de volksbank

2017 Results

Press release

2017

The original press release 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.

De Volksbank posts 2017 net profit of € 329 million

Utrecht, the Netherlands, 22 February 2018

The implementation of our mission 'Banking with a human touch' led to progress in achieving our shared value objectives and sustained commercial growth

- **Customers**: the customer-weighted Net Promoter Score rose to -3 (2016: -8); at a market share in new current accounts of 20%, the number of current account customers rose to 1.4 million
- **Society**: the climate-neutral balance sheet rose to 27% (2016: 22%); de Volksbank is the first bank to introduce a quantitative objective for the financial resilience of its customers
- **Employees**: commitment (7.6) and engagement (7.4) remained at the same level but the employee NPS showed a decline to -2 (2016: 30), notably due to the planned staff reductions
- **Shareholder**: at 8.7% the adjusted return on equity, based on a very solid capital position, exceeded the 8% objective (2016: 10.8%)

Net profit remained at a high level, still supported by a net release of provisions for loans, although this release was considerably lower than in 2016

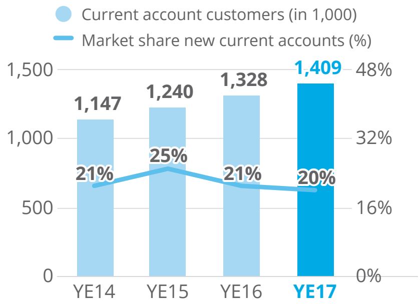
- **Result**: net profit fell slightly to € 329 million (2016: € 349 million)
- **Net profit adjusted for incidental items** decreased to € 316 million (2016: € 374 million); this decrease was mainly driven by a lower net release of provisions for loans
- **Income**: net interest income was marginally lower at € 924 million (2016: € 938 million); the interest margin improved to 1.50% (2016: 1.48%)
- **Expenses**: operating expenses decreased to € 603 million (2016: € 642 million); excluding regulatory levies and incidental items, operating expenses decreased only slightly to € 560 million (2016: 564 million): higher additions to non-credit risk related provisions largely offset the first positive effects of efficiency measures
- **Retail mortgages**: the mortgage portfolio grew by € 1.0 billion to € 45.9 billion thanks to a 41% increase in new mortgage production; the new retail mortgages market share rose to 6.8% (2016: 5.7%)
- **Quality of the mortgage portfolio**: retail mortgages in arrears fell further to € 559 million, 1.2% of total retail mortgages (year-end 2016: € 705 million, 1.5%)
- **Capital position**: the Common Equity Tier 1 ratio rose to 34.1% (2016: 29.2%); the leverage ratio also rose, to 5.5% (2016: 5.2%)
- **Proposed dividend pay-out** for 2017 of € 190 million to NLFI, corresponding to a pay-out ratio of 60% (2016: € 135 million; 41%)

Maurice Oostendorp, Chairman of the Board of Directors

"In 2017, de Volksbank's focus was on putting our strategy, which was revised in 2016, into practice: we aim to be a bank with a distinctive social profile that acts on its customers' needs. To this end, we developed a large number of initiatives in 2017. Examples are the introduction of a unique objective for the financial resilience of our customers, our policy on customer data and the discontinuation of calling in debt collection agencies for customers with payment arrears. The positive development of customer satisfaction levels, the growth in the number of current account customers, and the increase in climate neutrality of our balance sheet, indicate that we are on the right track. At the same time, return on equity remained above our objective of 8%, along with a very solid capital position. One point of attention is the decline in the employee NPS due to uncertainty about employment in the banking sector as a whole and the efficiency initiatives at de Volksbank.
Thanks to a strong increase in new mortgage production, the total mortgage portfolio rose in 2017, despite a high level of (early) repayments. Net profit remained at a high level, again supported by a release of provisions for loans as a result of an improvement in the quality of our mortgage portfolio. Our capital position remained strong, more than sufficient to absorb the impact of new legislation such as Basel IV and IFRS 9, and to further implement our strategy", says Maurice Oostendorp, Chairman of the Board of de Volksbank.

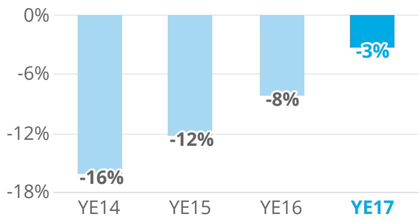
Key figures

Current account customers[1]

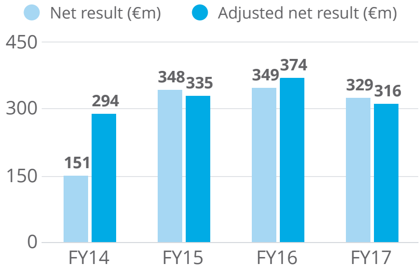


Net Promoter Score[2]

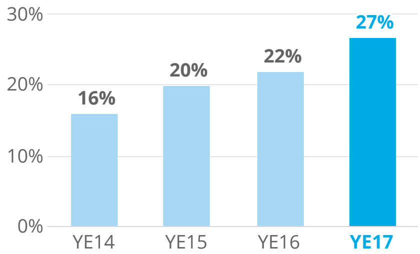
(customer-weighted average of all brands)



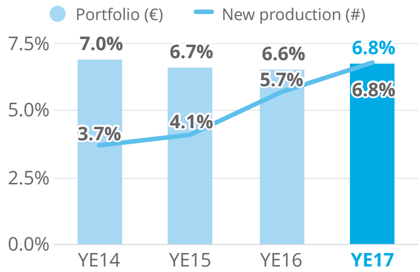
Net result[3] / adjusted net result[4]



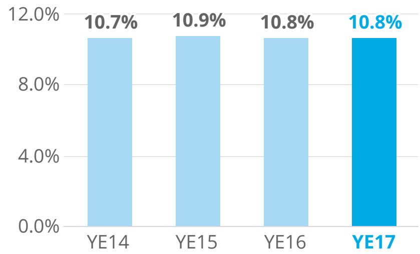
Climate neutral balance sheet



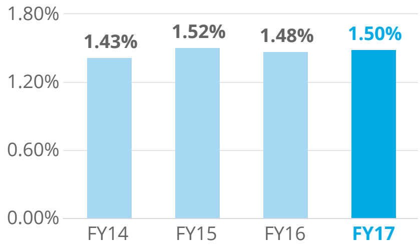
Market share retail mortgages



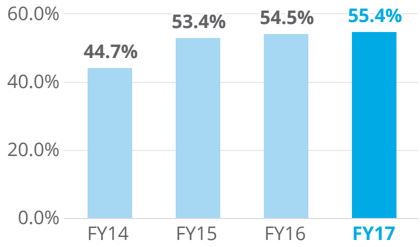
Market share retail savings



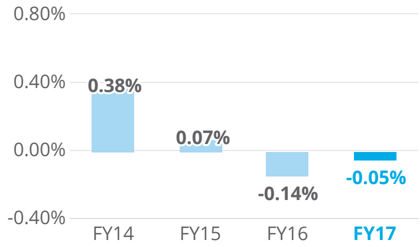
Net interest income[3]



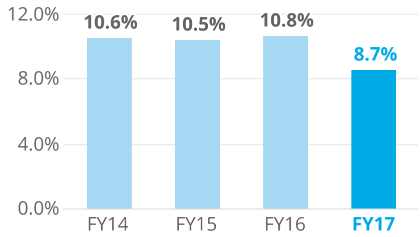
Adjusted efficiency ratio[3,4]



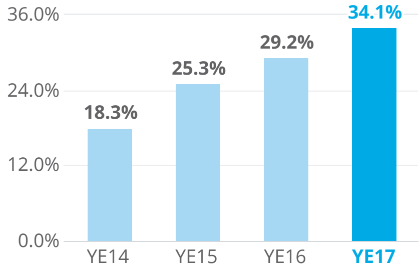
Cost of risk total loans



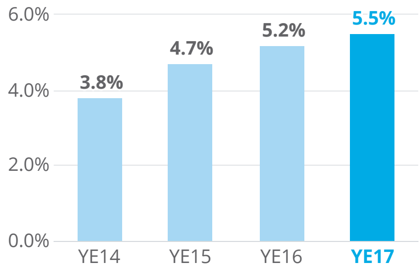
Adjusted return on equity[3,4]



Common Equity Tier 1 ratio[5]



Leverage ratio



1 Source market share new current accounts: GfK market research, based on Moving Annual Total (MAT) at the end of each reporting period, looking back over the last 12 months.
2 Source NPS: market research firm Miles Research.
3 De Volksbank changed the accounting policies for prepayment charges on mortgages, comparative figures for 2016 have been adjusted accordingly.
4 Adjusted for incidental items.
5 On a transitional basis.

Foreword

Progress on strategy

De Volksbank has chosen to be a retail bank that focuses on offering simple and transparent products and services in the areas of mortgages, savings and payments to Dutch retail and SME customers. To live up to our mission 'Banking with a human touch', we formulated an ambition: we aim to optimise the value for all our stakeholders by creating benefits for our customers, taking responsibility for society, providing meaning for our employees and achieving adequate returns for our shareholder.

We seek to achieve our ambition by focusing on the following three pillars:
1. Strengthening our social identity;
2. Further simplifying and enhancing our business operations;
3. Implementing our smart adopter innovation strategy.

STRENGTHENING OUR SOCIAL IDENTITY

In the past year, we developed various initiatives to strengthen our social identity with distinctive services:

- As from January 2017, we ceased to hand over customers' debts to debt collection agencies. As from 2018, we will also start to actively bring back customers whose debts had previously been turned over to a debt collection agency. We want to be there for our customers in difficult times too;
- We started a pilot in which our financial advisers have the discretionary power to accept mortgages; after all, they know our customers best. We will evaluate this pilot in the first quarter of 2018. If the result is positive, we will further implement this project, while observing the strict acceptance criteria of course;
- In September 2017 we started to actively approach the group of customers with an interest-only mortgage that is potentially the most vulnerable. We will continue this one-on-one approach in 2018 and expand the group. In our approach, we try to provide customers with the best possible understanding of the affordability of their mortgage in the future and discuss possible actions to help them to continue to live in their home with financial peace of mind.
- In a world in which more and more money is earned with data, we want to set the standard for reliable and secure management of our customer data. We regard customer data as the property of our customers. Data privacy is a fundamental right. This is reflected in our policy of not wanting to earn money by selling the data of our customers and offering our customers, within the context of PSD2, the unique opportunity to switch on or switch off the transfer of payment data to third parties at any time by means of a main switch.
- We gave more than 60 in-house workshops with the aim of guiding our employees' thinking and acting towards Banking with a human touch. The workshops are based on the principles of reversing the banking model: knowing and trusting the customer, allocating responsibilities as close to customer-facing employees as possible and making use of each other's knowledge and experience by cooperating in the chain.

To strengthen the identity of our four brands, we revised the portfolio strategy for all brands in 2017 using a uniform brand positioning model. We formulated customer promises for each brand. SNS and ASN Bank started external communication about this in October. RegioBank and BLG Wonen will follow in 2018.

SIMPLIFYING AND ENHANCING OUR BUSINESS OPERATIONS

Initiatives to simplify and improve our business operations are proceeding according to plan. These initiatives are primarily aimed at Straight Through Processing, increased digitisation, optimisation of support functions, further automation and optimisation of IT processes and moderation of our remuneration policy.

At the end of 2016, we indicated that we expected the number of jobs to decrease by 800 to 900 in the years ahead. Approximately half of this number relates to our permanent staff. Through natural employee turnover and by proactively engaging with employees whose position may become redundant, we are now on schedule. We will fill any temporary staff shortages with external employees where necessary. The top management structure was also simplified in 2017. As a result, the number of senior management positions will be reduced from 47 to approximately 30 in the period up to 2020. In 2017, we realised a decrease to 38.

As from 2018, the number of other management positions will also reduce in line with the total reduction in the number of jobs.

To simplify our business operations, we also modify products. In April, for example, we introduced *Doelbeleggen*: a clear-cut investment account with calculation tools to support the customer. It allows customers to invest independently online in one of the five ASN Sustainable Mix Funds. *Doelbeleggen* enables our brands to offer a limited number of investment funds, providing customers with a clear overview of and insight into their investments.

Another example is that we have made it easier for customers to manage their mortgage independently and online. By now, customers have executed more than half of the requests for building fund declarations and additional repayments this way. It is now also possible to arrange interest rate renewals online. Within the next two years all mortgage management processes will be offered online.

IMPLEMENTING OUR SMART ADOPTER INNOVATION STRATEGY

Being a bank with a focus on the Netherlands, in a market where innovation increasingly takes place on a global scale, it is our strategy to smartly respond to developments. In areas in which we can provide added value to our Banking with a human touch mission, we operate as a ‘fast follower’. We also implement new technology to simplify our internal business processes.

Our collaboration with Pivotus, an innovation team in Silicon Valley in which the Umpqua Bank (USA), the CUA bank (Australia) and de Volksbank cooperate, has led to a first version of a platform called 'One-Two'. This platform allows customers to interact with a single point of contact of their choice within their bank for all their financial questions, thus putting our Banking with a human touch mission into practice. After a successful pilot, we are now examining how to further develop and implement this project.

In anticipation of PSD2, we develop concepts around our social themes. Together with startups and partners for example, we are running experiments to help customers gain a better understanding of the ecological and social impact of their (payment) behaviour. We not only want to help customers gain more insight into their financial situation and behaviour, but also provide them with means to gain more control over this.

We actively engage in Artificial Intelligence (AI) to further reinforce Banking with a human touch in the digital world. We are running a pilot in which we can use AI and customer transaction data to immediately indicate how much house (and accompanying mortgage) a customer can afford. On both PSD2 and AI applications, our position on privacy is clear; customers are and will remain the owner of their data, which will only be used with their consent and only for specific services. The starting point is to give customers as much control over their own data as possible.

PROGRESS ON LONG-TERM OBJECTIVES

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

Long-term objectives	2017	2016	Long term objective (2020)
BENEFITS FOR CUSTOMERS			
Customer-weighted average Net Promoter Score (NPS)	-3[1]	-8	+10
Current account customers (in 1.000)	1,409	1,328	1,500
RESPONSIBILITY FOR SOCIETY			
Climate-neutral balance sheet	27%	22%[2]	45%
Financial resilience	na	na	>50%
MEANING FOR EMPLOYEES			
Employee NPS (eNPS)	-2	+30	+40
RETURNS FOR THE SHAREHOLDER			
Return on Equity (RoE)[3]	8.7%[4]	10.8%[4]	8.0%
OTHER LONG-TERM FINANCIAL OBJECTIVES			
Cost/income ratio[3]	55.4%[4]	54.5%[4]	50-52%
Common Equity Tier 1 ratio	34.1%	29.2%	> 15.0%
Leverage ratio	5.5%	5.2%	> 4.25%

1 The figures presented relate to fourth quarter measurements.

2 2016 figures have been restated from 23% to 22% following the alignment of one investment fund to our CO2 methodology.

3 De Volksbank changed its accounting policies for prepayment charges on mortgages, comparative figures have been adjusted accordingly.

4 Excluding the impact of incidental items.

BENEFITS FOR CUSTOMERS

Customer satisfaction, measured using the Net Promoter Score (NPS) developed positively in 2017 as well. The weighted average of all brand-specific scores improved from -8 at year-end 2016 to -3 at year-end 2017. The NPS improved at all our brands, at SNS from -18 to -13 and at BLG Wonen from -29 to -24. At RegioBank the positive NPS improved further (from 2 to 7). ASN Bank showed an increase to 17 (2016: 14), and still has one of the highest customer satisfaction scores in the banking sector. Our goal is an average NPS of 10 by 2020.

In 2017, ASN Bank, BLG Wonen, RegioBank and SNS combined, welcomed a total of 202,000 new customers. Netted with customers who left de Volksbank, the number of customers increased by 51,000. The number of current account customers rose by 137,000 (81,000 net) to 1.4 million at year-end 2017. It is our aim to have 1.5 million current account customers by 2020. We consider the development of these accounts to be an important indicator of the quality of the customer-brand relationships.

For the second time in a row, RegioBank won the Customer Centric DNA Award for being the most customer-centric bank in the Netherlands, the most prestigious public award to be won by customer-focused businesses in the Netherlands. On top of this, RegioBank was chosen most customer-friendly bank in the Netherlands by Smart Market Response (SAMR). In the annual survey among customers, RegioBank got a 9 out of 10, the highest mark of all banks. Customers gave RegioBank an 8.5 for customer service. The Consumers' Association published the results of the survey in the November 2017 issue of the *Geldgids* (Money Guide).
At the annual public website of the year vote, the renewed website of ASN Bank was voted 'Website of the Year 2017' in the banking and investment category. And finally, BLG Wonen won the *Zilveren Spreekbuis 2017;* a prize for brand development and services.

RESPONSIBILITY FOR SOCIETY

We want to make a positive contribution to society. Based on our core activities of mortgages, savings and payments, we believe that we can have a significant positive impact on sustainability in our chain and the financial resilience of our customers.

Sustainability

We aim for a 45% climate-neutral balance sheet by 2020, rising to 100% by 2030. At year-end 2017, our balance sheet was 27% climate-neutral (2016: 22%). Progress was mainly due to an increase in avoided emissions from green bonds and project financing in the field of renewable energy and energy saving.

The CO_2 emissions of our mortgage portfolio are calculated using the preliminary and definitive energy labels. However, a higher grade energy label does not necessarily mean that the energy consumption, and thus the CO_2 emissions of a home, is reduced. In 2018, we will therefore investigate the possibility to improve the calculation methodology for the mortgage portfolio by calculating the CO_2 emissions by means of anonymised gas and electricity consumption data.

The average energy label of our mortgage portfolio remained unchanged at 'D'. Among our customers, 24% have a home with energy label A or B. As regards the other homes that we finance with energy labels C to G, there is room for improvement, for example by taking insulation measures or by generating renewable energy using solar panels.

We want to help our customer make their homes more sustainable. In 2017, we took various actions to achieve this. An important initiative was to inform and train advisers, making sustainability a standard topic in advisory conversations with customers. In addition, we contacted a large part of our customers on the topic of sustainable housing. In 2017, we sent a total of 700,000 letters and emails to virtually all our mortgage and current account customers with information on how to make their home more energy efficient and an offer for energy-saving measures. A total of 1,050 customers had solar panels installed and 1,325 customers isolated their homes.

In cooperation with *Natuur & Milieu*, a Dutch nature conservation and environmental organisation devoted to achieving a sustainable and healthy world, our brands have optimised the home energy check-up on the *Slimwoner* (smart living) website. This four-step check-up offers customers insight into energy-saving possibilities at home. On the website, our customers also find offers for solar panels: they can choose between buying, renting or sharing. Discounts on, for example, insulation and high-efficiency glass are also offered on this site.

Oekom research, a German research firm, assesses companies all over the world for the sustainability of their investment policy. Oekom assigns ratings from D- (bad) to A + (excellent). In February 2017, de Volksbank was granted a C+ rating, which means de Volksbank is one of the three leaders in the financial sector. According to oekom, the score reflects 'the integration of sustainable and social aspects in the business operations and policies of de Volksbank'.

In July 2017, de Volksbank was ranked number one in the overall list of 339 financial institutions worldwide analysed by Sustainalytics. Sustainalytics conducts global research on company policies in areas such as sustainability and corporate governance. According to Sustainalytics, de Volksbank's high score - 90 out of 100 - is, among other things, an appreciation of the fact that it is taking over ASN Bank's sustainability policy.

Financial resilience

Financial resilience is a precondition for the well-being of individuals in society. It is, in fact, one of the reasons for our establishment two hundred years ago. Our mission falls back on this history. As a bank we want to offer customers a service that is aimed at increasing their financial resilience.

For us, the term financial resilience consists of three elements: skills, financial concerns and the financial position. We undertake concrete action on all three.

In order to increase the skills, we use the *Eurowijs* financial eduction package to reach well over 200,000 primary school children. We offer budget and job coaching when customers need it. And we will increase the understanding of specific topics by means of a concept that we call 'Getting familiar with ……'. The first topic on the agenda in 2018 is pensions.

In 2017, we started developing the 'Financial Confidence Barometer'. A qualitative and quantitative survey shows that although many people do feel they are financially resilient, they are at the same time concerned about their financial future. The barometer also provides insight into the reason for their concerns, such as a lack of control over the financial situation, a lack of financial self-confidence or avoidance behaviour. As from March 2018, we will conduct this survey on a monthly basis. The understanding gained through the barometer allows us to improve our customer service.

We are the first bank in the Netherlands to introduce an objective, quantitative objective that indicates the extent to which we successfully contribute to making our customers financially resilient. Our aim for 2020 is that more than 50% of our customers will indicate that the bank is ready to help them when they have financial stress. In the recent, first measurement conducted in Janauary 2018 by market research firm GfK among 1,371 respondents, 40% of our customers felt this to be true. Our goal is obviously that ultimately everyone should feel that the bank is there for them in case of financial stress. To achieve this objective, we need to undertake concrete actions.

The third element of financial resilience is the actual financial position. Is it in good shape and completely understood, is the customer's (savings) buffer sufficient, is there a structural imbalance between income and expenditure, is there a problematic debt, how exactly is the pension arranged?

By focusing on these three elements of financial resilience, we want to be relevant to everyone. We not only offer help to customers with debt problems, we also focus on those whose finances are in good shape, but are concerned about their financial future.

Financial resilience is a large and complex social issue. By working together with other social parties we achieve more than we would on our own. To reinforce the launch of our new objective, we are organising a symposium in the second quarter of 2018 at which scientists, politicians, opinion makers and experience experts will discuss the following question: how do we make Dutch citizens financially resilient and less concerned?

MEANING FOR EMPLOYEES

We strive to ensure that our employees are committed and engaged, can develop themselves and find meaning in their work. The objectives in this respect are an employee NPS (eNPS) of 40 by 2020 and an 8 for commitment and engagement. The fact that these objectives are ambitious and at odds with the reorganisation that runs up to and including 2020 is apparent from the actual figures for 2017. The eNPS fell sharply from 30 at the end of 2016 to -2 at year-end 2017. Commitment and engagement showed a more robust pattern. Commitment decreased slightly from 8.1 to 7.6 at year-end 2016; engagement remained stable at 7.4.

Organisational changes have an undisputable impact on the eNPS. In the financial sector, the number of jobs is decreasing and de Volksbank is no exception. Therefore, it is only logical that de Volksbank is less often recommended as an employer. We have a tight control over the implementation of the points for improvement that emerged from the employee survey. In order to follow this properly, we will measure the eNPS twice a year. At the same time, we continue to help our employees move from one job to another 'with a human touch'. We expect the combination of the aforementioned measures to positively influence the eNPS.

RETURNS FOR THE SHAREHOLDER

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

The adjusted ROE in 2017 was 8.7%, lower than in 2016 (10.8%). This was attributable to both a lower adjusted net result, due to a lower release of provisions for loans, and higher average equity, but still above the long-term objective.

OTHER LONG-TERM OBJECTIVES

Our capitalisation objectives are a Common Equity Tier 1 (CET1) ratio of more than 15%, based on current regulations, and a leverage ratio of at least 4.25%. Furthermore, we intend to pay out a dividend of between 40% and 60% of the adjusted net result[1] to the shareholder.

As from 1 January 2018, the Supervisory Review and Evaluation Process (SREP) CET1 capital requirement for de Volksbank is 9.63% on a transitional basis and 10.5% on a fully phased-in basis. Our own objective for the CET1 ratio of at least 15% includes a Pillar 2 Guidance and an ample management buffer, on top of the SREP requirement of 10.5%.

The CET1 ratio showed an increase to 34.1% (2016: 29.2%), due to both net profit retention and a decrease in risk-weighted assets (RWA).

Our CET1 ratio is significantly above our own minimum target and above the SREP requirement. In 2017 we maintained a significant buffer in relation to our minimum target with a view to the impact of Basel IV regulations on our capital ratios and the lack of clarity about the impact of IFRS 9 on stress testing. Based on the agreement reached on Basel IV regulations in December 2017, we expect our RWA to increase by approximately 35%. The current capital position is more than sufficient to absorb the full impact of Basel IV regulations.

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1 The net result, adjusted for fair value changes of the former DBV mortgage portfolio and related derivatives and items, such as goodwill amortisation and gains or losses on divestments, if they are material.

The leverage ratio increased slightly to 5.5% (year-end 2016: 5.2%), well above our objective of more than 4.25%.

Given its solid capital position, de Volksbank proposes to pay out a dividend of €190 million for 2017 to NLFI. This implies a pay-out ratio of 60%, at the top of the target range we use.

For the cost / income ratio (operating expenses excluding regulatory levies divided by total revenues) we apply a target range of between 50% and 52% in 2020. In 2017, the adjusted efficiency ratio was 55.4%, a slight increase compared to 54.5% in 2016, entirely attributable to lower adjusted income. Adjusted expenses were slightly lower.

Commercial developments

Thanks to the net growth in the number of current account customers by 81.000, our market share in new current accounts in 2017 remained virtually stable at 20%. Based on the total portfolio, our market share in current accounts stood at approximately 8%.

Our retail mortgage portfolio grew to € 45.9 billion, from € 44.9 billion at year-end 2016. New mortgage production rose to € 5.2 billion, from € 3.7 billion in 2016 (+41%). In a growing market for new mortgages, de Volksbank's market share in new retail mortgages rose to 6.8% (2016: 5.7%). As a result of the increased number of removals, the total level of repayments rose to € 4.0 billion.

At € 36.6 billion, retail savings deposits remained equal to the year-end 2016 level. Despite a slightly growing market, our market share in retail savings remained stable at 10.8%.

Financial performance

A change in accounting policies with respect to the recognition of prepayment charges on mortgages and interest rate averaging surcharges received had a positive impact on the net profit of € 20 million in both 2016 and 2017.

Net profit showed a decrease to € 329 million, compared to € 349 million in 2016 (-6%). Incidental items, in 2017 consisting entirely of fair value changes of former DBV mortgages and related derivatives, amounted to € 13 million positive. In 2016, incidentals were € 25 million negative.

Net profit, adjusted for incidental items, declined by € 58 million to € 316 million compared to € 374 million in 2016 (-16%). The decline was mainly attributable to a lower net release of provisions for loans of € 24 million (2016: € 68 million). In addition, the total adjusted income decreasedby € 24 million to € 1,011 million (-2%), almost half of which was due to the absence of income from SNS Securities.

Net interest income was € 14 million lower at €924 million (-1%). Lower interest expenses due to reductions in the interest on savings deposits and the repayment of relatively expensive wholesale funding almost entirely compensated lower interest income from mortgages. Interest expenses related to derivatives to manage interest rate risk and steer duration were higher. The interest margin improved slightly to 150 bps (2016: 148 bps), due to a lower level of average total assets.

Adjusted operating expenses decreased by € 4 million to € 560 million (-1%).

At € 20 million, additions to non-credit risk related provisions were substantially higher compared to 2016 (€ 1 million). Additions included extra restructuring costs, costs related to ATM explosive attacks protection, extra costs as a result of a modified policy with regard to debt collection and helping customers whose consumer loan prevents them from switching to another mortgage provider.

Excluding additions to non-credit risk related provisions, operating expenses decreased by € 23 million to € 540 million (-4%). Higher costs in connection with transaction monitoring and other compliance and regulation-related projects were more than compensated for by the first effects of the efficiency measures .

Improving macroeconomic conditions, continuous efforts by the Arrears Management department and stricter acceptance criteria for mortgage loans in recent years have resulted in a further improvement of the quality of our loan portfolio. Retail mortgages in arrears fell by € 146 million to € 559 million, 1.2% of total retail mortgages, the weighted average Loan-to-Value of our retail mortgage portfolio improved to 74% (2016: 80%) and the share of annuity mortgages continued to rise gradually. These improvements led to a release of provisions for loans, albeit lower than in the previous year. The release amounted to € 24 million, compared to € 68 million in 2016.

Outlook

Economic growth in the Netherlands is expected to remain robust throughout 2018, although the growth rate is likely to decline slightly. Higher inflation and interest rates may put a slight brake on consumption growth. Both employment growth and the fall in unemployment are expected to decline slightly. The housing market will remain solid, but the number of transactions might decline slightly.

The number of customers in arrears on their mortgage or SME loan is likely to fall further. Due to a combination of positive macroeconomic developments and a continued rise in house prices, impairment charges are expected to remain limited. However, in 2018 we do not anticipate a release of provisions for loans as in the years 2016 and 2017. As a result of the implementation of IFRS 9, we also expect impairment charges to show a more volatile picture.

Net interest income is expected to be slightly lower than in 2017.

The expected reduction in total operating expenses in 2018 is not expected to fully compensate lower interest income and the swing in impairment charges. All things considered, the net result for 2018 is expected to be lower compared to 2017.

Macroeconomic developments

THE DUTCH ECONOMY

The Dutch economy grew considerably, by well over 3% in 2017. As an open economy, the Netherlands benefited from the upturn in world trade via a sharp rise in export growth. Domestic consumption and investments also grew sharply. The additional business activity was accompanied by a considerable acceleration in job growth. Unemployment fell by 1.1%-point to an annual average of 4.9%, the lowest level in eight years. Despite the shortage in the labour market, wage growth remained moderate. Government finances improved as tax revenues grew due to the favourable economic tide. Inflation rose by 1.1%-point to 1.4%, and may edge upwards as a result of rising world oil prices.

INTEREST RATES AND GOVERNMENT BOND YIELDS

The European Central Bank (ECB) held the deposit rate unchanged at -0.4%, thus keeping money market rates extremely low throughout the year. Capital market rates were strongly influenced by the central bank's bond purchase programme. As from April, the ECB reduced the monthly pace of bond purchases by € 20 billion to € 60 billion until the end of the year. The anticipation of a further reduction of monetary stimulus led to a short-term sharp rise in bond yields in early summer. This was followed by the announcement in October that the programme would be extended by nine months from January 2018, but with the monthly amount being halved (€ 30 billion). It became apparent that the programme could be extended even further if necessary. The plans were more generous than many investors had anticipated and therefore led to downward pressure on yields. Measured throughout the year, the Dutch 10-year yield on government bonds was up by 0.18%-points to 0.53%, with a low of 0.28% in April and a peak of 0.77% in July.

HOUSING MARKET

Influenced by the favourable economic conditions and low interest rates, the solid recovery of the housing market continued. Average house prices rose by 7.6% year-on-year (2016: 5.0%), ending the year at a mere 3.4% below their height in 2008. Having risen by 12.6% (2016: 20.5%) in 2017, residential sales are now well above pre-crisis levels. The increase in the number of transactions in the Randstad conurbation was far below the average in the Netherlands. This is due to a strong reduction in the number of houses for sale – an indication of an overheated market.

Commercial developments

Commercial developments

	31-12-2017	30-6-2017	31-12-2016
CUSTOMERS AND CURRENT ACCOUNTS			
Total number of customers (in 1.000)[1]	3,128	3,091	3,077
Total number of current account customers (in 1.000)	1,409	1,370	1,328
Market share new current accounts[2]	20%	20%	21%
NET PROMOTER SCORE[3]			
ASN Bank	17	16	14
BLG Wonen	-24	-27	-29
RegioBank	7	6	2
SNS	-13	-14	-18
Weighted average	-3	-4	-8
MORTGAGES			
Retail mortgages (gross in € billions)	45.9	45.3	44.9
Market share new mortgages (in #)	6.8%	6.8%	5.7%
Market share mortgage portfolio (in €)[4]	6.8%	6.7%	6.6%
SAVINGS			
Retail savings (in € billions)	36.6	37.4	36.6
Market share retail savings[5]	10.8%	10.7%	10.8%
SME savings (in € billions)	2.7	2.7	2.7

1 The customer number of December 2016 includes an adjustment of 5,000 due to changes in definition.
2 Source: GfK market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.
3 Source: market research firm Miles Research.
4 Based on CBS data.
5 June and December 2016 retail savings market share slightly adjusted as a result of a correction of total Dutch savings market by DNB.

Customers

De Volksbank brands combined welcomed 202,000 new customers in 2017. Setting this off against customers who left the bank, the number of customers increased by 51,000. Net growth was lower than in 2016 (65,000), partly as a result of a lower growth in the number of savings customers. This was partly attributable to the absence of major marketing campaigns and a limited outflow of customers following the termination of the ZwitserlevenBank proposition.

The growth in the number of new current account customers amounted to 137,000, almost stable compared with 2016. At 81,000, net growth remained slightly behind compared with 2016 (88,000).

Overall, customer satisfaction levels developed well. The customer-weighted average of all brand specific Net Promoter Scores (NPS) improved from -8 at year-end 2016 to -3. The NPS at ASN Bank and RegioBank, already positive in 2016, improved further. At SNS, the NPS improved from -18 to -13, and at BLG Wonen from -29 to -24.

Current accounts

De Volksbank's market share in new current accounts remained high at 20%[2] (year-end 2016: 21%). This market share has been 20% or more since 2014, significantly higher than the market share on a total portfolio basis of approximately 8%[3].

In April 2017, SNS introduced *SNS Combinatievoordeel*, offering active current account customers[4] a higher savings rate, a discount on their mortgage rate and a discount on their home insurance premium (when applicable).

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2 GfK market research, based on Moving Annual Total (MAT).
3 Market share determined on the basis of market size based on market research by GfK, reference date 1 January 2016.
4 A current account with ten or more transactions per month and in which a salary is deposited.

After the successful introduction in 2016, RegioBank extended *JongWijs;* a financial package for children up to 18 years of age, consisting of a savings account and, from the age of eight, a current account with the possibility of mobile and online banking.

Mortgages

The market for new mortgage production increased by € 20 billion to €101 billion at year-end 2017[5]. Both the number of mortgages provided and the average principal showed an increase. Competition on the Dutch mortgage market continued to be fierce. In the market for new retail mortgages, the share of loans with a fixed-rate period of more than 10 years remained high at approximately 50%.

De Volksbank's new mortgage production increased to € 5.2 billion, from € 3.7 billion in 2016 (+41%). Total market share of new retail mortgages increased to 6.8% (2016: 5.7%). Based on the total retail mortgage portfolio, the market share remained virtually stable at 6.8%.

De Volksbank wants to increase the retention of mortgage customers through intensifying contact with these customers, for example through the Mortgage term monitoring service (*Hypotheek Looptijdservice*) offered by SNS. Successful retention efforts resulted in a high level of renewals of nearly € 5.1 billion (2016: nearly € 8.5 billion), of which 35% consisted of early renewals (2016: almost 40%). De Volksbank managed to retain many mortgage customers whose fixed-rate period expired in 2017 or would have expired in 2018. Volumes of these renewals were once again substantial as a result of the high mortgage origination in the 2005-2008 period, mostly with a 10-year fixed rate period. Compared to 2016, early renewals decreased slightly as a large part of the portfolio had already been renewed in recent year(s).

Taking new mortgage production, mortgages with floating interest rates and renewals into account, nearly 80% of the total retail mortgage loan portfolio was effected at lower rates since 2015.

The total level of repayments of € 4.0 billion was slightly up compared to 2016 (€ 3.6 billion), mainly driven by increased house removals. This was in line with the overall market.

Thanks to increased new mortgage production and high level of retention, de Volksbank managed to grow its retail mortgage portfolio from € 44.9 billion at year-end 2016 to € 45.9 billion. The demand for mortgages with a fixed-rate period of 15 years or more remained high. At year-end 2017, € 8.0 billion of the portfolio consisted of this type of mortgage (18%), compared with € 7.3 billion (16%) at year-end 2016.

Savings

The Dutch retail savings market increased slightly to € 339 billion (+1%), from € 337 billion at year-end 2016. De Volksbank's retail savings balances remained stable at € 36.6 billion compared to year-end 2016, with a stable market share of 10.8%. In 2017, the brands ran no major marketing campaigns to attract retail savings. SME savings, included in Other amounts due to customers, remained virtually stable at € 2.7 billion compared to year-end 2016.

5 Based on amounts at Land Registry Office ('Kadaster').

Financial results

Results 2017 compared to 2016

Profit and loss account

in € millions	2017	2016[1]	Change	2nd half 2017	1st half 2017[1]
Net interest income	924	938	-1%	448	476
Net fee and commission income	49	57	-14%	23	26
Other income	55	39	41%	28	27
Total income	**1,028**	**1,034**	**-1%**	**499**	**529**
Operating expenses excluding regulatory levies	560	596	-6%	289	271
Regulatory levies	43	46	-7%	15	28
Total operating expenses	**603**	**642**	**-6%**	**304**	**299**
Other expenses	-	1	-100%	-	-
Total expenses	**603**	**643**	**-6%**	**304**	**299**
Impairment charges	-24	-68	65%	-4	-20
Result before taxation	**449**	**459**	**-2%**	**199**	**250**
Taxation	120	110	9%	57	63
Net result	**329**	**349**	**-6%**	**142**	**187**
Fair value movements former DBV mortgages and related derivatives	13	-1		14	-1
Addition to 2016 restructuring provisions	-	-24		-	-
Total incidental items	**13**	**-25**		**14**	**-1**
Adjusted net result	**316**	**374**	**-16%**	**128**	**188**
Cost/income ratio[2]	54.5%	57.6%		57.9%	51.3%
Adjusted cost/income ratio[3]	55.4%	54.5%		60.1%	51.2%
Return on Equity (RoE)[4]	9.1%	10.1%		7.8%	10.5%
Adjusted return on Equity (RoE)[5]	8.7%	10.8%		7.0%	10.5%
Net interest margin (bps)[6]	1.50%	1.48%		1.46%	1.55%
Operating expenses as % of average assets[7]	0.91%	0.94%		0.94%	0.88%
Adjusted operating expenses as % of average assets[8]	0.91%	0.89%		0.94%	0.88%

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.
2 Total operating expenses excluding the impact of regulatory levies / total income.
3 Total operating expenses excluding the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items
4 Net result / average month-end total equity for the reporting period.
5 Net result adjusted for incidental items / average month-end total equity for the reporting period.
6 Net interest income / average month-end total assets for the reporting period.
7 Operating expenses excluding regulatory levies / average month-end total assets for the reporting period.
8 Operating expenses excluding regulatory levies and incidental items (gross values) / average month-end total assets for the reporting period.

CHANGE IN ACCOUNTING FOR THE RECOGNITION OF PREPAYMENT CHARGES ON EARLY MORTGAGE RENEWALS

The original accounting principles dictated that de Volksbank recognise penalty interest – both in the event of immediate payment of the penalty and in the event of the postponed receipt of the penalty by way of interest rate averaging – for the new and generally longer fixed-rate period. IFRS 9 introduces amended requirements in respect of the recognition of penalty interest. De Volksbank initially took the view that the original system could be continued also under IFRS 9, however - after consultation with Ernst & Young Accountants - it concluded that another generally accepted interpretation of these new requirements has arisen. This interpretation requires recognition for the remaining old, and generally shorter fixed-rate period, which causes an acceleration of the realisation of interest income from penalty interest, including interest rate averaging. As a result of the general accepted interpretation, the original recognition is no longer accepted under IFRS 9. For this reason, de Volksbank can no longer apply its previous prudent method of slower realisation of penalty interest for the new term to maturity.

The implementation date of IFRS 9, i.e. 1 January 2018, is the last moment available to adjust the recognition accordingly. As the amended generally accepted interpretation is also permitted under IAS 39, this gives de Volksbank an opportunity to apply the amended accounting principles as early as 2017. De Volksbank chose to do this in order to define the impact for the year 2017 and comparative figures for 2016 with optimum consistency and transparency. This change in accounting policies has a positive impact of € 26 million on net interest income in 2017 (€ 20 million after tax) and € 27 million in 2016 (€ 20 million after tax). Combined with the positive impact on equity (€ 40 million at year-end 2017), this resulted in an increase in the (adjusted) RoE of 0.5%-points in both 2016 and 2017.

NET PROFIT

Net profit showed a decrease to € 329 million, compared to € 349 million in 2016 (-6%), despite a positive swing in incidental items of € 38 million.

In 2017, incidental items were €13 million positive, consisting entirely of unrealised gains on former DBV mortgages and related derivatives. In 2016, incidental items were € 25 million negative, consisting mainly of an addition to the restructuring provision of € 24 million net (€ 32 million gross) in connection with the implementation of the plans to improve operational efficiency.

In 2017 net profit, adjusted for incidental items, decreased by € 58 million to € 316 million, which was mainly attributable to a € 44 million lower net release of provisions for loans. In addition, total adjusted income declined by € 24 million to € 1,011 million (-2%).

Based on net profit adjusted for incidental items, the RoE was 8.7%, a decrease compared to 2016 (10.8%), driven by both a lower adjusted net result and a higher average equity.

In 2017 the cost / income ratio stood at 54.5% (2016: 57.6%). Adjusted for incidental items, the cost / income ratio was 55.4%, compared to 54.5% in 2016. This increase was attributable to lower adjusted income. Adjusted expenses were slightly lower.

Income

Breakdown income

in € millions	2017	2016	Change	2nd half 2017	1st half 2017
Net interest income	924	938	-1%	448	476
Net fee and commission income	49	57	-14%	23	26
Investment income	41	57	-28%	12	29
Result on financial instruments	13	-20	165%	15	-2
Other operating income	1	2	-50%	1	-
Total income	**1,028**	**1,034**	**-1%**	**499**	**529**
Fair value movements former DBV mortgages and related derivatives	17	-1		18	-1
Adjusted income	**1,011**	**1,035**	**-2%**	**481**	**530**

NET INTEREST INCOME

Net interest income decreased by € 14 million to € 924 million (-1%).

Income on mortgages was lower due to lower income on mortgages as a result of a high number of (early) renewals in 2016 and 2017, including interest rate averaging in 2016 and 2017. The number of regular renewals in 2016 and 2017 was also impacted by the high origination of mortgages with a fixed-rate period of 10 years in the 2006-2007 period.

Interest expenses related to derivatives used to manage interest rate risk and steer duration were higher. This was mainly attributable to high new mortgage production and renewals at longer fixed-rate maturities. De Volksbank also implemented a new, more forward-looking model to estimate early repayments and interest rate renewals in 2017. This model showed an increase in the duration of the mortgage portfolio. To keep the duration of equity within the desired range, further hedging was necessary.

Lower interest expenses on account of savings rate reductions and the redemption of relatively expensive wholesale funding almost fully offset the lower interest income on mortgages as a result of (early) renewals at lower interest rates and the impact of higher interest expenses related to derivatives.

Finally, net interest income was positively impacted by another classification of distribution fees paid by RegioBank. In 2017, RegioBank changed its commission fee model from a savings balance-related model to a customer-related model. As a consequence, distribution fees paid are classified as fee and commission expenses instead of interest expenses. The impact of this modified classification amounted to € 7 million. As 2017 is a transitional year, the full effect will be visible in 2018. The modified classification has no impact on total income.

Despite the lower net interest income, the net interest margin improved to 150 bps (148 bps in 2016), due to a lower level of average assets, predominantly driven by the sale of investments and a lower book value of derivatives.

NET FEE AND COMMISSION INCOME

Net fee and commission income decreased by € 8 million to € 49 million. This decrease was due to a decline in securities fees received following from the sale of SNS Securities in 2016 (€ 4 million) and the modified classification of distribution fees paid by RegioBank (€ 7 million). This more than offset the increase in received management fees, as a result of higher assets under management.

INVESTMENT INCOME

Investment income decreased by € 16 million to € 41 million, largely due to the absence of a € 10 million gain realised on the sale of a share in VISA Europe Ltd. in 2016. Realised gains on fixed-income investments, sold as part of asset and liability management and optimisation of the investment portfolio, decreased from € 34 million to € 26 million.

RESULT ON FINANCIAL INSTRUMENTS

The result on financial instruments improved to € 13 million positive, from € 20 million negative in 2016. Of this change, € 18 million was attributable to fair value movements of former DBV mortgages and related derivatives. In 2017, these (gross) results were € 17 million positive, mainly driven by a higher swap rate and a €12 million positive effect ensuing from model and parameter adjustments. In 2016, the fair value movements on former DBV mortgages and related derivatives were € 1 million negative.

Excluding the swing in fair value movements of former DBV mortgages and related derivatives, the result on financial instruments improved by € 15 million. This was mainly due to lower losses owing to the revaluation of funding bought back in previous years, mainly because a substantial amount of this matured in the second half of 2016.

Furthermore, hedge ineffectiveness results on derivatives were higher, partly related to mortgages. In 2017, these results were slightly positive, while they were negative in 2016.

Expenses

Operating expenses and FTE

in € millions	2017	2016	Change	2nd half 2017	1st half 2017
Staff costs	381	398	-4%	194	187
Depreciation of (in-)tangible assets	21	22	-5%	11	10
Other operating expenses	201	222	-9%	99	102
Total operating expenses	**603**	**642**	**-6%**	**304**	**299**
Incidental addition to restrucutering provision 2016 (staff costs)	-	32		-	-
Regulatory levies (other operating expenses)	43	46		15	28
Adjusted operating expenses	**560**	**564**	**-1%**	**289**	**271**
Total number of internal FTEs	3,231	3,354	-4%	3,231	3,288
Total number of external FTEs	714	651	10%	714	673
Total number of FTEs	**3,945**	**4,005**	**-1%**	**3,945**	**3,961**

Total operating expenses decreased by € 39 million to € 603 million (-6%), mainly because of the incidental restructuring charge of € 32 million in 2016 and regulatory levies that were € 3 million lower. Excluding regulatory levies and the one-off restructuring charge, adjusted operating expenses fell by € 4 million to € 560 million (-1%).

The 2017 adjusted operating expenses included € 20 million in additions to non-credit-related provisions, which was substantially more than the € 1 million in 2016.

The major part of the total additions of € 20 million in 2017 was included in staff costs (€ 16 million). Additions related to, among other things, additional restructuring charges, charges for prevention against ATM explosive attacks, extra charges as a result of changes in debt collection management policies, costs related to helping customers whose consumer loan impedes their switching to a different mortgage provider and costs for getting into personal contact with potentially vulnerable customers with an interest-only mortgage.

Excluding these additions, adjusted operating expenses decreased by € 23 million to € 540 million (-4%). The efficiency improvements that were commenced, which resulted in lower staff costs and lower marketing and consultancy costs, along with the absence of SNS Securities costs more than compensated for the increased costs of transaction monitoring and other regulatory and compliance-related projects.

Regulatory levies were € 3 million lower. In 2017, these totalled € 43 million, € 10 million of which was related to the resolution fund contribution (2016: € 8 million) and € 33 million to the ex ante Deposit Guarantee Scheme contribution (2016: € 38 million).

Adjusted operating expenses divided by the average total assets rose from 89 bps in 2016 to 91 bps due to lower average total assets, mainly driven by the sale of investments in the scope of balance sheet management and optimisation of the investment portfolio and a lower balance sheet value of derivatives.

The decline in the total number of internal employees (FTEs) by 123 to 3,231 was mainly due to the first effects of efficiency measures. The number of external FTEs rose by 63, partly because of additional transaction monitoring activities and filling of a temporary staff shortage.

Impairment charges

in € millions	2017	2016	Change	2nd half 2017	1st half 2017
Impairment charges on retail mortgage loans	-21	-65	68%	-3	-18
Impairment charges on other retail loans	6	-1	--	5	1
Impairment charges on SME loans	-9	-2	-350%	-6	-3
Total impairment charges	**-24**	**-68**	**65%**	**-4**	**-20**
Cost of risk total loans	-0.05%	-0.14%		-0.01%	-0.08%
Cost of risk retail mortgage loans	-0.05%	-0.15%		-0.02%	-0.08%
Cost of risk SME loans	-1.10%	-0.27%		-1.45%	-0.75%

Improving macro-economic conditions and a further rise in house prices continued to have a positive effect on impairment charges, resulting in a net release of € 24 million (2016: € 68 million). Continuous efforts by the Arrears Management department and stricter acceptance criteria for mortgage loans in recent years also contributed to the sustained decrease in impaired retail mortgage loans, albeit more gradually than in 2016. The total net release of impairment charges on retail mortgage loans amounted to € 21 million, equalling 5 bps of gross outstanding retail mortgages.

Impairment charges on other retail loans amounted to € 6 million after a net release of € 1 million in 2016. This swing was largely attributable to parameter adjustments of provisioning models, such as the introduction of minimum coverage ratios for impaired loans, rising linearly to 100% for retail loans 24 months or more in arrears.

The impaired SME loan portfolio continued to decrease in 2017, with the decline being higher than in 2016. This resulted in a release of impairment charges in the amount of € 9 million, compared to € 2 million in 2016. There were no major defaults in 2017.

TAXES

The effective tax burden in 2017 was 27% (2016: 24%), at a nominal rate of 25%. The higher tax burden was caused by adjustments related to the settlement of the tax returns of the fiscal unity with SRH for the year 2014 and the first six months of 2015. These adjustments, totalling € 8 million, relate in particular to the settlement of tax losses between SRH and de Volksbank.

Results second half of 2017 compared to first half of 2017

Compared to the first half of 2017, net profit decreased from € 187 million to € 142 million.

Both periods included incidental items related to fair value movements of former DBV mortgages and related derivatives. In the second half of 2017 these were € 14 million positive, while they were € 1 million negative in the first half of the year.

Net profit, adjusted for incidental items, decreased from € 188 million in the first half of 2017 to € 128 million. Total adjusted income decreased by € 49 million to € 481 million, mainly due to lower net interest income and lower investment income. In addition, the net release of provisions on loans was € 16 million lower and the effective tax burden higher, due to a recognised tax charge for the adjustment of the tax result for 2014 and 2015.

Net interest income of € 448 million was € 28 million lower compared to the first half of 2017. This was mainly due to higher interest expenses related to derivatives in order to manage the interest rate risk and steer the duration. In the second half of the year, the full effect of the implementation of the improved model to estimate early redemptions was visible. In addition, interest income on mortgages was lower due to (early) renewals at lower interest rates. These factors were partly offset by lower interest expenses as a result of savings rates reductions.

Net fee and commission income of € 23 million dropped by € 3 million compared to the first half of 2017, entirely due to the release of a provision in the first half.

Investment income fell by € 17 million to € 12 million. Investment income was substantial in the first half of 2017, predominantly because of realised gains on fixed-income investments, sold as part of asset and liability management and to optimise the investment portfolio.

The result on financial instruments increased from € 2 million negative in the first half of 2017 to € 15 million positive, more than wholly due to a swing in fair value movements of former DBV mortgages and related derivatives.

Excluding regulatory levies, total adjusted operating expenses rose by € 18 million to € 289 million. Staff costs were € 8 million higher, mainly attributable to higher costs for transaction monitoring and other compliance and regulation-related projects. Adjusted other expenses were € 10 million higher, almost half of which was due to higher costs related to marketing campaigns. In addition, consultancy costs were higher.

Regulatory levies were € 13 million lower than the first half of 2017, due to the fact that the full-year contribution to the resolution fund of € 10 million was recognised in the first half of 2017. In addition, the ex ante DGS contribution was lower, reflecting the improvement of the underlying liquidity and solvency indicators. Including regulatory levies, total operating expenses of € 304 million were € 5 million higher.

Both the first half and the second half of 2017 saw a net release of provisions for loans. However, the release decreased from € 20 million to € 4 million. Releases from retail mortgage provisions fell by € 15 million. Impaired retail mortgages decreased more gradually than in the first half of 2017. Impairment charges on other retail loans increased by € 4 million, more than wholly due to parameter adjustments. The net release of impairments charges related to SME loans was € 3 million higher. The decline in impaired SME loans was stronger in the second half of the year.

Risk, capital & liquidity management

Credit risk

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

Loans and advances to customers

Loans and advances to customers 31 December 2017

in € millions	Gross amount	Specific provision	IBNR pro-vision	Book value loans	Loans in arrears[1]	Non-default loans[2]	Default loans[2]	Loans in arrears	Impaired ratio	Coverage ratio
Remaining principle amounts	45,438	-44	-28	45,366	541	264	277	1.2%	0.6%	15.9%
IFRS value adjustments	454	-	-	454	-	-	-	-	-	-
Retail mortgage loans	**45,892**	**-**	**-**	**45,820**	**-**	**-**	**-**	**0.0%**	**0.0%**	**0.0%**
Retail other loans	139	-27	-1	111	37	3	34	26.6%	24.5%	79.4%
Total retail loans	**46,031**	**-71**	**-29**	**45,931**	**578**	**267**	**311**	**1.3%**	**0.7%**	**22.8%**
SME loans[4]	786	-47	-2	737	104	-	104	13.2%	13.2%	45.2%
Other commercial and semi-public loans	1,840	-	-	1,840	-	-	-	-	-	-
Loans to the public sector	814	-	-	814	-	-	-	-	-	-
Total loans and advances to customers	**49,471**	**-118**	**-31**	**49,322**	**682**	**267**	**415**	**1.4%**	**0.8%**	**28.4%**

Loans and advances to customers 31 December 2016

in € millions	Gross amount	Specific provision	IBNR pro-vision	Book value loans	Loans in arrears[1]	Non-default loans[2]	Default loans[2]	Loans in arrears	Impaired ratio	Coverage ratio
Remaining principle amounts	44,244	-80	-34	44,130	682	260	422	1.5%	1.0%	19.0%
IFRS value adjustments[3]	694			694						
Retail mortgage loans	**44,938**			**44,824**						
Retail other loans	191	-25	-1	165	44	4	40	23.0%	20.9%	62.5%
Total retail loans	**45,129**	**-105**	**-35**	**44,989**	**726**	**264**	**462**	**1.6%**	**1.0%**	**22.7%**
SME loans[4]	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	**48,834**	**-175**	**-39**	**48,620**	**872**	**264**	**608**	**1.8%**	**1.2%**	**28.8%**

1 Loans in arrears (€ 18 million), are not included in retail mortgage loans, stated at market value in the balance sheet (2016: € 23 million). This amount is included in the table 'Retail mortgage loans in arrears'.

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

3 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly. For more information see section Financial results.

4 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million (2016: € 815 million).

In 2017, total gross loans and advances to customers rose by € 637 million to € 495 billion, mainly due to the growth of our retail mortgage portfolio, which increased by € 1.0 billion. New mortgage production amounted to € 5.2 billion and repayments to € 4.0 million. IFRS value adjustments had a negative impact of € 0.2 billion as a result of interest rate developments.

Loans in arrears declined by € 190 million to € 682 million (2016: € 872 million), 1.4% of total loans (2016: 1.8%). This decrease was due to the increased attention paid to the recovery of customers in arrears and the prevention of new arrears. The decline was further supported by the favourable economic circumstances.

Statement of changes in provision for loans and advances to customers

in € millions	Retail mortgage loans 2017	Retail other loans 2017	SME loans 2017	Total 2017	Retail mortgage loans 2016	Retail other loans 2016	SME loans 2016	Total 2016
Opening balance	114	26	74	214	257	35	99	391
Write-offs	-23	-5	-19	-47	-82	-9	-26	-117
Additions	27	7	10	44	35	3	12	50
Releases	-48	-	-19	-67	-100	-3	-15	-118
Other changes	2	-	3	5	4	-	4	8
Closing balance	**72**	**28**	**49**	**149**	**114**	**26**	**74**	**214**

The total provision for loans and advances to customers fell by € 65 million to € 149 million.

The provision for retail mortgages fell by € 42 million to € 72 million, partly on the back of the additional attention paid to customers who were in arrears for a prolonged period of time. In cases where recovery was no longer possible, this led to a sale of the collateral. The usage of the provision was lower than in 2016, as 2017 saw fewer forced sales.

In 2017, we formed an additional provision of € 4 million for the interest-only mortgages that run an increased (repayment) risk in the longer term and classified them as ‘Unlikely-to-Pay’. The additions to the provision in 2017 were nevertheless lower than in 2016, driven by a lower inflow of new default loans and improved credit quality of the retail mortgage portfolio.

For the SME loans, too, improved economic conditions, combined with better arrears management, ensured a lower inflow of new default customers and a decrease in the number of existing default customers. The lower inflow translated into lower additions to the provision. The decrease in the number of existing default customers and higher proceeds from foreclosures triggered releases (like in 2016). In addition, rising collateral values and write offs of large loans in default for which sizable provisions were made, led to the decline in the coverage ratio.

The total loan loss provision as a percentage of the total gross loans decreased to 0.30%, from 0.44% in 2016.

Retail mortgage loans

The rebound of the Dutch economy continued in 2017 as well, contributing to the further improvement of the quality of the retail mortgage portfolio. The collateral value of mortgages rose again in the wake of a further rise in house prices. The drop in unemployment also led to a lower average probability of default among our customers.

In 2017, we further tightened the acceptance criteria for mortgages, in which customers’ interests were the guiding principle. After all, limiting credit risks is also in the interest of customers. We aim at maximum transparency in terms and conditions, so that our customers know where they stand.

In recent years, we have further improved our policy on arrears and preventive management: this has led to an improvement in the portfolio's risk profile. In 2017, the sum of the default loans fell to € 277 million (2016: € 422 million). The efforts of the Arrears Management department led to a lower inflow of default loans. The coverage ratio for retail mortgages fell to 15.9% (2016: 19.0%).

Total exposure to retail mortgages rose by € 1.0 billion in 2017. The improving market has led to an increase in production. The increase in total exposure was mitigated by an increase in the number of redemptions. Due to the low savings rate, it remains attractive for customers to make (accelerated) repayments.

Retail mortgage loans in arrears

in € millions	**31-12-2017**	**31-12-2016**
No arrears	44,879	43,539
Non-default loans in arrears	**280**	**282**
- of which 1 - 3 months in arrears	*280*	282
Default loans in arrears	**279**	**423**
- of which 1 - 3 months in arrears	*110*	132
- of which 4 - 6 months in arrears	*54*	75
- of which 7 - 12 months in arrears	*49*	75
- of which > 12 months in arrears	*66*	141
Subtotal arrears[1]	**559**	**705**
IFRS value adjustments[2]	454	694
Credit provision	-72	-114
Total	**45,820**	**44,824**

1 The subtotal includes mortgages stated at market value in the balance sheet (2017: € 18 million, 2016: € 23 million). These items are not included in 'Loans in arrears' in the coverage ratio table.

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

The significant decrease in the inflow of the number of impaired retail mortgages and stable recovery rates led to a decrease in loans in arrears to € 559 million, compared to € 705 million at year-end 2016. The decrease occurred particularly in (all categories of arrears) default loans.

Retail mortgage loans by LtV buckets

in € millions[1]		**31-12-2017**		**31-12-2016**
NHG[2]	13,184	30%	12,673	30%
- of which LtV ≤ 75%	4,320	10%	3,398	8%
- of which LtV >75 ≤ 100%	7,299	17%	6,125	15%
- of which LtV >100 ≤ 110%	1,129	3%	1,859	4%
- of which LtV >110 ≤ 125%	381	1%	1,126	3%
- of which LtV > 125%	55	0%	165	0%
Non-NHG	30,160	70%	29,483	70%
- of which LtV ≤ 75%	16,546	38%	14,230	34%
- of which LtV >75 ≤ 100%	9,840	23%	8,450	20%
- of which LtV >100 ≤ 110%	2,345	5%	3,182	8%
- of which LtV >110 ≤ 125%	1,090	3%	2,824	7%
- of which LtV > 125%	339	1%	797	2%
Total	**43,344**	**100%**	**42,156**	**100%**
Weighted average indexed LtV	74%		80%	
IFRS value adjustments[3]	454		694	
Savings deposits	2,094		2,088	
Credit provisions	-72		-114	
Total retail mortgage loans	**45,820**		**44,824**	

1 LtV based on indexed market value of collateral.

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

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

The weighted average indexed LtV of the retail mortgages improved to 74%, from 80% at the end of 2016. The bank indexes collateral values every month on the basis of house price developments. The rising house prices led to a shift of loans to a lower LtV bucket. Regular (and extra) repayments also contributed to this shift.

The share of NHG mortgages in the new mortgage production remained stable in 2017 at around 35%. The share also remained virtually flat at 30% at portfolio level.

In 2017, the maximum regulatory LtV for new mortgages dropped by 1%-point to 101%. In 2018, it will be lowered further to 100%.

Retail mortgage loans by redemption type

in € millions	31-12-2017		31-12-2016	
Interest-only (100%)	12,344	27%	13,189	30%
Interest-only (partially)	12,474	28%	12,265	28%
Annuity	8,571	19%	5,783	13%
Investment	2,896	6%	3,268	7%
Life insurance[1]	4,622	10%	5,185	12%
Bank savings	3,303	7%	3,604	8%
Linear	796	2%	525	1%
Other	432	1%	425	1%
Total	**45,438**	**100%**	**44,244**	**100%**
IFRS value adjustments[2]	454		694	
Credit provision	-72		-114	
Total retail mortgage loans	**45,820**		**44,824**	

1 Including offset mortgages of which the policy is managed by an insurer.

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

The share of full or partial interest-only mortgages fell from 58% of the total portfolio at year-end 2016 to 55% at year-end 2017. Interest payments on mortgages effected after 2013 are only tax deductible if the mortgage is paid off through an annuity or linear scheme over a maximum period of thirty years. As a result, the share of these mortgages gradually increases and the share of (partial) interest-only mortgages decreases. The total gross amount of annuity and linear mortgages also increased in 2017.

The bank is pursuing an active policy to reduce the share of interest-only mortgages in the portfolio and actively approaches customers to inform them of alternatives. At the same time, the Dutch government tightened the (tax) policy on the maximum interest-only percentage to be provided. Expectations are that the share of interest-only mortgages in the overall portfolio will continue to fall in the next few years.

In the table below, the share of 100% interest-only mortgages is broken down by LtV bucket.

Interest-only mortgages (100%) by LtV bucket

In percentages	31-12-2017	31-12-2016
LtV ≤ 75%	81%	73%
LtV >75 ≤ 100%	14%	18%
LtV >100 ≤ 110%	3%	4%
LtV >110 ≤ 125%	1%	3%
LtV > 125%	1%	2%
Total	**100%**	**100%**

When the mortgage contract with the customer expires, a repayment or refinancing problem may arise in relation to the current acceptance criteria. In such cases, the bank will always seek to retain the customer and look for a suitable solution.

De Volksbank has performed an analysis to determine which customers with a full interest-only mortgage might be unable to repay or refinance the principal at the end of the term. Based on this analysis, 200 customers have been classified as 'Unlikely-to-Pay'. At the end of 2017, € 4 million in provisions was held for this purpose.

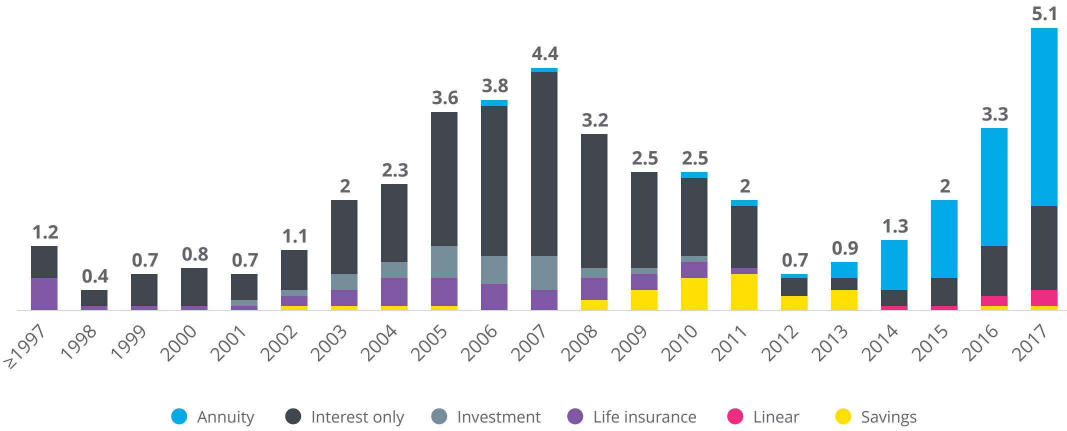
Retail mortgage loans by fixed-rate maturity

in € millions	31-12-2017		31-12-2016	
Floating rate	2,754	6%	3,540	8%
≥ 1 and < 5-yr fixed-rate	1,331	3%	1,757	4%
≥ 5 and < 10-yr fixed-rate	5,108	11%	6,640	15%
≥ 10 and < 15-yr fixed-rate	27,810	61%	24,604	56%
≥ 15-yr fixed-rate	8,001	18%	7,262	16%
Other	434	1%	441	1%
Total	**45,438**	**100%**	**44,244**	**100%**
IFRS value adjustments[1]	454		694	
Credit provision	-72		-114	
Total retail mortgage loans	**45,820**		**44,824**	

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

Retail mortgages with a fixed-rate maturity of ten years or more grew and mortgages with a fixed-rate period of less than ten years decreased. This was in line with the trend visible in 2015 and 2016. This shift was caused by the persistently low interest rates. In total, the share of mortgages with a fixed-rate maturity between 10 and 15 years rose from 56% in 2016 to 61% in 2017.

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



1 Amounts in this chart do include mortgage renewals, but do not include mortgages that have been executed but have not yet been processed in the system.

2 The year 2007 includes € 0.7 billion in retail mortgages from the acquisition of RegioBank.

IFRS 9

Effective 1 January 2018, de Volksbank is under an obligation to apply the IFRS 9 Expected Credit Loss (ECL) impairment requirements.

In early 2016, de Volksbank started implementing the articles and guidelines of the new IFRS 9 Impairment Standard for the introduction of the ECL models. Expert groups have translated various aspects regarding the IFRS 9 Standard into a risk policy for each specific portfolio. De Volksbank identifies the following portfolios for which specific loan loss provisions are determined under IFRS 9:

- Retail mortgage loans
- Financial markets
- ASN Bank private and sustainable loans
- SME loans
- Other retail loans

The risk policy states how aspects such as Lifetime Probability of Default (PD) versus 12-month PD, Expected Credit Loss, PD at Origination, Significant Increase in Credit Risk (SICR) and other portfolio characteristics should be viewed in light of IFRS 9 ECL models. The risk policy forms the basis to determine credit risk and provisioning, effective from 1 January 2018.

The new IFRS 9 ECL models are 'Point-in-Time' (PIT). This PIT nature was created partly by adding macroeconomic variables to the model. In principle, the IFRS 9 risk models produce more volatile results of the provision than the current requirements under IAS 39, as IFRS 9 models are more closely aligned with the macroeconomic situation and expectations.

We are working on the implementation of the IFRS 9 models in the IT applications, for some portfolios we will implement an interim solution. All models have been tested and de Volksbank has performed parallel runs spanning several months to allow a comparison of the existing and new methods of calculation. This way, we have obtained a clearer picture of the impact yielded by the transition of the IAS 39 Incurred Loss models to the IFRS 9 ECL models.

The effect of the implementation of IFRS 9 on loan loss provisions is € 19 million (higher provision). For the overall quantitative impact on the capital position and capital ratios, see the section on Developments in capital requirements.

Interest rate risk banking book

The current, historically low, market rates are taken into account when controlling the market rate risk. The main metrics for interest rate risk are 'duration of equity', 'key rate durations' and the 'earnings-at-risk'. We have defined limits for these metrics with the aim of protecting the bank against market rate movements. This also contributes to controlling the risk of sustained pressure on interest margins.

In 2017 we started using a new mortgage prepayment model with which early repayments on mortgages are estimated. This model also looks at expectations about both the housing market and the level of the market rates when predicting future early repayments.

This model takes into account both the housing market expectations and the market interest rate for predicting future early redemptions.

The historically low market rates and the expectation that they will rise slowly led to the decision to keep the duration of equity at 1.6 at year-end 2017 (2016: 1.6). This relatively low duration limits our sensitivity to market rate rises.

At year-end 2017, the EaR amounted to € 75 million before tax (2016: € 66 million)[6]. The EaR reflects the maximum impact on interest income in different scenarios over a one-year horizon.

Market risk

De Volksbank has a limited trading portfolio. The market risk in the trading portfolio is measured on a daily basis using Value at Risk (VaR), Expected Shortfall (ES) and stress testing. These are used for internal monitoring and for specifying limits. VaR, ES as well as the stress tests look ahead to the next day (one-day horizon), applying a confidence interval for VaR of 99% and for ES of 97.5%. Throughout the year, the total VaR limit for the trading book remained stable at € 2 million. This reflects the relatively low risk profile of these activities in terms of size.

Non-financial risks

The impact of non-financial risks is increasing as a result of a changing market that is getting harder to predict, political developments and more stringent laws and regulations. We therefore run the risk of suffering a substantialnegative impact on earnings or reputation damage. In order to prevent this as much as possible, we identify these non-financial risks, both in the short and long term, and incorporate them in our risk policy and instruments of control measures. This allows us to reinforce our risk management and quantify our risk appetite more clearly.

Management devotes much attention to managing and controlling the non-financial risks. For example, we face challenges in controlling our continuously changing organisation, the security of our IT structure and the improvement of data management. Compliance risk should not be underestimated in these developments either: stringent laws and regulations that we want to - and must – comply with, and efficiently meeting the growing information needs from supervisory authorities. The scope of the risks is continuously being measured and assessed by the Risk Committee. This committee focuses on the extent to which non-financial risks influence the achievement of objectives, in both operational and financial terms. In addition, the committee assesses the proposed measures aimed at staying within the defined risk tolerance.

During the reporting period, special attention was paid to risk management in terms of operational risk, cyber resilience as well as customer integrity, crime, fraud and corruption.

[6] In 2016, the EAR in the amount of € 50 million was reported after tax.

OPERATIONAL RISK

In 2017 we took further steps to professionalise risk management within line management. This is expressed in the Self Assessment, which is held annually at de Volksbank and is performed by both the first and second-line departments. In the Self Assessment, the process in which incidents are identified, recorded and analysed is also assessed. In 2017 this was further developed by updated process descriptions and a supporting IT application.

CYBER RESILIENCE

We continuously invest in strengthening the cyber resilience with a modern approach. We have set up an organisation in which specialists from the business, risk organisation and IT work together on the security and availability of services to customers. Within this cyber resilience organisation, the specialists make analyses that we use to further improve the effectiveness and efficiency of our fight against cybercrime. This is achieved by, for instance, further integration of our detection and response measures and more intensive interbank collaboration, which enables us to respond to cyber attacks rapidly and flexibly – now and in the future.

Last year we further professionalised the cybercrime processes, ensuring that the information received by the bank regarding new cyber threats is processed in a uniform manner. This creates a better picture of any cyber risks and allows targeted action to be taken. In order to raise awareness, we have taken various measures to increase customers' and in-house staff's knowledge about cybercrime. Because of this, in 2017 we saw a minimum interruption of services resulting from cyber attacks or system failure and we minimised the loss of internal or customer data, which translated into financial damage for customers and the bank that was even below prior-year levels. This corresponds to the picture emerging in the sector: the threat is real and is set to grow, but the number of successful cyber attacks is dropping. Nevertheless, we must continue to do everything in our power to prevent cyber attacks from having any chance of success in the future.

CUSTOMER INTEGRITY, CRIME, FRAUD AND CORRUPTION

De Volksbank maintains relationships with a large number of customers. It is important for us to know our customers well, so that we can offer suitable products and will not enter into any relationship with persons or organisations with whom or which the bank may not conclude agreements under laws and regulations (Financial Supervision Act, Sanctions Act). It is of great importance to de Volksbank to prevent and counter fraud and crime. It does so by applying the Customer Due Diligence (CDD) protocol to every customer and through continuous transaction monitoring. In the area of payment transactions, employees and monitoring and detection systems are increasingly faster and better able to identify fraudulent or unauthorised transactions. Where necessary, suspicious transactions are reported to the authorities.

In 2016, we launched several initiatives to adapt customer integrity processes to (changed) laws and regulations.

We implemented additional measures in 2017 to tighten the control in the field of customer acceptance and transaction monitoring. We took actions in the field of the detection and control of customers, accounts and transactions to prevent the bank and its products from being used for the wrong purposes such as money laundering, terrorist financing and fraud. For example, we put into use a new monitoring system and implemented various improvements in the detection scenarios. These improvements to a great extent meet the measures previously agreed with DNB, following an administrative fine of € 500,000 imposed by DNB for failing to report unusual transactions without delay. Further measures are being taken to increase the effectiveness of procedures and systems for the prevention of money laundering and terrorist financing to ensure that the integrity risks run by de Volksbank in this area are continuously adequately mitigated. It is expected that we will thus fully comply with the measures imposed by DNB. Moreover, the bank continues to update its policy on customer integrity annually on the basis of new regulations.

In order to control the risks arising for the bank, but for society in particular, from ATM ram raids and explosive attacks, de Volksbank has removed or moved the ATMs located in the immediate vicinity of homes. Any ATMs still present at risky locations have been fitted with additional security measures. In this process, we consider the area of tension between our responsibility to keep cash available in society on the one hand and the safety of local residents on the other. De Volksbank is in close contact with other banks and investigation authorities to exchange relevant information.

Capital management

CRR/CRD IV requirements

CRR/CRD IV requirements as from 1 January 2018

	Total capital		of which Tier 1 capital		of which CET1 capital	
	2018	2019[1]	2018	2019[1]	2018	2019[1]
Pillar 1 requirement	8.00%	8.00%	6.00%	6.00%	4.50%	4.50%
Pillar 2 requirement (CET1)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Total SREP Capital Requirement (TSCR)	**10.50%**	**10.50%**	**8.50%**	**8.50%**	**7.00%**	**7.00%**
Capital conservation buffer	1.88%	2.50%	1.88%	2.50%	1.88%	2.50%
O-SII buffer	0.75%	1.00%	0.75%	1.00%	0.75%	1.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined Buffer Requirement (CBR)	**2.63%**	**3.50%**	**2.63%**	**3.50%**	**2.63%**	**3.50%**
Overall Capital Requirement (OCR)	**13.13%**	**14.00%**	**11.12%**	**12.00%**	**9.63%**	**10.50%**

1 Fully phased-in.

With effect from 1 January 2018, de Volksbank is required to meet a minimum total capital ratio of 13.125% (Overall Capital Requirement, OCR) at consolidated level, of which at least 9.625% CET1 capital. This requirement follows from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB).

The OCR is defined as the level at which the maximum distributable amount of dividend (Maximum Distributable Amount, MDA) is curtailed by regulations. The OCR includes the Pillar 1 capital requirement of 8.0%, the Pillar 2 CET1 requirement of 2.5% (together the Total SREP Capital Requirement, TSCR) and the Combined Buffer Requirement (CBR) of 2,625% for 2018.

The CBR is to be held in the form of CET1 capital. The CBR consists of a capital conservation buffer, a capital buffer for Other Systemically Important Institutions (O-SII buffer) and a countercyclical capital buffer. The capital conservation buffer equals 1.875% as from 1 January 2018 and will rise to 2.5% as from 1 January 2019. The O-SII buffer for de Volksbank equals 0.75% as from 1 January 2018. This buffer will increase to 1% as from 1 January 2019.

The countercyclical capital buffer for exposures to Dutch counterparties is currently 0%. This buffer is intended to protect banks against risks arising when credit growth is excessive. Each quarter DNB sets the level of the buffer for the Netherlands, which, in principle, varies from 0% to 2.5%[7]. The fully phased-in OCR for de Volksbank is therefore equal to 14.0% based on the SREP, of which at least 10.5% consists of CET1 capital.

De Volksbank aims for a CET1 ratio of at least 15.0%, and a leverage ratio of at least 4.25%. Our objective for the CET1 ratio includes a Pillar 2 Guidance and an ample management buffer, on top of the SREP requirement of 10.5%. For the time being, we will apply these objectives both under current regulations and under Basel IV standards.

Over the coming year we will investigate whether there is reason to revise our capital objectives, in particular on the basis of the combined impact on our capital ratios of Basel IV, the TRIM (Targeted Review Internal Model) outcomes, and the impact of IFRS 9 on stress testing.

7 DNB may, at its discretion, impose a countercyclical capital buffer of more 2.5%.

Capitalisation

	CRD IV transitional			CRD IV fully phased-in		
in € millions	**31-12-2017**	30-6-2017	31-12-2016	**31-12-2017**	30-6-2017	31-12-2016
Shareholders' equity	3,714	3,543[1]	3,541[1]	3,714	3,543[1]	3,541[1]
Non-eligible interim profits	-226	-145	-223	-226	-145	-223
Non-eligible previous years' retained earnings	-20	-	-	-20	-	-
Shareholders' equity for CRD IV purposes	**3,468**	**3,398**	**3,318**	**3,468**	**3,398**	**3,318**
Cashflow hedge reserve	-36	-40	-44	-36	-40	-44
Fair value reserve	-20	-20	-54	-	-	-
Other prudential adjustments	-3	-4	-3	-3	-4	-3
Total prudential filters	**-59**	**-64**	**-101**	**-39**	**-44**	**-47**
Intangible assets	-14	-14	-15	-14	-14	-15
IRB shortfall[2]	-56	-36	-38	-62	-40	-47
Total capital deductions	**-70**	**-50**	**-53**	**-76**	**-54**	**-62**
Total regulatory adjustments to shareholders' equity	**-129**	**-114**	**-154**	**-115**	**-98**	**-109**
CRD IV CET 1 capital	**3,339**	**3,284**	**3,164**	**3,353**	**3,300**	**3,209**
Additional Tier 1 capital	-	-	-	-	-	-
Tier 1 capital	**3,339**	**3,284**	**3,164**	**3,353**	**3,300**	**3,209**
Eligible Tier 2	500	500	500	500	500	500
IRB shortfall[2]	-6	-4	-9	-	-	-
Impact EBA interpretations CRR Article 82	-344	-	-	-329	-	-
Tier 2 capital	150	496	491	171	500	500
Total capital	**3,489**	**3,780**	**3,655**	**3,524**	**3,800**	**3,709**
Risk-weighted assets	**9,781**	**10,060**	**10,824**	**9,781**	**10,060**	**10,824**
Risk exposure measure as defined by the CRR	60,345	60,207	60,331	60,350	60,215	60,360
CET1 ratio	**34.1%**	**32.6%**	**29.2%**	**34.3%**	**32.8%**	**29.6%**
Tier 1 ratio	34.1%	32.6%	29.2%	34.3%	32.8%	29.6%
Total capital ratio	35.7%	37.6%	33.8%	36.0%	37.8%	34.3%
Leverage ratio	5.5%	5.5%	5.2%	5.6%	5.5%	5.3%

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures in the prudential overview have not been adjusted but kept the same as the figures previously reported to the regulatory authority. As a result, the comparative figures for shareholders' equity in the prudential overview are not the same as the consolidated financial statements under IFRS.

2 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.

The table above shows the capitalisation at the consolidated level. The CET1 capital at consolidated level is equal to the CET1 capital at solo bank level. The (effective) size of the Tier 2 capital at consolidated level is lower than at solo bank level under EBA regulations for financial holding companies. The developments in capitalisation are described below.

Shareholders' equity increased by € 173 million to € 3,714 million in 2017, as a result of a profit retention of € 329 million, partly compensated by the dividend payout for 2016 (€ 135 million) and a decrease in the fair value reserve (€ 40 million).

In order to determine shareholders' equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders' equity. After profit appropriation by the General Meeting of Shareholders (GMS) in April 2017, non-eligible (interim) profits as at year-end 2016 in the amount of € 223 million, were added to the CET1 capital after deduction of the dividend pay-out of € 135 million. This amount consisted of the net profit for the fourth quarter of 2016 (€ 25 million after deduction of the dividend reservation) and the dividend reservation surplus for the full-year 2016 (€ 63 million).

Net profit for the first nine months of 2017 was added to CET1 capital (€ 103 million) after deduction of 60% dividend reservation. The profit not yet eligible as CRD IV equity for 2017 amounts to € 226 million and consists of the dividend reservation on the net profit for the first three quarters and the full net profit for the fourth quarter of 2017.

De Volksbank changed its accounting policy with respect to prepayment charges and interest rate averaging surcharges received for early mortgage repayments. As a result, shareholders' equity - Other reserve - increased by € 20 million. However, until this change has been adopted by the GMS, this amount will be deducted from shareholders' equity for Capital Requirements Directive IV (CRD IV) purposes as non-eligible retained earnings for previous years.

In order to determine the CRD IV CET1 capital, shareholders' equity is subject to a number of regulatory adjustments for CRD IV purposes. At the end of 2017, the weighting of these regulatory adjustments in the transitional phase is still 20%, versus 40% at the end of 2016. Total regulatory adjustments amounted to € 129 million at the end of 2017 (2016: € 154 million) and consisted mainly of the following items. The cash flow hedge reserve, part of the fair value reserve, decreased by € 8 million to € 36 million and falls entirely outside the scope of the CRD IV CET1 capital. The part of the fair value reserve that does fall under the CRD IV CET1 capital, decreased by € 32 million, from € 136 million to € 104 million. At the end of 2016, however, 40% of the fair value reserve was transitionally deducted as a regulatory adjustment (€ 54 million), whereas this was only 20% at the end of 2017 (€ 20 million). In addition, the deductible item under the IRB shortfall rose from € 38 million to € 56 million.

On balance, the CRD IV CET1 capital increased by € 175 million to € 3,339 million.

De Volksbank's transitional CET1 ratio increased to 34.1%, from 29.2% at year-end 2016, driven by an increase in CET1 capital and a decrease in RWA. The fully phased-in CET1 ratio rose from 29.6% to 34.3%, thus remaining well above our target of at least 15%.

On 3 November 2017, EBA published its interpretation of CRR Article 82 , which has consequences for financial parent holding companies with a single subsidiary and a strong capital position, such as de Volksholding B.V. In the consolidated capitalisation, a haircut is applied to the Additional Tier 1 and Tier 2 capital issued to third parties by de Volksbank N.V. This haircut is related to the surplus of available capital in relation to the minimum capital requirements.

The rationale behind this EBA interpretation is based on the consideration that the subordinated assets at the level of a subsidiary cannot fully serve to absorb risks arising from the specific activities of a holding company. Although de Volksholding B.V. has no other activities than holding the shares in de Volksbank N.V., this correction does apply to de Volksholding B.V. As a result, the effective amount of Tier 2 capital at consolidated level is lower than at solo bank level: at year-end 2017, the effective amount of Tier 2 capital is € 150 million at consolidated level, versus € 494 million at solo bank level (both including a € 6 million IRB shortfall deduction). We will investigate how we can mitigate the impact of the EBA interpretation, for instance by adjusting the structure of the holding company. The comparative figures at year-end 2016 are exclusive of the impact of the EBA CRR Article 82 interpretation.

Taking into account the EBA interpretation of CRR Article 82, the total capital ratio rose from 33.8% to 35.7%. The fully phased-in total capital ratio rose from 34.3% to 36.0%.
Without this adjustment for the EBA interpretation, the total capital ratio would have been 39.2% (fully phased-in 39.4%).

Given de Volksbank's presently strong capital position, we expect the capital ratios to exceed our internal objectives and external requirements also after the introduction of Basel IV.

LEVERAGE RATIO

The transitional leverage ratio rose from 5.2% at year-end 2016 to 5.5%, mainly driven by the € 175 million CET1 capital increase. The leverage ratio denominator (total risk exposure amount as defined by the Capital Requirements Regulation (CRR)) remained almost stable at € 60.3 billion.

The 5.5% leverage ratio was well above the regulatory requirements and our target of at least 4.25%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount necessary to meet risk-weighted capital ratio requirements. This is the consequence of de Volksbank's focus on retail mortgages, a low-risk activity, with a correspondingly low risk-weighting. After implementation of Basel IV, the amount of capital required to meet the leverage ratio target may be below the capital amount required to meet the risk-weighted targets.

Risk-weighted assets (RWA)

in € millions	31-12-2017	30-6-2017	31-12-2016
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based approach (IRB)	6,077	5,883	6,508
Credit risk - standardised approach (SA)	1,824	2,159	2,222
Operational risk	1,633	1,672	1,672
Market risk	44	71	88
Credit Valuation Adjustment (CVA)	203	275	334
Total	**9,781**	**10,060**	**10,824**

RWA decreased by € 1.0 billion to € 9.8 billion. This decline was mainly caused by a € 431 million reduction related to the credit risk of the retail (non-SME) mortgage portfolio, calculated according to the Internal Ratings Based (IRB) approach. The decrease was mainly driven by lower probabilities of default (PDs) and loss given defaults (LGDs) as a result of improved economic conditions (a decrease of € 999 million). This decrease was partially offset by an increase in RWA of € 503 million following from a Margin of Conservatism (MoC) model update.
The RWA for credit risk calculated under the standardised approach (SA), including the RWA for SME mortgages, decreased by € 398 million to € 1.8 billion. RWA for operational risk, market risk and Credit Valuation Adjustment together decreased by € 214 million to € 1.9 billion.

The average risk weighting (RWA density) of retail mortgages declined from 15.0% at year-end 2016 to 13.5%. In December 2014, de Volksbank was granted permission to use its IRB model for the capital requirement calculation of its mortgage portfolio, under the mandatory condition to develop a new Margin of Conservatism (MoC) model for which de Volksbank submitted an application in December 2016. The ECB communicated its final findings of the IRB model review in September 2017. Until the findings identified in the review have been solved, de Volksbank is to apply a MoC surcharge on PDs and LGDs. This PD and LGD surcharge replaces the static surcharge of 10% of the RWA used so far on the mortgage portfolio. Due to this dynamic MoC, the RWA density of the retail mortgage portfolio rose by approximately 0.8%-points.

Developments in capital requirements

BCBS

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) and the Group of Central Bank Governors and Heads of Supervision (GHOS) reached agreement on the completion of the Basel III international framework for banks. This package of changes is also known under the name Basel IV.

Based on the balance sheet position at the end of 2017, we estimate that our RWA will increase by approximately 35%[8] due to these changes, and that our CET1 ratio will decrease by more than 8%-points. The largest effect comes from the output floor (72.5% phased-in) on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM[9]. We will refine the estimated impact in the course of 2018.

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

When the final Basel IV regulations are implemented in European legislation without change, we estimate that, on the basis of our balance sheet position at year-end 2017, our CET1 ratio will still exceed our minimum objective of 15%. This will allow us to both continue our growth path and to pay out dividend.

TARGETED REVIEW INTERNAL MODEL

As de Volksbank uses models developed internally, the supervisory authority exercises control by means of a Targeted Review Internal Model (TRIM). The supervisory authority assesses the degree of compliance with laws and regulations, the modelling technique used and the model's applicability to the portfolio concerned. Based on findings, if any, the supervisory authority may give instructions, demand adjustments (known as Margin of Conservatism provisions) or even impose sanctions. A new TRIM kicked off in December 2017, which will continue through the beginning of 2018. The results of this TRIM may impact model results, expected losses (and corresponding provision levels) and the RWA of the bank in the future.

8 Based on (1) loan splitting for retail mortgages, (2) the application of NHG as a credit risk mitigating measure, and (3) the assumption that 90% of the retail mortgage loans complies with the documentation requirements.
9 PHIRM: Particuliere Hypotheken Interne Rating Model (Internal Rating model for Retail Mortgages).

IFRS 9

As fom 1 January 2018 de Volksbank is required to apply the IFRS 9 Classification and Measurement and the IFRS 9 Expected Credit Loss (ECL) impairment requirements. The introduction of IFRS 9 allows us to align the classification of the former DBV mortgages with our other mortgages. As from 1 January 2018, the DBV mortgages will be reclassified from fair value to amortised cost. This has a negative impact on IFRS equity and CET1 capital of € 119 million (after tax). As a result of the reclassification, the current volatility in the income statement related to the DBV mortgage portfolio will be fully eliminated as from 2018.

In addition, de Volksbank reassessed the valuation standard of part of its liquidity portfolio. On this basis, de Volksbank decided to change the valuation standard for part of the portfolio from 'available for sale' (fair value) to 'hold to collect' (amortised cost). This has a negative impact on IFRS equity and CET1 capital of € 80 million (after tax).

Finally, the transition to expected loss recognition under IFRS 9 results in an increase in loan loss provisions. This has a negative impact on IFRS equity of € 14 million (after tax) and due to the decrease of the IRB shortfall, a negative effect of € 11 million on CET1 capital. The anticipated fully phased-in effect of the reclassification of the DBV mortgages and liquidity portfolio, and the increase in the provisioning levels, amounts to approximately - 2%-points on the CET1 ratio and - 0.3%-point on the leverage ratio as at 1 January 2018.

Gone concern capital: MREL

As from 1 January 2016, it is mandatory (under the Dutch BRRD) for shareholders and creditors to contribute at least 8% of the total liabilities to a recapitalisation in case of resolution (under certain conditions 20% of the RWA), before any funds from the Single Resolution Fund may be called upon. To enable effective application, a minimum requirement under the Dutch BRRD Act is introduced for own funds and eligible liabilities (Minimum Requirement for Own Funds and Eligible Liabilities: MREL) as an easy bail-in buffer to absorb losses.

At the beginning of February 2017, the SRB informed us that it supports the designation of de Volksbank as the resolution entity. The MREL requirement, transition period and definition of eligible liabilities specific to de Volksbank have not yet been communicated. Deposits of natural persons and SMEs are not eligible for the MREL.

On 23 November 2016, the EC proposed to amend the BRRD (BRRD II). The BRRD II proposes an EU-wide amendment to the creditor hierarchy by creating a new asset class of non-preferred senior debt (senior non-preferred notes). These notes will be subordinated to other senior bonds, but will receive preference to Tier 2 bonds. In the event of a bail-in, capital instruments are called on first (subordinated), next the SNP bonds, followed by the other non-subordinated liabilities. The EU is expected to approve this proposal in the coming months and an amendment of Dutch insolvency law may be implemented in the second half of 2018.

MREL

in € millions	**31-12-2017**	**30-6-2017**	**31-12-2016**
CET1 capital	3,339	3,284	3,164
Tier 2 capital	494	496	491
Total capital	**3,833**	**3,780**	**3,655**
Other eligible unsecured liabilities with remaining maturity more than 1 year	1,435	1,027	1,126
Total capital including other eligible liabilities	**5,268**	**4,807**	**4,781**
Exposure measure as defined by the BRRD (MREL)	59,499	59,552	59,636
Risk-weighted assets	9,781	10,060	10,824
MREL BRRD			
MREL (Total capital)	6.4%	6.3%	6.1%
MREL (Total capital including other eligible liabilities)	8.9%	8.1%	8.0%
MREL RISICOGEWOGEN ACTIVA			
MREL (Total capital)	39.2%	37.6%	33.8%
MREL (Total capital including other eligible liabilities)	53.9%	47.8%	44.2%

The table above presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank N.V. as a resolution entity.

Including total capital and all other unsecured liabilities that are MREL eligible according to the current BRRD, the non-risk-weighted MREL ratio was 8.9% (2016: 8.0%), with the eligible liabilities amounting to € 5,268 million. The increase compared with 2016 was partly due to an increase in senior unsecured funding of € 500 million per September 2017 and an increase in the capital position of € 178 million. The risk-weighted MREL ratio was 53.9% (2016: 44.2%).

The non-risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,833 million) both subordinated to other outstanding liabilities amounted to 6.4% (2016: 6.1%). The corresponding risk-weighted MREL ratio equalled 39.2% (2016: 33.8%).

The basic assumption in de Volksbank's capital planning is that a minimum non-risk-weighted MREL requirement of 8% will apply, which must consist of (Tier 1 and Tier 2) capital and senior non-preferred notes. If this requirement does become effective, in view of our current capital position, we expect to issue senior non-preferred notes totalling approximately € 2.0 billion in the next few years.

Dividend

De Volksbank has set a dividend pay-out target range of 40% - 60% of net adjusted result[10]. In accordance with this policy, de Volksbank paid out a dividend of € 135 million for 2016 in April 2017, corresponding to a pay-out of 41% of the adjusted net profit as determined at that time.

Given its solid capital position, de Volksbank proposes to pay out a dividend of € 190 million for 2017 to NLFI. This implies a pay-out ratio of 60%, at the top of the target range we use.

[10] Net result, adjusted for fair value changes of former DBV mortgages and related derivatives.

Liquidity and funding

Liquidity

In 2017 the bank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements.

Key liquidity indicators

	31-12-2017	30-6-2017	31-12-2016
LCR	177%	195%	193%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio[1]	107%	103%	103%
Liquidity buffer (in € millions)	10,592	11,836	10,533

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

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum requirement of 100%. At year-end 2017, the LCR stood at 177%.

The ratio between loans outstanding and deposits attracted (the Loan-to-Deposit ratio) rose from 103% as at year-end 2016 to 107% at year-end 2017, which was caused by a growth in loans and a decline in deposits:

- Loans increased by € 1.1 billion, driven by growth of retail mortgages;
- Deposits declined by € 0.6 billion, mainly as a result of the transfer of investment accounts to NIBC Bank.

Liquidity buffer composition

in € millions	31-12-2017	30-6-2017	31-12-2016
Cash position[1]	3,753	3,314	2,816
Sovereigns	1,600	2,563	2,713
Regional/local governments and supranationals	850	805	755
Other liquid assets	421	377	351
Eligible retained RMBS	3,968	4,777	3,898
Liquidity buffer	**10,592**	**11,836**	**10,533**

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

The liquidity buffer remained high in 2017 and rose slightly from € 10.5 billion at year-end 2016 to € 10.6 billion.

In 2017, the cash position increased by € 0.9 billion to € 3.8 billion. The funding need, which mainly resulted from € 1.0 billion retail mortgage growth and the € 3.1 billion wholesale funding redemptions, was more than compensated by cash inflows and an increase in cash management investments within ten days.

Liquid assets other than the cash position declined by almost € 0.9 billion in 2017:

- The amount of sovereign debts in the liquidity buffer declined by € 1.1 billion, mainly due to a higher use of sovereign debts as collateral for (repo) transactions. Repo transactions supported the cash position at the end of 2017;
- The liquidity value of eligible retained Residential Mortgage Backed Securities (RMBS) increased by € 0.1 billion. In February 2017, Lowland 1 was at the first call date replaced by Lowland 4 (with a higher liquidity value), but at year-end 2017, € 1.1 billion of the eligible retained RMBS was used as collateral for a 3-week USD tender from the ECB. De Volksbank participated in the tender for cash management efficiency considerations.

The volume of the short-term cash management investments of de Volksbank outside the cash position definition amounted to € 0.5 billion at year-end 2017 (year-end 2016: € 2.0 billion). These investments are also available as short-term liquid assets.

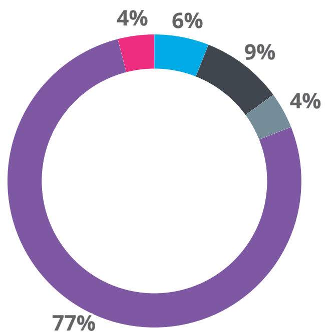
Funding

De Volksbank uses retail savings as its primary funding source. In addition, the bank attracts funding from the capital market. As we aim to diversify sources of wholesale funding, we use various funding instruments spread over terms, markets, regions and types of investors.

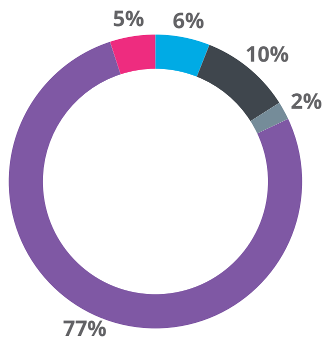
Through our different brands, we attract term deposits, savings deposits and current account balances from retail customers. In addition, we fund ourselves through savings balances and current account balances from SME customers. In 2017, the funding from customers fell to € 45.7 billion, from € 46.2 billion at year-end 2016, which was largely due to the transfer of investment accounts to NIBC Bank.

The diagrams below provide an overview of the composition of the total liabilities at year-end 2017 and 2016 based on the book value. The percentage of our funding that is made up of savings and other amounts due to customers amounted to 77%; both at the end of 2017 and at the end of 2016.

Equity and liability mix 31 December 2017: € 60.9 billion



Equity and liability mix 31 December 2016: € 61.6 billion

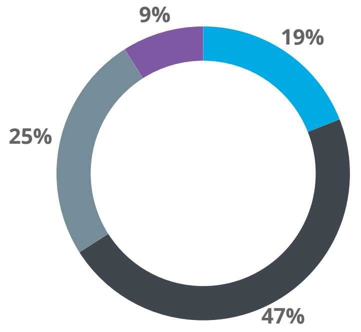


- Equity
- Debt instruments (incl. subordinated)
- Amounts due to banks
- Savings and other amounts due to customers
- Other

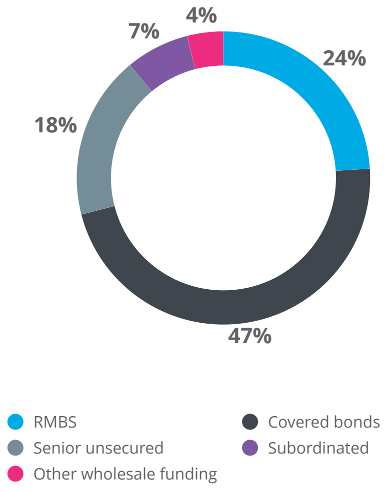
In 2017 de Volksbank successfully executed a number of wholesale funding transactions, namely:
- € 0.5 billion in (public) covered bonds with a 10-year term;
- € 430 million in covered bonds (private placement transactions) with a 15-20 year term;
- € 0.5 billion in senior unsecured debt with a maturity of 3 years. This transaction was the first public issue by the bank of senior unsecured debt securities since 2010.

In addition to the executed financing transactions, the wholesale funding mix changed in 2017 (from € 7.4 billion to € 5.8 billion) primarily due to the redemption of:
- covered bonds (€ 1.7 billion);
- debt certificates under the Hermes XVIII securitisation (€ 0.5 billion);
- senior unsecured funding (€ 0.4 billion).

Wholesale funding mix 31 December 2017: € 5.8 billion [1]



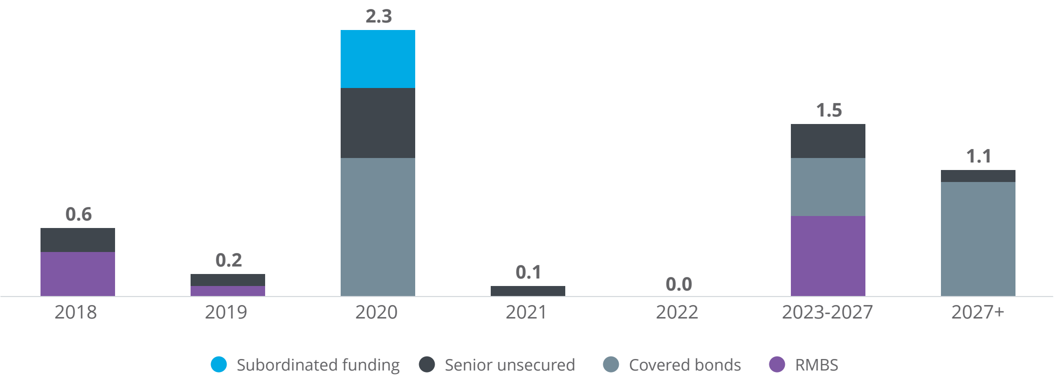
Wholesale funding mix 31 December 2016: € 7.4 billion [1]



1 The figures provide an overview of the outstanding wholesale funding with an original term of more than one year at year-end 2016 and 2017. In the balance sheet, this wholesale funding is included under debt instruments, amounts due to banks and other amounts due to customers. The information presented is based on the nominal value of the (hedged) positions. This nominal value differs from the IFRS valuation in the balance sheet, which is mainly based on the amortised cost price.

The figure below presents an overview of the outstanding wholesale funding maturities with an original term to maturity of more than one year at year-end 2017. It is assumed that this funding will be redeemed on the first possible dates. In 2018, we expect to mainly issue senior non-preferred notes and covered bonds to meet our wholesale funding needs.

Wholesale funding maturities (in € billions)[1]



In 2017, the credit ratings for senior unsecured debt of de Volksbank at S&P (on 7 June) and Fitch (on 24 November) went up by one notch to A-. The improvement was driven by stronger stand-alone ratings, i.e. better intrinsic creditworthiness. With the A- rating, the bank's ratings at both S&P and Fitch reached the highest level since the financial crisis. Furthermore, on September 15, S&P adjusted the stable outlook for the A- rating to positive, reflecting S&P's vision that economic imbalances are declining, which is generally positive for banks.

Consolidated financial statements

Consolidated balance sheet

Before result appropriation and in € millions	31-12-2017	31-12-2016
ASSETS		
Cash and cash equivalents	2,180	1,911
Derivatives	1,075	1,533
Investments	5,094	5,970
Loans and advances to banks	2,643	2,918
Loans and advances to customers	49,322	48,620
Property and equipment	67	73
Intangible assets	14	15
Deferred tax assets	110	137
Corporation tax	22	-
Other assets	365	411
Total assets	**60,892**	**61,588**
EQUITY AND LIABILITIES		
Savings	36,575	36,593
Other amounts due to customers	10,280	10,835
Amounts due to customers	**46,855**	**47,428**
Amounts due to banks	2,681	1,446
Debt certificates	4,900	5,696
Derivatives	1,252	1,861
Deferred tax liabilities	45	59
Corporation tax	-	25
Other liabilities	822	891
Provisions	125	120
Subordinated debts	498	501
Total other liabilities	**10,323**	**10,599**
Share capital	381	381
Other reserves	3,004	2,831
Retained earnings	329	349
Shareholders' equity	**3,714**	**3,561**
Total equity and liabilities	**60,892**	**61,588**

Consolidated income statement

in € millions	2017	2016
INCOME		
Interest income	1,423	1,623
Interest expense	499	685
Net interest income	**924**	**938**
Fee and commission income	104	108
Fee and commission expenses	55	51
Net fee and commission income	**49**	**57**
Investment income	41	57
Result on financial instruments	13	-20
Other operating income	1	2
Total income	**1,028**	**1,034**
EXPENSES		
Staff costs	381	398
Depreciation and amortisation of tangible and intangible assets	21	22
Other operating expenses	201	222
Impairment charges	-24	-68
Other expenses	-	1
Total expenses	**579**	**575**
Result before taxation	**449**	**459**
Taxation	120	110
Net result continued operations	**329**	**349**
ATTRIBUTION:		
Net result attributable to shareholder	329	349
Net result attributable to minority interests	-	-
Net result for the period	**329**	**349**

Other consolidated statement of comprehensive income

in € millions	2017	2016
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Other changes in comprehensive income	1	2
Total items never reclassified to profit or loss	**1**	**2**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedgereserve	-8	-13
Change in fair value reserve	-34	21
Total items that are reclassified to profit or loss	**-42**	**8**
Other comprehensive income (after tax)	**-41**	**10**

Total comprehensive income for the period

in € millions	2017	2016
Net result of continued operations	329	349
Other comprehensive income (after tax)	-41	10
Total comprehensive income for the period	**288**	**359**
ATTRIBUTION:		
Total comprehensive income to shareholder	288	359
Total comprehensive income to minority interests	-	-
Total comprehensive income	**288**	**359**

Consolidated statement of changes in total equity

Consolidated statement of changes in total equity 2017

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Opening balance	381	3,787	4	44	132	-1,136	349	3,561
Transfer of net result 2016	-	-	-	-	-	214	-214[3]	-
Unrealised revaluations	-	-	-	-4	-19	-	-	-23
Realised revaluations through P&L	-	-	-	-4	-15	-	-	-19
Realised revaluations through equity	-	-	2	-	-	-	-1	1
Other movements	-	-	-	-	-	-	-	-
Amounts charged directly to total equity	**-**	**-**	**2**	**-8**	**-34**	**-1**	**-**	**-41**
Net result 2017	-	-	-	-	-	-	329	329
Total result 2017	**-**	**-**	**2**	**-8**	**-34**	**213**	**115**	**288**
Dividend pay-out	-	-	-	-	-	-	-135	-135
Total changes in equity 2017	**-**	**-**	**2**	**-8**	**-34**	**213**	**-20**	**153**
Closing balance	**381**	**3,787**	**6**	**36**	**98**	**-923**	**329**	**3,714**

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

2 The revaluation reserve consists of revaluations of property in own use.

3 The result after deducting the dividend payment of € 135 million.

Consolidated statement of changes in total equity 2016

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Opening balance	381	3,787	1	57	111	-1,383	348	3,302
Transfer of net result 2015	-	-	-	-	-	248	-248[3]	-
Unrealised revaluations	-	-	-	-10	50	-	-	40
Realised revaluations through P&L	-	-	-	-3	-29	-	-	-32
Realised revaluations through equity	-	-	3	-	-	-	-	3
Other movements	-	-	-	-	-	-1	-	-1
Amounts charged directly to total equity	**-**	**-**	**3**	**-13**	**21**	**-1**	**-**	**10**
Net result 2016	-	-	-	-	-	-	329	329
Net result 2016 caused by change in accounting policies	-	-	-	-	-	-	20	20
Total result 2016	**-**	**-**	**3**	**-13**	**21**	**247**	**101**	**359**
Dividend pay-out	-	-	-	-	-	-	-100	-100
Total changes in equity 2016	**-**	**-**	**3**	**-13**	**21**	**247**	**1**	**259**
Closing balance	**381**	**3,787**	**4**	**44**	**132**	**-1,136**	**349**	**3,561**

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

2 The revaluation reserve consists of revaluations of property in own use.

3 The result after deducting the dividend payment of € 100 million.

General information

Other information

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

De Volksbank's annual accounts are prepared in accordance with International Financial Reporting Standards. In preparing the financial information in this press release, except as described otherwise, the same accounting policies are applied as in the 2016 de Volksbank's consolidated annual accounts. The preparation of the financial statements for 2017 is in progress. The figures in this press release have not been audited.

About de Volksbank

GENERAL

De Volksbank is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 61 billion and 3.231 internal employees (FTE), which makes it a major player in the Dutch market. The head office of de Volksbank is located in Utrecht.

MISSION AND AMBITION

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

OUR BRANDS

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

ASN BANK

ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for 50 years. Money is invested in projects and companies that respect people, animals and the environment. ASN Bank aims to demonstrate that sustainable banking is perfectly compatible with competitive results. www.asnbank.nl

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

BLG WONEN

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

Products: mortgages, savings, insurance and investments.

REGIOBANK

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

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

SNS

SNS was founded in 1817 with the aim to increase people's financial self-reliance. This aim and ambitious goal is just as relevant today as back then. As a broad, accessible bank for consumers and small businesses, we give our customers the opportunity to select how they manage their finances: via the website, over the telephone, with a financial advisor at their home, at one of our almost 200 SNS Shops or through the mobile channel. www.snsbank.nl

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

Disclaimer