de volksbank

Pillar 3 report 2016

2016

The original Pillar 3 was drafted in Dutch. This document is an English translation of the original. In the case of any discrepancies between the English and the Dutch text, the latter will prevail.

1 Introduction

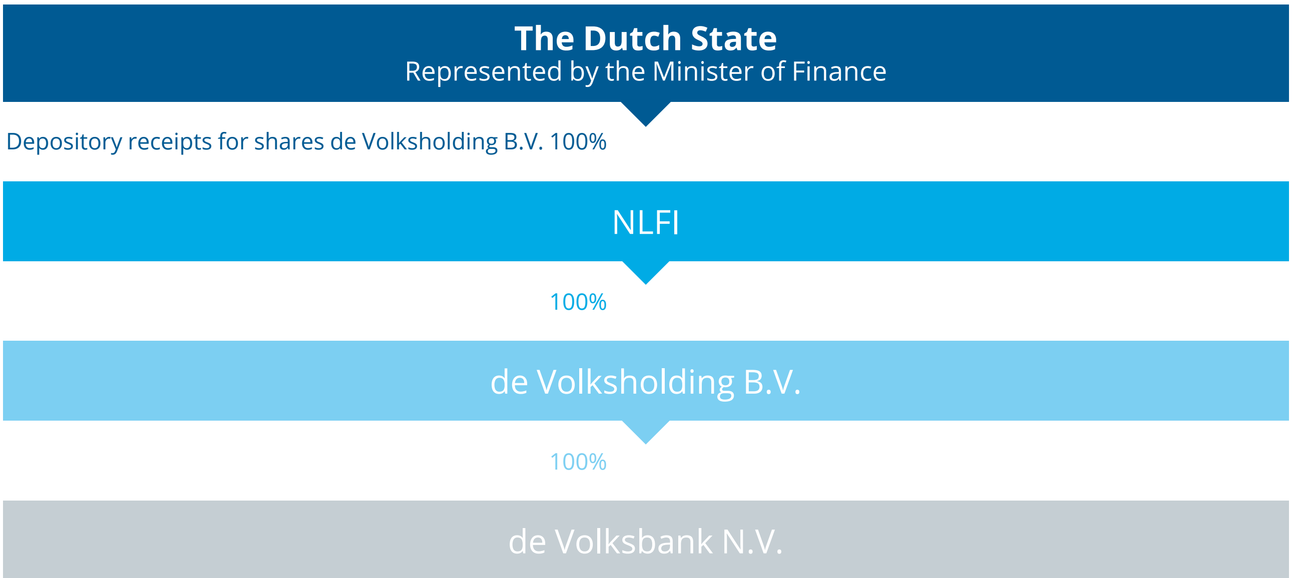
1.1 Introduction to Pillar 3

De Volksbank's Pillar 3 report deals with capital adequacy and risk management, providing insight into such aspects as the capital position, the size and composition of capital and how the capital is related to risks, as expressed in risk-weighted assets.

1.1.1 Development in legal structure

Legal structure of de Volksbank as per 1 January 2017:

Holding structure



For more information see the website www.devolksbank.nl.

The sale of SNS Securities N.V. to NIBC Bank N.V. was completed on 30 June 2016, after which date this entity is no longer part of de Volksbank.

Following the merger between ASN Bank N.V., RegioBank N.V. and SNS Bank N.V. on 31 December 2016, the separate banking licences of ASN Bank N.V. and RegioBank N.V. have lapsed; they operate under the banking licence of SNS Bank N.V. The four brands BLG Wonen, ASN Bank, RegioBank and SNS are covered by this banking licence as from 31 December 2016. The four brands are also jointly covered by the Deposit Guarantee Scheme.

As a result of the merger, the registered name of SNS Bank N.V. was changed into de Volksbank N.V. (de Volksbank) on 1 January 2017.

De Volksbank is a wholly owned subsidiary company of de Volksholding B.V. (formerly SNS Holding B.V.). NLFI has a direct participating interest in the holding and issued depository receipts for shares to the Dutch State, as schematically shown above.

1.1.2 Consolidation scope

De Volksbank has a duty to report on an individual and a prudential consolidated level. This duty is on the individual level equal to the IFRS consolidation scope of the licensed institution, namely de Volksbank. The prudential consolidated level of the Volksbank includes the financial holding company de Volksholding B.V. (de Volksholding) However, as de Volksholding has no activities other than holding the interest in de Volksbank, the consolidated figures on an individual and prudential consolidated level are identical; the same goes for the own funds, risk-weighted assets and solvency ratios. Only the structure of own funds on a prudential consolidated level is different in terms of share capital, share premium reserve and other reserves. Therefore, the Pillar 3 report is published based on an individual level.

The table below clarifies the difference in composition of the own funds. This Pillar 3 report presents the tables for de Volksbank, but the information applies to both de Volksholding's and de Volksbank's consolidated figures.

Comparison between capitalisation on prudential and individual level

In € millions	CRD IV transitional		CRD IV fully phased in	
	Prudential (incl. de Volksholding B.V.)	Individual (incl. de Volksbank N.V.)	Prudential (incl. de Volksholding B.V.)	Individual (incl. de Volksbank N.V.)
Capital instruments	--	381	--	381
Share premium	4,117	3,787	4,117	3,787
Retained earnings	329	329	329	329
Accumulated other comprehensive income (OCI)	180	180	180	180
Other reserves	-1,085	-1,136	-1,085	-1,136
Shareholders' equity	**3,541**	**3,541**	**3,541**	**3,541**
Not eligible interim profits	-223	-223	-223	-223
Not eligible retained earnings previous years[1]	--	--	--	--
Shareholders' equity for CRD IV purposes	**3,318**	**3,318**	**3,318**	**3,318**
Total prudential filters	**-101**	**-101**	**-47**	**-47**
Total capital deductions	**-53**	**-53**	**-62**	**-62**
Total regulatory adjustments to shareholders' equity	**-154**	**-154**	**-109**	**-109**
CRD IV Common Equity Tier 1 capital	**3,164**	**3,164**	**3,209**	**3,209**
Additional Tier 1 capital	--	--	--	--
Tier 1 capital	**3,164**	**3,164**	**3,209**	**3,209**
Eligible Tier 2	500	500	500	500
IRB shortfall[2]	-9	-9	--	--
Total Tier 2 capital	**491**	**491**	**500**	**500**
Total capital	**3,655**	**3,655**	**3,709**	**3,709**
Risk-weighted assets	10,824	10,824	10,824	10,824

1 Effective 2015, an, as yet, unamortised transaction result on a settled Tier 2 loan is deducted directly from shareholders' equity (€ 2 million).

2 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision.

The present Pillar 3 report is separately publiced to de Volksbank's annual report. The annual report also contains a detailed explanation of capital and risk management. The information included in the annual report and the information in this report are consistent and partially overlap.

The Pillar 3 report allows us to be transparent and to comply with the reporting requirements from the European Capital Requirements Regulation (CRR). The report provides information on all the topics mentioned in the Directive to the extent that they apply to de Volksbank

The information in the Pillar 3 report has not been audited by de Volksbank's external auditor.

The mandatory Pillar 3 information of de Volksbank is disclosed every six months. Interim updates on key issues are given in de Volksbank's press releases or on its website.

1.2 Detailed index of Pillar 3 references

The Pillar 3 disclosures are described in Part Eight of the CRR. The table below provides insight into these disclosure requirements and states where the reader may find this information in the annual report and/or the Pillar 3 report.

CRR §	Pillar 3 disclosure requirements	Location in Pillar 3 report	Notes
435	Risk management objectives and policies	Refer to chapter 3, Risk, liquidity and capital management	Section 3.13 of the annual report contains the management statement. Chapter 3 of the annual report discusses risk management and capital and liquidity management. Subjects addressed in this chapter include strategy, policy, risk profile, organisation, reporting and

			measures. Sections 3.4 and 3.5 contains a summary that explains the risk governance, risk appetite and culture. Chapter 4 (Report Supervisory Board) adresses subjects of the risk committees and chapter 5 of the annual report discusses the governance provisions. Chapter 5 and section 2.6 (Our people) of the annual report discusses topics including the diversity policy.
436	Scope of application	Pillar 3 report, section 1.3 - Scope of application	
437	Own funds	Pillar 3 report, chapter 2 – Own funds and leverage	Section 3.6.5 of the annual report discusses the capital structure and the full reconciliation of shareholders' equity.
438	Capital requirements	Pillar 3 report, section 2.4 – Capital requirements	Section 3.6.2 and 3.6.6 of the annual report also discuss the capital requirements and risk-weighted assets.
439	Exposure to counterparty credit risk	Pillar 3 report, section 3.6 – Counterparty risk	
440	Capital buffers	Pillar 3 report, section 2.5 – Capital buffers	
441	Indicators of global systemic importance	Not included	De Volksbank is not considered an institution of global systemic importance.
442	Credit risk adjustments		Section 3.7 of the annual report provides detailed information about the credit risk exposure, presented in several subsections. In addition, this section provides insight into the exposure to loans in arrears and the provisions formed.
443	Unencumbered assets	Pillar 3 report, section 5.1 – Encumbered and unencumbered assets	
444	Use of ECAIs	Pillar 3 report, section 3.2.2 – Calculation of risk-weighted assets and use of credit rating agencies	
445	Exposure to market risk	Pillar 3 report, chapter 4 – Market risk	This is also discussed in section 3.8 of the annual report.
446	Operational risk	Pillar 3 report, chapter 7 – Operational risk	
447	Exposures in equities not included in the trading book	Pillar 3 report, section 3.8 – Equities not included in the trading portfolio	
448	Exposure to interest rate risk on positions not included in the trading book	Pillar 3 report, section 4.2 – Interest rate risk not included in the trading portfolio	
449	Exposure to securitisation positions	Pillar 3 report, chapter 6 – Securitisation	
450	Remuneration policy	For the Pillar 3 remuneration report we refer to www.devolksbank.nl	Section 5.7 of the annual report contains the remuneration report.
451	Leverage	Pillar 3 report, section 2.3 – Leverage ratio	
452	Use of the IRB Approach to credit risk	Pillar 3 report, section 3.3 – Use of the IRB Approach to credit risk	
453	Use of credit risk mitigation techniques	Pillar 3 report, sections 3.6 Counterparty risk and 3.7 Risk mitigation	This is discussed in section 3.7.10 of the annual report. Here, we describe for our portfolios the management and instruments used to control credit risk.
454	Use of the Advanced Measurement Approaches to operational risk	Not included	De Volksbank does not use internal operational risk models to calculate capital requirements.
455	Use of Internal Market Risk Models	Not included	De Volksbank does not use internal market risk models to calculate capital requirements.

1.3 Scope of application

De Volksbank's point of departure for determining the scope of application of the CRR/CRD IV rules is the basis of consolidation under IFRS. The general rule is that all legal entities also fall within the scope of application of the CRR/CRD IV rules. Please refer to the accounting principles for the consolidated financial statements in the 2016 annual accounts of de Volksbank N.V. for more information about the consolidation principles.

As a result of the legal merger, the lapse of the separate banking licences of ASN Bank N.V. and RegioBank N.V. and the sale of SNS Securities N.V., the IFRS basis of consolidation focuses on the activities of de Volksbank N.V. Solvency and liquidity supervision also takes place at this level.

1.4 Flows of risk management information to directors

The Board of Directors and Supervisory Board of de Volksbank are regularly informed about the risks and risk management. The table below mentions important reports that the directors receive, as well as their frequency.

Table of reports and frequencies

	Report	Board of Directors	Supervisory Board
1st line	Quarterly Business Review/Management reports	quarterly	quarterly
	Monthly Business Review	monthly	
	In Control Statement	quarterly	quarterly
2nd line	Non-Financial Risk Report	quarterly	quarterly
	Financial Risk Report	quarterly	quarterly
	Risk Appetite Statement	annually	annually
	Strategic Risk Assessment	annually	
	Self assessment risk committees	annually	
	ICAAP/ILAAP reports	annually	annually
	List of decisions risk committees	afterwards	
3rd line	Audit report external accountant	annually	annually
	Internal audit reports	quarterly	quarterly
	Management Letter external accountant	annually	annually

Members of the Board of Directors serve on the various risk committees, which keep them informed of developments in the relevant focus area. A risk committee's list of decisions is sent to the Board of Directors after the meeting of that committee has ended.

We also refer to the Report of the Supervisory Board included in the annual report, which gives a detailed list of the subjects and reports discussed by the supervisory directors in 2016. The reports received by the supervisory directors were also discussed by the Board of Directors.

1.5 Management statement on the adequacy of risk management

Please refer to Section 3.13 of the annual report of de Volksbank N.V. 2016 for the management statements.

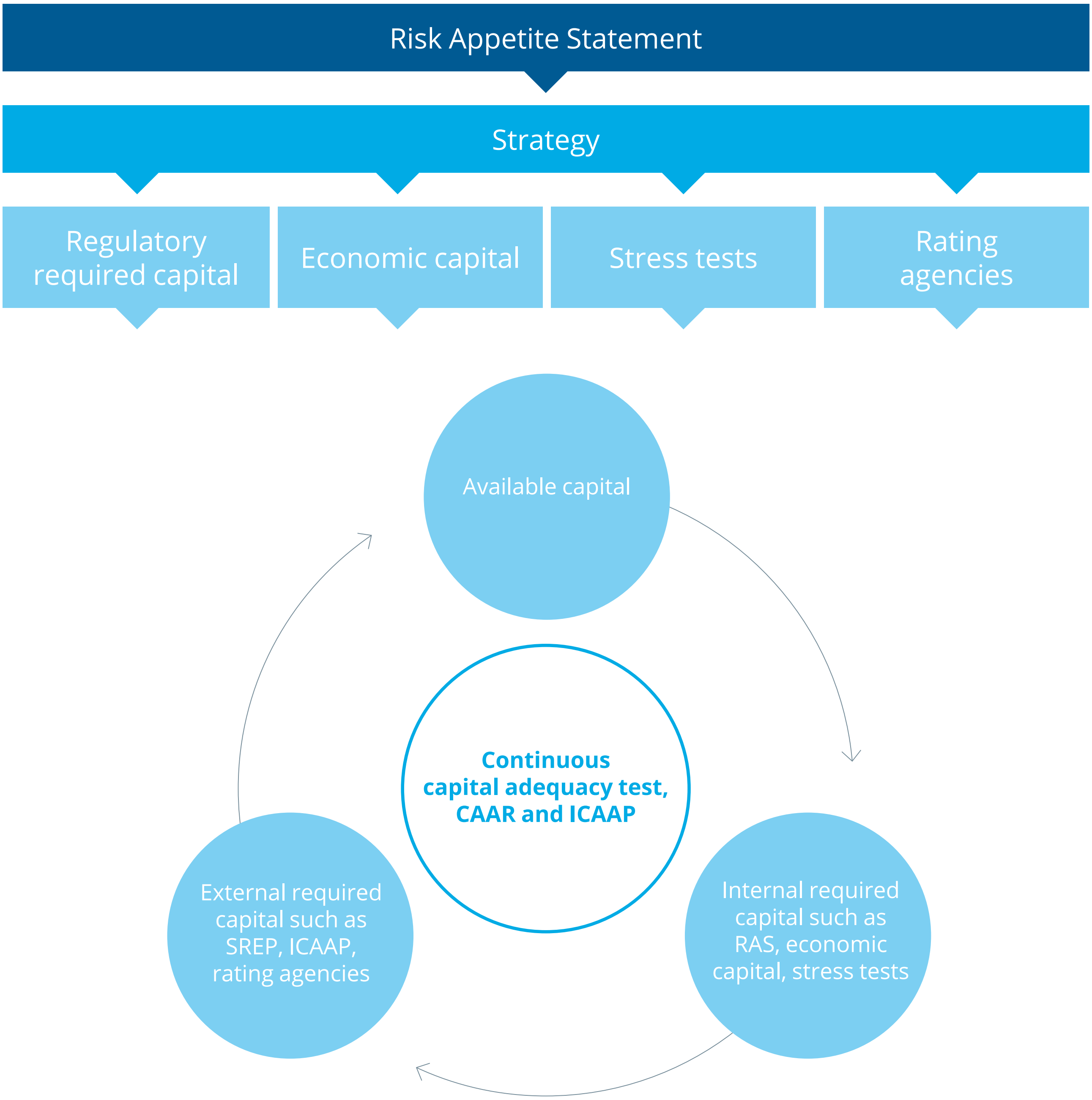
2 Own funds and leverage

2.1 Management and control EDTF 7

Our strategy incorporates the objective of having a solid capital position at our disposal, combined with a proper Return on Equity for our shareholders. De Volksbank applies a target level of 8.0% in respect of the Return on Equity. The Risk Appetite Statement (RAS) describes de Volksbank's risk appetite in relation to its own capital position. We have also established intervention levels allowing us to identify any unforeseen weakening of our capital position in good time and to make adjustments. RAS limits are determined subject to regulatory requirements as well as on the basis of insight provided by internal stress tests, economic capital and the recovery plan. The basic principle here is that the bank maintains internal buffers (in addition to the minimum amount of capital required) to guarantee sufficient capitalisation in the event of a severe yet plausible stress scenario.

Our capital management process is presented in the figure below.

Capital processes



REGULATORY CAPITAL EDTF 9
The minimum amount of capital required by law (regulatory capital) relates to the risk-weighted capital ratios (Common Equity Tier 1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required (leverage ratio). As described in Section 3.6.2, the minimum risk-weighted capital ratios ensue from the SREP.

ECONOMISCH KAPITAAL EDTF 7
In addition to regulatory capital, de Volksbank also makes its own internal (economic) estimate of required capital. This estimate deviates from regulatory capital on two main points:

1. Our calculations of economic capital include all material risks for which capital is to be maintained, in de Volksbank's opinion. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.

2. Using our own insight to guide us, we translate our risk appetite into adjusted internal capital requirements, partly on the basis of the desired rating. This makes the resulting estimate of economic capital relatively conservative compared to regulatory capital.

We share the economic capital results with the supervisory authority; this is part of the Internal Capital Adequacy Assessment Process (ICAAP) and the SREP. We also use the results to determine our internal capital targets as applied in the risk appetite statements.

STRESS TESTING EDTF 8

De Volksbank performs several stress tests every year, including a stress test as part of the ICAAP, to test the robustness of capital adequacy. A stress test calculates the impact that an extreme yet plausible macroeconomic scenario would have on the bank's capital position. The purpose of stress testing is to gain an understanding of the bank's main vulnerabilities.

The scenarios to be calculated are drafted on the basis of a detailed risk identification. In addition to scenario analyses, in which we calculate the impact of a macroeconomic scenario on de Volksbank's capital position, we also perform sensitivity analyses and reverse stress tests. In a reverse stress test, we start from a pre-determined outcome (such as a point where our business model comes under high pressure) and then look at the events that may lead to such a point.

The stress test results provide us with input to determine and monitor the bank's risk capacity and risk appetite. The reverse stress test and capital adequacy under stress are part of the ICAAP and provide input for, for example, the recovery plan.

RATING AGENCIES

The bank's creditworthiness is also assessed by rating agencies, i.e. by S&P, Moody's and Fitch. When determining a rating, rating agencies look at such aspects as the bank's capital position. To ensure that our capital ratios are in line with our rating ambition, we include the corresponding capital requirements in our capital planning. Please refer to Section 3.9.7 for more information about our credit ratings.

CONTINUOUS CAPITAL ADEQUACY ASSESSMENT EDTF 9

Capital Adequacy Assessment Report

Our aim is to continuously assess our capital to enable us to introduce timely adjustments. The capital planning forms the basis: it is established annually, simultaneously with the operational plan, and contains a projection of our capital position and requirements over a multi-year horizon. The effects of future regulations are also factored in. We review this capital planning every month on the basis of the most recent figures and qualitative knowledge in the Capital Adequacy Assessment Report (CAAR). We use this review to steer the capital to the desired level, for example by raising new capital if necessary.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) comprises the entire continuous capital management process and focuses on the capital adequacy requirements set by supervisory authorities. We draft an ICAAP report on an annual basis to inform the supervisory authority of the process organisation and results of the ICAAP. On this basis, the supervisory authority assesses the outcome of the ICAAP as part of the SREP process.

RECOVERY PLAN AND CONTINGENCY PLANNING

The financial crisis increased the focus on contingency planning, the planning for unforeseen events that is part of the recovery plan. The key objective of the recovery plan is to prepare de Volksbank for a crisis in a way that enables us to recover independently and safeguard de Volksbank's continuity.

Contingency planning encompasses the drafting and implementation of an action plan that allows us to take prompt measures as soon as our capital position deteriorates (as anticipated or unexpectedly), for example on the back of unfavourable financial market conditions. In addition to capital aspects, we also monitor the situation for any liquidity problems. Potential capital or liquidity problems are identified by frequent monitoring of 'early warning' indicators. Changes in the values of the indicators may be the first sign of stress.

On this basis, the recovery plan may then be activated. The series of measures available from the recovery plan subsequently help us to reinforce the ratios and recover independently. The measures available have a wide scope and relate to capital and liquidity as well as to operations and communications. The choice of the measures to be applied – such as raising new capital, lowering the risk-weighted assets, raising collateral-based funding, setting up the backup for critical systems or applications – depends on the nature and severity of the deteriorating conditions.

The main components of the recovery plan are the following:

- determining a number of (severe) stress scenarios;
- determining the most suitable recovery measures that we can apply;
- analysing actual recovery resulting from those measures ('recoverability assessment').

We update the recovery plan every year. We share and discuss it with DNB in its capacity as National Resolution Authority.

2.2 Own funds EDTF 10 EDTF 11

Under the CRD IV rules, de Volksbank's own funds comprise a number of components that must satisfy certain conditions. The complete composition of own funds according to the CRD IV rules is broken down in the table 'Capitalisation'. de Volksbank's capital base consists of Common Equity Tier 1 capital and Tier 2 capital. These capital concepts in relation to the capital structure are explained below. We also address the ability of capital items to absorb losses and the restrictions applicable.

The table below lists the main features and conditions of the equity components of de Volksbank.

Main features of capital instruments

	de Volksholding B.V.	de Volksbank N.V.	
amounts in € millions	**CET 1 Capital**	**CET 1 Capital**	**Tier 2 Capital**
Issuer	de Volksholding B.V.	de Volksbank N.V.	de Volksbank N.V.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)			XS1315151388
Governing law(s) of the instrument	Dutch law	Dutch law	Dutch law
REGULATORY TREATMENT			
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Subordinated loans
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	3.164	3.164	500
Nominal amount of instrument (originally issued capital)	€1,-	381	500
Issue price	2.7 billion	381	497
Redemption price	N/A	N/A	500
Accounting classification	Shareholders' equity	Shareholders' equity	Liability-amortised cost
Original date of issuance	N/A	N/A	5 November 2015
Perpetual or dated	Perpetual	Perpetual	Dated
Original maturity date	No maturity	No maturity	5 November 2025
Issuer call subject to prior supervisory approval	No	No	Yes
Optional call date, contingent call dates and redemption amount	N/A	N/A	5 November 2020
Subsequent call dates, if applicable	N/A	N/A	N/A
COUPONS / DIVIDENDS			
Fixed or floating dividend/coupon	Floating	Floating	Fixed
Coupon rate and any related index	N/A	N/A	3.75%
Existence of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	N/A	N/A	No
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative

amounts in € millions	de Volksholding B.V. CET 1 Capital	de Volksbank N.V. CET 1 Capital	de Volksbank N.V. Tier 2 Capital
Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Most subordinated position	Most subordinated position	Subordinated to senior unsecured funding
Non-compliant transitioned features	No	No	No

Section 3.6 of the risk management section of the 2016 annual report of de Volksbank discusses de Volksbank's capitalisation, risk-weighted assets and capital requirements. Important tables are again presented below.

Capitalisation

	CRD IV transitional		CRD IV fully phased in	
In € millions	**2016**	2015	**2016**	2015
Capital instruments	381	381	381	381
Share premium	3,787	3,787	3,787	3,787
Retained earnings	329	348	329	348
Accumulated other comprehensive income (OCI)	180	169	180	169
Other reserves	-1,136	-1,383	-1,136	-1,383
Shareholders' equity	**3,541**	**3,302**	**3,541**	**3,302**
Not eligible interim profits	-223	-104	-223	-104
Not eligible retained earnings previous years	--	-2	--	--
Shareholders' equity for CRD IV purposes	**3,318**	**3,196**	**3,318**	**3,196**
Increase in equity resulting from securitised assets	--	-9	--	-9
Cash flow hedge reserve	-44	-57	-44	-57
Fair value reserve	-54	-67	--	--
Other prudential adjustments	-3	-3	-3	-3
Total prudential filters	**-101**	**-136**	**-47**	**-69**
Intangible assets	-15	-15	-15	-15
Deferred tax assets	--	--	--	--
IRB shortfall[1]	-38	-29	-47	-42
Facility SRH[2]	--	-100	--	-100
Total capital deductions	**-53**	**-144**	**-62**	**-157**
Total regulatory adjustments to shareholders' equity	**-154**	**-280**	**-109**	**-226**
CRD IV common equity Tier 1 capital	**3,164**	**2,916**	**3,209**	**2,970**
Additional Tier 1 capital	--	--	--	--
Tier 1 capital	**3,164**	**2,916**	**3,209**	**2,970**
Eligible Tier 2	500	493	500	493
IRB shortfall[1]	-9	-12	--	--
Total Tier 2 capital	**491**	**481**	**500**	**493**
Total capital	**3,655**	**3,397**	**3,709**	**3,463**

1 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. During the transitional phase the shortfall (initially equally divided over Tier 1 and Tier 2 capital) is attributed for a growing part to Tier 1 capital.

2 In February 2016, a € 100 million credit facility between SNS Bank and SRH (formerly SNS REAAL) was terminated and repaid. The absence of this deduction has an impact of 0.9% on the CET1 ratio.

The capital requirement taking into account the Basel I floor amounts to € 1.3 billion.

Effective 2014, adjustments to the regulatory capital apply pursuant to the Capital Requirements Regulation. These adjustments are introduced in phases and will apply in full as from 2018. The current requirements are referred to as 'transitional'; the requirements in force after full phase-in are referred to as 'fully phased in'.

CET1 capital rose to € 3,164 million from € 2,916 million at year-end 2015, mainly driven by profit retention (adjusted for dividend reservation) and an increase of the Available For Sale (AFS) revaluation reserve. This revaluation reserve is the difference between the market and the book value of the AFS investment portfolio. In addition, the rise in CET1 capital was due to the termination in February 2016 of a € 100 million credit facility provided to SRH N.V., which had been fully deducted from shareholders' equity to determine CET1 capital for CRD IV purposes.

In 2016, the net profit of the second half of 2015 and of the first nine months of 2016 was added to CET1 capital (€ 377 million). After deduction of € 100 million dividend payment over 2015 and € 167 million dividend reservation[1] for 2016, this led to a net increase in CET1 capital of € 110 million. As a result, the dividend reservation and the net profit of the last three months of 2016 (together € 223 million) were deducted from shareholders' equity to determine CET1 capital.

The increase of the fair value reserve to € 132 million from € 111 million at year-end 2015, in combination with an increase of the phase-in ratio from 40% to 60%, added € 36 million to CET1 capital.

Tier 2 capital instruments

in € millions			Nominal amount	
Tier 2	**Maturity date**	**First possible call date**	**2016**	**2015**
Bond loan	5-Nov-2025	5-Nov-2020	500	500
Total			**500**	**500**

Subordinated Tier 2 notes with a nominal value of € 500 million were issued in 2015. The book value of these notes totalled € 501 million at year-end 2016 (2015: € 493 million).

2.3 Leverage ratio EDTF 9

The leverage ratio is the ratio between a bank's amount of Tier 1 capital and total risk exposure. A minimum level for the leverage ratio is to prevent banks from building up excessive debts. The statutory minimum expected for the leverage ratio in the Netherlands is 4%.

The table below presents the leverage ratio for de Volksbank according to the composition of risk exposure and equity prescribed in the CRR.

Leverage ratio

in € millions	2016	2015
EXPOSURE VALUES		
Derivatives: market value	310	763
Derivatives: add-on mark-to-market method	272	276
Off-balance: undrawn credit facilities	186	77
Off-balance: medium/low risk	311	184
Other assets	59,406	60,444
CAPITAL AND REGULATORY ADJUSTMENTS		
Tier 1 capital - transitional	3,164	2,916
Tier 1 capital - fully phased-in	3,209	2,970
Regulatory adjustments (Tier 1 transitional)	-154	-280
Regulatory adjustments (Tier 1 fully phased-in)	-109	-226
EXPOSURE MEASURE AS DEFINED BY THE CRR		
Transitional	60,331	61,464
Fully phased-in	60,360	61,518
LEVERAGE RATIO		
Transitional	5.2%	4.7%
Fully phased-in	5.3%	4.8%

1 Dividend reservation is based on the upper boundary of the payout ratio target range. If the dividend reservation is higher than the actual dividend to be paid out, the surplus will be released to the Common Equity Tier 1 capital after the General Meeting of Shareholders in 2017.

1	**Description of the processes used to manage the risk of excessive leverage**	To manage the risk of excessive leverage, leverage ratio control is part of our capital planning. The leverage ratio reflects the ratio between de Volksbank's Tier 1 capital and total risk exposure. The Risk Appetite Statement (RAS) describes de Volksbank's risk appetite in relation to the leverage ratio and other aspects. The accompanying Early Warning Indicator (EWI) framework lays down intervention levels to identify a falling leverage ratio in good time. The capital planning is established annually and contains a projection of our capital position and requirements over a multi-year horizon. This capital planning is reviewed every month on the basis of the most recent figures and qualitative knowledge in the Capital Adequacy Assessment Report (CAAR). We assess the leverage ratio against the expected future minimum of 4% for Dutch banks and our internal target of at least 4.25%. This assessment is used to steer the capital to the desired level if necessary, for example by raising new capital. In addition to strengthening the capital position, we may slow down the growth of de Volksbank's total risk exposure to prevent the leverage ratio from falling too far.
2	**Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers**	The transitional leverage ratio increased from 4.7% to 5.2%. This was driven by a Tier 1 capital increase of € 248 million, as well as by a decrease in the exposure measure as defined by the Capital Requirements Regulation (CRR) of € 1.1 billion. The latter was mainly caused by an equally lower balance sheet, mainly due to a € 0.6 billion decrease in loans and advances to customers and a € 0.5 billion decrease in derivatives. The fully phased-in leverage ratio increased from 4.8% to 5.3%. From year-end 2016, leverage ratio reporting is based on the Delegated Act definition. The 5.2% leverage ratio is well above the anticipated requirement of 4%. 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 residential mortgages, a low-risk activity, with a correspondingly low risk-weighting.

The risk exposure that is used in calculating the leverage ratio differs from the value of the assets as included in the financial statements. The table below presents the reconciliation of accounting assets and the leverage ratio exposure.

Reconciliation of accounting assets and the leverage ratio exposure EDTF 10

	in € millions	2016	2015
1	Total assets as per published financial statements	61,560	62,690
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	--	--
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	--	--
4	Adjustments for derivative financial instruments	-950	-955
5	Adjustments for securities financing transactions "SFTs"	--	--
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	496	261
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	--	--
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	--	--
	Regulatory adjustments	-154	-280
7	Other adjustments	-621	-252
8	**Total leverage ratio exposure (CRR)**	**60,331**	**61,464**

Leverage ratio common disclosure

		CRR leverage ratio exposures	
		2016	2015
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	59,406	60,697
2	(Asset amounts deducted in determining Tier 1 capital)	-154	-532
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	59,252	60,165
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	543	763
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	272	276
EU-5a	Exposure determined under Original Exposure Method	--	--
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	--	--
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-234	--
8	(Exempted CCP leg of client-cleared trade exposures)	--	--
9	Adjusted effective notional amount of written credit derivatives	--	--
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	--	--
11	**Total derivative exposures (sum of lines 4 to 10)**	582	1,039
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	--	--
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	--	--
14	Counterparty credit risk exposure for SFT assets	--	--
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	--	--
15	Agent transaction exposures	--	--
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	--	--
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	--	--
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,273	1,690
18	(Adjustments for conversion to credit equivalent amounts)	-2,776	-1,429
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	496	261
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	--	--
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	--	--
	Capital and total exposures		
20	**Tier 1 capital**	3,164	2,916
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	60,331	61,465
	Leverage ratio		
22	**Leverage ratio**	5.2%	4.7%
	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
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	n.a.	n.a.

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures	
		2016	2015
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	59,406	60,444
EU-2	Trading book exposures	831	761
EU-3	Banking book exposures, of which:	58,576	59,684
EU-4	Covered bonds	--	--
EU-5	Exposures treated as sovereigns	5,836	6,149
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,508	1,943
EU-7	Institutions	2,272	3,075
EU-8	Secured by mortgages of immovable properties	44,939	43,199
EU-9	Retail exposures	173	809
EU-10	Corporate	2,604	3,334
EU-11	Exposures in default	93	267
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1,152	907

2.4 Capital requirements EDTF 9 EDTF 13 EDTF 14

This chapter describes de Volksbank's Pillar 1 capital requirements. Pillar 1 sets the minimum capital requirements on the basis of the risk-weighted assets (RWA) for three types of risk: credit risk, market risk and operational risk. The table below shows the risk-weighted assets per type of risk, exposure category and method of calculation.

Risk-weighted assets (RWA) and capital requirements EDTF 16

in € millions	EAD[1] 2016	EAD[1] 2015	RWA 2016	RWA 2015	8% Pillar 1 capital requirement 2016	8% Pillar 1 capital requirement 2015
CREDIT RISK INTERNAL RATINGS BASED APPROACH						
Retail mortgages[2]	43,447	42,052	5,913	6,134	473	491
Securitisation positions	51	619	4	80	--	6
Other	--	--	591	642	47	51
Total credit risk IRB approach	**43,498**	**42,671**	**6,508**	**6,856**	**520**	**548**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	6,989	7,745	194	170	16	14
Regional governments and local authorities	2,761	2,531	--	--	--	--
Public sector entities	35	44	9	12	1	1
Multilateral developments banks	282	284	--	--	--	--
International organisations	--	15	--	--	--	--
Financial institutions	943	1,286	299	447	24	36
Corporates	1,095	812	505	424	40	34
Retail excl. mortgages	181	201	136	151	11	12
Secured by mortgages immovable property	1,002	1,122	687	780	55	62
Exposures in default	93	137	111	161	9	13
Covered bonds	--	--	--	--	--	--
Shares	21	25	21	25	2	2
Other Items	350	260	260	195	21	16
Total credit risk standardised approach	**13,752**	**14,462**	**2,222**	**2,365**	**179**	**190**
MARKET RISK (STANDARDISED APPROACH)						
- Traded debt instruments	2,765	2,526	88	206	7	16
- Shares	--	1	--	3	--	--
OPERATIONAL RISK						
- Standardised approach	--	--	1,672	1,698	134	136
Total market- and operational risk	**2,765**	**2,527**	**1,760**	**1,907**	**141**	**152**
Credit Valuation Adjustment (CVA)	--	--	334	385	27	31
Total de Volksbank	**60,015**	**59,660**	**10,824**	**11,513**	**867**	**921**

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.

The Exposure at Default (EAD) rose from € 59.7 billion to € 60.0 billion at year-end 2016, which was triggered in particular by the EAD increase in the retail mortgages category from € 42.1 billion to € 43.4 billion. This rise can mainly be attributed to the termination of the Hermes XII securitisation transaction (EAD increase of € 1.0 billion). In addition to the growth of the EAD for retail mortgages (increase of € 0,3 billion), our exposure to bonds in the trading portfolio also increased by € 0.2 billion. The EAD increase prompted by these developments was largely offset by a € 0.6 billion decline in securitisation positions and a € 0.8 billion decline in central governments and central banks.

Risk-weighted assets (RWA) decreased to € 10.8 billion, compared to € 11.5 billion at year-end 2015.

In 2016, the Internal Rating Based (IRB) model for the retail mortgages portfolio was updated. As a consequence, RWA of this portfolio increased by € 661 million. In addition, securitisation Hermes XII was called in March 2016, resulting in an IRB RWA increase of € 171 million. These RWA increases were more than offset by a € 1,1 billion decrease mainly due to decreasing probabilities of default (PDs) and loss given defaults (LGDs) as a result of improved economic circumstances. RWA density[2] of retail mortgages decreased from 16.0% at year-end 2015 to 15.0% at year-end 2016. Credit risk RWA subject to the Standardised Approach (SA) decreased by € 143 million to € 2.2 billion. RWA for operational and market risk and the Credit Value Adjustment together decreased by € 198 million to € 2.1 billion.

2 RWA density is defined as risk-weighted assets divided by the exposure at default (EaD).

At year-end 2016 de Volksbank has no transactions in which the agreed delivery dates have not been settled yet. Therefore per year end 2016 there is no RWA for settlement risk. The bank does not hold commodities and therefore no capital is required. At year-end 2016, the total net position in foreign currency is lower than the CRR threshold of 2% of total capital. Therefore no capital is required.

The Basel Committee on Banking Supervision has made a proposal for adding the use of internal loss data to the capital calculation for operational risks. The method is not yet final.

The table below presents the development of the RWA.

Development RWA EDTF 14 EDTF 16

in € millions	2016	2015
Opening amount	11,513	13,771
CREDIT RISK SA		
Development portfolio	-143	-1,522
Movements in credit risk CVA	-51	102
Total movement Credit risk SA	**-194**	**-1,420**
CREDIT RISK IRB		
Re-risking (calls securitisation-programmes)	171	433
Movement investor position securitisation	-44	--
Model updates	661	--
Development portfolio (including PD and LGD migrations)	-1,136	-1,333
Total movement IRB-portfolio	**-348**	**-900**
Market risk development	-66	-70
Market risk sale of portfolio	-55	--
Operational risk	-26	132
Total movement	**-689**	**-2,258**
Closing amount	**10,824**	**11,513**

2.4.1 Capital ratios EDTF 9

The table below presents the development of capital ratios in 2016:

Capital ratios

	CRD IV transitional		CRD IV fully phased in	
in € millions	**2016**	2015	**2016**	2015
CRD IV common equity Tier 1 capital	3,164	2,916	3,209	2,970
Tier 1 capital	3,164	2,916	3,209	2,970
Total capital	3,655	3,397	3,709	3,463
Risk-weighted assets	**10,824**	**11,513**	**10,824**	**11,513**
Exposure measure as defined by the CRR	60,331	61,464	60,360	61,518
Common equity Tier 1 ratio	29.2%	25.3%	29.6%	25.8%
Tier 1 capital ratio	29.2%	25.3%	29.6%	25.8%
Total capital ratio	33.8%	29.5%	34.3%	30.1%
Leverage ratio	5.2%	4.7%	5.3%	4.8%

In 2016, de Volksbank's transitional CET1 ratio rose to 29.2% from 25.3% at year-end 2015, well above the 9.25% CET1 capital requirement following from the SREP. The fully phased-in CET1 ratio rose to 29.6% from 25.8% at year-end 2015. At year-end 2016, eligible Tier 2 capital amounted to € 491 million, including the regulatory adjustment of € 9 million related to the IRB shortfall. In 2016, the total capital ratio was up from 29.5% to 33.8%.

De Volksbank's relatively high risk-weighted capital ratios are expected to decrease in the wake of the BCBS proposals. The amount of capital required to meet the leverage ratio target – presently the most binding capital target – is expected to be below the capital amount required to meet the risk-weighted targets.

Given de Volksbank's presently strong capital position, we expect that the capital ratios will still exceed our internal targets and external requirements even after the BCBS proposals are implemented.

In accordance with Article 437 of the CRR, de Volksbank discloses its own funds in a format prescribed by the regulator:

Pillar 3 Common equity

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date	Amount subject to pre-regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	4,168	--
	of which: ordinary shares	381	--
	of which: share premium	3,787	--
	of which: instrument type 3	--	--
2	Retained earnings	--	--
3	Accumulated other comprehensive income	-956	--
3a	Funds for general banking risk	--	--
4	Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	--	--
	Public sector capital injections grandfathered until 1 January 2018	--	--
5	Minority interests	--	--
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	106	--
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	3,318	--
	CET1 capital: regulatory adjustments		
7	Additional value adjustments (-)	-3	--
8	Intangible assets (net of related tax liability) (-)	-9	-6
9	Empty set in the EU	--	--
10	deferred tax assets that rely on future profitability excluding those arising from temporary differences	--	--
11	Fair value reserves related to gains or losses on cash flow hedges	-44	--
12	Negative amounts resulting from the calculation of expected loss amounts	-28	-19
13	Any increase in equity that results from securitised assets (-)	--	--
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	--	--
15	Defined-benefit pension fund assets (negative amount)	--	--
16	Direct and indirect holding by an institution of own CET1 instruments (-)	--	--
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	--	--
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	--	--
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	--	--
20	Empty set in the EU	--	--
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	--	--
20b	*of which: qualifying holdings outside the financial sector (-)*	--	--
20c	*of which: securitisation positions (-)*	--	--
20d	*of which: free deliveries (-)*	--	--
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liabilities)	--	--
22	Amount exceeding the 15% threshold	--	--
23	*Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	--	--
24	Empty set in the EU	--	--
25	*of which: deferred tax assets arising from temporary differences*	--	--
25a	Losses for the current financial year (-)	--	--
25b	Foreseeable tax charges relating to CET1 items (-)	--	--
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-54	--
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-54	--
	Of which: .... Filter for unrealised gains property	-2	--
	Of which: .... Filter for unrealised gains available for sale equity	-5	--
	Of which: .... Filter for unrealised gains available for sale debt instruments/loans	-74	--
26b	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	--	--
	Of Which: ...	--	--
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (-)	-16	--
28	**Total regulatory adjustments to CET1**	-154	--
29	**CET1 capital**	3,164	--

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date	Amount subject to pre-regulation (EU) No 575/2013
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	--	--
31	*of which: classified as equity*	--	--
32	*of which: classified as liabilities*	--	--
33	Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from AT1	--	--
	Public sector capital injections grandfathered until 1 January 2018	--	--
34	Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	--	--
35	*of which: instruments issued by subsidiaries subject to phase out*	--	--
36	**AT 1 capital before regulatory adjustments**	--	--
	AT1 capital: regulatory adjustments		
37	Direct and indirect holding by an institution of own AT1 instruments (-)	--	--
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	--	--
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	--	--
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	--	--
42	Qualifying T2 deductions that exceed the T2 capital of the institution (-)	--	--
43	**Total regulatory adjustments to AT1 capital**	--	--
44	**AT1 capital**	--	--
45	**Tier 1 capital (T1= CET1 + AT1)**	3,164	--
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	500	--
47	Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from T2	--	--
	Public sector capital injections grandfathered until 1 January 2018	--	--
48	Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties (excluding row 5 and 34)	--	--
49	*of which: instruments issued by subsidiaries subject to phase out*	--	--
50	Credit risk adjustments	--	--
51	**T2 capital before regulatory adjustments**	500	--
	T2 capital: regulatory adjustments		
52	Direct and indirect holding by an institution of own T2 instruments and subordinated loans (-)	--	--
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	--	--
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entitities (amount above 10% threshold and net of eligible short positions)(-)	--	--
55	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entitities (amount above 10% threshold and net of eligible short positions)(-)	--	--
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treament and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-9	--
56a	Residual amounts deducted from T2 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-9	--
	Of which: shortfall of provisions to expected losses	-9	--
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	--	--
	Of which items to be detailed line by line, e.g. reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	--	--
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR	--	--
	Of which: … possible filter for unrealised losses	--	--
	Of which: … possible filter for unrealised gains	--	--
	Of which: …	--	--

	Common Equity Tier 1 (CET1) capital: instruments and reserves in millions	Amount at disclosure date	Amount subject to pre-regulation (EU) No 575/2013
57	**Total regulatory adjustments to T2 capital**	-9	--
58	**Tier 2 capital**	491	--
59	**Total capital (TC = T1 + T2)**	3,655	--
60	**Total risk weighted assets**	10,824	--
	Capital ratios and buffers		
61	CET1 (as a % of total risk exposure amount)	29.2%	0.0%
62	T1 (as a % of total risk exposure amount)	29.2%	0.0%
63	TC (as a % of total risk exposure amount)	33.8%	0.0%
64	Institution specific buffer requirement	0.0%	0.0%
65	*of which: capital conservation buffer requirement*	0.0%	0.0%
66	*of which: countercyclical buffer requirement*	0.0%	0.0%
67	*of which: systemic buffer requirement*	0.0%	0.0%
67a	*of which: G-SII or O-SII buffer*	0.0%	0.0%
68	CET1 available to meet buffers (as a % of risk exposure amount)	21.2%	0.0%
69	[non relevant EU regulation]	0.0%	0.0%
70	[non relevant EU regulation]	0.0%	0.0%
71	[non relevant EU regulation]	0.0%	0.0%
	Amounts below the thresholds for deduction		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	--	--
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	--	--
74	Empty set in the EU	--	--
75	deferred tax assets arising from temporary differnces (amount below 10% threshold, net of related tax liability where the conditoins in Article 38 (3) are met)	--	--
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	--	--
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	28	--
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	--	--
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	39	--
	Capital instruments subject to phase-out arrangements (1 Jan 2014 - 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	--	--
81	Amount excluded from CET1 due to cap	--	--
82	Current cap on AT1 instruments subject to phase out arrangements	--	--
83	Amount excluded from AT1 due to cap	--	--
84	Current cap on T2 instruments subject to phase out arrangements	--	--
85	Amount excluded from T2 due to cap	--	--

Pillar 3 own funds reconciliation with IFRS balance sheet

Equity	IFRS balance sheet	Page/note[1]	Row in transitional own funds template
Total Equity	3,212	p 186	
- of which share capital	381		1
- of which share premium reserve	3,787		1
- of which accumulated other comprehensive income	-956		3
- of which regulatory adjustments relating to unrealised gains pursuant to article 468	-54		26a
- of which fair value reserves related to gains on cash flow hedges	-44		11
- of which retained earnings	--		2
- of which profit/loss of the current financial year	106		5a
Assets			
Loans and advances to customers	48,593	n5	7,11,12,13
Investments	5,970	n3	7,26a
Intangible assets	15	n7	8
Deferred tax assets	137	n8	10
Derivatives	1,533	n2	7
Liabilities			
Subordinated debt	501	n18	46
Derivatives	1,861	n2	7
Deferred tax liabilities	59	n8	10

1 2016 annual report of de Volksbank N.V.

2.5 Capital buffers EDTF 9

Following the results of the Supervisory Review and Evaluation Process (SREP) performed by the ECB, de Volksbank is expected to maintain a minimum CET1 ratio of 9.25% as from 1 January 2017 (including the Pillar 2 requirement). This CET1 capital requirement includes the capital conservation buffer of 1.25% and the buffer for Other Systemically Important Institutions (O-SII buffer) of 0.5%. The O-SII buffer will be phased in by 0.25% per annum, to 1% in total in 2019; the capital conservation buffer will be phased in by 0.625% per annum, to 2.5% in 2019.

The countercyclical capital buffer is intended to protect banks against risks arising when credit growth is excessive. A high buffer requirement in the event of strong credit growth in the Netherlands will put the brakes on lending. During economic downturns (e.g. during a crisis), reducing the buffer will keep lending at the desired level and will enable banks to absorb credit losses. Each quarter DNB sets the level of the buffer for the Netherlands, which in principle varies from 0 to 2.5%. The countercyclical capital buffer is presently zero% for exposures to Dutch counterparties.

The table below presents the capital requirements in respect of the Common Equity Tier 1 capital, Tier 1 capital and total capital (Tier 1 and Tier 2) as at 1 January 2017. The Common Equity Tier 1 capital ratios and total capital ratios are well above these minimum capital requirements.

Minimum capital requirements de Volksbank

	Total capital		of which Tier 1 capital		of which CET1 capital	
	2017	end-state (2019)	2017	end-state (2019)	2017	end-state (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%**

INTERNAL MINIMUM LEVEL

De Volksbank applies an internal minimum level of 15.0% for its Common Equity Tier 1 capital and of 4.25% for its leverage ratio.

The table below, which serves as input for the calculation of our countercyclical capital buffer, shows the geographical distribution of our credit exposures.

Geographical distribution of credit EAD for calculating the countercyclical buffer

In € millions	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: general credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
BREAKDOWN BY COUNTRY:												
The Netherlands	4,990	44,552	--	--	--	51	584	--	--	584	95.66%	0%
Belgium	145	72	--	--	--	--	10	--	--	10	1.70%	0%
Germany	326	13	--	--	--	--	2	--	--	2	0.37%	0%
France	342	4	--	--	--	--	8	--	--	8	1.27%	0%
Greece	--	1	--	--	--	--	--	--	--	--	0.00%	0%
Italy	1	1	--	--	--	--	--	--	--	--	0.00%	0%
Ireland	--	--	--	--	--	--	--	--	--	--	0.00%	0%
Austria	117	--	--	--	--	--	--	--	--	--	0.00%	0%
Portugal	--	1	--	--	--	--	--	--	--	--	0.00%	0%
Spain	--	2	--	--	--	--	--	--	--	2	0.01%	0%
United Kingdom	231	17	--	--	--	--	2	--	--	2	0.36%	0%
Switserland	60	5	--	--	--	--	1	--	--	1	0.17%	0%
Other	34	33	--	--	--	--	3	--	--	3	0.44%	0%
Total	**6,246**	**44,701**	**--**	**--**	**--**	**51**	**610**	**--**	**--**	**610**	**100%**	**0%**

Amount of institution-specific countercyclical capital buffer

in € millions	2016
Total risk exposure amount	10,824
Institution specific countercyclical buffer rate	--
Institution specific countercyclical buffer requirement	--

3 Credit risk

3.1 Introduction EDTF 2 EDTF 3

De Volksbank has divided the credit risk portfolio into several exposure classes. We use the Advanced Internal Ratings-Based (AIRB) approach to calculate the capital requirements for residential mortgage portfolios and securitisations with underlying mortgages. We use the Standardised Approach (SA) for all other portfolios. The credit risk portfolio is presented in the Pillar 3 report in accordance with regulations: Standardised Approach versus Advanced Internal Ratings-Based and then further specified within the exposure classes.

The table below shows a breakdown of loans and advances to customers by industry. The retail loans mainly consist of retail mortgages. The category 'Government' pertains to loans provided to local authorities (municipalities, provinces). The loans and advances to government decreased by € 0.5 billion due to liquidity management.

The other categories pertain to commercial loans. These also include loans to the (semi-)public sector, such as utility companies or health care institutions.

Loans and advances to customers

in € millions	2016	2015
Retail	44,962	44,971
Government	1,053	1,517
Financial services	760	816
Administration and support	247	294
Human health	256	280
Real estate activities	631	682
Electricity, gas, steam	271	253
Industry	148	120
Wholesale and retail trade	143	149
Other commercial	122	135
Total	**48,593**	**49,217**

3.2 Standardised Approach EDTF 15

3.2.1 Exposure classes

We distinguish the following exposure classes within the Standardised Approach (SA):

- **Central governments or central banks.** In addition to direct exposures to central governments and central banks, this also includes items covered by guarantees of these entities.
- **Regional governments or local authorities.** These are, for example, provinces, municipalities or water boards.
- **Public sector entities.** These include not-for-profit administrative bodies, such as universities or university hospitals, that are accountable to central, regional or local governments.
- **Multilateral development banks.** Examples in this exposure class are the European Investment Bank and the Council of Europe.
- **International organisations.** Legal entities subject to international law, operating in at least three countries and incorporated on the basis of a treaty or an agreement. An example is the European Stability Mechanism (ESM).
- **Financial institutions.** These are mainly credit institutions such as banks.
- **Corporates.** These include large businesses. These are companies employing more than 250 people, with sales equal to or greater than € 50 million and a balance sheet total equal to or greater than € 43 million.
- **Retail excl. mortgages.** In addition to natural persons, this category also contains small SMEs. These are companies employing fewer than 50 people, with sales or a balance sheet total of less than € 10 million and exposures of no more than € 1 million.
- **Secured by mortgages on immovable property.** This includes claims secured by both homes and business premises.
- **Exposures in default.** All SA exposures that are more than 90 days in arrears are in default.
- **Covered bonds.** These are bonds that offer additional security to the holders by means of a first right to specific assets upon bankruptcy.
- **Equity exposures.** This category includes exposures to equities of businesses.
- **Other items.** All other exposures that do not fall in any of the above categories are classified in this category.

Average exposure 2016

in € millions	Exposure	Average exposure
STANDARDISED EXPOSURE CLASSES		
Central governments and central banks	5,836	6,173
Regional governments or local authorities	1,152	1,129
Public sector entities	75	82
Multilateral developments banks	282	289
International organisations	--	--
Financial institutions	2,738	3,098
Corporates	3,939	3,885
Retail excl. mortgages	818	862
Secured by mortgages immovable property	1,029	1,092
Exposures in default	188	219
Covered bonds	--	--
Equity exposures	22	23
Other items	350	374
Total standardised approach	**16,429**	**17,227**
IRB EXPOSURE CLASSES		
Retail mortgages	44,701	43,391
Securitisation	79	84
Total IRB approach	**44,780**	**43,475**
Total exposure	**61,209**	**60,702**

Average exposure 2015

in € millions	Exposure	Average exposure
STANDARDISED EXPOSURE CLASSES		
Central governments and central banks	6,149	7,289
Regional Governments or Local Authorities	1,557	1,063
Public Sector Entities	87	110
Multilateral Developments Banks	284	271
International Organisations	15	15
Financial institutions	3,075	3,820
Corporates	3,334	3,097
Retail excl. Mortgages	809	872
Secured by Mortgages Immovable Property	1,147	1,174
Exposures in Default	267	272
Covered Bonds	--	--
Equity exposures	27	14
Other items	260	295
Total standardised approach	**17,011**	**18,292**
IRB EXPOSURE CLASSES		
Retail mortgages	42,052	41,722
Securitisation	619	814
Total IRB approach	**42,671**	**42,536**
Total exposure	**59,682**	**60,828**

Exposure split by geography 2016

in € millions	The Netherlands	EMU	Outside EMU	Total exposure
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	3,054	2,756	26	5,836
Regional governments or local authorities	695	364	93	1,152
Public sector entities	75	--	--	75
Multilateral developments banks	--	282	--	282
International organisations	--	--	--	--
Financial institutions	449	406	1,883	2,738
Corporates	2,705	938	296	3,939
Retail excl. mortgages	805	11	2	818
Secured by mortgages immovable property	1,022	6	1	1,029
Exposures in default	184	4	--	188
Covered bonds	--	--	--	--
Equity exposures	22	--	--	22
Other items	350	--	--	350
Total standardised approach	**9,361**	**4,767**	**2,301**	**16,429**
IRB EXPOSURE CLASSES				
Retail mortgages	44,552	96	53	44,701
Securitisation	79	--	--	79
Total IRB approach	**44,631**	**96**	**53**	**44,780**
Total exposure	**53,992**	**4,862**	**2,354**	**61,209**

Exposure split by geography 2015

in € millions	The Netherlands	EMU	Outside EMU	Total exposure
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	3,110	3,019	20	6,149
Regional governments or local authorities	1,313	244	--	1,557
Public sector entities	87	--	--	87
Multilateral developments banks	--	284	--	284
International organisations	--	--	15	15
Financial institutions	1,279	598	1,198	3,075
Corporates	2,536	586	212	3,334
Retail excl. mortgages	796	12	1	809
Secured by mortgages immovable property	1,139	7	1	1,147
Exposures in default	260	7	--	267
Covered bonds	--	--	--	--
Equity exposures	25	--	2	27
Other items	260	--	--	260
Total standardised approach	**10,805**	**4,757**	**1,449**	**17,011**
IRB EXPOSURE CLASSES				
Retail mortgages	41,888	107	57	42,052
Securitisation	619	--	--	619
Total IRB approach	**42,507**	**107**	**57**	**42,671**
Total exposure	**53,312**	**4,864**	**1,506**	**59,682**

Exposure by maturity 2016

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Provision	Total
STANDARDISED EXPOSURE CLASSES								
Central governments and central banks	2,160	--	52	957	2,667	--	--	5,836
Regional governments or local authorities	281	185	60	296	329	--	--	1,152
Public sector entities	1	--	6	22	47	--	--	75
Multilateral developments banks	--	--	--	119	163	--	--	282
International organisations	--	--	--	--	--	--	--	--
Financial institutions	1,287	524	565	188	174	--	--	2,738
Corporates	1,207	51	540	345	1,796	--	--	3,939
Retail excl. mortgages	807	--	--	3	8	--	--	818
Secured by mortgages immovable property	15	--	1	30	987	--	-4	1,029
Exposures in default	95	--	--	4	185	--	-96	188
Covered bonds	--	--	--	--	--	--	--	--
Equity exposures	--	--	--	--	--	23	-1	22
Other items	--	--	--	--	--	350	--	350
Total standardised approach	**5,853**	**760**	**1,225**	**1,963**	**6,356**	**373**	**-101**	**16,429**
IRB EXPOSURE CLASSES								
Retail mortgages	29	9	70	352	44,346	--	-106	44,701
Securitisation	--	--	--	--	79	--	--	79
Total IRB approach	**29**	**9**	**70**	**352**	**44,425**	**--**	**-106**	**44,780**
Total exposure	**5,882**	**769**	**1,295**	**2,315**	**50,781**	**373**	**-207**	**61,209**

Exposure by maturity 2015

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Provision	Total
STANDARDISED EXPOSURE CLASSES								
Central governments and central banks	1,795	--	251	1,462	2,641	--	--	6,149
Regional governments or local authorities	741	60	38	327	391	--	--	1,557
Public sector entities	1	--	5	31	50	--	--	87
Multilateral developments banks	--	--	--	141	143	--	--	284
International organisations	--	--	--	15	--	--	--	15
Financial institutions	1,947	765	--	243	120	--	--	3,075
Corporates	1,147	1	27	247	1,912	--	--	3,334
Retail excl. mortgages	797	--	1	4	9	--	-2	809
Secured by mortgages immovable property	19	--	3	27	1,101	--	-3	1,147
Exposures in default	183	--	--	3	210	--	-129	267
Covered bonds	--	--	--	--	--	--	--	--
Equity exposures	--	--	--	--	--	23	-2	21
Other items	--	--	--	--	--	260	--	260
Total standardised approach	**6,630**	**826**	**325**	**2,500**	**6,577**	**283**	**-136**	**17,005**
IRB EXPOSURE CLASSES								
Retail mortgages	6	7	50	366	41,837	--	-214	42,052
Securitisation	--	--	--	--	619	--	--	619
Total IRB approach	**6**	**7**	**50**	**366**	**42,456**	**--**	**-214**	**42,671**
Total exposure	**6,636**	**833**	**375**	**2,866**	**49,033**	**283**	**-350**	**59,676**

Exposure by industry 2016

in € millions	Retail	Go-vern-ment	Finan-cial ser-vices	Admi-nistra-tion and sup-port	Human health	Real estate acti-vities	Elec-tricity, gas, steam	Indus-try	Whole-sale and retail trade	Other com-mercial	Total expo-sure
STANDARDISED EXPOSURE CLASSES											
Central governments and central banks	--	5,836	--	--	--	--	--	--	--	--	5,836
Regional governments or local authorities	--	1,152	--	--	--	--	--	--	--	--	1,152
Public sector entities	--	23	--	--	52	--	--	--	--	--	75
- of which SME	--	*3*	--	--	--	--	--	--	--	--	*3*
Multilateral developments banks	--	282	--	--	--	--	--	--	--	--	282
International organisations	--	--	--	--	--	--	--	--	--	--	--
Financial institutions	--	--	2,738	--	--	--	--	--	--	--	2,738
Corporates	--	--	2,185	16	101	691	270	25	126	525	3,939
- of which SME	--	--	--	*6*	--	*20*	*161*	*3*	*114*	*58*	*362*
Retail excl. mortgages	--	--	--	4	1	4	6	117	604	82	818
- of which SME	--	--	--	*4*	--	*3*	*2*	*40*	*28*	*10*	*87*
Secured by mortgages immovable property	304	12	7	23	18	144	--	10	7	504	1,029
- of which SME	*304*	*11*	*7*	*23*	*18*	*144*	--	*10*	*7*	*504*	*1,028*
Exposures in default	5	--	--	7	4	18	--	5	42	107	188
- of which SME	*1*	--	--	*7*	*4*	*18*	--	*1*	*17*	*95*	*143*
Covered bonds	--	--	--	--	--	--	--	--	--	--	--
Equity exposures	--	--	--	--	--	--	--	--	--	22	22
Other items	--	--	--	--	--	--	--	--	--	350	350
Total standardised approach	**309**	**7,305**	**4,930**	**50**	**176**	**857**	**276**	**157**	**779**	**1,590**	**16,429**
IRB EXPOSURE CLASSES											
Retail mortgages	44,701	--	--	--	--	--	--	--	--	--	44,701
Securitisation	--	--	--	--	--	--	--	--	--	79	79
Total IRB approach	**44,701**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**79**	**44,780**
Total exposure	**45,010**	**7,305**	**4,930**	**50**	**176**	**857**	**276**	**157**	**779**	**1,669**	**61,209**

Exposure by industry 2015

in € millions	Retail	Go-vern-ment	Finan-cial ser-vices	Admi-nistra-tion and sup-port	Human health	Real estate acti-vities	Elec-tricity, gas, steam	Indus-try	Whole-sale and retail trade	Other com-mercial	Total expo-sure
STANDARDISED EXPOSURE CLASSES											
Central governments and central banks	--	6,149	--	--	--	--	--	--	--	--	6,149
Regional governments or local authorities	--	1,557	--	--	--	--	--	--	--	--	1,557
Public sector entities	--	70	--	--	18	--	--	--	--	--	87
- of which SME	--	*3*	--	--	--	--	--	--	--	--	*3*
Multilateral developments banks	--	284	--	--	--	--	--	--	--	--	284
International organisations	--	--	15	--	--	--	--	--	--	--	15
Financial institutions	--	--	3,062	--	--	--	--	--	--	13	3,075
Corporates	305	--	843	6	2	996	253	--	8	921	3,334
- of which SME	--	--	--	--	--	*6*	*132*	--	--	*20*	*158*
Retail excl. mortgages	1	1	1	7	3	12	1	13	25	747	809
- of which SME	--	--	--	*1*	*1*	*1*	*1*	*1*	*1*	*3*	*9*
Secured by mortgages immovable property	--	5	32	62	20	257	6	118	230	416	1,147
- of which SME	--	*5*	*32*	*61*	*20*	*254*	*6*	*116*	*227*	*411*	*1,132*
Exposures in default	12	2	2	9	1	41	--	25	31	143	267
- of which SME	--	*2*	*2*	*8*	*1*	*36*	--	*20*	*26*	*61*	*156*
Covered bonds	--	--	--	--	--	--	--	--	--	--	--
Equity exposures	--	--	--	--	--	--	--	--	--	27	27
Other items	--	--	--	--	--	--	--	--	--	260	260
Total standardised approach	**318**	**8,068**	**3,955**	**84**	**44**	**1,306**	**260**	**156**	**294**	**2,527**	**17,011**
IRB EXPOSURE CLASSES											
Retail mortgages	42,052	--	--	--	--	--	--	--	--	--	42,052
Securitisation	--	--	--	--	--	--	--	--	--	619	619
Total IRB approach	**42,052**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**619**	**42,671**
Total exposure	**42,370**	**8,068**	**3,955**	**84**	**44**	**1,306**	**260**	**156**	**294**	**3,146**	**59,683**

3.2.2 Calculation of risk-weighted assets and use of credit rating agencies EDTF 26

Under the SA, credit risk is measured using risk weights that are applied to the exposure. The application of risk weights within the SA is subject to a set of fixed rules and is primarily determined by the risk classification of the underlying asset.

External ratings issued by recognised credit rating agencies serve as input to determine the risk classification and, as a result, the risk weight in the SA measurement of risk-weighted assets (RWA).

The tables below present the RWA according to risk weight and the capital requirement. The capital requirement has been set at 8% of RWA.

Exposure classes split by risk weighted assets and capital requirements per risk weight 2016

in € millions	Risk Weight											
	0% - 10%	20%	35%	50%	75%	100%	150%	250%	400%	500%	Total	Total capital requirement
STANDARDISED APPROACH												
Central governments and central banks	--	--	--	--	--	--	--	194	--	--	**194**	**16**
Regional governments or local authorities	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Public sector entities	--	6	--	--	--	3	--	--	--	--	**9**	**1**
Multilateral developments banks	--	--	--	--	--	--	--	--	--	--	**--**	**--**
International organisations	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Financial institutions	--	115	--	184	--	--	--	--	--	--	**299**	**24**
Corporates	12	21	--	18	--	454	--	--	--	--	**505**	**40**
Retail excl. mortgages	--	--	--	--	133	3	--	--	--	--	**136**	**11**
Secured by mortgages immovable property	--	--	92	--	428	167	--	--	--	--	**687**	**55**
Exposures in default	--	--	--	--	--	57	54	--	--	--	**111**	**9**
Covered bonds	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Equity exposures	--	--	--	--	--	21	--	--	--	--	**21**	**2**
Other items	--	--	--	--	--	260	--	--	--	--	**260**	**21**
Total standardised risk weighted assets	**12**	**142**	**92**	**202**	**561**	**965**	**54**	**194**	**--**	**--**	**2,222**	
Total capital requirements	**1**	**11**	**7**	**16**	**45**	**77**	**4**	**16**	**--**	**--**		**179**

Exposure classes split by risk weighted assets and capital requirements per risk weight 2015

in € millions	Risk Weight											
	0% - 10%	20%	35%	50%	75%	100%	150%	250%	400%	500%	Total	Total capital requirement
STANDARDISED APPROACH												
Central governments and central banks	--	--	--	--	--	--	--	170	--	--	**170**	**14**
Regional governments or local authorities	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Public sector entities	--	8	--	--	--	4	--	--	--	--	**12**	**1**
Multilateral developments banks	--	--	--	--	--	--	--	--	--	--	**--**	**--**
International organisations	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Financial institutions	--	131	--	316	--	--	--	--	--	--	**447**	**36**
Corporates	7	18	--	13	2	384	--	--	--	--	**424**	**34**
Retail excl. mortgages	--	--	--	--	151	--	--	--	--	--	**151**	**12**
Secured by mortgages immovable property	--	--	101	--	463	216	--	--	--	--	**780**	**62**
Exposures in default	--	--	--	--	--	89	72	--	--	--	**161**	**13**
Covered bonds	--	--	--	--	--	--	--	--	--	--	**--**	**--**
Equity exposures	--	--	--	--	--	25	--	--	--	--	**25**	**2**
Other items	--	--	--	--	--	195	--	--	--	--	**195**	**16**
Total standardised risk weighted assets	**7**	**157**	**101**	**329**	**616**	**913**	**72**	**170**	**--**	**--**	**2,365**	
Total capital requirements	**1**	**13**	**8**	**26**	**49**	**74**	**6**	**14**	**--**	**--**		**190**

The decrease of total RWA (and, as a result, the capital charges) is attributable to such factors as a decline at financial institutions caused by the bank reducing a few large exposures to these institutions.

De Volksbank uses the recognised external ratings issued by Standard & Poor's, Moody's and Fitch Ratings. The credit rating is related to the credit quality steps (from high to low: 1 through 6) defined in the rules. The CRR/CRD IV rules indicate for various exposure classes which risk weight corresponds with which credit quality step.

Following tables elaborate further on the various exposure classes broken down by the various credit quality steps.

EXPOSURE TO CENTRAL GOVERNMENTS AND CENTRAL BANKS
The table below shows the EAD and RWA for central governments or central banks broken down by rating class.

Exposure to central governments and central banks 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	6,761	--
		250%	78	194
A+ to A-	2			
- EMU		0%	120	--
- Outside EMU		20%	--	--
BBB+ to BBB-	3			
- EMU		0%	30	--
- Outside EMU		50%	--	--
BB+ to B-	4		--	--
- EMU		0%	--	--
- Outside EMU		100%	--	--
CC	5		--	--
- EMU		0%	--	--
- Outside EMU		0%	--	--
Unrated		0%	--	--
Unrated		100%	--	--
Total exposure			**6,989**	**194**

Exposure to central governments and central banks 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	7,468	--
		250%	68	170
A+ to A-	2			
- EMU		0%	97	--
- Outside EMU		20%	--	--
BBB+ to BBB-	3			
- EMU		0%	112	--
- Outside EMU		50%	--	--
BB+ to B-	4			
- EMU		0%	--	--
- Outside EMU		100%	--	--
CC	5			
- EMU		0%	--	--
- Outside EMU		0%	--	--
Unrated		100%	--	--
Total exposure			**7,745**	**170**

Under the rules, the risk weight of the above investments in the EU Member States has been set at 0% (in accordance with CRR, Article 114), resulting in RWA of nil for de Volksbank.

The 250% risk-weighted item of € 78 million is a deferred tax asset related to the Dutch government.

The geographical breakdown of central governments and central banks is as follows:

Central governments and central banks (EAD)

in € millions	2016	2015
GEOGRAPHY		
the Netherlands	3,832	3,944
Belgium	590	544
Germany	1,211	1,747
France	694	873
Italy	30	112
Ireland	120	97
Austria	389	361
Other	123	67
Total	**6,989**	**7,745**

EXPOSURE TO REGIONAL GOVERNMENTS AND LOCAL AUTHORITIES

The table below shows the EAD and RWA for regional governments or local authorities broken down by rating class (and the corresponding credit quality step).

Exposure to regional governments or local authorities 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	2,059	--
A+ to A-	2	0%	75	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Unrated			627	--
Total exposure			**2,761**	**--**

Exposure to regional governments or local authorities 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	1,777	--
A+ to A-	2	0%	50	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Unrated			704	--
Total exposure			**2,531**	**--**

No RWA apply to de Volksbank's investments in regional governments or local authorities as a result of the 0% risk weight applicable to these (lower) tiers of governments of EU Member States (in accordance with CRR, Article 115).

EXPOSURE TO PUBLIC SECTOR ENTITIES

The table below shows the rating allocation for public sector entities. The exposure to public sector entities is very limited.

Exposure to public sector entities 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	--	--
A+ to A-	2	50%	--	--
BBB+ to BBB-	3	100%	--	--
BB+ to B-	4	100%	--	--
Unrated		20%	32	6
Unrated		100%	3	3
Total exposure			**35**	**9**

Exposure to public sector entities 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	--	--
A+ to A-	2	50%	--	--
BBB+ to BBB-	3	100%	--	--
BB+ to B-	4	100%	--	--
Unrated		20%	40	8
Unrated		100%	4	4
Total exposure			**44**	**12**

REGIONAL GOVERNMENTS AND LOCAL AUTHORITIES

The table below provides a further breakdown by counterparty of the 'Regional governments and local authorities' and 'Public Sector Entities' as shown above. These are both national and international authorities.

Regional governments and local authorities (EAD)

in € millions	2016	2015
Provinces	2,015	1,217
Municipal authorities	422	1,022
Water boards	320	285
Universities	--	--
Medical institutions	16	23
Other	24	28
Total	**2,796**	**2,575**

The next higher public authority guarantees loans to regional governments (explicitly or implicitly). This is the Dutch government with regard to municipalities, water boards and university hospitals. The 'Provinces' category relates to Swiss cantons and regional governments in Belgium, Germany and France.

EXPOSURE TO MULTILATERAL DEVELOPMENT BANKS
The table below shows the rating allocation for multilateral development banks. The exposure to multilateral development banks has remained virtually the same and is still very limited.

No RWA apply to these exposures as a result of the 0% risk weight applicable to these multilateral development banks (in accordance with CRR, Article 117).

Exposure to multilateral developments banks 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	282	--
A+ to A-	2	0%	--	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Total exposure			**282**	**--**

Exposure to multilateral developments banks 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	284	--
A+ to A-	2	0%	--	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Total exposure			**284**	**--**

EXPOSURE TO INTERNATIONAL ORGANISATIONS
The table below shows the rating allocation for international organisations.
No RWA apply to these exposures as a result of the 0% risk weight applicable to these international organisations (in accordance with CRR, Article 118). At year-end 2016 there is no exposure.

Exposure to international organisations 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	--	--
A+ to A-	2	0%	--	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Total exposure			**--**	**--**

Exposure to international organisations 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	0%	15	--
A+ to A-	2	0%	--	--
BBB+ to BBB-	3	0%	--	--
BB+ to B-	4	0%	--	--
Total exposure			**15**	**--**

EXPOSURE FOR FINANCIAL INSTITUTIONS
The table below shows the rating allocation for financial institutions. The concentration risk on individual financial institutions that are counterparties to derivative transactions was further reduced. Where possible, we settle new and existing derivative transactions via a central clearing party, thus reducing the credit risk on financial institutions.

Exposure for financial institutions 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	512	102
A+ to A-	2			
- < 3 months		20%	59	12
- < 3 months		50%	1	1
- > 3 months		20%	--	--
- > 3 months		50%	361	180
BBB+ to BBB-	3		--	
- < 3 months		20%	3	1
- > 3 months		50%	7	3
BB+ to B-	4			
- < 3 months		50%	--	--
- > 3 months		100%	--	--
Unrated			--	--
Total exposure			**943**	**299**

Exposure for financial institutions 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	642	128
A+ to A-	2			
- < 3 months		20%	8	2
- < 3 months		50%	14	7
- > 3 months		20%	--	--
- > 3 months		50%	598	299
BBB+ to BBB-	3			
- < 3 months		20%	2	--
- > 3 months		50%	19	9
BB+ to B-	4			
- < 3 months		50%	--	--
- > 3 months		100%	--	--
Unrated			3	2
Total exposure			**1,286**	**447**

EXPOSURE IN CORPORATES
The table below shows the rating allocation for corporates.

The EAD for derivatives with a Central Counterparty (CCP) having a risk weight of 2% or 4% (in accordance with CRR, Article 305) rose even more. This is in line with de Volksbank's policy to clear derivatives via a CCP as much as possible in order to limit the counterparty risk.

Exposure to corporates 2016

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	105	21
A+ to A-	2	2%	392	8
A+ to A-	2	4%	107	4
A+ to A-	2	50%	37	18
A+ to A-	2	100%	--	--
BBB+ to BBB-	3	100%	--	--
BB+ to B-	4	100%	--	--
Unrated		50%	--	--
Unrated		75%	--	--
Unrated		100%	454	454
Total exposure			**1,095**	**505**

Exposure to corporates 2015

in € millions	Credit quality step	Risk weight	EAD	RWA
AAA to AA-	1	20%	92	18
A+ to A-	2	2%	254	5
A+ to A-	2	4%	54	2
A+ to A-	2	50%	25	13
A+ to A-	2	100%	--	--
BBB+ to BBB-	3	100%	1	1
BB+ to B-	4	100%	--	--
Unrated		50%	--	--
Unrated		100%	3	2
Unrated		500%	383	383
Total exposure			**812**	**424**

EXPOSURE IN COVERED BONDS
No covered bonds were held in the portfolio at year-end 2016 and 2015.

3.3 Use of AIRB Approach to credit risk

3.3.1 Exposure classes

Within Advanced Internal Rating Based (AIRB), de Volksbank distinguishes the exposure classes residential mortgages and securitisation.

RESIDENTIAL MORTGAGES
Exposures to residential mortgages secured with collateral subject to a mortgage registration and possibly a National Mortgage Guarantee ('Nationale Hypotheek Garantie'; NHG) are classified as loans and advances to customers. At year-end 2016, the residential mortgage portfolio represented 92% (2015: 91%) of de Volksbank's total loans and advances to customers.

SECURITISATION
The securitisation exposure class consists mainly of securitised mortgages of de Volksbank held for own account. These are securitised mortgages for which the securitisation entities issued bonds that have not been sold to investors or that have been repurchased.

The residential mortgages are discussed below. The securitisations are addressed in Chapter 6 of this Pillar 3 report.

3.3.2 Residential mortgages

AIRB PARAMETERS
The AIRB approach measures credit risk using approved models with internal input for the calculation of Probability of Default (PD), (downturn) Loss Given Default (LGD) and Exposure at Default (EAD).

PROBABILITY OF DEFAULT
We assess debtors' credit quality by assigning them an internal risk rating. Supported with statistical data, the rating reflects the probability of a customer in a particular rating category being unable to make mortgage payments within the next 12 months.

The model consists of 14 different PD exposure classes for the portfolio: performing (classes 1-13) and non-performing (class 14). Of the classes 6-10 within performing it can be roughly said that they are recently recoverd[3], classes 11-13 are then in arrears. Class 7 refers to the part of the portfolio which is not graded directly by the rating model, but which is included in the total based on its average weight. Class 7 represents 7% of the portfolio.

LOSS GIVEN DEFAULT
When a customer defaults, we are usually able to recover part of the amount outstanding on their loans. The remaining part is the actual loss. Together with the economic costs associated with the forced sale of the collateral, this is the total loss namely Loss Given Default. The severity of the LGD is measured as a percentage of the EAD. Using historical information, we can estimate the average loss we incur on the various types of loan in the event of default.

In the rating model an individual LGD is calculated for each customer, which projections range from 0 to 100%.

[3] This concerns customers which had at least 1 month arrears in the previous 12 months or were in default but who are now recoverd.

DOWNTURN LGD

In addition to determining the LGD based on current information, we also determine a downturn LGD before we are able to calculate the RWA. The rules specify that internal LGD estimates must reflect that losses may be systematically higher under uncertain (macroeconomic) conditions than under 'normal' or average conditions. If the driving systematic (e.g. macroeconomic) factors are of a cyclical nature, the losses in the event of default will also be cyclical. Consequently, in this context a downturn is equated with the bottom of this cycle and the corresponding actual performance for the driving (macroeconomic) factors. We arrive at a forward-looking characterisation of a downturn by establishing levels of the factors that are reached at the bottom of the cycle with a certain probability. De Volksbank determines these levels on the basis of expert sessions and commercial considerations, supported by statistical analyses of historical cycles.

We use the regular LGD model – albeit adjusted for negative macroeconomic conditions – to determine the downturn LGD. In this respect we take into account a drop of current house prices, with the expected drop being based on an analysis of the historical development of house prices in the Netherlands. Higher unemployment rates and their impact on the LGD are also factored in.

EXPOSURE AT DEFAULT

The EAD is an estimate of the extent to which a credit facility has been used when default occurs. During the term of a loan, the customer may not have drawn the loan fully or may already have repaid some of the principal. We take the EAD into consideration when evaluating loans, using our extensive historical experience. In our evaluation, we recognise that customers may use their credit facilities more than average as they approach default.

INTERNE RATING PROCEDURE

The internal rating procedure for residential mortgages is based on various data elements such as Loan-to-Value, type of home and payment behaviour, ensuring that we measure the risk correctly. The ratings are automatically assigned during the rating procedure; it is not possible to overrule a rating once it has been assigned. We perform this rating procedure every month for the entire residential mortgage portfolio, including contractual obligations for future loans (signed offers). As regards the latter category, we have insufficient information on that specific reporting date to establish the regular PD, LGD and EAD; that is why we use an average weight, known as the default rate.

CONTROL MECHANISM FOR THE INTERNAL RATING SYSTEM

Model documentation

An internal guideline of de Volksbank is that the documentation of AIRB models must be sufficiently detailed to allow an independent validation of the model based on the original data sources. It must include a description of the data used for model development, the methods used (and the rationale for choosing those methods), all assumptions used in the model and the known strengths and weaknesses of the model.

MODEL MONITORING

After the model has been approved and implemented, the second-line risk management department performs a model monitoring process on a quarterly basis with the aim of assessing whether the model's predictive and explanatory power is still sufficient. The process includes an explicit review by the second line of the model's projections as compared to actual performance. If the second line finds a large or excessive difference between these factors, we identify the cause and determine the need for a model adjustment. In principle, the model is reviewed every year, but the Model Governance Committee (MGC) may decide to advance this review as a result of the model monitoring.

MODEL REVIEW

The model is subjected not only to periodic model monitoring, but also to an annual review. Just like the model monitoring process, this review is used to determine the extent to which the model is still performing in line with expectations, as well as whether the new performance justifies a model adjustment. The model review should therefore be considered an analysis of the model and its performance that is more in-depth than model monitoring.

INITIAL AND PERIODIC MODEL VALIDATION

We internally subject all models to an independent validation process before the approval process commences, following which we proceed to implementation if the decision is positive. The MGC ensures that the model building and approval processes are followed and the various models are mutually consistent. Further, we assess compliance with relevant legislation and regulations and the model's suitability for its intended use.

MODEL APPROVAL

De Volksbank has adopted clear rules for the model approval process. The model owners submit the risk models to the MGC for approval, and the CC is also given the opportunity to examine the models' impact and decide on the timing of their implementation.

3.3.3 Credit quality breakdown for residential mortgages EDTF 14 EDTF 15

Most of the mortgage loan collateral is located in the Netherlands. In order to weigh the credit risk in this portfolio, we use an internally developed AIRB-model PHIRM[4]. This rating model calculates the likelihood of a customer running into payment problems within one year and the resulting losses for the Bank.

We use the results to determine the risk-weighted assets (RWA) of the residential mortgage portfolio. They form the basis of the IFRS loan provision calculations, but also serve as input for vital internal risk reports.

The bank updated the rating model used for the AIRB in 2014. On 19 December 2014, DNB gave its approval on condition that the model would be calibrated using more recent data and a new collateral indexation method. PHIRM 2.1 was introduced in April 2016.

USE OF MORE RECENT DATA

One of the most important changes is the extension of the data period used for the estimation of the models. For the PHIRM 2.0 PD model, data of January 2006 up to and including March 2013 was used. For the PHIRM 2.0 LGD model, data of January 2006 until January 2014 was used. For the PHIRM 2.1 PD and LGD model, this period is extended from January 2006 until December 2014.

INDEXATION METHOD

A new collateral indexation method has been used in the calibration of the PHIRM models, using indexation figures from Ortec. The new indexation methodology is more granular than the former indexation methodology based on Kadaster information. The collateral values in the former methodology were determined on a quarterly basis using a general indexation percentage per province (from CBS/Kadaster). With the new indexation methodology, both the frequency and the granularity have increased. In PHIRM 2.1, the collateral is indexed using monthly updated figures depending on the house type as well as the municipality. Please note that the underlying model methodologies themselves have not changed as part of the calibration, which is substantiated by the fact that this calibration is a non-material change.

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

PD-risk category retail mortgages 2016

Internal rating grade	Average LGD	Average PD	EAD in each grade	RWA in each grade (or band)
PERFORMING				
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
Non-performing	19.83%	100.00%	408	399
Total			**43,447**	**5,913**

[4] PHIRM - Particuliere Hypotheken Interne Rating Model (Residential Mortgages Internal Rating Model)

PD-risk category retail mortgages 2015

Internal rating grade	Average LGD	Average PD	EAD in each grade	RWA in each grade (or band)
PERFORMING				
1	8.76%	0.07%	10,790	172
2	8.75%	0.19%	5,092	184
3	11.10%	0.32%	5,141	340
4	12.74%	0.43%	6,195	587
5	17.13%	0.71%	6,324	1,136
6	17.82%	1.23%	1,430	387
7	12.63%	1.26%	2,538	496
8	17.41%	2.01%	839	304
9	13.32%	3.44%	800	304
10	13.47%	6.87%	916	505
11	14.82%	13.36%	411	326
12	14.21%	21.80%	381	327
13	14.97%	41.85%	326	284
Non-performing	21.22%	100.00%	869	782
Total			**42,052**	**6,134**

The risk-weighted assets of the total portfolio declined, amounting to € 6.5 billion at year-end 2016 (€ 5.9 billion increased with a margin of conservatism in the model of 10%) compared with € 6.7 billion in 2015 (€ 6.1 billion also increased with a margin of conservatism of 10%). The average risk weight of retail mortgages dropped from 16.0% at year-end 2015 to 15.0% at year-end 2016. This risk weight is defined as risk-weighted assets including the margin of conservatism divided by total mortgage exposure.

The decline in risk-weighted assets can be attributed mainly to decreasing PDs and LGDs of the retail mortgage portfolio as a result of improved economic conditions. The decline was partly offset by the deployment of the new AIRB model with an estimated impact of € 0.7 billion.

3.3.4 Expected adjustments

The Margin of Conservatism Framework was redeveloped in 2016; the implementation date depends on internal and external approval procedures.

In the years ahead, several adjustments will need to be made to the IRB model itself as well as to the model input and results on account of expected changes in regulations.

Approved
- Guidelines specifying the application of the definition of default (EBA/GL/2016/07);
- Regulatory Technical Standards (RTS) on the materiality threshold of past due credit obligations (EBA/RTS/2016/06).

Under development
- RTS on conditions for capital requirements for mortgage exposures (EBA/CP/2015/12);
- Capital floors: the design of a framework based on standardised approaches (BIS paper 306);
- Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches (BIS paper 362);
- Consultation on Guidelines PD estimation, LGD estimation and treatment of defaulted assets (EBA/CP/2016/21).

Expected
- EBA RTS under Articles 181(3a) and 182(4a) on downturn conditions.

3.3.5 Expected credit loss adjustments in the AIRB approach

We adjust the available capital for the difference between the loss expected under the CRR/CRD IV guidelines and the actual provision for the related AIRB exposures. A negative difference arises when the loss expected according to the CRR/CRD IV guidelines exceeds the IFRS provision, creating an IRB shortfall. Based on the CRR/CRD IV rules, we deduct the shortfall from the Common Equity Tier 1 capital available. In the transitional phase, 80% of the shortfall could be deducted from Common Equity Tier 1 capital in 2016. We deduct the residual amount from the total available capital, specifically from Tier 2 capital[5]. If the difference is positive (the provision is higher than the expected loss), we add this surplus to Tier 2 capital, taking into account certain restrictions.

5 According to the CRR/CRD IV guidelines, in 2016 60% of the IRB shortfall must be deducted from Common Equity Tier 1 capital, 20% from Additional Tier 1 capital and 20% from Tier 2 capital. As no Additional Tier 1 capital was present in de Volksbank's capital structure in 2016, 80% of the IRB shortfall is effectively deducted from Common Equity Tier 1 capital and 20% from Tier 2 capital

A negative difference applies to de Volksbank. This difference follows from the fact that the AIRB model gives an estimate based on a long period of time (several points in time in an economic cycle that result in a 'Through the Cycle' picture). However, we must base the provisions on current portfolio developments, which are partly driven by the current point in the cycle.

The increase in the IRB shortfall in 2016 was largely related to the implementation of the improved credit risk model (PHIRM 2.1) in April 2016, resulting in lower provisions due to higher expected recovery rates and NHG payments.

A similar situation may arise in the determination of the LGD. This risk parameter is based on historical foreclosures, while recent portfolio developments are also specifically considered when the provisions are determined. For example, a discrepancy may have arisen between the average foreclosure period of the portfolio compared to more recent foreclosure periods. If this is the case, there will be a difference that is recognised and reported as a management adjustment.

Please refer to Section 3.4 for changes in the provisions of retail mortgages.

3.3.6 Model Backtesting EDTF 17

As part of the quarterly monitoring process, we also carry out a back test to determine the extent to which the model's projections match actual performance within the portfolio. A major point of focus is that estimates in the model are based not only on recent developments but especially also on longer periods of observation. That is why the results below give only partial insight into the complete back test.

The PD model's back test shows that the model issues a stable projection for the various years that is in line with the model's purpose: to provide a 'Through the Cycle' probability of default. As the default rate observed reflects current external and internal positive developments, a clear downward trend can be observed.

The table below shows the predicted PD of 2015 which concerns the actuals of year-end 2015 and predicts the development in the portfolio during 2016. It is in line with our expectation that the observed default rate in 2016 is below the level of the 'Through the Cycle' model prediction at year-end 2015.

Results back test AIRB model retail mortgages

Period	Predicted PD[1]	Observed default rate[2]
2007	1.31%	1.06%
2008	1.25%	1.20%
2009	1.20%	1.22%
2010	1.21%	1.35%
2011	1.26%	1.44%
2012	1.36%	1.59%
2013	1.28%	1.45%
2014	1.24%	0.97%
2015	1.05%	0.61%
Average over whole period	**1.24%**	**1.21%**

1 Calculated probability of default for the next 12 months; Customer weighted and Through the Cycle.

2 The observed percentage of the number of customers who went into default in the year after reporting.

3.3.7 Other uses of the AIRB model

We use the internal rating model primarily to determine the LGD, the downturn LGD and the PD and derive the RWA and provisions form these. The primary and secondary form these. The primary and secondary results are used in the following processes (among others):

- Collection processes, early and late collections
- Input for determining economic capital
- Pricing
- Portfolio management

3.4 Provisions EDTF 28

The table below shows the arrears in retail mortgage loans. A customer is in arrears if the payment of any interest and/or redemption amount is late by more than one day. In practice, this amounts to the overdue payment of an agreed monthly instalment. A customer is 'in default' when he fails to meet his payment obligation for at least 90 days, when it is unlikely that the customer will be able to meet their payment obligations or in the event of fraud, for example. Items only lose their default status once the arrears have been cleared in full. Impaired default loans are loans whose customers are in default and where a specific IFRS loan loss provision has been made.

Loans and advances to customers 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 (%)	Impaired ratio	Coverage ratio
Retail mortgage loans	44,911	-80	-34	44,797	682	260	422	1.5%	0.9%	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[3]	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%**	**1.2%**	**28.8%**

1 Retail mortgage loans in arrears exclude loans measured at fair value in the balance sheet of € 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 Gross SME loans include mortgage backed loans for a gross amount of € 815 million.

Loans and advances to customers 2015

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 (%)	Impaired ratio	Coverage ratio
Retail mortgage loans	45,044	-207	-50	44,787	1,317	396	921	2.9%	2.0%	22.5%
Retail other loans	219	-33	-2	184	61	13	48	27.9%	21.9%	68.8%
Total retail loans	**45,263**	**-240**	**-52**	**44,971**	**1,378**	**409**	**969**	**3.0%**	**2.1%**	**24.8%**
SME loans[3]	1,089	-95	-4	990	178	--	178	16.3%	16.3%	53.4%
Other commercial and semi-public loans	1,739	--	--	1,739	--	--	--	--	--	--
Loans to the public sector	1,517	--	--	1,517	--	--	--	--	--	--
Total loans and advances to customers	**49,608**	**-335**	**-56**	**49,217**	**1,556**	**409**	**1,147**	**3.1%**	**2.3%**	**29.2%**

1 Retail mortgage loans in arrears exclude loans measured at fair value in the balance sheet of € 30 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 Gross SME loans include mortgage backed loans for a gross amount of € 943 million.

The Netherlands is the only significant geographical area for de Volksbank.

As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there is objective evidence that de Volksbank will not be able to collect all the amounts in accordance with the contractual terms. Objective evidence can either be the result of 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. For loans and advances, that are individually significant, the provision equals the difference between the book value and the recoverable value. The recoverable value equals the expected future cashflows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

The criteria for impairment are applied to the loan portfolio which is recognized at amortised cost. Homogenous groups of loans and advances with smaller amounts per individual loan or advance (and corresponding credit risk), such as mortgages and consumer credit, are tested collectively for impairment. The same applies to smaller business loans managed in a portfolio. The provision with respect to the collective approach is calculated using models, including risk-rating models for homogenous pools of consumer. The loss factors developed using these models are based on historical loss data of de Volksbank, and are when deemed necessary adjusted according to current information that, in the opinion of the management, can affect the recoverability of the portfolio on the assessment date.

The provision for impairment also covers losses where there are objective indications of losses likely to be incurred in the loan portfolio (IBNR: incurred but not reported). Losses of mortgages and mortgage-backed property finance are estimated on the basis of historical loss patterns of loans and advances that carry similar risk characteristics as the loans and advances held in the portfolio. Losses on non-mortgage backed property finance and other loans and advances are estimated on the basis of historic loss patterns and the creditworthiness of the borrowers.

If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the income statement. When a loan is uncollectable, it is written off against the relevant provision for impairment. Amounts that are subsequently collected are deducted from the addition to the provision for impairment in the income statement.

WRITE-OFF POLICY

Shortages following termination and redemption of the mortgage loan may arise as a result of insufficient repayment of the amounts due after a compulsory or voluntary foreclosure process or after scheduled mortgage payments based on a cancellation granted by the bank in advance, i.e. a commitment by the bank that it will cooperate in cancelling the mortgage registration, despite any shortfall after repayment. In respect of mortgage loans, the following triggers are distinguished that may result in write-off:

1. Waiver of amounts payable
2. Termination and redemption of the loan with a shortfall
3. Cessation of residual debt collection
4. Occurrence of operational losses

Statement of changes in provision loans and advances to customers specific

	Mortgages Retail		Other Retail		SME		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance as at 1 January	207	266	33	52	95	123	335	441
Withdrawals	-75	-108	-9	-24	-26	-27	-110	-159
Additions	23	85	3	7	12	24	38	116
Releases	-79	-41	-2	-2	-15	-25	-96	-68
Other movements	4	5	--	--	4	--	8	5
Balance as at 31 December	**80**	**207**	**25**	**33**	**70**	**95**	**175**	**335**

Statement of changes in provision loans and advances to customers IBNR

	Mortgages Retail		Other retail		SME		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance as at 1 January	50	60	2	3	4	6	56	69
Withdrawals	-7	--	--	--	--	--	-7	--
Additions	13	12	--	1	--	--	13	13
Releases	-22	-22	-1	-2	--	-2	-23	-26
Balance as at 31 December	**34**	**50**	**1**	**2**	**4**	**4**	**39**	**56**

IBNR provision are treated as specific credit risk adjustments in accordance with CRR, article 110.

3.5 Off-balance sheet exposures and derivatives

EDTF 26 EDTF 29 EDTF 30

Off-balance sheet items and derivatives are divided into two types of exposure in accordance with the calculation of credit risk RWA in CRD IV:

- Off-balance sheet items: the main categories of off-balance sheet items are guarantees, credit commitments, and the unutilised portion of contractually committed credit facilities.
- Derivatives: financial instruments that derive their value from underlying interest rates, currencies, equities, credit spreads or commodity prices. Derivatives do not only result in counterparty risk measured within the credit risk RWA but also affect the market risk.

For the different off-balance sheet types of exposure, different values are possible for the calculation base. For guarantees, the nominal value is adjusted using a credit conversion factor (CCF) for calculating the EAD. The CCF factor is 50 or 100%, depending on the risk assessment.

Credit commitments and unutilised limits are part of the external commitment that has not been utilised. This amount forms the calculation base for which a CCF is used for calculating the EAD. The CCF factor is multiplied by the calculation base and is 0, 20, 50, 75 or 100% depending on approach, product type and whether the unutilised amounts are unconditionally cancellable or not.

For derivatives the calculation base is a combination of the market value and the notional amount.

The overall capital requirements for these items are available in the table, where the figures for derivatives stem from counterparty risk.

It can be concluded that off-balance sheet items and derivatives form a relatively stable and small part of the credit risk exposure (approx. 5.5% and 1.6%, respectively, of the total – and 2.8% and 1.7%, respectively, in 2015).

Exposure, RWA and capital requirements by exposure type 2016

in € millions	On-balance sheet items	Off-balance sheet items	Derivatives	Total
Exposure credit risk	56,844	3,383	954	61,181
EAD	54,985	1,311	954	57,250
RWA	8,222	278	230	8,730
Capital requirement	658	22	19	699
Average risk weight	15%	21%	24%	15%

Exposure, RWA and capital requirements by exposure type 2015

in € millions	On-balance sheet items	Off-balance sheet items	Derivatives	Total
Exposure credit risk	56,954	1,690	1,039	59,682
EAD	55,236	859	1,039	57,133
RWA	8,700	148	373	9,221
Capital requirement	696	12	30	738
Average risk weight	16%	17%	36%	16%

3.6 Counterparty risk

3.6.1 Methodology

PILLAR 1 METHOD FOR COUNTERPARTY RISK
We use the market value of the derivatives and an 'Add-on' to establish the EAD of the counterparty risk on derivative positions. The 'Add-on' is a charge to factor in potential future counterparty risks. We determine this add-on charge on the basis of the type of contract, the remaining maturity and the underlying value or principal of the contract. The table below presents the positive market value and the add-on charge as the 'Current exposure' and the 'Add-on', respectively.

3.6.2 Netting and collateral EDTF 29 EDTF 30

MITIGATION OF COUNTERPARTY RISK EXPOSURE
De Volksbank enters into money and capital market transactions with various financial institutions. This mainly comprises derivative transactions for the hedging of interest rate and currency risks.

To mitigate the counterparty risk, de Volksbank concluded International Swaps and Derivatives Association (ISDA) Master Agreements with these institutions entailing, among other things, that if the counterparty remains in default, all derivative transactions may be terminated and netted within the netting set defined in the ISDA, with only a net claim or commitment in respect of the counterparty remaining.

In this respect, we determine the collateral required on a regular, frequent basis (generally daily), i.e. the net market value of the outstanding derivative transactions, which we subsequently receive (or must pay) pursuant to the CSA following a notification (margin call) to or from the counterparty.

Both counterparty risk mitigating measures have the effect of reducing the EAD calculation according to the CRR/CRD IV rules.

In addition to CSAs, de Volksbank uses central clearing of OTC[6] derivative transactions to shift counterparty risk to the central counterparty (CCP) in order to mitigate this risk.

6 OTC: Over The Counter, i.e. a bilateral agreement/trade between two counterparties not effected via a formal stock exchange (such as NYSE or Euronext).

A CCP is a legal entity that positions itself between the counterparties to an OTC contract, thus becoming the buyer for the OTC seller and the seller for the OTC buyer[7]. Given the daily settlement by the CCP of the counterparties' market value commitments, as well as the initial and variation margin requirements, to be paid to the CCP by the counterparties, this central clearing has the effect of reducing the EAD calculation. The exposures are recognised under the category 'Corporates' and have an RWA risk weight of 2 or 4% on the EAD, depending on how the CCP has separated the collateral from the exposures and collateral of other CCP clients and clearing members.

De Volksbank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.

In the table below, information is available on how the counterparty risk is reduced with the listed risk mitigation techniques.

Mitigation of counterparty risk exposure due to closeout netting and collateral agreements

in € millions	Current exposure (gross)	Reduction from netting agreements	Reduction from collateral	Derivatives exposure (net)	Add-on	Current exposure (net)
2016	1,533	--	-851	682	272	954
2015	1,993	--	-1,230	763	276	1,039

3.6.3 Credit Valuation Adjustment

The Credit Valuation Adjustment (CVA) is defined as the risk to losses as a result of a deterioration in credit worthiness of a derivative counterparty.

The market value of derivatives with counterparties is determined based on the underlying value-determining factors, such as interest rates for interest rate swaps. If the credit quality of a counterparty of an interest rate swap deteriorates, a higher interest rate (or credit spread) must be used in the valuation, due to which the valuation changes.

CRR/CRD IV requires that an RWA be determined for CVA, as a result of a deterioration in the credit quality of the derivative counterparties.

De Volksbank applies the standardised method for determining RWA for CVA in accordance with CRR, article 384.

The tables below break down the EAD and the RWA, as well as the capital requirements, into the different exposure classes. The 'CVA' column presents the risk-weighted figures (RWA) under the CVA. The capital requirement has been set at 8% of RWA including CVA.

Counterparty risk exposures 2016

in € millions	EAD	CVA	RWA incl. CVA	Capital requirement
Central governments or central banks	6,989	--	194	16
Regional Governments or Local Authorities	2,761	--	--	--
Public Sector Entities	35	--	9	1
Multilateral Developments Banks	282	--	--	--
International Organisations	--	--	--	--
Institutions	943	334	633	51
Corporates	1,095	--	505	40
Retail excl. Mortgages	181	--	136	11
Secured by Mortgages Immovable Property	1,002	--	687	55
Exposures in Default	93	--	111	9
Covered Bonds	--	--	--	--
Equity Exposures	21	--	21	2
Other Items	350	--	260	21
Total	**13,752**	**334**	**2,556**	**205**

[7] See also EU Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 (Article 2(1))

Counterparty risk exposures 2015

in € millions	EAD	CVA	RWA incl. CVA	Capital requirement
Central governments or central banks	7,745	--	170	14
Regional Governments or Local Authorities	2,531	--	--	--
Public Sector Entities	44	--	12	1
Multilateral Developments Banks	284	--	--	--
International Organisations	15	--	--	--
Institutions	1,286	385	832	67
Corporates	812	--	424	34
Retail excl. Mortgages	201	--	151	12
Secured by Mortgages Immovable Property	1,122	--	780	62
Exposures in Default	137	--	161	13
Covered Bonds	--	--	--	--
Equity Exposures	25	--	25	2
Other Items	260	--	195	16
Total	**14,462**	**385**	**2,750**	**221**

3.6.4 Wrong-way risk

Wrong-way risk pertains to the unfavourable relation between the creditworthiness of the counterparty and the exposure to the counterparty if the creditworthiness deteriorates and the exposure increases simultaneously. We distinguish between general wrong-way risk and specific wrong-way risk.

General wrong-way risk pertains to situations in which general market conditions or macroeconomic factors are the cause. Examples of this in the past few years were the deteriorating economic conditions, decreasing interest rates and companies in distress. If such companies had concluded interest rate swaps with a bank (had hedged the interest rate risk by paying a fixed interest rate and receiving a floating interest rate), the market value (i.e. the exposure) of the swap would rise for the bank in case of falling interest rates. After all, the bank received the fixed interest rate and paid an increasingly lower floating interest rate.

Specific wrong-way risk pertains to the situation in which the unfavourable relation is more direct and is actually inherent in (the execution of) the transaction itself. An example of this type of risk is a put option with a bank's stock being the underlying, in which the counterparty to the transaction is a subsidiary of the same bank.

De Volksbank primarily closes 'plain-vanilla' interest rate and currency derivative transactions, which are mostly settled centrally at a CCP or fall under ISDA/CSA conditions with daily collateral settlement. We thus minimise counterparty risk exposure and therefore also any possible wrong-way risk exposure.

3.7 Risk mitigation EDTF 26 EDTF 29 EDTF 30

Below, an explanation is included of the mitigating measures for credit risk by offsetting financial assets and liabilities, actively managing collateral and limiting the counterparty risk on derivative transactions.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

The amounts eligible for offsetting pursuant to the International Swaps and Derivatives Association (ISDA) contracts are related to derivatives amounting to € 989 million (2015: € 1,268 million).

The other financial collateral of € 724 million included in amounts due to banks as at year-end 2016 relates to repurchase transactions with government bonds as collateral. De Volksbank did not have any outstanding repurchase transactions at year-end 2015.

Financial assets and liabilities 2016

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Related amounts not set off in the balance sheet value: Financial instruments	Related amounts not set off in the balance sheet value: Cash collateral	Other financial collateral	Net value
FINANCIAL ASSETS							
Derivatives	1,533	--	1,533	989	234	--	310
Total financial assets	**1,533**	**--**	**1,533**	**989**	**234**	**--**	**310**
FINANCIAL LIABILITIES							
Derivatives	1,861	--	1,861	989	622	--	250
Amounts due to banks	1,446	--	1,446	--	--	724	722
Total financial liabilities	**3,307**	**--**	**3,307**	**989**	**622**	**724**	**972**

Financial assets and liabilities 2015

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Related amounts not set off in the balance sheet value: Financial instruments	Related amounts not set off in the balance sheet value: Cash collateral	Other financial collateral	Net value
FINANCIAL ASSETS							
Derivatives	1,993	--	1,993	1,268	299	--	426
Total financial assets	**1,993**	**--**	**1,993**	**1,268**	**299**	**--**	**426**
FINANCIAL LIABILITIES							
Derivatives	2,189	--	2,189	1,268	459	85	377
Amounts due to banks	1,000	--	1,000	--	--	--	1,000
Total financial liabilities	**3,189**	**--**	**3,189**	**1,268**	**459**	**85**	**1,377**

COLLATERAL EDTF 30

Retail mortgages

We subject the inflow to monitoring to ensure that the mortgage loans provided meet adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee by NHG. Of the Internal Ratings Based (IRB) exposure class 'Retail mortgages', € 12.4 billion (2015: € 12.2 billion), i.e. almost 28%, of the exposure comes under the NHG guarantee scheme (see the table below).

Collateral values are indexed based on housing price developments. In the first half of 2016, the bank implemented a new method that allows for a more detailed (per municipality and real estate type) and higher frequency (monthly) indexation of the collateral. On average, the new indexation method resulted in a minor increase in the indexed collateral values. Most of the mortgage loan collateral is located in the Netherlands.

In a situation where a customer's financial strength no longer corresponds to their financial obligations, we may restructure the mortgage loan or proceed to sell the collateral. In that case, it is in the interests of both the customer and the bank to know the collateral's current value. The bank then instructs an appraiser of its choosing to (re)value the collateral.

SME portfolio

We verify the value of immovable property in the portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform more frequent checks. In the last few years, the revaluation period for property depended on the level of exposure.

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

As soon as we commence the arrears management process for a credit facility that has been declared to be non-performing or in default, we have a valuation conducted.

A valuation is also made if, upon a check, the information received shows that the value of the property is presumed to have dropped sharply in comparison to general market prices.

Exposure secured by collateral, guarantees and credit derivatives 2016

in € millions	Exposure	Secured by guarantees	Secured by credit derivatives	Secured by collateral
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	5,836	--	--	--
Regional governments or local authorities	1,152	--	--	--
Public sector entities	75	40	--	--
Multilateral developments banks	282	--	--	--
International organisations	--	--	--	--
Financial institutions	2,738	1,715	--	80
Corporates	3,939	992	--	1,787
Retail excl. mortgages	818	--	--	--
Secured by mortgages immovable property	1,029	17	--	1
Exposures in default	188	--	--	--
Covered bonds	--	--	--	--
Equity exposures	22	--	--	--
Other Items	350	--	--	--
Total standardised approach	**16,429**	**2,764**	**--**	**1,868**
IRB EXPOSURE CLASSES				
Retail mortgages	44,701	12,398[1]	--	67,889[2]
Securitisation	79	--	--	--
Total IRB approach	**44,780**	**12,398**	**--**	**67,889**
Total exposure	**61,209**	**15,162**	**--**	**69,757**

1 The amount of a NHG guarantee on retail mortgages decreases on an annuity basis.

2 This collateral concerns the total market value of the mortgage collateral.

Exposure secured by collateral, guarantees and credit derivatives 2015

in € millions	Exposure	Secured by guarantees	Secured by credit derivatives	Secured by collateral
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	6,149	--	--	--
Regional governments or local authorities	1,557	--	--	--
Public sector entities	87	43	--	--
Multilateral developments banks	284	--	--	--
International organisations	15	--	--	--
Financial institutions	3,075	1,513	--	276
Corporates	3,334	997	--	1,427
Retail excl. mortgages	809	--	--	--
Secured by mortgages immovable property	1,147	16	--	1
Exposures in default	267	--	--	--
Covered bonds	--	--	--	--
Equity exposures	27	--	--	--
Other Items	260	--	--	--
Total standardised approach	**17,011**	**2,569**	**--**	**1,704**
IRB EXPOSURE CLASSES				
Retail mortgages	42,052	12,158[1]	--	64,387[2]
Securitisation	619	--	--	--
Total IRB approach	**42,671**	**12,158**	**--**	**64,387**
Total exposure	**59,682**	**14,727**	**--**	**66,091**

1 The amount of a NHG guarantee on retail mortgages decreases on an annuity basis.

2 This collateral concerns the total market value of the mortgage collateral.

The table above shows how exposures were collateralised as at year-end 2016. The standardised exposure classes concern the book values increased by off-balance commitments. The IRB exposure class retail mortgages concerns the EAD of on-balance mortgages increased by off-balance commitments.

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

Guarantees for 'Corporates' are government-issued guarantees for, for example, healthcare institutions or housing corporations. The collateral predominantly consists of financial collateral.

We do not use credit derivatives as collateral.

Collateral concentration

	2016	2015
Guarantees	18%	18%
COLLATERAL:		
- of which real estate	80%	80%
- of which financial collateral	2%	2%
Total	**100%**	**100%**

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

COUNTERPARTY RISK ON DERIVATIVE POSITIONS

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

In order to curb the counterparty risk on derivative transactions, the bank applies the following risk-mitigating order when entering into such transactions:

- Where possible, the bank concludes derivative transactions with financial institutions using clearing via a central counterparty (CCP). Exceptions are the type of transaction that the CCP does not support or very short-term transactions entailing extremely high costs of central clearing. Of the eligible derivatives, 83% are CCP cleared, based on par value;
- If central clearing is not possible, the bank subjects derivative transactions with financial institutions to collateral agreements. These are ISDA-standardised contracts with a Credit Support Annex (CSA) agreed in advance with each counterparty, laying down the collateral arrangements. In this respect, the bank mitigates the credit risk on derivatives by means of the provision and acquisition of collateral in the form of cash and/or marketable securities. In order to hedge counterparty risk, the industry standard is to provide cash and government bonds of creditworthy governments as collateral in derivative transactions. If a counterparty remains in default, the bank will terminate the derivative transactions and the collateral in the amount of the replacement value of the transactions will be available to the bank on the basis of the CSA collateral agreement.

Other risk-mitigating measures include the following:

- De Volksbank checks every day whether the market value development of positions with collateral arrangements are proportionate to the collateral to be received or to be provided;
- De Volksbank settles forward exchange transactions via the Continuous Linked Settlement system, a global settlement system that limits settlement risk by means of payment versus payment and payment netting;
- De Volksbank continuously monitors the market conditions to assess whether the assets available still meet the requirements to serve as collateral;
- A valuation function assesses whether the market value used for the collateral is plausible.

De Volksbank agreed in a number of ISDA/CSAs with the counterparty that de Volksbank will provide more collateral if de Volksbank's credit rating deteriorates. In the event of a 3-notch downgrade, in the worst case scenario de Volksbank must supply additional collateral in the amount of € 15 million.

3.8 Equities not included in the trading portfolio

In the exposure class Equity, de Volksbank's equity holdings outside the trading portfolio are included. Book value equals fair value for all the equities shown in the table. Published price quotations in an active market are the best evidence of fair value and, when they exist, they are used to measure financial assets and financial liabilities. We predominantly use published quotations to establish the fair value of shares.

Exposure of equity outside trading portfolio 2016

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/ losses period YTD	Capital requirement
Associates	--	--	--	--	--	--	--
Joint ventures	--	--	--	--	--	--	--
Investments available for sale	21	21	--	--	-3	8	2
Total	**21**	**21**	**--**	**--**	**-3**	**8**	**2**

Exposure of equity outside trading portfolio 2015

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/ losses period YTD	Capital requirement
Associates	--	--	--	--	--	--	--
Joint ventures	--	--	--	--	--	--	--
Investments available for sale	26	26	--	--	16	--	2
Total	**26**	**26**	**--**	**--**	**16**	**--**	**2**

4 Market risk EDTF 23

4.1 Trading portfolio EDTF 14

We use the standardised approach in CRD IV to calculate capital requirements for the trading book. At year-end 2016, the Pillar 1 capital requirements were € 7 million (year-end 2015: € 16 million). The model covers interest rate risk and equity risk and is based on fixed risk weights.

4.2 Interest rate risk not included in the trading portfolio

The key measures used to manage the banking book's interest rate position and interest rate risk are the Economic Value of Equity (EVE) and net interest income. We measure the interest rate position in respect of the total of interest-bearing assets and liabilities and make adjustments by means of interest rate derivatives in particular. The interest rate risk measures are reported to the ALCO on a monthly basis.

The control measures we apply for EVE are 'duration of equity' and 'key rate durations'. The duration of equity is the key measure of economic value sensitivity, which measures the percentage decrease in the EVE in the event of a parallel rate hike of 100 basis points (1%).

The key rate durations represent interest rate sensitivity for each maturity individually and clarify sensitivity to non-parallel shifts in the yield curve.

Every month, the ALCO sets the duration control within the limit based on the envisaged risk profile and the market outlook. We use the key rate durations to determine the maturities in which the interest rate sensitivity is adjusted.

The Earnings-at-Risk (EaR) is the key control measure for the assessment of net interest income sensitivity. The EaR measures the maximum loss of interest income within a year based on certain interest rate scenarios (among other things, parallel, non-parallel and inverse interest rate movements), while allowing for balance sheet developments expected in the next twelve months. In the EaR measurement we also take account of the degree to which customer rates for demand deposits keep pace with market rates and the resulting narrowing margins. The degree of margin narrowing depends on the interest rate scenario.

We introduced a measure for the credit spread risk of the liquidity portfolio in 2016. This measure reflects the potential loss of the portfolio's value, measured in a scenario in which the credit spreads of the bonds in the liquidity portfolio increase. A quota was also set for the production of mortgages with a term to maturity of fifteen years or more. In 2017, we will introduce more improvements in the range of instruments for controlling interest rate risk, including an improved version of the mortgage prepayment model and further refinements of the interest rate risk measures.

The key measures for interest rate risk are shown below.

INTEREST RATE RISK

Specification interest rate risk

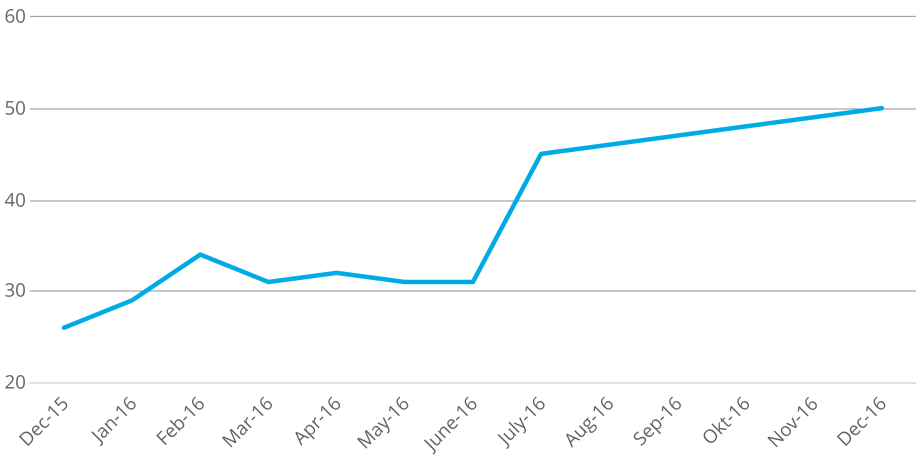
	2016	2015
Duration of equity	1.6	1.8
Earnings at Risk (mln)	€ 50	€ 26
Creditspread risk liquidity portfolio	€ 439	n.a.

Because of the low, flat yield curve and the risk of an interest rate hike, the duration of equity was kept at 1.6 at year-end 2016 (year-end 2015: 1.8).

At year-end 2016, the EaR was € 50 million (€ 26 million at year-end 2015). The net interest income is most sensitive to the 'steepener' scenario. In this scenario, the yield curve steepens, with interest rate points for less than twelve months gradually falling by a maximum of - 200 basis points and interest rate points for more than twelve months gradually rising by a maximum of +200 basis points. The EaR rise was caused mainly by a tightening of the scenario used to determine the EaR in view of the prolonged low interest rate environment. The floor used for negative market rates was adjusted from -0.25% to -0.75%, allowing short-term rates in the scenario to drop to -0.75%. As a result, the interest received on the cash position in the scenario falls more strongly and the EaR measures greater sensitivity of the cash position.

The figure below shows a graphical representation of the EaR movements in 2016.

Development Earnings at Risk (in € millions)



Sensitivity analyses illustrate the interest rate risks run by the Banking activities. The table below calculates the impact of an immediate parallel shift of the yield curve of +100 or -100 basis points on the fair value of shareholders' equity, net interest income and IFRS equity.

The line 'Fair value equity' shows the sensitivity of the fair value of shareholders' equity, including embedded options. The 'Net interest income' line shows the sensitivity of the net interest income to interest rate fluctuations for the first 12 months. The 'Fair value option' line shows the sensitivity of the mortgage portfolio recognised at market value in the balance sheet and the corresponding derivatives that hedge the interest rate risk. The 'IFRS equity' line expresses the sensitivity resulting from the available-for-sale investment portfolio and the cash flow hedge derivatives to a parallel 100 basis point interest rate increase or decrease, because the effect of both of these on items measured at fair value is directly visible in shareholders' equity. The reported outcomes are after taxation, except for the sensitivity of the fair value of shareholders' equity to interest rate changes. These amounts are before taxation.

Sensitivity interest rates

	2016		2015	
in miljoenen euro's	**Interest rate + 1%**	**Interest rate - 1%**	**Interest rate + 1%**	**Interest rate - 1%**
Fair value equity	232	209	102	4
Net interest income	16	-34	4	-25
Fair value option	3	2	6	-6
Total result	**19**	**-32**	**10**	**-31**
IFRS equity	-119	107	-106	113

Fair value equity
An interest rate hike has a positive impact of € 232 million on the fair value of shareholders' equity. The assets mainly consist of mortgages, the interest rate sensitivity of which is hedged by means of derivatives to a great extent, especially by means of payer swaps. As a result, an interest rate hike will trigger a drop in value of assets including the corresponding derivatives that is less significant than the drop in value of liabilities. The impact of an interest rate hike on the fair value of shareholders' equity is greater than in 2015 as the interest rate sensitivity of the assets including the corresponding derivatives has lessened.

An interest rate decrease has a negative impact of € 209 million on the fair value of shareholders' equity. The calculation of the impact caused by an interest rate decrease is based on the assumption that swap rates cannot fall below -0.75%. It is also assumed that customer interest rates on demand deposits will not become negative. As a result, the fair value of demand deposits increases to a far lesser extent than the assets, which translates into a positive impact on the fair value of shareholders' equity. The impact of an interest rate decrease on the fair value of shareholders' equity is greater than in 2015 as the rates of demand deposits edged closer to the 0% line in 2016.

Net interest income
An interest rate hike yields a positive impact on net interest income of € 16 million, predominantly triggered by the gradual pass-through of the rate hike to floating-rate mortgages and our liquidity position. An interest rate decrease

has a negative impact of € 34 million, primarily driven by the assumption that the decrease will be passed through to savings rates to a lesser extent than to floating-rate mortgages and our liquidity position.

Fair value option

An interest rate hike has a negative impact on the mortgages accounted for at fair value and a positive impact on the corresponding derivatives. These effects are reversed in the event of an interest rate decrease. The negative impact of an interest rate hike on the mortgages is not as substantial as the positive impact produced by the derivatives, resulting in an overall positive impact of € 3 million. In the event of an interest rate decrease, swap rates for the valuation of derivatives are capped at -0.75%, which limits the negative effect. This cap does not apply to the mortgage portfolio as customer rates are still positive in the event of a 1% interest rate decrease. As a result, in the event of an interest rate decrease its negative impact on the derivatives is more than offset by the positive impact ensuing from the mortgage portfolio, resulting in an overall impact of € 2 million.

IFRS equity

As regards IFRS equity, an interest rate hike has a negative impact on the value of the bonds, whereas an interest rate decrease has a positive impact. The portfolio is partly hedged, as a result of which the interest rate derivatives partly negate the changes in value of the bonds. The partial hedge does mean that, on balance, the impact on IFRS equity remains negative (- € 119 million) in the event of an interest rate hike and positive (€ 107 million) in the event of an interest rate decrease.

MARKET RISK PROFILE IN THE TRADING PORTFOLIO

De Volksbank has a limited trading portfolio. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. The total VaR limit for the trading portfolio was € 3 million in early 2016, thereby reflecting – in terms of size – the relatively low risk profile of these activities. In mid-2016, the VaR limit was lowered to € 2 million on the back of the sale of SNS Securities.

The annual report of de Volksbank N.V. 2016 (Section 3.8 Market risk) provides further explanation of the interest rate risk not included in the trading portfolio.

5 Liquidity risk

5.1 Encumbered and unencumbered assets EDTF 19

This section provides insight into the encumbered and unencumbered assets that may be used as collateral for funding to be raised.

Encumbered and unencumbered assets 2016

in € millions[1]	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	11,011		52,179	
Equity instruments	--	--	21	21
Debt securities	1,463	1,463	4,973	4,973
Other assets	9,543		44,796	
- of which mortgage loans	*8,277*		*36,313*	

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

Encumbered and unencumbered assets 2015

in € millions[1]	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	13,358		51,279	
Equity instruments	--	--	10	10
Debt securities	943	943	5,156	5,156
Other assets	12,414		45,380	
- of which mortgage loans	*11,528*		*34,397*	

1 The figures are based on the median value of the four quarters in the financial year. This is in contrast to the figures in the text which are year-end figures.

The asset encumbrance dropped from 18% at year-end 2015 to 16% at year-end 2016, mainly driven by the termination on the call-option date of the Hermes XII and Pearl 2 securitisation transactions. The issue of a € 500 million covered bond transaction translated into an increase in asset encumbrance.

As at year-end 2016, € 10.0 billion of the assets was encumbered on account of outstanding securitisations, covered bonds, repurchase transactions, CSAs, foreign exchange transactions and payment transactions. The other € 51.6 billion is unencumbered and may partly be converted into cash, for example by securitisations where de Volksbank buys the issued bonds back. Securitised mortgages of which de Volksbank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral for instance in a repurchase transaction. Covered bonds involve overcollateralisation, which means that the volume of encumbered mortgages exceeds the notional principal of the covered bond.

In the event of a 3-notch downgrade of de Volksbank's senior unsecured rating, we would have to deposit additional collateral totalling € 15 million with counterparties. We include this potential collateral deposit as outflow in the LCR and the combined severe liquidity stress test.

COLLATERAL RECEIVED

SNS Bank received a total amount of € 308 million in collateral at year-end 2016 (2015: € 451 million). This consists entirely of cash deposits that serve as collateral for the (positive market value of) outstanding derivative positions.

TOTAL ENCUMBERED ASSETS

The Bank's total encumbered assets amount to € 10.0 billion (2015: € 11.3 billion) and mainly consist of pledged mortgages related to securitisation transactions. The total amount of liabilities related to these assets amounts to € 8.2 billion (2015: € 7.6 billion) and mainly consists of bonds issued by the securitisation entities and within the covered bond programme.

Collateral received 2016

in € millions[1]	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	--	--
Equity instruments	--	--
Debt securities	--	--
Other assets	--	--
Own debt securities issued other than own covered bonds or ABSs	--	497

1 Amounts are based on the median value of the four quarters of the reporting period

Collateral received 2015

in € millions[1]	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	--	--
Equity instruments	--	--
Debt securities	--	--
Other assets	--	--
Own debt securities issued other than own covered bonds or ABSs	--	530

1 Amounts are based on the median value of the four quarters of the reporting period

Encumbered assets/collateral received and associated liabilities 2016

in € millions[1]	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	7,665	9,756

1 Amounts are based on the median value of the four quarters of the reporting period

Encumbered assets/collateral received and associated liabilities 2015

in € millions[1]	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	8,860	12,610

1 Amounts are based on the median value of the four quarters of the reporting period

6 Securitisation

6.1 Objectives

By the end of 2016, de Volksbank securitised residential mortgages in the amount of € 7.6 billion. We only securitise residential mortgages that we granted. In securitisation transactions, the beneficial and legal title of the residential mortgages is transferred to separate entities, which are referred to as Special Purpose Vehicles (SPVs).

There are three reasons for securitising residential mortgages:

- Funding: securitisation is a funding instrument that broadens and diversifies our funding base.
- Lower capital charges: securitisation of residential mortgages enables us to reduce the risk-weighted assets.
- Liquidity: by securitising residential mortgages we create new assets that may be used as collateral.

De Volksbank does not have any re-securitisation activities, nor does it perform securitisation programmes for third parties.

We securitised residential mortgages under four different programmes: Hermes, Pearl, Holland Homes and Lowland. Introduced in 1999, Hermes is the programme for de Volksbank's residential mortgages. The securitisation through the Pearl programme only pertains to residential mortgages based on a guarantee under the NHG, the National Mortgage Guarantee system. The Holland Homes programme originates from the acquisition of DBV and now falls under de Volksbank. Since 2012 we have had a fourth securitisation programme, which is Lowland. The securitisation programmes Hermes and Holland Homes are mainly used for funding and to manage capital charges. The purpose of the Pearl programme is funding. The Lowland transactions were set up for liquidity purposes.

No synthetic securitisations – transactions in which it is not the assets that are transferred but merely the associated credit risks – were outstanding for de Volksbank in 2016.

The table below presents the volume of de Volksbank's securitisation programmes and the treatment applied in calculating capital requirements.

Securitiation programmes de Volksbank

in € millions	2016	Capital treatment	2015	Capital treatment
Hermes XII	--	securitisation	1,016	securitisation
Hermes XVIII	682	look-through	752	look-through
Pearl 1	887	look-through	984	look-through
Pearl 2	--	look-through	528	look-through
Holland Homes 1	79	securitisation	91	securitisation
Holland Homes Oranje	447	look-through	517	look-through
Lowland 1	2,285	look-through	2,556	look-through
Lowland 2	1,329	look-through	1,464	look-through
Lowland 3	1,938	look-through	2,100	look-through
Total	**7,647**		**10,008**	

In 2016 we terminated two transactions: Hermes XII in March 2016 and Pearl 2 in September 2016. Although de Volksbank did not perform any new securitisation transactions in 2016, a securitisation transaction was being prepared at the end of 2016: Lowland 4, which was structured in February 2017. Lowland 1 was terminated at the same time and the associated mortgages were partly incorporated in Lowland 4.

For the purpose of calculating capital requirements, one programme of the total volume of securitisation programmes (€ 7.6 billion at year-end 2016) is recognised as securitisation positions: Holland Homes 1 (€ 79 million at year-end 2016). For the rest of the volume, we use the underlying individual mortgage loans to determine the capital requirements. This is known as 'looking through'. A securitisation position exists when the credit risk on the underlying mortgages has (largely) been transferred to the market. If the credit risk has not (largely) been transferred, we look through the transaction and weight the mortgage loans on the Bank's balance sheet in terms of credit risk.

6.2 Risks

In the context of the securitisation programmes de Volksbank recognises several types of risk, including particularly credit risk, interest rate risk and liquidity risk.

The credit risk from the securitisation programmes pertains to the possible credit losses on the underlying residential mortgages. The Holland Homes 1 transaction shifts most of the credit risk to the investors in the different types of bonds issued under this programme. Due to the deferred selling price and net margin in the transaction, a limited part of the credit risk remains for de Volksbank's account. In the Hermes XVIII, Pearl 1, Holland Homes Oranje and Lowland transactions, de Volksbank retains the credit risk of the underlying mortgages in full or in part. In these cases, the underlying mortgages are weighted based on the internal risk model (AIRB).

In addition, de Volksbank runs a direct credit risk because the balance sheet includes securitisation bonds of third-party transactions.

There is also counterparty risk in respect of counterparties with which risks are hedged in swap transactions. See the explanation of the interest rate risk above, which includes a description of the background of the swap transactions. The credit and counterparty risks are managed in the regular control processes for mortgages, counterparty risk and balance sheet management.

De Volksbank holds the interest rate risk of the residential mortgages in the Hermes and Pearl programmes securitised by it on the balance sheet. The SPVs hedged the interest rate risk of the securitisation programmes with interest rate swaps, which have been concluded with third parties. We concluded back-to-back swaps with these third parties. The interest rate risk of the other back-to-back swaps is included in the regular process of managing the balance sheet. The Lowland and Holland Homes transactions are an exception. We have not concluded back-to-back swaps for Holland Homes. In this case, the interest rate risk lies with the swap counterparty. The Lowland transactions do not include any interest rate swaps, but we still bear the interest rate risk because these bonds are on our balance sheet.

The liquidity risk of de Volksbank's own securitisation positions pertains to the possible cash outflows. This has to do with its role of liquidity provider and the possible deposit of cash collateral in swap transactions. The impact on the liquidity position is included in the regular process of liquidity management. (See the risk management section of the annual report for an explanation of the regular processes for credit, interest rate and liquidity risks: Sections 3.7, 3.8 and 3.9, respectively.)

The risks of positions in securitisations of third parties mainly pertain to credit risk of default on the underlying mortgages. We are limiting this risk by purchasing tranches of the highest seniority, the so-called A bonds, and we are also monitoring the investor reports of these transactions.

6.3 Roles

De Volksbank plays various roles in its own securitisation programmes. As 'originator' we granted the underlying residential mortgages. In addition, we are active as 'arranger': we structure the transaction and conduct negotiations with the rating agencies. We coordinate the documentation on the transaction together with our legal advisor. As 'manager' we are co-responsible for placing securities with institutional investors, for which purpose we work together with other financial institutions.

In several instances, de Volksbank also (indirectly) acts as swap counterparty for the interest rate risk management of the SPVs. The SPV concluded an interest rate swap with a third party that, in turn, concludes a fully offsetting transaction for the swap with us. Consequently, we do not play a role as swap counterparty in the swap transactions of the SPV itself. We have not concluded fully offsetting swaps for the Holland Homes transactions, which means that de Volksbank does not bear the interest rate risk. The Lowland securitisation programme does not comprise swaps.

As 'servicer' we are responsible for the daily operational management of the underlying residential mortgages. We set up a foundation that is in charge of collecting the principal and interest payments: 'Stichting Hypotheken Incasso'. The foundation is responsible for the collection of the various mortgage payments and transfers these amounts to the relevant SPVs.

Our support of the securitisation programmes does not extend beyond our contractual obligations, nor do we act as a programme sponsor.

Following table shows the roles that de Volksbank plays in the different securitisation programmes.

Roles in securitisation programmes

Programme name	Originator	Arranger	Manager	Servicer	Swap CP (indirect)
Hermes	x	x	x	x	x
Pearl	x	x	x	x	x
Holland Homes	x				
Lowland	x	x	x	x	

6.4 Policy & processes

For the purposes of risk management of the mortgage loans, we look at the underlying mortgage loans through the securitisation positions (retained). The interest rate and liquidity risks of these mortgages fall under the regular process for balance sheet management. See also Section 4.2 of this report, where we explain the interest rate risk outside the trading book.

The credit risk is included in the regular process for monitoring mortgage loans. This process does not distinguish between securitisation positions issued or retained. That is why we do not pursue separate policies to hedge the risks relating to (retained) securitisation positions.

De Volksbank Financial Markets conducts the operational management of the retained (unsold) or purchased securitisation positions within the mandate set by the Board of Directors.

The interests in securitisation positions of third parties are part of the investments by de Volksbank. Within the powers delegated to it, de Volksbank Financial Markets is free to take positions and manage the risks of these investments.

6.5 Securitisation exposures

The securitised loans were sold to the SPV at nominal value plus a deferred selling price, which entails that we have a claim against the SPV. This claim is payable partly during the term of the loan and partly once the securitisation transaction has been fully settled.

The bonds issued by the SPV include so-called junior bonds (often the E bonds), which are high-risk and high-yield bonds. The junior bonds form the second loss position after the net margin in the transactions. In a number of cases, the junior bonds of the securitisation programmes have not been placed with investors. de Volksbank holds the junior bonds of the Hermes XVIII and Lowland programmes in its own book. Stress testing showed that de Volksbank runs a credit risk due to the deferred selling price and the junior bonds. The sum of the deferred selling prices of all active securitisation programmes amounted to nil (2015: € 9 million) including loan provisions at year-end 2016.

There is an order in which bonds and the deferred selling price are called upon in the event of credit losses. Losses are first charged to the net margin, next to the deferred selling price and then to the junior bonds. If this is insufficient to cover the losses the bonds will be called upon, beginning with the mezzanine bonds (D to B bonds) and ending with the senior bonds (A bonds).

In the set-up of the securitisation programmes, a certain expectation of pre-payment behaviour on mortgages is assumed. If the actual pre-payments turn out to be higher, the bonds will pay off more quickly. A bonds are redeemed first, followed by B, C and subsequent bonds.

The securitisation transactions that de Volksbank has put on the market since 2001 have what is called a 'call + step-up' structure. This means that the SPV has the right to redeem the issued bonds prematurely on a certain call date. In addition, the interest payment on the bonds is increased as from that call date (step-up). The step-up provides a financial incentive to redeem the bonds. All bonds that had such a call date in 2016 have been redeemed.

The structure of the transaction under the Holland Homes 1 programme is slightly different, as they include a 'put'. A put gives investors the option of offering the bonds for sale to the SPV on what is known as the 'put date'.

We have various subordinated bonds in the books that were issued under the Pearl programme. As Pearl pertains to a funding transaction, we did not sell the subordinated debt. de Volksbank also holds bonds of Hermes XVIII transaction in its own book. These were repurchased as part of market making for the securitisation programmes. The Lowland transactions were set up for liquidity purposes and may be placed with investors if so desired.

The tables below show explanatory figures pertaining to the exposures. These are exposures in the banking book. de Volksbank does not hold any securitisation positions in the trading portfolio.

Outstanding amounts of exposures securitised 2016

	Traditional		Synthetic	
in € millions	Originator[1]	Investor	Originator	Investor
Notes	79	51	--	--
Total	**79**	**51**	**--**	**--**

1 The figures for 'Originator' exposures relate to the securitisation programme Holland Homes 1.

Outstanding amounts of exposures securitised 2015

	Traditional		Synthetic	
in € millions	Originator[1]	Investor	Originator	Investor
Notes	1,108	179	--	--
Total	**1,108**	**179**	**--**	**--**

1 The figures for 'Originator' exposures relate to the securitisation programmes Hermes XII and Holland Homes 1.

Both tables above present the outstanding nominal values of the Bank's own securitisation programmes plus the investment positions in third-party securitisations. The Bank's own securitisation programmes decreased as a result of regular redemptions in the programmes and the termination of Hermes XII and Pearl 2 transactions.

The tables below show the composition of the programmes by type of bond, and what portion is held on own book.

Composition of securitisation programmes 2016

in € millions[1]	Current sizze of programme	Own book at year-end 2016[2]
A bonds	64	--
B bonds	16	--
C bonds	--	--
D bonds	--	--
E-notes	--	--
Total	**79**	**--**

1 The figures relate to the securitisation programme Holland Homes 1.

2 The own book consists of unissued and repurchased securities.

Composition of securitisation programmes 2015

in € millions[1]	Current sizze of programme	Own book at year-end 2016[2]
A bonds	988	402
B bonds	55	28
C bonds	37	4
D bonds	29	7
E-notes	--	--
Total	**1,109**	**441**

1 The figures relate to the securitisation programmes Hermes XII and Holland Homes 1.

2 The own book consists of unissued and repurchased securities.

Outstanding amounts of exposures securitised and impaired 2016

	Impaired/past due		Losses	
in € millions	Originator	Investor	Originator	Investor
Notes	--	--	--	--
Total	**--**	**--**	**--**	**--**

Outstanding amounts of exposures securitised and impaired 2015

	Impaired/past due		Losses	
in € millions	Originator[1]	Investor	Originator	Investor
Notes	7	--	--	--
Total	**7**	**--**	**--**	**--**

1 The figures for 'Originator' exposures relate to the securitisation programmes Hermes XII and Holland Homes 1.

Both tables above describe the outstanding nominal values of securitised loans that are impaired/past due, or in respect of which losses have been realised.

As a result of the call of Hermes XII there is no outstanding exposure anymore at year-end 2016.

Exposure and capital charges of securitisation positions retained or purchased per risk weight band

	Exposure amount		Capital charges	
in € millions	**2016**	2015	**2016**	2015
<= 10%	4	49	--	4
> 10% <= 20%	--	--	--	--
> 20% <= 50%	--	1	--	--
> 50% <= 100%	--	--	--	--
> 100% <= 650%	--	30	--	2
> 650% < 1.250%	--	--	--	--
1.250%	--	--	--	--
Total	**4**	**80**	**--**	**6**

The table above presents an overview of the set-up of the exposure classes within the securitisation programmes. The percentages stated are the risk weights. A lower risk weight is indicative of a low-risk class.

6.6 Calculation of risk-weighted exposure

For securitisations subject to a look-through, we use the AIRB approach to calculate the risk-weighted exposure. This approach uses an internal rating model to assess the underlying mortgage loans, which pertains to the Hermes XVIII, Pearl, Holland Homes Oranje and Lowland transactions.

We apply the Rating Based Approach (RBA) for our own positions in securitisations of third parties in which investments were made. Pursuant to the RBA, the risk-weighted assets are determined by multiplying the nominal amount of the exposure by a risk weight. The risk weights depend on the external rating and seniority of the position. In respect of the Holland Homes 1 transaction, we do not have a position in the balance sheet and that is why the risk-weighted exposure is nil.

6.7 Accounting policy for securitisation

We do not have a separate loan book containing loans that may still be securitised. For each securitisation transaction, loans to be securitised are selected from the total pool of eligible loans. Partly for that reason, we do not have a different accounting policy or classification for loans that may be eligible for future securitisation transactions.

In the securitisation transactions we initiated, we transferred the underlying loans to separate SPVs at nominal value. Our economic interest in the SPVs is expressed in several ways. First of all, in most SPVs we have a large or small direct position in the bonds issued by the SPV. The size of these positions differs for each securitisation programme and may also differ in each SPV within the various programmes. Furthermore, the securitisations entitle us to a deferred selling price that is not obtained until the SPV generates positive results during the transaction. This economic connection in combination with the other IFRS criteria shows that de Volkbank must be considered the entity that controls the SPVs. That is why we fully consolidate the SPVs in our consolidated financial statements.

On de Volkbank's consolidated balance sheet, the securitisation positions of securitisations we initiated are limited to the SPVs' monetary balances and the derivative transactions that the SPVs concluded with third parties. These securitisation positions are measured on the balance sheet at amortised cost and fair value, respectively. The consolidated balance sheet also shows securitisation positions in which we are the investor. These are positions in bonds issued by these SPVs. These bonds are classified as 'available for sale' as part of the investments and are measured at fair value, with gains and losses being recognised directly in equity.

6.8 Rating agencies

De Volksbank obtained credit ratings from the main credit rating agencies for its residential mortgages securitisations. The table below shows which credit ratings the rating agencies issued for the securitisation programmes active at year-end 2016.

Credit ratings securitisation programmes

Programme name	Moody's	Fitch
Hermes XVIII	x	x
Pearl 1	x	x
Holland Homes 1	x	x
Holland Homes Oranje	x	x
Lowlands 1	x	x
Lowlands 2	x	x
Lowlands 3	x	x

7 Operational risk

CAPITAL REQUIREMENTS EDTF 14

De Volkbank calculates the capital requirements for non-financial risks according to the standardised approach, in which all activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage. At year-end 2016, the Pillar 1 capital requirements were € 134 million for the operational risks (year-end 2015: € 136 million).

The total capital requirement for non-financial risks is calculated as the sum of the capital requirements for each of the business lines. The total capital is calculated as the 3-year average of the sum of the statutory capital costs for each of the divisions. The capital requirement for each business line equals the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are 12, 15 or 18%. The capital requirement calculated on a yearly basis constitutes input for the Internal Capital Adequacy Assessment Process (ICAAP).

De Volkbank manages its non-financial risks by planning, implementing, monitoring and improving activities aimed at:
- realising predictable performance;
- protecting de Volkbank from unforeseen losses;
- offering sufficient certainty on the reliability of information in order to achieve (strategic) objectives.

Upon implementing the Corporate Governance Code, de Volkbank has chosen to realise as much synergy as possible between the risk management demands of this code and compliance with CRD IV requirements.

8 Remuneration

We refer to de Volksbank's website, www.devolksbank.nl, for the Pillar 3 remuneration report.

9 Country by country reporting

On the basis of Article 89 (1) of CRD IV, financial institutions are required to disclose the Member States and third countries where they operate. De Volksbank is not active abroad and does not have any subsidiaries abroad. All its activities take place in the Netherlands.

Name	de Volksbank N.V.
Nature of activities	Credit institution
Geographical location	The Netherlands
Turnover	€ 1,007 million
Number of FTEs on a full-time basis	3,354
Profit before tax	€ 432 million
Tax on profit	€ 103 million
Public subsidies received	n.a.