview of the maturity calendar of the outstanding capital market funding with an original maturity of more than one year as at 30 June 2019. It is assumed that this funding will be redeemed at the first possible dates. In the second half of 2019, we expect to mainly issue senior bonds to meet our capital market funding needs.

Capital market funding maturities (in € billions)



Statement of responsibility

Pursuant to section 5:25d, paragraph 2(c), of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, *Wft*), the members of the Board of Directors state that to the best of their knowledge:

- The condensed consolidated interim financial statements, for the six-month period ending on 30 June 2019, give a true and fair view of the assets, liabilities, size and composition of equity, financial position and profit or loss of de Volksbank N.V. and the companies included in the consolidation; and
- The Interim Financial Report, for the six-month period ending on 30 June 2019, gives a true and fair view of the information that is required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of de Volksbank N.V. and of the companies included in the consolidation.

Utrecht,15 August 2019

THE BOARD OF DIRECTORS

Maurice Oostendorp, Chief Executive Officer

Annemiek van Melick, Chief Financial Officer

Jeroen Dijst, Chief Risk Officer

Marinka van der Meer, Chief Customer Officer

Mirjam Verhoeven, Chief Operations Officer

Condensed consolidated interim financial statements

Consolidated balance sheet

Before result appropriation and in € millions	30-6-2019	31-12-2018
ASSETS		
Cash and cash equivalents	1,948	815
Derivatives	705	732
Investments	4,914	4,782
Loans and advances to banks	4,208	3,589
Loans and advances to customers	51,551	50,536
Tangible and intangible assets	139	69
Tax assets	134	133
Other assets	342	292
Total assets	**63,941**	**60,948**
EQUITY AND LIABILITIES		
Savings	38,475	37,376
Other amounts due to customers	11,298	10,841
Amounts due to customers	**49,773**	**48,217**
Amounts due to banks	891	1,116
Debt certificates	6,490	5,822
Derivatives	1,926	1,120
Tax liabilities	20	15
Other liabilities	679	487
Provisions	72	98
Subordinated debts	512	502
Total liabilities	**10,590**	**9,160**
Share capital	381	381
Other reserves	3,043	2,922
Retained earnings	154	268
Shareholders' equity	**3,578**	**3,571**
Total equity and liabilities	**63,941**	**60,948**

Consolidated income statement

in € millions	**1st half 2019**	**1st half 2018**
INCOME		
Interest income	644	670
Interest expense	202	215
Net interest income	**442**	**455**
Fee and commission income	58	54
Fee and commission expenses	33	33
Net fee and commission income	**25**	**21**
Investment income	8	-3
Result on financial instruments	-5	7
Other operating income	1	-
Total income	**471**	**480**
EXPENSES		
Staff costs	186	200
Depreciation and amortisation of tangible and intangible assets	16	11
Other operating expenses	76	90
Impairment charges	-13	-16
Total expenses	**265**	**285**
Result before taxation	**206**	**195**
Taxation	52	46
Net result for the period	**154**	**149**

Consolidated statement of comprehensive income

Other comprehensive income

in € millions	**1st half 2019**	**1st half 2018**
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Other changes in comprehensive income	1	-
Total items never reclassified to profit or loss	**1**	**-**
ITEMS THAT ARE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-3	-4
Change in fair value reserve	18	1
Total items that are subsequently reclassified to profit or loss	**15**	**-3**
Other comprehensive income (after tax)	**16**	**-3**

Total comprenhensive income

in € millions	**1st half 2019**	**1st half 2018**
Net profit	154	149
Other comprehensive income (after tax)	16	-3
Total comprehensive income	**16**	**-3**

Condensed consolidated statement of changes in total equity

Consolidated statement of changes in total equity

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	381	3,787	6	36	18	-1,057	329	3,500
Transfer of 2017 net result	-	-	-	-	-	139	-139[3]	-
Other comprehensive income	-	-	-	-4	-	1	-	-3
Net result for the period	-	-	-	-	-	-	149	149
Total result for the period	**-**	**-**	**-**	**-4**	**-**	**140**	**10**	**146**
Transactions with shareholder	-	-	-	-	-	-	-190[4]	-190
Total changes for the period	**-**	**-**	**-**	**-4**	**-**	**140**	**-180**	**-44**
Balance as at 30 June 2018 (IAS 17)	**381**	**3,787**	**6**	**32**	**18**	**-917**	**149**	**3,456**
Other comprehensive income	-	-	-	-1	-4	1	-	-4
Net result for the period	-	-	-	-	-	-	119	119
Total result for the period	**-**	**-**	**-**	**-1**	**-4**	**1**	**119**	**115**
Transactions with shareholder	-	-	-	-	-	-	-	-
Total changes for the period	**-**	**-**	**-**	**-1**	**-4**	**1**	**119**	**115**
Balance as at 31 December 2018 (IAS 17)	**381**	**3,787**	**6**	**31**	**14**	**-916**	**268**	**3,571**
Change in accounting policies	-	-	-	-	-	-2	-	-2
Balance as at 1 January 2019 (IFRS 16)	**381**	**3,787**	**6**	**31**	**14**	**-918**	**268**	**3,569**
Transfer of 2018 net result	-	-	-	-	-	107	-107[3]	-
Other comprehensive income	-	-	-	-3	18	1	-	16
Net result for the period	-	-	-	-	-	-	154	154
Total result for the period	**-**	**-**	**-**	**-3**	**18**	**108**	**47**	**170**
Dividends	-	-	-	-	-	-	-161[5]	-161
Total changes for the period	**-**	**-**	**-**	**-3**	**18**	**108**	**-114**	**9**
Balance as at 30 June 2019 (IFRS 16)	**381**	**3,787**	**6**	**28**	**32**	**-810**	**154**	**3,578**

1 The issued share capital is fully paid up and comprises 840,008 ordinary shares with a nominal value of € 453.79 per share.
2 The revaluation reserve consists of revaluations of property in own use.
3 This is the result after dividend payment deduction.
4 Dividend paid out to de Volksholding.
5 Dividend paid out to NLFI.

Condensed consolidated cashflow statement

in € millions	1st half 2019	1st half 2018
CASHFLOW FROM CONTINUED OPERATIONS		
Cash and cash equivalents as at 1 January	815	2,180
Net cashflow from operating activities	1,178	899
Net cashflow from investment activities	-544	-319
Net cashflow from financing activities	499	354
Net change cash and cash equivalents	**1,133**	**934**
Cash and cash equivalents as at 30 June	**1,948**	**3,114**

Notes to the condensed consolidated interim financial statements

Accounting principles

General information
De Volksbank N.V. (hereafter 'de Volksbank'), a public limited liability company, is incorporated under Dutch law and domiciled in the Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht. All shares of de Volksbank are held by *Stichting administratiekantoor beheer financiële instellingen* (NLFI).

On 30 March 2019, de Volksbank and its former parent company de Volksholding B.V. merged. Due to this legal merger, de Volksbank is the remaining entity and de Volksholding ceased to exist. The assets and liabilities of de Volksholding B.V. were transferred to de Volksbank. Because the assets and liabilities of de Volksholding only related to the participation in de Volksbank and its equity, this merger does not impact the financial statements of de Volksbank.

The condensed consolidated interim financial statements of de Volksbank comprise financial information of all entities controlled by de Volksbank, including its interests in associates. These condensed consolidated interim financial statements were prepared by the Board of Directors and approved by the Supervisory Board on 15 August 2019.

Basis of preparation

STATEMENT OF IFRS COMPLIANCE
De Volksbank prepares the condensed consolidated interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union (EU).

MAIN ACCOUNTING PRINCIPLES FOR FINANCIAL REPORTING
The accounting principles applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting principles applied in the preparation of de Volksbank's financial statements for the year ending on 31 December 2018. Changes in standards and interpretations affecting the 2019 accounting principles are described in the following section.

CHANGES IN PUBLISHED STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2019
De Volksbank has applied IFRS 16 as from 1 January 2019. A further explanation of the impact of IFRS 16 on de Volksbank's accounting principles is included in the section 'IFRS 16'. Comparative figures have not been adjusted in response to the application of IFRS 16.

In addition, in 2019 the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), respectively, became mandatory. These were adopted by the EU and are applicable in the current financial year:
- Annual improvements to IFRS standards 2015-2017 cycle
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments

With the exception of IFRS 16, none of the above-mentioned amendments affect the condensed consolidated interim financial statements.

IFRS 16
IFRS 16, the new standard on leases, came into effect on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between 'operational' and 'financial' leases for lessees. It requires lessees to recognise nearly all leases on the balance sheet, reflecting their right to use an asset for a specific agreed period of time and the associated liability for payments. The introduction of IFRS 16 has resulted in an increase in assets and liabilities for leases on the balance sheet.

IFRS 16 contains a number of practical expedients. De Volksbank has made the following accounting policy choices:
- Short-term leases: we do not capitalise short-term leases;
- Low-value leases: we do not capitalise low value leases (determined at € 5,000 or less);
- Portfolio application: we make use of the portfolio application;
- Not separating non-lease component: we separate the non-lease component from the lease component;
- Discount rates (only at transition): a single discount rate is used to a portfolio of leases with reasonably similar characteristics;
- Initial direct costs (only at transition): excluded from the measurement of the right-of-use asset at the date of initial application; and
- Hindsight (only at transition): hindsight is used in determining the lease term if the lease contains options.

In 2018, all leases were identified and the effect of applying IFRS 16 was determined. The main leases entered into by de Volksbank are property leases. Under IFRS 16, these leases are capitalised. De Volksbank applies IFRS 16 as from 1 January 2019 using the cumulative retrospective transition method, whereby comparative figures will not be adjusted. On the transition date the practical expedient offered in IFRS 16 was used to classify the leases that were classified as lease under IAS 17, also as leases under IFRS 16.

Extension and termination options are taken into account when determining the lease liability if it is reasonably certain that these options will be exercised. The discount rate is based on internally developed interest rate curves that are used by de Volksbank for risk management purposes.

The introduction of IFRS 16 had an increasing effect of € 76 million as at 1 January 2019 on the assets of de Volksbank, which are 100% risk weighted in prudential reporting. The right-of-use assets are presented in the line item Tangible and intangible assets. In addition, equity is negatively affected by € 2 million. The lease liabilities are presented in the line item Other amounts due to customers. The effect on profit or loss is nil. The average weighted discount rate is approximately 2%.

The difference between the liability under IFRS 16 and the off-balance-sheet commitments under IAS 17 operational leases is mainly caused by the fact that off-balance-sheet commitments are not discounted, service costs and some options are included, so that the off-balance-sheet commitment is higher than the IFRS 16 lease liability.

Notes to consolidated statement of financial position and consolidated income statement

Debt certificates

Covered bond programme
The following issues of capital market funding relating to Debt certificates took place in the first half of 2019:
- On 30 January 2019, de Volksbank issued new seven-year bonds in the amount of € 500 million under the covered bond programme.
- In addition, in the first half of 2019 de Volksbank issued 15-20 year bonds in the amount of € 202 million under the covered bond programme.

Moreover, de Volksbank issued € 75 million in covered bonds under Amounts due to customers:
- On 17 January 2019, de Volksbank issued private placements with a 20-year maturity in the amount of € 75 million under the covered bond programme.

Redemption and repurchase of debt certificates
In the first half of 2019, de Volksbank redeemed € 92 million in bonds under securitisation programmes, and redeemed, repurchased and/or recognised on own book a total of € 61 million of other bonds with original maturities of more than one year.

Impairment charges
We have provided explanations of impairment charges and loan loss provisions under Financial results (see table Impairment charges) and Credit risk (see reviewed tables), respectively.

Related parties
As part of its business operations, de Volksbank frequently enters into transactions with related parties. Parties related to de Volksbank include the SNS REAAL Pension Fund, associates, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State, the Board of Directors, the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities. Loans and advances to the Board of Directors, the Supervisory Board and close family members, where applicable, consist mainly of residential mortgages granted under standard personnel conditions.

Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships. Normal banking transactions relate to loans and deposits, financial assets held for trading and financial investments available for sale, and are entered into under the same market and commercial terms that apply to non-related parties.

In the first half of 2019, a final dividend of € 161 million was paid to NLFI (first half of 2018: € 190 million).

Update on legal proceedings
INQUIRY PROCEEDINGS
On 16 April 2019, the Enterprise Chamber of the Amsterdam Court of Appeal (the 'Enterprise Chamber') gave an interim ruling in the compensation proceedings. The Enterprise Chamber has ordered the experts to further investigate the actual value of the expropriated securities and capital components of SNS REAAL and SNS Bank as of 1 February 2013. A new expert report is expected in the second half of 2019.

INTEREST RATE DERIVATIVES
Before year-end 2017, de Volksbank sent all SME customers who have an interest rate derivative and that fall within the scope of the Uniform Recovery Framework (URF) a letter. Of these 212 customers, 76 received an offer of compensation. The remaining 136 customers were informed that they are not eligible for compensation and/or recovery. The administrative processing and payment of compensation was completed in the first half of 2019. De Volksbank expects to close this matter in the second half of 2019.

MADOFF
In the ongoing lawsuit between Madoff's trustee on one side and de Volksbank, SNS Global Custody and many other global financial institutions on the other, the trustee has won the appeal in the initial proceedings. An appeal will be brought to the Supreme Court. It is not expected that the substance of the case will be heard in the short run.

Post balance sheet events
There are no post balance sheet events.

Fair value of financial instruments

Fair value accounting of financial assets and liabilities
The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. The total of the fair value presented below does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the allocation in the fair value hierarchy, which is discussed in the 'Hierarchy in determining the fair value of financial instruments' section. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below. De Volksbank determines the fair value hierarchy for all financial instruments at any reporting moment.

For financial assets and liabilities measured at amortised cost, the fair value is provided including accrued interest.

Hierarchy in financial instruments as at 30 June 2019

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through P&L	5	-	-	5	5
Investments - fair value through OCI	1,911	1,909	-	2	1,911
Derivatives	705	-	639	66	705
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised cost	2,998	2,885	178	-	3,063
Loans and advances to customers	51,551	-	-	54,246	54,246
Loans and advances to banks	4,208	-	-	-	4,208
Other assets	342	-	-	-	342
Cash and cash equivalents	1,948	-	-	-	1,948
Total financial assets	**63,668**	**4,794**	**817**	**54,319**	**66,428**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,926	-	1,859	67	1,926
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	512	-	539	-	539
Debt certificates	6,490	-	-	6,821	6,821
Savings	38,475	-	35,280	3,691	38,971
Other amounts due to customers	11,298	-	11,453	-	11,453
Amounts due to banks	891	-	894	-	894
Other liabilities	679	-	-	-	679
Total financial liabilities	**60,271**	**-**	**50,025**	**10,579**	**61,283**

Hierarchy in financial instruments as at 31 December 2018

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through P&L	3	-	-	3	3
Investments - fair value through OCI	1,911	1,907	-	4	1,911
Derivatives	732	-	664	68	732
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised cost	2,868	2,870	73	-	2,943
Loans and advances to customers	50,536	-	-	53,028	53,028
Loans and advances to banks	3,589	-	-	-	3,589
Other assets	292	-	-	-	292
Cash and cash equivalents	815	-	-	-	815
Total financial assets	**60,746**	**4,777**	**737**	**53,103**	**63,313**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,120	-	1,050	70	1,120
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	502	-	526	-	526
Debt certificates	5,822	-	-	5,911	5,911
Savings	37,376	-	33,493	4,352	37,845
Other amounts due to customers	10,841	-	10,971	-	10,971
Amounts due to banks	1,116	-	1,120	-	1,120
Other liabilities	487	-	-	-	487
Total financial liabilities	**57,264**	**-**	**47,160**	**10,333**	**57,980**

Notes to the valuation of financial assets and liabilities

The following techniques and assumptions have been used to determine the fair value of financial instruments.

INVESTMENTS

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, credit quality and maturity of the relevant investment.

LOANS AND ADVANCES TO CUSTOMERS

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, LtV class and form of repayment. In determining the expected cashflows, expected future prepayments are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

DERIVATIVES

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model to determine their fair value. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

LOANS AND ADVANCES TO BANKS

Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

OTHER ASSETS

Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

CASH AND CASH EQUIVALENTS

The book value of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

SUBORDINATED DEBT
The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by de Volksbank, differentiated to maturity and type of instrument.

DEBT CERTIFICATES
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank.

AMOUNTS DUE TO CUSTOMERS
The fair value of readily available savings and term deposits differs from the nominal value because the interest rate is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. De Volksbank's Internal Funds Price-curve (IFTP) was used for savings not covered by the DGS.

AMOUNTS DUE TO BANKS
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

OTHER LIABILITIES
The book value of the other liabilities is considered to be a reasonable approximation of their fair value.

HIERARCHY IN DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

MORE DETAILED EXPLANATION OF THE LEVEL CLASSIFICATION
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is assigned to a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

LEVEL 1 – FAIR VALUE BASED ON PUBLISHED STOCK PRICES IN AN ACTIVE MARKET
For all financial instruments in this valuation category, stock prices are observable and publicly available from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds.

LEVEL 2 – FAIR VALUE BASED ON OBSERVABLE MARKET DATA
This category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have been issued by brokers, but which are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

LEVEL 3 – FAIR VALUE NOT BASED ON OBSERVABLE MARKET DATA
A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

The financial instrument is placed or moved in a certain level on the basis of the aforementioned definitions.

Change in level 3 financial instruments

Change in level 3 financial instruments measured at fair value for the 1st half of 2019

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	3	4	68	70
Unrealised gains or losses recognised in P&L[1]	2	-	-2	-3
Unrealised gains or losses recognised in OCI[2]	-	-2	-	-
Change in accrued interest	-	-	-	-
Sale/settlements	-	-	-	-
Closing balance	**5**	**2**	**66**	**67**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 1st half of 2018

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	2	15	83	169
Unrealised gains or losses recognised in P&L[1]	-	-	-10	-88
Unrealised gains or losses recognised in OCI[2]	-	-10	-	-
Change in accrued interest	-	-	-	-5
Sale/settlements	-	-1	-	-
Other	-	-	-	-
Closing balance	**2**	**4**	**73**	**76**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 2nd half of 2018

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	2	4	73	76
Purchases/advances	-	1	-	-
Unrealised gains or losses recognised in P&L[1]	1	-	-5	-6
Unrealised gains or losses recognised in OCI[2]	-	-2	-	-
Change in accrued interest	-	-	-	-
Sale/settlements	-	1	-	-
Other	-	-	-	-
Closing balance	**3**	**4**	**68**	**70**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Sensitivity of level 3 valuations of financial instruments

Level 3 financial instruments are largely valued using a net discounted cashflow method in which expectations and projections of future cashflows are discounted to a present value on the basis of market data. The models use market-observable information, such as yield curves, or information that is not observable in the market, such as assumptions about certain credit risk surcharges or assumptions about customer behaviour. The valuation of a level 3 instrument may change significantly as a result of changes in these assumptions.

Sensitivity to non-observable parameters of level 3 financial instruments as at 30 June 2019

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
ASSETS					
Derivatives	Discounted cashflows	Discount curve	66	5	5
		Prepayment rate	66	2	2
LIABILITIES					
Derivatives	Discounted cashflows	Discount curve	67	5	5
		Prepayment rate	67	2	2

A change in the prepayment assumption of -1% has a positive impact on the value of the derivates of € 2 million. With a 1% higher prepayment assumption the negative impact is nil. In addition, a lower discount assumption of 0.5% has a positive impact of € 5 million and a higher discount assumption of 0.5% has a negative impact of € 5 million on the value of the derivatives.

Sensitivity to non-observable parameters of level 3 financial instruments as at 31 December 2018

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
ASSETS					
Derivatives	Discounted cashflows	Discount curve	68	6	6
		Prepayment rate	68	2	2
LIABILITIES					
Derivatives	Discounted cashflows	Discount curve	70	4	3
		Prepayment rate	70	4	3

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed prepayment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to prepayment rate adjustments. The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of the discount curve.

The level 3 derivatives relate to securitisation transactions. There is a relationship between the fair values. This is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programmes Hermes, Pearl and Lowland, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-to-back by de Volksbank.

Transfers between categories

In 2018 and in the first half of 2019, no significant movements occurred.

Independent auditor's review report

To: the shareholder and supervisory board of de Volksbank N.V.

INTRODUCTION

We have reviewed the accompanying condensed consolidated interim financial statements of de Volksbank N.V., Utrecht, set out on pages 36 to 45, which comprises the consolidated balance sheet as at 30 June 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the total comprehensive income for the period attributable to the shareholder, the condensed consolidated statement of changes in total equity, and the condensed consolidated cashflow statement for the six-month period then ended, and the selected explanatory notes.

The board of directors is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34, “Interim Financial Reporting” as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE

We conducted our review in accordance with Dutch law including Standard 2410, “Review of interim financial information performed by the independent auditor of the entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the period 1 January 2019 until 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34, “Interim Financial Reporting”, as adopted by the European Union.

Amsterdam, 15 August 2019

Ernst & Young Accountants LLP

signed by A.B. Roeders

General information

About de Volksbank

GENERAL

De Volksbank is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 63.9 billion and 3,015 internal employees (FTEs), which makes it a major player in the Dutch market. The head office of de Volksbank is located in Utrecht.

MISSION AND AMBITION

The mission of de Volksbank is banking with a human touch. To live up to our mission we formulated an ambition based on the principle of shared value. Shared value is directed towards social and economic as well as financial and non-financial aspects. Our ambition is to optimise this shared value by delivering benefits for customers, taking responsibility for society, giving genuine attention to employees and achieving returns for the shareholder.

OUR BRANDS

There is no such thing as an 'average customer'. Everyone has different wishes, needs and preferences. We want to serve our customers in the way that best fits their needs. That is why, instead of one brand for all customers, we have opted for different brands that each serve their customers in the way that suits them best. Each brand has its own way of working, image, mentality and products, from savings and investments through to insurance.

ASN BANK

Sustainability

ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for 50 years. ASN Bank invests the money customers entrust to the bank in such a way that it contributes to sustainable progress and a liveable world, now and in the future. ASN Bank bases its choices on the three pillars of its sustainability policy: human rights, climate and biodiversity.

ASN Bank demonstrates that its clear and understandable products offer a good feeling *and* good money.

www.asnbank.nl

BLG WONEN

Homeownership for everyone

BLG Wonen is committed to a housing market that is fairer and more accessible. Founded in 1954 to give Limburg miners the chance to buy a house, it now supports new groups in society that have problems buying a house. BLG Wonen does not see files or numbers, but people with dreams and wishes. Only then will it look at the numbers. Together with its large network of independent advisers, it helps people to find a suitable mortgage. After all, owning your own home is important: it gives people a feeling of security and happiness. www.blg.nl

REGIOBANK

Quality of life in the neighbourhood

Just dropping by for a question or good advice. This is precisely what you can do at more than 500 branch offices of independent advisers in villages and small towns all over the country.

In addition to taking care of money matters close to home, RegioBank is also committed to improving the quality of life in the neighbourhood. It promotes local cohesion because it believes that having a social network close by makes people happy. The bank is a partner of *Oranje Fonds* and supports social activities. After all, RegioBank is not just a bank, but part of the local community: a liaison that wants to strengthen social vitality and local entrepreneurship in the region. www.regiobank.nl

SNS

Financial resilience

SNS is for anyone who wants to bank with a straigforward, no-nonsense and humane bank. Not only in terms of products traditionally offered by a bank, such as current accounts or mortgages. But above all, broader than that: what do customers think is important, what do they need help with or what keeps them awake?

SNS supports its customers in managing their financial lives and makes customers financially resilient by being close to them, in a simple and humane way. www.snsbank.nl

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