Interim financial report 2017

Press release

2017

De Volksbank posts first half 2017 net profit of € 177 million

Increased customer appreciation and continued growth in current account customers and market share mortgages; good progress in the execution of our shared value strategy

Utrecht, the Netherlands, 24 August 2017

OPTIMISING SHARED VALUE

- Continued focus on optimising shared value starting to yield results:
- Customers: Net growth current account customers by 42,000 to 1.37 million; improvement customer-weighted Net Promoter Score to -4 (2016: -8)
- Collaboration agreement with Pivotus to contribute to our mission of banking with a human touch
- Data safety: no sale of customer data on an individual or aggregate level
- Society: 25% climate neutral balance sheet (2016: 22%)
- Shareholder: Return on Equity of 10.0% (first half of 2016: 10.8%)

COMMERCIAL DEVELOPMENTS

- Market share new retail mortgages higher at 6.8% (first half of 2016: 4.8%); sharp increase in new retail mortgage production to € 2.5 billion (+67%)
- € 0.4 billion increase in retail mortgage portfolio to € 45.3 billion (year-end 2016: € 44.9 billion)
- Market share new current accounts of 20% (first half of 2016: 25%)
- 2% increase in retail savings balances to € 37.4 billion; market share stable at 10.7%

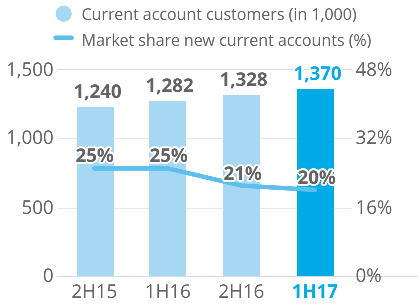
FINANCIAL PERFORMANCE

- Net profit virtually stable at € 177 million (first half of 2016: € 181 million)
- Lower net profit adjusted for incidental items of € 178 million (first half of 2016: € 193 million) due to lower net release of loan provisions
- Net interest income 2% lower year-on-year; net interest margin virtually stable at 1.50%
- Adjusted cost/income ratio lower at 52.5% (first half of 2016: 54.2%) due to 5% lower adjusted operating expenses
- Net release of loan provisions of € 20 million (first half of 2016: € 45 million); 22% decrease in retail mortgage loans in arrears to € 0.5 billion
- Increase in Common Equity Tier 1 ratio to 32.6% (2016: 29.2%); leverage ratio: 5.5% (2016: 5.2%)

“In the first half of 2017 we have made good progress in optimising the value of our bank for all stakeholders, i.e. customers, society, employees and our shareholder. We laid the groundwork for the further strengthening of our social identity and lowered our cost base, while at the same time executing a smart adopter innovation strategy. Positive developments in our shared value metrics, such as customer satisfaction, our current account customer base and the climate neutrality of our balance sheet, indicate that we are on the right track with our new approach to banking.
Net profit remained at a high level. Net interest income was only marginally lower as we were able to offset the pressure on mortgage rates by growing our retail mortgage portfolio and slightly lowering our savings rates. The credit quality of our retail mortgage portfolio improved further. Our capital and liquidity position remained strong, providing a solid basis to absorb the impact from new regulations, such as Basel IV, and to continue to put our strategy into practice”, says Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank.

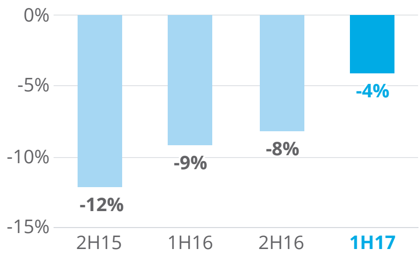
Key figures

Current account customers[1]

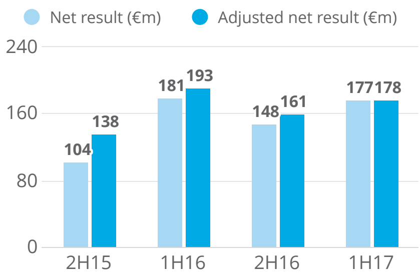


Net Promoter Score[2]

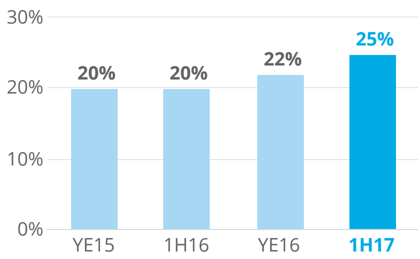
(customer-weighted average of all brands)



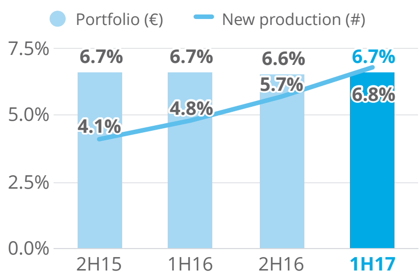
Net result / adjusted net result[3]



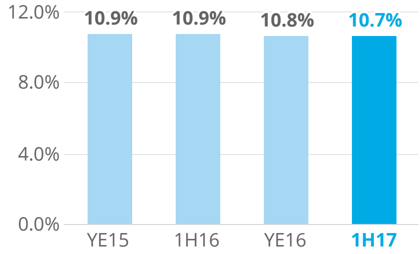
Climate neutral balance sheet



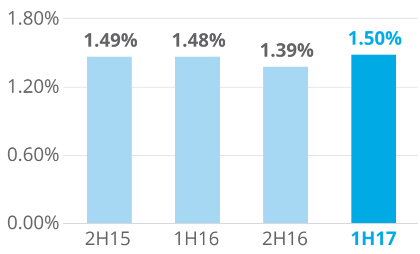
Market share mortgages



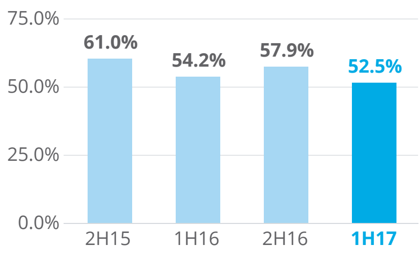
Market share retail savings



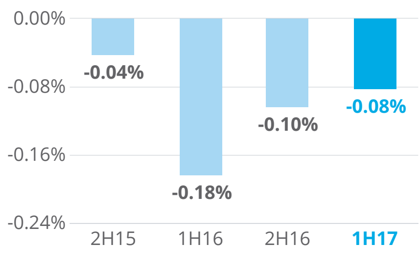
Net interest margin



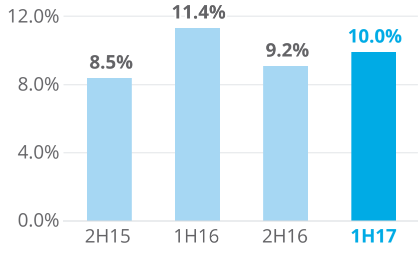
Adjusted cost/income ratio[3]



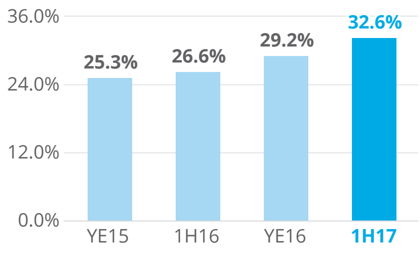
Cost of risk total loans



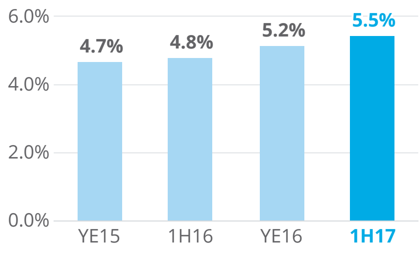
Adjusted Return on Equity[3]



Common Equity Tier 1 ratio[4]



Leverage ratio



1 Source market share new current accounts: GfK market research, based on Moving Annual Total (MAT) look-back period one year at the end of each reported period
2 Source NPS: market research by Miles Research
3 Adjusted for incidental items
4 On a transitional basis

Foreword

Progress on strategy

Following an extensive strategic review in 2016, de Volksbank reaffirmed its choice to be a retail bank that focuses on offering simple and transparent products and services in the areas of mortgages, savings and payments to Dutch retail and SME customers. To live up to our mission - banking with a human touch - we have formulated an ambition to optimise shared value by creating benefits for our customers, taking responsibility for society, providing meaning for our employees and achieving adequate returns for our shareholder.

In the years ahead, we seek to achieve our ambition by focusing on three pillars:
1. Strengthening our social identity
2. Further simplifying and enhancing the efficiency of our business operations
3. Continuing our smart adopter innovation strategy

STRENGTHENING OUR SOCIAL IDENTITY

In order to truly embed our social identity in the way we work, we have identified three focus areas: reversing the banking model, strengthening the identity of our four brands and improving customer insight.

In the first half of 2017, a pilot on reversing the banking model was completed and several possible changes within the mortgage business chain have been identified. These changes are based on the following principles: trust the customer, allocate responsibilities as close to customer-facing employees as possible, and multidisciplinary cooperation. An example of such a change is that we will empower our customer advisors to accept mortgages. After all, they know our customers better than anyone else. In the periods ahead, the pilot will be further elaborated upon.

Another change relates to our mortgage loan arrears repayments and restructuring policies. Customer efforts to repay their mortgage are leading in our policy, whereby we aim to agree on reasonable repayment terms that offer customers a perspective to obtain or maintain a healthy financial balance. We take our joint responsibility with the customer seriously and as such we no longer transfer cases to debt collection agencies.

During the first half of 2017, we made preparations with regard to the introduction of the European Payments Services Directive, PSD2, in early 2018. This directive will allow customers to permit third parties to verify payment details with banks and make payments from the customer's current account. It is important to us that our customers know that their data is safe with us. We will not sell their data on an individual or aggregate level. Our customers are the owners of their data, and we want to help them with and inform them about the possibilities and risks of sharing their data with third parties.

SIMPLIFYING AND ENHANCING THE EFFICIENCY OF OUR OPERATIONS

In the first half of 2017, progress on initiatives to improve and monitor efficiency was on track. These initiatives include straight through processing, increased digitalisation, optimisation of support functions, further automation and optimisation of IT processes, and moderation of our remuneration policy.

As communicated earlier, the number of jobs at our bank is expected to be reduced by 800 to 900 FTEs in the years ahead. In line with this development it has, in the first half of 2017, been decided to simplify the management structure. As a result, the number of senior management positions will be reduced from 47 to approximately 30 in the period up to 2020. Members of the management team have been informed about the new structure.

In the area of making products more simple, we introduced *Doelbeleggen*: a clear-cut investment account with support tools, allowing customers to invest independently online in one of the five sustainable mixed investment funds of ASN Beleggingsfondsen Beheer. Through *Doelbeleggen*, our brands offer a simple range of investment funds, providing customers with an overview of and insight into their investments.

CONTINUING OUR SMART ADOPTER INNOVATION STRATEGY

To de Volksbank, being a smart follower means being innovative with respect to the financial resilience of our customers, sustainability and efficiency on the one hand, and being able to quickly adapt core banking processes on the other. In order to accelerate innovation, business and technology innovation teams were combined into one team, bringing together available knowledge and experience. Moreover, we defined three key areas of innovation: digital banking, improving the financial resilience of our customers and contributing to simplicity and efficiency.

As an example of quickly following up on trends in core banking processes, in April 2017, ASN Bank, RegioBank and SNS joined three other Dutch banks in the initiative to launch Payconiq in the Netherlands. Payconiq will make executing payments simpler. The association between Payconiq and the banks anticipates the introduction of PSD2.

To intensify the relationship with our customers by means of digital media, we concluded a collaboration agreement with Pivotus, an innovation team in Silicon Valley. Pivotus collaborates with Umpqua Bank (USA), Nationwide (UK), CUA (Australia) and de Volksbank. We share the same vision on innovation: creating trust and connecting people. We are currently working on the development of a platform to allow customers to interact with one person within the bank for all their financial questions.

With respect to simplicity and efficiency, we started initiatives to further automate mortgage and payments processes based on machine learning.

PROGRESS ON LONG-TERM OBJECTIVES

We have translated our mission and ambition into the following long-term objectives:

Long term objectives	June 2017	December 2016	Long term objective (2020)
CREATING BENEFITS FOR OUR CUSTOMERS			
Customer-weighted average Net Promoter Score (NPS)	**-4**[1]	-8	+10
Current account customers (in thousands)	**1,370**	1,328	1,500
TAKING RESPONSIBILITY FOR SOCIETY			
Climate neutral balance sheet	**25%**	22%[2]	45%
PROVIDING MEANING FOR OUR EMPLOYEES			
Employee NPS (eNPS)	**na**	30%	40%
ACHIEVING RETURNS FOR OUR SHAREHOLDER(S)			
Return on Equity (RoE)	**10.0%**[3]	10.3%[3]	8.0%
OTHER LONG TERM FINANCIAL OBJECTIVES			
Cost/income ratio	**52.5%**[3]	56.0%[3]	50-52%
Common Equity Tier 1 ratio	**32.6%**	29.2%	> 15.0%
Leverage ratio	**5.5%**	5.2%	> 4.25%

1 The figures presented relate to second quarter measurements
2 2016 figures have been restated from 23% to 22% following the alignment of one investment fund to our CO2 methodology
3 Excluding the impact of incidental items

CREATING BENEFITS FOR OUR CUSTOMERS

In the first half of 2017, our customer-weighted average Net Promoter Score (NPS) improved from -8 to -4, with all brands contributing to this improvement. The positive NPS at ASN Bank and RegioBank improved further, from 14 to 16 and 2 to 6 respectively. At SNS, the NPS improved from -18 to -14, while at BLG Wonen the NPS increased from -29 to -27.

In the first half of 2017, de Volksbank brands welcomed 42,000 new current account customers on a net basis, in line with the growth in the first half of 2016. We aim to further grow our current account customer base, with an emphasis on active current accounts, as we regard these accounts as an important indicator for the quality of our brand-customer relationship.

RegioBank was voted most customer-oriented bank in the Netherlands (CCDNA Awards) for the second time in a row.

TAKING RESPONSIBILITY FOR SOCIETY

De Volksbank aims for a 45% climate neutral balance sheet in 2020 (100% in 2030). At the end of June 2017, our balance sheet was 25% climate neutral[1] (year-end 2016: 22%[2]). The progress was mainly caused by an increase in sustainable project finance and investments in green bonds.

The average energy label of our mortgage portfolio remained virtually stable compared to year-end 2016. Following up on pilots started in 2016, we took initiatives to support customers in improving their home insulation. SNS incorporated the 'sustainable living' theme in its customer mortgage advice interviews, BLG Wonen stimulated customers taking energy saving measures by offering a free thermal image of their home and RegioBank offered customers a premium when they finalised the energy label of their home.

Our office organisation is already 100% climate neutral. We achieve this by purchasing Gold Standard certificates at the end of the financial year that offset the remaining CO_2 emissions of our offices and car fleet.

We aim to contribute to an increase in the number of our customers who are financially resilient and are currently developing a metric to measure this aspect. De Volksbank actively participates in organisations that aim to improve the financial education of individuals. In the first quarter of 2017, for the sixth consecutive year, de Volksbank employees gave guest lessons at primary schools during the 'National Money Week'.

PROVIDING MEANING FOR OUR EMPLOYEES

We aim for an eNPS (Employee NPS) of 40% in 2020 (2016: 30%). Moreover, we annually measure the engagement and commitment of our staff by means of an employee survey. In 2016, these scores were 7.4 and 8.1 respectively. The 2017 results will become available in the second half of the year. We aim for a score of 8.0 for both metrics in 2020.

ACHIEVING RETURNS FOR OUR SHAREHOLDER(S)

De Volksbank aims for a return on equity (RoE) of 8% in the long run. In the first half of 2017, the RoE[3] of 10.0% was maintained at a high level (full-year 2016: 10.3%). Both periods were positively impacted by net releases of loan provisions.

OTHER LONG-TERM FINANCIAL OBJECTIVES

Our target range for the cost/income ratio in 2020 (operating expenses excluding regulatory levies divided by total income) is 50 – 52%. In the first half of 2017, the cost/income ratio, adjusted for incidental items improved to 52.5%, compared to 56.0% for full-year 2016.

At the end of June 2017, our transitional Common Equity Tier 1 (CET1) ratio amounted to 32.6% (year-end 2016: 29.2%). The increase was mainly due to a decrease in risk-weighted assets and net profit retention. Our CET1 ratio is well above the CET1 capital requirement following from the Supervisory Review and Evaluation Process (SREP), both on a transitional basis (9.25%), which became effective from 1 January 2017, and a fully phased-in basis (11.00%).

De Volksbank targets a CET1 ratio of more than 15%, based on current regulations. In addition to the 11% SREP requirement, our CET1 ratio objective includes a combined Pillar 2 Guidance and management buffer. The current capital position offers a substantial buffer against the estimated impact of developments in capital regulation on our risk-weighted capital ratios. The leverage ratio increased slightly to 5.5% (year-end 2016: 5.2%), well above our objective of more than 4.25%.

Commercial developments

In the first half of 2017, our brands jointly welcomed 99,000 new customers. On a net basis, the number of customers rose by 15,000. This increase was more than wholly driven by the growth in current account customers, which increased by 42,000 on a net basis. De Volksbank's market share in new current accounts stood at 20%, virtually stable compared to the level in full-year 2016. On a total portfolio basis, our market share in current accounts stood at approximately 7.9%[4]. An outflow of (mono) savings customers due to ZwitserlevenBank customers after communication of the ending of this proposition in January 2017 partly offset the growth in new current account customers.

Our retail mortgage portfolio grew to € 45.3 billion, from € 44.9 billion at year-end 2016. New mortgage production increased to € 2.5 billion, from € 1.5 billion in the first half of 2016 (+67%). BLG Wonen, RegioBank and SNS all contributed to this increase. In a growing market for new

---

1 A document describing the methodology to measure the impact of our activities on the climate, originally developed by ASN Bank, is available on the website of de Volksbank N.V. Climate neutral calculations based on 90% of total assets
2 2016 figures are restated from 23% to 22% following the alignment of one fund to our CO_2 methodology
3 Excluding the impact of incidental items
4 Market volume based on TOF Tracker as at 1 January 2016

mortgages, de Volksbank's market share in new retail mortgages rose to 6.8% (first half of 2016: 4.8%). Total redemptions were slightly up at € 1.8 billion, driven by increased house movements.

Retail savings balances increased slightly to € 37.4 billion (year-end 2016: € 36.6 billion). In a growing market, our market share in retail savings remained virtually stable at 10.7%.

Financial performance

Net profit decreased slightly to € 177 million compared to € 181 million in the first half of 2016 (-2%). Adjusted for incidental items[5], in both periods entirely consisting of fair value movements of former DBV-mortgages and related derivatives, net profit decreased by € 15 million to € 178 million. This decrease was more than wholly attributable to a sharply lower net release of loan provisions. The impact of lower net interest income, investment income and net fee and commission income was more than compensated by lower operating expenses and a higher result on financial instruments.

Net interest income was € 10 million lower at € 462 million (-2%), impacted by lower mortgage rates, high (early) renewals and related hedging costs. The net interest margin was virtually stable at 1.50% (2016: 1.49%), due to a lower level of average assets, predominantly driven by the sale of investments.

Operating expenses, excluding regulatory levies, were 5% below the first half 2016 level. Also taking into account the absence of the SNS Securities cost base, operating expenses were lower. The decline in the adjusted cost/income ratio to 52.5%, from 54.2% in the first half of 2016, was entirely driven by lower operating expenses as adjusted total income was 2% lower.

Improving macro-economic conditions, our Arrears Management department's continuous efforts and stricter acceptance criteria for mortgage loans in recent years led to a further improvement in the quality of our loan portfolio. Loans in arrears fell by € 176 million to € 696 million (1.4% of total loans), the weighted average Loan-to Value of our retail mortgage portfolio improved to 77%, and the share of annuity mortgages continued to gradually increase. The improvement led to a release of loan provisions, albeit lower than in previous periods. The release amounted to € 20 million, compared to € 45 million in the first half of 2016.

Outlook

For the remainder of 2017, we expect economic growth in the Netherlands to remain robust, although the growth rate is likely to level off somewhat. Higher inflation and higher interest rates may put a slight brake on consumption growth. Both job growth and the decline in the unemployment rate are expected to slow down slightly, as the tighter job market is encouraging more people to look for jobs. The housing market will remain solid, although the high growth in transactions may level off.

At de Volksbank, the average interest rate on the retail mortgages is expected to remain relatively low and net interest income in the second half of 2017 is expected to be lower than in the first half.

Operating expenses, excluding regulatory levies in the second half, are expected to be higher than the first half of 2017 due to a higher level of project costs, partly related to our three strategic pillars and extra expenditure in the field of transaction monitoring.

The number of customers in default on both retail mortgage and SME loans is expected to continue to decline. Combined with positive macro-economic developments and a continued increase in house prices, this is expected to lead to a further release of provisions in the second half of 2017, albeit lower than in the first half.

In all, we expect the net result in the second half of 2017 to be lower compared to the level of the first half of 2017.

---

[5] Incidental items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities

Macroeconomic developments

THE DUTCH ECONOMY

The robust economic growth of 2016 extended into the first half of 2017. All demand factors contributed to the expansion, with strong support from investments in particular. Consumption growth benefited from the increase in disposable income, whereas the rebound in world trade supported exports. The decrease in unemployment was stronger than expected, leading to more bottlenecks in certain sections of the job market. Despite this, the rise in labour costs remained very subdued. Inflation surged in the first few months of the year as a result of a higher oil price. Underlying inflation (excluding food and energy prices) remained low, oscillating around 1%.

INTEREST RATES AND BOND YIELDS

The European Central Bank kept its monetary policy steady with the deposit rate at -0.4% and the monthly acquisition of assets at € 80 billion until April, and thereafter at € 60 billion. Bond yields in the euro zone were mainly influenced by the uncertainty about the general election results in the Netherlands and France. The Dutch 10-year yield, fluctuating in a trading range between 0.3% and 0.7%, ended at 0.66% in the first half of 2017.

HOUSING MARKET

The Dutch housing market is still improving. Prices are rising at an accelerating rate compared with 2016. In June, house prices were up 8% compared to the previous year. The number of houses sold has reached a record level, surpassing pre-crisis levels. In the first half of 2017, the number of transactions was 22.6% higher than in the same period of 2016. In the Randstad conurbation, the increase in houses sold has levelled off due to lack of supply, but activity has spread to surrounding regions. This rising trend is also noticeable in the number of mortgages provided. In the first half of 2017, mortgage production was up compared to the first half of 2016. Fortunately, the number of newly built houses is increasing strongly, although supply is still struggling to meet demand. Consumer confidence in the housing market rebounded later in the first half, after falling in the first few months of this year as fear of rising mortgage rates suppressed sentiment.

Commercial developments

Commercial developments

	June 2017	December 2016	June 2016
CUSTOMERS			
Total number of customers (in thousands)[1]	3,091	3,077	3,037
Total number of current account customers (in thousands)	1,370	1,328	1,282
NET PROMOTER SCORE[2]			
ASN Bank	16	14	14
BLG Wonen	-27	-29	-27
RegioBank	6	2	0
SNS	-14	-18	-19
Weighted average	-4	-8	-9
MORTGAGES			
Residential mortgages (gross in € billions)	45.3	44.9	45.0
Market share new mortgages (in #)	6.8%	5.7%	4.8%
Market share mortgage portfolio (in €)[3]	6.7%	6.6%	6.7%
CURRENT ACCOUNTS AND SAVINGS			
Market share new current accounts[4]	20%	21%	25%
Retail savings (in € billions)	37.4	36.6	37.7
Market share retail savings[5]	10.7%	10.8%	10.9%
SME savings (in € billions)	2.7	2.7	2.7

1 December 2016 customer number includes an adjustment of 5,000 due to changes in definition
2 Source: market research by Miles Research
3 Based on CBS data
4 Source: GfK market research, based on Moving Annual Total (MAT) look-back period one year at the end of each reported period
5 Market share retail savings June and December 2016 slightly adjusted due to a correction of total Dutch savings market by DNB

Customers

In the first half of 2017, de Volksbank brands welcomed 99,000 new customers on a gross basis. On a net basis, the number of customers rose by 15,000. Net growth was lower than in the first half of 2016 (30,000), mainly due to a lower growth in savings customers. This was partly attributable to the absence of major marketing campaigns and a limited outflow of customers following termination of the ZwitserlevenBank proposition. Growth in the number of current account customers was 71,000 gross, slightly higher than in the first half of 2016. Net growth of 42,000 was stable.

Overall customer satisfaction levels, as measured by the Net Promoter Score (NPS), developed well. The customer-weighted average of all brand specific scores improved from -8 at year-end 2016, to -4, the highest score ever.

The NPS at ASN Bank and RegioBank, already positive in 2016, improved further. At SNS, the NPS improved from -18 to -14, while at BLG Wonen the NPS improved from -29 to -27.

Current accounts

De Volksbank's market share in new current accounts remained high at 20%[6] (year-end 2016: 21%). Since 2014, this market share has been 20% of higher, which is significantly higher than its market share on a total portfolio basis of approximately 7.9%[7].

In April 2017, SNS introduced *SNS Combinatievoordeel*, offering active current account customers[8] a higher savings rate, a discount on their mortgage rate and a discount on their home insurance premium (when applicable).

RegioBank's *JongWijs*, a financial package for children up to 18 years, had a successful start in 2016. The package comprises a savings account and, from the age of eight, a current account with the possibility of mobile and online banking.

6 Market research GfK, based on Moving Annual Total (MAT)
7 Market volume based on TOF tracker as at 1 January 2016
8 A current account with ten or more transactions per month and used for receiving primary income

From 2018 onwards, the market for new current accounts will be affected by the introduction of the Payment Services Directive 2 (PSD2), which is expected to bring about a growth in the number of new entrants and increased competition.

Mortgages

The market for new mortgage production increased to € 47 billion (+34%)[9], from € 35 billion in the first half of 2016. Both the number of mortgage loans provided and the average principal were up. Competition in the Dutch mortgage market remained fierce. In the market for new residential mortgages, the share of mortgage loans with a fixed-rate period of more than 10 years remained high at approximately 50%.

De Volksbank's new mortgage production increased to € 2.5 billion (+67%), from € 1.5 billion in the first half of 2016. BLG Wonen, RegioBank and SNS all contributed to this increase. The new retail mortgage market share increased to 6.8% (first half of 2016: 4.8%). Based on the total retail mortgage portfolio, the market share remained virtually stable at 6.7%.

De Volksbank strives to optimise customer retention through intensifying the relationship with its mortgage customers, for example through the Mortgage term monitoring service (*Hypotheek Looptijdservice*) offered by SNS. Successful retention efforts were reflected in a high level of renewals of nearly € 3.1 billion (first half of 2016: nearly € 4.8 billion), of which 40% early renewals (first half of 2016: nearly 50%). De Volksbank was able to retain many mortgage customers whose fixed-rate period expired in 2017 or would have expired in 2018. Volumes of these renewals were again substantial as a result of the high mortgage origination in the 2005-2008 period, predominantly with a 10-year fixed rate period. Compared to the first half of 2016, early renewals decreased somewhat as a large part of the portfolio had already been renewed in recent year(s).

Taking into account new mortgage production, mortgages with floating interest rates and renewals, nearly three-quarters of our total retail mortgage portfolio has been impacted by low mortgage interest rates as from 2015.

Total redemptions of € 1.8 billion were slightly up compared to the first half of 2016 (€ 1.6 billion), mainly driven by increased house movements. This was in line with the total market.

In all, driven by increased production and high retention, de Volksbank managed to grow its retail mortgage portfolio to € 45.3 billion, from € 44.9 billion at year-end 2016. The strong demand for longer term fixed-rate mortgages was reflected in an increased share of mortgages with a fixed-rate period of 15 years or more. At the end of June 2017, these mortgages amounted to € 7.7 billion (17% of the portfolio), compared to € 7.3 billion (16% of the portfolio) at year-end 2016.

Savings

In the first half of 2017, the Dutch retail savings market increased slightly to € 349 billion (+3%), from € 339 billion at year-end 2016. De Volksbank's retail savings balances increased to € 37.4 billion (+2%), from € 36.6 billion at year-end 2016, equating to a stable market share of 10.7%. In the first half of 2017, the brands ran no major marketing campaigns to attract retail savings. SME savings, included in Other amounts due to customers, remained virtually stable at € 2.7 billion compared to year-end 2016.

---

9 Based on registered amounts at land registration (Kadaster)

Financial results

Results first half of 2017 compared to first half of 2016

Profit and loss account

in € millions	1st half year 2017	1st half year 2016	Change	2nd half year 2016
Net interest income	462	472	-2%	439
Net fee and commission income	26	31	-16%	26
Other income	27	7	286%	32
Total income	**515**	**510**	**1%**	**497**
Operating expenses excluding regulatory levies	271	285	-5%	311
Regulatory levies	28	27	4%	19
Total operating expenses	**299**	**312**	**-4%**	**330**
Other expenses	--	1	-100%	--
Total expenses	**299**	**313**	**-4%**	**330**
Impairment charges	-20	-45	56%	-23
Result before taxation	**236**	**242**	**-2%**	**190**
Taxation	59	61	-3%	42
Net result	**177**	**181**	**-2%**	**148**
Fair value movements former DBV mortgages and related derivatives	-1	-12		11
Restructuring charge 2016	--	--		-24
Total incidental items	**-1**	**-12**		**-13**
Adjusted net result	**178**	**193**	**-8%**	**161**
Cost/income ratio[1]	52.7%	55.9%		62.6%
Adjusted cost/income ratio[2]	52.5%	54.2%		57.9%
Return on Equity (RoE)[3]	10.0%	10.8%		8.4%
Adjusted return on Equity (RoE)[4]	10.0%	11.5%		9.2%
Net interest margin (bps)[5]	1.50%	1.49%		1.39%
Cost/assets ratio[6]	0.88%	0.90%		0.99%
Adjusted cost/assets ratio[7]	0.88%	0.90%		0.89%

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

In the first half of 2017, net profit adjusted for incidental items decreased by € 15 million to € 178 million, more than wholly attributable to a sharply lower net release of loan provisions. The impact of lower net interest income, investment income and net fee and commission income was more than compensated by lower operating expenses and a higher result on financial instruments.

Based on net profit excluding incidental items, RoE of 10.0% was lower compared to the first half of 2016 (11.5%), driven by both a lower adjusted net result and a higher level of average equity.

The cost/income ratio stood at 52.7% compared to 55.9% in the first half of 2016, partly impacted by incidental items. Adjusted for incidental items, the cost/income ratio was 52.5%, down compared to 54.2% in the first half of 2016, entirely attributable to lower operating expenses.

Net profit decreased by € 4 million to € 177 million. Incidental items amounted to € 1 million negative, consisting of negative fair value movements of former DBV mortgages and related derivatives. This mortgage portfolio was purchased as part of the transfer of DBV Finance B.V. from REAAL Verzekeringen on 28 January 2011, and is accounted for at fair value with changes running through the profit and loss account. At the end of June 2017, the portfolio amounted to € 1.8 billion. In the first half of 2016, incidental items amounting to € 12 million negative, also consisted entirely of fair value movements of former DBV mortgages and related derivatives.

The introduction of IFRS 9 as from 1 January 2018 will allow de Volksbank to change the accounting method of this portfolio to amortised cost, in line with other mortgages, thus eliminating this source of volatility in the profit and loss account.

Income

Breakdown income

in € millions	1st half year 2017	1st half year 2016	Change	2nd half year 2016
Net interest income	462	472	-2%	439
Net fee and commission income	26	31	-16%	26
Investment income	29	37	-22%	20
Result on financial instruments	-2	-31	94%	11
Other operating income	--	1	-100%	1
Total income	**515**	**510**	**1%**	**497**
Fair value movements former DBV mortgages and related derivatives	-1	-16		15
Adjusted income	**516**	**526**	**-2%**	**482**

NET INTEREST INCOME

Net interest income decreased by € 10 million to € 462 million (-2%), mainly due to lower income on mortgages as a result of a high number of (early) renewals at lower mortgage rates in 2016 and in the first half of 2017. The high number of early renewals was partly due to the impact from interest rate averaging. This option, enabling customers to benefit from the low interest rate environment, has been actively offered by SNS as from the second half of 2015 and by BLG Wonen as from December 2016. The level of renewals in 2016 and the first half of 2017 was also impacted by the high origination of mortgages with a fixed-rate period of 10 years in the 2006-2007 period.

Interest expenses related to derivatives, used to manage interest rate risk and steer duration, were higher. This was mainly attributable to high new mortgage production and renewals at longer term fixed-rates. Furthermore, in the first half of 2017 de Volksbank implemented a revised prepayment model. This model showed an increase in the duration of the mortgage portfolio. Therefore, further hedging was necessary to keep the duration of equity within the target range.

The lower interest expenses on account of savings rates reductions and the redemption of relatively expensive wholesale funding almost fully offset the lower interest income on mortgages as a result of (early) renewals at lower interest rates and increased hedging costs.

Finally, net interest income was positively impacted by a reclassification of distribution fees paid by RegioBank. In 2017, RegioBank changed its commission fee model from a savings balance-related to a customer-related model. As a consequence, paid distribution fees are reclassified from interest expenses to fee and commission expenses. In the first half of 2017, this reclassification amounted to € 5 million. As 2017 is a transitional year, the full effect will be visible in 2018. The reclassification has no impact on total income.

Despite the lower net interest income, the net interest margin remained virtually stable at 150 bps (149 bps in the first half of 2016) due to a lower level of average assets, predominantly driven by the sale of investments.

NET FEE AND COMMISSION INCOME

Net fee and commission income decreased by € 5 million to € 26 million. This decrease was due to a decline in received securities fees resulting from the sale of SNS Securities and higher distribution fees paid as a result of the reclassification of distribution fees paid by RegioBank. This more than offset higher received management fees driven by higher assets under management.

INVESTMENT INCOME

Investment income decreased by € 8 million to € 29 million, driven by the absence of a € 10 million gain on the sale of de Volksbank's share in VISA Europe Ltd. In addition, transaction results were lower due to the sale of SNS Securities in 2016. Realised gains on fixed-income investments, sold to optimise the investment portfolio and as part of asset and liability management, increased from € 18 million to € 22 million.

RESULT ON FINANCIAL INSTRUMENTS

The result on financial instruments improved sharply to € 2 million negative, from € 31 million negative in the first half of 2016. Fair value movements of former DBV mortgages and related derivatives explain € 14 million of the improvement. In the first half of 2017, these results were € 2 million (gross) negative, mainly driven by a higher prepayment rate. In the first half of 2016, they were € 16 million negative, driven by a lower swap rate and a higher prepayment rate.

Excluding the swing in fair value movements on former DBV mortgages and related derivatives, the result on financial instruments improved by € 15 million. This was mainly due to higher hedge ineffectiveness results on derivatives, partly related to mortgages. In the first half of 2017, these results were slightly positive, while they were negative as a result of interest rate volatility in the first half of 2016. In addition, negative results related to the revaluation of funding bought back in previous years were lower compared to the first half of 2016, mainly because a substantial amount of funding bought-back matured in the second half of 2016.

Expenses

Operating expenses and FTE

in € millions	1st half year 2017	1st half year 2016	Change	2nd half year 2016
Staff costs	187	190	-2%	208
Of which: restructuring charges	*7*	*-3*		*32*
Depreciation of (in-)tangible assets	10	11	-9%	11
Other operating expenses	102	111	-8%	111
Total operating expenses	**299**	**312**	**-4%**	**330**
Restructuring charge 2016	--	--		32
Regulatory levies	28	27		19
Total adjustments	**28**	**27**		**51**
Adjusted staff costs	187	190	-2%	176
Adjusted depreciation of (in-)tangible assets	10	11	-9%	11
Adjusted other operating expenses	74	84	-12%	92
Adjusted operating expenses	**271**	**285**	**-5%**	**279**
Total number of internal FTEs	3,288	3,413	-4%	3,354
Total number of external FTEs	673	775	-13%	651
Total number of FTEs	**3,961**	**4,188**	**-5%**	**4,005**

Total operating expenses decreased by € 13 million to € 299 million (-4%). Regulatory levies remained virtually stable at € 28 million and included an amount of € 10 million related to the full-year resolution fund contribution and the first half-year ex ante DGS contribution of € 18 million. Excluding regulatory levies, total adjusted operating expenses decreased € 14 million to € 271 million (-5%).

Adjusted staff costs of € 187 million were € 3 million lower, mainly due to the absence of the SNS Securities cost base as from the second half of 2016 and a reduction in temporary staff. This decrease was largely offset by a swing in restructuring charges. The first half of 2017 included a restructuring charge of € 7 million compared to a release of € 3 million in the first half of 2016. In the second half of 2016, de Volksbank took a major restructuring charge of € 32 million which is treated as an incidental item. The relatively small additions and releases in the other periods are not accounted for as incidental items.

Adjusted other operating expenses were € 10 million lower at € 74 million, mainly driven by lower marketing and consultancy costs and the absence of SNS Securities costs. This was partly offset by a swing in additions to non-credit related provisions. The first half of 2017 included additions of € 4 million, partly related to prevention against ATM explosive attacks, compared to a small release of € 2 million in the first half of 2016.

Operating expenses divided by average assets decreased from 90 bps in the first half of 2016 to 88 bps, due to lower adjusted operating expenses, partly offset by lower average assets.

The decline in the total number of employees (FTEs) to 3,961, compared to 4,005 at year-end 2016 was mainly due to a reduction in FTEs in the Arrears Management department and in the number of financial advisors. External FTEs increased by 22 compared to year-end 2016 due to additional transaction monitoring activities.

Breakdown impairment charges

in € millions	1st half year 2017	1st half year 2016	Change	2nd half year 2016
Impairment charges on retail mortgage loans	-18	-40	55%	-25
Impairment charges on other retail loans	1	-2	--	1
Impairment charges on SME loans	-3	-3	0%	1
Total impairment charges	**-20**	**-45**	**56%**	**-23**
Cost of risk total loans	-0.08%	-0.18%		-0.10%
Cost of risk retail mortgage loans	-0.08%	-0.18%		-0.11%
Cost of risk SME loans	-0.75%	-0.68%		0.15%

Improving macro-economic conditions and a further increase in house prices continued to have a positive effect on impairment charges, resulting in a net release of € 20 million (first half of 2016: € 45 million). Constant efforts by the Arrears Management department and stricter acceptance criteria for mortgage loans in recent years contributed to a sustained decrease in impaired retail mortgage loans, albeit more gradually than in 2016. The total net release of impairment charges on retail mortgage loans amounted to € 18 million, equating to 8bps of gross outstanding retail mortgages.

The impaired SME loan portfolio also continued to decline. The release of impairment charges related to SME loans amounted to € 3 million, equal to the first half of 2016. There were no major defaults in the first half of 2017.

Results first half of 2017 compared to second half of 2016

Compared to the second half of 2016, net profit increased from € 148 million to € 177 million.

Both periods included incidental items related to fair value movements of former DBV mortgages and related derivatives. In the first half of 2017 these were € 1 million negative, while they were € 11 million positive in the second half of 2016. In addition, the second half of 2016 had included a € 24 million net incidental restructuring charge.

Net profit adjusted for incidental items increased from € 161 million in the second half of 2016 to € 178 million. The main factor behind this increase was higher net interest income.

Net interest income of € 462 million was higher compared to the € 439 million in the second half of 2016, mainly caused by lower interest expenses on account of savings rates reductions, partly offset by lower interest income on mortgages as a result of (early) renewals at lower interest rates and increased hedging costs.

Net fee and commission income remained stable at € 26 million.

Investment income was substantial in both periods and increased by € 9 million to € 29 million, predominantly consisting of realised gains on fixed-income investments, sold to optimise the investment portfolio and as part of asset and liability management.

The result on financial instruments decreased from € 11 million positive in the second half of 2016 to € 2 million negative. This decrease can be entirely explained by fair value adjustments of former DBV mortgages and related derivatives.

Total operating expenses of € 299 million were € 31 million lower, entirely attributable to the € 32 million incidental restructuring provision, charged against the second half of 2016 result. This was partly offset by a € 9 million increase in regulatory levies, mainly due to the fact that the full-year contribution to the resolution fund was fully recognised in the first half of 2017.

Excluding regulatory levies and the incidental restructuring charge, total adjusted operating expenses fell by € 8 million to € 271 million. Adjusted other expenses were € 18 million lower driven by the absence of costs of changing the name into de Volksbank, lower marketing and consultancy expenses and lower additions to non-credit related provisions. This was partly offset by € 11 million higher adjusted staff costs, mainly driven by higher restructuring charges.

Both the first half of 2017 and the second half of 2016 saw a net release of loan provisions. However, the release decreased from € 23 million to € 20 million, more than wholly driven by € 7 million lower releases from retail mortgage provisions.

Risk, capital, funding and liquidity management

Credit risk

The credit risk profile of the key loan portfolios has improved due to macro-economic conditions, continuous efforts of the Arrears Management department and strict acceptance criteria for mortgage loans.

Loans and advances to customers

Loans and advances to customers June 2017

in € millions	Gross amount	Specific provision	IBNR provision	Book value loans	Loans in arrears[1]	Non-default loans	Impaired default loans[2]	Loans in arrears (%)[3]	Impaired ratio[3]	Coverage ratio[4]
Retail mortgage loans	45,295	-57	-27	45,211	527	200	327	1.2%	0.7%	17.4%
Retail other loans	172	-23	-1	148	38	2	36	22.1%	20.9%	63.9%
Total retail loans	**45,467**	**-80**	**-28**	**45,359**	**565**	**202**	**363**	**1.2%**	**0.8%**	**22.0%**
SME loans[5]	856	-64	-4	788	131	--	131	15.3%	15.3%	48.9%
Other commercial and semi-public loans	1,802	--	--	1,802	--	--	--	--	--	--
Loans to the public sector	824	--	--	824	--	--	--	--	--	--
Total loans and advances to customers	**48,949**	**-144**	**-32**	**48,773**	**696**	**202**	**494**	**1.4%**	**1.0%**	**29.1%**

Loans and advances to customers December 2016

in € millions	Gross amount	Specific provision	IBNR provision	Book value loans	Loans in arrears[1]	Non-default loans	Impaired default loans[2]	Loans in arrears (%)[3]	Impaired ratio[3]	Coverage ratio[4]
Retail mortgage loans	44,911	-80	-34	44,797	682	260	422	1.5%	1.0%	19.0%
Retail other loans	191	-25	-1	165	44	4	40	23.0%	20.9%	62.5%
Total retail loans	**45,102**	**-105**	**-35**	**44,962**	**726**	**264**	**462**	**1.6%**	**1.0%**	**22.7%**
SME loans[5]	909	-70	-4	835	146	--	146	16.1%	16.1%	47.9%
Other commercial and semi-public loans	1,743	--	--	1,743	--	--	--	--	--	--
Loans to the public sector	1,053	--	--	1,053	--	--	--	--	--	--
Total loans and advances to customers	**48,807**	**-175**	**-39**	**48,593**	**872**	**264**	**608**	**1.8%**	**1.3%**	**28.8%**

1 Loans in arrears - Retail mortgage loans in arrears exclude loans measured at fair value of € 20 million (year-end 2016: € 23 million)
2 A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations
3 As from June 2017, calculated with gross amounts excluding IFRS value adjustments. Comparative figures have been adjusted accordingly.
4 Specific provision / impaired default loans
5 Gross SME loans include mortgage backed loans for a gross amount of € 767 million (year-end 2016: € 815 million)

Compared to year-end 2016, total gross loans and advances to customers rose by € 0.1 billion to € 49.0 billion, driven mainly by a € 0.4 billion increase of retail mortgage loans. New retail mortgage production was € 2.5 billion while redemptions amounted to € 1.8 billion. IFRS value adjustments had a negative impact of € 0.3 billion.

Loans in arrears fell by € 176 million to € 696 million, 1.4% of total loans (2016: 1.8%), with improvements in all loan categories.

The coverage ratio of the retail mortgage loans fell, whereas the overall ratio rose to 29.1%. This reflected an increase of the contribution of the SME and retail other loans to the overall provision level.

Statement of changes in provisions for loans and advances to customers

	1st half year 2017				1st half year 2016			
in € millions	Retail mortgage loans	Retail other loans	SME loans	Total	Retail mortgage loans	Retail other loans	SME loans	Total
Balance at the beginning of the period	114	26	74	214	257	35	99	391
Usages	-14	-3	-4	-21	-49	-4	-14	-67
Additions	20	2	7	29	32	2	7	41
Releases	-38	-1	-10	-49	-72	-4	-10	-86
Other changes	2	--	2	4	6	--	--	6
Balance at the end of the period	**84**	**24**	**69**	**177**	**174**	**29**	**82**	**285**

In the first half of 2017, the total provision for loans and advances to customers decreased by € 37 million to € 177 million (-17%).

The decline of the total provision was mainly attributable to the retail mortgage loans. Due to the stricter acceptance criteria of new mortgage loans in recent years and the effectiveness of arrears management, the inflow of impaired default loans was low, limiting the addition to the provision. Usages and releases of the provision were lower due to a lower level of mortgages in arrears.

Provisions for SME loans fell by € 5 million. The additions can be attributed to the inflow of new default customers. Since proceeds from the collateral sold were mostly higher than provisioned for, additions were more than offset by € 10 million in releases. SME loan usages decreased for the most part due to the lower average principal of the usages.

Total loan provisions as a percentage of total gross loans decreased to 0.19%, from 0.25% at year-end 2016.

Retail mortgage loans

Retail mortgage loans, net of provisions, grew by 0.9% to € 45.2 billion, driven by new production volumes of € 2.5 billion, partly offset by (early) redemptions of € 1.8 billion and IFRS value adjustments.

Retail mortgage loans in arrears

in € millions	**30 June 2017**	**31 December 2016**
No arrears	44,748	44,206
Non-default loans in arrears	217	282
- of which 1 - 3 months in arrears	*217*	*282*
Impaired default loans in arrears	330	423
- of which 1 - 3 months in arrears	*107*	*132*
- of which 4 - 6 months in arrears	*69*	*75*
- of which 7 - 12 months in arrears	*63*	*75*
- of which > 12 months in arrears	*91*	*141*
Total loans in arrears[1]	**547**	**705**
Provision	-84	-114
Totaal	**45,211**	**44,797**

1 Total loans in arrears include mortgages that are stated at market value in the balance sheet (2017: € 20 million, 2016: € 23 million). The loans in arrears in the table with the coverage ratio do not include these amounts.

A significant reduction in the inflow of impaired retail mortgage loans and stable recovery rates resulted in a decrease in loans in arrears to € 547 million, from € 705 million at year-end 2016. The decline occurred both in non-default loans in arrears and in all duration categories of impaired default loans.

Breakdown retail mortgage loans by LtV buckets

in € millions[1]	30 June 2017		31 December 2016	
National Mortgage Guarantee scheme (NHG)[2]	12,958	30%	12,673	30%
- of which LtV ≤ 75%	3,739	9%	3,398	8%
- of which LtV >75 ≤ 100%	6,881	16%	6,125	15%
- of which LtV >100 ≤ 110%	1,528	3%	1,859	4%
- of which LtV >110 ≤ 125%	713	2%	1,126	3%
- of which LtV > 125%	97	0%	165	0%
Non-NHG	29,822	70%	29,483	70%
- of which LtV ≤ 75%	15,086	35%	14,230	34%
- of which LtV >75 ≤ 100%	9,285	22%	8,450	20%
- of which LtV >100 ≤ 110%	2,983	7%	3,182	8%
- of which LtV >110 ≤ 125%	1,979	5%	2,824	7%
- of which LtV > 125%	489	1%	797	2%
Total	**42,780**	**100%**	**42,156**	**100%**
Weighted average indexed LtV	**77%**		**80%**	
IFRS value adjustments[3]	415		667	
Savings deposits	2,100		2,088	
Credit provisions	-84		-114	
Total retail mortgage loans	**45,211**		**44,797**	

1 LtV based on indexed market value of collateral
2 The size of guarantees related to NHG-guaranteed mortgages expires on an annuity basis
3 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations

The weighted average indexed Loan-to-Value of the retail mortgage loans improved to 77%, from 80% at year-end 2016. Collateral values are indexed on the basis of observed house price developments. Given their increase, accompanied by a positive impact from prepayments, mortgages moved to lower LtV buckets. The exposure in the LtV class above 125% fell to € 586 million from € 962 million at year-end 2016.

In the first half of 2017, the maximum regulatory LtV at origination of a mortgage was lowered by 1%-point to 101% in line with regulatory guidance.

Retail mortgage loans by redemption type

in € millions	30 June 2017		31 December 2016	
Interest-only (100%)	12,801	28%	13,189	30%
Interest-only (partially)	12,320	27%	12,265	28%
Annuity	7,183	16%	5,783	13%
Investment	3,083	7%	3,268	7%
Life insurance[1]	4,919	11%	5,185	12%
Bank savings	3,470	8%	3,604	8%
Linear	674	2%	525	1%
Other	430	1%	425	1%
Total	**44,880**	**100%**	**44,244**	**100%**
IFRS value adjustments[2]	415		667	
Provision	-84		-114	
Total retail mortgage loans	**45,211**		**44,797**	

1 Including offset mortgages of which the policy is managed by an insurer
2 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations

For mortgages originated after 2013, interest payments are only tax deductible if the mortgage is paid off through an annuity or a linear scheme over a maximum period of thirty years. As a result, both the gross amount and the share in the total retail mortgage portfolio of annuity and linear mortgages is gradually increasing and the share of interest-only mortgages is gradually declining. There is a long-term (repayment) risk associated with interest-only mortgages. We have, therefore, been reaching out to customers who face a high risk when their mortgage loan matures. In one-to-one conversations, we provide these customers with options to mitigate this risk.

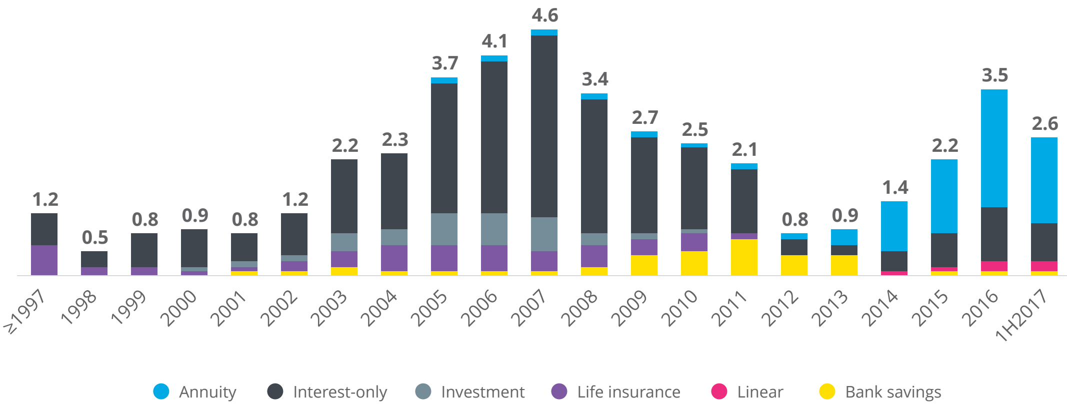
Retail mortgage loans by fixed-rate maturity

in € millions	30 June 2017		31 December 2016	
Floating rate	3,021	7%	3,540	8%
≥ 1 and < 5-yrs fixed-rate	1,513	3%	1,757	4%
≥ 5 and < 10-yrs fixed-rate	5,707	13%	6,640	15%
≥ 10 and < 15-yrs fixed-rate	26,461	59%	24,604	56%
≥ 15-yrs fixed-rate	7,747	17%	7,262	16%
Other	431	1%	441	1%
Total	**44,880**	**100%**	**44,244**	**100%**
IFRS value adjustments[1]	415		667	
Provision	-84		-114	
Total retail mortgage loans	**45,211**		**44,797**	

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

In line with the trend in previous years, retail mortgages with a fixed-rate period of 10 years or more grew, whereas retail mortgages with a fixed-rate period of less than 10 years shrank. This shift was driven by the continued low interest rate environment. At the end of June 2017, mortgages with a fixed-rate period of more than 10 years made up approximately 50% of new offers in the Dutch market.

Retail mortgage loans by year of origination (in € billions) [1,2]



1 The amounts in this chart include conversions of mortgages and exclude granted mortgages in progress

2 2007 includes 0.7 billion of retail mortgages from the acquisition of RegioBank

The breakdown of retail mortgages by year of origination further illustrates the underlying factors that affect the overall risk profile:

- ≤2004: The risk profile of these mortgages is relatively low and stable (less sensitive to macroeconomic changes) given their stage in the lifecycle and the fact they were originated more than 4 years prior to the economic crisis.
- 2005-2008: These mortgages have been the primary driver for the overall risk profile of the mortgage portfolio. Many of the associated risks have already materialised and have been addressed, resulting in a decrease of the risk profile compared to the crisis.
- 2009-2011: These mortgages were subject to stricter underwriting criteria. However, they were also negatively impacted by the effects of the crisis. Like the mortgages originated in 2005-2008, we expect the risk profile of these mortgages to continue to improve.
- 2012-2014: In this period, mortgage origination volumes were relatively low, underwriting guidelines were tightened under external regulations and internal policies and the macroeconomic environment stabilised. All these factors contributed to a predominance of annuity mortgages in new production and a low average risk profile.
- ≥2015: These mortgages have had a limited time on book, but already show a lower than average risk profile in the first years after origination.

IFRS 9

In the first half of 2017, necessary preparations for the implementation of IFRS 9 were made. Parallel runs for the key IFRS 9 loan portfolios were executed to test the implementation of the Expected Credit Loss (ECL) models and the significant increase in credit risk (SICR) framework. For three portfolios (Retail mortgages, Financial Markets and ASN Bank private and sustainable loans) the initial ECL models have been fully implemented as part of the parallel run. For two smaller other portfolios (Retail other and SME Loans) the development phase of the ECL models has been completed.

Based upon on the parallel run results, the majority of the policy notes that describe why specific choices have been made, is being finalised. In addition, the associated risk policies (i.e. risk guidelines) that will apply as from 1 January 2018 are being drafted.

For our key loan portfolio, retail mortgages, the ECL model has been subjected to an internal validation process. This validation in combination with the parallel run has resulted in minor model changes which will be part of the upcoming model update. This model will be implemented in 2017 to ensure IFRS 9 compliancy as from 1 January 2018. The model will use forecasted macro-economic parameters such as the unemployment rate, observed house prices and interest rates as input to calculate the life time expected loss. The life time Probability of Default (PD) is the key quantitative trigger in determining the SICR. Next to this quantitative PD trigger, qualitative information will be included in the SICR framework.

Interest rate risk banking book

In the first half of 2017, the yield curve continued to steepen further. In January and February, mortgage prepayments temporarily increased due to the introduction of interest rate averaging at BLG Wonen and increased house movements. However, over the course of the first half of 2017, early renewals, including interest rate averaging on mortgages, decreased causing prepayments to stabilise.

Furthermore we implemented a revised prepayment model for retail mortgages in the first half of 2017. This model is sensitive to interest rates and the housing market. The model forecasts lower prepayments if interest rates are expected to rise. Moreover, it forecasts higher prepayments if the number of relocations is expected to increase. On balance, the model forecasts a lengthening of the duration of the mortgage portfolio. Combined with the continuous high demand for long-term mortgages, this would lead to a higher duration of equity, largely mitigated by hedging via interest rate swaps. At the end of June 2017, the duration of equity stood at 1.9 (year-end 2016: 1.6).

At the end of June 2017, the Earnings at Risk (EaR) amounted to € 54 million, compared to € 50 million at year-end 2016. The increase was mainly caused by the aforementioned additional interest rate risk hedging, resulting in a higher net amount of floating rate interest receiving cash flows. This has led to a higher vulnerability to decreases in short-term rates, reflected in the EaR increase.

Market risk

De Volksbank has a limited trading portfolio. The market risk resulting from this portfolio is managed on a day-to-day basis by limits with a confidence level of 99%. At the end of June 2017, the total 1-day Value at Risk limit stood at € 1.9 million, reflecting the relatively low risk profile of these activities.

Non-financial risk

Non-financial risk is affected by internal and external factors. Factors such as changing markets, political developments, historically low interest rates and more stringent laws and regulations, are becoming increasingly material. The main non-financial risk developments in the first half of 2017 are described below.

INTEGRATED CONTROL FRAMEWORK

In the first half of 2017, we made steady progress in improving process control, which is part of the multi-year Integrated Control Framework (ICF) and Value Stream Management (VSM) programmes. We continued to optimise and periodically evaluate the ICF on the basis of updated actions plans. The ICF self assessment performed in the first half of 2017 revealed a substantial improvement throughout the organisation. In order to ensure that the improved levels of control can be sustained ICF and VSM project teams are closely cooperating to transfer activities to the first line. De Volksbank will continue to improve its controlled and responsible business operations. These improvements are mainly aimed at internal control design and accountability, the quality of finance and risk data and customer integrity.

As from 31 March 2017, de Volksbank is compliant with the PERDARR[10] regulation.

ATM EXPLOSIVE ATTACKS

The Dutch banking sector has recently been confronted with a considerable number of ATM explosive attacks. In view of the increasing damage of the attacks and the danger this poses to the safety of surrounding homes and residents, we have decided to close a number of our ATMs at high risk locations as a safety precaution. We have informed customers in the vicinity of these ATMs and will offer alternatives for cash withdrawals where possible.

TRANSACTION MONITORING AND REPORTING UNUSUAL TRANSACTIONS

De Volksbank protects the interests of its customers, society, its employees and the shareholder by actively promoting the prevention of money laundering and terrorist financing. De Volksbank has various procedures and measures in place to ensure the bank knows its customers (Customer Due Diligence) and to act as a gatekeeper to identify and avoid unwanted elements in our financial system and to prevent unwanted transactions where necessary. We want to prevent our integrity from being jeopardised, for example by entering into relationships with individuals who might harm the trust in de Volksbank or abuse the bank for the wrong purposes.

In 2016, De Nederlandsche Bank (DNB) conducted a thematic review at de Volksbank with respect to the measures taken by the bank to prevent money laundering and terrorist financing. Based on this review, DNB concluded that de Volksbank needs to take additional measures as regards transaction monitoring and reporting unusual transactions. Following this review, DNB imposed two measures on de Volksbank. The first measure is an instruction to improve the processes, in particular an expansion of transaction monitoring scenarios and an improvement in scenario management. This will bring de Volksbank to the desired maturity level and provides for measures to ensure lasting control over the ongoing monitoring of transactions and customer behaviour. The second measure is an administrative penalty of € 500,000 for failing to (promptly) report unusual transactions. The fine relates to seven transactions conducted between 6 January 2015 and 25 July 2016. In DNB's opinion de Volksbank, in assessing the transactions, did not take the correct decision by not reporting the transactions to the Financial Intelligence Unit – the Netherlands (FIU-NL). The transactions have since been reported. Partly in response to the findings and measures imposed by DNB, de Volksbank launched several initiatives in 2016 to tighten up processes and measures to ensure constant monitoring of transactions and customers. The aim of these additional measures is to increase the effectiveness of procedures and systems in order to permanently and adequately mitigate integrity risks in this area at de Volksbank. Implementation of the measures is on schedule and is expected to be completed towards the end of 2017.

Recently, de Volksbank has critically reviewed and tightened up its policy on customer integrity and compliance with the sanctions regime. In combination with the long-term Customer integrity improvement programme and the aforementioned measures, de Volksbank is confident to achieve the desired level of maturity.

---

[10] In line with the Basel Comittee's report on Principles for Effective Risk Data Aggregation and Risk Reporting

Capital management

Capitalisation

CRR/CRD IV requirements per 1 January 2017

	Total capital		of which Tier 1 capital		of which CET1 capital	
	2017	Fully phased-in (2019)	2017	Fully phased-in (2019)	2017	Fully phased-in (2019)
Pillar 1 requirement	8.00%	8.00%	6.00%	6.00%	4.50%	4.50%
Pillar 2 requirement (CET1)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Total SREP Capital Requirement (TSCR)	**11.00%**	**11.00%**	**9.00%**	**9.00%**	**7.50%**	**7.50%**
Capital conservation buffer	1.25%	2.50%	1.25%	2.50%	1.25%	2.50%
O-SII buffer	0.50%	1.00%	0.50%	1.00%	0.50%	1.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined Buffer Requirement (CBR)	**1.75%**	**3.50%**	**1.75%**	**3.50%**	**1.75%**	**3.50%**
Overall Capital Requirement (OCR)	**12.75%**	**14.50%**	**10.75%**	**12.50%**	**9.25%**	**11.00%**

With effect from 1 January 2017, de Volksbank is required to meet a minimum total capital ratio of 12.75% (Overall Capital Requirement, OCR), of which at least 9.25% CET1 capital. This requirement follows from the SREP performed by the European Central Bank (ECB).

The OCR serves as a Maximum Distributable Amount (MDA) trigger level and includes a Pillar 1 own funds requirement of 8.0%, the 2017 Pillar 2 CET1 requirement of 3.0% (together the Total SREP Capital Requirement, TSCR) and the 2017 Combined Buffer Requirement (CBR) of 1.75%.

The CBR to be held in the form of CET1 capital consists of a capital conservation buffer, a buffer for Other Systemically Important Institutions (O-SII buffer) and a countercyclical capital buffer. The capital conservation buffer equals 1.25% as from 1 January 2017 and will increase by 0.625% per annum up to 2.5% per 1 January 2019. The O-SII buffer for de Volksbank equals 0.5% as from 1 January 2017 and will increase by 0.25% per annum, up to 1% in 2019. The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. Fully phased-in, the OCR for de Volksbank is therefore equal to 14.50% based on the 2017 SREP, including at least 11.00% of CET1 capital.

De Volksbank aims at a CET1 ratio of at least 15%. This target includes a management buffer and takes into account the Pillar 2 Guidance following from the SREP, on top of the CET1 part of the OCR.

Capitalisation

in € millions	CRD IV transitional 30 June 2017	CRD IV transitional 31 December 2016	CRD IV transitional 30 June 2016	CRD IV fully phased-in 30 June 2017	CRD IV fully phased-in 31 December 2016	CRD IV fully phased-in 30 June 2016
Shareholders' equity	**3,543**	**3,541**	**3,432**	**3,543**	**3,541**	**3,432**
Not eligible interim profits	-145	-223	-170	-145	-223	-170
Not eligible previous years' retained earnings	--	--	-1	--	--	-1
Shareholders' equity for CRD IV purposes	**3,398**	**3,318**	**3,261**	**3,398**	**3,318**	**3,261**
Increases in equity resulting from securitised assets	--	--	--	--	--	--
Cashflow hedge reserve	-40	-44	-51	-40	-44	-51
Fair value reserve	-20	-54	-67	--	--	--
Other prudential adjustments	-4	-3	-3	-4	-3	-3
Total prudential filters	**-64**	**-101**	**-121**	**-44**	**-47**	**-54**
Intangible assets	-14	-15	-14	-14	-15	-14
Deferred tax assets	--	--	--	--	--	--
IRB shortfall	-36	-38	-43	-40	-47	-54
Total capital deductions	**-50**	**-53**	**-57**	**-54**	**-62**	**-68**
Total regulatory adjustments to shareholders' equity	**-114**	**-154**	**-178**	**-98**	**-109**	**-122**
CRD IV Common Equity Tier 1 capital	**3,284**	**3,164**	**3,083**	**3,300**	**3,209**	**3,139**
Additional Tier 1 capital	--	--	--	--	--	--
Tier 1 capital	**3,284**	**3,164**	**3,083**	**3,300**	**3,209**	**3,139**
Eligible Tier 2	500	500	500	500	500	500
IRB shortfall	-4	-9	-11	--	--	--
Tier 2 capital	496	491	489	500	500	500
Total capital	**3,780**	**3,655**	**3,572**	**3,800**	**3,709**	**3,639**
Risk-weighted assets	**10,060**	**10,824**	**11,610**	**10,060**	**10,824**	**11,610**
Exposure measure as defined by the CRR	**60,207**	**60,331**	**63,901**	**60,215**	**60,360**	**63,957**
Common Equity Tier 1 ratio	**32.6%**	**29.2%**	**26.6%**	**32.8%**	**29.6%**	**27.0%**
Tier 1 ratio	32.6%	29.2%	26.6%	32.8%	29.6%	27.0%
Total capital ratio	37.6%	33.8%	30.8%	37.8%	34.3%	31.3%
Leverage ratio	5.5%	5.2%	4.8%	5.5%	5.3%	4.9%

In the first half of 2017, shareholder's equity increased by € 2 million to € 3,543 million, as a result of profit retention of € 177 million over the first half of 2017, mainly offset by the dividend payment over 2016 (€ 135 million) and a decrease in the fair value reserve (€ 36 million).

To determine shareholder's equity for Capital Requirements Directive IV (CRD IV) purposes, non-eligible interim profits are deducted from shareholder's equity. After profit appropriation by the General Meeting of Shareholders in April 2017, non-eligible interim profits as at year-end 2016 of € 223 million were added to CET1 capital. This amount consisted of the net profit for the fourth quarter of 2016 and a dividend reservation[11] for the year 2016. The net profit for the first quarter of 2017 was added to CET1 capital, amounting to € 32 million after deduction of the 60% dividend reservation. Non-eligible interim profits amounted to € 145 million, consisting of the full net profit for the second quarter of 2017 and a 60% dividend reservation for the first quarter of 2017.

To determine CRD IV CET1 capital, shareholders' equity for CRD IV purposes is subject to a number of regulatory adjustments. In the first half of 2017, the main change occurred in the fair value reserve adjustment. The fair value reserve, included in shareholder's equity, decreased by € 36 million, from € 132 million to € 96 million. However, at year-end 2016, 40% of the fair value reserve (€ 54 million) was deducted as a regulatory adjustment, whereas at the end of June 2017 only 20% (€ 20 million) was deducted.

In all, transitional CRD IV CET1 capital increased by € 120 million to € 3,284 million. Tier 2 capital amounted to € 496 million, including a € 4 million regulatory adjustment related to the IRB shortfall.

De Volksbank's transitional CET1 ratio increased to 32.6%, from 29.2% at year-end 2016, driven by an increase in CET1 capital and a decrease in RWA. The fully phased-in CET1 ratio increased to

[11] Dividend reservation is based on the upper boundary of the pay-out ratio target range, as prescribed by regulatory authorities

32.8%, from 29.6% at year-end 2016. The CET1 ratio remained well above our target of at least 15%.

The transitional leverage ratio rose to 5.5%, from 5.2% at year-end 2016, mainly driven by the € 120 million CET1 capital increase. The leverage ratio denominator (exposure measure as defined by the Capital Requirements Regulation, CRR) remained virtually stable at € 60.2 billion.

The 5.5% leverage ratio is well above the anticipated requirement of 4% and our target of 4.25%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount of capital necessary to meet risk-weighted capital ratio requirements. This is a consequence of de Volksbank's focus on retail mortgages, a low-risk activity, with a correspondingly low risk-weighting.

Risk-weighted assets (RWA)

in € millions	30 June 2017	31 December 2016	30 June 2016
Credit risk - Internal ratings based approach (IRB)	5,883	6,508	7,058
Credit risk - standardised approach (SA)	2,159	2,222	2,292
Operational risk	1,672	1,672	1,698
Market risk	71	88	150
Credit Valuation Adjustment (CVA)	275	334	412
Total	**10,060**	**10,824**	**11,610**

Risk-weighted assets (RWA) decreased by € 764 million to € 10,060 million. This decline was mainly caused by a € 625 million related to credit risk of the retail mortgage portfolio, calculated according to the Internal Ratings Based (IRB) approach. The decrease was mainly driven by lower probabilities of default (PDs) and loss given defaults (LGDs) as a result of improved economic conditions. Credit risk-related RWA subject to the Standardised Approach (SA) decreased by € 63 million to € 2,159 billion. RWA for operational risk, market risk and the Credit Value Adjustment together decreased by € 76 million to € 2,018 billion.

The RWA density of retail mortgages declined further to 13.5% from 15.0% at year-end 2016. In December 2014 de Volksbank was granted permission to use its IRB model for the capital requirement calculation of its mortgage portfolio. This was under the obligation to develop a new Margin of Conservatism (MoC) for which de Volksbank submitted an application in December 2016. In July 2017, the ECB communicated preliminary findings of the review of the IRB model including the proposed MoC and the intention to set a condition for de Volksbank to apply a proportional conservative adjustment to the MoC until the findings identified in the review have been solved. Discussions on the findings and associated timelines between de Volksbank and the ECB are ongoing. The final impact and timing of the temporary adjustment to the MoC will therefore only be available once the final decision on the review has been received. Applying the adjustments following from the preliminary findings to end of June 2017 figures would result in an increase of RWA density by approximately 1.5%-point.

BCBS consultations: revised Standardised Approach (SA) for credit risk RWA

The BCBS intends to revise its output floor framework based on standardised approaches to determine RWA. In addition, the Standardised Approach (SA) for credit risk RWA will be revised to make it more risk-sensitive. As a result of the so-called output floor, banks that apply Internal Risk Based (IRB) models may be required to use the standardised approaches to calculate their RWA and risk-weighted capital ratios. De Volksbank currently applies the IRB approach to determine the risk-weighting of its retail mortgages, resulting in an average of 13.5% as per half-year 2017. Based on a Quantitative Impact Study (QIS) that was performed in April 2016, the average risk-weighting of de Volksbank's retail mortgages under the revised SA could significantly increase when applying an output floor of 75%. Furthermore, if the required documentation is not available, the risk-weighting of retail mortgages under the revised SA might increase to 100%. The treatment of NHG guaranteed mortgages is not addressed in the consultation paper.

On 6 December 2016, the BCBS distributed a note to the Governors and Heads of Supervision (GHOS) outlining the main features of a compromise package. With respect to the revised SA for credit risk RWA, it was proposed, among other things, to permit a loan-splitting approach for residential real estate exposures, at the choice of the national supervisor. On 19 May 2017, a new note from the BCBS on the progress towards the finalisation of the Basel III reforms was distributed to the GHOS. Regarding the output floor, as a compromise, the majority of Committee members supports an aggregate output floor of 75%, to be phased-in from 2021 until 2027. With respect to the SA for credit risk for residential real estate exposures, risk weights are proposed ranging from 20% to 70%, depending on the LtV ratio of the loans, with a risk weight cap phased-in from 2021 to 2027.

Assuming acceptance of the proposed BCBS compromise with respect to the output floor based on the RWA under Standardised Approaches, we still expect to have a CET1 ratio in excess of our own minimum target of 15%, allowing us to continue our growth path as well as to pay dividends out of profits. We will closely monitor developments and adjust our capital planning if and when necessary.

BCBS consultations: constraints on Internal Rating Based (IRB) models

In June 2016, the BCBS performed an additional 'ad hoc' QIS to assess the impact of the proposal with respect to certain constraints on IRB models. On the basis of this 'ad hoc' QIS, the expected impact on the RWA density of de Volksbank's retail mortgages is a limited increase of approximately 1%-point.

BCBS consultation: Standardised Measurement Approach for operational risk

The BCBS has proposed to base the revised operational risk capital framework on a single non-model-based method, which is termed the Standardised Measurement Approach (SMA). Implementation is expected from 2021 (fully phased in by 2027). De Volksbank already uses the Standardised Approach (SA) for measuring operational risk, which is based on the profit and loss account. Therefore, the estimated impact of the BCBS proposal is expected to be limited.

IFRS 9

As from 1 January 2018 de Volksbank is required to apply the IFRS 9 Classification and Measurement and Expected credit loss (ECL) impairment requirements (IFRS9). The introduction of IFRS 9 allows us to align the classification of the former DBV mortgages with our other mortgages. As from 1 January 2018, the DBV mortgages will be reclassified from fair value to amortised cost. As a consequence, the Volksbank expects a negative impact on equity and CET1 capital. At 30 June 2017, this negative impact would amount to € 113 million after taxation and -1.1%-points on the CET1 ratio. The final impact of the reclassification may vary depending on aspects such as interest rate developments in the second half of 2017. As a result of the reclassification, the current volatility in the income statement related to the DBV mortgages will be fully eliminated as from 2018.

Furthermore, the transition to expected loss recognition under IFRS 9 will result in an increase of loan loss provisions. This will also have a negative impact on shareholders' equity and CET1 capital. The impact is still subject to portfolio developments, upcoming model improvements, alterations to the significant increase in credit risk (SICR) definitions and macroeconomic developments. Under this reservation, the currently anticipated fully phased-in impact of both the DBV reclassification and the increase in provision levels on the CET1 ratio is approximately -1.4%-points as per 30 June 2017.

Gone-concern capital: MREL and TLAC

As from 1 January 2016, it is mandatory under the Dutch Bank Recovery and Resolution Directive (BRRD) law to bail-in shareholders and creditors for a minimum amount of 8% of total liabilities (including own funds) or, under certain conditions, 20% of RWA before any funds from the Single Resolution Fund may be injected into a bank under resolution. To enable effective application of the bail-in resolution tool, the Dutch BRRD law introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL) as an easily bail-inable buffer to absorb losses. The bank-specific MREL is to be set by the resolution authorities (Single Resolution Board (SRB)/National Resolution Authority (NRA)) and is closely interlinked with the resolution strategy for each bank. Bank-specific MREL-eligible liabilities will also be defined by the resolution authorities in the years ahead. On top of equity, eligible MREL liabilities will consist of Additional Tier 1 (AT1) capital, Tier 2 capital, subordinated debt that is not Tier 1 or Tier 2 capital and, possibly, other eligible liabilities.

As from 2016, the Dutch insolvency law was amended to ensure that deposits from natural persons and SME have a higher priority ranking than the claims of ordinary unsecured, non-preferred creditors under normal insolvency proceedings. Since these liabilities benefit from preference in the national insolvency hierarchy, according to the BRRD deposits from natural persons and SME are not MREL eligible.

On 23 November 2016, the European Commission (EC) proposed to amend the BRRD (BRRD II), the Single Resolution Mechanism Regulation (SRMR), the CRR and the CRD IV. According to the BRRD II proposal, resolution authorities should be able to require that the MREL is met with equity and subordinated liabilities, in particular when losses of bailed-in non-subordinated creditors in case of resolution are likely to exceed their losses in case of insolvency. The BRRD II proposes an EU-wide amendment to the creditor hierarchy by creating a new asset class of non-preferred senior debt (senior resolution notes) that will only be bailed-in during resolution after other capital instruments, but before other senior liabilities. The EU is expected to approve this proposal in the coming months and an amendment of Dutch insolvency law may be implemented in the second half of 2018.

At the beginning of February 2017, the SRB informed us that it supports the designation of de Volksbank N.V. as the resolution entity. The final MREL requirement, transition period and definition of eligible liabilities specific to de Volksbank have not yet been communicated. Subject to legal, regulatory and market developments, de Volksbank intends to issue the aforementioned senior resolution notes that are junior to other senior notes, but have priority over Tier 2 notes, when there is sufficient clarity on the applicable requirements.

MREL

in € millions	30 June 2017	31 December 2016
CET1 capital	3,284	3,164
Tier 2 capital	496	491
Total capital	**3,780**	**3,655**
Other eligible unsecured liabilities with remaining maturity more than 1 year	1,027	1,126
Total capital including other eligible liabilities	**4,807**	**4,781**
Exposure measure as defined by the BRRD (MREL)	59,552	59,636
Risk-weighted assets	10,060	10,824
MREL BRRD		
MREL (Total capital)	6.3%	6.1%
MREL (Total capital including other eligible liabilities)	8.1%	8.0%
MREL Risk-weighted assets		
MREL (Total capital)	37.6%	33.8%
MREL (Total capital including other eligible liabilities)	47.8%	44.2%

Including total capital and all other unsecured liabilities that are MREL eligible according to the current BRRD, the non-risk weighted MREL ratio amounted to 8.1% (year-end 2016: 8.0%), with available MREL-eligible liabilities amounting to € 4,807 million. The risk-weighted MREL ratio equalled 47.8% (year-end 2016: 44.2%).

The non-risk weighted MREL ratio including only eligible liabilities subordinated to ordinary senior unsecured liabilities amounted to 6.3% (year-end 2016: 6.1%), with available MREL-eligible liabilities subordinated to ordinary senior unsecured liabilities amounting to € 3,780 million. The risk-weighted MREL ratio according to this definition equalled 37.6% (year-end 2016: 33.8%). The eligible liabilities subordinated to ordinary senior unsecured consisted of CET1 capital and Tier 2 capital.

Based on the current capital position, assuming that a 8% non-risk weighted MREL is to be filled with senior resolution notes, de Volksbank expects to issue an amount of approximately € 1.2 billion of these notes in the coming years.

Dividend

De Volksbank has set a dividend pay-out target range of 40%-60% of net adjusted profit[12]. Within this range, we strive for a stable, progressive (slightly increasing) dividend, taking a 5% dividend yield on the € 2.7 billion investment in our bank by the State as a starting point. In line with this policy, de Volksbank paid a dividend of € 135 million from the 2016 annual profit in April 2017.

12 Reported net profit adjusted for fair value changes of the DBV mortgage portfolio and related derivatives

Liquidity and funding

Liquidity

In the first half of 2017, de Volksbank maintained a strong liquidity position that amply complied with both internal targets and regulatory requirements.

Key liquidity indicators

	30 June 2017	31 December 2016	30 June 2016
LCR	>100%	>100%	>100%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio[1]	103%	103%	99%
Liquidity buffer (in € millions)	11,836	10,533	11,189

1 The Loan-to-Deposit ratio is calculated by dividing retail loans by retail funding. As from June 2017, retail loans are adjusted for fair value adjustments from hedge accounting. Comparative figures have been adjusted accordingly.

The Loan-to-Deposit ratio of 103% was equal to its year-end 2016 percentage as loans and deposits grew by similar amounts. Loans increased by € 0.6 billion driven by growth in the retail mortgage portfolio, and deposits increased by € 0.5 billion, mainly driven by an increase in retail savings.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum requirement of 100%. De Volksbank's LCR is based on the LCR Delegated Act definition that came into force for banks within the European Union on 1 October 2015. The regulatory minimum requirement of 100% for the LCR already applies, while the regulatory minimum requirement of 100% for the NSFR will apply as from 2018.

De Volksbank maintains a liquidity buffer, including the cash position, to absorb unexpected changes/increases in its liquidity need. Under normal circumstances, the cash position is the source of liquidity that we use to meet regular obligations. In addition to the cash position, the liquidity buffer comprises (highly) liquid investments that are ECB-eligible collateral and can be sold in (highly) liquid markets or used in repo transactions. The table below shows a breakdown of the liquidity buffer, with liquid assets included at market value after applying the ECB haircut.

Liquidity buffer composition

in € millions	30 June 2017	31 December 2016	30 June 2016
Cash position[1]	3,314	2,816	3,086
Sovereigns	2,563	2,713	2,746
Regional/local governments and supranationals	805	755	719
Other liquid assets	377	351	294
Eligible retained RMBS	4,777	3,898	4,344
Liquidity buffer	**11,836**	**10,533**	**11,189**

1 As of December 2016 the definition of the cash position is changed. The cash position comprises central bank reserves, current account balances held at correspondent banks and contractual wholesale cash flows maturing within ten days or less. As a result, the cash position differs from the cash and cash equivalents balance in the balance sheet. The comparing figures have been adjusted accordingly.

In the first half of 2017, the liquidity buffer increased by € 1.3 billion to € 11.8 billion, of which € 0.8 billion on account of liquid assets other than cash. The collateral value of eligible retained Residential Mortgage Backed Securities (RMBS) notes increased by € 0.9 billion mainly due to the replacement of Lowland 1 at the first call date by Lowland 4 (with a higher collateral value) in February 2017.

The cash position increased by € 0.5 billion to € 3.3 billion. The funding need mainly resulting from € 0.4 billion retail mortgage growth and € 1.3 billion wholesale funding redemptions was more than offset by cash inflows and an increase in cash management investments within 10 days.

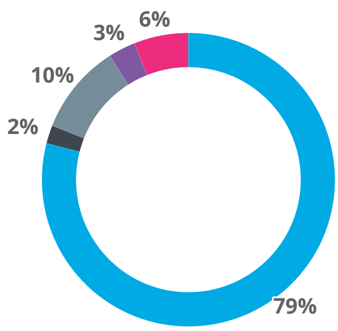
The volume of de Volksbank's short-term cash management investments outside the cash definition equalled € 1.0 billion per 30 June 2017 (€ 2.0 billion at year-end 2016). These investments are available as liquidity at short notice.

Funding

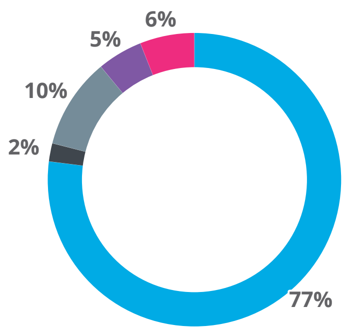
De Volksbank uses retail savings as its primary funding source and also attracts funding from the capital market. We aim to diversify our sources of wholesale funding. Therefore, de Volksbank funds itself with various funding instruments, spread over different maturities, markets, regions and investor types.

Through our different brands, we attract term deposits, sight deposits and current account balances from retail customers. In addition, de Volksbank funds itself through savings and current account balances from SME customers. In the first half of 2017, funding from customers increased to € 46.7 billion, from € 46.2 billion at year-end 2016.

Equity and liability mix June 2017: € 61.0 billion



Equity and liability mix December 2016: € 61.6 billion

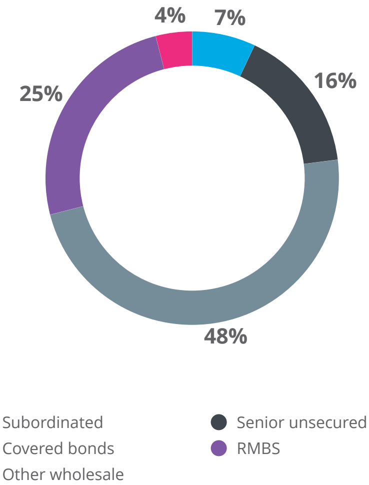


- Savings and other amounts due to customers
- Amounts due to banks
- Debt instruments (incl. subordinated)
- Other
- Equity

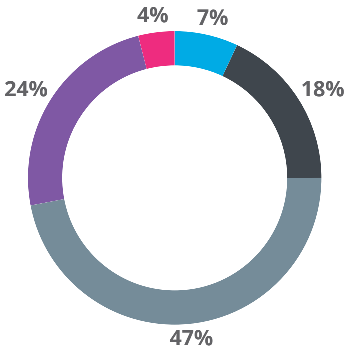
The graphs above present an overview of the composition of total liabilities and equity as at 30 June 2017 and year-end 2016. The information presented is based on the book value of the positions. The percentage of our funding that is made up of savings and other amounts due to customers increased to 79%, from 77% at year-end 2016.

In May 2017, de Volksbank publicly issued a € 0.5 billion covered bond with a 10-year maturity. In the first half of 2017, de Volksbank also privately placed covered bonds adding up to € 221 million, with maturities ranging from 16 to 20 years.

Wholesale funding mix June 2017: € 6.8 billion [1]



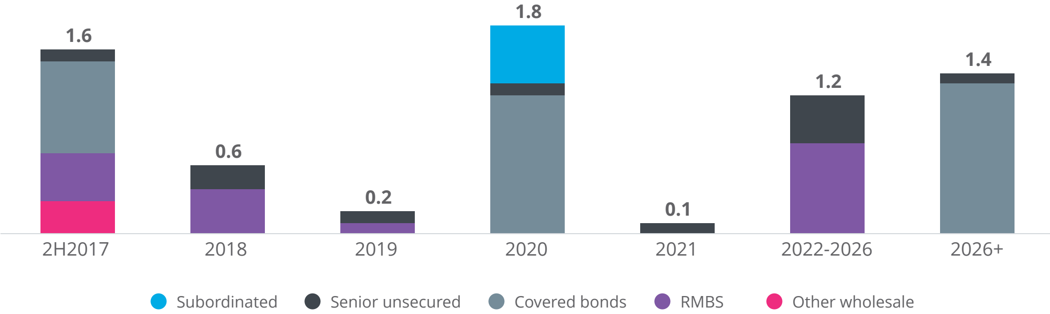
Wholesale funding mix December 2016: € 7.4 billion [1]



1 The figures present an overview of the outstanding wholesale funding with an original maturity of more than one year as from 30 June 2017 and year-end 2016. In the balance sheet, such wholesale funding is recognised under debt certificates, amounts due to banks and other amounts due to customers. The information presented is based on the nominal value of the (hedged) positions. This nominal value differs from the IFRS measurement in the balance sheet, which is predominantly based on amortised cost.

The change in the wholesale funding mix in the first half of 2017 was primarily the result of redemptions in respect of covered bonds (€ 1.0 billion) and senior unsecured debt (€ 0.3 billion), next to the public and private covered bond issuance of € 0.7 billion.

Wholesale funding maturities (in € billions)[1]



1 The chart presents an overview of the maturity calendar of the outstanding wholesale funding with an original maturity of more than one year, assuming first call dates are adhered to.

Responsibility statement

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 months period ending on 30 June 2017, give a true and fair view of the assets, liabilities, size and composition of equity, financial position and profit or loss of de Volksbank NV and the companies included in the consolidation; and
- The Interim Financial Report, for the six months period ending on 30 June 2017, gives a true and fair view of the information required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of de Volksbank N.V. and the companies included in the consolidation.

Utrecht, 23 August 2017

The Board of Directors

Maurice Oostendorp, Chief Executive Officer

Annemiek van Melick, Chief Financial Officer

Jeroen Dijst, Chief Risk Officer

Rob Langezaal, Chief Commercial Officer

Alexander Baas, Chief Operations Officer

Condensed consolidated interim financial statements

Consolidated balance sheet

Before appropriation of result and in € millions	30-6-2017	31-12-2016
ASSETS		
Cash and cash equivalents	3,132	2,297
Derivatives	1,340	1,533
Investments	5,337	5,970
Loans and advances to banks	1,735	2,532
Loans and advances to customers	48,773	48,593
Property and equipment	71	73
Intangible assets	14	15
Deferred tax assets	122	137
Corporation tax	42	--
Other assets	390	411
Total assets	**60,956**	**61,561**
EQUITY AND LIABILITIES		
Savings	37,373	36,593
Other amounts due to customers	10,658	10,835
Amounts due to customers	**48,031**	**47,428**
Amounts due to banks	1,064	1,446
Debt certificates	5,564	5,696
Derivatives	1,450	1,861
Deferred tax liabilities	46	59
Corporation tax	--	18
Other liabilities	645	891
Other provisions	115	120
Subordinated debts	498	501
Total other liabilities	**9,382**	**10,592**
Share capital	381	381
Other reserves	2,985	2,831
Retained earnings	177	329
Shareholders' equity	**3,543**	**3,541**
Total equity and liabilities	**60,956**	**61,561**

Consolidated income statement

in € millions	1st half year 2017	1st half year 2016
INCOME		
Interest income	722	827
Interest expense	260	355
Net interest income	**462**	**472**
Fee and commission income	51	57
Fee and commission expenses	25	26
Net fee and commission income	**26**	**31**
Investment income	29	37
Result on financial instruments	-2	-31
Other operating income	--	1
Total income	**515**	**510**
EXPENSES		
Staff costs	187	190
Depreciation and amortisation of tangible and intangible assets	10	11
Other operating expenses	102	111
Impairment charges	-20	-45
Other expenses	--	1
Total expenses	**279**	**268**
Result before taxation	**236**	**242**
Taxation	59	61
Net result for the period	**177**	**181**
ATTRIBUTION:		
Net result attributable to shareholder	177	181

Consolidated statement of other comprehensive income

in € millions	1st half year 2017	1st half year 2016
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS		
Other changes in comprehensive income	--	-1
Total items never reclassified to profit or loss	**--**	**-1**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS		
Change in revaluation reserve	--	1
Change in cashflow hedgereserve	-4	-7
Change in fair value reserve	-36	56
Total items that may be reclassified to profit and loss in subsequent periods	**-40**	**50**
Other comprehensive income (after taxation)	**-40**	**49**

Total comprehensive income for the period

in € millions	1st half year 2017	1st half year 2016
Net result from continued operations	177	181
Other comprehensive income (after taxation)	-40	49
Total comprehensive income for the period	**137**	**230**
ATTRIBUTION:		
Total comprehensive income to shareholder	137	230
Total comprehensive income to minority interests	--	--
Total comprehensive income for the period	**137**	**230**

Condensed consolidated statement of changes in total equity

Condensed consolidated statement of changes in total equity 1st half year 2017

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2016	381	3,787	1	57	111	-1,383	348	3,302
Transfer of net result 2015	--	--	--	--	--	248	-248[2]	--
Other comprehensive income	--	--	1	-7	56	-1	--	49
Net result over the period	--	--	--	--	--	--	181	181
Total result over the period	**--**	**--**	**1**	**-7**	**56**	**347**	**-167**	**230**
Transactions with shareholder	--	--	--	--	--	--	-100[3]	-100
Total changes in equity over the period	**--**	**--**	**1**	**-7**	**56**	**247**	**-167**	**130**
Balance as at 30 June 2016	**381**	**3,787**	**2**	**50**	**167**	**-1,136**	**181**	**3,432**
Other comprehensive income	--	--	2	-6	-35	--	--	-39
Net result over the period	--	--	--	--	--	--	148	148
Total result over the period	**--**	**--**	**2**	**-6**	**-35**	**--**	**148**	**109**
Transactions with shareholder	--	--	--	--	--	--	--	--
Total changes in equity over the period	**--**	**--**	**2**	**-6**	**-35**	**--**	**148**	**109**
Balance as at 31 December 2016	**381**	**3,787**	**4**	**44**	**132**	**-1,136**	**329**	**3,541**
Transfer of net result 2016	--	--	--	--	--	-194	194[2]	--
Other comprehensive income	--	--	--	-4	-36	--	--	-40
Net result over the period	--	--	--	--	--	--	177	177
Total result over the period	**--**	**--**	**--**	**-4**	**-36**	**-194**	**371**	**137**
Transactions with shareholder	--	--	--	--	--	--	-135[3]	-135
Total changes in equity over the period	**--**	**--**	**--**	**-4**	**-36**	**-194**	**236**	**2**
Balance as at 30 June 2017	**381**	**3,787**	**4**	**40**	**96**	**-1,330**	**565**	**3,543**

1 The issued share capital is fully paid-up and comprises of 840,008 ordinary shares with a nominal value of € 453.79 per share

2 This is the result after dividend payment deduction.

3 Dividend paid out to de Volksholding

Condensed consolidated cashflow statement

in € millions	1st half year 2017	1st half year 2016
Cash and cash equivalents as at 1 January	2,297	2,259
Net cashflow from operating activities	-1,342	1,799
Net cashflow from investment activities	534	73
Net cashflow from financing activities	1,643	-1,021
Cash and cash equivalents as at 30 June	**3,132**	**3,110**

Notes to the condensed consolidated interim financial statements

Accounting principles

General information

De Volksbank N.V. (referred to as 'de Volksbank') is a public limited liability company incorporated under the laws of the Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht. De Volksholding B.V. is the parent company of de Volksbank. All shares of de Volksbank are held by de Volksholding B.V. All shares of de Volksholding B.V. are held by Stichting administratiekantoor beheer financiële instellingen (NLFI).

The condensed consolidated interim financial statements of de Volksbank comprise financial information of all entities controlled by de Volksbank including its interests in associates. The condensed consolidated interim financial statements were prepared by the Board of Directors and approved by the Supervisory Board on 23 August 2017.

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 these condensed consolidated interim financial statements are consistent with those set out in the notes to de Volksbank's financial statements for the year ended 31 December 2016.

CHANGES IN PUBLISHED STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2017

In the first half of 2017 de Volksbank has not adopted IFRS amendments.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE IN 2017

The changes in Standards that may have a material impact on the financial statements of de Volksbank are discussed below. These new standards and amendments have been issued by the IASB, but are not yet effective for the 2017 condensed consolidated interim financial statements.

IFRS 9 Financial instruments

In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and the mandatory effective date is 1 January 2018. IFRS 9 has changed requirements for Classification and Measurement, Impairments and Hedge Accounting. In 2015 de Volksbank has launched a programme to implement IFRS 9. It is expected that the changed requirements for Classification and Measurement and Impairments will have a significant impact on the financial statements including equity.

CLASSIFICATION AND MEASUREMENT

In 2015 and 2016 de Volksbank has performed a business model and cash flow analysis to determine classification and measurement categories for its financial instruments portfolios under IFRS 9. To this end all financial instruments were aggregated into portfolios based on product characteristics, responsible management and/or intended use. Subsequently on each of these portfolios a business model was defined. In the business model analyses, criteria were taken into account in order to properly determine the main purposes of the business model as described in IFRS 9. In addition to the business model analysis all instruments were assessed on their specific product characteristics in order to determine whether or not the contractual cash flows of the instruments meet the criterion of being solely payments of principal and interest on the principal amount outstanding (SPPI-test). Together these assessments determine the measurement category.

IFRS 9 transition-accounting allows de Volksbank to reconsider the current treatment of a part of the mortgage portfolio, the DBV mortgages, historically elected to be accounted for at fair value. As a result, de Volksbank has decided to change the measurement basis of these mortgages to amortised cost, this results in a step up or step down from fair value to the amortised cost value at the date of transition. Since currently the fair value is above the amortised cost value, de Volksbank anticipates a step down, and therefore a negative impact on equity at transition.

IMPAIRMENTS

De Volksbank has a programme to implement IFRS 9 ECL models. Currently, de Volksbank is performing parallel runs to test the implementation of the impairment models for its financial assets portfolios.

The IFRS 9 impairment requirements include key changes from the IAS 39 impairment requirements:

- Credit loss recognition for all financial instruments: the scope of the impairment requirements is broadened under IFRS 9. Under IAS 39, loan loss provisions are only recorded for arrears or due to another indication of a loss event that results in an expectation that the customer is unlikely to meet its payment requirements. Under IFRS 9 entities are required to record expected credit loss provisions for all credit exposures measured at amortised cost and fair value through OCI, including expected credit losses on loan commitments and financial guarantee contracts (off-balance sheet positions).

- Forward looking information: the IFRS 9 model is making more and more use of forward looking information. Not only historical information should be considered but also current and forward looking macro-economic information. De Volksbank intends to incorporate this forward looking information through modelling three scenarios (upturn, normal and downturn macro-economic conditions), where an expert group will make use of relevant data and forecasts from a number of external sources and apply these on a time horizon and appropriate weight consistent with our internal operational forecast.

Due to these key changes, an increase in the credit loss provision is expected. However, the increase in provision will vary by portfolio. Shorter term and higher quality financial instruments are expected to be less affected. Unsecured loans will be more affected than those with collateralised loans. Furthermore, a higher volatility in the expected credit loss amounts is expected. For example, the level of loss allowance will increase as economic conditions are forecasted to deteriorate and vice versa. In addition, the determination of expected credit losses requires assumptions and estimations of key concepts relating to IFRS 9 impairment models including estimates of significant increase in credit risk, probability of defaults and loss given defaults.

HEDGE ACCOUNTING
IFRS 9 provides an accounting policy choice to adopt IFRS 9 hedge accounting rules or to continue to apply the IAS 39 hedge accounting rules. De Volksbank has decided to continue to apply the IAS 39 hedge accounting requirements as per 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. Main principle is that an entity recognises revenues based on what the expected receipts will be for the rendered goods and services. In order to apply this principle the following steps are required:
1. identify contracts with clients;
2. identify and differentiate contractual obligations;
3. determine the price of the transaction;
4. allocate the price of the contract to the identified obligations;
5. recognise revenue if contractual obligations are met and risk and rewards are transferred to the client.

However the requirements of IFRS 15 shall not apply to contracts that fall within the scope of the lease standard or financial instruments standard. De Volksbank does not expect IFRS 15 to have a significant impact on the consolidated financial statements.

IFRS 16 Leases
IFRS 16, the new standard on leases will become effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between “operational” and “financial lease” for lessees. It requires lessees to recognise nearly all leases on the balance sheet, which will reflect their right to use an asset for a period of time and the associated liability for payments. The impact of IFRS 16 on the financial statements is expected to be limited.

ESTIMATES AND ASSUMPTIONS
The preparation of the condensed consolidated interim financial statements requires de Volksbank to make estimates and assumptions. Although these estimates and assumptions are made to the best of management’s knowledge, actual results may differ.

Notes to consolidated statement of financial position and consolidated income statement

Debt certificates
On 20 February 2017, de Volksbank issued a new securitisation named Lowland 4 in the amount of € 4,114 million.

Covered bond programme
In May 2017, new bonds were issued in the amount of € 500 million under the covered bond programme. These bonds have a maturity of 10 years. In the first half of 2017, an amount of € 1 billion in covered bonds has been repaid.

Impairment charges
Improving macro-economic conditions and a further increase in house prices continued to have a positive effect on impairment charges, resulting in a net release of € 20 million (first half of 2016: € 45 million). Constant efforts by the Arrears Management department and stricter acceptance criteria for mortgage loans in recent years contributed to a sustained decrease in impaired retail mortgage loans, albeit more gradually than in 2016. The total net release of impairment charges on retail mortgage loans amounted to € 18 million, equating to 8bps of gross outstanding retail mortgages.

Related parties
As part of its business operations, de Volksbank frequently enters into transactions with related parties. Parties related to de Volksbank include de Volksholding, 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. For further information see note 23 of the Annual financial statements 2016.

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, financial investments – available for sale, and are entered into under the same commercial and market terms that apply to non-related parties.

During the first half year of 2017 a final dividend of € 135 million was paid to de Volksholding (first half year 2016: € 100 million).

Update legal proceedings
In the inquiry proceedings by the Dutch Investors' Association (Vereniging van Effectenbezitters; 'VEB') a hearing of the parties took place on 8 June 2017 before the Enterprise Chamber about the question whether or not an inquiry should take place. The Enterprise Chamber is expected to render judgment in the second half of 2017.

In the proceedings regarding the objection of two creditors of Propertize against the withdrawal of the 403 Guarantee provided for by de Volksbank, the Supreme Court declared the objection well-founded on 31 March 2017. This ruling only concerns two creditors of Propertize. For other creditors of Propertize the withdrawal of the 403 Guarantee is in effect. The outcome of this objection proceedings as such does not have any material financial significance for de Volksbank. No provisions have been made for the underlying asserted claims of these two creditors that Propertize disputes.

Update EC commitments
The European Commission has set de Volksbank a number of conditions and restrictions. These conditions and restrictions follow from the nationalisation of SNS REAAL (currently SRH N.V.) in 2013 and will run until the end of the restructuring period on 31 December 2017, unless specified differently. The main conditions and restrictions of the EC decision are:
- An acquisition ban that has ended in December 2016.
- State ownership will not be advertised – nor will any reference be made to State support in the communication with existing and/or potential customers and investors.
- No payments will be made on the hybrid debt instruments outstanding at the time of the EC decision, unless those payments stem from a legal obligation, and not call or buy back those instruments without prior approval of the European Commission.
- Remuneration restrictions apply to employees and senior management
- The EC does not require de Volksbank to undertake any further actions in relation to the SME loans in excess of € 1 million, subject to continuing the ongoing strategy of running down the remaining loans.

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.

For financial assets and liabilities measured at amortised cost, the fair value is provided excluding accrued interest. Accrued interest related to these instruments is included in other assets or other liabilities.

Hierarchy financial instruments 30 June 2017

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: held for trading	439	439	--	--	439
- Available for sale	4,898	4,784	92	22	4,898
Derivatives	1,340	--	1,227	113	1,340
Loans and advances to customers[1]	1,764	--	--	1,764	1,764
FINANCIAL ASSETS MEASURED AT AMORTISED COST					
Loans and advances to customers[1]	47,009	--	--	49,206	49,206
Loans and advances to banks	1,735	--	--	--	1,735
Other assets	390	--	--	--	390
Cash and cash equivalents	3,132	--	--	--	3,132
Total financial assets	**60,708**	**5,223**	**1,319**	**51,105**	**62,904**
Financial liabilities measured at fair value					
Derivatives	1,450	--	1,242	207	1,450
Debt certificates[1]	483	--	--	483	483
Financial liabilities measured at amortised cost					
Subordinated debts	498	--	529	--	529
Debt certificates[1]	5,081	--	--	4,923	4,923
Savings	37,373	--	33,069	4,905	37,974
Other amounts due to customers	10,658	--	10,803	--	10,803
Amounts due to banks	1,064	--	1,067	--	1,067
Other liabilities	645	--	--	--	645
Total financial liabilities	**57,251**	**--**	**46,711**	**10,518**	**57,873**

1 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost.

Hierarchy financial instruments 31 December 2016

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: held for trading	831	831	--	--	831
- Available for sale	5,139	5,066	51	22	5,139
Derivatives	1,533	--	1,392	141	1,533
Loans and advances to customers[1]	1,850	--	--	1,850	1,850
FINANCIAL ASSETS MEASURED AT AMORTISED COST					
Loans and advances to customers[1]	46,743	--	--	48,908	48,908
Loans and advances to banks	2,532	--	--	--	2,532
Other assets	411	--	--	--	411
Cash and cash equivalents	2,297	--	--	--	2,297
Total financial assets	**61,336**	**5,897**	**1,443**	**50,921**	**63,501**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,861	--	1,614	247	1,861
Debt certificates[1]	526	--	--	526	526
Financial liabilities measured at amortised cost					
Subordinated debts	501	--	516	--	516
Debt certificates[1]	5,170	--	--	5,145	5,145
Savings	36,593	--	33,600	3,513	37,113
Other amounts due to customers	10,835	--	10,964	--	10,964
Amounts due to banks	1,446	--	1,446	--	1,446
Other liabilities	891	--	--	--	891
Total financial liabilities	**57,823**	**--**	**48,140**	**9,431**	**58,462**

1 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost.

Notes to the valuation financial assets and liabilities

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

INVESTMENTS

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

LOANS AND ADVANCES TO CUSTOMERS

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

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

DERIVATIVES

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

LOANS AND ADVANCES TO BANKS

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

OTHER ASSETS

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

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

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

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

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

HIERARCHY IN DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The table below classifies these instruments into level 1, level 2 and level 3. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

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

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

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

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

Changes hierarchy financial assets and liabilities

Change in level 3 financial instruments measured at fair value 1st half year 2017

in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Balance as at 1 January 2017	22	1,850	141	247	526
Purchases/advances	--	--	--	--	--
Unrealised gains or losses recognised in P&L[1]	--	-21	-28	-39	3
Unrealised gains or losses recognised in other comprehensive income[2]	2	--	--	--	--
Movement accrued interest	--	--	--	-1	--
Sale/settlements	-1	-65	--	--	-46
Other	-1	--	--	--	--
Balance as at 30 June 2017	**22**	**1,764**	**113**	**207**	**483**

1 These are recognised in the line item 'Result on financial instruments'.

2 These are recognised in the line item 'Change in fair value reserve'.

Change in level 3 financial instruments measured at fair value 1st half year 2016

in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Balance as at 1 January 2016	27	2,047	207	347	585
Purchases/advances	3	51	--	--	--
Unrealised gains or losses recognised in P&L[1]	--	8	-17	-18	--
Unrealised gains or losses recognised in other comprehensive income[2]	3	--	--	--	--
Movement accrued interest	--	--	-4	-5	--
Sale/settlements	-12	-136	--	--	-44
Other	1	--	--	--	--
Balance as at 30 June 2016	**22**	**1,970**	**186**	**324**	**541**

1 These are recognised in the line item 'Result on financial instruments'.

2 These are recognised in the line item 'Change in fair value reserve'.

Change in level 3 financial instruments measured at fair value 2nd half year 2016

in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Balance as at 1 July 2016	22	1,970	186	324	541
Purchases/advances	1	-51	--	--	--
Unrealised gains or losses recognised in P&L[1]	--	-12	-43	-75	21
Unrealised gains or losses recognised in other comprehensive income[2]	2	--	--	--	--
Movement accrued interest	--	--	-2	-2	--
Sale/settlements	-2	-57	--	--	-36
Other	-1	--	--	--	--
Balance as at 31 December 2016	**22**	**1,850**	**141**	**247**	**526**

1 These are included in the line item 'Result on financial instruments'.

2 These are recognised in the line item 'Change in 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 non-observable parameters financial instruments level 3 per 30 June 2017

	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	
in € millions				Increase in fair value	Decrease in fair value
Assets					
Loans and advances to customers	Discounted cashflow	Discount curve	1,764	31	30
		Pre-payment rate	1,764	7	7
Derivatives	Discounted cashflow	Discount curve	113	11	11
		Pre-payment rate	113	4	4
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	483	1	1
		Pre-payment rate	483	--	1
Derivatives	Discounted cashflow	Discount curve	207	11	11
		Pre-payment rate	207	4	4

Sensitivity non-observable parameters financial instruments level 3 per 31 December 2016

	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	
in € millions				Increase in fair value	Decrease in fair value
Assets					
Loans and advances to customers	Discounted cashflow	Discount curve	1,850	35	33
		Pre-payment rate	1,850	8	8
Derivatives	Discounted cashflow	Discount curve	141	14	14
		Pre-payment rate	141	6	5
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	526	3	3
		Pre-payment rate	526	--	--
Derivatives	Discounted cashflow	Discount curve	247	14	14
		Pre-payment rate	247	6	6

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to pre-payment rate adjustments.

The discount rate is based on actual customer mortgage rates. These rates and the prepayment rates are interrelated (i.e. a decrease in actual customer mortgage rates will likely cause an increase in the prepayment rates). The effect of actual customer mortgage rates and prepayment rates on the fair value is therefore opposite, whereby a decrease in actual customer mortgage rates will result in a higher fair value, whereas an increase in prepayment rates will result in a lower fair value.

The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve. How this unobservable discount curve is determined in the valuation process is discussed in the notes on the accounting techniques and assumptions applied for determining the fair value of loans and advances to customers. With regard to the discount curve, the assumptions to determine the creditrisk surcharge in particular are not observable in the market. De Volksbank adjusted the discount curve upwards or downwards by 50 basis points and had the expectation of early redemptions increased or decreased by 1% in order to calculate sensitivity. It should be noted here that a direct relationship exists between the fair values of the loans and advances to customers, debt certificates and some of the derivatives, as these positions form part of a securitisation structure. As a result, any changes in the value of loans and advances to customers are offset by changes in the value of the debt certificates and derivatives. The other level 3 derivatives also relate to securitisation transactions. Here, too, 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

No movements occured during 2016, nor during the first half year of 2017.

Independent auditor's review report

To: the Board of Directors and the 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 30 to 40, which comprises the consolidated balance sheet as at 30 June 2017, the (condensed) consolidated statements of income, other comprehensive income, changes in total equity, and cashflow for the six-month period then ended, and the related notes.

Management 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 auditing standards 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 accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 23 August 2017

Ernst & Young Accountants LLP

signed by A.B. Roeders

Other information

Additional Pillar 3 disclosures

Risk weighted assets (RWA) and capital requirement

in € millions	EAD[1]		RWA		8% Pillar 1 capital requirement	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016
CREDIT RISK INTERNAL RATINGS BASED APPROACH						
Retail mortgages[2]	43,682	43,447	5,342	5,913	427	473
Securitisation positions	92	51	7	4	1	--
Other	--	--	534	591	43	47
Total credit risk IRB approach	**43,774**	**43,498**	**5,883**	**6,508**	**471**	**520**
CREDIT RISK STANDARDISED APPROACH[3]						
Central governments and central banks	7,524	6,989	189	194	15	16
Regional governments and local authorities	1,804	2,761	2	--	--	--
Public sector entities	31	35	6	9	--	1
Multilateral developments banks	300	282	--	--	--	--
International organisations	--	--	--	--	--	--
Financial institutions	1,210	943	358	299	29	24
Corporates	1,114	1,095	542	505	43	40
Retail excl. mortgages	162	181	122	136	10	11
Secured by mortgages immovable property	904	1,002	606	687	48	55
Exposures in default	87	93	101	111	8	9
Covered bonds	--	--	--	--	--	--
Shares	22	21	22	21	2	2
Other Items	250	350	211	260	17	21
Total credit risk standardised approach	**13,408**	**13,752**	**2,159**	**2,222**	**172**	**179**
MARKET RISK (STANDARDISED APPROACH)[4]						
- Traded debt instruments	1,159	2,765	71	88	6	7
- Shares	--	--	--	--	--	--
OPERATIONAL RISK						
- Standardised approach	--	--	1,672	1,672	134	134
Total market- and operational risk	**1,159**	**2,765**	**1,743**	**1,760**	**140**	**141**
Credit Valuation Adjustment (CVA)	--	--	275	334	22	27
Total de Volksbank	**58,341**	**60,015**	**10,060**	**10,824**	**805**	**867**

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.
2 To determine the RWA of retail mortgages a regulator-approved model is used
3 The counterparty credit risk amounts to € 1.0 billion EAD, corresponding to € 304 million RWA (2015: € 1.0 billion EAD, € 373 million RWA)
4 This concerns position risk

On 30 June 2017, de Volksbank had no transactions in which the agreed delivery dates had not yet been settled. Therefore, there is no RWA for settlement risk.

As de Volksbank does not hold any commodities, we are not required to hold any capital. On 30 June 2017, the total net position in foreign currency was below the CRR threshold of 2% of total capital, which is why we are not required to hold any capital.

PORTFOLIO BREAKDOWN BY INTERNAL RATING GRADE

The collateral for our key loan portfolio, i.e. retail mortgages, is located in the Netherlands. To weigh the credit risk of this loan portfolio we use PHIRM, an internally developed AIRB model. This rating model calculates the likelihood of a customer running into payment problems within one year and the resulting losses for de Volksbank.

We use the results to determine the RWA of the retail mortgage portfolio. They form the basis of the IFRS loan provision calculations, but also serve as input for internal risk reporting.

The table below presents the breakdown of the retail mortgage portfolio by credit quality class.

PD-risk category retail mortgages per 30 June 2017

Internal rating grade	Average LGD	Average PD	EAD in each grade	RWA in each grade (or band)
NON-DEFAULT				
1	8.78%	0.07%	10,247	180
2	8.72%	0.21%	5,551	210
3	11.17%	0.31%	7,707	500
4	13.61%	0.45%	8,213	857
5	16.88%	0.70%	4,700	827
6	17.90%	1.02%	1,054	254
7	13.22%	1.25%	2,509	510
8	17.94%	1.70%	1,157	389
9	15.02%	3.24%	854	354
10	13.63%	6.77%	728	403
11	14.61%	13.32%	293	229
12	13.93%	22.83%	198	168
13	15.53%	43.08%	154	138
Default	18.66%	100.00%	317	323
Total			**43,682**	**5,342**

PD-risk category retail mortgages per 31 December 2016

Internal rating grade	Average LGD	Average PD	EAD in each grade	RWA in each grade (or band)
NON-DEFAULT				
1	8.80%	0.07%	9,933	175
2	8.81%	0.21%	5,299	202
3	11.45%	0.31%	6,763	450
4	13.79%	0.45%	7,687	813
5	17.72%	0.70%	5,363	990
6	18.72%	1.02%	1,153	290
7	13.22%	1.25%	3,040	618
8	18.37%	1.70%	1,214	417
9	15.41%	3.24%	944	400
10	14.07%	6.77%	842	479
11	15.49%	13.32%	338	277
12	14.52%	22.83%	253	220
13	15.71%	43.08%	210	183
Default	19.83%	100.00%	408	399
Total			**43,447**	**5,913**

The RWA of the total portfolio declined to € 5,9 billion per 30 June 2017 (without the 10% margin of conservatism: € 5,3 billion), compared to € 6,5 billion at year-end 2016 (without the 10% margin of conservatism of 10%: € 5,9 billion). The average risk weight of retail mortgages dropped from 15.0% at year-end 2016 to 13.5% per 30 June 2017. This risk weight is defined as RWA including the margin of conservatism divided by total mortgage exposure in EAD.

The decline in risk-weighted assets can be attributed mainly to decreasing PDs and LGDs of the retail mortgage portfolio following improved economic conditions. Exposure in the PD buckets with the lowest PD (1 - 4) rose, whereas all exposures in the other PD buckets fell. The highest relative decrease was observed in the buckets with highest PD (9 - 13). We observed a decline in the average LGD for each of the PD buckets.

Own funds

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date	Amount subject to pre-regulation (EU) No 575/2013
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	3,398	--
28	**Total regulatory adjustments to CET1**	-114	--
29	**CET1 capital**	3,284	--
36	**AT 1 capital before regulatory adjustments**	--	--
43	**Total regulatory adjustments to AT1 capital**	--	--
44	**AT1 capital**	--	--
45	**Tier 1 capital (T1= CET1 + AT1)**	3,284	--
51	**T2 capital before regulatory adjustments**	500	--
57	**Total regulatory adjustments to T2 capital**	-4	--
58	**Tier 2 capital**	496	--
59	**Total capital (TC = T1 + T2)**	3,780	--
61	CET1 (as a % of total risk exposure amount)	32.6%	0.0%
62	T1 (as a % of total risk exposure amount)	32.6%	0.0%
63	TC (as a % of total risk exposure amount)	37.6%	0.0%

Leverage ratio common disclosure

		CRR leverage ratio exposures	
		30 June 2017	31 December 2016
CAPITAL AND TOTAL EXPOSURES			
20	**Tier 1 capital**	3,284	3,164
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	60,207	60,331
Leverage ratio			
22	**Leverage ratio**	5.5%	5.2%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional

General information

About de Volksbank

GENERAL
De Volksbank N.V. (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 € 61 billion and 3.288 internal employees (FTE), 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, providing meaning for employees and achieving returns for the shareholder.

OUR BRANDS
There is no such thing as the average customer. Everyone has different desires, 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
ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for 50 years. Money is invested in projects and companies that respect people, animals and the environment. ASN Bank aims to demonstrate that sustainable banking goes perfectly hand-in-hand with competitive results. www.asnbank.nl

Products: current accounts, savings, loans, investments and asset management.

BLG WONEN
BLG Wonen is a financial service provider whose aim is to allow its customers to live as comfortably as possible. Carefree home ownership makes you feel at home. Now and in the future. BLG Wonen achieves this by making our customers’ living wishes come true via transparent services and professional, personal advice from the best independent advisors. www.blg.nl

Products: mortgages, savings, insurance and investments.

REGIOBANK
RegioBank is the de Volksbank regional bank format to which some 530 independent advisors are affiliated. RegioBank is the local bank without the fuss or hassle. With great personal attention, a sense of service and a full range of banking products all under one roof. www.regiobank.nl

Products: current accounts, savings, loans, investments and mortgages.

SNS
SNS was founded in 1817 with a view to increasing people's financial independence. This assignment and challenge are just as relevant today as they were back then. As a broad, accessible bank for consumers and small businesses, we allow our customers to choose for themselves how they manage their banking business: via the website, over the telephone, with a financial advisor at home or at one of our almost 200 SNS Shops or via the mobile channel. www.snsbank.nl

Products: current accounts, savings, mortgages, insurance, loans, investments and bank savings.

Disclaimer
This interim financial report contains only factual information and should not be regarded as an opinion or recommendation concerning the purchase or sale of securities issued by de Volksbank N.V. This interim financial report does not contain any value judgement or predictions with respect to the financial performance of de Volksbank N.V.