de volksholding

2017 Annual report

2017

The original annual report including the original financial statements were 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

asn bank BLGwonen RegioBank SNS

de volksbank

De Volksbank is the fourth-largest retail bank in the Dutch market, with a focus on mortgages, payments and savings. The bank has four brands: ASN Bank, BLG Wonen, RegioBank and SNS. Each brand has its own identity and image. De Volksbank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner.

asn bank

Money can buy happiness

Money allows people to exert a lot of influence to make the world more beautiful. For ourselves and for future generations. That is why ASN Bank invests in sustainable development, as it has been doing since its establishment in 1960. ASN Bank only finances and invests in forward-looking companies, sectors and countries that respect people, animals and the environment. This is what ASN Bank calls 'sustainable banking'.

Payments, savings and investments
Distribution: Online and mobile

BLG wonen

Come further

BLG Wonen believes that having your own home is a basic condition for happiness and well-being. It is for this reason that BLG Wonen has been helping people to find a suitable mortgage for more than sixty years. Working closely together with the best advisers, BLG Wonen will look for financial solutions consisting of products that have not been worked out by computers but by people. BLG Wonen puts customers' dreams and wishes first, whether the customer is a first-home buyer, a next-home buyer or is about to enjoy a well-deserved retirement.

Mortgages
Distribution: Independent advisers

RegioBank

Nearby and committed

RegioBank is the bank nearby. The bank focuses on villages and small towns: especially in these areas services are under pressure, which is detrimental to the quality of life. A bank branch is an important local amenity ensuring local connectedness and that can actively contribute to the activity within a local community. A local, independent adviser who knows his customers and what is going on in the area is the pivot of RegioBank's services.

Payments, savings and mortgages
Distribution: 528 independent advisers, online and mobile

SNS

Perfectly normal. SNS

SNS wants to be a bank for ordinary Dutch consumers – a course that fits in well with SNS's roots. The bank shows that banking can be different, without unnecessary fuss, meeting customers' needs. With its no-nonsense mentality, SNS is a clear alternative to the major banks. SNS shows (prospective) customers that they really have a choice. SNS proves this with distinctive products and services. It has the ambition to be a larger, visible player, also in the mortgage and payments markets.

Payments, savings, mortgages and insurance products
Distribution: 197 SNS shops, online and mobile

Introduction

Welcome to the Annual Report of de Volksholding

Introduction

This is the annual report of de Volksholding B.V. (de Volksholding) for the year 2017. De Volksholding was incorporated on 30 June 2015 and has fully owned the shares of de Volksbank N.V. (de Volksbank) since 30 September 2015.

In its capacity as holding company, de Volksholding does not have any activities or employees of its own. The Board of Directors and the Supervisory Board of de Volksholding form a personal union with the Board of Directors and Supervisory Board of de Volksbank, respectively.

All the required information related to de Volksbank's business operations is included in the annual report of de Volksbank, which is filed and published separately. The accounting principles used in the financial statements are similar for de Volksholding and de Volksbank.

The annual report of de Volksholding deviates from the annual report of de Volksbank on the following points:

- The capitalisation table (3.6.5 Capital structure)
- Report of the Supervisory Board (chapter 4)
- Corporate Governance (chapter 5)
- the general information in the consolidated financial statements is written from the perspective of de Volksholding
- Other changes in the consolidated financial statements:
  - Consolidated balance sheet (shareholders' equity)
  - Consolidated statement of changes in equity
  - Note 21 Related parties
  - Note Dividends
- The company financial statements (from de Volksholdings' perspective
- Independent auditor's report
- Disclaimer

Presentation of information

The financial statements in this annual report have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS) and meet the requirements as set out in Title 9, Book 2 of the Dutch Civil Code.

The non-financial information in this report has been prepared in accordance with the GRI Standards (Sustainability Reporting Guidelines of the Global Reporting Initiative) and comply to the EU-directive. Information on the basis of preparation for non-financial reporting are set out in the Section About the non-financial information in this report.

Capital metrics and risk positions for 2017 and comparative figures for 2016 are reported under the Basel III framework (CRD IV/CRR). Moreover, the risk, capital and liquidity management paragraph complies with the Enhanced Disclosure Task Force (EDTF) requirements. Information on Pillar 3 (part of the CRR) can be found in a separate report on the website of de Volksbank.

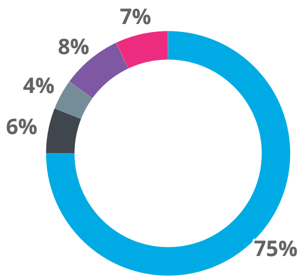
This report has been prepared in euros (€).

Annual Report of de Volksholding

This annual report was published on 8 March 2018 and is available on the website of de Volksbank (www.devolksbank.nl) to browse or as a PDF download.

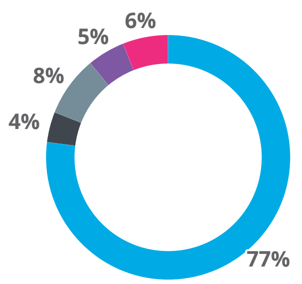
Key figures

Total assets 2017



- Mortgage loans to customers
- Other loans and advances to customers
- Cash and cash equivalents
- Investments
- Other

Total liabilities 2017



- Savings and other debts to customers
- Amounts due to banks
- Debt instruments
- Other
- Equity

Balance sheet

in € millions	2017	2016[1]	2015	2014	2013
Balance sheet total	60,892	61,588	62,690	68,159	74,537
Loans and advances to customers	49,322	48,620	49,217	52,834	53,405
- of which residential mortgages	45,820	44,824	44,787	46,230	47,010
Amounts due to customers	46,855	47,428	47,440	46,208	43,904
- of which savings	36,575	36,593	36,860	35,666	33,276
Debt instruments	4,900	5,696	6,941	11,252	16,439
Equity	3,714	3,561	3,302	2,963	2,582

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

Capital and funding

in € millions	2017	2016	2015	2014	2013
Tier 1 core capital	3,339	3,164	2,916	2,520	2,266
Risk Weighted Assets (RWA)	9,781	10,824	11,513	13,771	15,121

RATIOS					
CET 1 ratio	34.1%	29.2%	25.3%	18.3%	15.0%
Tier 1 ratio	34.1%	29.2%	25.3%	18.3%	15.0%
Total capital ratio	35.7%	33.8%	29.5%	18.4%	15.0%
CET 1 ratio (fully loaded)	34.3%	29.6%	25.8%	17.4%	12.3%
Leverage ratio	5.5%	5.2%	4.7%	3.8%	3.1%
Leverage ratio (fully loaded)	5.6%	5.3%	4.8%	3.6%	2.5%
Loan-to-deposit ratio	107%	103%	105%	113%	122%

Quality loan portfolio

	2017	2016	2015	2014	2013
Loan-to-Value mortgage portfolio	74%	80%	83%	86%	89%
Loans in arrears (%)	1.4%	1.8%	3.1%	4.3%	4.5%
Impaired ratio	0.8%	1.3%	2.3%	3.1%	3.1%
Coverage ratio retail mortgages	16%	19%	23%	20%	19%

Market shares

	2017	2016	2015	2014	2013
Payments (new current accounts)[1]	20%	21%	25%	21%	16%
Retail savings	10.8%	10.8%	10.9%	10.7%	10.1%
Mortgage portfolio (in €)	6.8%	6.6%	6.7%	7.0%	7.1%
New mortgages (in #)	6.8%	5.7%	4.1%	3.7%	1.8%

1 Source market share new current accounts: market research GfK, based on Moving Annual Total (MAT).

Other key figures

	2017	2016	2015	2014	2013
Number of SNS Shops	197	196	189	188	166
Number of independent advisers RegioBank	528	536	538	535	526
Number of ATMs	320	393	438	539	537

Profit and loss account

in € millions	2017	2016[1]	2015	2014	2013
Net interest income	924	938	994	1,024	957
Net fee and commission income	49	57	48	44	50
Other income	55	39	83	31	36
Total income	**1,028**	**1,034**	**1,125**	**1,099**	**1,043**
Operating expenses excluding regulatory levies	560	596	575	491	514
Regulatory levies	43	46	15	7	8
Total operating expenses	**603**	**642**	**590**	**498**	**522**
Other expenses	-	1	22	76	8
Total expenses	**603**	**643**	**612**	**574**	**530**
Impairment charges	-24	-68	37	207	224
Impairment charges goodwill	-	-	-	67	
Result before tax	**449**	**459**	**476**	**251**	**289**
Net result discontinued operations	-	-	-	-	-1,536
Taxes	120	110	128	100	105
Net result for the period	**329**	**349**	**348**	**151**	**-1,352**
- Net result Property Finance					-1,536
- Incidental items	13	-25	13	-143	-79
Adjusted net result for the period	**316**	**374**	**335**	**294**	**263**

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

Shared value

	2017	2016	2015	2014	2013
CUSTOMERS					
Customer weighted average NPS[1]	-3	-8	-12	-16	-21
Current account customers (in 1.000)	1,409	1,328	1,240	1,147	
SOCIETY					
Carbon neutral balance sheet	27%	22%[2]	20%	16%	
EMPLOYEES					
Employee NPS (eNPS)	-2	30	34	18	
SHAREHOLDER					
Return on Equity	9.1%	10.1%	11.1%	5.4%	-69.0%
Adjusted Return on Equity[3]	8.7%	10.8%	10.7%	10.6%	10.2%

1 Figures shown relate to measurements conducted in the fourth quarter.
2 2016 figures have been restated from 23% to 22% following the alignment of one investment fund to our CO2 methodology.
3 Excluding the impact of incidental items.

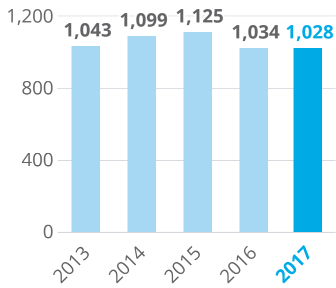
Other Performance indicators

	2017	2016	2015	2014	2013
Cost/income ratio[1]	54.5%	57.6%	51.2%	44.7%	50.0%
Adjusted cost/income ratio[2]	55.4%	54.5%	53.4%	44.7%	43.5%
Net interest margin (bps)	1.50%	1.48%	1.52%	1.43%	1.23%
Cost of risk total loans	-0.05%	-0.14%	0.07%	0.38%	0.39%

1 The efficiency ratio is calculated by dividing total operating expenses excluding the impact of regulatory levies by total income.
2 Excluding the impact of incidental items. The efficiency ratio is the efficiency ratio excluding the impact of regulatory levies and one-off items (gross amounts).

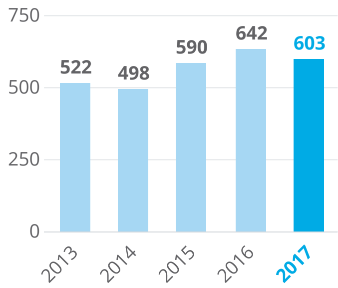
Total income

(in € millions)



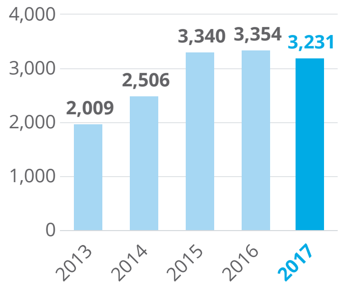
Operating expenses

(in € millions)



Number of employees

(FTE)



Net Promoter Score

Brand	2016	2017
ASN Bank	14	17
BLG Wonen	-29	-24
RegioBank	2	7
SNS	-18	-13
Customer weighted	-8	-3

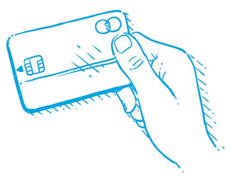
Input

de volksbank

200 years of know-how and experience in banking

Our employees
3,231 FTE

Retail savings
€ 36.6 billion



Current accounts of
1.4 million
customers

Shareholders' equity
€ 3.7 billion

Wholesale funding
€ 5.8 billion

Business model

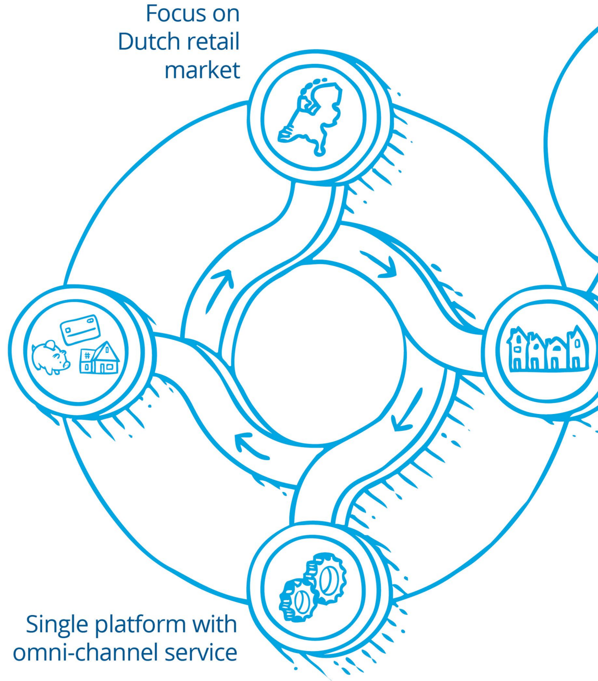
Banking with a human

Our strategic pillars

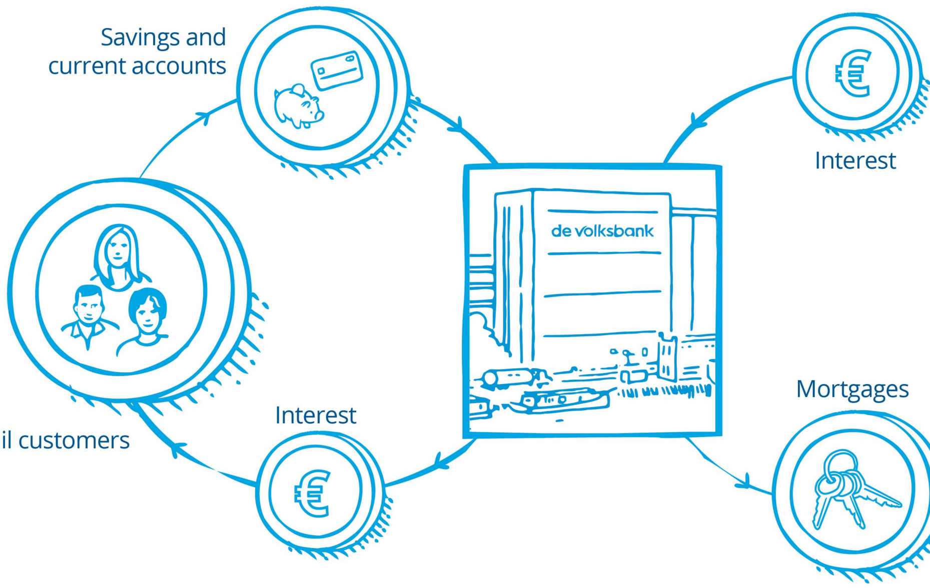
Strengthening of our social identity

Improving our business operations by focusing on simplicity and efficiency

Our profile



Three core products: mortgages, payments and savings



touch

We will continue to develop towards a flexible organisation that innovates as a smart adopter

asn bank
BLGWONEN
RegioBank
SNS

Four distinctive brands

Mortgage customers

We finance
€ 46 billion
in mortgages

Output

Our ambition is to optimise our shared value

Results and objectives	**Added value**

Benefits for customers

1.4 million
Current account customers
Our objective:
1.5 million in 2020

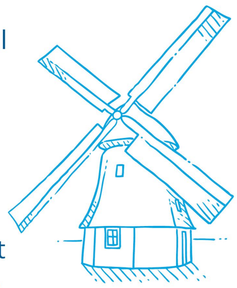
-3
Customer-weighted NPS average of our brands
Our objective: +10 in 2020

Contributing to comfortable housing and a financially stable way of living by offering safe and transparent products to our customers

Responsibility for society

27%
Status of our climate-neutral balance sheet.
Our objective: 45% in 2020 and 100% in 2030

40%
of our customers notice that we are there for them when they have financial concerns
Our objective: >50%



Contributing to the financial resilience of customers and to limiting climate change and maintaining the quality of life of our planet

Meaning for employees

-2
eNPS
Our objective:
40 in 2020

Facilitating staff in getting engaged and committed, in being able to develop themselves and in finding meaning in their work

Returns for the shareholder

8.7%
Return on Equity
Our objective:
8% in 2020

34.1%
CET1 ratio
Our objective:
>15%

Achieving returns for investors and contribute to a stable and sound financial system

5.5%
Leverage ratio
Our objective:
> 4.25%

Interview with the Chairman of the Board of Directors

Maurice Oostendorp, Chairman of the Board of Directors

In the year 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. We paid particular attention to putting our mission of 'Banking with a human touch' into practice. In addition, we worked hard to improve our business operations.

"Supported by sound economic developments and strong housing market growth, the bank delivered good financial results in 2017. We also saw the first positive results of our initiatives to find the optimal balance between the interests of society, customers, employees and our shareholder. All things considered I look back at last year with general satisfaction", says Maurice Oostendorp, Chairman of the Board of de Volksbank.

DE VOLKSBANK HAS FORMULATED THE AMBITION TO OPTIMISE THE 'SHARED VALUE' BASED ON ITS MISSION OF 'BANKING WITH A HUMAN TOUCH'. COULD YOU PLEASE EXPLAIN THIS?
By optimising shared value we mean that we aim to find the optimal balance between creating benefits for customers, taking responsibility for society, providing meaning for our employees and achieving returns for our shareholder. Where possible or relevant, we always want to weigh the interests of all stakeholders. In other words: our ambition goes beyond simply posting strong financial results.

On the basis of our ambition, we have formulated three priorities for the coming years: we aim to be a bank with a distinct social profile, make our operations simpler and more efficient and we want to innovate as a smart adapter. In 2017, we strongly focused on these priorities.

HOW DOES A BANK CREATE A PROFILE FOR ITSELF AS A SOCIAL BANK?
A few examples: as from January 2017 we ceased to hand over customers' debts to debt collection agencies. On top of this, in 2018 we will start to actively bring back customers whose debts had been handed over to collection agencies at an earlier stage. We do this because we want to be there for our customers when they need us.

Another example: in September 2017 we started to actively and individually approach the group of customers with an interest-only mortgage that is potentially the most vulnerable. Regrettably, the name ‘interest-only’ is a confusing one. By approaching these customers we want to improve their understanding of their financial position and discuss with them how to keep their mortgage affordable in the future, so they can stay in their home without feeling financial pressure. Our customers highly appreciate this, and we will therefore expand this approach to a larger group of customers in 2018.

A third example is our position on customer data; a topical issue with the implementation of the Payment Services Directive 2 (PSD2). We want to set the standard in reliable and secure customer data management. We regard this data as the property of our customers and do not want to earn money by selling it. Furthermore, within the context of PSD2, we offer our customers 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’.

SUSTAINABILITY AND THE FINANCIAL RESILIENCE OF THE CUSTOMERS OF DE VOLKSBANK BRANDS ARE IMPORTANT TOPICS IN GIVING SUBSTANCE TO THE BANK'S SOCIAL ROLE. WHY IS THIS SO, AND WHAT DID THE BANK ACCOMPLISH IN THESE AREAS IN 2017?

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.

One of our objectives is a 45% climate-neutral balance sheet by 2020, rising to 100% by 2030. In 2017, this percentage improved from 22% to 27%, mainly driven by an increase in avoided emissions from green bonds and project financing in the field of renewable energy and energy saving. The average energy label of our mortgage portfolio remained unchanged at ‘D’ in 2017. In order to achieve our objective of a climate-neutral balance sheet, this must at least improve to ‘B’.

That is why we want to help our customers make their homes more sustainable and we took various actions to achieve this in 2017. For example, we train our mortgage advisers to make sustainability a standard topic in their consultations. Moreover, we sent a total of 700,000 letters and emails to our mortgage customers containing information on how to make a home more energy efficient and an offer for energy-saving measures. A total of more than 1,000 customers had solar panels installed and more than 1,300 customers isolated their homes. Modest numbers still, but we will press ahead with our policy.

As a bank we want to make a positive contribution to our customers’ financial resilience. This fits into our vision on banking and is expected from us too. For that reason, we are the first bank in the Netherlands to introduce a specific, quantifiable objective to justify the effect of our efforts on this point. For us, financial resilience consists of three elements: skills, financial concerns and financial position. We want to undertake concrete action on all three.

Using the *Eurowijs* financial education package we reach well over 200,000 primary school children. And when customers feel the need, we offer budget and sometimes even job coaching. We will increase the understanding of specific topics by means of a concept called ‘Getting familiar with ……’. The first topic on the agenda in 2018 is pensions.

In 2017, we started developing a barometer, an objective and quantitative instrument to measure the financial confidence of the Dutch and of our customers in particular. The barometer gives insight into why people are worried or worry-free, and also measures the extent to which they feel the bank is there for them should they have financial concerns. Market research firm GfK carried out the baseline measurement in January 2018 among 1,371 respondents. The survey showed that 40% of our customers indicate that the bank is there for them in case of financial concerns. Our aim for 2020 is that this should be more than 50%. As from March 2018, we will conduct this survey on a monthly basis and take steps to achieve our objective.

The third element of financial resilience is the customer’s financial position. Is it in good shape and completely understood, is the customer’s savings buffer sufficient, are income and expenditure structurally balanced, is there a debt problem, how exactly has the pension been arranged? By focusing on these three elements of financial resilience, we aim to be relevant to all our customers.

TO WHAT EXTENT HAS DE VOLKSBANK SUCCEEDED IN MAKING ITS BUSINESS OPERATIONS SIMPLER AND MORE EFFICIENT?

Cost reduction initiatives are proceeding according to plan. Our main focus is on Straight Through Processing', on-going digitisation and optimisation of support functions and IT processes. We also pursue a moderate remuneration policy. With effect from 2018, for example, variable remuneration has been abolished for all staff members.

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. In 2017, the number of internal FTEs decreased by 123. First of all, we simplified the top management structure: the number of senior management positions is expected to be reduced from 47 to 30 by 2020. In 2017, we realised a decrease to 38. As from 2018, the number of other management positions will also reduce.

We also modify our products: we have, for example, made it easier for customers to manage their mortgage independently and online. Within the next two years, we will offer all mortgage management processes online.

IS THERE A CONNECTION BETWEEN THE REDUCTION IN THE NUMBER OF JOBS AND THE SUBSTANTIAL DROP IN THE EMPLOYEE NET PROMOTER SCORE, THE ENPS, IN 2017? IT FELL FROM 30 TO -2.

Organisational changes have an undisputable impact on the eNPS. In addition, the number of jobs in the financial sector as a whole is declining and de Volksbank is no exception. It is, therefore, only logical that we are less often recommended as an employer. Employee commitment and engagement did, however, remain at a high level. All the same, we will pursue tight control over the points for improvement that emerged from the last employee survey. And we will continue to help our employees move from one job to another ‘with a human touch’. We expect the combination of the aforementioned measures to have a positive impact on the eNPS.

WHAT DID DE VOLKSBANK ACCOMPLISH IN 2017 IN THE AREA OF INNOVATION?

Our collaboration with Pivotus, an innovation team in Silicon Valley, 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. We also implemented new technology to simplify our internal business processes. And we actively engage in Artificial Intelligence (AI) to further develop banking in the digital world.

HOW DID THE MARKET SHARES IN RETAIL MORTGAGES, RETAIL SAVINGS AND CURRENT ACCOUNTS DEVELOP IN 2017?

In 2017, our new mortgage production grew by as much as 41% to € 5.2 billion. In a growing market, our market share in new mortgages increased to 6.8%, compared to 5.7% in 2016. This also resulted in an increase of our total mortgage portfolio in absolute terms, by € 1 billion to € 45.9 billion, despite the high level of repayments. Retail savings remained stable at € 36.6 billion, as did our market share at 10.8%.

The number of current account customers rose by 81.000, remaining slightly behind the 88,000 net increases in 2016, but we did continue to grow our market share. In 2017, 20% of the new current accounts were opened at one of our brands, while our market share, on a total portfolio basis, is approximately 8%.

And perhaps just as important as our market shares: customer satisfaction scores improved at all four brands. As a result of which the customer-weighted Net Promoter Score rose from -8 to -3.

HOW DID THE RESULTS AND CAPITAL POSITION DEVELOP IN 2017?

Although the result for 2017 was lower, the level was still excellent: the return on equity was 8.7%, well above our target of 8%, and this in combination with a very solid capital position.

Net profit amounted to € 329 million; € 20 million lower than the year before. And net profit adjusted for incidental items decreased from € 374 million to € 316 million. The fall in profits was mainly driven by a lower release of provisions for loans with payment arrears. In 2016, the release of € 68 million was very high; in 2017 it was still € 24 million. The number of loans in arrears keeps falling, but arrears have reached such low levels that the release of provisions has decreased.

As regards income, we saw a marginal fall in interest income in 2017, with a slight improvement in the interest margin, from 1.48% to 1.50%.

Operating expenses, adjusted for incidental items and regulatory levies, fell slightly. As the adjusted income fell by 2% and the adjusted expenses by 1%, the adjusted cost / income ratio rose slightly, from 54.5% to 55.4%. Our target range of between 50% to 52% in 2020 is still within reach.

As mentioned earlier, our capital position is very strong indeed, and continued to improve in 2017. At the end of 2017, the CET1 ratio stood at 34%, compared to 29% at the end of 2016. And the leverage ratio rose from 5.2% to 5.5%. In this way we amply comply with both the regulatory requirements and our own minimum objectives.

AT 34% DE VOLKSBANK'S CET1 RATIO IS ONE OF THE HIGHEST IN EUROPE AND TWICE AS HIGH AS THE OBJECTIVE OF AT LEAST 15%. WHY MAINTAIN SO MUCH CAPITAL?

An important reason for our high CET1 ratio is that we expected a significant impact from changes in accounting policies such as Basel IV regulations and IFRS 9. In the course of 2017, we gained more clarity on this: we expect the CET1 ratio to fall by approximately 8%-points as a result of Basel IV, and by approximately 2%-points as a result of IFRS 9. If we take this into account, we will have a pro forma CET1 ratio of approximately 24% at year-end 2017. This is still well above the 10.5% minimum SREP requirement and our own objective of at least 15%.

Over the coming year we will investigate whether there is reason to revise our capital objective, in particular on the basis of the combined impact of Basel IV, the TRIM (Targeted Review Internal Model) outcomes, and the impact of IFRS 9 on stress testing. In any case, we will remain cautious about both our CET1 ratio and our objective in order to keep our risk profile as low as possible.

In addition to our sound profitability, our strong capital position has indeed been reason to propose a higher dividend pay-out for 2017: € 190 million, compared to € 135 million in 2017, which is at the top of the pay-out range of 40% - 60% that we pusue.

IN MID-2016 NLFI ADVISED THE MINISTER OF FINANCE TO GIVE DE VOLKSBANK 2 TO 3 YEARS TO PREPARE FOR PRIVATISATION. MORE THAN 18 MONTHS HAVE PASSED SINCE THEN, WHAT IS THE CURRENT STATE OF AFFAIRS?

In recent years, we made good progress in the area of cost and risk management. We will continue on the same path in the period to come.

In its progress report of September 2017, NLFI noted that de Volksbank will certainly need the remaining term of the original 2-3 year period to achieve maximum long-term value creation, before a decision about possible privatisation can be made. In the Coalition Agreement of 10 October 2017, it is further noted that in relation to de Volksbank, future options other than State ownership are currently being analysed. When this has been completed, the Government will make a decision, taking into account the desired diversity in the banking sector.

WHAT IS THE OUTLOOK FOR THE 2018 RESULTS?

We expect net interest income to be slightly lower than in 2017. The number of customers in arrears is likely to fall further. We do not, however, expect a release of provisions for loans as in the years 2016 and 2017. We expect an addition to provisions for loan impairments, albeit a limited one.

By the look of things, the expected reduction in operating expenses in 2018 will not fully compensate lower interest income and the swing in impairment charges. All things considered, the net result for 2018 is expected to be lower than in 2017.

WHAT WILL DE VOLKSBANK FOCUS ON IN 2018?

"All employees of de Volksbank will remain committed to putting our mission of Banking with a human touch and optimising our shared value into practice, just like we did in 2017. Whenever possible, we will try to speed things up a little bit."

Utrecht, 7 March 2018

Interview with the Chairman of the Supervisory Board

Jan van Rutte, Chairman of the Supervisory Board

Pursuant to its advisory and supervisory role, in 2017 de Volksbank's Supervisory Board was closely involved in the implementation of de Volksbank's strategy for 2017-2020. We speak with Jan van Rutte, Chairman of the Supervisory Board, about the past year.

WORK HAS CONTINUED TO IMPLEMENT THE STRATEGY OVER THE PAST YEAR. WHAT IS THE ESSENCE OF THIS WORK?
The main challenge is not only to secure a distinctive position within the Dutch banking industry; the customer must actually perceive and feel that distinctive position. This is the focus of de Volksbank's first strategic pillar, strengthening our social identity. Our other two strategic pillars are also essential here: we simplify and enhance the internal business operations and we continue the innovation strategy as a smart adopter of technology. These pillars are, I would almost say, basic preconditions to distinguish ourselves.

YOU STATED LAST YEAR THAT THE REVERSAL OF THE TRADITIONAL BANK MODEL AND DE VOLKSBANK'S SHARED VALUE AMBITION WERE CHALLENGING PROCESSES. WHAT IS THE CURRENT STATUS?
In concrete terms, reversal means putting our relationship with the customer first. Every employee of de Volksbank considers matters from the customer's perspective and acts on the basis of trust in that customer and in colleagues as well. Employees are given the room to really help the customer, and are trusted to do so. De Volksbank does this by, for example, embedding responsibilities and ownership at the lowest possible level in the organisation and encouraging and facilitating multidisciplinary collaboration. The Manifesto serves as a source of motivation and inspiration for all employees in this respect.

In 2017, the Supervisory Board noted a number of inspiring examples of the reversal of the traditional bank model, such as a fully digital switching service and less 'obligatory paperwork' for mortgage applications. Reversing the bank model gave rise to some interesting dilemmas, which also prompted useful discussions within the Supervisory Board in 2017. Although the Supervisory Board recognises the fact that de Volksbank is evolving rapidly, further momentum is needed to implement the distinctive customer propositions by 2020.

IN ADDITION TO THE AFOREMENTIONED THREE STRATEGIC PILLARS, ATTENTION IS ALSO GIVEN TO IMPROVING INTERNAL CONTROL. WHAT IS YOUR VIEW OF THE STATUS OF THE EXISTING PROGRAMMES IN THIS RESPECT?

Just as in 2016, the Supervisory Board also discussed the implementation and progress of the programmes aimed at improving internal control, the so-called 'House in Order' programmes at every meeting with the Board of Directors in 2017. These include data management, Internal Control Framework and transaction monitoring programmes. In the Supervisory Board's view, these programmes are essential for an independent future of the bank. I note that great strides were again made in the further improvement of internal business operations in 2017. Reaching the desired maturity level will receive undiminished attention in 2018.

Within the 'House in Order' programmes, the Board of Directors has to continually and carefully consider the deployment of people and resources, taking account of interdependencies and tight time schedules. Alongside these programmes, the findings of regulatory authorities must also be addressed in the correct manner, which has a considerable impact and places significant demands on the organisation's capacity to change and on employees' flexibility.

TO DATE, HOW HAS THE NEW FAMILY NAME (OF ALL BRANDS) OF DE VOLKSBANK CONTRIBUTED TO THE BANK'S MISSION OF BANKING WITH A HUMAN TOUCH?

The new name supports the brands in creating clarity about what kind of bank we are, a bank for the ordinary Dutchman, a bank with a human touch. I would also like to mention, with justifiable pride, the Sijthoff prize won by de Volksbank for the 2016 annual report. The jury stated that de Volksbank's 'fresh-looking' annual report clearly showed that the organisation had been set up anew, and that this also radiated from its external reporting.

WHAT ARE THE MAIN CHALLENGES IN 2018?

A major challenge for the coming year is to continuously work on support for the strategy, down to all levels within the organisation. If we want to achieve that distinctive position towards our customers, then everyone in the organisation must support this.

A more specific challenge is the new payment legislation (PSD2), which will result not only in more competition on the (payments) market but also in new opportunities. It is important for customers to know that their data are safe with de Volksbank and will not be sold on to third parties. Customers must be convinced of this and must remain so. The quality of data management is crucial to this end and poses a significant challenge.

Other challenges include simplifying and enhancing the efficiency of internal business operations still further and creating the momentum mentioned earlier that is needed to attain the distinctive position within the Dutch banking industry. De Volksbank will have to keep this high on the agenda if it is to be prepared for its future independence from the Dutch State in good time. As a healthy and future-proof balance must also be maintained between costs and income, it is essential that a high degree of discipline be applied to the announced reduction of jobs, which is certainly no easy task. Due to the substantial reduction in management as of 1 January 2018, it is important to properly safeguard the responsibilities and duties of the cancelled management positions within the new organisation.

WHAT ARE THE MAIN CHALLENGES FOR THE LONGER TERM?

To actually effect the reversal of the traditional bank model, a new way of thinking and collaborating is required in terms of services, products, processes and management. Conduct and cultural aspects play a decisive role in this regard. I am looking forward to seeing further concrete results from the current pilots, and I have confidence in the agility of de Volksbank as an organisation.

We still need to take numerous steps to achieve a 100% climate-neutral balance sheet by 2030. De Volksbank's brands are actively encouraging customers to make their homes more energy efficient, for example through special offers for solar panels and home insulation. Our focus is trained on reducing the ecological footprint of our mortgage customers.

IN ADDITION TO ITS SUPERVISORY AND ADVISORY ROLE, THE SUPERVISORY BOARD ALSO ACTS AS THE BOARD OF DIRECTORS' EMPLOYER AND SPARRING PARTNER. CAN YOU OUTLINE HOW THESE VARIOUS ROLES WERE FULFILLED IN 2017?

In its supervisory capacity, the Supervisory Board closely monitored the status of the strategy's implementation, taking account at all times of de Volksbank's ambitions in terms of shared value, sustainability and long-term value creation. The strategy is not expected to be fully implemented before mid-2019.

In its role as employer, the Supervisory Board's work included defining objectives and critical success factors for the Board of Directors, assessing the Board of Directors, and dealing with talent management and changes in the management structure.

In 2017, the Supervisory Board also fulfilled the role of sparring partner on a regular basis. It engaged in an intensive exchange of ideas with the Board of Directors regarding the international collaboration with Pivotus (customer contact supported by digital media), the quality and adaptability of the IT policy, future organisational and ownership structures and the view of the future of the bank's earnings model.

LOOKING BACK AT 2017, WHAT ARE YOU MOST PROUD OF?

All members of the Supervisory Board visited various departments in the organisation to experience processes for themselves from the customer perspective. The Supervisory Board was able to fully experience the day-to-day operation of 'Banking with a human touch' in the Compliance & Security department, in our four brands' shops and offices, and within the broad domain of IT. Like last year, the Supervisory Board is impressed by the engagement and commitment of employees. They are the firm foundation on which de Volksbank relies, and are ready and willing to help our customers every day. That is something I am proud of and for which I would like to thank them, also on behalf of all of the members of the Supervisory Board.

In the autumn of 2017, the process of appointing a successor to Rob Langezaal commenced, who stepped down from the Board of Directors as from 1 January 2018 in consultation with the Supervisory Board.

Additionally, Jos Nijhuis stepped down from the Supervisory Board at the GMS on 20 April 2017 in accordance with the rotation schedule. On behalf of all members of the Supervisory Board, I would like to thank them both once again for their dedication to de Volksbank.

Finally, I would like to express my appreciation for the Board of Directors. In 2017, we worked together anew in good mutual consultation, also on files that were sometimes complex or difficult. We are confident that our collaboration will again be constructive in 2018.

Utrecht, 7 March 2018

1 Strategic report

1.1 Profile

Boasting a history that stretches back to 1817, de Volksbank is a bank at the heart of society. Virtually all of its legal predecessors were savings banks for the common good (*nutsspaarbanken or bondsspaarbanken*) -banks that were close to their customers thanks to their local character and social objectives. This history has been decisive for de Volksbank's unique profile as well as its strength, now shaped in a modern way.

We are a bank with a focus on the Dutch market, offering clear and transparent mortgage, savings and payment products to private individuals. De Volksbank also offers insurance, investment and lending services through its brands and serves smaller companies in a retail manner while maintaining its strong liquidity profile and capital structure.

De Volksbank is pursuing a multi-brand strategy with ASN Bank, BLG Wonen, RegioBank and SNS. Each of these brands has its own distinctive profile that meets the needs of its customer group. A single back office, a powerful IT organisation and a central staff organisation allow de Volksbank to operate effectively and efficiently.

1.2 Stakeholder engagement

We are a bank that considers and anticipates the needs of customers, society, employees and shareholder(s). As our success hinges on the extent to which we live up to our stakeholders' expectations, we regularly engage in dialogue with them to exchange ideas and share experiences in a constructive manner. We use the outcome to improve our products and services, to increase our customers' financial resilience and to reduce our ecological footprint.

De Volksbank identifies its stakeholders by constantly being on the alert as to who might impact our organisation and who might be impacted by our actions. We select the stakeholders with whom we engage in frequent dialogue or decide that some other form of communication is more appropriate, thus safeguarding ongoing stakeholder engagement. The stakeholders' main expectations are reflected in our strategy and we report on them in our annual report.

In 2017 we again actively engaged in dialogue through various channels and platforms such as customer days, social media and meetings. Every year, we identify the issues that have the greatest impact on the achievement of our strategic objectives and that are considered the most significant by our stakeholders. In 2016 we conducted a survey among almost four hundred stakeholders. In 2017 we introduced limited updates to this survey on the basis of the latest insights, trends, developments and market surveys. The issues that emerge from the materiality analysis show us where to find the opportunities and possibilities to create value for all our stakeholders. For more information about the determination of materiality, see the appendix 'About the non-financial information in this report'.

Materiality analysis

Material subject	Materiality	Shared value	Reference
Simple & transparent products	●●●	customers	§2.5
Customers' interests & reputation	●●●	customers, society, employees	§2.3 / 2.5
Privacy & customer data safety	●●●	customers, society	§2.3 / 2.7
Financial performance	●●●	shareholder	§2.3 / 2.8 / 3.6
Financial resilience	●●●	customers, society	§2.3
Ethical banking	●●	customers, society	§2.5 / 3.10
Technological innovations	●●	customers	§2.3 / 2.7
Compliance with laws and regulations	●●	society	§2.2 / 3.3 / 3.10
Responsible risk management	●●	shareholder	Chapter 3
Service availability	●●	customers, society	§2.3 / 2.5 / 3.10
Climate neutral bank	●●	society, employees	§2.3
Sustainable products and services	●●	customers, society	§2.3 / 2.5
Responsible investing	●●	society, shareholder	§2.3 / 2.5
Responsible remuneration policy	●●	society	§2.6 / 5.7
Sustainable employment	●●	employees	§2.6
Social commitment	●	society	§2.3
Stakeholder engagement	●	customers, society	§1.2
Committed and engaged employees	●	employees	§2.6
Responsible tax policy	●	society	§2.8
Employee diversity	●	employees	§2.6

customers society employees shareholder

We see a number of minor shifts in the material issues compared to 2016. Simple and transparent products, customers' interests & reputation and privacy & customer data safety are just as important as before. There is a clear need for a social bank (see also Section 1.5 Strategy). Stakeholders now consider our financial performance to be slightly less important. This management report focuses on the reporting of the five most material issues, indicated with three dots in the table. For all material issues, we have included a reference to the section that discusses them.

1.3 Trends and developments

When defining its strategy, de Volksbank considers developments and trends in society, in the sector and at de Volksbank itself. Our strategy is based on the premise of permanent alignment with the concept of shared value. We capitalise on opportunities and take appropriate measures wherever we see or expect risks (see also Chapter 3 Risk, capital & liquidity management).

Social developments

Slight increase in confidence in the financial services sector

Still at a low level, customer confidence in banks showed a slight increase compared to last year (from 2.8 to 2.9 on a scale of 1 to 5). This emerged from the third edition (2017) of the annual Confidence Monitor, performed by the Dutch Banking Association (NVB). Customers again have more confidence in their own bank than they have in banks in general. Consumers indicate that 'being open and honest' is the main factor determining their confidence in a bank. Consumers rated this factor as 'sufficient' last year. The survey also reveals that, in terms of confidence, banks occupy a middle position relative to other sectors (such as science, government and healthcare). This provides de Volksbank with an opportunity to position itself more strongly as a social bank.

Read more about our brands' scores in the Banking Confidence Monitor, Section 2.3 Progress on Strategy - Progress on shared values.

Not all Dutch consumers are sufficiently financially resilient
In 2017 – for the first time since 2008 – Dutch economic growth exceeded 3%. Strong growth is also expected for 2018: 2.5%.
Although calculations in the Coalition Agreement (Rutte III government) show that many groups will be better off, the financial resilience of the Dutch remains a key focus area. One in five people in the Netherlands is struggling with serious payment arrears. Excessive fixed charges rather than negligence are increasingly to blame for this, according to the National Institute for Family Finance Information (Nibud). The Scientific Council for Government Policy (WRR) earlier concluded in a report that the government is insufficiently successful in protecting citizens from debts and overrates their financial self-reliance. For de Volkbank, increasing financial resilience is therefore of great importance.

Climate higher on the agenda
Society demands that banks take their social responsibility when selecting their investments. More and more consumers are opting for responsible products, such as investment funds investing in clean energy and social startups. They expect their bank to do the same.

In politics, too, the risks of climate change are given more attention, with climate change being a major issue in the Coalition Agreement. Countries all around the world are taking visible steps to implement the Paris climate accord (2015). For example, the Norwegian state pension fund has announced that it is considering to sell all of its oil and gas investments.

In addition, there has been an increasing awareness of the need to identify the impact that investments have on the climate. The negative impact is to be reduced. Investments in clean energy are being placed higher on the agenda. De Volksbank will consistently carve out a strong position for itself as a sustainable bank.

Sector developments

Interest rates stay at historic lows
Interest rates have reached historically low levels since the financial crisis. Although a minor upturn has now commenced, there seems to be no indication of any speedy return to former levels for the time being. Interest rates in the Dutch savings and mortgage markets are at record lows too, in lockstep with low interest rates in the international money and capital markets.

The low interest rate environment has resulted in an increase in mortgage credit availability as well as to strong customer demand for longer maturities. This causes pressure on the interest margins in the Dutch mortgage market. In addition, house prices have risen sharply in recent years. In the event of a correction on the financial markets, house prices may start to fall again, which in turn might lead to a stagnating housing market.

In its strategic reorientation, de Volksbank defined a number of measures that should reduce the pressure on interest income.
We want to steer clear of a race to the bottom. On the one hand by emphasising that we have a distinctive identity as a social bank, with high-quality services. On the other hand, we want to offer appropriate interest rates and maintain profitability. The focus on simple and efficient processes and the reinforcement of our identity help us achieve this.

New entrants are changing the market
In 2018 PSD2 will enter into force, which will fuel competition in the financial retail markets in the next few years. The European legislation aims to increase competition in the area of payment services. In addition to the established domestic parties, there are new entrants doing business with consumers by taking a direct and innovative approach. They offer, for instance, alternative or innovative payment services.

We observe similar developments in mortgages, a product group that is of great importance to de Volksbank. Pension funds and insurance companies have entered the mortgage market in recent years, looking for low risks and high-yield investments. New entrants are putting pressure on margins. This is reinforced by the higher demand for mortgages with fixed-rate periods of more than ten years, a market segment in which insurance companies as well as pension funds have gained a foothold. The new BCBS (Basel Committee on Banking Supervision) regulations, which increase banks' RWA on mortgages, might lead to a slight increase in margins. This does, however, spell good news for consumers: more competition will reduce prices and improved service levels.

This is one of the reasons why de Volksbank will further innovate its services, availing itself of the advantage of a solid IT platform that we use to serve our customers through different brands and channels. This makes us agile and keeps us in a good position to innovate our services. A key element here is our collaboration with other parties.

Long-lasting appeal on change capacity

As the environment in which banks operate is changing rapidly, we must constantly anticipate and ensure a structural increase of our capacity to change. In 2017 we reviewed our IT system landscape in this light. We expect to make the first changes in 2018, increasing our capacity to change.

Regulatory and supervisory developments

Regulatory pressure set to increase

Banks operate in an environment that has been placed within a strict legal and regulatory framework. Regulators impose requirements and conditions on aspects including the capital position, liquidity position, corporate governance, culture and behaviour, to increase the resilience of individual banks and the stability of the financial system. However, regulations also serve to provide better consumer protection and to prevent society from being burdened with any problems at banks.

Laws and regulations and guidelines have been further expanded, including the finalising of the revised Basel III framework (also known as Basel IV). After implementation in laws and regulations, Basel IV will in particular affect the capital to be held. Due to Basel IV, banks are required to maintain more risk-weighted capital for mortgage portfolios in the future (phasing in between 2022 and 2027) than they do now.

The further expansion of laws and regulations requires management’s constant attention and widely supported awareness within the organisation. In 2018, too, we will feel these effects in our business operations. For example, we will have to adjust our policies, procedures and documentation.

Better control of the organisation

The requirements set for our processes are influenced by consumer expectations, competition, supervision and regulations. Consumers desire rapid insight into their banking affairs, correct processing of transactions and expert responses to product applications and requests for information. The bank must provide this. Beefed-up competition in our market segments and pressure on interest income are reducing profitability, forcing us to place more focus on the costs of serving our customers. We adopted simple and efficient processes as a strategic pillar – Simplicity & Efficiency – during our strategic reorientation in 2016.

Technological developments

Fintech is here to stay

The fast pace of technological developments in our sector (fintech) continues unabated. As smart technologies are being used to meet customer needs, the banking industry is changing rapidly. A large group of startups and scale-ups, and sometimes also parties from outside the financial services industry, focuses on innovative fintech applications. Departing from the traditional methods applied by banks, their innovative and at times disruptive business models seem to appeal to more and more customers. In the banking industry, fintech companies are here to stay. Within the value chain, fintech companies appear to focus primarily on managing customer contact, making them a strategic threat. By collaborating with fintech parties, we can turn this threat into opportunities.

Technologies such as machine learning and data analytics (big data) have now proven their worth. The challenge we face is to incorporate these technologies into our banking processes in a future-proof way. We particularly see areas of application aimed at enhancing customer experience and possibilities for faster analysis – when providing mortgages, for example. In our view, technology supports de Volksbank's mission. We remain committed to human interaction as a key differentiator in customer experience.

Growing importance of data

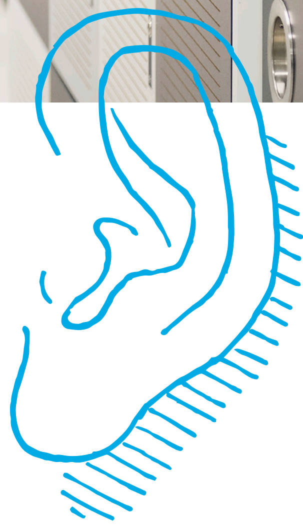
Automation and digitisation of financial services are being taken to a whole new level. Data are the essence of a bank but customers are and remain the owners of their data. Also, they expect to have real-time access to their data, both online and mobile. New European legislation (PSD2) allows customers to decide whether or not banks make personal financial data available to third parties. Non-bank entrants avail themselves of the latest technologies to analyse sizeable data files (big data), which they use to develop services that meet consumers' current needs. With all these developments, customer privacy continues to make headlines. We at de Volksbank believe that the customers are the ones who own their data and that they should make their own decisions about whom to share these data with. We have laid this down in our view on data.

Cybercrime threat is growing

The threat of cybercrime is tremendous, and we expect it to increase. Banks are continuously faced with various forms of cyber attacks, and targeted attacks have become a well-known phenomenon by now. The combination of cybercrime (malware, phishing, social engineering) and infiltration techniques is used for financial gain, data theft or disruption of services. Bank-related services (such as international payment transactions, SWIFT) are also adversely affected by cybercrime.

As banks are a major link in day-to-day commerce, society must be confident that money and data are in good hands with the banks and that banking services will not falter. Having a persistent focus on fighting and preventing cybercrime, de Volksbank deploys a Cyber Resilience organisation to repel attacks in a structured and effective manner. The activities of this organisation are part of the Integrated Control Framework (ICF).

Koen Slijkerman
Works at: Arrears Management department



Cooperation with debt collection agencies discontinued

'De Volksbank no longer works with debt collection agencies. This means that we are actively bringing back customers who previously ended up there with payment arrears. We want to reach out and build a relationship with our customers. One aspect of that is actively thinking about the best solution for their financial situation. When our decision was reported in the media, customers started calling us immediately. They were very happy, but they also had questions: what would this mean for their current payment arrangements?
Our task for 2018 is to retrieve the files of some 10,000 customers from 13 collection agencies, incorporate those files into our administration system and approach the customers as soon as this has been done. And all in a way that does not cause any inconvenience to our customers. We need to be consistent: if we really do want to be there for our customers, we need to set our shoulder to the wheel. And we have: we've put together a team of real ''migration tigers'' to help us with this big challenge.'

1.4 SWOT analysis

STRENGTHS

- The Manifesto connects employees with de Volksbank's mission: Banking with a human touch.
- The formulated ambition (optimising shared value) uniquely defines how to achieve de Volksbank's mission, setting the bank apart from its peers.
- Focus on clear and transparent financial products in the area of mortgages, savings and payment products to the Dutch retail segment.
- Multiple distinctive brands that are close to their specific customer groups and respond to customer needs and preferences in their own way.
- The robust IT structure ensures stability, enabling us to act as a 'smart adopter' in the market.
- De Volksbank is highly capitalised, so we are regarded as a healthy, robust bank.

OPPORTUNITIES

- De Volksbank's brands respond to the trend towards greater consumer demand for simple and transparent products and an individual approach.
- De Volksbank positions itself as a social bank, with the ASN Bank brand as the driver of sustainability, a topic that is becoming increasingly important to consumers.
- Consumer confidence in banks has gone up a little but could be higher; as a social bank, de Volksbank can make the difference here. Our brands are doing relatively well in the Confidence Monitor.
- In a world where technology companies in particular put pressure on privacy, we have the opportunity to be privacy-friendly. Customers remain the owners of their data and customer dataare protected.

WEAKNESSES

- The focus on the Dutch retail segment entails a concentration risk.
- The level of brand awareness of some of de Volksbank's brands is lower than that of the largest players in the Dutch market.
- The business operations require improvements in the areas of process control and data quality. This is especially true for the services in the mortgage application process.
- Our capacity to change is relatively limited in terms of resources (number of available hours).

THREATS

- The growing regulatory and supervisory pressure is material for the banking industry and for de Volksbank, leading to increased costs and placing a burden on our capacity to change.
- Cost reductions at other banks and low cost levels from other providers of banking products, put pressure on de Volksbank's relative cost position. This can undermine our competitive position.
- There are indications that the Dutch housing market is becoming overheated. After the rise in house prices in recent years, they may also fall again in economic downturns, resulting in a stagnating housing market. With our focus on mortgages, we are heavily dependent on a 'healthy' housing market with sufficient transactions.
- Low interest rates create great demand for mortgages with longer maturities and put pressure on net interest margins in the Dutch mortgage market; the latter is reinforced by continued competition from non-bank financial players.
- Achieving a climate-neutral balance sheet is a challenge. To this end, we need to induce our mortgage customers to make their home more sustainable. This requires time and habituation: customers have not yet grown accustomed to a bank that also deals with the sustainability of homes.
- New entrants, including non-financial players, pose a strategic threat in specific parts of the value chain: the possible loss of direct contact with the customer.
- Cybercrime has been a known threat to banks for some time. We do not expect a significant fall in the threat level and must incur costs to ward off external attacks on our systems.

1.5 Mission and ambition

MANIFESTO: BANKING WITH A HUMAN TOUCH
A society that allows people to live confidently and full of optimism and to do the things that benefit the next generation – that is the kind of society we wish to build. It is our raison d'être: to help every single individual – in a personal way – to be financially resilient, each in his own way.

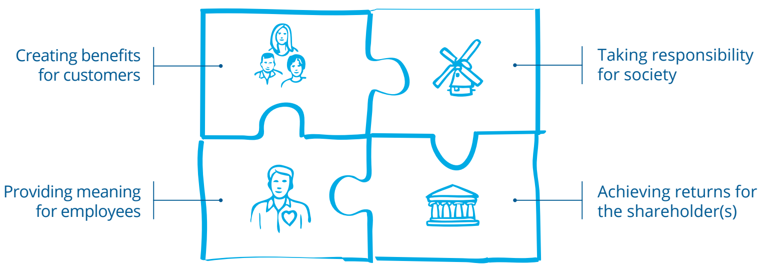
Accordingly, reaching back to our social roots, we are taking our responsibility to shape the banking trade based on what people really need. It means that our financial services are about benefit rather than return – about value rather than money. It particularly means that we are sincere in putting our customers' interests first in order to safeguard fundamental things in life such as housing, education and a buffer for unexpected expenses, now and in the future.

We also understand that the Netherlands today is very diverse and that every individual wants to be 'financially resilient' in his own way. That is why de Volksbank is a diverse family of brands: ASN Bank, BLG Wonen, RegioBank and SNS. Together, yet each in its own way, we choose to build a future based on the principle of sustainability. We choose to offer people insight, clarity and prospects in finance, to make 'good housing' accessible and to reinstate sincere personal contact as the cornerstone of banking. We are continuously inspired to work closely with our customers and develop simple services that bring back the human dimension in finance.

Our ambition goes beyond simply posting strong result

Our mission – Banking with a human touch – is described in our Manifesto and is geared to the public appeal to give meaning to helpful banking. To live up to this mission, de Volksbank has formulated the following ambition: optimising shared value.

Our ambitions



By optimising shared value we mean that de Volksbank serves the joint interests of customers, society, employees and shareholder(s). We regularly engage with these four groups of stakeholders (see also Section 1.2 Stakeholder engagement). With our core activities we create benefits for customers, take responsibility for society, provide meaning for our employees and achieve returns for the shareholder(s).

Benefits for customers

In line with our ambition to be relevant and useful to customers by means of our various brands, we are a bank that makes customers feel at home, offers fair products and proactively contributes ideas. Each brand has its own distinct way of doing this.

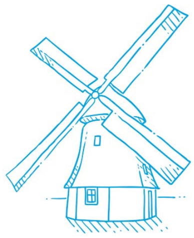
- ASN Bank aims for sustainable progress by investing customers' money in projects and initiatives that benefit people, animals and nature.
- BLG Wonen aims to make housing affordable to people by being the most personal and expert financial services provider of the Netherlands. Together with independent advisers, BLG Wonen provides solid financial solutions.
- RegioBank aims to be close to its customers, both literally and figuratively, with the presence of 528 Independent Advisers in villages and small towns.

• SNS aims to be a bank that comes up with clever ideas for ordinary Dutchmen about the management of their financial affairs.

As customer needs are at the heart of de Volksbank's operations, it is essential to adopt a way of working that starts with taking stock of what customers need. To this end, we listen to what customers want, recognise their underlying emotions and see products as means to an end rather than ends in themselves. We call this a 'reversal of the bank model'. If we succeed in being relevant to customers, each of our brands will enjoy a greater appreciation of its services and an increase in its customer base.

To achieve this, we will implement innovations in the following areas:
• our product terms and conditions (viewed from the perspective of the customer's needs);
• customer contact experience and frequency;
• the efforts that customers have to make to manage their financial affairs;
• our advisers' appreciation of our products and services.

Responsibility for society



We want to make a positive contribution to society. Given our core activities mortgages, savings and payments, we believe that we can have a considerable positive impact on customers' financial resilience and on sustainability in our distribution chain.
• 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. We aim to encourage our customers and help them increase their financial resilience. A key aspect in this process is whether customers are financially confident (see also Section 1.7 Strategic objectives and KPIs).
• We seek to reduce the negative impact of our activities on the climate. Our objective is to achieve climate neutrality in both our business operations and our balance sheet.

Meaning for employees

We aim for our employees to be engaged and committed, to develop themselves and to find meaning in their work. We set great store by them enjoying their work and being proud of what they do, as we believe that engaged and committed employees are happier and more productive. Key themes are being a good employer, good health, equality and sustainable employability. This is why we are working on staff vitality, diversity, organisational dynamics, future-proof perspectives for employees and an open and trustful relationship with the employee representative bodies, such as the Works Council and trade unions.

Returns for shareholders

De Volksbank is a retail bank that stands out with its focus and simplicity. Our focus is on the Dutch retail and SME customers, whom we offer clear and simple products. This calls for a financially sound and stable bank with activities with a low risk profile and matching returns for our shareholder(s).

1.6 Strategy

In 2017 we started executing our strategy, which we had fine-tuned in 2016. To this end, we conducted a large-scale market survey among Dutch consumers that formed the basis for redefining our ambition, strategic objectives and activities. One of the survey's conclusions is that a social bank is widely supported, with two thirds of consumer respondents indicating that – in addition to the other major banks – such a bank appeals to them. Out of the specific social bank profiles examined, particularly 'the affordable, no-nonsense people's bank' (70%) and 'the decent, helpful local bank' (66%) were highly appreciated compared to 'the major bank' (62%).

A large part of consumers are in need of a bank that:
- has nothing to hide;
- makes banking truly easy;
- contribute ideas;
- appreciates them;
- takes responsibility for society.

Three pillars

We seek to achieve our ambition by focusing on three pillars in the years ahead: a distinct position as a social bank, simple and efficient business operations, and a smart adopter's innovation profile.

1. *Strengthening our identity*
   De Volksbank will continue to strengthen its social identity. We will thereby refine its brand positioning and continue to develop new customer propositions dovetailing with customer needs.
2. *Simplicity and efficiency*
   In the near future, de Volksbank will make its business operations simpler and more efficient. Simple and digitised processes and products will make the services provided to customers easier, more efficient and more transparent. Simple and efficient business operations will also ensure a low cost level and a future-proof organisation.
3. *Smart adopter*
   De Volksbank will keep up with technological developments by continuing its transformation into an agile organisation that brings about innovation as a smart adopter. We closely monitor innovations in core banking functions. De Volksbank intends to innovate rapidly and efficiently, serving customers ever more effectively in a way that meets their expectations and needs. We aim to create an open innovation process characterised by multidisciplinary external collaboration and partnering.

OUR EMPLOYEES

Arvid Verstraten
Works at: Innovation Division

Customers have control over their own data

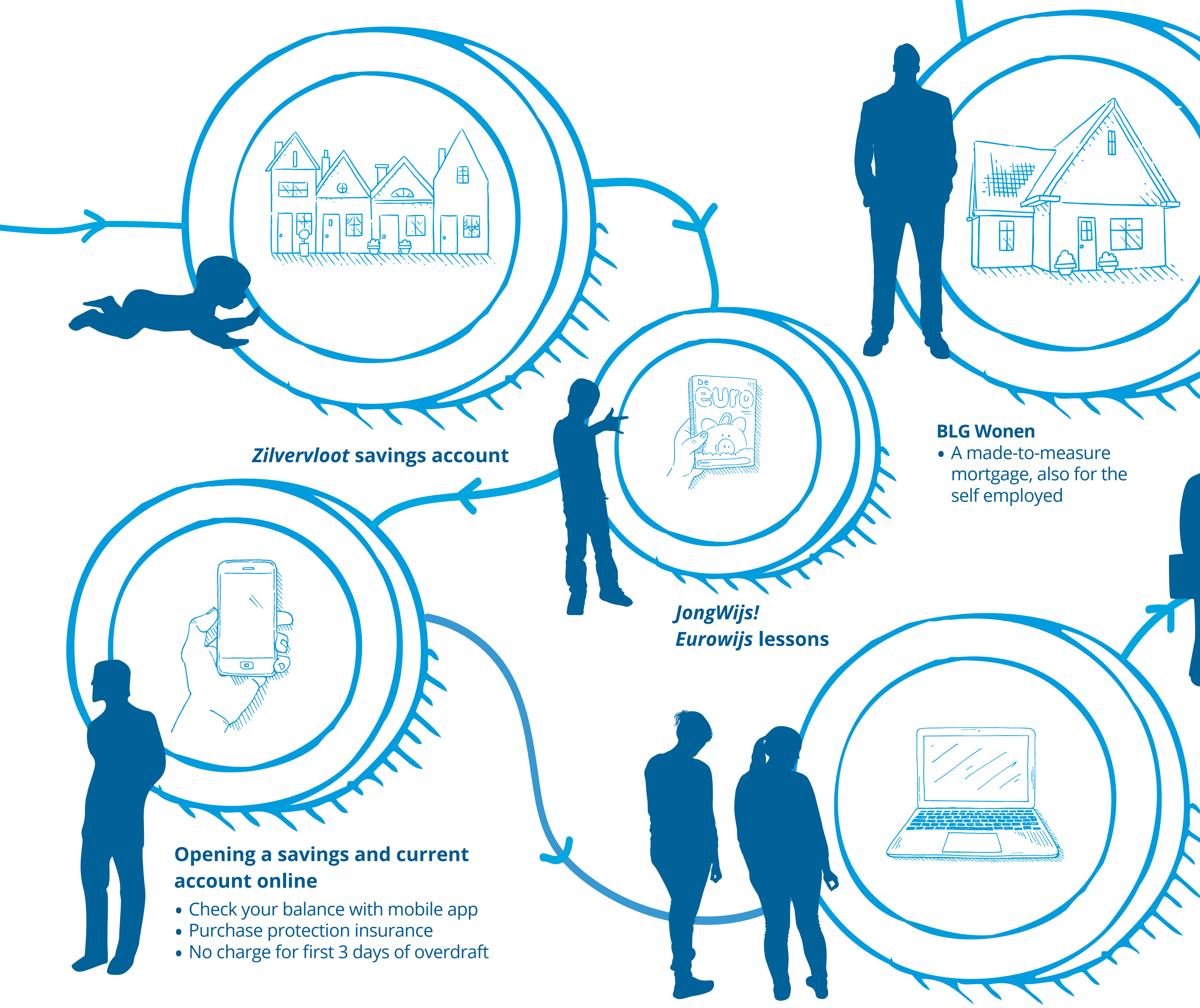
‘PSD2, the new Payment Services Directive, enables customers to allow third parties to manage their payment data. De Volksbank is helping to support customers as much as possible in this process. If customers want to share their data with third parties, they do have that option. De Volksbank is one of the initiators of an independent quality standard for parties that use payment data. This includes an assessment of the way in which these parties handle customer data. Based on this score, customers can decide whether a particular company meets their personal view about privacy. Customers are always in control of their own data. We will never make their data available to any third party without their explicit consent. And customers who do not wish to share their data can use the master switch that we have introduced for this purpose. Only when customers change the switch to ‘on’ can their data be retrieved by external parties.'

Our common mission

Together with our brands we want to help our customers increase their financial resilience and operate in a sustainable way, so we can make a positive contribution to a world that we can pass on to the next generation. With four brands that all focus on their own customer groups, with various products and for every moment of our customers' lives, we put Banking with a human touch in practice.

Payments and savings

Mortgages



We are there for our customers in difficult times too, with our Arrears Management department. Our starting point is that customers can stay in their home and can continue to meet their mortgage repayments in the future. Together with the customer we aim to come up with a solution that serves both the interests of the customer and the bank.

Contributing to a better world

ASN Bank
- Investing in sustainable investment funds
- Crowdfunding through ASN Bank's crowdfunding platform 'For tomorrow's world'

BLG Wonen, RegioBank and SNS
- Making your home more sustainable; solar panel consultation, free heat scan
- Initiatives to improve liveability in local neighbourhoods

RegioBank
- Take out a mortgage at one of our 528 independent advisers

SNS
- Take out your mortgage online
- Free consultation
- Mortgage term monitoring service

1.7 Strategic objectives and KPIs

We have translated our mission and ambition to the following (measurable) long-term objectives and key performance indicators (KPIs):

Benefits for customers

- We aim to improve the average customer-weighed Net Promoter Score (NPS) to +10 in 2020. The NPS is used to measure general customer satisfaction. Other KPIs we monitor to measure our benefits for customers are: the appreciation of product terms, customer contact experience and frequency, the effort put into resolving a request (Customer Effort Score) and the intermediary adviser appreciation for our bank.
- It is our aim to have 1.5 million current account customers by 2020. We aim to further increase our current account customer base, with a focus on active current accounts. We regard the development of these accounts as an important indicator for the quality of our brand-customer relationship. Other KPIs we measure to monitor the development of the customer relationship include: the number of active multi-customers (customers who have multiple products) and the duration of the customer relationship.

Responsibility for society

- We aim for a 45% climate-neutral balance sheet by 2020 (100% by 2030).
- In 2017, we started developing the Financial Confidence Barometer, an unbiased, 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, baseline measurement conducted in January 2018, 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.

Meaning for employees

Our objective is an employee NPS (eNPS) of 40 by 2020. Moreover, we annually measure the engagement and commitment of our staff. For both metrics, we aim for a score of 8 or higher in 2020. Other factors we also monitor to identify how employees experience meaning in their work are: employee vitality, diversity and dynamics in the organisation and future prospects for employees.

Return for the shareholder

- The target we use for Return on Equity (RoE) is 8%.
- De Volksbank intends to pay out a dividend of between 40% and 60% of its adjusted net profit[1] to the shareholder.
- We aim for a CET1 ratio of at least 15%, 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. In 2018 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.
- Our target range for the cost/income ratio (operating expenses excluding regulatory levies divided by total income) has been set at 50% to 52% for 2020. Significant efficiency improvements are required to achieve this target. We must take into account the adverse impact of the current low interest environment on the future net interest margin and upward pressure on operating expenses. On the basis of the strategic plan, we expect that, over the next few years, 800 to 900 jobs will have to disappear if we are to achieve our efficiency targets in the longer run as well. We have taken the first step by implementing a major change in the organisational structure and reducing the management team. See 2.6 Our people for more information.

1 Reported net profit adjusted for fair value movements of former DBV mortgage portfolio and related derivatives and items, such as goodwill write-offs and profits or losses on divestments, when material.

1.8 Options for the future

In 2016, NL Financial Investments (NLFI) issued an advisory report for the Minister of Finance. The advice was that at least two to three years would be needed to achieve the proposed objectives and ensure optimum long-term value creation. The Minister has adopted the NLFI advice and informed the House of Representatives.

NLFI prepared a progress report in September 2017. In the accompanying advice, NLFI states that a good start has been made with implementing the strategy. The advice again confirmed the two to three-year period (starting mid-2016) required. For us, this means that we will further implement our strategy and prepare de Volksbank for an independent future. What governance structure would be most fitting for de Volksbank's strategy is still being examined. In this process, executed in coordination with the Supervisory Board and NLFI, we also explore how we can translate our shared value ambition into our governance structure.

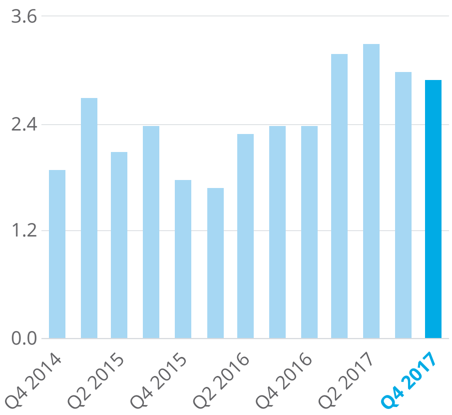
2 Business report

2.1 Economic developments

Dutch economy

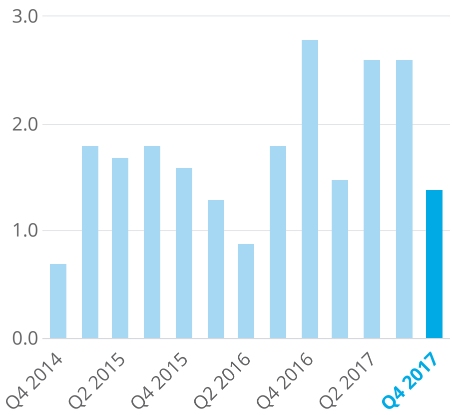
The Dutch economy grew considerably, by well over 3% in 2017. As an open economy, the Netherlands benefited from the upturn in world trade via a sharp rise in export growth. Domestic consumption and investments also grew sharply. The additional business activity was accompanied by a considerable acceleration 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.

Gross domestic product
(YoY change in %)



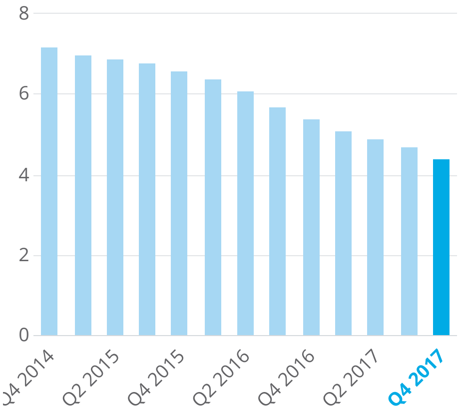
Source: CBS

Household consumption
(YoY change in %)



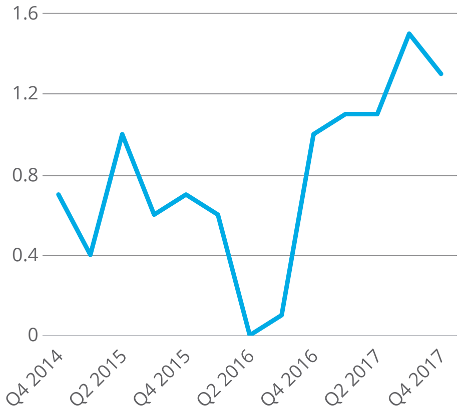
Source: CBS

Unemployment
(Seasonally adjusted in %)



Source: CBS

Inflation
(YoY change in %)



Source: CBS

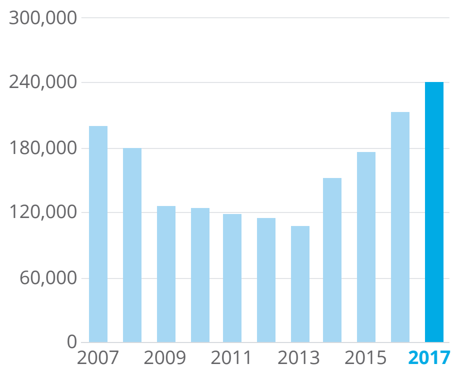
Interest rates

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 and mortgage market

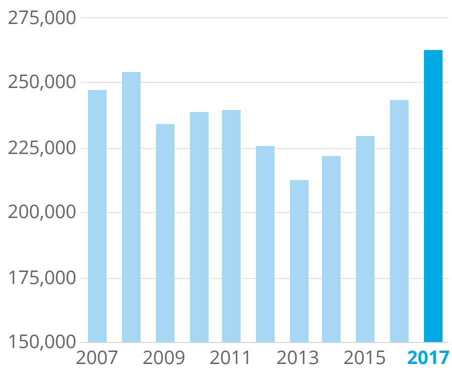
Influenced by the favourable economic conditions and low interest rates, the solid recovery of the housing market continued. Average house prices rose by 7.6% year-on-year (2016: 5.0%), ending the year at a mere 3.4% below their height in 2008. Having risen by 12.6% (2016: 20.5%) in 2017, residential 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 was due to a strong reduction in the number of houses for sale – an indication of an overheated market.

Number of homes sold



Source: CBS

Average sales price (In €)

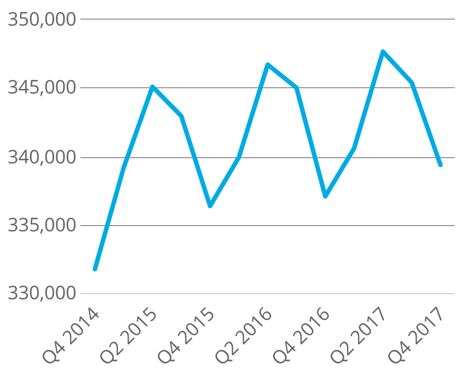


Source: CBS

Savings market

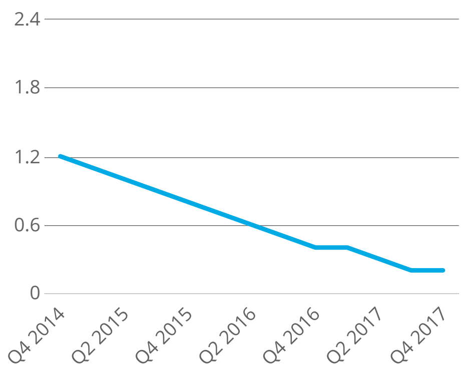
In 2017, the Dutch retail savings market increased to € 339 billion (+1%), from € 337 billion at year-end 2016.

Total savings
(In € millions)



Source: CBS

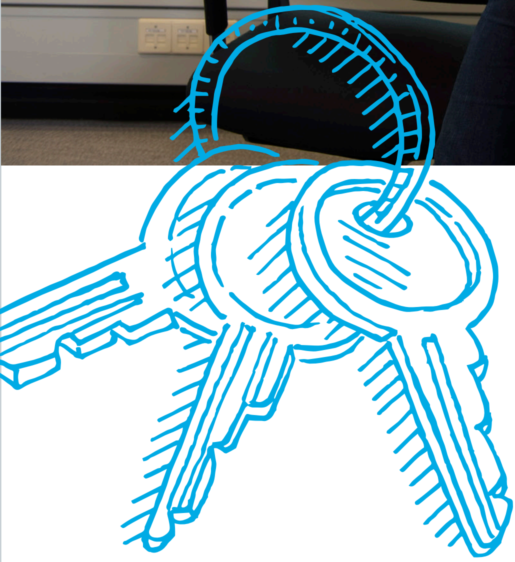
Average savings rate
(notice period < 3 months)



Source: CBS

OUR EMPLOYEES

Joost Kooi
Works at:
BLG Wonen



Making mortgages easier to understand

'If you want to be a bank with a 'human touch' when it comes to mortgages, you need to use language that everyone can understand. With that idea in mind, last year we started redesigning the most important mortgage letters that we send out to customers. Colleagues from IT, product managers and colleagues from our three mortgage brands together formed one team. New technology enabled us to take this one step further. We designed the back-end so that only one letter is needed for each event and we added some minor differences of tone for each mortgage brand. As a result, the letters from BLG Wonen, RegioBank and SNS all retained the brand image that customers are used to.'

2.2 Developments in the regulatory environment

Laws and regulations for our sector are constantly evolving. The year 2017 again saw many developments.

The laws and regulations applicable to de Volksbank can be divided into two focus areas: prudential supervision and legislation aimed at the customer domain. Going forward, the introduction of PSD2, the implementation of IFRS 9 and Basel IV will have the greatest impact on the organisation.

Prudential

In 2017, prudential laws and regulations were once again expanded and refined, with the aim to further increase the resilience of individual banks and the robustness and stability of the financial system.

Basel IV

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.
The next step is the translation of Basel IV into European laws and regulations. For more information on the possible impact of Basel IV, see Section 3.6.4. Developments in capital requirements.

CRR II and CRD V

A detailed proposal to amend the Capital Requirements Regulation and Directive (CRR II and CRD V) was published on 23 November 2016.

The main changes proposed are:
- a required minimum leverage ratio of 3%;
- Minimum Requirement of Own Funds and Eligible Liabilities (MREL; see also below at BRRD and SRMR) calculated on the basis of risk-weighted and the leverage ratio exposure;
- detailed, binding provisions for the calculation of the Net Stable Funding Ratio, with principles that are also laid down in the delegated regulation on the Liquidity Coverage Ratio;
- Tier 1 capital as a basis for the large-exposure rule rather than own funds (Total capital);
- an increase in disclosure requirements as laid down in Pillar 3, in terms of both frequency and level of detail.

BRRD and SRMR/MREL and bail-in

For more information on Basel IV, as well as on BRRD and SRMR, MREL and bail-in, see Section 3.6.4. Developments in capital requirements.

Detailed reports (AnaCredit, Residential Real Estate and SHS-G)

As from 2018, ECB and DNB require various reports from de Volksbank in respect of loans to SME customers (AnaCredit, analytical credit datasets), mortgages to individual customers (RRE, Residential Real Estate) and securitisations (SHS-G, Statistics on holdings of securities by reporting banking groups). These reports have one thing in common: they are detailed, with information being provided at the individual loan or product level. The reports enhance the insight into the loan portfolios of the financial institutions, which promotes the European decision-making regarding monetary policy and prudential supervision. De Volksbank must report AnaCredit on a monthly basis and RRE and SHS-G on a quarterly basis to the supervisory authority. For that purpose, we set up additional reporting processes in the past year.

Capital markets union

In 2015, the European Commission (EC) published the Capital Markets Union Action Plan. With this action plan, the EC wants to create a single capital markets union in 2019. The primary aim is to further deepen and broaden financing options in the EU. On the one hand, this may contribute to the enhancement of economic growth and employment, an improved allocation of financing and a more stable financial system. On the other hand, this may lead to lower costs for companies and consumers.

Since the publication of the action plan, the EC has been successful on a large number of points of the action plan. The most striking results were the political agreement on the proposal regarding simple, transparent and standardised securitisations ('STS') and the adoption of the amended prospectus regulation. The EC wants to make swift progress with the capital markets union's agenda, and has published further legislative proposals and proposed a number of additional measures in 2017. In early 2018, a proposal will be made to introduce a European framework for covered bonds.

In so far as relevant, de Volksbank monitors the EC's measures in respect of the capital markets union and makes the necessary preparations to comply with new regulations in good time.

IFRS 9
Effective 1 January 2018, IFRS 9 will apply. Financial reports regarding periods commencing on or after this date must meet these new requirements. The implementation of IFRS 9 and its impact on de Volksbank are discussed in Section 3.6.4. Developments in capital requirements and Accounting principles for the consolidated financial statements.

Customers' interests
In 2017 too, the laws and regulations in the customer domain continued to evolve.

Insurance Distribution Directive (IDD)
The European Insurance Distribution Directive (IDD) must have been implemented in Dutch legislation on 23 February 2018. The date of application will most likely be postponed until 1 July 2018 or 1 October 2018. The IDD contains rules on the distribution of insurance. The IDD's main objective is for customers to enjoy equal protection, regardless of where they take out their insurance. In addition, the IDD intends to create a level playing field for all market participants involved in the sale of insurance policies and to promote a European market for financial services. The IDD relates to advisers, brokers, (re)insurers and companies selling insurance policies as a supplement to a product or service. As an insurance broker, de Volksbank is taking measures preparing for this new European directive. De Volksbank will continue implementing the IDD in 2018.

Payment Account Directive
The Payment Account Directive (PAD) is a European directive aimed at improving the transparency and comparability of payment accounts and making it easier to switch to a different payment account. In addition, the directive also guarantees that all EU residents have access to basic payment services. The parts of the PAD that concern access to basic payment services and easy switching entered into effect in the Netherlands in November 2016 and in June 2017. De Volksbank has taken the measures necessary to comply with this new legislation in good time.

The part concerning the transparency and comparability of payment accounts is still being developed and is expected to enter into effect in November 2018. In order to provide consumers with a better understanding of the services and the related costs of a payment account, banks must use the same conditions and names for those services. In addition, they will have to make available a uniform overview of rates that is subject to specific rules for each individual payment package offered. Each year, customers will also receive a uniform overview stating all the costs charged for the various payment services throughout the year. The implementation of these PAD parts is proceeding as planned.

Markets in Financial Instruments Directive 2 (MiFID 2)
MiFID 2 is an expansion and further fine-tuning of the Markets in Financial Instruments Directive (MiFID) that is already in effect. This European directive's objective was to make the financial markets more efficient, more resilient and more transparent, as well as to improve investor protection. Even more than the MiFID, MiFID 2 focuses on investor protection and on authorisation and organisation of trading platforms. MiFID 2 came into effect on 3 January 2018.

Significant parts of MiFID 2 with the greatest impact on de Volksbank are corporate & product governance, transaction reporting and cost transparency. Over the past few years, de Volksbank analysed MiFID's impact and we made preparations to meet the requirements of and be compliant with MiFID 2 for each customer group. We made good progress.

General Data Protection Regulation (GDPR)

On 25 May 2018, the General Data Protection Regulation (GDPR) will come into force in the Netherlands. One of the main consequences of the GDPR is that we must explicitly explain to customers which data we are recording about them and for what purpose.

Other important GDPR aspects that have been fine-tuned are:
- The right to data portability. The customer must be able to request certain digital data and 'take them along' to another service provider if necessary;
- Privacy by design and privacy by default. Privacy must already be taken into account in the design of new products and procedures;
- The mandatory performance of PIAs (privacy impact assessments) in applications with a high privacy risk, for example in new technologies or large-scale processing of personal data.

In 2017, de Volksbank started various projects to comply with the GDPR. These included customer data cleansing (customer data in the banking systems will be removed automatically after a statutory limitation period of seven years), setting up authorisation records, and performing assessments in order to determine the impact on systems with regard to personal data.

Under Benefits for customers - Privacy & Data Management you can read more about how de Volksbank deals with this regulation and what has already been arranged.

Mortgage Credit Directive (MCD) and AFM guideline

On 14 July 2016, the new Mortgage Credit Directive (MCD) entered into force. This European directive aims to create a smoothly functioning European mortgage market with a high level of consumer protection. We implemented the directive in 2016. Among other things, the directive gives new rules for the calculation of compensation in case of early repayment. Such compensation may not exceed the financial loss actually suffered by the provider as a result of the early repayment.

In March 2017, the AFM published a guideline for the calculation of financial loss in case of early repayment of the mortgage. De Volksbank embraced the principles of the AFM guideline. We do so, because homeowners will thus obtain clarity as to how this compensation is calculated. We apply the four principles of the AFM guideline with retrospective effect until 14 July 2016. As from mid-April 2017, our calculations comply with the four principles of the AFM guideline. All the compensation amounts for early repayment charged between 14 July 2016 and 13 April 2017 were recalculated in 2017. Any differences were reimbursed by us.

As from October 2017, we also adjusted the calculation for early interest rate renewals to the four principles of the AFM guideline. We will recalculate the compensation amounts for early renewals charged between 14 July 2016 and October 2017 and reimburse any differences. We will do so in the first half of 2018.

Deposit Guarantee Schemes Directive (DGSD)

The European Deposit Guarantee Schemes Directive (DGSD) constitutes the basis for the reorganisation of the DGS. The amended Directive, which harmonises the DGS in Europe, aims to increase the stability of the banking sector and the protection of deposit holders. The DGSD regulates, inter alia, the scope and the protection level of the DGS, the reduction of the payment term to seven workdays, the ex-ante financing of the DGS and European cooperation.

In 2017, de Volksbank already implemented some of the new rules. In order to realise a short payment term (highly important for deposit holders), banks must provide DNB with the right data regarding the deposit holders' funds held by the bank (the 'individual customer profile') in good time. The ambition of Dutch financial institutions is to be able to compensate customers within seven working days in 2019. Preparations were started in 2017 to ensure that DNB has access to the requested information within three working days in order to compensate customers with effect from 2019.

Fourth Anti-Money Laundering Directive

The Fourth Anti-Money Laundering Directive aims to prevent money laundering and terrorist financing. The implementation of this directive has a huge impact on our customers and de Volksbank. Our customers will notice the consequences as we have to ask for more detailed information. Our employees received intensive training with regard to the new guidelines. The systems were adjusted, ensuring that we properly perform and record the audits. De Volksbank also started to use a new transaction monitoring system in the past year, which is meant to adequately monitor any undesired customer transactions and behaviour in payment traffic.

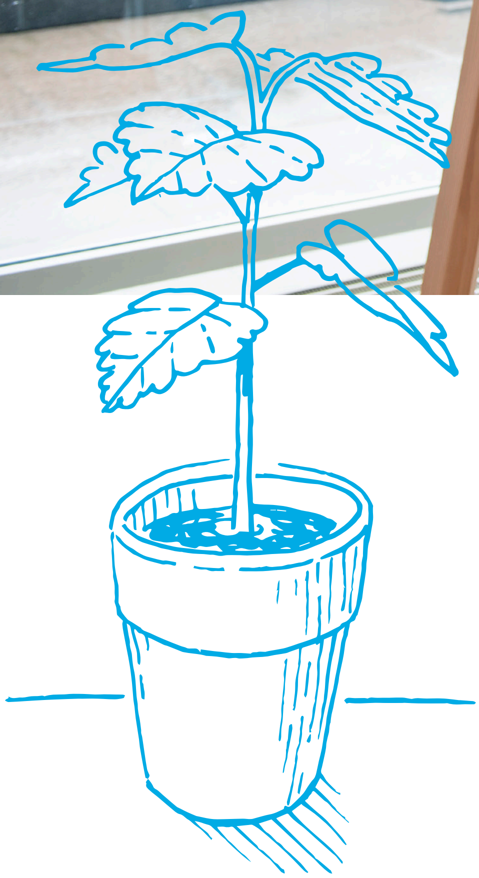
Payment Services Directive 2 (PSD2)

The objective of the Payment Services Directive 2 (PSD2) is to promote options, consumer protection and innovation within European retail payment transactions. The most significant change is providing regulated third parties access to the payment accounts of customers. These third parties are parties that are not the payer or recipient of a payment transaction and that do not manage the payer's account, but that do offer payment services. This allows customers to purchase payment initiation and account information services from these parties/companies. These services may only be provided after the customer has expressly consented to them.

The Dutch legislator had to implement PSD2 in Dutch law before 13 January 2018. This deadline was not met, which is why PSD2 will enter into effect in the course of 2018. De Volksbank will adjust the provision of services to the customers in good time. It is highly important in this respect that customers' privacy is safeguarded. Under Benefits for customers - Privacy & Data Management you can read more on how de Volksbank deals with this directive.

OUR EMPLOYEES

Linda van Dongen
Works on making our mortgage portfolio more sustainable



Helping our customers to live more sustainably

'In order to achieve a climate-neutral balance sheet by 2030, CO_2 emissions on the loss side need to be reduced. Over 80% of these CO_2 emissions are caused by emissions from our mortgage portfolio. For this reason, we are encouraging our customers to make their homes more energy-efficient. An energy-efficient home will cut customers' monthly bills and provide a more comfortable living environment.

Research that we recently commissioned among customers of de Volksbank brands shows that many homeowners would like to make their homes more energy-efficient. It is our job, therefore, to help our customers do this, and to make them aware of the possibilities. We make sure our financial advisers have the knowledge and tools to discuss energy-efficient living with customers. We also offer customers specific measures that have been evaluated on price, quality and sustainability by our partner *Natuur&Milieu* via the *Slimwoner* online platform.'

2.3 Progress on strategy

The three pillars in 2017

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 the data of our customers as their property and 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 master 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.

In 2017 we ceased to hand over customers' debts to debt collection agencies

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 to expect 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 home construction account 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 adapter 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.

In regard to identification technologies we follow the developments and possibilities such as 'Face ID', and iDIN, which we implemented in our processes. iDIN is a service of the banks with which consumers can identify themselves with other organisations using the secure login method of their bank.

When implementing these innovations, we use our own knowledge and expertise, but also the maneuverability of creativity from different startups. We use a number of methodologies such as Lean Startup, Growth Hacking and Google Design Sprint, which combined ensure we keep up to speed in our innovation process.

Progress on our shared value

In 2017, de Volksbank launched several initiatives to put its ambition to optimise shared value further into practice. We will indicate our achievements for each element, measured against the objectives we set in 2016.

Benefits for customers

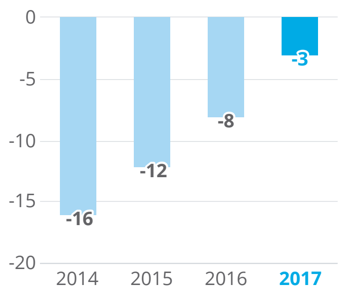
We wish to be a bank where customers feel at home, that engages in proactive behaviour and provides fair products (see Chapter 1 Strategic report). We measure the extent to which we are successful in doing so based on aspects such as customer satisfaction and the increase in the number of current accounts.

All new financial products and adjustments to existing products that we offer to customers are reviewed and approved in advance by a Product Approval and Review Committee (PARC). The PARC is composed of various departments within the bank, including Fiscal Affairs and brand directors. All financial products are periodically evaluated by the PARC after they have been introduced.

CUSTOMER SATISFACTION

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. Read more about customers satisfaction in Section 2.5 Brand performance.

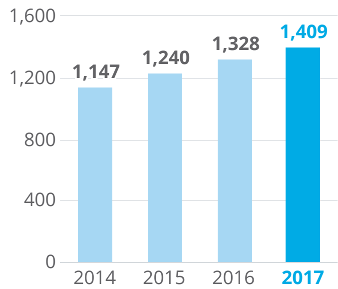
Weighted average NPS



NUMBER OF CURRENT ACCOUNT CUSTOMERS

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. Read more about the number of customers in Section 2.5 Brand performance.

Number of current account customers (in 1.000)



OTHER INDICATORS FOR 'BENEFITS FOR CUSTOMERS'

In addition to our performance on the two aforementioned objectives, we monitor the development of the shared value element 'Benefits for customers' using the following indicators:

Banking Confidence Monitor 2017

We need confidence in our bank and in the sector as a whole to improve if we are to achieve our strategic objectives. De Volksbank is collaborating with the sector to restore confidence. To attain transparency in this respect, the Dutch Banking Association (NVB) has engaged GfK to conduct an independent consumer survey to establish how much confidence consumers have in banks and how satisfied they are with the services provided.

This will tell us where significant improvements can be made and concrete action can be taken. We have published the scores of the Banking Confidence Monitor on our brands' websites.

The third Banking Confidence Monitor was published in early November 2017. The latest figures show that consumer confidence in banks is edging upwards. The results are based on customer surveys conducted by GfK, the AFM Customer Interests Dashboards and measurements performed by the banks themselves regarding the availability of online and mobile banking. The results of SNS, ASN Bank and RegioBank have been included in the monitor. General confidence in the sector rose from 2.8 (2016) to 2.9 on a five-point scale. GfK surveyed more than 23,000 consumers.

The Banking Confidence Monitor features an additional component this year: the results of an in-depth consumer survey about 'being open and honest'. Previous surveys revealed that consumers consider this element to be highly important for building confidence. Research agency GfK conducted qualitative and quantitative research into what consumers understand by 'open' and 'honest' and into their experiences with banks, providing banks with tools for improvement measures to boost confidence in the sector.

The Banking Confidence Monitor contains not only the GfK consumer survey but also the opinion of the Netherlands Authority for the Financial Markets (AFM) about the extent to which banks put customers' interests first. The results of the AFM Customer Interests Dashboards show a mixed picture of the banking sector. On the one hand, the score is excellent for complaints and feedback management, so for listening to customers. The AFM sees that the sector is developing various activities for homeowners with mortgages that may become problematic in the future. The score for handling mortgage arrears is higher. On the other hand, the AFM has awarded a lower score for lending.

The GfK survey reveals that, in terms of consumer confidence, banks moved up one spot to sixth place (out of twelve sectors) relative to other sectors (such as science, government and healthcare) in 2017.

Confidence Monitor scores

Section	Sector	SNS	ASN Bank	RegioBank
CONFIDENCE & PERCEPTION				
Confidence in banking sector[1]	2.9	2.9	2.6	2.9
Confidence in own bank[1]	3.2	3.3	3.8	3.8
Customer orientation[1]	3.3	3.4	3.7	4.0
Transparancy[1]	3.5	3.6	4.1	4.1
Expertise[1]	3.8	3.8	4.0	4.2
PRODUCT & ADVICE				
Payments[2]	-	-	-	-
Savings[3]	-	-	-	-
Mortgages[3]	3.7	3.9	-	-
Loans[3]	2.4	2.8	-	-
Investments[3]	3.6	-	-	-
Providing information[1]	-	-	-	-
Complaints and feedback management	4.2	4.3	-	-
Mortgage payments in arrears	2.8	2.8	-	-
SERVICE & USE				
Online services[1]	4.3	4.5	4.6	4.4
Customer contacts[1]	3.7	3.8	3.8	4.1
Handling of complaints[1]	3.3	3.5	3.9	-
AVAILABILITY IN %				
- Online banking[4]	99.80	99.71	99.84	99.81
- Mobile banking[4]	99.81	99.84	99.84	99.84
- iDeal[5]	-	99.72	99.78	99.82

1 Customer research by GfK (1-5) scale).
2 Developed by the Dutch Payments Association (BVN).
3 Figures from the AFM Customer Interests Dashboards (1-5 scale).
4 The scores of Online banking and Mobile banking are from July 2016 up to June 2017.
5 Regards own measurements.

BLG Wonen does not take part in the Confidence Monitor, as the sampling frame is too small and the AFM has submitted very limited queries to BLG Wonen for its modules.

Availability of services

Good availability of our services contributes to the provision of qualitative, reliable services to our customers. In 2017, we saw a minimum interruption of our services resulting from cyber attacks or system failure. We continuously improve protection against cyber attacks and, with the help of colleagues from the Cyber Resilience and (IT) line organisation, continually take additional measures to prevent the loss of internal data or customer data. Common attacks are DDoS attacks (Distributed Denial-of-Service attacks; attacks aimed at making IT systems unreachable for customers) and attacks with malware (software used to disrupt IT systems or to gather information). The financial loss for customers and the bank has shown a downward trend over the past few years (see Section 3.10 Non-financial risks for further explanation).

The trends of 2017 were:

- Large ransomware attacks have global impact;
- Strong increase in the number of DDoS attacks;
- Closer cooperation between the banks. This has for example led to the joint publication of the MaGMa Use Case Framework.

The following developments are expected for the coming year:

- Finding more vulnerabilities on hardware;
- DDoS attacks develop further;
- Lack of cyber security expertise continues to exist;
- Greater focus on privacy and reporting requirements; and
- Malware becomes more advanced.

Privacy & data management

De Volksbank considers the adequate and reliable use of data to be a crucial means for setting itself apart from other banks and further improve its services. De Volksbank developed a View on Data in 2017. In a rapidly evolving world of data and privacy, having a set of principles that helps us make choices in being a distinctive bank is of the essence.

The idea underlying the View on Data is that we must position de Volksbank as *the* reliable data party for consumers. We believe it is essential that customers can always rely on their data being managed with the same security and reliability as their savings. The customers themselves determine how we use and disclose their data. We only disclose data with a customer's express consent or on a customer's instructions. In addition, customers may rest assured that we will never sell their data to third parties. This means that individualised data will not be used for purposes other than those for which it has been provided without the customer's consent. This excludes sharing data with the Tax and Customs Administration, police or the Security department or within the context of the performance of a customer agreement.

We also acknowledge that we have a duty of care towards our customers in respect of the use of data. We want to help customers to carefully manage their data and to ensure that customers know to which data a third party may have access and what their data can be used for.

In line with this duty of care, de Volksbank wants to make customers self-reliant in this area, which means that customers know what a third party does with their data and are aware that some companies exercise due care in this respect. Others will sell customer data or use this data for marketing purposes in exchange for free services. Data self-reliance of customers also contributes to their financial resilience.

De Volksbank makes its customers aware of the risks and possibilities of data and gives its customers maximum control over their data. Looking at the View on Data to guide us, we want to place customers in the driving seat and be very transparent about how we handle their data.

Customers get maximum control over their data

In 2017 we started with the implementation of the General Data Protection Regulation (GDPR), for instance by conducting Privacy Impact Assessments on our systems and when developing new products and services. We have also further implemented the 'privacy by design' principle, ensuring that we properly safeguard privacy right from the outset for each new project and each new product development. In addition, we have updated our Customer Data Privacy Policy and our Employee Data Privacy Policy.

Reputation

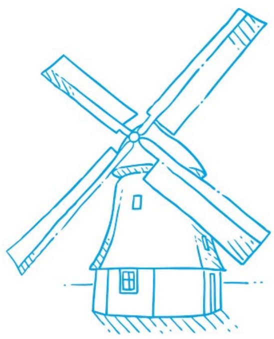
An organisation's reputation is the sum of the experiences and expectations of stakeholders. Management of de Volksbank's reputation across the organisation enables us to reduce reputation risks and to make the most of communication opportunities. It helps us to make specific choices in the spirit of the Manifesto. We are aiming for a clear and distinctive profile.

We measure de Volksbank's and our brands' reputation using a tried and tested reputation measurement model, RepTrak®. This is a scientific and commonly used standard in reputation measurement and management that we use to effectively benchmark our scores and perform trend analyses.

Since 2017 we have been using our new name, de Volksbank, as the parent brand of our four bank brands. The introduction of a new brand always involves a start-up period; it takes some time before people identify with the brand. This is reflected in the results of the RepTrak® survey: the score rose from 64.4 (2016) to 68.6 (2017), but it is too early to draw any conclusions. A focus area for the year ahead is to increase the general public's awareness of de Volksbank as the parent organisation behind its four bank brands and of what it stands for.

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

Our sustainability policy rests on three pillars: climate, biodiversity and human rights. This has been recorded in various policy documents, which we will flesh out on several points where necessary.

Climate

Climate change is a global problem and seriously jeopardises the quality of life on earth. De Volksbank is aware of the risks of climate change. We distinguish two risks: transition risks and physical risks. Transition risks are risks resulting from the conversion process to a climate-neutral economy. Physical risks are caused by climate-related damage such as storms, hail and flooding. We mitigate the transition risks by only investing in companies that meet our sustainability criteria, by encouraging the sustainability of homes, and by aiming to make a positive contribution to a sustainable society.

We began carbon accounting in 2015; we are monitoring the CO2 emissions (indirectly) related to our loans and investments. We use a methodology developed by ASN Bank and other parties, which is based on applicable international standards, such as the Greenhouse Gas Protocol (GHG).

This methodology operates as a pair of scales. On the one side are the positive CO2 impacts, i.e. investments that avoid CO2 emissions, such as wind turbines and solar parks. On the other side are the negative CO2 impacts, i.e. investments that emit CO_2, such as mortgages, government bonds and investments in companies.

The positive and negative impacts must be in balance in 2030 in order to create a climate neutral balance sheet. We will achieve this goal particularly by increasing our investments in renewable energy projects and reducing our emissions caused by financed properties. In addition, we reduce the CO2 emissions from our own business operations, and we will formulate a target for our investment funds in 2018.

In 2017 we set up the Climate Neutral Committee (CNC). Chaired by the CFO of de Volksbank, the CNC determines how we wish to achieve the climate neutrality objective for our bank balance sheet. In addition, the CNC monitors progress, establishes actual figures and determines the Carbon Profit & Loss Methodology.

Climate-neutral balance sheet

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%[2]). 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, which grew to € 439 million and € 545 million, respectively. On the emissions side of the climate neutral balance sheet, the repayment of some of the private placements also resulted in a

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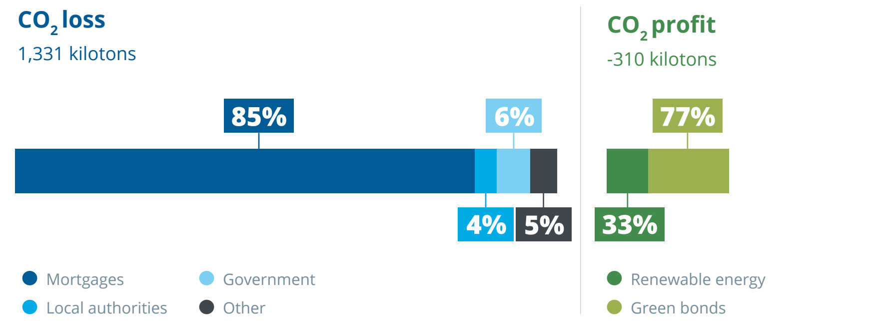
2 2016 figures have been restated from 23% to 22% following the alignment of one investment fund to our CO2 methodology.

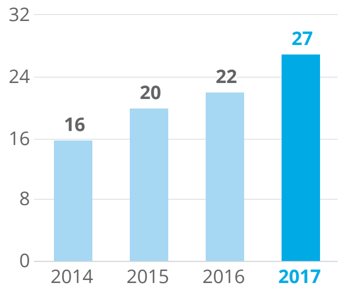
slight improvement. This portfolio includes loans to housing corporations, healthcare institutions, water boards and municipalities.

To determine the CO2 emissions of the mortgage portfolio we use the emission factors given at CO2-emissiefactoren.nl. In order to control our emissions and avoided emissions throughout the year, we keep the emission factors in a year as constant as possible, in accordance with our policy. As from December 2017 the emission factors for electricity and gas were updated over reference date 2015 (was 2013). These new factors will be included in the calculations as from the first quarter of 2018. This will result in an increase in emissions of the mortgage portfolio and the avoided emissions from renewable energy projects. On balance this will have a positive effect on the climate-neutral balance sheet (the effect in the fourth quarter 2017 is approximately 1%-point).

Climate-neutral balance sheet



Climate-neutral balance sheet (%)



One of our objectives in 2030: 100% climate-neutral balance sheet

Make homes more sustainable

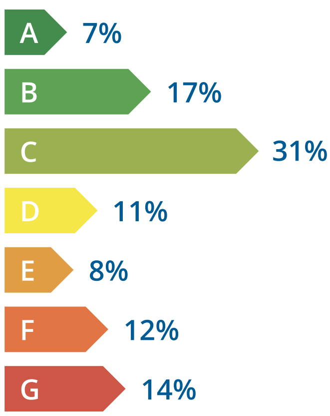
More than three-quarters of our CO2 emissions are caused by homes for which we provided a mortgage. That is why we monitor the energy labels and the CO2 emissions in our mortgage portfolio. We actively try to reduce emissions by encouraging our customers to make their homes more sustainable. This also has many advantages for our customers as a sustainable home consumes less energy, leads a lower energy bill and provides more living comfort. We measure the sustainability by means of energy labels. 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.

The CO2 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 CO2 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 CO2 emissions by means of anonymised gas and electricity consumption data.

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. See also section 2.5 Brand performance.

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, high-efficiency glass are also offered on this site.

Energy labels in our mortgage portfolio



Based on the RVO database with preliminary energy labels (year-end 2017) and final energy labels (year-end 2017). 73% of the homes only has a temporary energy label.

Climate change collaboration

Although we have only limited impact on a global scale, we are able to achieve more by collaborating with other organisations: we exchange knowledge with specialist agencies and universities, and together with other financial institutions we exert influence through our day-to-day activities.

One example of meaningful collaboration is the Platform Carbon Accounting Financials (PCAF). After the 2015 Paris Agreement, ASN Bank – the platform's chairman – started developing a common uniform carbon accounting methodology in concert with eleven other Dutch financial institutions. The PCAF participants agreed to be transparent about the CO2 impact of their investments and their objective to reduce this impact. In the next two years, the collaboration will be continued in order to further fine-tune the methodology and promote it internationally. PCAF's progress and results are publicly available[3].

Biodiversity

ASN Bank's objective is to cause no net biodiversity loss for all its loans and investments in 2030. For this purpose, it has developed a methodology to calculate the biodiversity impact in order to subsequently aim for increasing the positive impact and reducing the negative impact. As soon as this methodology has been fine-tuned, it will also apply to de Volksbank's sustainability policy.

Human rights

Traditionally, human rights are a vital part of the ASN Bank sustainability policy and we used the same principles when applying this policy to the entire de Volksbank. We follow the risk approach developed by the United Nations in the so-called UN guidelines for business and human rights. This means that we make an analysis of the most pervasive international human rights risks that we face with our activities. This means, for example, that we will conduct an analysis of possible risks of human rights violations at industry level when providing business loans to small and medium-sized enterprises. Our SME portfolio hardly contains such industries.

On 28 October 2016 de Volksbank signed the IRBC (International Responsible Business Conduct) Dutch Banking Sector Agreement, aiming to make a fundamental contribution to human rights. The aim of the IRBC Agreement is to reduce the risk of human rights violations resulting from financing and investment decisions made by banks based in the Netherlands. For that purpose we periodically conduct risk analyses to identify the main human rights risks in our investment universe. ASN Bank performs this activity on behalf of de Volksbank as a whole.

The IRBC Agreement provides, among other things, that we will report on our human rights approach according to the United Nations Guiding Principles for Business and Human Rights (UNGP) reporting framework. In 2017, we also tightened our human rights policy on several points under the banking sector agreement. The main adjustment pertained to access to remedies for potential human rights violations, allowing potential victims of human rights violations to express their complaints through the complaints procedure on de Volksbank's website.

Implementation of the ASN sustainability policy

Following the decision in 2016 to adopt ASN Bank's sustainability policy throughout the bank, we started implementing it in other parts of the organisation in 2017.

For example, we applied the ASN Bank's sustainability policy to the SME customers of the SNS brand. A first customer base analysis shows that a few dozen SME customers may fail to meet the stricter sustainability criteria. We engage in dialogue with these customers, whereby we want to support customers to make their company more sustainable. We carry out this process carefully, taking Banking with the human dimension as the starting point. It is not our intent that companies should close in the short term because of our stricter requirements, if they have a longer-term perspective on survival with a more sustainable performance.

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3 http://carbonaccountingfinancials.com/

In addition, we laid the foundations for embedding ASN Bank's sustainability policy in policies that apply throughout de Volksbank by setting up a 'House of Policies Sustainability'. Until the end of 2018, we will continue implementing the ASN sustainability policy within de Volksbank, such as in the trading activities of Financial Markets and Risk Management processes.

FINANCIAL RESILIENCE

For us, the term financial resilience consists of three elements: skills, stress-free finances 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 addition to our current financial education activities and our support and prevention of customers with payment arrears, we stopped transferring our customers to debt collection agencies in 2017. Payment arrears often arise when customers are having a hard time in life, for instance due to a divorce or job loss. It is precisely then that we wish to aid the customer based on the relationship of trust we have with them. Transferring the customer to a debt collection agency is not the right measure to take. What is more, we also frequently see debts grow when a debt collection agency is involved.

As a bank we want to make a positive contribution to our customers' financial resilience

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: How about my pension, will I still have my job and will I be able to pay all unforeseen expenses? In the second half of 2017, we used this insight to develop a barometer in collaboration with the National Institute for Family Finance Information (Nibud) and the Behavior Change Group (Radboud University Nijmegen) to measure the financial concerns of the Netherlands and of our customers in particular.

The barometer improves our understanding of why people do, or do not, have financial stress; is this because of their control or lack of control of their financial situation, or because of their self-confidence or avoidance behaviour? The barometer also measures to what extent customers feel that we are there for them when they are experiencing financial stress. Starting from our mission, we believe that all customers should feel this way, irrespective of which de Volksbank brand or product they choose. 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 January 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 action.

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.

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 education

De Volksbank uses financial education as a major means of increasing the financial resilience of current and potential customers. The education programme is primarily aimed at primary school pupils and teenagers until the age of 15, as well as at vulnerable groups in society.

Eurowijs

The Eurowijs programme, developed by de Volksbank, which teaches children how to deal with money wisely, was initially only used as a guest lesson. As many schools requested the learning materials, we have also made it available to primary schools free of charge since 2016. This resulted in enormous growth in the number of students we reached, to more than 220,000 in 2017 (2014: 12,561). Also, 20,000 pieces of learning material (worksheets) have been sent to secondary schools in particular. The Eurowijs Facebook page now has over 5,000 followers.

The Eurowijs learning materials have also been available for lower secondary education groups since October 2017. These materials are still being developed; we will fill in the details in 2018. The learning materials are also widely used in special needs schools.

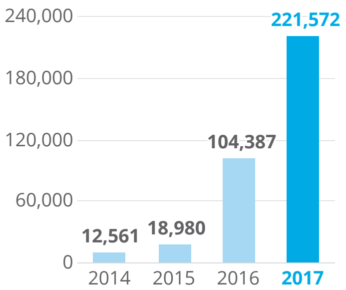
To draw extra attention to financial education at primary school level, on 31 October 2017 Eurowijs organised the second Eurowijs Day, at primary school De Zon in De Kwakel. On this day 26 colleagues, including 18 directors and managers, gave guest lessons in groups 1 to 8.

Also, more than 20 colleagues were involved in the 'Eurowijs Money Games Circuit' and other activities.

Bank employees teach children about money

The Money Wise Platform, a platform of the Ministry of Finance, organises National Money Weerk every year in March. More than forty organisations, including *Eurowijs*, collaborate in this project. Through the Dutch Banking Association, bank employees gave more than 4,000 *Bank voor de Klas* guest lessons during this week. During the guest lessons in groups 6, 7 and 8 in primary schools, 250 de Volksbank employees played 428 Cash Quizzes, involving an estimated 10,700 pupils.

Number of pupils reached with Eurowijs learning materials



Workshop for refugees

De Volksbank employees regularly give workshops on money matters and budgeting to refugees at an asylum seekers' centre (ASC). A number of ASCs (including Zeist, Utrecht and Almere) offer the workshop as a supplement to their regular training programmes.

Aiming to help refugees in preparing for a life in the Netherlands, we gave dozens of workshops in 2017. We also launched a pilot project together with the Dutch Council for Refugees (*Vluchtelingenwerk*), in which we organised Learn from Each Other sessions with SNS budget coaches and the Dutch Council for Refugees. We will evaluate in 2018 whether we will follow up on the pilot project.

Preventive management

In order to offer help at an early stage to customers who might run into mortgage payment problems, we have set up preventive management at the brands BLG Wonen, RegioBank and SNS. The initiative may be taken by customers or by us: customers may contact us regarding anticipated payment problems or we may proactively get in touch with vulnerable customers.

In 2017, we approached 3,725 customers and made an appointment with 7.1% of them. The Mortgage Support Team helped 761 customers through prevention programmes. Despite falling unemployment rates and fewer customers with payment arrears, the number of vulnerable customers we supported rose slightly in 2017. This may be a sign that the threshold for asking for help is becoming lower.

We managed to prevent 84% of the customers that received preventive assistance from us from falling back in arrears within twelve months. As in previous years, this is a high percentage. It is testament to the success of our method.

Mortgage test tool

In preventive management we also use the Mortgage Test Tool to identify any future payment problems at an early stage. BLG Wonen and RegioBank customers use this tool to check whether their mortgages are still right for them in view of their current situation. This makes customers aware of potential problems at an earlier stage. In 2017, more than 14,000 customers used the calculation tool. This is a sharp decrease compared to 2016 (42,000), resulting from the fact that our brand SNS has replaced this tool with the Mortgage Check.

The Mortgage Check also gives customers an answer to the question whether their mortgage still matches their personal situation and tips off customers about options they have to reduce monthly mortgage payments. We provide more information about the Mortgage Check and its use in Section 2.5 Brand Performance.

Preventive management and Mortgage test tool

	2017	2016	2015	2014
Letters sent to customers with increased risk profile	3,725	5,078	2,432	10,028
% appointments with customers with increased risk profile	7.1%	2.3%		
Visits of mortgage test tool SNS, RegioBank and BLG Wonen[1]	14,781	42,317	36,568	24,656
Mortgage Support Team programmes completed	761	567	182	262
Success ratio of Mortgage Support Team[2]	84%	82%	84%	83%

1 SNS is not included in 2017 figures

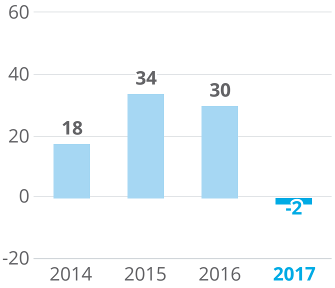
2 The success ratio relates to the percentage of customers who were prevented from falling into arrears (measured one year after completion of the prevention programme)

Meaning for employees

As set out in Chapter 1 Strategic report 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. In order to receive more often feedback on the employee's satisfaction, 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. More information on the realisation can be found in Section 2.6 Our people.

Employee NPS



Return for the shareholder

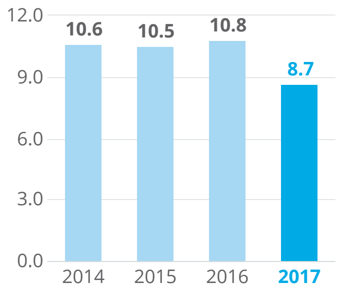
De Volksbank is a financially sound and stable bank with low-risk activities. In this respect, we set a return on equity (ROE) objective of 8.0%.

The adjusted ROE in 2017 was 8.7%, lower than in 2016 (10.8%). This was attributable to both a lower adjusted net result 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[4] to the shareholder.

Adjusted return on equity (%)



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.

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.

More information about net result can be found in Section 2.8 Financial results and about capital in Section 3.6 Capital management.

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

2.4 Commercial developments

Commercial developments

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

In April 2017, SNS introduced *SNS Combinatievoordeel*, offering active current account customers[6] a higher savings rate, a discount on their mortgage rate and a discount on their home insurance premium (when applicable).

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,

5 Market share determined on the basis of market size based on market research by GfK, reference date 1 January 2016.
6 A current account with ten or more transactions per month and in which a salary is deposited.

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[7]. 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 has been effected at lower rates since 2015.

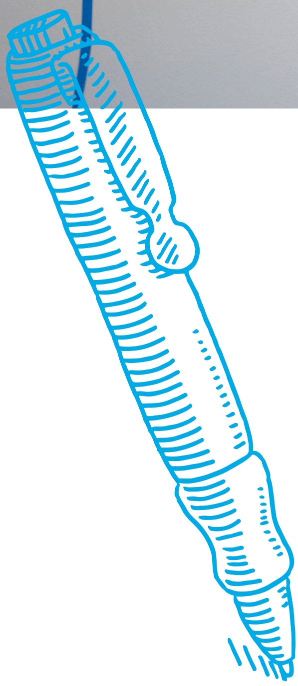
The total level of repayments of € 4.0 billion was slightly up compared to 2016 (€ 3.6 billion), mainly driven by increased house removals. This was in line with the overall market.

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.

Hilde Krens
Works at: Marketing Strategy & Research Division



Eurowijs, teaching materials for primary schools

'Every year we go to primary schools to give our *Eurowijs* lessons, teaching thousands of primary school children how best to look after their money. All this began with the guest lessons that we organised during Money Smart Week. They were such a success that we thought, why don't we do this all year round? So we developed our own teaching materials which, in addition to using them for our own lessons, we also make available to schools to use whenever they want. It's been a huge success. One in three primary schools now uses our teaching materials. We have also developed materials for the first stage of secondary education. Last year, we reached more than 200,000 school children.

It's wonderful to give children the message that they need to think carefully about what they do with their money. Many children don't get a good example at home, which is why you always hope that something will stick during these lessons. Behind the scenes, a number of colleagues make it possible for de Volksbank to do all this, and many colleagues contribute by giving a guest lesson every year. Together, we thus make an important contribution to the financial education of children and young people.'

2017

The year of the brands of de Volksbank at a glance

19 January

De Volksbank and Vivat terminate Zwitserleven Sparen collaboration
The collaboration no longer fits in both parties' new strategies

8 March

Seminar *Bouwsparen*: the importance of saving in good time for your own home
Under supervision of de Volksbank and the Delft University of Technology, several parties are discussing the importance of saving in good time to buy your own home

23 April

SNS wins bronze Esprix Award for its *Heel Normaal* campaign
The *Heel Normaal* advertising campaign of SNS has been awarded a bronze Esprix Award in the Business-to-Consumer category

8 June

De Volksbank receives honourable mention as green office building in Utrecht
De Volksbank receives an honourable mention in the Large office buildings category in the Healthy Urban Office Challenge

8 June

S&P raises credit rating of de Volksbank from BBB+ to A-
The reasons for this increase are our improving franchise, the increasing predictability of our income and strong capitalisation

3 August

De Volksbank partner of Rockstart
Startup organisation Rockstart has announced De Volksbank to be one of the new partners in its Artificial Intelligence programme

20 August

***Eurowijs* rings in new school year with splendid report card**
The *Eurowijs* financial education package reaches well over 200,000 primary school children, receives an 'excellent' for its teaching materials, and nearly 1 in 3 Dutch primary schools are familiar with *Eurowijs*

24 August

First half results 2017: strong profit, more human bank and more satisfied customers
Net profit for the first half of 2017 is 177 million euro. This is mainly due to our mortgage operations. In various areas, we show that we are a bank with a human touch and customers appreciate us with higher customer satisfaction scores

15 September

NLFI reports: 'keep de Volksbank in government hands for another two to three years'
Jeroen Dijsselbloem, Minister of Finance, gives de Volksbank another two to three years, starting from mid-2016, to make the transition that is necessary before de Volksbank is privatised

22 September

SNS wants convince the Netherlands that it really does matter where you bank
The bank's typical Dutch way of thinking takes centre stage in the new SNS campaign. This time, the leading part is not for a famous Dutchman, but for a typical Dutchman

29 September

High score for de Volksbank in ESG survey by Sustainalytics
With a score of 90 out of 100, de Volksbank was ranked number one in the overall list of 339 global banks analysed

6 October

BLG Wonen wins *Zilveren Spreekbuis* 2017
A prize for brand development and services

24 October

De Volksbank wins FD Henri Sijthoff prize 2017 in the 'unlisted companies' category
This prize is awarded to companies that stand out in their financial reporting and public information

November

De Volksbank's Manifesto - 5 year anniversary
It has been 5 years in November since de Volksbank drew up the 'Banking with a human touch' Manifesto that we use in our day-to-day work to shape our role as social bank

19 November

RegioBank voted best bank in the Netherlands
Customers gave RegioBank a 9 out of 10 in a survey published by the Dutch Consumers' Association

24 November

Fitch raises credit rating of de Volksbank
After an upgrade of S&P in June, the rating by Fitch was also raised from a BBB+ to A-

24 November

asnbank.nl best financial website of the year
At the annual public website of the year vote, the new website of ASN Bank was voted Website of the Year 2017 in the banking and investment category

2.5 Brand performance

ASN Bank

Money can buy happiness

Ever since its foundation in 1960, ASN Bank has been helping to create a better world – now and for future generations. Its starting point in this process is its sustainability policy, which is based on three pillars: human rights, climate change and biodiversity. ASN Bank only finances and invests in forward-looking companies, sectors and countries that respect people, animals and nature.

ASN Bank makes 'sustainable banking' accessible and attractive to every one of us: accessible by offering clear and easy-to-understand products, and attractive by demonstrating that its products feel good *and* bring in good money. The more customers, the more positive influence ASN Bank is able to exert, which is why its ambition is to serve one million satisfied customers in 2020.

What did ASN Bank achieve in 2017?

CUSTOMER BASE

In 2017 ASN Bank welcomed more than 41,000 new customers, meaning that over 667,000 people have chosen to bank with ASN Bank. Through further digitisation, ASN Bank is making the process of opening a new account quicker and easier for customers, who can open their ASN Bank Account, savings accounts and investment accounts online without bank employees or physical postal documents being involved.

ASN Bank conducted campaigns to increase its name recognition and to put itself on the map as *the* Dutch climate bank. These included the television commercials 'creature of habit' and 'mayfly', accompanied by extensive social media campaigns among other things.

CUSTOMER SATISFACTION

ASN Bank's Net Promoter Score (NPS) was +17 (2016: +14). Among customers indicating that ASN Bank is their primary bank, the NPS of +42 was significantly higher than the NPS among customers mentioning another primary bank (+6). Average customer satisfaction was 8.0, compared to a target of over 8.

CURRENT ACCOUNTS

The growth in the number of customers was mainly triggered by the inflow of customers opening a current account: almost 34,000, 76% of whom were not yet ASN Bank customers. For these customers, the bank improved its Switching Service. They can now transfer their address book from their old bank to their new ASN account. A significant part of the inflow came from current accounts for children and youngsters. The ASN Student Account made its debut in the autumn. Of all current account customers, 66% also has a savings account.

SAVINGS

The total balance of retail savers at ASN Bank rose slightly (+1.7%). This was mainly caused by the interest rate, which was again low in 2017. One possible explanation is that it is financially more favourable for customers to redeem their mortgage or to fund renovations than to save.

INVESTMENTS

In 2017, the inflow of ASN Investment Funds amounted to more than € 1 billion euro, with an increase of more than 5,500 investment customers. In the transition to the new investment platform, the customer base was cleaned up, reducing the number of customers with an investment account by approximately 1,000, to 82,000. Two developments played an important role in the growth of the ASN Investment Funds. First of all, the bank introduced five new ASN Duurzaam Mixfonds in January 2017, which were linked to ASN Doelbeleggen in the course of the year. This service, which includes a calculation tool, gives customers more insight into their investment portfolio in relation to their investment objective.

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[7] Based on amounts at Land Registry Office ('Kadaster').

Secondly, in mid-2017 SNS Profiel Beleggen was converted into SNS Doelbeleggen, which only offers the sustainable ASN Investment Funds.

As of 15 June 2017 ASN-Novib Microkredietfonds and ASN Groenprojectenfonds were placed under the umbrella of ASN Beleggingsfondsen N.V., increasing the number of funds in this umbrella structure to twelve.

ASN Beleggingsinstellingen Beheer B.V. (ABB) received its own management licence from the AFM on 22 December 2017. In 2018 ABB took over the portfolio and risk management of the ASN Investment Funds from the AIF manager. An independent fund manager, ABB is directly part of de Volksbank. ASN Bank serves as the main distributor of ABB's products.

Sybren Bosch, customer at ASN Bank

Sybren featured in the list of the 100 Sustainable Young People of the Year in both 2015 and 2016. Sustainability in his financial arrangements is therefore a priority for him.

'For me it's important that I can help other people with my money. That's the case with sustainable savings, but with my investments, I can make my own choices. Ever since I read the book 'Banker to the Poor' by Muhammed Yunus, I've been very impressed by the impact that microfinance can have and I've invested a large portion of my money in microcredit funds. I thus hope to contribute to the development of local communities in developing countries.

FUNDING

ASN Bank provides business loans to sustainability projects that have no green certificate. Projects that are in the possession of a certificate under the Green Project Regulations (*Regeling groenprojecten*) are eligible for a green loan from ASN Groenprojectenfonds. One appealing new green loan recipient was Windpark Krammer in Zeeland. This wind farm – the largest ever to have been created through a citizens' initiative – generates enough power to meet the consumption needs of 100,000 households.

ONLINE AND MOBILE BANKING

The majority of our customers, almost 465,000, used ASN Online Banking to bank digitally in 2017. Less than half of the customers using digital banking also use mobile banking services. Mobile banking customers log on more frequently than online banking customers: 72% of digital banking sessions are on mobile telephones. Users give the ASN Mobile Banking app a score of 8.6.
In order to appeal to new, younger customers, ASN Bank revamped its website: the new, interactive website is compatible with laptops, smartphones and tablets. In addition, an interactive version of ASN Online Banking is being developed. Many things became easier for customers to arrange online in 2017, such as activating a debit card, switching geo-blocking on and off, and requesting a new card. In the course of 2017, ASN Bank introduced some new mobile services, including contactless mobile payment using a separate app.

PROMOTING SUSTAINABILITY

ASN Bank wants to maximise its influence on a sustainable future by investing its customers' assets (savings and investments) in sustainability initiatives as well as by exerting its influence inside and outside the organisation.

Within de Volksbank

ASN Bank supports the other business units of de Volksbank to introduce the same sustainability criteria and ambitions as ASN Bank itself applies. For example, de Volksbank has adopted the goal of making its balance sheet climate neutral.

In the financial sector

Outside our own organisation, ASN Bank is the driver of various initiatives, including the creation of a common carbon accounting method in the financial sector. This initiative, the Platform Carbon Accounting Financials (PCAF), reached a milestone in late 2017 with the publication of the report ‘Paving the way towards a harmonised carbon accounting approach for the financial sector’. In this report, a dozen Dutch financial institutions made arrangements on the methodology to be used to calculate the carbon emissions of their loans and investments and to set objectives in this regard.

In society

ASN Bank represents de Volksbank in social initiatives such as the Fair Bank Guide. On behalf of de Volksbank, it fulfils a substantive role in, for example, the IRBC Dutch Banking Sector Agreement, the NVB Transparency Protocol, the Dutch government’s Transparency Benchmark, the UN Forum and the OECD Forum.

THREE SUSTAINABILITY OBJECTIVES

Setting great store by creating a more sustainable society, ASN Bank actively supports developments that help achieve this. To this end, the bank formulated three long-term goals some years back, one for each sustainability pillar.

1. Climate-neutral balance sheet

Climate change should be tackled most urgently. As ASN Bank wants to make a maximum contribution to solving this issue, it set itself the following long-term goal: all the banking activities (the loans and assets on ASN Bank’s balance sheet and under management by the ASN Investment Funds) will, on balance, be climate neutral by 2030. At year-end 2017, 95% of this climate neutrality objective had been achieved, compared to 73% at year-end 2016.

ASN Bank also contributes to curbing climate change and its consequences through partnerships outside its own organisation. In addition to its initiating role in PCAF, it took part in the climate change risk working group of the Dutch Central Bank’s Sustainability Platform (*Platform Duurzaamheid*) and the Dutch Banking Association’s Climate Change Working Group (*Werkgroep Klimaat*).

2. Living wage

In 2016 ASN Bank formulated an objective in relation to human rights: the fourteen garment companies that were then part of the ASN Investment Universe are to pay their workers a living wage by 2030. After a first measurement in 2016, the bank sent the garment companies a manual in 2017 on how to introduce a living wage. In addition, each company received recommendations tailored to their own specific situation. ASN Bank and the Impact Centre Erasmus (ICE) then examined whether the living wage policies had changed at these companies. The outcomes of the research were published on our website at the end of 2017.

3. No loss of biodiversity

In 2016 ASN Bank set itself the following goal: no net loss of biodiversity as a result of all of our investments and loans by 2030. In 2016 it performed a pilot study together with some specialist agencies to explore the options to obtain a clear view of its impact on biodiversity. This study was followed up in 2017 by the publication ‘Towards ASN Bank’s Biodiversity Footprint’. The main conclusion was that ASN Bank is still in the starting blocks when it comes to developing methods to properly estimate its contribution to the loss of biodiversity. Comparable to PCAF for the climate, the Platform Biodiversity Accounting Financials (PBAF) was set up by ASN Bank to develop a common biodiversity calculation method in the financial sector.

FOSTERING SUSTAINABILITY INITIATIVES

With its online platform For the World of Tomorrow, ASN Bank encourages people to contribute innovative, clever ideas for a sustainable world and helps them to develop initiatives, put their ideas into practice, share information and make contact with others. The platform also organised the ASN Bank World Award in 2017, for which it received no fewer than 243 applications. The For the World of Tomorrow platform supported four successful crowdfunding campaigns in collaboration with Oneplanetcrowd: Moyee Coffee, The Ketchup Project, Seepje and Bundles. Some 468,000 people visited the www.voordewereldvanmorgen.nl website in 2017 – an increase of approximately 231,000 compared to 2016 – and 174 new projects were launched.

Plans for 2018 and beyond

ASN Bank will be expanding its range of services in 2018 with a sustainable mortgage. In addition, the bank is continuously looking for ways to improve its payment, savings and investment services, using its customers' wishes as a starting point.

ASN Bank seeks to make the concept of 'sustainability' tangible and concrete for (potential) customers. In the course of 2017, the bank concentrated its communications on promoting sustainable progress to counter climate change and its effects.

In 2018, it will pay additional attention to human rights and biodiversity. ASN Bank will also play a substantively supporting role to give further shape to the sustainability initiatives of de Volksbank as a whole, as part of the shared-value strategy.

BLG Wonen

Come further

To BLG Wonen, having your own home is a basic condition for happiness, security and well-being. It is for this reason that BLG Wonen has been helping people to find a suitable mortgage for more than sixty years. Together with independent advisers and with a personal approach, BLG Wonen focuses on financial solutions.

What did BLG Wonen achieve in 2017?

CUSTOMER BASE

BLG Wonen had almost 235,000 customers in total at the end of 2017; last year, it welcomed over 20,000 new mortgage customers. A major share of the customers is from the Randstad conurbation and other urban areas. The customers include many first-time buyers and young next-home buyers, in line with the market. The nationwide campaigns about mortgage solutions for self-employed persons bore fruit, increasing the number of mortgage applications by 52%.

CUSTOMER SATISFACTION

BLG Wonen is happy with its customers and wants them to know this. In 2017 a programme was launched to actively welcome new customers with a personal video and a telephone call. In addition, customers were approached at other key moments, for example at the time of interest rate renewal, when customers moved into a new home and in case of anticipated payment difficulties.

Customers appreciated the personal touch as well as BLG Wonen's proactive input and diverse mortgage solutions. For example, first-time buyers, flex workers and self-employed persons see how BLG Wonen recognises the strength of its customers by also looking at their future prospects and potential salary increases. Existing customers enjoy such practical help in the form of, for instance, the interest rate averaging tool and step-by-step guides on life events.

The Net Promoter Score (NPS) increased from -29 at the end of 2016 to -24. The NPS scores show that mortgage customers are more satisfied than savings customers. In 2018 BLG Wonen therefore wants to make every effort to increase savings customer satisfaction. The overall customer satisfaction score was slightly up, from 7.8 to 8.1.

MORTGAGES

In 2017, BLG Wonen benefited from the developments in the residential and mortgage markets. BLG Wonen grew in various areas: its overall name recognition increased (from 7% at year-end 2016 to 9% at year-end 2017) and the number of mortgage applications was up by 30%. Apart from the market developments, this growth is explained by the national brand campaigns, persistently competitive pricing and special attention for existing customers.

Mark Dutour Geerling, customer at BLG Wonen

Mark arranged his mortgage with BLG Wonen

'I had a really great experience with BLG Wonen. The personal attention that they give you makes you feel so welcome. It was a real surprise to get the video with the welcome message for the housewarming, and the phone call on the evening we exchanged contracts. I've never had such a positive experience with any other financial service provider. BLG Wonen does everything it can for its customers.'

COMFORTABLE AND ENERGY-EFFICIENT HOMES
BLG Wonen assisted customers in choosing energy-saving measures with various campaigns in 2017. In June and July, it contacted 22,000 customers with an offer to buy, rent or share solar panels. In November, BLG Wonen launched an insulation campaign among 35,000 customers during the Warm Home Days (*Warmehuizendagen*). Both campaigns were organised in collaboration with the organisation Natuur & Milieu, via the Slimwoner platform (and website). BLG Wonen will continue to put its vision on sustainable living into practice in 2018.

INVESTMENTS & SAVINGS
In 2017 the Goal Planner (*Doelplanner*) was introduced. This online tool gives customers a better understanding of their investment fund(s). In addition, BLG Wonen transferred its investment funds to five funds of the *ASN Duurzaam Mixfonds* last year. Savings customers were made aware of changes in laws and regulations this year, such as the changes in life-course savings. In 2018, BLG Wonen will more actively focus on investments and savings.

COLLABORATION WITH ADVISERS
BLG Wonen works together with a nationwide network of more than 2,800 independent advisers. The continuous strengthening and improvement of this network are high on the agenda. Within the contact programme, the bank further optimised its communications following a survey among advisers. It also introduced new means of communication, resulting in better-than-average market scores. In addition, BLG Wonen welcomed new advisers with kick starts, and there were meet & greets and the national adviser days. The advisers who participated, approximately 300 in total, gave these initiatives a high rating: 8.2. Adviser satisfaction is also reflected in the Zilveren Spreekbuis award given to the bank. This award recognises a mortgage provider's positive development in the areas of brand and services.

Plans for 2018 and beyond
BLG Wonen's mission of 'making housing accessible to everyone' is still a hot item. In 2018 BLG Wonen therefore wants to continue its efforts with regard to its personal and expert services. There will be more national campaigns on diverse new mortgage solutions tailored to specific target groups and their financial situation. BLG Wonen will also continue its digitisation and sustainability efforts. It aims to further improve its customer communications based on the key premise of proactively providing input and thinking in terms of financial solutions.

RegioBank

Nearby and committed
RegioBank is the bank nearby. With 528 Independent Advisers in villages and small towns, RegioBank has the largest number of brick-and-mortar offices of all the banks in the Netherlands. RegioBank's local Independent Advisers provide personal services to customers close to home and know what is happening in the area. The bank contributes to social cohesion in villages and small towns.

What did RegioBank achieve in 2017?

SIMPLICITY FOR CUSTOMERS

In 2017 RegioBank simplified a number of customer processes. Customers choose at the bank how they want to receive service: online or at the Independent Adviser's offices.

Customers can now go online to block or unblock their debit cards or activate a new card. In September 2017 RegioBank introduced the Mobile Payments app, enabling customers to pay with their mobile telephones (Android with NFC). Customers can also go online to choose a new fixed-rate period or renew their mortgage rate. At the Independent Adviser's offices, customers can now sign electronically when purchasing products. This means that they now have to physically sign fewer documents, saving a lot of paper to boot. RegioBank simplified its investment range: the bank went down from more than sixty funds to five ASN Duurzame Mix funds.

CUSTOMER BASE

In 2017 RegioBank welcomed 47,000 new customers. At the end of 2017 RegioBank had 646,000 customers in total. The growth can mostly be attributed to new current account customers, *Zilvervloot Sparen* and *JongWijs*.

CUSTOMER SATISFACTION

In 2017, RegioBank had a positive NPS of +7 (2016: +2). This score indicates that customers recommend RegioBank to others. In the banking sector monitor, only three banks achieved a positive score.

COLLABORATION WITH ADVISERS

RegioBank managed to maintain virtually the same number of offices in 2017. In collaboration with its Independent Advisers, RegioBank opened offices in 10 new locations in the Netherlands. For example, we have made sure that the citizens of Malden, Almelo, Wierden, Hoogkarspel, Ter Apel, Ommen, De Rijp, Prinsenbeek, Middelbeers and Zwartsluis also have a bank nearby where they can get personal service.

MORTGAGES

RegioBank and its advisers started contacting customers with interest-only mortgages. Based on the customer's personal situation, the bank examines the affordability of the mortgage going forward. This gives the customer enough time to avoid financial problems.

Mortgage customers who also have an active current account are eligible for an interest rate discount. Customers who had not yet availed themselves of this were actively contacted in writing.

ENERGY-EFFICIENT HOMES

RegioBank believes it is important for customers to live in energy-efficient homes. For this reason, the bank has informed more than 40,000 mortgage customers about energy-saving measures. The benefits for customers are monthly cost savings and increased comfort of living. A better environment, for our customers and their children and grandchildren, also plays an important role.

Independent Advisers were given an e-learning course supported with background information and tools on home energy efficiency. The e-learning course refers to the home check on the Slimwoner website. Advisers can fill out the home check together with their customers, giving them immediate insight into the energy-saving measures that are suitable for their homes. The adviser may also help customers to request quotes and explain how to finance the measures. More customer information on this can be found at www.regiobank.nl/energiebesparen.

CURRENT ACCOUNTS

In 2017 the educational current account package for children, JongWijs, celebrated its first anniversary. More than 25,000 JongWijs customers have been welcomed already. JongWijs comes with a current account that grows with the child. The child and its parents are given practical tips every year that match the child's age.

SAVINGS

RegioBank did not focus on the interest rate but on the savings goals of its customers in its campaigns. Saving for a wish makes saving concrete and purposeful. The bank conducted a savings wish survey among customers for this campaign, which revealed that saving is considered useful and necessary. An emergency buffer as well as holidays, cars, furniture, children and grandchildren are popular savings goals. Around 82% of respondents have no trouble leaving their savings alone, and 82% also succeed in achieving their savings goals. Aside from the rational motives for saving, saving also feels good. A specific savings goal reinforces this feeling.

In 2017 we again opened many new Zilvervloot savings accounts, more than 9,000. Despite the lower interest rate on savings, this youth product with a nice bonus has remained popular among parents and grandparents.

For the third time in a row, RegioBank achieved the maximum score from the price comparison website MoneyView. The bank was again given five stars in the price category for Eigen Huis Sparen.

LOCAL QUALITY OF LIFE

RegioBank is an advocate of local quality of life. Its offices are located in villages and small towns and keep banking facilities close to home. Where other banks leave, RegioBank stays put. New offices are opened as well. The platform www.voordebuurt.nl provides good examples and useful tips in the areas of healthcare, facilities and clubs. In this way, RegioBank is helping local initiators to make neighbourhoods even better.

Sandra Schonewille, customer at RegioBank

My experience at RegioBank Vrieling in Westerbork is that as soon as I step through the door, the person behind the counter knows who I am. They are very customer-friendly and helpful. And they're always willing to proactively seek solutions.

In 2017 RegioBank became an official partner of Oranje Fonds. The bank and its advisers helped Oranje Fonds in the fundraising for and by local associations and foundations. In addition, the bank was again the main sponsor of the Netherlands' largest recreational bicycle event, the Fietsvierdaagse in Drenthe.

CUSTOMER FRIENDLINESS AWARDS

RegioBank won the Customer Centric DNA Award for being the most customer-centric bank in the Netherlands for the second consecutive year. It is the largest public award for companies in the field of customer-focused business practices in the Netherlands.

RegioBank was furthermore elected the most customer-friendly bank in the Netherlands by Smart Market Response (SAMR).

In a survey by the Dutch Consumers' Association among 11,000 Dutch respondents, RegioBank was given the highest grade: 9. On service, customers rewarded RegioBank with 8.5 points. The Dutch Consumers' Association published the survey results in the Geldgids issue of November 2017.

NAME RECOGNITION AND BRAND PROMISE

RegioBank's name recognition increased in towns with up to 20,000 inhabitants in 2017. The bank actively presented itself on the radio and TV, on large billboards at bus stops and other places, online and locally in the village. RegioBank published a large number of online articles with subjects and tips for its target audience and started a Facebook page.

Plans for 2018 and beyond
RegioBank will continue working on its customer promises, which it aims to present in 2018. The themes are: ‘You are welcome at our offices’, ‘We offer you personal service’, ‘The Adviser knows you’ and ‘We are a bank for the whole family’.

SNS

Perfectly normal. SNS
SNS is there for those who want to bank with a no-nonsense bank. In 2017 we took this one step further. The focus is no longer on traditional banking products, but rather on customers’ financial needs and the customer relationship as well as the bank’s role and added value in those respects.

SNS promises to help its customers with money-smart tips. In 2017 there were four specific customer promises:
- We will always speak in plain terms;
- We will make sure that banking really yields benefits;
- We will give you a heads-up if things can be improved for you;
- We will continually make the Netherlands financially smarter.

What did SNS achieve in 2017?
CUSTOMER BASE
SNS’s message and services are appreciated. The customer base is growing. Last year SNS welcomed over 90,000 new customers, who were mainly new savings and current account customers. SNS’s total customer base rose to slightly more than 1.5 million, up 1% from 2016.

CUSTOMER SATISFACTION
The Net Promoter Score (NPS) increased from -18 in 2016 to -13. The NPS score has improved in particular among customers who have had more moments of contact.

Customer satisfaction with SNS was 7.6[8] in 2017 and the employees with whom customers had communicated got an average score of 8.3[8]. The NPS for SNS advisers was +47[8] in 2017.

MORTGAGES
SNS again actively approached its SNS Mortgage customers as part of the Mortgage Term Monitoring Service in 2017. SNS itself comes forward if it might be possible to lower customers’ mortgage rates. In addition, customers are contacted twice per year to check whether they want a personal meeting. In 2017 SNS contacted more than 117,000 customers via this service. SNS furthermore started making its mortgage portfolio more sustainable. Various initiatives on home insulation were well received by customers.

ENERGY-EFFICIENT HOMES
In line with its sustainability aim, SNS helps customers to make their homes more energy efficient. SNS does so, for example, by pointing out the benefits of energy-saving measures to customers.

SNS embedded home energy efficiency in the advisory process in 2017. All 985 financial advisers and mortgage customer advisers received an invitation for an e-learning course and a webinar on this subject. The webinar gave advisers tools to discuss energy-saving measures with customers, information on financial arrangements and an explanation of measures by partner Natuur & Milieu, via the Slimwoner platform (and website). More than 100 advisers attended the webinar in real-time; they rated it 8.3.

Home energy efficiency has become part and parcel of current moments of contact on such subjects as the Mortage Term Monitoring Service and the online 'Home File'.

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8 SNS KTO Recent Contact monthly report, December 2017.

SNS offered energy-saving measures to more than 750,000 mortgage and current account customers through various mailings, such as Hypotheeknieuws. In May and June, customers received an offer to buy, rent or share solar panels. With a conversion of 0.3%, SNS's score was six times above the market average. In September and November, SNS made customers an offer for home insulation. Customers were given a 15% discount, yielding a conversion of 0.1%.

CURRENT ACCOUNTS

In 2017, SNS combined the extras given to customers with the current account, such as interest on a balance of up to € 5,000 and purchase protection insurance, into the four benefits of SNS Betalen.
The inflow of current account customers remained at virtually the same level as last year: 63,000. In 2017 more than 10,000 people used the switching service to switch to SNS. SNS's production share in new current account customers stood at 9%[9].

Cees Bakker, customer at SNS

Cees from Meppel and his wife switched their current account to SNS

'We were a bit reluctant because you don't want too much extra hassle. But everything was much easier than we expected. Switching online was really simple, and the Switching Service also meant that we could be confident that all our direct debits would be seamlessly switched. Now I do almost all my banking using my mobile phone, because the app is so well-designed. It's very easy to make a payment using a QR code, and I can see my balance at the touch of a button. The only downside is that I can't change my pincodes. But SNS has lived up to all other expectations.'

SAVINGS

Despite the historically low interest rates on savings, the savings balance at SNS increased. The number of savings customers grew more than expected. On 1 April 2017 SNS Combinatievoordeel was launched, conferring benefits on SNS customers with active current accounts, including a higher interest rate on savings.

ONLINE AND MOBILE BANKING

In addition to personal channels via the shops and the telephone, SNS offers online and mobile banking. The high demand for these types of banking is evident from the number of users. Mobile banking passed the milestone of 400,000 users in 2017. SNS made a number of changes in 2017 that significantly improved smartphone banking.

SNS COMMUNITY

SNS engages in open dialogue with customers, asking them to share ideas about banking affairs in the online SNS Community, via the SNS Customer Panel or the SNS Customer Days. Steadily growing, the SNS Community now has almost 25,000 members.

Plans for 2018 and beyond

SNS wants to be a home base for its customers for anything to do with finances. The bank stands by its customers in their financial life and makes them financially resilient to increase both their welfare and well-being.
SNS achieves this by standing shoulder to shoulder with its customers, in a simple and human way, by taking its customers' financial life as its starting point, by being there at important moments in their lives and by making smart suggestions on how to improve things. Employees understand the customer's context.
The bank is therefore committed to transforming itself in the period ahead from a product- and transaction-focused bank to a broader, comprehensive financial services provider, with an open platform and a human touch.

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[9] GfK market research based on Moving Annual Total (MAT) as at the end of the 3rd quarter of 2017, looking back one year.

2.6 Our people

General

The year 2017 marked the beginning of the new 2017-2020 strategic planning period. Various departments made a start with the reorganisation. Nearly 40% of the senior management positions are to expire in due course and the number of jobs (including external employees) will shrink by 800 to 900 compared to year-end 2016. To sustain de Volksbank's human touch, we are supported by a committed Works Council and a good severance package (Social Plan) in which sustainable employability is a priority.

This reorganisation has a considerable effect on our employees, who are engaged and continually and passionately committed to our customers and the company. Thinking and working from the shared value of 'Benefits for customers' cannot be seen in isolation from increasingly powerful (international) and innovative competitive forces. After all, de Volksbank's competition now comes from everywhere, including the internet and pension funds. In this context, we continually steer towards efficiency, a sustainable future of de Volksbank and the shared value of 'Returns for our shareholder'.

A modern IT structure and ever-increasing digitisation play a crucial role in this respect. We have to further improve processes in order to maintain optimal customer relationships. All these elements come together in our strategy and related Social Plan. We have had to make difficult choices, but managed to find a balance. In this way, we keep a clear focus on our shared value of 'Providing meaning for our employees', while also taking our responsibility for society and our staff with a committed Works Council.

At the close of 2016, a new Social Plan was agreed on for the 2017-2020 strategic planning period. In this Social Plan, we paid extra attention to development by integrating a preventive mobility phase. In this phase, employees whose positions may become redundant over time will get time off (10% of their working hours) and money (personal budget of € 5,000) for their personal development and employability in the labour market. The preventive mobility phase will last for at least six months. In this way, we give a very concrete meaning to sustainable employability; it allows employees to prepare themselves for changes in their work in a timely manner. This way, they do not have to take action until their role actually ceases to exist. As employees may spend 10% of their time on their development, this does imply that they have less time available for their daily work. It is important for both employees and managers to balance the two, so that employees can continue with their daily work and have sufficient time to work on their employability.

Key figures

	2017	2016
STAFFING		
Number of internal FTEs	3,292	3,347
Number of internal FTEs at year-end	3,231	3,354
Full-time/part-time ratio	70%/30%	70%/30%
Inflow	7.5%	11.5%
Outflow	11.2%	10.4%
FLEXIBLE DEPLOYMENT		
Temporary contracts	11%	12.8%
Number of external FTEs	714	651
Number of external (fte) / total fte	18%	16%

Of de Volksbank employees, 99% are covered by the collective agreement. Those not falling within this category are almost all senior management members.

De Volksbank's culture

De Volksbank's strategy is aimed at putting our Manifesto and our mission of Banking with a human touch into practice. With their passion for our customers and for de Volksbank, our staff contributes to this together every day.

One of the shared values of our strategy is 'Providing meaning for our employees'. Being aware that what you do *does* matter. That you know what you are good at, what kind of work you enjoy and that you can put this to use to achieve our mission. We focus on employees who consciously choose de Volksbank as an employer. Employees who want to work at the bank for who we are and who consider a socially responsible employee benefits package without bonus to be normal. Employees who are engaged, fit in with us, find their meaning at the bank and who want to exhale our culture.

Thinking and working from customer needs, giving your colleagues the responsibility to come up with suggestions for improvement for you as a manager, daring to give feedback and asking for further improvement - this is not self-evident. De Volksbank invests in raising awareness: what are the employee's strengths, what gives this person energy and how can this person best put this to use to achieve our mission? We also invest in employee training to further increase the quality, commitment and engagement of employees.

Positively critical of de Volksbank

In our annual employee survey, we measure the employee Net Promoter Score (eNPS), which indicates the degree to which employees will recommend de Volksbank as an employer. Our eNPS target for 2020 is 40.

We set great store by employees knowing what we stand for as an employer and what our brands stand for. We started an in-company programme to improve brand knowledge and profiling. We have a brand presentation and brand book, and there are exercises that further bring the brands to life in practice. We share customer experiences on the intranet, such as examples of customers who are positively surprised or happy with our services, but we share critical sounds too. This helps us to improve our services; it contributes to our commitment and engagement, important pillars in our employee survey.

Commitment indicates that employees believe they fit in well with the organisation and support its objectives. Engagement indicates that employees get energy from their work. We aim for a score of 8 for both metrics for the years 2017 to 2020.

Results employee survey

	2017	2016
ENPS		
Promoters (score 9-10)	20%	45%
Passives (score 7-8)	59%	40%
Detractors (score 0-6)	21%	15%
eNPS (%promoters-%detractors)	-2	30
Satisfactory	7.6	7.6
Engagement	7.6	8.1
Commitment	7.4	7.4

Although satisfaction and engagement remained the same (7.6 and 7.4 respectively), we see a sharp decrease in the eNPS (from 30 to -2) and commitment (from 8.1 to 7.6). Fewer employees recommend de Volksbank as an employer and more employees advise against de Volksbank as an employer. We deduce from the employee survey that this is also brought about by the major reorganisation at de Volksbank and the uncertainty about employment in the financial industry.

Employee development

Our customers are entitled to the best service. To achieve this, we find it important that our employees continue to work on themselves. Whether it is to stay permanently up to date in their area of competence (professional) or for their personal development.

The basis is being competent. This has been laid down by law for bank employees with substantive customer contact. Under the Financial Supervision Act (Wft), the latter must obtain diplomas for compulsory training. By the end of 2017, 93% had obtained the required diplomas (2016: 85%).

De Volksbank wants to achieve a higher level of knowledge than required by law. We therefore find it important that employees without customer contact are also demonstrably skilled in the field of financial services. They are required to obtain the Basis Check diploma, a less in-depth version of the *Wft* basic training course. After all, they too must be familiar with how a bank works and what customers expect from us. At the end of 2017, 88% of this group had obtained this diploma (2016: 83%). We also started training programmes for customer integrity and controlled operations in 2017.

In June 2017, de Volksbank introduced the in-company Ik® campaign, the online Talent Development Platform, and de Volksbank Academy. Three initiatives with one objective: to encourage all staff to work continuously on their personal and professional development. The Ik® campaign makes an appeal to employees: take control of your personal development, work on yourself, discover who you are, what you want and what your skills are. Online platform TOP allows employees to work on their development by becoming aware of their potential for example by identifying their competencies, talents and wishes. They can do this by means of self-assessments on competencies, career opportunities and personality, career assignments and workshops. We created de Volksbank Academy as one central place where all staff can find all the information on courses, training courses and workshops.

Personal development agreements are laid down in the performance and competency assessment cycle. Every employee makes a performance agreement on personal development. In addition to performance and behaviour, development is thus is an important recurring theme in the employee-manager discussions.

In addition to the general development options, de Volksbank has various programmes for trainees, young potentials, managers and senior specialists. The programmes are composed of a mix of skills training courses and personal development. Participants are challenged to get the most out of themselves, also by making a concrete contribution to topical issues as a group. The programmes are linked to career planning aimed at filling key positions.

In 2017, we invested € 7.7 million in employee training (2016: € 7.2 million). On average, this is € 2,400 per employee (2016: € 2,159).

Occupational health and vitality

With respect to occupational health and vitality, de Volksbank is shifting from absenteeism to health management. We encourage and support employees to be healthy and vital at work. Some developments in this area in 2017 were:

- The first 'Health day' held in January 2017 was well attended. A large part of the organisation pays attention to the topic;
- Employees wrote blogs about health and vitality on our intranet;
- Employees may participate in a health check that is entirely paid by de Volksbank;
- Healthy food options was a selection criterion in the tender for staff catering;
- Our mobility policy is directed at encouraging bike commuting.

The approach to absenteeism that we started in 2016 in a number of departments is proving successful. In the pilot departments, absenteeism decreased by more than 1%-point on average.
Total absenteeism is still rather high with an average of 3.9% (2016: 4.1%). Work pressure and psychological stress are the most common work-related causes of absenteeism. In 2017, 69% of de Volksbank employees rate the workload as just right (not too low, not too high), compared to 71% in 2016.
The score for the work-life balance was 7.3 in 2017 (2016: 7.2). We also examined how many employees take part in the flexible work scheme; 69% of our employees do so. Within this scheme the employee can work from home for 50% of his time. Looking ahead to the possible effect that a reorganisation will have on the workload, we pay extra attention to workplace stress. For example, we will give workshops and the health check will take into account the workload. Managers will be informed about early warning signs and what support is required.

Diversity

De Volksbank works with diverse teams, from our shops to our head office; learning from and with each other. Every day we are working to improve our services and to create a bank with an open culture that is at the heart of society.

Diversity is an important means of fulfilling our ambition: to be the social and sustainable bank that focuses on a variety of customers through multiple brands. We consciously aim for a varied composition of teams in the organisation; not only with regard to personal characteristics (gender, age, origin), but also with regard to experience, skills and motives. Our objective is that managers apply diversity as a guiding principle for each vacancy, alongside professional expertise of course.

In 2017, we set two objectives for diversity in the workplace: gender ratio and people with disabilities. We will monitor both at least every six months at de Volksbank and at business unit level.

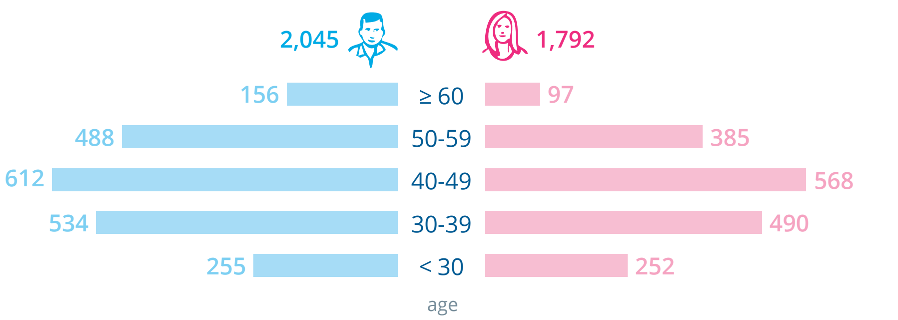
Gender equality in management positions

We pay particular attention to the gender ratio in management positions. The gender ratio for all our staff is approximately 53%/47%. As the number of female managers is still lagging behind our aspirations, de Volksbank took the following actions in 2017:

- Hay, the management consulting firm, conducted a survey among male and female managers. The key question was: what helps and hinders women on their way to the top? Conclusion: female managers feel at home at de Volksbank, but are less positive about certain issues than their male colleagues. Their promotion, for example, does not always take place on the basis of qualities, but on the basis of the bank's preference for 'masculine' leadership style;
- Fifteen female employees got acquainted with 'Women in Financial Services', an external network that promotes female leadership;
- We made the gender balance among managers visible within each business unit;
- We asked recruitment and selection agencies to provide a well-balanced number of male and female candidates for management jobs, so as to improve the gender ratio;
- We set targets for the gender ratio for both the Supervisory Board and Board of Directors for the 2017-2020 strategic planning period. Targets will also be set for the other managerial echelons.

Breakdown by gender and age

(based on number of employees)



Breakdown by gender of Supervisory Board and Board of Directors

2016 - 2017 actuals and 2017 - 2020 targets

	Actuals	Targets			
Male/Female	**31-12-2017**	**2017**	**2018**	**2019**	**2020**
Supervisory Board	40%/60%	60%/40%	60%/40%	60%/40%	60%/40%
Board of Directors	80%/20%	80%/20%	80%/20%	60%/40%	60%/40%

Breakdown by gender

based on number of employees

	2017	
Male/female	**male**	**female**
Total	53%	47%
Managers	69%	31%
PART-TIME/FULL-TIME		
Part-time	22%	78%
Full-time	67%	33%
TEMPORARY/PERMANENT CONTRACTS		
Temporary	54%	46%
Permanent	53%	47%
INTERNAL/EXTERNAL		
Internal	57%	43%
External	66%	34%

People with disabilities

As de Volksbank aims to provide equal opportunities for everyone, we are committed to offering jobs to people at a distance to the labour market, i.e. with poor job prospects. As it is difficult to place these candidates in a job, we made new agreements with more feasible objectives in the collective agreement (*cao*) in 2017.
Apart from the influx into regular jobs, we now also want to work with 'work experience positions' and create minimum wage level positions (internally and with third parties, for example at a supplier). Apart from the above objectives, we also looked for diversity in cultural backgrounds. We aimed to employ more employees with an immigrant background.

Managers and HR play an essential role in the composition of teams and achieving workforce diversity. Last year, we ran workshops to provide them with extra support. In these interactive diversity workshops, the following topics were addressed: awareness of stereotypes and (pre-)judgments, groupthink and decision-making in groups and collaboration in a diverse team, listening to each other and seeing things from each other's perspective.

With these measures taken, we expect to make a greater contribution to achieving our diversity objectives. The fact remains that it is not easy to employ people from diverse backgrounds. There is a large gap between the target group and our vacancies and with the planned staff reduction, it will be an extra challenge to achieve our objectives.

A socially responsible employee benefits package

We set great store by offering an employee benefits package that does justice to an employee's work and performance. However, we must be able to explain the package to the outside world and it should contribute to a better society. It is not easy to find a good balance. Unemployment is falling and it is hard to fill certain vacancies for specialist positions. On the one hand, this leads to higher salary requirements from candidates. On the other hand, we must reduce the operating costs, including the costs of the employee benefits package.

In the past year there was a controlled wage development because the 1% collective agreement increase (as from 1 May) in 2017 was lower than average in the Netherlands. Moreover, de Volksbank abolished a number of employment terms, such as the variable remuneration (which had already been abolished for the Board of Directors), the performance-related bonus, the staff mortgage rate and the employer's contribution to the health insurance. Although there are transitional arrangements for employees who were already employed by de Volksbank, the amended conditions will apply with immediate effect to new employees.

A socially responsible employment conditions package also includes a contribution to a better world. In the past year, we took the first steps to realise a reduction in mobility-related CO2 emissions. We adapted the car leasing scheme: electric driving is the starting point, provided this is feasible for an employee with a view to the kilometres to be driven. At the beginning of 2017, three employees drove in an all-electric car; at the end of the year this number had risen to 36 (12% of our fleet). We also started drafting a new mobility policy in which we encourage public transport and cycling and discourage driving.

For more information on the development of de Volksbank's CO2 emissions, please also refer to the appendix About the non-financial information in this report.

From the Works Council

The proper functioning of de Volksbank is not only a responsibility of the Board of Directors, but also of our employees and, therefore, of the Works Council. The Works Council represents de Volksbank's employees and regularly consults with the Board of Directors and all levels of management.

In daily practice, the Works Council uses the right to be consulted and the right to endorse decisions to constructively include the employees' judgment in the decision-making. In 2017, the Works Council has focused on the implementation of de Volksbank's 2017-2020 Strategic Plan and it will continue to do so in the next few years.

The Works Council responds as adequately as possible to requests from the Board of Directors to execute the rights to be consulted and endorse decisions. In addition, the Works Councils and the subcommittees also take initiatives to draw attention to topics and discuss them in the many consultations. An example of this is the own-initiative proposal to draw attention to the 'vulnerable middle' of the company.

Robotisation and digitisation, will lead to fewer (administrative) jobs in the years to come. The Works Council has proposed an approach that can offer employees a greater chance of employment, either inside or outside the bank.

Jong Volk

Jong Volk is the youth association within de Volksbank with the aim to keep each other's mind sharp and the network alive. They achieve this by organising various fun and business events. In the fun events, the emphasis is on expanding and maintaining your network. In the business events and sessions in which current topics are discussed, the focus lies on deepening knowledge and work-related topics.

In addition to the occasional drinks, game nights and pub quiz, we organised substantive activities: a workshop on the work-energy balance and generations, a knowledge session on Basel IV, a breakfast session with the Board of Directors and the FLAIRS interbank event (co-organised with youth associations of other banks). This year's highlight was the IT event to introduce colleagues from Utrecht to the IT organisation in Den Bosch, travelling in two coaches. In all, we organised 23 activities.

Jong VOLK

Jong Volk is open to all colleagues who work at de Volksbank and who are 35 years or younger and offers access to a large network of young people within the bank, the opportunity to meet colleagues from different business units including the top of de Volksbank, and the chance to get to know various de Volksbank organisational structures & cultures from within. We believe it is important that anyone's network and knowledge extends beyond their own team.

2.7 The importance of information technology

Information technology (IT) is highly relevant if we are to strengthen our position as a modern and future-proof bank with a social identity. With the growing possibilities of IT, we increasingly base our services and business operations on insights from data analysis.

In a world in which technology companies, in particular, put privacy under pressure, we choose to be privacy-friendly and protect the data of our customers. We do not sell customer data, not on an individual level and not on an aggregated level. Our customers are the owners of their data.

The use of IT is decisive for simplicity and efficiency in our business operations. We achieve this by automating even more manual activities into fully-automated processes (STP) and supporting knowledge-intensive activities. Examples include smart software for text and speech recognition and the application of advanced data analysis. On top of this, IT is the driving force behind the smart application of (technological) innovation such as Artificial Intelligence (AI) to support assessment and acceptance processes and biometric means of identification on smartphones.

De Volksbank aims for an effective and efficient business model as our brands are supported by centrally managed mid and back offices and staff departments. The chosen IT architecture based on a multi-brand & multi-channel / single platform principle gives us a competitive edge: new functionalities are developed and maintained only once in one place and then made available to all our brands and customers. In line with this, we have introduced our new front-end platform, which makes it easy for all brands to offer new online functionalities to their customers. De Volksbank boasts a customer-focused system, a simple application environment and a modern technical infrastructure that are based on a high degree of standardisation. As many of our customer processes are increasingly digitised, we offer customers convenience and low costs. This applies to both online and mobile services. As our management and development processes are highly automated, our services are reliable and customers rarely experience disruptions.

IT objectives

We have set ourselves a number of goals in terms of simplicity and efficiency and the smart application of new technologies.

Simplicity and efficiency

Thanks to our relatively simple IT landscape, which consists of applications on the one hand and systems for the technical infrastructure such as network, databases and servers on the other, we can effectively make changes and manage operating costs well. We monitor the performance of our applications and systems throughout their lifecycle, from construction or procurement to replacement or phasing out, thus ensuring and safeguarding that our IT structure is robust and cost-effective and is prepared for the future.

To improve and monitor efficiency, we took a number of initiatives relating to STP, the continuing digitisation of documents and files, as well as to the further automation and optimisation of IT processes. This way, we make our products simpler and more customer-oriented. An example of this is *Doelbeleggen*, which makes independent investing in one of the investment funds of *ASN Beleggingsfondsen Beheer* very simple. The customer determines the investment objective and the risk he is willing to take. This can be done during the application of *Doelbeleggen* in the new useful calculation tool that indicates how much money he can make from investing and saving, what investments he needs to make, and how much risk he runs.

Smart adopter
To profile ourselves as a smart adopter of innovations, we are strengthening and developing our knowledge and expertise in the area of emerging distinctive technologies. We apply agile development methods and conclude partnerships with fintech companies and startups. These partners bring in specific expertise in such areas as blockchain, AI, data analysis and cyber security. An example is the Startup Synergy concept: over a period of six weeks, we answer questions from our brands in cooperation with five startups. This allows us to respond quickly to innovations that reinforce our 'Banking with a human touch' mission. An example of this is mortgage advice without the usual paperwork, based on an analysis of your payment transactions through smart software. Another example is the introduction of the fingerprint scanner on the smartphone to log in and transfer money. We follow quickly in areas in which we want to be in line with the market, such as contactless payment with an Android smartphone and the PIN change at the ATM.

Improvements in the IT domain

Innovations in IT systems
Continuity and availability of IT systems are crucial to our customers and our brands. In the last few years, the availability of our core systems via the mobile and online channels was good (see Availability of services).
As the financial services market is demanding ever higher levels of performance, retention of this service level cannot be taken for granted in the fast and reliable offering of existing and new services. That is why we are raising the scalability and recoverability of our payment systems, so they meet current requirements. We have further automated and improved the construction, testing and implementation process of these systems. Our infrastructural systems and our data centre can be flexibly configured to a high degree and are adapted to up-to-date cloud standards in terms of technology, service processes and security.
Customers expect faster and more frequent new online and mobile functionalities from their 'digital' bank. To this end, we are increasingly working in multidisciplinary teams that provide a continuous flow of new functionalities for our customers and business units in short iterations. This is the so-called 'continuous delivery' method; which is characterised by a very high degree of automation of all actions to be performed.

Innovations in back office and data management
We have simplified the Finance & Risk information provision by reducing the diversity of systems and databases. For our mortgage operations we standardised and eliminated double functions of brand-specific systems that perform the same function.
We also simplify applications in the distribution chain: advice, assessment and acceptance. We make service and management processes completely automated (STP), allowing customers to manage their mortgage or home construction account online for example. New functionalities that will underpin our mortgage growth ambitions can thus be made available more simply and rapidly. New, for example, is the online ‘Home File’, allowing mortgage customers to maintain contact with our advisers and to exchange documents as they progress through the advisory process, making communication faster and more transparent.
Based on insights obtained from big-data analyses, we are moving towards more data-driven business operations. It is our aim to achieve greater simplicity, efficiency and customer value. To this end, we set up a big data platform last year. This platform enables us to classify different insights, such as a model to categorise income and expenditure patterns that can help answer customers’ questions. We also began to develop and automate improved mortgage processes on the basis of 'machine learning'. Our primary objective is better customer service, without compromising data confidentiality.

With respect to controlled and responsible business operations, the bank sets high standards in terms of data quality. We made our data management more professional in essential areas on the back of improved data control and quality, such as consistency in definitions, traceability of data and the expansion of quality control. This makes our reports better and more readily available to external stakeholders and for purposes of internal control and decision-making. The value we attach to good data, combined with regulatory requirements, means that data quality and control will continue to be a point of great focus.

Innovations in line with IT innovation objectives

Our brands ASN Bank, RegioBank and SNS (along with three other Dutch banks) joined in the initiative to introduce Payconiq, a European payment service in the Netherlands. Payconiq makes payments easier. The link between Payconiq and the banks anticipates the introduction of the new Payment Services Directive (PSD2) in Europe.

Through account aggregation for our own brands, we make banking even easier for de Volksbank customers who have accounts at several brands. By combining account data from multiple brands, they can integrally manage all their accounts from one statement of account.

To intensify contact with our customers through digital media, we collaborate with Pivotus, an innovation team in Silicon Valley, along with two other banks. We are working on a platform that allows customers to interact with a single point of contact of their choice within their bank for all their financial questions.

Our Technology Centre, to build knowledge and expertise and experimental technology innovation, strongly focuses on Artificial Intelligence applications. These include smart speech and text-based programmes (robots) and automated complex steps in the field of assessments, advisory support and fraud detection.

To get quick feedback and learn from customer experiences, we more frequently involve customers directly, particularly in relation to the development of online and mobile apps. This leads to flexible system development based on short-cycle change and validation. We provide information technology with added customer value.

2.8 Financial results

Results 2017 compared to 2016

Profit and loss account

in € millions	2017	2016[1]	Change
Net interest income	924	938	-1%
Net fee and commission income	49	57	-14%
Other income	55	39	41%
Total income	**1,028**	**1,034**	**-1%**
Operating expenses excluding regulatory levies	560	596	-6%
Regulatory levies	43	46	-7%
Total operating expenses	**603**	**642**	**-6%**
Other expenses	-	1	-100%
Total expenses	**603**	**643**	**-6%**
Impairment charges	-24	-68	-65%
Result before taxation	**449**	**459**	**-2%**
Taxation	120	110	9%
Net result	**329**	**349**	**-6%**
Fair value movements former DBV mortgages and related derivatives	13	-1	
Addition to 2016 restructuring provisions	-	-24	
Total incidental items	**13**	**-25**	
Adjusted net result	**316**	**374**	**-16%**
Cost/income ratio[2]	54.5%	57.6%	
Adjusted cost/income ratio[3]	55.4%	54.5%	
Return on Equity (RoE)[4]	9.1%	10.1%	
Adjusted Return on Equity (RoE)[5]	8.7%	10.8%	
Net interest margin (bps)[6]	1.50%	1.48%	
Cost/assets ratio[7]	0.91%	0.94%	
Adjusted cost/assets ratio[8]	0.91%	0.89%	

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 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
Net interest income	924	938	-1%
Net fee and commission income	49	57	-14%
Investment income	41	57	-28%
Result on financial instruments	13	-20	-165%
Other operating income	1	2	-50%
Total income	**1,028**	**1,034**	**-1%**
Fair value movements former DBV mortgages and related derivatives	17	-1	
Adjusted income	**1,011**	**1,035**	**-2%**

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

Income on mortgages was lower as a result of a high number of (early) renewals, 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
Staff costs	381	398	-4%
Depreciation of (in-)tangible assets	21	22	-5%
Other operating expenses	201	222	-9%
Total operating expenses	**603**	**642**	**-6%**
Incidental addition to restructuring provision 2016 (staff costs)	-	32	
Regulatory levies (other operating expenses)	43	46	
Adjusted operating expenses	**560**	**564**	**-1%**
Total number of internal FTEs	3,231	3,354	-4%
Total number of external FTEs	714	651	10%
Total numer of FTEs	**3,945**	**4,005**	**-1%**

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.

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 (€ 8 million), 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
Impairment charges on retail mortgage loans	-21	-65	-68%
Impairment charges on other retail loans	6	-1	-700%
Impairment charges on SME loans	-9	-2	350%
Total impairment charges on loans and advances	**-24**	**-68**	**-65%**
Cost of risk total loans	-0.05%	-0.14%	
Cost of risk retail mortgage loans	-0.05%	-0.15%	
Cost of risk SME loans	-1.10%	-0.27%	

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.

Taxation

OVERVIEW OF TAX PAID IN 2017

De Volksbank accounted for € 120 million in corporation tax on earnings in 2017. The effective tax burden 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. This tax only relates to Dutch income tax. De Volksbank has no foreign branches and is, therefore, not subject to foreign income tax and has no country-by-country reporting obligations.

Apart from income tax, de Volksbank is subject to a number of other taxes. These taxes and amounts for 2017 are as follows:

- Payroll tax and social insurance contributions: € 103 million.
  These are taxes and contributions that are withheld from employees' wages, but – being part of the salary costs – are for account of and paid by de Volksbank.
- Non-recoverable VAT: € 44 million.
  Most financial services provided by de Volksbank are exempt from VAT. No VAT is charged for these services to the customer. VAT charged to the bank by its suppliers cannot be reclaimed from the Tax & Customs Administration. The non-deductible VAT thus leads to an increase in the costs for de Volksbank.
- Bank tax:
  As opposed to the previous year, de Volksbank does not owe any bank tax in 2017 as the taxable amount on which de Volksbank owes bank tax remains below the exemption threshold of the levy.

GENERAL TAX POLICY

De Volksbank maintains a proactive, open relationship with the Dutch tax authorities. This relationship is characterised by transparency and mutual trust, which was emphasised by signing the agreement for Horizontal Monitoring. We share information about relevant developments that could be important to our tax position as well as any tax-related points for discussion and views. De Volksbank applies all relevant tax laws and regulations, taking the underlying intentions into account. This means that we steer clear of sharp tax practices and always presume that the results of taxation are reasonable.

De Volksbank also applies all relevant international tax treaties and guidelines. We endorse the guidelines on taxation, corruption and bribes as drawn up by the Organisation for Economic Co-operation and Development (OECD) and the European Commission. In terms of taxation, we specifically endorse the OECD guidelines on Base Erosion and Profit Shifting (BEPS) and the BEPS-based Anti-Tax Avoidance Package (ATAP) as presented by the European Commission. The purpose of the action items set out in these guidelines is to counter tax avoidance involving the artificial shifting of taxable profits to jurisdictions with low taxation rates or no taxation at all.

De Volksbank does not want to invest in, nor provide loans to companies involved in corruption and/or involved in financial, tax, environmental and/or social scandals. Within the context of the 'know-your-customer' procedures for corporate customers, we form an opinion on their tax attitude.

TAX POLICY ON CUSTOMERS

De Volksbank uses procedures and measures to identify, verify and accept customers that comply with applicable Dutch and international regulations. Since 2016, de Volksbank registers its customers' country of residence or country of establishment. De Volksbank thus complies with the Common Reporting Standard (CRS), under which bank account data of customers who are subject to foreign tax is exchanged with tax authorities of other countries. In addition to the globally applied CRS, de Volksbank also acts in accordance with the Foreign Account Tax Compliance Act (FATCA), under which customer data must be exchanged with the United States via the Dutch Tax and Customs Administration.

De Volksbank does not give tax advice directly to customers.

TAX POLICY ON SPECIFIC POSITIONS AND TRANSACTIONS

In addition to the general tax policy, de Volksbank applies the following principles:

- Robustness; The position or transaction must be consistent with relevant (tax) case law as well as (tax) laws and regulations, whereby prior consultation with the tax authorities will take place.
- Substance; The tax positions or transactions concerned must be relevant from a business, economic and social perspective, ruling out the possibility of tax considerations playing a decisive role.
- Impact; The fiscal position to be taken or the transaction to be implemented must, based on a reasonable and informed advance assessment of its impact on the fiscal position, not give rise to any reputational damage or any other significant negative (tax) consequences.

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.

3 Risk, capital & liquidity management

Reader's guide to this chapter

Risk profile and governance
- Our appetite to take risks
- The main risks and trends
- The way we have organised the management of these risks

Capital management
The buffer that protects us against unexpected losses

Credit risk
The management of loans our customers have taken out

Market risk
The steering of interest rate differences between money raised and invested

Liquidity risk management
The steering of the inflow and outflow of funds

Non-financial risks
The controlled business operations and business integrity

Management statements
Our statements on risk management and financial reporting

IFRS 7 AND PILLAR 3
In this chapter, 'Risk, capital and liquidity management', we provide the information that is required on the basis of IFRS 7 and IAS 1. Only if text is included in a light-grey box or if the label 'Audited' is shown at a table is the information part of the audited financial statements.

In addition, a separate Pillar 3 Report has been published on the website www.devolksbank.nl, containing additional information about the risks, risk management and capital adequacy of the Bank. This information is required on the basis of CRD IV and CRR, but is not part of the audit performed by the external auditor.

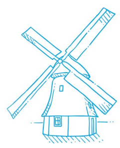
EDTF REFERENCES
An initiative of the Financial Stability Board, the Enhanced Disclosure Task Force (EDTF) is an international task force consisting of users and authors of financial institutions' annual reports. The task force issued 32 recommendations for risk disclosures of banks. De Volksbank supports the recommendations. The Additional Information section explains how the EDTF recommendations have been incorporated in the Annual Report and the Pillar 3 Report.

3.1 Risk management objectives EDTF 1

Events that might occur are not necessarily negative: some events provide an opportunity as well as a threat. De Volksbank wants to make safe and reliable banking possible for everyone by also explicitly viewing risk management from the perspective of opportunities. We thereby take into account all the elements of the shared value. We aim at business operations in which we demonstrably manage and control the risks in a responsible manner. Mistakes are an inevitable part of this process. We want to learn from our mistakes so as to prevent them in the future. For risk management, 'Banking with a human touch' means that we also identify opportunities in potential risks. Instilling maximum confidence in customers and employees is the basis for this approach.

Risk management and shared value elements:

Benefits for customers
Risk management sees to matters such as clear and transparent products, reliable processes and systems and expert customer contact. In doing so, we support customers in managing their own financial situation.



Responsibility for society
Our risk management activities support an ethical banking system and are intended to restore trust. We contribute to products and services that increase the financial resilience of customers. We take sustainability into account in our risk considerations.

Meaning for employees
We need motivated and competent people to live up to our ambition. We encourage our staff to develop their professional skills. We work on a culture in which our employees are conscious of the importance of ethical conduct.

Returns for the shareholder
Risk management protects the shareholders’ investments by covering or closely monitoring unwanted risks. This is how we contribute to creating a financially sound and stable bank with activities that yield the desired returns.

3.2 Moderate risk profile EDTF 7

De Volksbank is a bank that focuses on Dutch retail customers with three clear and transparent products and services: payments, savings and mortgages. Low-risk activities with corresponding solid buffers and responsible risk management fit into this business model. We form adequate provisions for any credit losses we may reasonably expect. We also maintain an ample capital position to absorb unexpected losses.

Our focus on the Dutch retail market entails concentration risks. We accept that this focus makes the bank sensitive to economic, political and social developments in the Netherlands. In addition, we are facing substantial pressure from competition in our domestic market. We are aware of this risk. We mitigate the risk of our strategic choice by explicitly opting for ‘Banking with a human touch’ and our ambition of shared value that reflects this identity. We absorb the adverse effects of this concentration by adhering to the three pillars.

Three-quarters of de Volksbank’s assets comprise residential mortgages. The portfolio’s quality and size may be impacted by:
- economic conditions;
- house prices;
- changes to the (tax) treatment of mortgages and mortgage rates;
- political decisions impacting the mortgage market;

- interest rate developments;
- competition from other mortgage providers.

Our portfolio management focuses on the responsible funding of new customers, retention of the existing portfolio and support for customers who are running into payment problems.

Interest income, which represents a considerable part of de Volksbank's income, is affected by the level and fluctuations in interest rates and credit spreads. We manage this interest rate sensitivity with due care but cannot rule out the possibility that interest rate changes will impact the result.

Customer savings are the main source of funds entrusted. As the amount of savings is sensitive to the savings rates we pay, we also raise funds in the money and capital markets to supplement the savings and diversify our funding sources. The level of our credit rating is a major factor. It partly determines the price of the funds we raise externally. Using liquidity management, we see to it that an ample supply of funds is available.

In our operating activities, we may run risks on all sorts of fronts and harm the bank, its organisation and its reputation. We have identified these risks and analysed them. We continuously seek to take timely and adequate control measures.

3.3 Top risks EDTF 3 EDTF 7 EDTF 32

Developments inside and outside de Volksbank may affect the achievement of our strategic objectives (see also Section 1.5 Mission and ambition). De Volksbank has analysed these developments and has taken measures to align their potential impact with our appetite to run risks. In addition to credit risk, which is inherent in a bank's activities – and which is the main type of risk for de Volksbank – we have identified other top risks that are associated with internal and external developments. De Volksbank evaluates the main top risks on an annual basis. It adjusts these risks if necessary based on external or internal developments. During the most recent evaluation, the risk posed by possibly inadequate control of our own organisation was removed from the list of top risks. Although it remains a significant risk, it has ceased to be a top risk. This is because in 2017 we completed two major programmes focusing on controlled business operations and further professionalised incident management, thus taking steps to improve risk management in the organisation.

In this chapter, we describe and identify the top risks, showing arrows in the margin. The arrows shown next to the external developments mentioned display the trend in the movement of the risk without taking into account the effect of mitigating measures limiting the risk.

3.3.1 Top risks resulting from external developments EDTF 3 EDTF 7

RISK OF AN OVERLY ACCOMMODATING MONETARY POLICY AND AN OVERHEATED HOUSING MARKET

The accommodative monetary policy is creating a sustained low interest rate environment, triggering a large supply of mortgage money but also a high demand from our customers for mortgages with longer interest rate periods. In the end, this monetary policy will put pressure on net interest margins in the Dutch mortgage market. Due to the current low rates, the difference between the mortgage interest received and the interest paid on savings is relatively small. The upward potential of interest income is curbed as customers are committing themselves to long-term mortgage rates.

The ECB's accommodative monetary policy will be restored to normal at some point, causing interest rates to rise. Against this backdrop the financial markets run the risk of adjustment, which may expose existing vulnerabilities in the economy. For instance, the strong housing market revival, the ample availability of mortgage money and the shortage of homes are giving rise to prices in the housing market that are no longer proportionate to the underlying fundamental value (land and construction value). At the same time, customers must contribute more funds of their own to qualify for a mortgage. Affordability for customers is coming under pressure, especially for first-time home buyers. For us as a bank this means that the credit risk may increase.

When economic sentiment turns in the long run, for instance in response to a financial market adjustment, house prices may fall sharply. The collateral value for banks will drop and risk surcharges will rise. In such a situation, financing conditions may tighten and customers may face higher interest expenses when refinancing their mortgage or renewing the mortgage interest rate. We want to assist our customers at an early stage in the process to help them retain their financial resilience, even when times are tough in the housing market. Our customers may for example reduce their mortgage payments by fixing their mortgage rate at a lower level for a longer period of time.

Controlling the risk
In order to control the risk ensuing from an overly accommodating monetary policy, we regularly perform stress tests to test the bank's capital buffers when economic conditions deteriorate. This gives us the certainty that our buffers are adequate for unanticipated events and losses, even when the current monetary policy is continued for a few more years.
Furthermore, our mortgage acceptance policy ensures that the handling of mortgage applications is accompanied by an assessment to ascertain whether customers can still make their mortgage payments when interest rates rise and whether customers are still sufficiently financially resilient when their situation changes. This is how we control the risk of a changing housing market.

RISK OF COMPETITION IN THE MORTGAGE MARKET
The Dutch mortgage market is seeing fierce competition, and customers enjoy a wide range of choices as a result. Our product range may become less attractive compared to the competition for various reasons, such as the price and the speed of offering, which could translate into lower sales volumes and margins and, consequently, a lower return for our shareholder.

Controlling the risk
We seek to retain our position in the mortgage market by reducing costs, raising the quality of our services and further optimising our mortgage process. In our strategy (see also Section 1.6 Strategy), we have developed an approach for this within the simplicity and efficiency pillar.

RISK OF INADEQUATE COMPLIANCE WITH (NEW) LAWS AND REGULATIONS
In the past few years a large number of new laws and regulations entered into force, intended to make the financial services sector in Europe safer and more resilient. It is important that we implement these laws and regulations in our processes and systems, as any delay or flaws in compliance with laws and regulations may result in reprimands, fines, claims and loss of reputation. The ECB exercises intensive supervision of the European banking sector, conducting on-site inspections to establish to what degree we comply with laws and regulations and which improvement measures are needed. Assisting in these inspections places great demands on the organisation. See also Section 2.2 Developments in the regulatory environment and Section 3.6.4 Developments in capital requirements.

Controlling the risk
De Volksbank closely monitors the new laws and regulations. Our internal department ECB Office – called the Supervisory Office as from March 2018 – is specifically charged with the task of properly and efficiently serving the supervisory authorities AFM, ECB and SRB, and coordinates communication to and from the supervisory authorities. Adequate process control and readily retrievable data in our systems ensure that we are able to respond to requests from the supervisory authorities or to take the improvement measures agreed with them in good time and with sufficient quality. This also places us in a better position to meet our customers' needs, for instance when answering questions about the affordability of their mortgage. In order to further control the risk, we have expanded the composition of the finance & risk function and have assigned additional staff to

the task of safeguarding timely compliance with new regulations. These measures are in force into 2018.

3.3.2 Top risks resulting from internal causes EDTF 3 EDTF 7

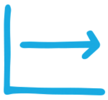
RISK OF INSUFFICIENT AVAILABILITY OF STAFF WITH SPECIFIC COMPETENCIES

The Dutch economic upturn is impacting labour mobility. We run the risk of being insufficiently successful in recruiting data scientists, economic experts, financial modellers and system engineers. This may mean that, in the long run, we do not possess the right mix of competencies and talents. There is a risk of the organisation's innovative capacity lagging behind and of employees who no longer fit in with our organisation being insufficiently flexibly employable in an evolving labour market.

Controlling the risk

We are committed to creating an attractive image as an employer, making a clear distinction between working at de Volksbank and working at a competitor in the financial services sector. Flexible working and a good work-life balance are major foundations underlying our HR policy. We encourage our employees to pursue lifelong learning and to take refresher courses, while raising training budgets where necessary. We also actively collaborate with educational institutions, startups and fintech partners. All this helps us to properly serve our customers in the future, too.

RISK OF LOSING DIRECT CUSTOMER CONTACT



Technological developments (fintech) and the introduction of the PSD2 rules (see Section 2.2) in the spring of 2018 have increased the risk of losing direct contact with customers. This may result in less knowledge about customers and their financial needs and financial standing, reducing our ability to properly serve them. At the same time, the introduction of PSD2 may also impact the bank's balance sheet, as the advent of account servicing and payment initiation service providers enables third parties to approach our customers with new or different financial products and services (if our customers give permission for this). As this makes it easier for customers to open a current account or savings account with other financial institutions in Europe, this development may result in a loss of customers and funds, including savings.

Controlling the risk

In the 'strengthening our identity' pillar, we focus on our identity as a social bank that puts customer needs first (see also the examples in Section 2.3). Our aim is to establish a relationship between the bank and the customer based on equality, thus creating trust. We do so through our strategy of banking with a human touch, which we incorporate in our products and services as a distinguishing feature. For example, we proactively approach our customers who have an interest-only mortgage and help them to estimate the affordability of their mortgage in the longer term (see also Section 3.7.4 for more information). We have given our financial advisers the authority to underwrite mortgages, as they are the ones who know our customers best.

RISK OF INADEQUATE DATA/INFORMATION SYSTEMS

We are required to correctly inform our stakeholders, including supervisory authority ECB, about the bank's financial position and risk exposures. This is done on the basis of regular reports as prescribed by the supervisory authority. In addition, the supervisory authority conducts on-site inspections of the bank's data and information systems. In both cases, we must provide an accurate and correct representation of our assets and liabilities, including the mortgage portfolios. In doing so, we run the risk of the reports drawn up not being on time or complete or not being entirely correct. Firstly, this is because in the past not all data was recorded in our source systems in such a way as to meet the supervisory authorities' current expectations. Secondly, the applications supporting our models and supervisory reports are insufficiently integrated in our operational disclosure processes.

Controlling the risk

We seek to streamline and simplify the product portfolio in order to control this risk. The fewer (complex) products we have, the fewer exceptions there will be and the better we will be able to safeguard data quality in a uniform way. We have also combined our data management knowledge and competencies to form our Chief Data Office and, partly in view of privacy legislation (GDPR), have drawn up a view on data to guide our data handling. The current data management programme focuses on improving the data systems within the Finance & Risk function with the aim of creating more robust reporting flows to parties including our supervisory authorities.

RISK OF INSUFFICIENTLY ACHIEVING STRATEGIC AMBITIONS DUE TO HIGH WORKLOAD

We have embarked on an ambitious endeavour to put banking with a human touch into practice. Due to the pressure put on the organisation to comply with laws and regulations, there is a risk of employees and resources not being deployed efficiently or effectively. As a result, we might not be able to sufficiently develop the initiatives launched to shape our ambition.

Controlling the risk

We give a great deal of attention to the various change programmes and initiatives within the organisation to achieve our strategic ambitions. We assess how they are correlated and what priorities to assign to them. We provide clarity about the parameters within which our staff can design and elaborate the strategy, striking a sound balance between internal entrepreneurship on the one hand and central coordination on the other.

3.4 Risk classification and risk appetite EDTF 2 EDTF 3 EDTF 7

De Volksbank has divided the main types of risk into financial and non-financial risks, details of which will be provided in Sections 3.6 Capital management up to and including 3.10 Non-financial risks.

The classification of the types of risk is evaluated annually and adjusted where necessary. Such adjustments may be required as a result of, for example, new regulations, social developments or a change of strategy or risk capacity. The risk classification remained virtually unchanged in 2017. In the next evaluation, an assessment will be made to check whether climate-related risks should be included in the risk classification. De Volksbank is aware of the risks that may arise as a result of climate change. Two risks can be distinguished: transition risks and physical risks. Transition risks are risks resulting from the process of transitioning into a climate neutral economy. Physical risks arise from climate-related damage, such as storm, hail and floods. We mitigate transition risks by only investing in companies that meet our sustainability criteria, by encouraging people to make their homes more sustainable, and by setting ourselves the goal to make a positive contribution to a sustainable society. See also Sections 1.4 SWOT analysis and 1.5 Mission and ambition and the additional information on corporate responsibility and climate neutral business operations.

Every year, we determine the risk appetite for each type of risk in conjunction with the bank's general risk appetite and strategic objectives. This is done in what we call the Risk Appetite Statements (RAS). We then use the risk appetite as a basis for determining for each type of risk the level above which we feel comfortable, using specific risk indicators. In addition, we set an intervention ladder with risk indicator specific ranges to be used when follow-up action is required. The ranges are determined on the economic capital per type of risk and approved by the Risk Committee.

We distinguish the following types of indicator:
- warning indicators giving early warning signs of deteriorating conditions with potentially adverse effects;
- risk appetite indicators monitoring our status in relation to the risk appetite;
- recovery indicators automatically activating the recovery plan.

The table below presents the risk appetite and shows how we score with our current risk profile in relation to the risk appetite. We have defined ranges within which we feel comfortable with the risk and that make clear when follow-up is required. Every quarter, the indicators are reported to the Risk Committee that controls the relevant risk. See the glossary at the end of this annual report for the definitions of the types of risk.

Risk Appetite Statement	Relative score	Note to the score
Business risk • People-oriented, social, sustainable bank • Stable profit for the shareholder(s); • Timely adaption to (market) developments.		Our interest income is robust. We are aware of the pressure on our interest income and the importance of cost control.
Capital adequacy • Monitoring a sound and well-diversified capital position in line with the bank's low-risk activities.		We have strong level of capitalisation in the short and medium term, taking into account pressure from future laws and regulations.
Credit risk • Control is such that it does not threaten our financial position (capital and liquidity)		Credit risk on our portfolios has again decreased (relatively). This is due to tighter policies and stricter acceptance criteria, an increase in the number of new (financially strong) customers, a decrease in the number of customers in arrears and an improvement in macroeconomic conditions.
Interest rate risk in the banking book • Protecting and stabilising net interest income, economic values and capital due to interest rate and credit spreads.		We have a limited open interest rate risk position. Indicators are within our risk appetite. We will further refine the risk models, among other things, due to new laws and regulations.
Market risk • Monitoring risks in the trading book caused by movements of market variables.		We have a limited market risk appetite in the trading book. Indicators are within our limits.
Liquidity risk • Monitoring a strong liquidity and funding position, so that financial obligations can be met any time and the consequences of bank-specific and market-wide stress factors can be absorbed.		We have a strong liquidity and funding position. Our funding is mainly made up of stable customers' savings and long-term wholesale funding.
Operational risk • Effective, high-quality processes, acceptation of low error rates; • Sufficient and competent employees and a pleasant working environment; • Efficient IT environment; • Low tolerance for disruptions of integrity and continuity of systems and reliability, confidentiality and integrity of information.		Our process control is improving, although it is not yet at the desired level. We have competent employees and the working environment has a lot of dynamism due to all the intended improvements. IT control is high. The threat of cybercrime is real and sometimes serious.
Reporting risk • Reasonable degree of assurance that the information provided is reliable		We mainly see opportunities for improvement in the integral control of the reporting chain.
Compliance risk • No tolerance of violations of company standards and values or laws and regulations		It is difficult for us to keep up with the implementation of new laws and regulations. We want to become better at knowing our customers and prevent our integrity from being compromised.
Model risk • Controlled model development and strong model governance • Limited model risk by avoiding products with complex features		The growth in maturity of a number of important models is slower than we deem desirable.
Legal risk • Excellent business processes in place to help prevent claims • Settlement of any claims with due care		The situation with regard to procedures, contracts and legal awareness is stable. We recognise a number of points for attention in products and services.
Reputation risk • We evoke trust through the quality of our products and services, the integrity of employees and compliance with laws and regulations • Adequate measures to manage the risk of erosion of trust		Despite our stable reputation, we seek further improvement to ensure enhanced resistance to reputation damage.

	Risk Appetite Statement	Relative score	Note to the score
	Change risk • We want to be able to proactively adapt to changing circumstances; • We want effective change management whereby we achieve objectives that are in line with de Volksbank's strategy.		We focus on increasing the capacity for change and the execution power of the organisation to achieve these ambitions.
	Legend		
	Current risk profile corresponds to risk appetite		
	Current risk profile slightly above risk appetite		
	Current risk profile above risk appetite		

STRESS TESTING EDTF 8

In addition to risk indicators, we use stress testing to gain insight into the sensitivity to changes in the underlying causes and the interrelationship of risks. We apply an extreme yet plausible macroeconomic scenario to our capital and liquidity position several times each year. We calculate the impact it would have on the bank, thereby bringing to light any potential vulnerabilities. See also Sections 3.6.3 Management and control, 3.7.2 Management and control, 3.8.3 Figures, ratios and trends and 3.9.3 Management and control for the use of stress testing in relation to capitalisation and credit, market and liquidity risks.

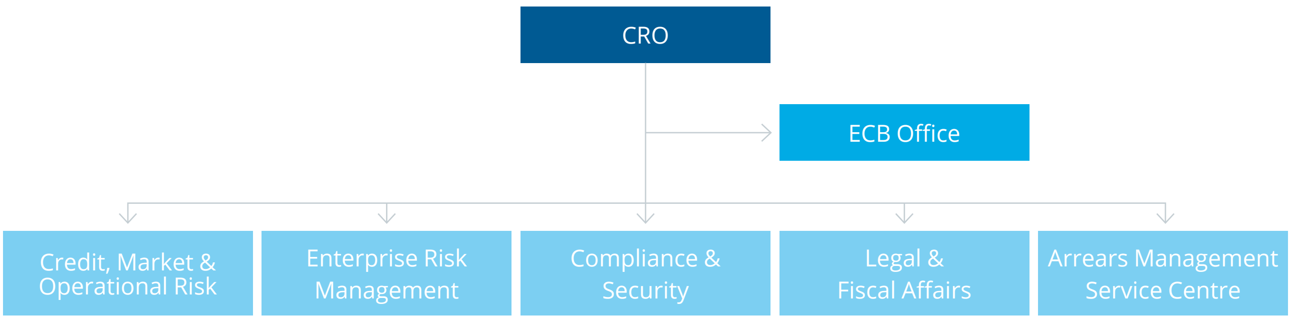
3.5 Risk management organisation EDTF 5

3.5.1 Developments in 2017

Although the bank's management and organisational structures were left unchanged in 2017, a proposed decision is pending to change the risk management organisation by combining the departments Compliance & Security, Legal & Fiscal Affairs and ECB Office into a single department. If approved, the change will be implemented in 2018.

The risk management organisation in 2017 was as follows:

Risk management organisation



Risks are managed on the basis of an integrated process. This approach sheds light on the various connections between risks, which also makes it easier to assess them in their mutual relationship. A key element of the risk management process is the Strategic Risk Assessment (SRA) at board level and the tactical risk analyses in the business units. As for the subsequent steps in the risk management process, the economic capital is used as a starting point in determining the risk appetite.

Demonstrably controlled and responsible business operations are a prerequisite for turning our ambition into reality. The Integrated Control Framework (ICF) is the instrument that de Volksbank uses to safeguard controlled business operations. Every year, we conduct a self-assessment, in which line management (the business) accounts for the level of controlled business operations and supports it with evidence. The second line monitors whether the results meet the standards in place and provides advice. In 2017, we further optimised the ICF and transferred it to the first and second lines.

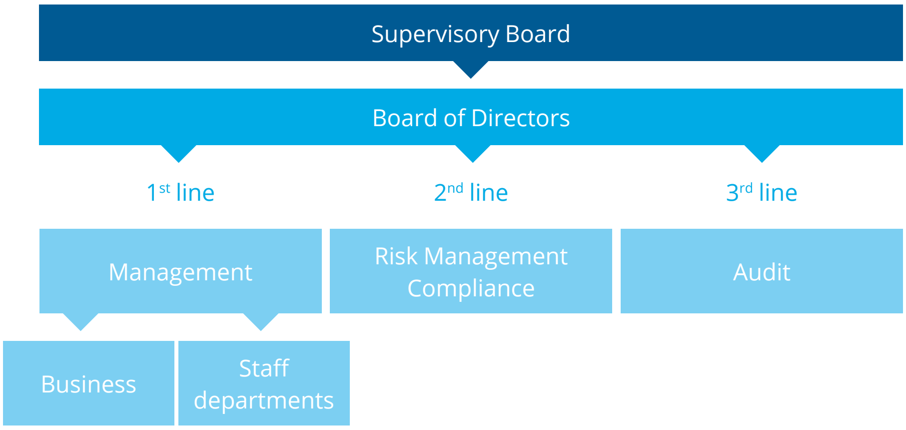
In addition, de Volksbank has been compliant with the PERDARR[10] principles since 31 March 2017 and the data management programme continues as usual. Please refer to Section 3.10 Non-financial risks for more information about these programmes.

3.5.2 Risk governance Audited EDTF 5

THREE LINES OF DEFENCE
De Volksbank's risk governance is based on the three lines of defence model.

10 In line with the Basel Committee's report on Principles for Effective Risk Data Aggregation and Risk Reporting.

Three lines of defence model



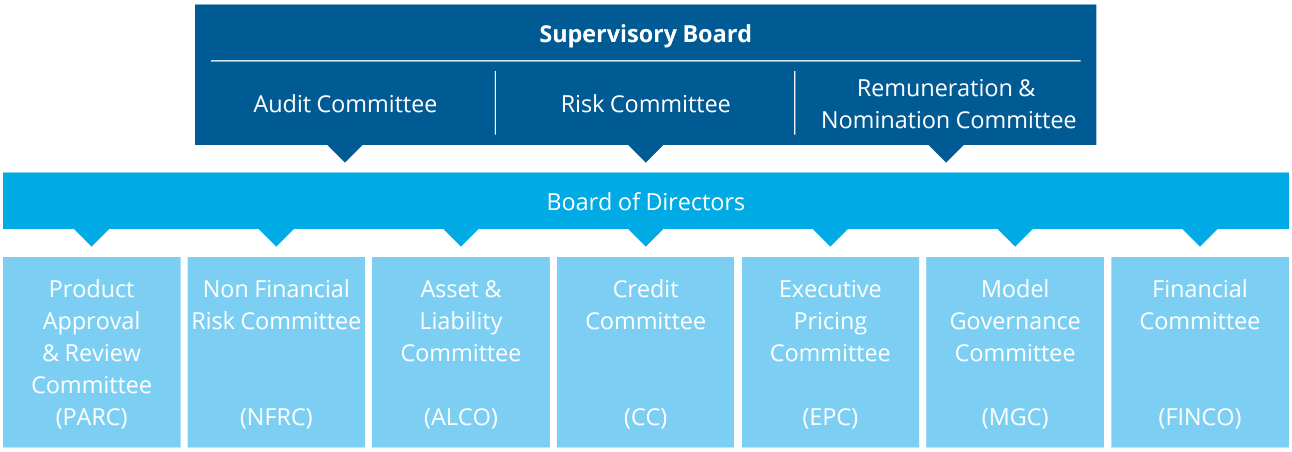
In this model, the business is responsible for setting up and executing their own processes. They identify their risks. They report and assess these risks and measure them against the risk appetite that has been determined. The second line supports the business and sets frameworks, provides advice and monitors whether the business is actually taking its responsibility. The second line also monitors whether de Volksbank complies with integrity laws and regulations as well as internal policies on that subject. The third line (the audit function) independently assesses the first and second lines' performance.

The Supervisory Board is charged with the supervision of the Board of Directors and is advised by the Audit Committee, the Risk Committee and the Remuneration and Nomination Committee.

The Board of Directors bears ultimate responsibility for risk management. In this process, it is supported by risk committees (see also the glossary for an explanation) with representatives from the first and second lines in each risk committee. Each risk committee is chaired by a member of the Board of Directors. The third line is not a permanent representative in the risk committees, but it may attend meetings at all times.

The Board of Directors identifies the top risks on a yearly basis. Where necessary, it formulates measures to bring the consequences within the risk appetite. The Board of Directors forms an opinion on the achievement of the strategic objectives and risk management. It does so on the basis of documents including monthly and quarterly business reports, second-line risk reporting, self-assessments of the risk committees and internal audit reports.

Risk committees



In addition to the risk committee structure, two Regulatory Boards and an Information Board are in place. The Regulatory Boards' duties are to identify developments in relevant laws and regulations and to ensure their correct and timely implementation within de Volksbank. The Information Board adopts data management and data definition policies and monitors their implementation. The Regulatory Boards and the Information Board reside under the responsibility of a member of the Board of Directors.

3.5.3 Risk culture EDTF 6

Although our risk organisation is an integral part of the bank, it acts independently. It informs, challenges, takes positions and provides advice when requested and at its own initiative. As an expert knowing all the ins and outs of the organisation, it gives insight into the risks and clarifies them. Listening and connecting are key here. The risk organisation bears in mind all stakeholders and expresses its point of view without judging. It helps devise solutions that do justice to the various interests and that contribute to achieving the strategy. Self-reflection is a key component of the culture. The risk organisation will continue to grow into its role.

RISK CULTURE PROPAGATION

Culture is a decisive factor in risk management and risk awareness. We want the risk culture to be propagated by the entire organisation. The Board of Directors and employees are aware of their role, of their serving as an example and of their responsibilities. The Board of Directors bears ultimate responsibility and approves the risk policy. Members of the Board of Directors chair the various risk committees and, by doing so, also put the Board of Directors' involvement in risk management into practice.

CLEAR GOVERNANCE EDTF 5

We have set up a clear governance structure with risk committees where discussions are held between the business, which controls the risks, and the risk organisation, which monitors the risks and associated control. Decision-making on risks follows the lines of governance and is assessed against the risk guidelines. If and when risk limits are exceeded or the risk appetite is not adhered to, we discuss this in the risk committees. A risk committee presents a point of discussion to the Board of Directors where necessary.

The Board of Directors confirms major or overarching risk guidelines and re-adopts them annually. Every year, we perform a complete self-assessment for all risk committees. Points for improvement are defined where necessary.

RISK GUIDELINES

De Volksbank has an extensive set of risk guidelines in place, describing, for example, its risk appetite, duties and responsibilities, as well as reporting and communication lines. Our risk guidelines dovetail with our position as a social bank with low-risk activities. Our guidelines are subject to continuous fine-tuning and the shared value has been incorporated into our risk guidelines. We expect the intensified focus on customers, society, employees and shareholders to improve our analysis and understanding of the risk-return ratio in the next few years. Important aspects here include financial returns as well as benefits for customers, meaning for employees and responsibility for society.

DEVELOPMENT OF RISK AWARENESS

Managers ensure that the risk guidelines are known and sufficiently clear to employees. This is done with the aim of ensuring that our employees perform their duties as desired and take responsibility for their part of risk management. Training courses, workshops and e-learning programmes are provided within the organisation to further develop risk awareness. In addition, success stories and lessons learned in the area of risk awareness are shared.

INTERNAL CODE OF CONDUCT

An internal code of conduct guides the ethical actions that we expect of all our employees. We pay attention to moral dilemmas and how employees can deal with them. A well-spread network of confidants offers staff the opportunity to broach the subject of any malpractices.

REMUNERATION POLICY

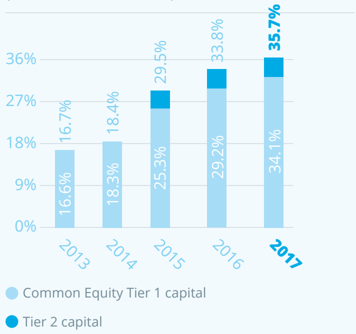
Our remuneration policy takes into account the right balance between risk and return. Our ambition dictates that, in addition to financial return, other aspects are important as well. We set goals that are aimed at creating shared value for all stakeholders. Our internal guidelines describe the conditions that any, relatively limited, variable remuneration is to meet. The Supervisory Board, the Board of Directors and all staff members whose salaries exceed the industry-wide pay scales are excluded from variable remuneration. See also Section 5.7 Remuneration report.

3.6 Capital management EDTF 2 EDTF 3

Based on the balance sheet position at the end of 2017, we expect to still be able to amply meet our external requirements and internal standards if Basel IV is implemented without change into European laws and regulations,

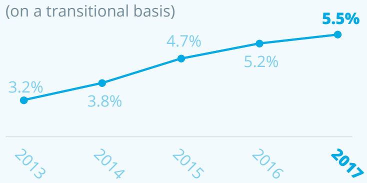
Total capital ratio

(on a transitional basis)



Leverage ratio

(on a transitional basis)

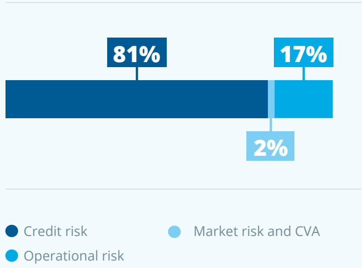


34.1%

Common Equity Tier 1 ratio year-end 2017

on a transitional basis

Risk weighted assets



The primary objective of capital management is to ensure that the amount of available capital is sufficient at all times to allow de Volksbank to implement its strategy. Our capital requirements are determined on the basis of the bank's strategy, risk appetite and exposures now and in the future. Considering our shared value ambition, we take into account the requirements of supervisory authorities, the expectations of rating agencies, the interests of customers and investors, and an adequate return for shareholders. We also apply internal targets that must be met. These targets are consistent with our aim of performing low-risk activities.

De Volksbank capital figures presented relate to the consolidated capital figures, as the capital requirements of regulatory authorities and our internal standards apply to this level.

3.6.1 Developments in 2017

Development CET1 ratio and leverage ratio

in € millions	31-12-2017	31-12-2016
CRD IV common equity Tier 1 capital	3,339	3,164
Common Equity Tier 1 ratio (transitional)	34.1%	29.2%
Common Equity Tier 1 ratio (fully phased-in)	34.3%	29.6%
Leverage ratio (transitional)	5.5%	5.2%
Leverage ratio (fully phased-in)	5.6%	5.3%

De Volksbank has a solid Common Equity Tier 1 ratio (CET1 ratio), which increased from 29.2% at year-end 2016 to 34.1% at year-end 2017 (and from 29.6% to 34.3% fully phased-in[11]). The CET1 ratio remained well above our target of at least 15% and the CRR/CRD IV requirements.

[11] The capital adjustments pursuant to the Capital Requirements Regulation (CRR) are introduced in phases and will apply in full as from 2018. The current requirements in force according to the current state of phase-in are referred to as 'transitional'; the requirements in force after full phase-in are referred to as 'fully phased-in'.

The improvement of the CET1 ratio was largely driven by the decrease in risk-weighted assets in 2017 (by € 1.0 billion), and to a lesser extent by a € 103 million addition of profit to shareholders' equity.

The total capital ratio rose from 33.8% (fully phased-in 34.3%) to 35.7% (fully phased-in 36.0%). The impact of the EBA interpretation of CRR Article 82 on the total capital ratio of -/- 3.5%-point (fully phased-in -/- 3.4%-point) is thereby taken into account.

The leverage ratio, a non-risk-weighted capital ratio, rose from 5.2% to 5.5% (and from 5.3% to 5.6% fully phased in).

At year-end 2017, the non-risk-weighted MREL (Minimum Requirement for own funds and Eligible Liabilities) ratio stood at 8.9%. The MREL ratio expresses the ratio between an easily bail-inable buffer to absorb losses and the risk exposure applicable to MREL.

Our MREL requirement has currently not yet been set by the Single Resolution Board (SRB). Dutch legislation on the validity of senior (non-preferred) notes has as yet not been adopted. This new asset class will receive preference to Tier 2 bonds, but will be subordinated to other (senior) bonds of non-preferred non-subordinated debt. At present, the basic assumption in our capital planning is that a minimum non-risk-weighted MREL requirement – which must consist of capital and senior non-preferred notes – of 8% will apply. Therefore, in the next few years, de Volksbank expects to issue senior non-preferred notes in the amount of approximately € 2.0 billion to comply with this minimum requirement, if it actually becomes effective and given the current balance sheet.

Strong capital position, well positioned to absorb the impact arising from future regulations

In line with the dividend policy adopted in 2016, de Volksbank proposes to pay out a dividend of € 190 million (60% payout ratio) from the 2017 annual profit.

Its strong capital position has placed de Volksbank in a good position to absorb the impact arising from future regulations. These include the further determination of the leverage ratio and the implementation of the final Basel III standards of the Basel Committee on Banking Supervision (BCBS) in European legislation for the calculation of credit and operational risks, among which the capital output floor (also called 'Basel IV'). To comply with the (as yet undefined) minimum non-risk-weighted MREL requirement, de Volksbank expects to issue senior non-preferred notes in the years ahead.

See Section 3.6.5 Capital structure for a detailed explanation of the capital position and Section 3.6.6 Figures, ratios and trends for a detailed explanation of the leverage ratio and MREL.

3.6.2 Capital requirements EDTF 4

CRR/CRD IV REQUIREMENTS

With effect from 1 January 2018, de Volksbank is required to meet a total capital ratio of at least 13.125% (Overall Capital Requirement, OCR), of which at least 9.625% CET1 capital. This requirement follows from the 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 to be held in the form of CET1 capital 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 equalled 1.875% as from 1 January 2018 and will increase to 2.5% on 1 January 2019. The O-SII buffer[12] for de Volksbank equals 0.75% as from 1 January 2018 and will rise to 1% on 1 January 2019. The countercyclical capital buffer for exposures to Dutch

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12 The O-SII buffer applies to the highest consolidation level rather than to a sub-consolidated, solo bank level.

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%[13]. Fully phased in, the OCR for de Volksbank is equal to 14.0% based on the SREP, of which at least 10.5% consists of CET1 capital.

The table below presents the capital requirements in respect of the Common Equity Tier 1 capital, Tier 1 capital and total capital (Tier 1 and Tier 2) as at 1 January 2018. The Common Equity Tier 1 capital ratios and total capital ratios are well above these minimum capital requirements.

Minimum capital requirements de Volksbank

	Total capital		of which Tier 1 capital		of which CET1 capital	
	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.

INTERNAL MINIMUM LEVEL EDTF 9

De Volksbank applies an internal level of at least 15.0% for the risk-weighted CET1 ratio, and of 4.25% for the leverage ratio. 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.

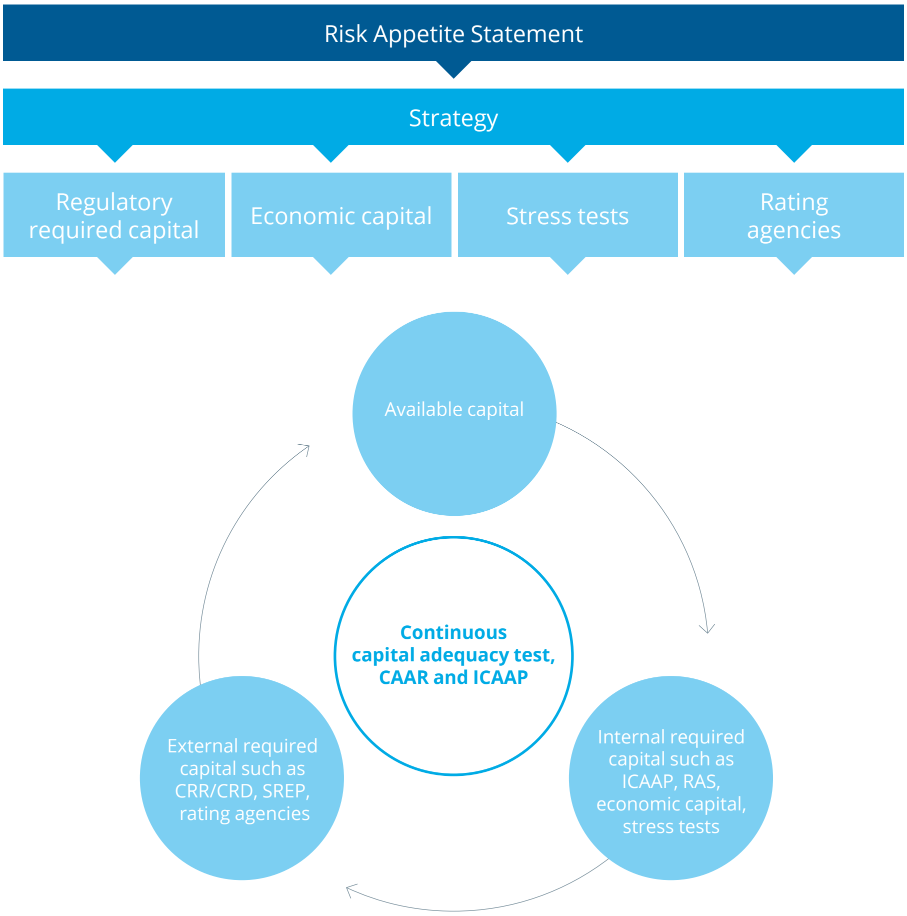
3.6.3 Management and control Audited EDTF 7

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

Our capital management process is presented in the figure below.

13 DNB has the discretion to set the countercyclical capital buffer above 2.5%.

Capital processes



REGULATORY CAPITAL AND MREL EDTF 9

The minimum amount of capital required by law (regulatory capital) relates to the risk-weighted capital ratios (CET1 capital, Tier 1 capital, total capital) and the non-risk-weighted capital ratio that we expect will be required (leverage ratio). As described in Section 3.6.2 Capital requirements, the minimum risk-weighted capital ratios follow from the SREP. In addition to the capital ratios required by law, de Volksbank calculates and reports the MREL in both a risk-weighted and a non-weighted manner.

ECONOMIC CAPITAL EDTF 7

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

1. Our calculations of economic capital include all risks from which material losses may ensue according to internal insight. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.
2. Using our own insight to guide us, we translate our risk appetite into internal capital requirements, partly on the basis of the desired rating (see also Section 3.9.7 Credit ratings).

We share the economic capital results with the supervisory authority. This is part of the Internal Capital Adequacy Assessment Process (ICAAP). We also use the results to determine our internal capital targets and our limits for specific types of risk, as applied in the RAS.

STRESS TESTING EDTF 8

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

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

For the scenarios whose impact is calculated in a stress test, we estimate the effect they will have on unemployment, economic growth, interest rate developments and other factors. These macroeconomic variables impact, for example, the development of the net interest margin, the creditworthiness of the outstanding loan portfolio and the fair value of the interest-bearing investment portfolio. This subsequently results in a deterioration of the bank's capital position. When determining the management buffers that we include in the internal minimum level of the capital ratios, we assess whether our capital position is still adequate in these stress scenarios.

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

RATING AGENCIES

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

CONTINUOUS CAPITAL ADEQUACY ASSESSMENT EDTF 9

Capital Adequacy Assessment Report

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

Internal Capital Adequacy Assessment Process

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

RECOVERY PLAN AND CONTINGENCY PLANNING

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

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

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

In addition to a description of the available measures and the conditions to be satisfied before they can be implemented, the recovery plan also contains an analysis of the expected recovery resulting from these measures. The analysis is based on a number of (severe) stress scenarios for which the effectiveness of these measures has been assessed ('recoverability assessment').

We update the recovery plan every year. We share and discuss it with the ECB's Joint Supervisory Team (JST).

3.6.4 Developments in capital requirements EDTF 4 EDTF 12

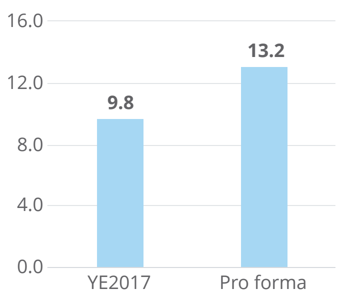
BCBS

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 IV international framework for banks.

Based on the balance sheet position at the end of 2017, we estimate that our RWA will increase by approximately 35%[14] 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[15]. We will refine the estimated impact in the course of 2018.

Basel IV impact on 72.5% floor

RWA in billion euros



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

When Basel IV is 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 objective of at least 15%, allowing us to both continue our growth path and to pay out dividend.

BASEL IV: REVISED STANDARDISED APPROACH FOR CREDIT RISK RWA

The BCBS decision to subject risk-weighted assets to an 'output floor' based on internal models in due course (as from 2022) is expected to trigger a considerable increase in de Volksbank's risk-weighted assets (RWA). Basel IV prescribes that the total RWA must ultimately, based on internal models, make up at least 72.5% of the RWA calculated according to the revised Standardised Approach (SA). The output floor will be phased-in from 50% in 2022 to 72.5% in 2027.

De Volksbank currently applies the internal ratings based approach to determine the risk-weighting of its retail mortgages (using PHIRM). As a result of the revised SA, the total RWA is expected to rise substantially.

14 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.

15 Retail Mortgages Internal Rating Model (PHIRM).

BASEL IV: CHANGES IN INTERNAL RATINGS-BASED APPROACHES
For de Volksbank, the changes in the internal ratings based approach mainly relate to floors for the model parameters of our PHIRM model. We expect the impact on the risk-weighting of de Volksbank's retail mortgages to be limited.

BASEL IV: STANDARDISED MEASUREMENT APPROACH FOR OPERATIONAL RISK
The BCBS has decided to base the revised operational risk capital framework on a single non-model-based method, which is termed the Standardised Measurement Approach (SMA). Implementation is due to start in 2022. De Volksbank already uses the SA to measure operational risk, whereby the capital calculation is based on the income statement. Therefore, the estimated impact of Basel IV on the RWA is expected to be extremely limited.

BCBS CONSULTATION: TREATMENT OF SOVEREIGN EXPOSURES
In December 2017, the BCBS issued a consultation paper regarding the treatment of sovereign exposures. One of the suggestions made in the BCBS paper is to remove the present preferential treatment, including 0% risk weight, of EU sovereign exposures.

As the BCBS consultations are still in their early stages, it is impossible to estimate either the impact on de Volksbank's RWA or the implementation timelines at this time.

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). Please refer to Section IFRS 9 of the financial statements for a more detailed explanation of the reclassifications.

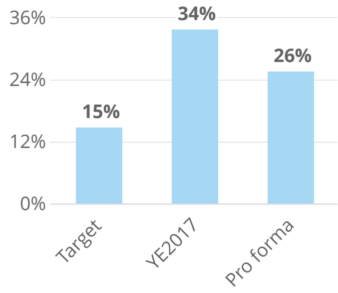
Finally, the transition to expected loss recognition under IFRS 9 results in an increase in loan loss provisions. This has a negative impact on IFRS equity of € 14 million (after tax) and due to the decrease of the IRB shortfall, a negative effect of € 11 million on CET1 capital. The anticipated fully 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 BRRD) to bail in shareholders and creditors for a minimum amount of 8% of total liabilities (under certain conditions, 20% of the RWA) before any funds from the Single Resolution Fund may be injected into a bank under resolution. To enable effective application, the Dutch BRRD law introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL) as an easily bail-inable 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 held for natural persons and SMEs are not eligible for MREL by definition.

On 23 November 2016, the EC proposed to amend the BRRD. The BRRD II proposes an EU-wide amendment to the creditor hierarchy by creating a new asset class of non-preferred senior debt (SNP notes). These notes will be subordinated to other senior bonds, but will receive preference to Tier 2 bonds. In the event of a

Basel IV impact on (fully phased) CET1 ratio



bail-in, capital instruments are used first (subordinated), then the SNP notes, and then the other senior liabilities.
The EU is expected to approve this proposal in the coming months and an amendment of Dutch insolvency law may be implemented in the second half of 2018.

As soon as there is sufficient clarity on the MREL requirement, de Volksbank intends to issue senior non-preferred notes (subject to market, legal and regulatory developments).

3.6.5 Capital structure EDTF 10 EDTF 11

De Volksbank has a strong capital position, in terms of both risk-weighted capital ratios and the leverage ratio. Assuming that Basel IV with respect to the capital floor based on the revised SA for credit risk RWA will be implemented in European legislation without change, we estimate, on the basis of our balance sheet position at year-end 2017, to have CET1 capital in excess of our target, allowing us to continue our growth path as well as to pay dividends out of profits. More details of Basel IV are provided in Section 3.6.4 Developments in capital requirements.

Capitalisation Audited

	CRD IV transitional		CRD IV fully phased in	
In € millions	**31-12-2017**	31-12-2016	**31-12-2017**	31-12-2016
Shareholders' equity	**3,714**	**3,541**	**3,714**	**3,541**
Not eligible interim profits	-226	-223	-226	-223
Not eligible retained earnings previous years	-20	-	-20	-
Shareholders' equity for CRD IV purposes	**3,468**	**3,318**	**3,468**	**3,318**
Increase in equity resulting from securitised assets	-	-	-	-
Cashflow hedge reserve	-36	-44	-36	-44
Fair value reserve	-20	-54	-	-
Other prudential adjustments	-3	-3	-3	-3
Total prudential filters	**-59**	**-101**	**-39**	**-47**
Intangible assets	-14	-15	-14	-14
Deferred tax assets	-	-	-	-
IRB shortfall[1]	-56	-38	-62	-47
Total capital deductions	**-70**	**-53**	**-76**	**-62**
Total regulatory adjustments to shareholders' equity	**-129**	**-154**	**-115**	**-109**
CRD IV common equity Tier 1 capital	**3,339**	**3,164**	**3,353**	**3,209**
Additional Tier 1 capital	-	-	-	-
Tier 1 capital	**3,339**	**3,164**	**3,353**	**3,209**
Eligible Tier 2	500	500	500	500
IRB shortfall[1]	-6	-9	-	-
Impact EBA interpretations CRR artikel 82[2]	-344	-	-329	-
Total Tier 2 capital	**150**	**491**	**171**	**500**
Total capital	**3,489**	**3,655**	**3,524**	**3,709**

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

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. Non-eligible retained earnings of € 20 million are related to an amendment of the accounting principles for penalty interest on early mortgage redemption.

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 cashflow 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.

Tier 2 capital instruments Audited

in € millions	Maturity date	First possible call date	Nominal amount	
Tier 2			31-12-2017	31-12-2016
Bond loan	5-Nov-2025	5-Nov-2020	500	500

Subordinated Tier 2 notes with a nominal value of € 500 million were issued in 2015. The book value of these notes totalled € 498 million in 2017 (2016: € 501 million).

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.

3.6.6 Figures, ratios and trends EDTF 4 EDTF 9 EDTF 13 EDTF 14

RISK-WEIGHTED ASSETS (RWA)

Pillar 1 sets the minimum capital requirements on the basis of the RWA for three types of risk: credit risk, market risk and operational risk.

De Volksbank avails itself of an Advanced Internal Rating Based (Advanced IRB or AIRB) model, called PHIRM, to determine the credit risk in its retail mortgage portfolio. Please refer to Section 3.7.4 Retail mortgages for more information on our internal model. We use the SA – rather than internal models – to calculate the credit risk of other portfolios (including non-retail mortgages and loans to government authorities, businesses and financial institutions) and to calculate market risk and operational risk. Please refer to Section 3.8 Market risk for more information on market risk and to Section 3.10 Non-financial risks for more information on operational risk.

The table below shows the risk-weighted assets per type of risk, exposure category and method of calculation.

Risk weighted assets (RWA) and capital requirement Audited EDTF 16

	EAD[1]		RWA		8% Pillar 1 capital requirement	
in € millions	**31-12-2017**	31-12-2016	**31-12-2017**	31-12-2016	**31-12-2017**	31-12-2016
CREDIT RISK IRB APPROACH						
Retail mortgages[2]	44,951	43,447	6,071	5,913	486	473
Securitisation positions	74	51	6	4	-	-
Other	-	-	-	591	-	47
Total credit risk IRB approach	**45,025**	**43,498**	**6,077**	**6,508**	**486**	**520**
CREDIT RISK STANDARDISED APPROACH						
Central governments and central banks	6,872	6,989	160	194	13	16
Regional governments and local authorities	2,545	2,761	-	-	-	-
Public sector entities	29	35	6	9	-	1
Multilateral developments banks	289	282	-	-	-	-
International organisations	20	-	-	-	-	-
Financial institutions	1,471	943	303	299	24	24
Corporates	745	1,095	652	505	52	40
Retail excl. mortgages	354	181	265	136	21	11
Secured by mortgages immovable property	390	1,002	195	687	16	55
Exposures in default	64	93	65	111	5	9
Items associated with particular high risk	1	-	1	-	-	-
Covered bonds	40	-	4	-	-	-
Shares	17	21	17	21	1	2
Other Items	287	350	156	260	12	21
Total credit risk standardised approach	**13,124**	**13,752**	**1,824**	**2,222**	**144**	**179**
MARKET RISK STANDARDISED APPROACH						
- Traded debt instruments	475	2,765	44	88	4	7
- Shares	-	-	-	-	-	-
OPERATIONAL RISK						
- Standardised approach	-	-	1,633	1,672	131	134
Total market- and operational risk	**475**	**2,765**	**1,677**	**1,760**	**135**	**141**
Credit Valuation Adjustment (CVA)	-	-	203	334	16	27
Total	**58,624**	**60,015**	**9,781**	**10,824**	**781**	**867**

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.

2 To determine the RWA of retail mortgages a regulator-approved model is used.

The Exposure at Default (EAD) has decreased from € 60.0 billion at year-end 2016 to € 58.4 billion. The EAD of the retail mortgage portfolio grew from

€ 43.5 billion to € 45.0 billion. Other major increases in 2017 can be attributed to an increase in positions with financial institutions of € 528 million and positions with private individuals (excluding mortgages) of € 173 million. The EAD for real estate covered by mortgages under the SA fell from € 1 billion to € 390 million. This was mainly due to a reclassification of positions to retail mortgages under the IRB approach. In addition, the positions in companies fell by € 350 million.

The market risk declined due to a decrease of the position in bonds of € 2.3 billion. This decrease is caused by a decline in positions in money market paper, trading positions and derivatives positions.

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 € 977 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 RWA density of retail mortgages declined further to 13.5% from 15.0% at year-end 2016. In December 2014, de Volksbank was given permission to use its IRB model to calculate the capital requirement of its mortgage portfolio. This was subject to the obligation to develop a new Margin of Conservatism (MoC) model, for which de Volksbank filed an application in December 2016. In September 2017, the ECB communicated its final findings arising from the IRB model review. De Volksbank must apply a MoC surcharge on PDs and LGDs until the findings identified in the review have been resolved. This PD and LGD surcharge has replaced the static surcharge of 10% of RWA on the mortgage portfolio (2016: € 591 million) used until that time.

Development RWA EDTF 14 EDTF 16

in € millions	31-12-2017	31-12-2016
Opening amount	10,824	11,513
CREDIT RISK SA		
Development portfolio	-398	-143
Movements in credit risk CVA	-131	-51
Total movement Credit risk SA	**-529**	**-194**
CREDIT RISK IRB		
Re-risking (calls securitisation-programmes)	-	171
Movement investor position securitisation	2	-44
Model updates	-	661
Methodology and policy	41	-
MoC impact	503	-
Development portfolio (including PD and LGD migrations)	-977	-1,136
Total movement IRB-portfolio	**-431**	**-348**
Market risk development	-44	-66
Market risk sale of portfolio	-	-55
Operational risk	-39	-26
Total movement	**-1,043**	**-689**
Closing amount	**9,781**	**10,824**

CAPITAL RATIOS EDTF 9

The table below presents the development of capital ratios in 2017:

Capital ratios

	CRD IV transitional		CRD IV fully phased in	
in € millions	**31-12-2017**	**31-12-2016**	**31-12-2017**	**31-12-2016**
CRD IV common equity Tier 1 capital	3,339	3,164	3,353	3,209
Tier 1 capital	3,339	3,164	3,353	3,209
Total capital	3,488	3,655	3,525	3,709
Total capital de Volksbank stand-alone	3,833	3,655	3,853	3,709
Risk-weighted assets	**9,781**	**10,824**	**9,781**	**10,824**
Exposure measure as defined by the CRR	60,345	60,331	60,350	60,360
Common equity Tier 1 ratio	34.1%	29.2%	34.3%	29.6%
Tier 1 capital ratio	34.1%	29.2%	34.3%	29.6%
Total capital ratio	35.7%	33.8%	36.0%	34.3%
Total capital ratio de Volksbank stand-alone	39.2%	33.8%	39.4%	34.3%
Leverage ratio	5.5%	5.2%	5.6%	5.3%

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

In 2017, the total capital ratio rose from 33.8% to 35.7%. The fully phased-in total capital ratio was up from 34.3% to 36% in 2017. Without the EBA interpretation, the total capital ratio would have been 39.2% (fully phased-in 39.4%).

LEVERAGE RATIO EDTF 9

The leverage ratio is the ratio between a bank's amount of Tier 1 capital and total risk exposure. A minimum level for the leverage ratio is to prevent banks from building up excessive debts. The former cabinet (Rutte II) expressed its ambition of a minimum leverage ratio for the Netherlands of 4%. The coalition agreement of the Rutte III government as published states that as soon as Basel IV becomes effective, the minimum requirement will be aligned with the European minimum requirement, which is expected to be at least 3%, with a possible surcharge for Systemically Important Institutions. The table below presents the leverage ratio for de Volksbank according to the composition of risk exposure and equity prescribed in the CRR.

Leverage ratio

in € millions	**31-12-2017**	**31-12-2016**
EXPOSURE VALUES		
Derogation for SFTs	23	-
Derivatives: market value	212	310
Derivatives: add-on mark-to-market method	373	272
Off-balance: undrawn credit facilities	161	186
Off-balance: medium/low risk	228	311
Other assets	59,477	59,406
CAPITAL AND REGULATORY ADJUSTMENTS		
Tier 1 capital - transitional	3,339	3,164
Tier 1 capital - fully phased-in	3,353	3,209
Regulatory adjustments (Tier 1 transitional)	-129	-154
Regulatory adjustments (Tier 1 fully phased-in)	-115	-109
EXPOSURE MEASURE AS DEFINED BY THE CRR		
Transitional	60,345	60,331
Fully phased-in	60,350	60,360
LEVERAGE RATIO		
Transitional	5.5%	5.2%
Fully phased-in	5.6%	5.3%

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 (risk exposure as defined by the Capital Requirements Regulation, CRR) increased slightly by € 14 million to € 60.3 billion.

The 5.5% leverage ratio is 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 of capital 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 Basel IV is implemented, the amount of capital required to meet the leverage ratio target may be below the capital amount required to meet the risk-weighted targets. This may result in risk-weighted targets being more restrictive than the leverage ratio targets.

MREL EDTF 4

The table below shows non-risk-weighted and risk-weighted MREL ratios. The non-risk-weighted metrics reflect the amount of eligible liabilities versus de Volksbank's total exposure. The risk-weighted metrics reflect the amount of eligible liabilities versus RWA.

MREL

in € millions	31-12-2017	31-12-2016
CET1 capital	3,339	3,164
Tier 2 capital	494	491
Total capital	**3,833**	**3,655**
Other eligible unsecured liabilities with remaining maturity longer than 1 year	1,435	1,126
Total capital including other eligible liabilities	**5,268**	**4,781**
Risk exposure measure as defined by the BRRD (MREL)	59,499	59,636
Risk-weighted assets	9,781	10,824
MREL BRRD		-
MREL (Total capital)	6.4%	6.1%
MREL (Total capital including other eligible liabilities)	8.9%	8.0%
MREL Risk weighted assets		0.0%
MREL (Total capital)	39.2%	33.8%
MREL (Total capital including other eligible liabilities)	53.9%	44.2%

Including total capital and all other unsecured liabilities that are MREL eligible according to the current BRRD, the non-risk-weighted MREL ratio amounted to 8.9% (2016: 8.0%), with available MREL-eligible liabilities amounting to € 5,268 million. The increase 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 equalled 53.9% (2016: 44.2%).

The non-risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital as liabilities subordinated to ordinary senior unsecured debt (together € 3.833 million), amounted to 6.4% (2016: 6.1%). The risk-weighted MREL ratio according to this definition equalled 39.2% (2016: 33.8%).

The basic assumption in de Volksbank's capital planning is that a minimum non-risk-weighted MREL requirement – which must consist of (Tier 1 and Tier 2) capital and senior non-preferred notes – of 8% will apply. 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.

3.6.7 Dividend

De Volksbank has set a dividend payout target range of 40%-60% of net adjusted profit[16]. In line with this policy, de Volksbank paid a dividend of € 135 million from the 2016 annual profit 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.

[16] Reported net profit adjusted for fair value changes of the DBV mortgage portfolio and related derivatives.

3.7 Credit risk EDTF 2 EDTF 3

Credit risk reduction due to stronger Dutch economy coupled with rising house prices. The tax regime means that new mortgages have a redemption component, which benefits the risk profile of the portfolio.

-34%
Decrease in volume default portfolio retail mortgages in 2017

74%
Average Loan-to-Value retail mortgages year-end 2017

Loans and advances to customers

93% Retail

5% Corporate

2% Other

3.7.1 Risk profile EDTF 26

RETAIL MORTGAGES AND OTHER RETAIL LOANS

The retail mortgage portfolio largely determines de Volksbank's credit risk. The mortgage portfolio has a low credit risk profile and its size was € 45.8 billion gross at the end of 2017. The portfolio's credit risk dropped further in 2017; this is visible in a lower average PD, fewer registered arrears, a lower average loan to value and a drop of the average estimated expected loss in the portfolio. This is largely driven by a stronger Dutch economy and rising house prices. On top of this, de Volksbank will contact customers who are in danger of running into financial problems at an earlier stage with the purpose of working together to attempt to prevent worse.

A very minor portion of the balance sheet consists of other retail loans; at the end of 2017, the size of this portfolio was € 139 million gross (this was € 191 million gross at the end of 2016). This portfolio covers products such as revolving credit, debit balances in current accounts, personal loans, credit cards and security-backed loans. De Volksbank no longer provides any new revolving credit or personal loans to be recognised on its own balance sheet (due to the high degree of credit risk), but it does provide them as third-party products.

SME PORTFOLIO

At the end of 2017, the SME portfolio totalled € 786 million gross (2016: € 909 million). The vast majority of these loans have been provided based on mortgage collateral (brick collateral). Most of the portfolio was created before the financial crisis. Many customers have difficult years behind them, which also impacted the portfolio's risk profile. Customers in this portfolio prosper in the current economic situation in the Netherlands, which also positively affects the risk observed. De Volksbank launched a new initiative in 2017; the portfolio is permitted to grow slightly, with a focus on small companies and loans of up to € 1 million.

PRIVATE LOANS

The private loan portfolio consists of a single loan provided to VIVAT and loans provided under the ASN Bank brand. The ASN loans have been provided to housing corporations, healthcare institutions and companies owned by or affiliated with the government. Such organisations align well with the social objectives of the ASN Bank brand and de Volksbank (specifically our shared value 'responsibility for society'). Most of these loans are secured by a government guarantee, a guarantee issued by the Social Housing Guarantee Fund (WSW) or a guarantee issued by the Guarantee Fund for the Health Care Sector (WfZ). As a result of the guarantees issued, this portfolio generally has an extremely low risk.

A single private loan is provided to VIVAT, the insurance company. Savings mortgages are securitised within de Volksbank's securitisation programme, whereby the savings policy is taken out at VIVAT and the mortgage at de Volksbank. VIVAT receives a private loan from the bank to finance its (sub) participations in the securitisation entities. De Volksbank runs no credit risk on the private loan to VIVAT because, in the event of default, it may be set off against customers' savings premiums deposited at de Volksbank (amounts are equal in size). The loan must be regarded as encumbered. At year-end 2017, the loan amounted to € 702 million (2016: € 725 million).

SUSTAINABLE LOANS

A sustainable loan portfolio is maintained under the ASN Bank brand, comprising project loans to mainly organisations in the renewable energy sector that contribute to a sustainable society.
We mitigate concentration risk by a thorough knowledge of the sector, geographical distribution of investments and diversification by type of energy production (solar, wind, thermal storage) and underlying suppliers (solar panels, wind turbines). A major part of the loans we extend involve government-guaranteed electricity prices and purchase contracts.

LOANS AND ADVANCES TO THE PUBLIC SECTOR

Loans and advances to the public sector are mostly loans provided to Dutch municipalities and provinces and government-guaranteed loans to institutions.

LOANS AND ADVANCES TO BANKS AND INVESTMENTS

The loans and advances to banks and the investments are largely the result of liquidity management. Counterparties must meet stringent requirements and have good ratings to be included in the liquidity portfolio.

INTEREST RATE DERIVATIVES

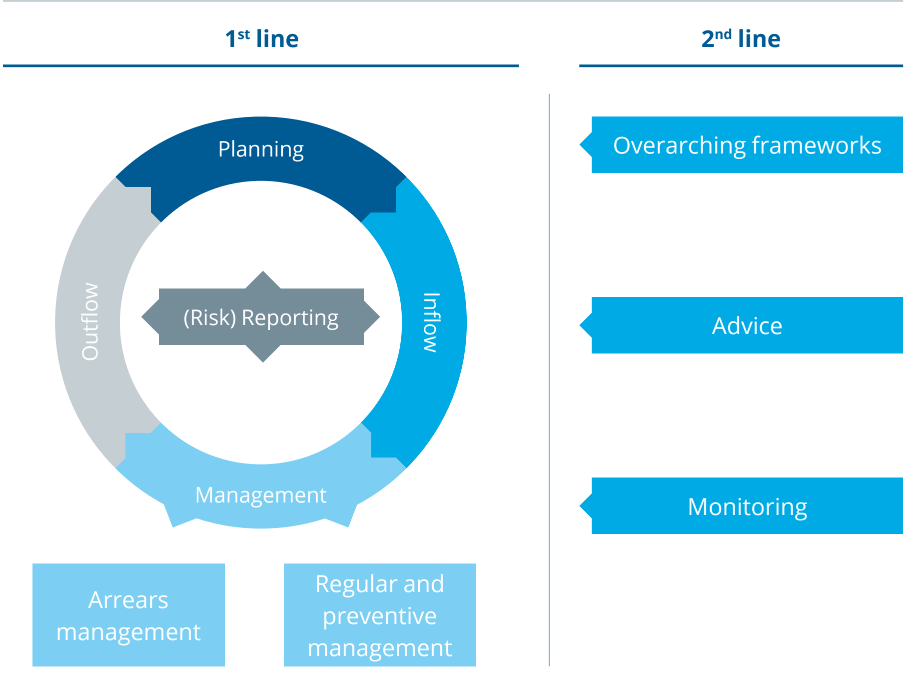
In the context of asset & liability management, we use interest rate derivatives. These positions create a counterparty risk, which is hedged by collateral when it exceeds a contractually agreed value. A maximum loan amount has been agreed for each counterparty, which is known as the credit line.

3.7.2 Management and control Audited EDTF 7 EDTF 27

RETAIL MORTGAGES

In credit risk management, we take into account the individual customer and on a portfolio level we manage the risk based on inflow, outflow, size and status of the healthy portfolio and the arrears portfolio. De Volksbank's credit management process is represented visually below.

Credit cycle management



Customers' interests are put first in the provision of new mortgage loans (inflow), which means that customers must be able to pay interest and make repayments now and in the future. We use the acceptance scorecard to predict long-term affordability by and for customers and see to it that the mortgages provided meet our internal standards regarding the customer's income and the collateral value. Our internal standards are in line with the legal frameworks.

We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee of Nationale Hypotheek Garantie (NHG). See also Section 3.7.10 Risk-mitigation.

We monitor the development of the portfolio mainly in terms of quality, collateral values such as the average Loan-to-Value or the percentage covered by NHG and the average expected loss. During 2017 we paid more attention to interest-only mortgages and how we can properly estimate the long-term affordability by the customer, including on the end date. The AFM urged Dutch banks to focus on this, as many customers with interest-only mortgages believed they would never be required to redeem (repay) the loan.

Second-line credit risk management defines frameworks, monitors portfolio quality and the execution of the management process and advises on opportunities for improvement.

For the outflow, we examine the reasons for redemption and, in the context of portfolio management, the characteristics of these items in terms of quality and estimated expected loss.

Early help to customers who are running into payment problems

ARREARS MANAGEMENT FOR RETAIL CUSTOMERS

We manage the credit risk through an active and targeted policy on customers in arrears in the arrears and default portfolio. De Volksbank regards a relationship of trust with the customer as the basis for any long-term solution.

If a customer turns out to have financial problems, they will be assigned their own case handler. If necessary, a staff member will pay a customer visit to explore options. Together with the customer, we look for solutions serving the customer's interests as well as the bank's interests. The point of departure is that the customer is able to stay in their home and continue making their mortgage payments in the future. If a customer is truly unable to meet the obligations, we may consult with them and agree a payment measure or a restructuring (known as 'forbearance'). If recovery is impossible, we support the customer in selling their home. Our aim is not to engage any external debt collection agencies or bailiffs, which means that de Volksbank itself will retain all contact with the customer and can have an optimum relationship with the customer. The use of external parties creates more costs for the customer and exacerbates their financial problems. Only if a customer *can* cooperate but refuses to do so will the bank engage a bailiff. De Volksbank has also decided to bring back items previously transferred to debt collection agencies in order to work towards a solution together with the customer.

FORBEARANCE

We may apply a forbearance measure in situations where a customer is expected to be unable to meet their financial obligations or to be unable to do so in time. We define a forbearance measure as an arrangement with the customer entailing a temporary or permanent modification of the loan, the terms and conditions of the loan and/or the conditions of payment. We may apply it to prevent payment problems from arising or increasing or to avoid situations in which the loan has to be repaid. The measure may entail a loss for the bank.

We have been taking forbearance measures at the customer level since the end of 2016. We have found that when a customer struggles to pay one product, this customer's other debt products are also more at risk. We apply forbearance measures to all of that customer's debt products and classify all of that customer's contracts as 'forborne'. This is in line with the policy pursued by arrears management, where we look at the customer's situation as a whole to decide which measures are appropriate.

We continuously evaluate the effectiveness of the management processes that are part of the credit management process and introduce improvements where possible.

SME PORTFOLIO

We record our SME customers' payment behaviour and use this information, along with other data, in behavioural scoring models to monitor long-term affordability by and for these customers. The models calculate a predictive probability of default – the failure to make contractually agreed payments (interest and any repayments) – and the probable loss for the bank in the event of default. In 2017, we started a risk-driven review based on the model results; the model largely determines which customers we will proactively contact. The models give us an understanding of the customer's and the portfolio's risk profiles, thereby contributing to the management process.

ARREARS MANAGEMENT FOR CORPORATE CLIENTS

We take action as soon as a corporate client falls into arrears or states that it anticipates payment problems, and we do so based on the key principles of continuity of the company (client) concerned and the potential for loan recovery. Together with our client, we explore the options for making the company financially resilient again, i.e. we focus on a healthy liquidity and profitability position. If and when a client has recovered and a stable situation has arisen, arrears management supervision ceases and the client is transferred back to regular management. If recovery turns out to be impossible, we may support the customer in selling the collateral. In such a situation, the aim is to limit losses for the customer as well as the bank.

PRIVATE LOANS

In mid-2017, the management of private loans under the ASN Bank brand was transferred from ACTIAM to the ASN Sustainable Loans Risk Management department, part of de Volksbank. This transition means that de Volksbank now monitors all private loans and the corresponding risk profiles internally and no longer depends on an external party.

SUSTAINABLE LOANS

We use an internally developed rating model for sustainable project loans (under the ASN Bank brand). We make an assessment of the characteristics of the financial structure, the financial strength of the project and the parties involved, the project's legal environment and the collateral provided. This assessment produces a score that we use to monitor a project's credit quality, to compare projects and to keep track of developments in the portfolio as a whole.

Rates are under pressure and returns are low in the sustainable loans market. In addition to our internal return targets, we also consider the social relevance of these loans (CO2 reduction) in our decisions on the relevant loan. The bank only funds the project if it satisfies the targets set.

REPORTING

We monitor developments in the loan portfolios and periodically report on this to the Credit Committee, the Board of Directors and the Risk Committee of the Supervisory Board.

Every month, we prepare a report on the mortgage portfolio based on the Risk Appetite Dashboard and discuss it with those responsible for, and the stakeholders in, the mortgage distribution chain. We provide a detailed report on the loan loss provisions on a quarterly basis, which gives insight into internal and external developments affecting the loan loss provisions.
Every quarter, second-line credit risk management also reports its view of the bank-wide credit risk in relation to the risk appetite determined. These reports are characterised by a qualitative assessment (in addition to a quantitative assessment) and short-term forecasts regarding the development of the types of risk reported.

STRESS TESTING AND SENSITIVITY ANALYSES EDTF 8

De Volksbank conducted several stress tests in 2017, both internal stress tests and stress tests imposed by the supervisory authority. We carried out the Internal Capital Adequacy Assessment Process based on figures from full year 2016 and an internal stress test based on figures from the second quarter of 2017. In the stress test, we determined the impact that an extreme yet plausible macroeconomic scenario would have on de Volksbank's credit risk. In this process we use specific stress test models, which are based on the historical relationship between portfolio developments and the main macroeconomic parameters. As regards the credit risk of our retail mortgage portfolio, unemployment rates and house price developments are the main parameters. We also examine how sensitive the portfolios are to fluctuations of macroeconomic parameters. Just like other banks, de Volksbank is sensitive to these fluctuations, but – thanks to its strong capital and liquidity position – the bank has proven capable of withstanding the extreme scenarios applied.

IFRS 9 STRESS TESTING

The concept of stress testing for credit risks may be defined as measuring the financial impact arising from credit risk as a result of one or more potentially 'unfavourable' scenarios. All balance sheet positions that are subject to credit risk are in scope. The credit risk stress test models have been developed for internal or ICAAP stress tests and external stress tests imposed by the supervisory authority (ECB/EBA). The models consist of a specific, IFRS 9 consistent, Point-in-Time (PiT) approach to predicting provisions and a specific Through-the-Cycle (TtC) approach to forecasting RWA. To predict the amount of provisions in a stress test, stress is applied as follows:

- At an aggregated level, exposures are reallocated to the (IFRS 9) stages using migration matrices based on stress scenarios;
- At an individual level, the same stress scenario is used to calculate a stressed 12-month and a lifetime expected loss (lifetime ECL) for all customers in the portfolio. This is done using the regular credit risk (IFRS 9) models.

3.7.3 Figures, ratios and trends Audited EDTF 26

CREDIT RISK EXPOSURE
The following table presents the credit risk exposure on the balance sheet. The provisions formed have been deducted from the receivables, but any collateral or other credit risk mitigating instruments have been disregarded.

Credit risk exposure Audited

in € millions	31-12-2017	31-12-2016
Cash and cash equivalents	2,180	1,911
Loans and advances to banks	2,643	2,918
Loans and advances to customers	49,322	48,620
Investments	4,932	5,139
Derivatives	1,075	1,533
Other	564	621
On-balance sheet exposure to credit risk	**60,716**	**60,742**
Liabilities from irrevocable facilities and guarantees	1,576	2,120
Repurchase commitment[1]	1,040	1,222
Off-balance sheet exposure to credit risk	**2,616**	**3,342**
Total maximum exposure to credit risk	**63,332**	**64,084**

1 As of 2016, repurchase commitments for mortgages are included in supervisory reporting. These commitments have a conversion factor of zero and therefore bear no weight for the EAD.

Making up 81% of the total at year-end 2017, 'Loans and advances to customers' was the most substantial category on the balance sheet. The increase observed can be explained by the growth of the mortgage portfolio by € 1 billion.

The 'Cash and cash equivalents' category concerns DNB deposits and loans and advances to credit institutions with a remaining maturity of less than one month. The 'Loans and advances to banks' category concerns loans and advances to credit institutions with a maturity of one month or more.

The 'Investments' category mainly involves government bonds of EU Member States or euro-denominated government bonds. The derivative position ensues from the hedging of the interest rate risk in the banking book (including the securitisation programmes).

LOANS AND ADVANCES TO CUSTOMERS BY CATEGORY AND REGION EDTF 26
The table below provides a further breakdown of the 'Loans and advances to customers' category.

Loans and advances to customers Audited

in € millions	31-12-2017	31-12-2016
Exposure retail loans	45,931	44,989
- of which retail mortgages	*45,820*	*44,824*
- of which retail other loans	*111*	*165*
Exposure commercial loans	2,577	2,578
- of which commercial loans to SME	*737*	*835*
- of which private loans	*1,840*	*1,743*
Loans to the public sector	814	1,053
Total	**49,322**	**48,620**

The exposures within 'Loans and advances to customers' are concentrated in the 'Retail mortgages' category (92.9%). An explanation of each category is given in Sections 3.7.4 Retail mortgages - to3.7.8 Loans and advances to the public sector.

Loans and advances by region Audited

in € millions	31-12-2017	31-12-2016
the Netherlands	48,524	47,883
EMU excl. the Netherlands	750	569
Swiss	4	98
United Kingdom	16	38
Other	28	32
Total	**49,322**	**48,620**

The table above illustrates the concentration on Dutch retail customers, in accordance with de Volksbank's strategy.

Loans and advances to customers 31 December 2017 Audited EDTF 28

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 Audited

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 accounting principles of the consolidated financial statements.
4 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million (2016: € 815 million).

IFRS value adjustments consist of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Compared to 2016, total gross loans and advances to customers rose by € 637 million to € 49.5 billion. The total loan loss provision as a percentage of total gross loans decreased to 0.30% in 2017, from 0.44% in 2016.

EXPOSURE AT DEFAULT EDTF 26

The exposure to credit risk is included below based on the Exposure at Default (EAD) from the regulatory report using the balance sheet based on IFRS standards. The table shows which adjustments need to be made to arrive at the EAD.

Total Exposure at Default (EAD) Audited

in € millions	31-12-2017	31-12-2016
Total assets (IFRS balance sheet total)	60,892	61,588
Items that are not subject to credit risk exposure	-176	-846
On-balance sheet exposure to credit risk	60,716	60,742
OFF-BALANCE SHEET		
Credit facilities and guarantees	1,576	2,120
Repurchase commitment	1,040	1,222
Total maximum exposure to credit risk	**63,332**	**64,084**
Valuation adjustments[1]	-3,470	-4,762
Recalculation off-balance credit facilities and guarantees to EAD[2]	-1,713	-2,072
Total Exposure at Default	**58,149**	**57,250**
Credit risk risk-weighted assets/total exposure at default	13.6%	15.2%

1 Under 'Valuation adjustments' adjustments are made for hedge accounting, the balance of netting derivative positions and an add-on for potential future exposure and credit risk mitigating items (particularly collateral).
2 Off-balance commitments are converted into EAD using a conversion factor. The repurchase commitments have a conversion factor of zero and therefore have no weighting for EAD.

3.7.4 Retail mortgages

MAIN DEVELOPMENTS IN 2017

The growth 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 reduced the average probability of default among our customers.

We further tightened the mortgage acceptance criteria in 2017, in which process we were guided by the customers' interests. After all, limiting credit risks is also beneficial to customers. We aim at maximum transparency in our terms and conditions, so that our customers know where they stand.

In recent years, we have made further improvements to our arrears and preventive management policy, which improved the portfolio risk profile. In 2017, the sum of the default loans fell to € 277 million (2016: € 422 million). The efforts of arrears management led to a lower inflow of default loans. The coverage ratio of retail mortgage loans decreased to 15.9% (2016: 19.0%).

KEY FIGURES EDTF 28

The table below shows the book value of the retail mortgage loans, including the specific provision and the Incurred But Not Reported (IBNR) provision.

Exposure to retail mortgages Audited

in € millions	31-12-2017	31-12-2016
Retail mortgage loans	45,438	44,938
Specific provision	-44	-80
IBNR provision	-28	-34
Total retail mortgage loans	**45,366**	**44,824**

The total exposure to retail mortgages rose by € 0.5 billion in 2017. Production increased as the market picked up. The increase in the total exposure was dampened by the higher number of repayments. Because of low savings rates, it is still attractive for customers to repay their mortgage or make accelerated payments.

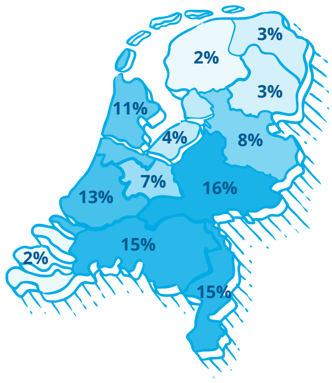
Retail mortgages by brand

in € millions	31-12-2017	31-12-2016
BLG Wonen	14,383	15,282
RegioBank	6,962	6,149
SNS	24,093	22,813
Total remaining principle amounts	**45,438**	**44,244**
Credit provision	-72	-114
IFRS value adjustments[1]	454	694
Total book value	**45,820**	**44,824**

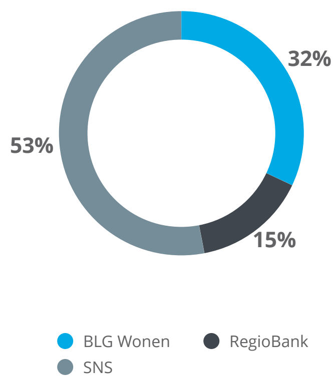
1 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

As the table above shows, the SNS brand manages the largest part of the mortgage portfolio within de Volksbank (more than half: 53%).

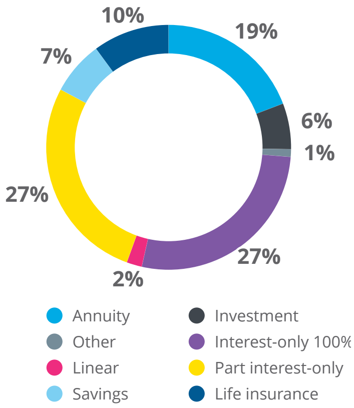
Retail mortgages by province



Retail mortgages by brand



Retail mortgages by redemption type



Retail mortgages by redemption type

in € millions	31-12-2017	31-12-2016
Interest-only (100%)	12,344	13,189
Interest-only (partially)	12,474	12,265
Annuity	8,571	5,783
Investment	2,896	3,268
Life insurance[1]	4,622	5,185
Savings	3,303	3,604
Linear	796	525
Other	432	425
Total remaining principle amounts	**45,438**	**44,244**
Credit provision	-72	-114
IFRS value adjustments[2]	454	694
Total book value	**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.

Interest payments on mortgages provided as from 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 annuity and linear mortgages in the total retail mortgage portfolio increased. The total gross amount of these mortgages also increased. The share of full or partial interest-only mortgages in the mortgage portfolio dropped from 58% in 2016 to 55% 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 (Loan-to-Value). Further on in this section, a table presents all retail mortgage loans classified by LtV bucket.

Interest-only (100%) mortgages 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%**

We are observing a positive trend for full interest-only mortgages across all LtV buckets, which is a shift to lower LtV classes.

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

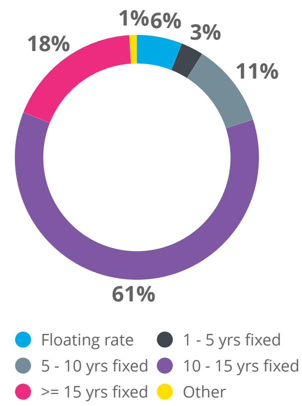
De Volksbank has performed an analysis to determine which customers with a full interest-only mortgage will, in all probability, be unable to repay or refinance the principal at the end of the term. About 200 customers have been classified as ‘Unlikely-to-Pay’ for that reason. At the end of 2017, € 4 million in provisions was maintained for these customers (loans).

Retail mortgages by fixed-rate maturity

in € millions	31-12-2017	31-12-2016
Floating rate	2,754	3,540
≥ 1 and < 5 yrs fixed	1,331	1,757
≥ 5 and < 10 yrs fixed	5,108	6,640
≥ 10 and < 15 yrs fixed	27,810	24,604
≥ 15 yrs fixed	8,001	7,262
Overig	434	441
Total remaining principle amounts	**45,438**	**44,244**
Credit provision	-72	-114
IFRS value adjustments[1]	454	694
Total book value	**45,820**	**44,824**

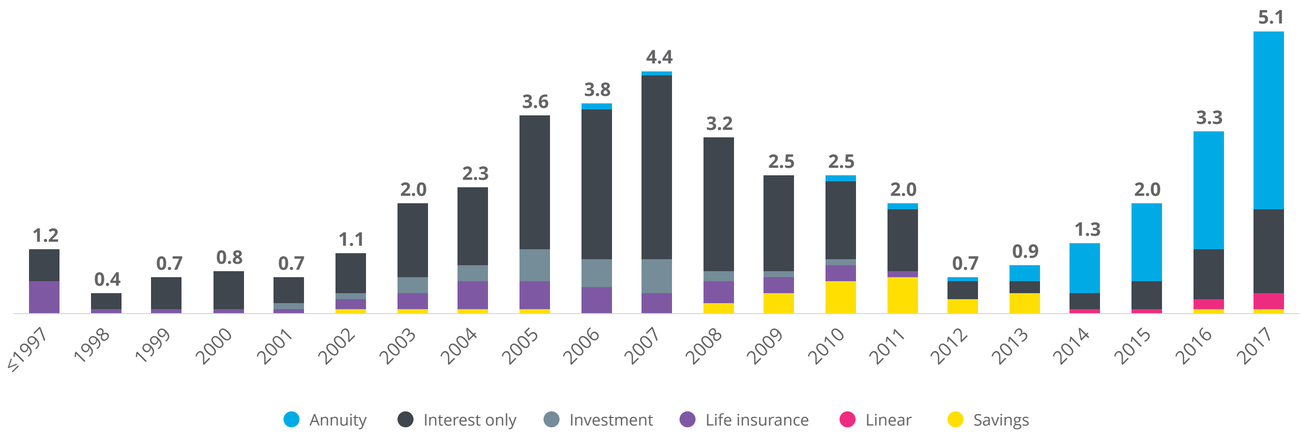
1 Consisting of fair value adjustments of mortgages measured at fair value, fair value adjustments from hedge accounting and amortisations.

Retail mortgages by fixed-rate maturity



The retail mortgage loans with a fixed-rate period of ten years or more grew and the mortgages with a fixed-rate period of less than ten years decreased, in line with the trend visible in 2015 and 2016. This shift was driven by the persistently low interest rates. In all, the share of mortgages with a fixed-rate period between 10 and 15 years increased from 56% in 2016 to 61% in 2017.

Retail mortgages by year of origin (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 mortgages from the acquisition of RegioBank were fully recognised in the year 2007. The effect amounts to approximately € 0.7 billion.

LOAN-TO-VALUE (LTV)

The LtV is the amount of the (remaining) loan expressed as a percentage of the value of the collateral. A low LtV represents favourable security for the loan based on the collateral value. Any NHG guarantee issued for a loan serves as additional security. A low LtV is favourable to customers, as it reduces the likelihood of a mortgage loan balance. In 2017, the maximum regulatory LtV for new mortgages dropped by 1%-point to 101%. In 2018, it will be lowered further to 100%.

As a major part of the current portfolio consists of mortgages taken out prior to 2013, the impact of the policy with regard to the lending percentage – which was tightened in the past few years – is visible in the figures to a limited extent only. The credit risk profile is set to improve in the years ahead on the back of the tightened lending conditions and criteria. Repayments of current mortgages and the provision of practically all new loans based on the type of repayment will improve the credit risk profile.

The overview in the next table shows a breakdown of all mortgage loans categorised according to LtV bucket.

Breakdown retail mortgages by LtV bucket

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. Collateral values are indexed every month on the basis of house price developments. The rising house prices triggered a shift of loans to lower LtV buckets, supported by regular and additional repayments.

The amount of an NHG guarantee on a mortgage decreases on an annuity basis, regardless of the type of redemption of the mortgage. In the table above, the NHG category shows the loans outstanding that are fully or partly covered by an NHG guarantee. In 2017, the limit for an NHG guarantee was maintained at a maximum house price of € 245,000.

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

RETAIL MORTGAGE ARREARS / ARREARS MANAGEMENT EDTF 28

The table below shows the arrears in retail mortgage loans. A customer is in arrears if the payment of the interest and/or redemption amount is late by more than one day. In practice, this amounts to the overdue payment of the agreed monthly instalment. A customer is recorded as being 'in default' when any of the following situations occurs:

- the customer has failed to meet their payment obligations for at least three months; or
- it is unlikely that the customer will be able to meet, or continue to meet, their payment obligations;
- there are special events, such as the consequences of a divorce or in the event of fraud.

Items only lose their default status once the arrears have been cleared in full. Retail mortgages without arrears did not decrease in value.

Retail mortgage loans in arrears Audited

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.

In 2017, the total book value of retail mortgage loans in arrears decreased to € 559 million (-21%) compared to 2016 (€ 705 million). This decrease was visible in all periods in arrears and was due to our intensified focus on recoveries and preventing new payment arrears altogether. The decrease was further supported by the economic circumstances.

MOVEMENTS IN PROVISION EDTF 28

The table below shows the movements in the provision for 2017.

Movement provision retail mortgages Audited

	Specific		IBNR		Total	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Opening balance	80	207	34	50	114	257
Write-offs	-22	-75	-1	-7	-23	-82
Additions	17	22	10	13	27	35
Releases	-33	-78	-15	-22	-48	-100
Other changes	2	4	-	-	2	4
Closing balance	**44**	**80**	**28**	**34**	**72**	**114**

The specific loan loss provision for the retail mortgage portfolio dropped by € 36 million during the course of 2017 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 write-offs of the provision was lower than in 2016 as 2017 saw fewer forced sales and improved results on homes sold (compared to 2016).

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 still lower than in 2016, mainly driven by a lower inflow of new default loans and improved credit quality of the retail mortgage portfolio.

The IBNR provision dropped by € 6 million to € 28 million in 2017. This is in line with the lower risk profile of the retail mortgage portfolio.

COVERAGE RATIO EDTF 30

The coverage ratio gives the coverage of the specific provision in relation to the impaired default loans, expressed as a percentage (see the table below).

Coverage ratio retail mortgages Audited

in € millions	31-12-2017	31-12-2016
Gross amounts	**45,438**	44,244
Loans in arrears[1]	541	682
Non default	264	260
Impaired default	277	422
Specific provision	-44	-80
Percentage loans in arrears	1.2%	1.5%
Impaired ratio	0.6%	1.0%
Coverage ratio	15.9%	19.0%

1 'Loans in arrears' do not include mortgages that are stated at market value in the balance sheet (2017: € 18 million, 2016: € 23 million).

In 2017, impaired default loans fell by € 145 million to € 277 million (2016: € 422 million), driven by effective arrears management efforts and supported by a further improvement of the Dutch economy and housing market. The inflow in default was also lower as a result.

PORTFOLIO BREAKDOWN BY INTERNAL RATING GRADE EDTF 15

In order to weigh the credit risk in this portfolio, we use an internally developed AIRB (Advanced Internal Ratings-Based) model. It consists of models for Probability of Default (PD), (Downturn) Loss Given Default (LGD) and Exposure at Default (EAD). The rating model calculates the likelihood of a customer running into payment problems within one year and the resulting losses expected for the bank. We use the results to determine the risk-weighted assets (RWA) of the retail mortgage portfolio. They form the basis of the loan loss provision calculations, but also serve as input for the management process and internal risk reports.

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

PD-risk category retail mortgages 2017

Internal rating grade	Average LGD	Average PD	EAD	RWA (or band)
1	8.87%	0.08%	10,665	195
2	9.88%	0.21%	6,069	267
3	12.68%	0.32%	8,991	680
4	15.79%	0.47%	8,110	1,008
5	18.87%	0.72%	3,952	796
6	19.93%	1.05%	979	268
7	15.41%	1.30%	2,802	680
8	20.77%	1.76%	1,058	420
9	17.10%	3.36%	770	369
10	15.17%	7.02%	610	380
11	17.29%	13.81%	258	240
12	15.41%	23.67%	215	202
13	17.26%	44.68%	186	182
Default	20.63%	100.00%	286	384
Total			**44,951**	**6,071**

PD risk category retail mortgages 2016

Internal rating grade	Average LGD	Average PD	EAD	RWA (or band)
1	8.80%	0.07%	9,933	175
2	8.81%	0.19%	5,299	202
3	11.45%	0.32%	6,763	450
4	13.79%	0.43%	7,687	813
5	17.72%	0.71%	5,363	990
6	18.72%	1.23%	1,153	290
7	13.22%	1.26%	3,040	618
8	18.37%	2.01%	1,214	417
9	15.41%	3.44%	944	400
10	14.07%	6.87%	842	479
11	15.49%	13.36%	338	277
12	14.52%	21.80%	253	220
13	15.71%	41.85%	210	183
Default	19.83%	100.00%	408	399
Total			**43,447**	**5,913**[1]

1 Not including the 10% MOC step up in 2016 (€ 591 million).

The RWA density of retail mortgages decreased from 15.0% at year-end 2016 to 13.5%. In December 2014, de Volksbank was given permission to use its IRB model to calculate the capital requirement of its mortgage portfolio. This was subject to the compulsory condition to develop a new MoC model, for which de Volksbank filed an application in December 2016. In September 2017, the ECB communicated its final findings arising from the IRB model review. De Volksbank must apply an MoC surcharge on PDs and LGDs until the findings identified in the review have been resolved. This surcharge translated into a limited increase in the PDs and LGDs in 2017. This PD and LGD surcharge has replaced the static surcharge of 10% of RWA on the mortgage portfolio used until that time (2016: € 591 million). This dynamic MoC triggered an increase in the RWA density of the retail mortgage value by € 503 million.

As de Volksbank uses internally developed models, 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 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.

3.7.5 Other retail loans EDTF 26 EDTF 28

MAIN DEVELOPMENTS IN 2017

The size of the 'other retail loans' portfolio continued to decrease during the course of 2017, from € 191 million gross at the end of 2016 to € 139 million at year-end 2017. The drop was caused by repayments of, and an outflow of customers with, personal loans and revolving credit (there was no inflow, as these products are no longer recognised on our own balance sheet) and a lower negative balance in current accounts. The latter development is a trend in the Dutch market. One of the factors underpinning the total decline is the improved economic climate. In line with the portfolio development, we saw the amount of loans and advances in arrears drop from € 44 million in 2016 to € 37 million in 2017.

KEY FIGURES

The tables below present the advances, arrears and provisions for other retail loans.

Exposure to other retail loans Audited

in € millions	31-12-2017	31-12-2016
Other retail loans	139	191
Specific provision	-27	-25
IBNR provision	-1	-1
Total other retail loans	**111**	**165**
Impaired default	34	40
Non default	3	4
Loans in arrears	**37**	**44**
Percentage loans in arrears	26.6%	23.0%
Impaired ratio	24.5%	20.9%
Coverage ratio	79.4%	62.5%

The coverage ratio of the portfolio rose to 79.4% in 2017.

Arrears in other retail loans Audited

in € millions	31-12-2017	31-12-2016
No arrears	102	147
Arrears non-default loans	**3**	**4**
- of which 1 - 3 months in arrears	*3*	*4*
Arrears impaired default loans	**34**	**40**
- of which 1 - 3 months in arrears	*4*	*7*
- of which 4 - 6 months in arrears	*1*	*2*
- of which 7 - 12 months in arrears	*2*	*2*
- of which > 12 months in arrears	*27*	*29*
Subtotal arrears	**37**	**44**
Credit provision	-28	-26
Totaal	**111**	**165**

MOVEMENTS IN PROVISION

In 2017, the provision for other retail loans rose slightly from € 26 million at the end of 2016 to € 28 million at the end of 2017.

Statement of changes in provision for other retail loans Audited

	Specific		IBNR		Total	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Opening balance	25	33	1	2	26	35
Write-offs	-5	-9	-	-	-5	-9
Additions	7	3	-	-	7	3
Releases	-	-2	-	-1	-	-3
Closing balance	**27**	**25**	**1**	**1**	**28**	**26**

3.7.6 SME loans EDTF 26

MAIN DEVELOPMENTS IN 2017

The risk profile of the SME loan portfolio improved on the back of positive economic developments in 2017. Customers have not been actively approached (acquisition) and hardly any new loans have been provided to SME customers for several years, which has translated into a considerably smaller portfolio. On top of this, in the context of an EC Remedy (see also Section 5.6 Update EC commitments) de Volksbank has pursued an active policy to reduce the number of loans with a remaining principal of more than € 1 million. The relevant campaign ended during 2017. Fulfilling its role in society, de Volksbank has launched an initiative to again provide new loans specifically to small companies in the next few years. We offer small companies possibilities to obtain funding where this generally proves difficult in the market. The portfolio may grow slightly as a result. In 2017, this loan portfolio declined from € 835 million (net of provisions) at the end of 2016 to € 737 million at the end of 2017. The loans in arrears dropped relatively faster, from € 146 million in 2016 to € 104 million at the end of 2017. Loans that are not in arrears and did not decrease in value are divided into seven exposure classes. In 2017, 95% of these loans were categorised in the first four exposure classes (in 2016: 94%). The collateral predominantly consists of property.

KEY FIGURES EDTF 28

Exposure to SME loans Audited

in € millions	31-12-2017	31-12-2016
SME loans	786	909
Specific provision	-47	-70
IBNR provision	-2	-4
Total retail other loans	**737**	**835**
Impaired default	104	146
Non default	-	0
Loans in arrears	**104**	**146**
Percentage loans in arrears	13.2%	16.1%
Impaired ratio	13.2%	16.1%
Coverage ratio	45.2%	47.9%

Rising collateral values and a few impairments of major long-term default items for which a substantial provision had been created translated into a lower coverage ratio.

Arrears in SME loans Audited

in € millions	31-12-2017	31-12-2016
No arrears	682	763
Arrears non-default loans	-	-
Arrears impaired default loans	**104**	**146**
- of which 1 - 3 months in arrears	*3*	*19*
- of which 4 - 6 months in arrears	*4*	*4*
- of which 7 - 12 months in arrears	*11*	*10*
- of which > 12 months in arrears	*86*	*113*
Subtotal arrears	**104**	**146**
Credit provision	-49	-74
Totaal	**737**	**835**

MOVEMENTS IN PROVISION
The movements in the provision for SME loans for 2017 are presented below.

Statement of changes in provision for SME loans Audited

	Specific		IBNR		Total	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Opening balance	70	95	4	4	74	99
Write-offs	-19	-26	-	-	-19	-26
Additions	10	12	-	-	10	12
Releases	-17	-15	-2	-	-19	-15
Other changes	3	4	-	-	3	4
Closing balance	**47**	**70**	**2**	**4**	**49**	**74**

The improved economic conditions combined with better arrears management ensured a lower inflow and a decrease in the number of existing default customers. The lower inflow translated into lower additions to the provision compared to 2016. The decrease in the number of existing default customers and higher proceeds from foreclosures triggered releases in 2017 (just like in 2016).

3.7.7 Private and sustainable loans

Private loans Audited

in € millions	31-12-2017	31-12-2016
Private loan to VIVAT	702	725
Private loans ASN Bank	1,074	949
- of which sustainable project funding ASN Bank	*580*	*346*
Other loans to private sector	64	69
Total	**1,840**	**1,743**

MAIN DEVELOPMENTS IN 2017
The size of the total private loan portfolio increased in 2017, mainly driven by the higher number of sustainable loans arranged under the ASN Bank brand. The other private loans at the ASN Bank brand are gradually declining due to periodic repayments.

3.7.8 Loans and advances to the public sector

Loans and advances to the public sector Audited

in € millions	31-12-2017	31-12-2016
Netherlands	566	754
Belgium	248	206
Switzerland	-	93
Total	**814[1]**	**1,053**

1 Loans and advances to the public sector include private loans ASN Bank for an amount of € 566 million (2016: € 685 million).

As fewer cash loans have been provided to the public sector, at year-end 2017 the total loans and advances decreased, compared to 2016. The credit risk on these loans and advances is very low because it concerns government-guaranteed loans to local authorities.

3.7.9 Investments Audited

De Volksbank has a bond portfolio, which is used for liquidity management. A breakdown of these fixed-income investments according to rating and country is set out in the tables below, followed by breakdowns for the ASN Bank portfolio and the other commercial portfolio.

Breakdown of fair value investments (rating) Audited

in € millions	31-12-2017	31-12-2016
AAA	2,707	2,691
AA	1,945	2,165
A	234	232
BBB	30	30
< BBB	-	-
No rating	16	21
Total	**4,932**	**5,139**

Breakdown of fair value investments (countries) Audited

in € millions	31-12-2017	31-12-2016
Germany	1,488	1,337
Netherlands	1,169	1,292
France	699	936
Belgium	577	665
Austria	396	389
Luxembourg	245	197
Ireland	118	120
Finland	122	82
Switzerland	58	60
Italy	30	30
Sweden	26	26
Other countries	4	5
Total	**4,932**	**5,139**

INVESTMENTS ASN BANK PORTFOLIO
The table below provides a breakdown of investments in the ASN Bank portfolio.

Investments ASN Bank portfolio Audited

in € millions	31-12-2017	31-12-2016
Government bonds	2,850	3,217
Greenbonds and sustainable bonds	542	465
Other (corporate)bonds	622	656
Equity	12	16
Total	**4,026**	**4,354**

GOVERNMENT BONDS
As only government bonds denominated in euros qualify for the ASN Bank portfolio, the portfolio has a relatively low risk profile.

GREEN BONDS AND SUSTAINABLE BONDS
'Green bonds' allow de Volksbank to invest in fixed-income securities in the fields of renewable energy, energy reduction and biodiversity. These bonds contribute to achieving our internal objective of having a climate-neutral balance sheet by 2030.

INVESTMENTS OTHER COMMERCIAL PORTFOLIO

Investments other commercial portfolio Audited

in € millions	31-12-2017	31-12-2016
Government bonds	693	620
Other (corporate)bonds	209	160
Equity	4	5
Total	**906**	**785**

The increase in the other portfolio is attributable to liquidity management.

3.7.10 Risk mitigation EDTF 26 EDTF 29 EDTF 30

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

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

The amounts eligible for offsetting pursuant to the International Swaps and Derivatives Association (ISDA) contracts are related to derivatives amounting to € 706 million (2016: € 989 million).

The other financial collateral of € 1,305 million included in amounts due to banks as at year-end 2017 (2016: € 724 million) relates to repo transactions with government bonds as collateral.

Financial assets and liabilities 2017 Audited

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	1,075	-	1,075	706	157	-	212
Loans and advances to customers	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Total financial assets	**1,075**	**-**	**1,075**	**706**	**157**	**-**	**212**
Derivatives	1,252	-	1,252	706	361	-	185
Amounts due to banks	2,681	-	2,681	-	-	1,305	1,376
Total financial liabilities	**3,933**	**-**	**3,933**	**706**	**361**	**1,305**	**1,561**

1 Related amounts not set off in the balance sheet value.

Financial assets and liabilities 2016 Audited

in € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments[1]	Cash collateral[1]	Other financial collateral	Net value
Derivatives	1,533	-	1,533	989	234	-	310
Total financial assets	**1,533**	**-**	**1,533**	**989**	**234**	**-**	**310**
Derivatives	1,861	-	1,861	989	622	-	250
Amounts due to banks	1,446	-	1,446	-	-	724	722
Total financial liabilities	**3,307**	**-**	**3,307**	**989**	**622**	**724**	**972**

1 Related amounts not set off in the balance sheet value.

COLLATERAL EDTF 30

Retail mortgages

We subject the inflow to monitoring to ensure that the mortgage loans provided meet adequate standards in respect of customer, income and collateral. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee by NHG. Of the Internal Ratings-Based (IRB) exposure class 'Retail mortgages', € 12.9 billion (2016: € 12.4 billion), i.e. almost 29%, of the exposure comes under the NHG guarantee scheme (see the next table).

Every month, collateral values are indexed based on house price developments. We do so using indices (by municipality and type of collateral) that we purchase from third parties. For our portfolio management, we adjust the collateral value both upwards and downwards. This means that where developments are negative, the Loan-to-Value will be adjusted but the surcharge that the bank passes on to customers will not be raised.

In the most extreme scenario – foreclosure, that is, forced sale of the collateral – the bank instructs an appraiser of its choosing to (re)value the collateral.

SME portfolio

We verify the value of immovable property in this portfolio at least once a year on the basis of current market data. If the market conditions give cause to do so, we perform more frequent checks. The revaluation period for property depends on the amount of debt. If the debt (the exposure) exceeds € 1 million, the property must be revalued once every three years; no revaluation is required if the debt is lower. A revaluation may also be initiated as part of the (arrears) management process. As soon as we commence the arrears management process for a credit facility that has been declared to be in default, we have a revaluation conducted as a standard procedure. A revaluation is also made if, upon a check, the information received indicates that the value of the property has dropped sharply in comparison to general market prices.

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

The table below shows how exposures were collateralised as at year-end 2017.

The standardised exposure classes concern the book values increased by off-balance sheet commitments. The IRB exposure class retail mortgages concerns the EAD of on-balance sheet mortgages increased by off-balance sheet commitments.

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

Guarantees for 'Corporates' are government-issued guarantees for, for example, healthcare institutions or housing corporations. The collateral of loans and advances to banks predominantly consists of financial collateral. The collateral of SME loans predominantly consists of property.

We do not use credit derivatives as collateral.

Exposure secured by collateral, guarantees and credit derivatives 2017

in € millions	Exposure at Default	Secured by guarantees	Secured by credit derivatives	Secured by collateral
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	6,872	-	-	-
Regional governments or local authorities	2,545	-	-	-
Public sector entities	29	37	-	-
Multilateral developments banks	289	-	-	-
International organisations	20	-	-	-
Financial institutions	1,471	1,691	-	58
Corporates	745	937	-	1,310
Retail excl. mortgages	354	-	-	32
Secured by mortgages immovable property	390	-	-	1
Exposures in default	64	-	-	2
Items associated with particular high risk	1	-	-	-
Covered bonds	40	-	-	-
Equity exposures	17	-	-	-
Other Items	287	-	-	1
Total standardised approach	**13,124**	**2,665**	**-**	**1,403**
IRB EXPOSURE CLASSES				
Retail mortgages	44,951	12,879[1]	-	42,922[2]
Securitisation	74	-	-	-
Total IRB approach	**45,025**	**12,879**	**-**	**42,922**
Total exposure	**58,149**	**15,543**	**-**	**44,325**

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

2 This collateral concerns the market value of the mortgage collateral to the maximum of the mortgage loan. The amount does not include collateral value regarding off balance exposures that are included in the EAD.

Exposure secured by collateral, guarantees and credit derivatives 2016

in € millions	Exposure at Default	Secured by guarantees	Secured by credit derivatives	Secured by collateral
STANDARDISED EXPOSURE CLASSES				
Central governments and central banks	6,989	-	-	-
Regional governments or local authorities	2,761	-	-	-
Public sector entities	35	40	-	-
Multilateral developments banks	282	-	-	-
International organisations	-	-	-	-
Financial institutions	943	1,715	-	80
Corporates	1,095	992	-	1,787
Retail excl. mortgages	181	-	-	-
Secured by mortgages immovable property	1,002	17	-	1
Exposures in default	93	-	-	-
Covered bonds	-	-	-	-
Equity exposures	21	-	-	-
Other Items	350	-	-	-
Total standardised approach	**13,752**	**2,764**	**-**	**1,868**
IRB EXPOSURE CLASSES				
Retail mortgages	43,447	12,398[1]	-	40,852[2]
Securitisation	51	-	-	-
Total IRB approach	**43,498**	**12,398**	**-**	**40,852**
Total exposure	**57,250**	**15,162**	**-**	**42,720**

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

2 This collateral concerns the market value of the mortgage collateral to the maximum of the mortgage loan. The amount does not include collateral value regarding off balance exposures that are included in the EAD.

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

Collateral concentration Audited

	31-12-2017	31-12-2016
Guarantees	26%	26%
COLLATERAL:		
- of which real estate	72%	71%
- of which financial collateral	2%	3%
Total	**100%**	**100%**

COUNTERPARTY RISK ON DERIVATIVE POSITIONS

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

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

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

Other risk-mitigating measures include the following:

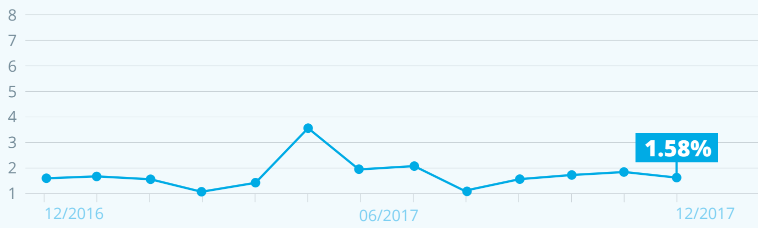
- De Volksbank checks every day whether the fair value development of positions with collateral arrangements are proportionate to the collateral received or to be provided;
- De Volksbank settles forward exchange transactions via the Continuous Linked Settlement system, a global settlement system that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

De Volksbank agreed in a number of ISDA/CSAs with the counterparty that de Volksbank will provide more collateral if de Volksbank's credit rating deteriorates.

3.8 Market risk EDTF 2 EDTF 3

Because of the historically low market rates and the expectation that they will rise slowly, we decided to keep the duration of equity low to limit our sensitivity to market rates. Our trading positions are limited.

Duration of equity in 2017



€75m

Volume of Earnings at Risk year-end 2017

Market risk exposure year-end 2017

Market risk may arise because de Volksbank concludes contracts and enters into obligations with customers and professional counterparties. We enter into these contracts and obligations to provide services to customers and to raise funding, to allocate funds and for other transactions as part of balance sheet management. Market risk occurs in the banking book and the trading portfolio.

3.8.1 Risk profile EDTF 24

The market risk in the banking book mainly comprises market interest rate risk. The equity risk is very limited with an equity exposure of € 16 million. The exchange rate risk is minimised by transferring that risk from the banking book to the trading portfolio on a daily basis, where this risk is also controlled on a daily basis. The banking book does not contain any exposure to commodities. The limited trading portfolio contains interest rate, credit spread and exchange rate positions.

Market rates showed a limited increase in 2017 as compared to the level of 2016. While in 2016 the interest rate drop caused much interest rate averaging and early renewals in the mortgage portfolio, early redemptions increased in 2017 while early renewals and interest rate averaging declined.

3.8.2 Management and control Audited EDTF 7 EDTF 25

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk management aims to protect and optimise the economic value of current and future interest cashflows and to achieve a stable net interest income. We take an optimal interest rate position, taking account of projected portfolio changes, economic conditions and the risk profile that the bank is aiming for.

In the assessment and management of interest rate risks we take into account matters such as:

- anticipated prepayments on mortgage loans;
- anticipated early adjustments of mortgage rates;
- behavioural aspects of demand deposits;

- customer options in the products;
- the current interest rate environment and its anticipated development.

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

The control measures we apply for EVE are 'duration of equity' and 'key rate durations'.

The duration of equity is the key measure of economic value sensitivity, which measures the percentage decrease in the EVE in the event of a parallel rate hike of 100 basis points (1%).

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

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

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

In 2017 we started using a new mortgage prepayment model. This prepayment model is used to estimate prepayments on mortgages. This model takes into account housing market expectations as well the exceptations about the level of market rates when predicting future prepayments.

MARKET RISK IN THE TRADING BOOK EDTF 8

The trading book may contain exposure to interest rate risk, credit spread risk and currency risk. Credit spread trading is only permitted by means of trade in bonds; the bank does not trade in credit default swaps. Exposure to equities or equity risk instruments also falls outside the scope of our policy.

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.

The VaR methodology is based on Monte Carlo simulations, with underlying probability distributions being based on historical data. The VaR models take account of interest rate, credit spreads and currency risk in the Monte Carlo simulations. Stress testing is based on fifteen stress scenarios.

3.8.3 Figures, ratios and trends EDTF 22 EDTF 23 EDTF 24

MARKET RISK PROFILE BANKING BOOK INTEREST RATE RISK

Specification interest rate risk

	31-12-2017	31-12-2016
Duration of equity	1.6	1.6
Earnings-at-Risk (in € millions)	€ 75	€ 66[1]
Credit spread risk liquidity portfolio (in € millions)	€ 413	n.a.

1 In 2017, EaR is presented on the basis of result for taxation. The comparative figures for 2016 have been adjusted accordingly.

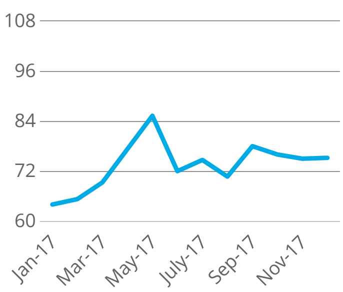
The current, historically low, market rates are taken into account when controlling the market rate risk. The main metrics for interest rate risk are 'duration of equity', 'key rate durations','Credit spread risk' and the 'earnings-at-risk'. We have defined limits for these metrics with the aim of protecting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

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

DEVELOPMENTS IN EARNINGS-AT-RISK

At year-end 2017, the EaR amounted to € 75 million before tax (2016: € 66 million). The EaR reflects the maximum impact on interest income in different scenarios over a one-year horizon. Interest income is most sensitive to the 'steepener' scenario, a steepening of the yield curve. In this scenario, the interest rates for less than 12 months gradually fall by a maximum of 200 basis points and the interest rates for more than 12 months gradually rise by a maximum of 200 basis points. The floor used for negative market rates is -0.75%, allowing short-term rates in a scenario to drop to -0.75%. These scenarios furthermore include narrowing margins on current account balances.

Development Earnings-at-Risk (in € millions)



The figure in the margin shows a graphical representation of the EaR movements in 2017.

MARKET RISK EXPOSURE TRADING AND NON-TRADING RISK

The overview below shows the balance sheet broken down by the risks associated with the banking book and the trading portfolio.

Market risk exposure trading and non-trading risk

in € millions	Carrying amount	Market risk measure Non-trading	Market risk measure Trading	Carrying amount	Market risk measure Non-trading	Market risk measure Trading	Primary Risk Sensitivity
	31-12-2017	31-12-2017	31-12-2017	31-12-2016	31-12-2016	31-12-2016	
ASSETS SUBJECT TO MARKET RISK							
Investments held for trading	162	-	162	831	-	831	interest rate, exchange rate, credit spread
Investments available for sale	4,932	4,932	-	5,139	5,139	-	interest rate, credit spread
Derivatives	1,075	812	263	1,533	1,310	223	interest rate, exchange rate, credit spread
Loans and advances to customers	49,322	49,322	-	48,620	48,620	-	interest rate
Loans and advances to banks	2,643	2,643	-	2,918	2,918	-	interest rate
Cash and cash equivalents	2,180	2,180	-	1,911	1,911	-	interest rate
Other	578	578	-	636	636	-	
Total assets	**60,892**	**60,467**	**425**	**61,588**	**60,534**	**1,054**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	498	498	-	501	501	-	interest rate
Debt certificates	4,900	4,900	-	5,696	5,696	-	interest rate, exchange rate
Derivatives	1,252	973	279	1,861	1,673	188	interest rate, exchange rate, credit spread
Savings	36,575	36,575	-	36,593	36,593	-	interest rate
Other amounts due to customers	10,280	10,280	-	10,835	10,835	-	interest rate
Amounts due to banks	2,681	2,681	-	1,446	1,446	-	interest rate
Other	4,706	4,706	-	4,656	4,656	-	
Total liabilities	**60,892**	**60,613**	**279**	**61,588**	**61,400**	**188**	

The overview shows that, in view of its activities, de Volksbank is particularly sensitive to the market interest rate risk of the banking book.

Sensitivity analyses illustrate the market interest rate risk run by the banking activities. The table below calculates the impact of an immediate parallel shift of the market yield curve of +100 or -100 basis points on the fair value of shareholders' equity, net interest income and IFRS equity. The reported outcomes are before taxation.

Sensitivity interest rates Audited

in € millions	31-12-2017 Interest rate + 1%	31-12-2017 Interest rate - 1%	31-12-2016 Interest rate + 1%	31-12-2016 Interest rate - 1%
Market value equity[1]	265	424	232	209
Net interest income[2]	49	-57	21[3]	-45[3]
Fair value option[4]	-3	8	3	2
Total result	**46**	**-49**	**24**	**-43**
IFRS equity[5]	-98	100	-119	107

1 The market value of equity reflects the changes in all assets and liabilities values in the banking book, including embedded options for the capped rate and interest rate dampener, at a market rate shock of 1%.
2 Net interest income shows the sensitivity of the net interest income to interest rate fluctuations for the first 12 months.
3 In 2017, net interest income is presented on the basis of result before tax. The comparative figures for 2016 have been adjusted accordingly.
4 Fair value option shows the sensitivity of the mortgage portfolio recognised at market value and the corresponding derivatives.
5 IFRS equity expresses the sensitivity resulting from the available-for-sale investment portfolio and the cashflow hedge derivatives to a parallel 100 basis point interest rate increase or decrease. The change in fair value of both of these items.

Fair value equity

An interest rate hike has a positive impact of € 265 million on the fair value of shareholders’ equity. The assets mainly consist of mortgages, the market interest rate sensitivity of which is hedged by means of derivatives to a great extent, especially by means of payer swaps. As a result, a market interest rate hike will trigger a drop in value of assets including the corresponding derivatives that is less significant than the drop in value of liabilities. Compared to 2016, the impact of a market rate increase on the fair value of the shareholders' equity is greater. This is because additional market rate sensitivity has been implemented in the new prepayment model.

The fair value of the shareholders' equity is sensitive to a fall in interest rates. This scenario does, however, have a positive effect of € 424 million on the fair value of the shareholders' equity. This is explained by the fact that it is assumed that swap rates can not fall further than -0.75% when calculating the impact of the fall in interest rates. It is furthermore assumed that customer rates on non-maturing deposits do not become negative. As a result, the fair value of the non-maturing deposits rises to a much lesser extent than the assets, resulting in a positive impact on the fair value of shareholders' equity. Compared to 2016, the impact of a fall in interest rates on the fair value of the shareholders' equity is greater. This is due to the fact that the rates of the instant-access savings in 2017 are closer to the 0% limit.

Net interest income

A parallel interest rate shift of 100 basis points yielded a positive impact on net interest income of € 49 million at year-end 2017 (2016: € 21 million), predominantly triggered by the rate hike boosting income from hedging instruments. In addition, the pass-through of the market rate hike has a positive effect on income from floating-rate mortgages and our liquidity position. A parallel shift of -100 bps will have a negative impact of € 57 million (2016: € 34 million), primarily driven by the assumption that the above decrease will be passed on to a lesser extent to the savings rates than to the floating-rate mortgage loans and the liquidity position.

Fair value of mortgages valued at fair value

As from the introduction of IFRS 9 on 1 January 2018, mortgages are no longer accounted for at fair value but at amortised cost as from the same date. The analysis below therefore shows the sensitivity of the mortgages at fair value by approximation during 2017. This sensitivity is no longer present on the balance sheet date.

A parallel shift of +100 basis points had a negative impact on mortgages accounted for at fair value and a positive impact on the related derivatives. These effects are reversed in the event of a parallel shift of -100 basis points. The negative impact of the aforementioned upward shift on mortgages accounted for at fair value was greater than the positive impact of the derivatives, resulting in an overall negative impact of € 3 million. With the aforementioned downward shift, the swap rates for the valuation of derivatives are capped at -0.75%, limiting the negative impact. This cap does not apply to the mortgage portfolio as customer rates are still positive in the event of a downward shift of 1%. In the event of a downward shift its negative impact on the derivatives will be more than offset by the positive impact ensuing from the mortgage portfolio, resulting in an overall impact of € 8 million[17].

Impact AFS portfolio on IFRS equity

For the AFS portfolio (available for sale portfolio), a parallel shift of +100 bps will have a negative impact on the fair value of the bonds in the AFS portfolio and thus on the IFRS equity. A parallel shift of -100 bps, on the other hand, will have a positive impact. The portfolio is partly hedged, as a result of which the interest rate derivatives partly negate the changes in value of the bonds. Due to the partial hedge, the influence on the AFS portfolio on the above-

17 Sensitivities are based on the mortgage portfolio as at 31 October 2017.

mentioned interest rate hike will remain negative (€ 98 million) and positive (€ 100 million) on balance in the event of an interest rate decrease. As a result of the partial reporting of this portfolio as 'Hold to Collect' from 1 January 2018 onwards, the impact of this downward parallel shift per that date will be considerably lower.

MARKET RISK PROFILE IN THE TRADING BOOK

De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. 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.

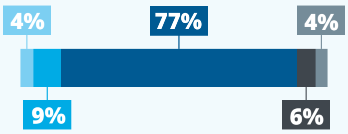
3.9 Liquidity management and financing EDTF 2 EDTF 3

The bank has a strong liquidity position to continuously meet its financial obligations. Savings are our most important source of funding. Our long-term credit ratings improved in 2017.

€10.6bn

Volume of strong liquidity buffer

Funding mix



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

Wholesale funding maturing in 2018 vs liquidity buffer

- Wholesale funding maturing in 2018
- Liquidity buffer

A-

Long-term senior unsecured credit rating at S&P and Fitch

Liquidity risk is the risk that the bank has insufficient liquid assets available in the short or long term to meet its financial obligations without incurring unacceptable costs or losses. This applies both under normal circumstances and in times of stress. Liquidity risk also includes the situation in which the balance sheet structure could develop in such a way that the bank suffers excessive exposure to a disruption of its sources of funding.

Liquidity management supports the bank's strategy within our risk appetite.

3.9.1 Risk profile EDTF 18

De Volksbank has a strong liquidity position so as to meet its financial obligations at all times. The bank manages its liquidity position in such a way that it can absorb the consequences of bank-specific and market-wide stress factors, such as tensions in the money and/or capital markets.

When financing its liquidity needs, the bank aims for diversification of its funding sources, in accordance with its strategy.

3.9.2 Developments in 2017

In 2017 de Volksbank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements. In 2017, de Volksbank successfully executed a number of funding transactions, namely:

- € 0.5 billion in (public) covered bonds with a 10-year term;
- € 430 million in covered bonds (private placements transactions) with a 15 - 20 year term;
- € 0.5 billion in senior unsecured debt with a maturity of 3 year.

The latter transaction, the first public issuance by the bank of senior unsecured debt securities since 2010, reflects de Volksbank's good access to the capital market.

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% (2016: 193%).

The ratio between loans outstanding and deposits taken (the Loan-to-Deposit ratio) rose from 103% 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 retail mortgage growth;
- Deposits declined by € 0.6 billion, primarily as a result of the transfer of investment accounts to NIBC Bank.

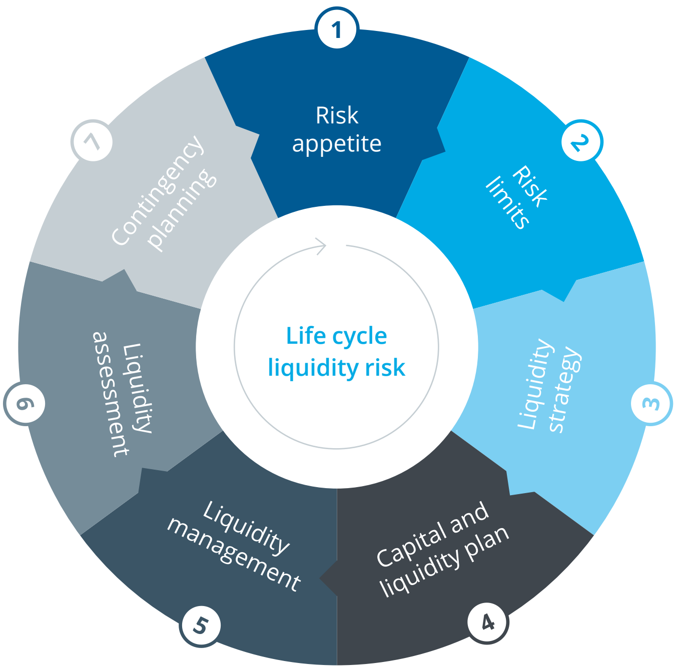
3.9.3 Management and control Audited EDTF 4 EDTF 7 EDTF 8 EDTF 18

Liquidity risk management begins by identifying, measuring and controlling the various types of liquidity risk. This system of frameworks, methods and guidelines is laid down in the liquidity risk policy.

LIQUIDITY RISK MANAGEMENT LAID DOWN IN A CYCLE

Liquidity risk management is laid down in a cycle consisting of seven elements. Combined, these elements form an integrated internal process that we use to continuously evaluate and manage our liquidity position.

Liquidity management process



THE LIQUIDITY MANAGEMENT CYCLE INCLUDES THE FOLLOWING ELEMENTS:

1. Every year, we determine the risk appetite for liquidity risk in conjunction with the bank's general risk appetite and strategic objectives.
2. We then use the risk appetite for liquidity risk as a basis for determining the level above which we feel comfortable, using specific risk indicators. In addition, we set an intervention ladder with risk indicator specific ranges to be used when follow-up action is required.
3. We review the liquidity strategy every year, laying down the guidelines for ensuring a balance sheet structure with maximum efficiency. In this process, we take account of the liquidity management objectives: an adequate liquidity and funding profile.
4. At least once per year we set measures in the capital and liquidity plan to meet the expected funding and liquidity needs ensuing from the

operational plan. This plan has a multi-year horizon. To this end, we make forecasts of relevant risk indicators compared with the internal standards and work out various scenarios. We make adjustments to achieve the desired liquidity position based on business plans and the requirements imposed by supervisory authorities, rating agencies and investors.

5. Liquidity management is an ongoing operational process and comprises the identification, measurement and management of the bank's liquidity position in line with its risk appetite, risk limits, policy and guidelines.
6. We determine the liquidity adequacy on a monthly basis (Liquidity Adequacy Assessment Report) and monitor it on a quarterly basis (Financial Risk Report) and on an annual basis (Internal Liquidity Adequacy Assessment Process Report). We compare the current risk profile with the risk limits. We use our findings to make adjustments to the actual liquidity position, risk appetite, policy or guidelines and to improve the risk management process. The (internal) assessment of the adequacy of our liquidity position and liquidity risk management is part of the ILAAP (Internal Liquidity Adequacy Assessment Process), and constitutes input for the Supervisory Review & Evaluation Process (SREP) of the ECB.
7. The recovery plan contains measures to strengthen the liquidity position in adverse circumstances. Our annual update of the recovery plan contributes to the bank's continuity (see Section 3.6.3 Management and control).

MANAGEMENT INSTRUMENTS

Cash position

Under normal circumstances, the cash position is the source of liquidity that we use to meet regular obligations. The cash position as defined by de Volksbank comprises:

- Central Bank reserves;
- the balance in accounts with correspondent banks;
- contractual cashflows of counterparties in money and capital markets taking place within no more than ten days.

Liquidity buffer

De Volksbank maintains a liquidity buffer, including the cash position, to absorb unexpected changes/increases in our liquidity need. In addition to the cash position, the liquidity buffer comprises (highly) liquid investments that are eligible as ECB collateral and can be sold in (highly) liquid markets or can be used in repo transactions.

The liquidity buffer mainly consists of government bonds and bonds of de Volksbank's own securitisations, known as Residential Mortgage Backed Securities (RMBS), with underlying mortgages of the bank. We determine the liquidity value of bonds in the liquidity buffer on the basis of the fair value of the bonds after application of the percentage haircuts determined by the ECB.

Liquidity stress testing EDTF 8

We determine the desired liquidity buffer size on the basis of stress tests performed on the bank's liquidity position. We then steer the liquidity to the desired level.

We test the robustness of the liquidity position by means of stress tests. Of the various scenarios that we have defined for this purpose, the so-called combined severe stress test has the highest impact. In this scenario we take into account, among other things:

- a strong outflow of savings and current account balances;
- a lack of funding options in money and capital markets;
- a decline in the fair value of bonds in the liquidity buffer;
- additional collateral requirements in the event of a 3-notch downgrade in the bank's credit rating;
- a decline in the fair value of derivatives;
- a possible liquidity outflow in the event that committed credit lines are drawn.

The bank's liquidity management is aimed at surviving this severe stress scenario for a certain minimum period of time. The impact of the stress scenario on the liquidity buffer therefore serves as input to determine and monitor the bank's risk capacity and risk appetite.

We perform the combined severe stress test every month and review the stress testing principles every year.

Key liquidity ratios
De Volksbank's LCR is based on the LCR Delegated Act definition. The purpose of the LCR is to test whether banks have sufficient liquid assets to absorb a thirty-day stress scenario. The NSFR serves to determine the extent to which longer-term assets are financed with more stable forms of funding. For both liquidity standards, a (future) regulatory minimum of 100% applies.

In addition to the LCR and NSFR, we focus on the Loan-to-Deposit ratio and the degree of asset encumbrance. We also monitor the liquidity that can potentially be generated from our assets. On this basis, we assess the extent to which we can absorb certain stress and extreme outflows.

3.9.4 Figures, ratios and trends EDTF 4 EDTF 18 EDTF 20

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

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

The table below shows the composition of the liquidity buffer, with liquid assets included at market value after applying the percentage haircut determined by the ECB.

Liquidity buffer composition Audited

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

1 The cash position comprises central bank reserves, current account balances held at correspondent banks and contractual cashflows of counterparties on money and capital markets maturing within ten days or less. As a result, the cash position differs from the cash and cash equivalents balance in the balance sheet.

The liquidity buffer remained high in 2017 and rose to € 10.6 billion, from € 10.5 billion at year-end 2016. This is more than sufficient to withstand the severe stress scenario for a certain period of time (see Section 3.9.3 Management and control).

The cash position increased by € 0.9 billion to € 3.8 billion in 2017. The funding need, mainly resulting from € 1.0 billion growth of the retail mortgage portfolio and € 3.1 billion wholesale funding redemptions, was more than offset by cash inflows and an increase in cash management investments within 10 days.

Liquid assets other than the cash position declined by almost € 0.9 billion.

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

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

3.9.5 Encumbered and unencumbered assets EDTF 19

The extent of asset encumbrance provides insight into the collateral used and available for funding to be raised or for other reasons.

Encumbered and unencumbered assets 2017

	Encumbered assets		Unencumbered assets	
in € millions[1]	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution	9,637		51,285	
Equity instruments	-	-	18	18
Debt securities	1,705	1,705	3,268	3,268
Other assets	7,550		43,690	
- of which mortgage loans	*6,842*		*38,814*	

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

Encumbered and unencumbered assets 2016

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

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

TOTAL ENCUMBERED ASSETS

At year-end 2017, € 9.9 billion (2016: € 10.0 billion) of the assets is encumbered on account of:

- outstanding securitisations;
- covered bonds;
- repurchase transactions;
- USD tender;
- CSAs;
- foreign exchange transactions;
- payment transactions.

The total encumbered assets mainly consist of pledged mortgages related to covered bonds and securitisation transactions. The total amount of liabilities related to these encumbered assets amounts to € 7.5 billion (2016: € 8.2 billion). They mainly consist of bonds issued within the covered bond programme and by the securitisation entities. Covered bonds involve overcollateralisation, which means that the volume of encumbered mortgages exceeds the notional principal of the covered bond.

UNENCUMBERED ASSETS

The unencumbered part of the assets amounts to € 51.0 billion and may partly be converted into cash, for example by securitisations. Securitised mortgages of which the bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral, for instance in a repurchase transaction.

POTENTIAL COLLATERAL DEPOSIT

In the event of a 3-notch downgrade of the bank's credit rating, we would have to deposit additional collateral totalling € 18 million with counterparties. We include this potential collateral deposit as outflow in the LCR and the combined severe liquidity stress test.

COLLATERAL RECEIVED

The bank received a total amount of € 212 million in collateral at year-end 2017 (2016: € 308 million). This consists entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

3.9.6 Funding strategy EDTF 21

The funding strategy supports the bank's strategy. In this regard, we aim to optimise and ensure access to diversified funding sources in order to maintain the bank's long-term funding position and liquidity profile, while complying with regulatory requirements at all times.

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

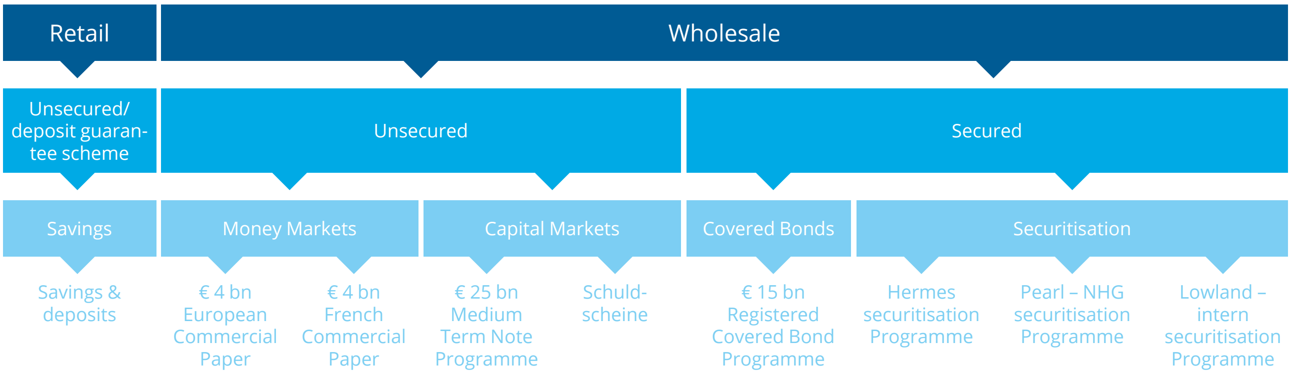
The bank issues capital market funding with a term in excess of one year by means of:
- senior unsecured debt;
- (mortgage) securitisations (RMBS);
- covered bonds;
- subordinated debt.

The covered bond programme not only permits the issue of public covered bonds but also private placements. In addition, we may obtain long-term funding using our liquid assets as collateral, for example in repo transactions.

The bank issues funding with a term of less than one year in the money markets via European and French commercial paper programmes.

The overview below presents the various public funding programmes (including maximum amounts) available to the bank at year-end 2017. In addition, the overview includes other important funding sources.

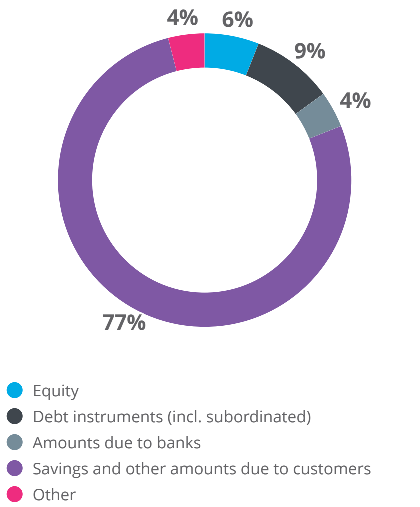
Funding instruments



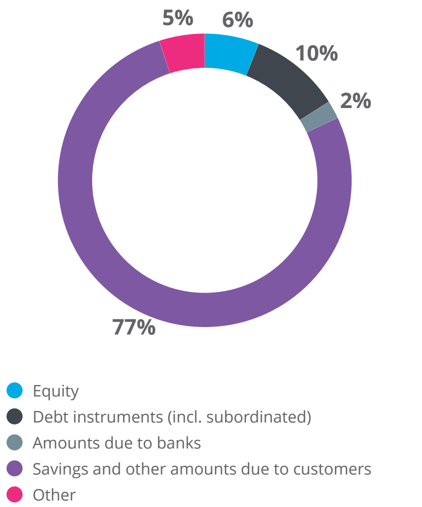
Through our different brands, we attract term deposits, sight deposits and current account balances from retail customers. In addition, the bank funds itself through savings and current account balances from SME customers. In 2017, funding from customers decreased to € 45.7 billion, from € 46.2 billion at year-end 2016. This decrease was largely the result of the transfer of investment accounts to NIBC Bank.

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

Equity and liability mix 2017: € 60.9 billion



Equity and liability mix 2016: € 61.6 billion



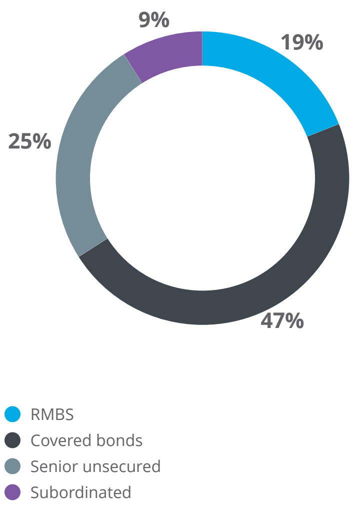
The change in the wholesale funding mix in 2017 (from € 7.4 billion to € 5.8 billion) was primarily the result of redemptions in respect of:

- covered bonds (€ 1.7 billion);
- debt certificates under the Hermes XVIII securitisation (€ 0.5 billion);
- senior unsecured funding (€ 0.4 billion).

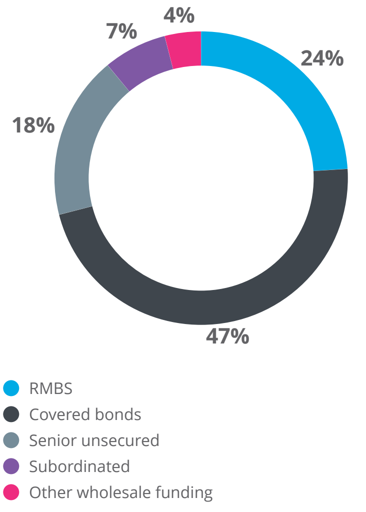
On the other hand, the following transactions were excuted:

- public and private covered bonds of € 0.9 billion;
- the public issuance of € 0.5 billion in senior unsecured debt.

Wholesale funding mix 2017: € 5.8 billion[1]



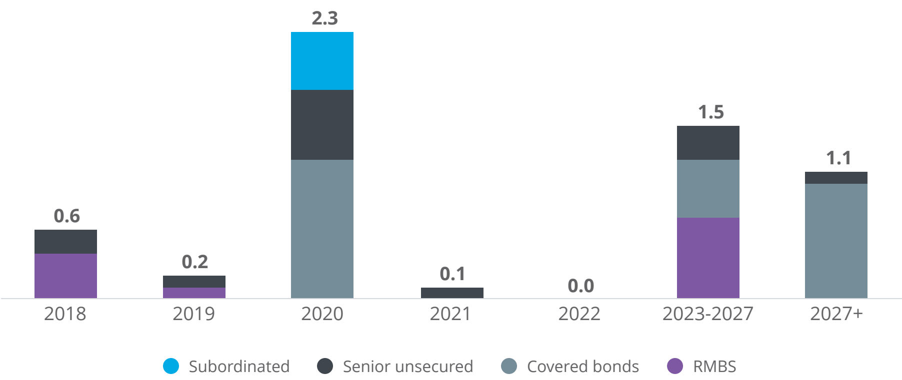
Wholesale funding mix 2016: € 7.4 billion[1]



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

Wholesale funding maturity calendar (in € billions)



MATURITIES OF ASSETS AND LIABILITIES

Set out below is an overview of assets and liabilities, with a breakdown by remaining contractual maturity. The net (assets minus liabilities) nominal amounts due at maturity give an indication of:

- the liquidity risk;
- obligations that may not be met in time from inflows.

The tables below represent the bank's liquidity profile at year-end 2017 and 2016 on the basis of the remaining contractual maturity. The cashflows have not been discounted. Non-maturity savings and current account balances are presented in the '<1 month' column. In the table, we maintain the contractual maturity without taking behavioural aspects into account.

The bank's asset & liability management does take behavioural aspects into account. A shorter term to maturity is used for mortgages due to anticipated prepayments. A longer term to maturity is used for non-maturity savings and balances in customers' current accounts because, under normal circumstances, customers tend to keep such products for more than one day .

Loans and advances to banks and amounts due to banks include collateral delivered and received related to derivative transactions. Allocation of this collateral over the maturity buckets is conducted in accordance with the maturity classification of the derivative contracts.

Remaining contractual maturity of assets and liabilities 2017 Audited EDTF 20

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments (interest bearing)	101	-	433	1,607	2,953	-	5,094
Derivatives	131	83	71	280	510	-	1,075
Loans and advances to customers	531	61	473	2,337	46,069	-149[1]	49,322
Loans and advances to banks	2,091	38	78	100	336	-	2,643
Other assets	2,382	-	20	164	-	192	2,758
Total assets	**5,236**	**182**	**1,075**	**4,488**	**49,868**	**43**	**60,892**
LIABILITIES							
Shareholders' equity	-	-	-	-	-	3,714	3,714
Subordinated debts	-	-	-	498	-	-	498
Debt certificates	526	62	308	1,694	2,310	-	4,900
- of which senior unsecured	-	-	*28*	*631*	*160*	-	*819*
- of which covered bonds	-	-	*21*	*996*	*1,438*	-	*2,455*
- of which RMBS	*376*	-	-	*67*	*711*	-	*1,154*
- of which CP/CD (short term)	*150*	*62*	*260*	-	-	-	*472*
Derivatives	225	71	146	186	624	-	1,252
Savings	32,055	73	224	2,351	1,872	-	36,575
- of which due on demand	*32,023*	-	-	-	-	-	*32,023*
Other amounts due to customers	6,235	18	277	689	3,061	-	10,280
- of which senior unsecured	-	-	*144*	*192*	*366*	-	*702*
- of which covered bonds	-	-	-	*269*	*78*	-	*347*
Amounts due to banks	2,450	16	24	90	101	-	2,681
- of which senior unsecured	-	-	-	*35*	-	-	*35*
- of which other wholesale	-	-	-	-	-	-	-
- of which secured (short term)	*2,264*	-	-	-	-	-	*2,264*
- of which other	*186*	*16*	*24*	*55*	*101*	-	*382*
Other liabilities	822	-	14	27	84	45	992
Total equity and liabilities	**42,313**	**240**	**993**	**5,535**	**8,052**	**3,759**	**60,892**

1 This relates to the provision on loans and advances to customers.

Remaining contractual maturity of assets and liabilities 2016 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Total
ASSETS							
Investments (interest bearing)	723	255	78	1,425	3,489	-	5,970
Derivatives	106	66	76	452	833	-	1,533
Loans and advances to customers	662	130	322	2,144	45,576	-214[1]	48,620
Loans and advances to banks	1,305	507	139	291	676	-	2,918
Other assets	1,948	-	145	228	-	226	2,547
Total assets	**4,744**	**958**	**760**	**4,540**	**50,574**	**12**	**61,588**
LIABILITIES							
Shareholders' equity	-	-	-	-	-	3,561	3,561
Subordinated debts	-	-	-	501	-	-	501
Debt certificates	25	1,085	1,342	1,624	1,620	-	5,696
- of which senior unsecured	*25*	*135*	*58*	*132*	*210*	-	*560*
- of which covered bonds	-	*950*	*790*	*1,046*	*522*	-	*3,308*
- of which RMBS	-	-	*494*	*446*	*888*	-	*1,828*
Derivatives	71	31	54	513	1,192	-	1,861
Savings	31,447	130	525	2,278	2,213	-	36,593
- of which due on demand	*31,406*	-	-	-	-	-	*31,406*
Other amounts due to customers	6,739	13	117	813	3,153	-	10,835
- of which senior unsecured	*11*	*10*	*108*	*318*	*395*	-	*842*
- of which covered bonds	-	-	-	*276*	*82*	-	*358*
Amounts due to banks	808	13	330	127	168	-	1,446
- of which senior unsecured	*5*	-	*41*	*37*	-	-	*83*
- of which other wholesale	-	-	*274*	-	-	-	*274*
- of which secured (short term)	*724*	-	-	-	-	-	*724*
- of which other	*79*	*13*	*15*	*90*	*168*	-	*365*
Other liabilities	909	-	13	26	81	66	1,095
Total equity and liabilities	**39,999**	**1,272**	**2,381**	**5,882**	**8,427**	**3,627**	**61,588**

1 This relates to the provision on loans and advances to customers.

The tables below provide a breakdown of the above liquidity profiles for financial liabilities and derivatives on the liability side of the balance sheet at year-end 2017 and 2016. These tables also present the related future cashflows, such as interest payments (these have not been discounted).

Maturity schedule for financial liabilities 2017 Audited

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	19	538	-	557
Debt certificates	527	64	363	1,761	2,489	5,204
Savings	32,170	73	316	2,587	1,957	37,103
Other amounts due to customers	6,667	38	333	842	3,127	11,007
Amounts due to banks	2,450	16	25	90	101	2,682
Total	**41,814**	**191**	**1,056**	**5,818**	**7,674**	**56,553**

Maturity schedule for financial liabilities 2016 Audited

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	19	556	-	575
Debt certificates	26	1,116	1,486	1,650	1,691	5,969
Savings	31,852	130	616	2,484	2,391	37,473
Other amounts due to customers	7,257	33	207	943	3,291	11,731
Amounts due to banks	808	13	331	128	168	1,448
Total	**39,943**	**1,292**	**2,659**	**5,761**	**7,541**	**57,196**

Maturity schedule for derivatives on the liabilities side 2017 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	110	52	287	474	131	1,055
Currency contracts	134	50	11	2	-	197
Total	**245**	**102**	**298**	**476**	**131**	**1,252**

Maturity schedule for derivatives on the liabilities side 2016 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	45	65	335	824	512	1,781
Currency contracts	60	13	5	1	-	79
Total	**105**	**78**	**340**	**825**	**512**	**1,860**

3.9.7 Credit ratings

MAIN DEVELOPMENTS IN 2017

In 2017, the credit ratings for senior unsecured debt of de Volksbank at S&P and Fitch went up 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. The credit rating at Moody's remained unchanged in 2017.

RATING AMBITION

De Volksbank strives for long-term credit ratings that fit the bank's solid business profile by means of strong stand-alone ratings, supported where possible by additional increases as a result of an improved balance sheet structure. To achieve this, de Volksbank intends to further strengthen and diversify its capital base. Essential for strong stand-alone ratings is a further increase in our market share of mortgages and stable profitability.

RATING CHANGES IN CHRONOLOGICAL ORDER

On 7 June 2017, S&P raised de Volksbank's long-term rating one notch to A- with a stable outlook, from BBB+ (outlook: positive). The short-term rating remained unchanged at A-2. According to S&P, the credit rating raise was due to a gradual recovery of the bank's commercial franchise and the enhanced predictability of its revenues. The raise is also based on the anticipation that the bank will marginally grow its mortgage portfolio in the next two years, while preserving its margins and will maintain strong capitalisation.

On 15 September 2017, S&P adjusted the stable outlook to positive. This revision reflects S&P's view that the Netherlands is experiencing broad economic growth, coupled with a noticeable recovery of the housing market and an improving market for commercial real estate. Despite the high gross debt in the Dutch economy, S&P believes that economic imbalances are declining, which is generally positive for banks.

On 24 November 2017, Fitch raised de Volksbank's rating one notch to A- with a stable outlook, from BBB+ (outlook: positive). The short-term rating remained unchanged at F2. The upgrade reflected the strong financial key figures and Fitch's expectations that these will be maintained in the next few years.

Credit ratings for senior unsecured debt

S&P

Long-term rating
A-

Outlook
Positive

Short-term rating
A-2

MOODY'S

Long-term rating
Baa1

Outlook
Positive

Short-term rating
P-2

FITCH

Long-term rating
A-

Outlook
Stable

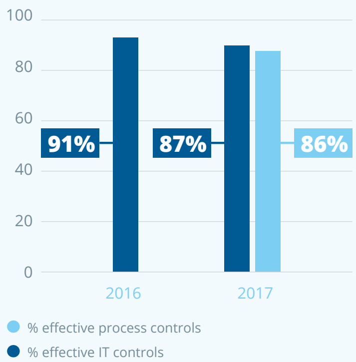
Short-term rating
F2

3.10 Non-financial risks EDTF 2 EDTF 3 EDTF 31

The impact of non-financial risks can be great. We recognise the importance of this and continually measure the results of process and system control for the purpose of further improvements.

Non-financial risks

Process control



99.97%

Average availability of ATM and payment devices between 6:00 and 00:30 in 2017

Besides financial risks, de Volksbank also runs non-financial risks caused by internal factors and external developments, as described in Section 3.3 Top risks. They show that the impact of non-financial risks is becoming more and more material, for example as a result of a changing market that is getting harder to predict, political developments and increasingly stringent laws and regulations.

Even though the background of this type of risk is ‘non-financial’, the bank may ultimately suffer financial loss and/or reputational damage when we fail to anticipate the risks or fail to take control measures in a timely and adequate manner. It is, therefore, highly important that we also identify the non-financial risks that we run in the short and long term, and that we incorporate them in our risk policy. This allows us to reinforce our risk management and quantify our risk appetite more clearly.

3.10.1 Risk profile

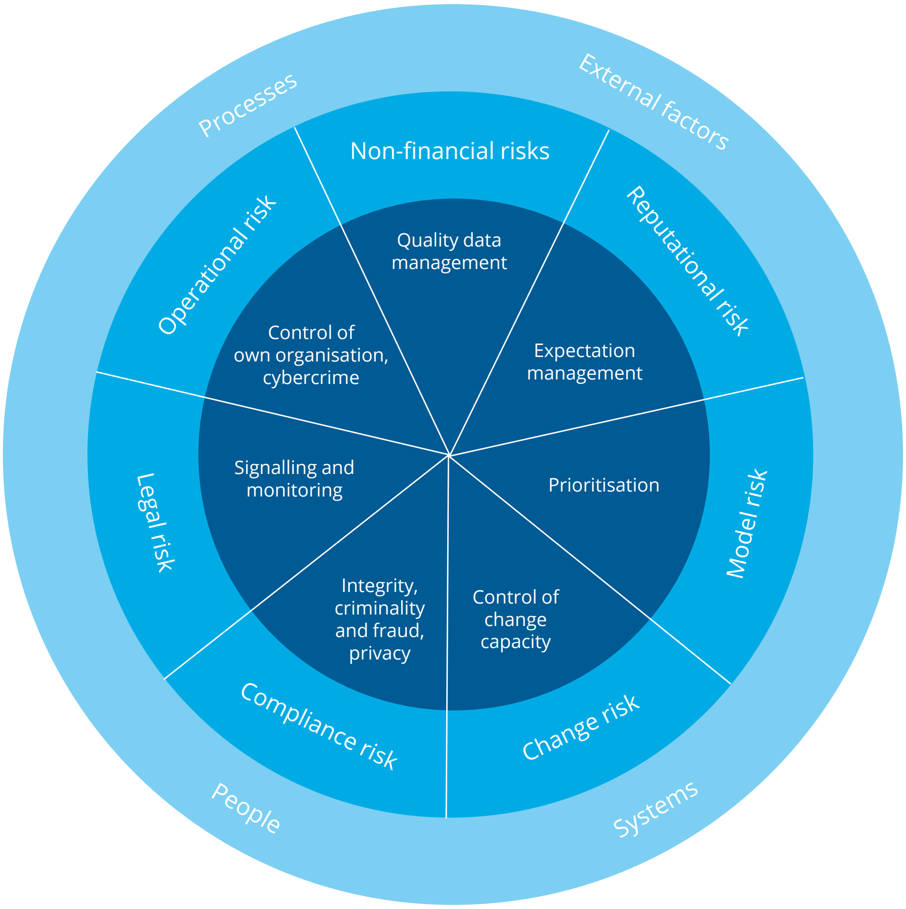
We have subdivided non-financial risk into seven types of risk: operational, reporting, compliance, model, legal, reputation and change risk.

Management devotes a great deal of attention to managing and controlling 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: increasingly stringent laws and regulations that we want to – and are required to – comply with, and growing information needs by supervisory authorities that we need to efficiently meet. The scope of the risks is continuously being measured and assessed by the Non-Financial Risk Committee (NFRC). 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 evaluates the proposed measures aimed at staying within the defined risk appetite. See Section 3.4 Risk classification and risk appetite above.

3.10.2 Types of risk and areas of focus EDTF 31 EDTF 32

This section identifies the seven types of risk that constitute the non-financial risks and discusses the main developments seen in 2017.

Risk themes



- Internal and external causes of operational risk
- Non-financial risk types
- Major risk themes that will be explained per theme below

OPERATIONAL RISK

Operational risk is the risk resulting from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, or from external events.

We aim at business operations in which we manage and control the risks in a responsible manner.This includes effective and efficient processes that guarantee high quality to our customers and that are easy to carry out by our employees. To this end, we have streamlined our processes in value chains. Our improvement cycle is primarily aimed at minimising error rates and being demonstrably in control. We use various instruments for this purpose, including incident management, which was further professionalised in 2017. Through this process we identify mistakes that we make in our business operations and learn from our mistakes, so as to prevent them in the future. Operational risk thus fits in the bank's risk appetite.

Line managers are responsible for analysing and controlling the risks in their own area of focus. Business Risk Managers have been appointed within line management to advise, assist and provide facilities to management in managing non-financial risks, which is done in close collaboration with other first and second-line risk departments.

A controlled organisation also means that we have a secure, efficient and solid IT platform at our disposal that allows us to control our organisation using an integrated customer profile. It is the basis for innovation and a rapid response to customer needs.

Developments in 2017

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

There is continuous investment 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 on this team 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.

Developments in 2017

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 a financial loss for customers and the bank that was even below prior-year levels. This corresponds to the picture emerging in the sector: the number of successful cyber attacks is dropping. Nevertheless, we must continue doing everything in our power to prevent cyber attacks from having any chance of success in the future. The threat is real and is set to grow.

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 the cyber risks threatening the bank and allows targeted action to be taken to avert the threat. In order to raise awareness, we have taken various measures to increase customers' and in-house staff's knowledge about cybercrime.

REPORTING RISK

Reporting risk is the risk that the company's financial and/or non-financial reporting contains material inaccuracies or is materially incomplete or is not in time for its internal and external stakeholders.

Area of focus

We seek to provide reliable information both internally and externally. In the past year, we initiated several projects to enhance our understanding of processes and internal control, in order to keep the risk of inaccuracies or omissions in the reports at an acceptable level. The main projects are the Value Streams project, the Integrated Control Framework and Data Management. Data Management is crucial here. On the one hand, data forms an essential source of information for strategic and operational management and for serving customers more effectively, while on the other hand the supervisory authority is setting increasingly high requirements for quality, level of detail and rapid availability.

Developments in 2017

De Volksbank invested in the aforementioned projects and thus further improved control in 2017. This is particularly reflected in the structure and results of control testing in the reporting chains.

However, the effectiveness of the processes concerning financial and non-financial reporting is not optimal at this time, since the control of these processes is not integrated throughout the organisation but is still function-based. In 2018 we will continue addressing the aforementioned points for improvement.

COMPLIANCE RISK

Compliance risk is the risk that the company and/or its employees fail to observe written and unwritten rules of integrity and conduct correctly or completely and may be held accountable in that regard. This may lead to loss of reputation and/or financial loss. It also pertains to the risk of doing business with unethical customers, insufficient transparency in our products, as well as to crime, fraud and corruption.

Areas of focus

Employee integrity

In its Manifesto, de Volksbank propagates a culture of Banking with a human touch. Together with our 'Common Sense, Clear Conscience' code of conduct and the promise made with the Bankers' Oath, they serves as a guideline for our employees in their contact with customers. If actions by our employees cause a breach of trust with the bank or its customers, an inquiry will be conducted and the internal Sanctions Committee will assess whether any measures are to be imposed and what kind of measures. If required, a report is filed with the supervisory authorities or the Foundation for Banking Ethics Enforcement.

Developments in 2017

We further expanded the rules of conduct in 2017. Banking with a human touch also means that the bank has faith in its employees. They are supported in this by an expansion of the code of conduct, which provides employees with a framework outlining how to deal with the dilemmas they may face in their work.

Integrity questions were asked in the 2017 Employee Survey (ES), too. The score for integrity improved slightly compared with 2016. One positive aspect that stood out in the ES was that employees feel they are given sufficient freedom to make decisions. Also, they feel encouraged by their managers in their personal development and to work according to ethical standards. This is in line with de Volksbank's Manifesto and the four elements of shared value (customers, society, employees, shareholder(s)). The ES also contained questions about the relationship between culture, attitude and conduct. The survey showed that employees know how to act in the area of tension between the ethical principle 'be audacious' and compliance with laws and regulations.

ETHICAL PRODUCTS

Transparent and fair products match de Volksbank's standards and values. We therefore aim to simplify our product range and make sure that our advertising is clear and simple. It is for this reason that customers' interests come first in the development of new products and services as well as in the evaluation of existing products.

We make our assessment based on the principles of the Manifesto, insight obtained from social developments and new laws and regulations.

CUSTOMER INTEGRITY, CRIME, FRAUD AND CORRUPTION

De Volksbank maintains relationships with a large number of customers. It is important for the bank to know its customers well, so that it 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). De Volksbank also sets great store by preventing and combating 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 becoming ever faster and better at identifying fraudulent or unauthorised transactions. Where necessary, suspicious transactions are reported to the authorities.

Developments in 2017

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

In line with the observation that compliance risk is slightly above the risk appetite of the bank, measures were implemented in 2017 to tighten the control of customer acceptance and transaction monitoring. Additional measures were taken in the areas of detection and checks of customers, accounts and transactions to prevent the bank and its products from being abused for inappropriate purposes, such as money laundering, financing of terrorism and fraud. This included the introduction of a new monitoring system and a range of improvements and developments in the detection scenarios. These measures that were taken, the absence of which was one of the reasons why DNB imposed an administrative fine of € 500,000 for the failure to promptly report unusual transactions, are largely in line with the measures agreed earlier with DNB. Further measures are being taken to increase the effectiveness of procedures and systems for the prevention of money laundering and terrorism financing in order to adequately and consistently mitigate integrity risk for de Volksbank in this area; the expectation is that there will subsequently be full compliance with the measures imposed by DNB. In addition, the bank continues to adjust its customer integrity policy every year 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 ATM explosive attacks, de Volksbank has removed or moved ATMs located in the immediate vicinity of homes. Any ATMs still present at risk locations have been fitted with additional security measures. In this process, we consider the field of tension between our responsibility to keep cash available in society on the one hand and the safety and interests of local residents on the other. De Volksbank is in close contact with other banks and investigation authorities to exchange relevant information.

MODEL RISK

The use of economic models introduces uncertainty, as they present a simplified version of reality. Model risk is the risk that models return incorrect results, or the risk that models are used or interpreted in the wrong way. De Volksbank aims to limit model risk, including by means of clear model risk policy.

This model risk policy describes a clear division of activities related to the development, use and maintenance of models. For example, the Modelling department is working to improve existing models and develop new, more advanced models. In addition, the independent Model Validation department validates all models. During such validations, the model risk is analysed and proposals for improvements are made.

Developments in 2017

In line with the observation that compliance risk is slightly above the risk appetite of the bank, various improvements were made in 2017 to existing models. For example, PHIRM, the credit model for our mortgage portfolio, was expanded with a framework for determining the inaccuracy of our estimates. Identifying the causes of such inaccuracies puts de Volksbank in a better position to calculate its capital in accordance with regulations. The changes to PHIRM, including the framework, were presented to the supervisory authority. In 2018 we will incorporate the comments we received.

In order to comply with the requirements of IFRS 9, new models were developed to determine the provisions for mortgages and other loans. Moreover, we have a new model that determines the liquidity maturity of demand deposits.

Finally, the model risk policy was also further expanded within de Volksbank. For example, guidelines were drawn up for the development and use of so-called expert models, which are mostly based on input from experts rather than historical data. In addition, standardised tests were defined, which will result in a consistent assessment of models within de Volksbank.

LEGAL RISK

De Volksbank takes legal risk to mean the risk that we do not adhere to arrangements made in contracts we have concluded with others, such as our customers, or that we do not comply with the laws and regulations applicable to us, or that there is an unforeseen interpretation of these laws and regulations. Furthermore, there is also the risk of non-contractual liability. The manifestation of a legal risk may result in financial losses, sanctions imposed by the supervisory authority or reputational damage.

Legal risk is not just about the strict legal standard, compliance with (contractual) obligations or laws and regulations. Nowadays it is also – especially in the financial services sector – about the social norm resulting in the (unexpected) interpretation of laws and regulations or unwritten rules. In this regard, the bank recognises the risk if insufficient account is taken of the influence exerted by interest groups and claims organisations. This social norm is expressly part of the legal risk within de Volksbank.

De Volksbank's legal risk is therefore not only limited to the (bank) balance, but is also assessed from its shared strategy value. Legal risk management must be aimed at creating value for customers, society, employees and the shareholder by striking the right balance between the legal standard and the social norm.

Developments in 2017

The risk indicators drawn up in 2016 to reflect the legal risk were improved in certain respects in the past year. As a result, qualitative signals are more expressly considered in addition to quantitative elements. We expect that this will enable us to better and more quickly observe the trends in the legal landscape that might point to unforeseen interpretations or may otherwise result in liability for de Volksbank.

In the past year, the frameworks used for legal risk management were laid down in a Risk Management Policy (RMP), describing the main resources, processes and reports that are part of de Volksbank's legal control measures.

The notes to the off-balance sheet commitments include an overview of legal proceedings in which de Volksbank is involved. Section 2.2 Developments in the regulatory environment gives an explanation of actual changes in laws and regulations.

REPUTATION RISK

Reputation risk is the risk of reputational damage, which affects the trust in the bank by customers, counterparties, shareholders and regulators. For example, if the bank is insufficiently capable of motivating customers to make their homes more sustainable, the bank may run the risk of failing to achieve its objective to be a climate-neutral bank by 2030. The bank may suffer reputational damage as a result.

An organisation's reputation is the sum of shareholder experiences and expectations. Management of de Volksbank's reputation across the organisation allows us to reduce reputation risks and to make the most of communication opportunities. It helps us make specific choices that conform with the Manifesto. We are aiming for a clear and distinctive profile to win over customers, employees and – in the longer term – investors.

Developments in 2017

On 1 January 2017 we adopted our new name, de Volksbank. As the public has to get acquainted with the new name, this affects our brand recognition and is reflected in the scores from the reputation measurement model, RepTrak®. It is a scientific and commonly used standard in reputation measurement and management that we use to benchmark our scores and perform trend analyses. In support of our reputation as a climate-neutral bank, various initiatives were launched in 2017, including BLG Wonen's solar panel offer and SNS' Slim Wonen Wijzer.

CHANGE RISK

Change risk is the risk that de Volksbank does not achieve its strategic objectives (or does not achieve them in a timely fashion) or does not comply with laws and regulations in a timely fashion. It may arise through a faulty set-up or implementation of changes in the organisation. This risk may also manifest itself through choices that are made that are inconsistent with the strategic objectives, because of an insufficient capacity to change or requisite competencies.

Developments in 2017

In 2017, a number of House-in-Order programmes, including Integrated Control Framework (ICF) and Value Stream Management (VSM), progressed so much that the project organisation will ask to be discharged in 2018. The project-based activities will then be transferred to and executed by the line. These programmes contribute to controlled business operations and higher risk awareness at de Volksbank. The PERDARR programme for the implementation of standards in the risk reporting chains has been completed. Other programmes for the implementation of laws and regulations are close to completion, such as IFRS 9, or will continue into 2018, such as our Privacy Programme. In order to achieve our strategic objectives, we added several new change programmes to the programme portfolio in 2017, for example in the areas of Customer Integrity and Transaction Monitoring.

The change programmes require a lot of resources and knowledge from our organisation, including from a limited group of experts. The risk that the results of our change programmes will not be achieved in a timely fashion increased this year. That is why, in 2017, the Board of Directors exercised more active control and our organisation's capacity to change was investigated. The investigation reveals that improvement is possible by means of a more coherent approach, targeted interventions and a proper translation of the strategic objectives into day-to-day practice.

De Volksbank chooses an approach in which initiatives are conceived, launched and implemented at a decentralised level *and* the extent to which the change calendar is in line with the strategy is analysed at a central level. De Volksbank's Board of Directors has a managing role towards its own line in enabling this approach.

In order to ascertain whether we are in compliance with laws and regulations, we conducted a number of surveys in 2017, leading to improved process controls. Fewer surveys were conducted in 2017 than planned because of a lack of capacity. Additional work will be done in 2018.

3.11 Management statement Pillar 3

IN-CONTROL STATEMENT

The Board of Directors of de Volksbank is responsible for the set-up, presence and effectiveness of the (risk) management and control system. This system is designed to manage risks, to ensure that de Volksbank is not prevented from achieving its strategic, operational and financial objectives, that reporting on financial and non-financial performance indicators is reliable and that laws and regulations are complied with. This makes a major contribution to the achievement of de Volksbank's ambition: to optimise shared value by creating benefits for customers, taking responsibility for society, providing meaning for its employees and achieving returns for its shareholders.

De Volksbank applies the 'three lines of defence' model with a clear organisational structure and accompanying accountability structure, as laid down in governance and risk committees (see also Section 3.5.2 Risk governance).

De Volksbank's risk management is also reflected in the annual Operational Plan (OP) cycle, which involves the translation of strategic objectives and risk appetite into, for example, key risk indicators and operational objectives for the years ahead. The main risks associated with the implementation of the OP are identified. This cycle is carried out across the company. The business units report on performance data and any need to control risks. The effectiveness of the key control measures and monitoring is regularly inspected and tested.

De Volksbank has a structured process of completion of internal In-Control Statements at department level, which are then weighted, reviewed and aggregated at board level for de Volksbank as a whole.

In 2017, the Board of Directors reviewed the strategic, operational, financial, reporting and compliance risks, as described in several sections, including Section 3.3 Top risks. In addition, the Board of Directors periodically reviewed the effectiveness of the set-up and operation of the risk management and control system, as included in Section 3.5.2 Risk governance. The Board of Directors manages a portfolio of House in Order projects that further improve the operation of the risk management and control system. The results were shared with the Audit Committee and the Supervisory Board and discussed with the external auditor.

Based on the above, the Board of Directors declares that:
- The risk management and control system worked properly in 2017;
- The risk management and control system provides a reasonable degree of assurance that the material risks de Volksbank is facing are actually identified and that these risks are adequately monitored and controlled; and
- There are no indications to assume that the internal risk management system will not continue to work properly in 2018.

However, the internal risk management system does not provide absolute assurance that misstatements, fraud or non-compliance with laws and regulations have been or can be avoided at all times.

RELEVANT DEVELOPMENTS

In 2017 de Volksbank raised the level of controlled and responsible business operations with the progress made in a number of House in Order projects and their implementation in the first line, as described under change risk. Improvements made are mainly related to internal control design and accountability, improvement of the quality of Finance and Risk data in particular, the management and control of the extensive bank-wide change programmes and customer integrity.

By doing so, de Volksbank intends to ensure that processes are always carried out appropriately, reports continue to be reliable, laws and regulations are consistently complied with and that de Volksbank is and remains demonstrably in control in line with its (mission and) ambition.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management and control systems for financial reporting constitute an integral part of the entire risk management and control system of de Volksbank. The key elements for the management of financial reporting are:

- The Finance Management Team that establishes the frameworks for policies and the structure of financial accounting systems and processes;
- De Volksbank Accounting Manual, which describes the principles applied to financial reporting;
- The business units that are responsible for the execution of the work and thus for the accurate and complete recording of transactions and reporting;
- A system of financial key controls within the accounting and reporting departments, to monitor the proper functioning of the management and control system for financial reporting;
- The Finance Management Team's assessment, based in part on the results from the financial key controls, of periodic management reports and KPI dashboards with an analysis of financial and non-financial figures;
- Subsequent approval is given by the Board of Directors, following which the findings from the reporting process are, together with the financial reporting itself, discussed in the Audit Committee;
- The internal Audit department that examines the effectiveness of this system. Moreover, the external auditor reports on the system of financial key controls to the extent he has findings in this respect in the context of his audit of the financial statements. The key points of this audit are included in the external auditor's report. The findings are discussed with the financial and risk committees of the bank and the Audit Committee.

We declare that it can be stated with a reasonable degree of assurance that the internal management and control systems for financial reporting was performed at an adequate level in 2017 and that de Volksbank's financial reporting is free of material misstatement.

TRANSPARENCY STATEMENT

The members of the Board of Directors state the following:

- De Volksbank prepares the 2017 consolidated and company financial statements of de Volksbank in accordance with International Financial Reporting Standards (IFRS) as adopted within the European Union (EU) and with Title 9 Book 2 of the Dutch Civil Code and, to the best of our knowledge, they give a true and fair view of the assets, liabilities, size and composition of equity, financial position as at 31 December 2017 and the financial results and companies included in the consolidation;
- The 2017 annual report gives, to the best of our knowledge, a true and fair view of the position as at the balance sheet date and the development and performance of the business during the financial year; and
- The principal risks de Volksbank faces are described in the 2017 Annual Report.

Utrecht, 7 March 2018

BOARD OF DIRECTORS

Maurice Oostendorp (Chairman)
Annemiek van Melick
Alexander Baas
Jeroen Dijst

4 Report of the Supervisory Board

Composition of the Supervisory Board

As at 31 December 2017, the Supervisory Board of de Volksbank comprised the following members: Jan van Rutte (Chairman), Sonja Barendregt-Roojers, Charlotte Insinger, Monika Milz and Ludo Wijngaarden. In conformity with the retirement schedule, the composition of the Supervisory Board changed in 2017 and will change in 2018. At the combined General Meeting of Shareholders of de Volksbank N.V. and de Volksholding B.V (GMS) of 20 April 2017, Jos Nijhuis stepped down as member of the Supervisory Board and Chairman of the Audit Committee (AC). Charlotte Insinger and Ludo Wijngaarden will step down at the GMS of 19 April 2018.

The Supervisory Board is composed in such a way that its members can operate independently of each other and of the Board of Directors of de Volksholding within the scope of the Supervisory Board's profile. In addition to fulfilling its supervisory role, the Supervisory Board also acted as the employer, adviser and sparring partner of the Board of Directors in 2017.

Meetings

In 2017, the supervisory boards of de Volksbank and de Volksholding convened eleven times, whether or not combined. Most members of the Supervisory Board attended all meetings, with an overall attendance percentage of 97%. The availability of Supervisory Board members for consultation between meetings was good. Their absence at meetings was limited to unforeseen personal circumstances.

Members of the Board of Directors are permanent attendees at the meetings of the Supervisory Board. For the first hour of each meeting, the Supervisory Board meets in private. In 2017, just one (informal) meeting was held in the absence of the Board of Directors. During this meeting, topics discussed included the (self) evaluation of the Supervisory Board and the evaluation of the members of the Board of Directors' performance.

For more information please refer to Section 5.2 Composition, appointment and functioning of the Supervisory Board of this annual report.

Topics discussed in 2017

Subjects to which attention was devoted during the combined meetings of the Supervisory Board of de Volksbank and de Volksholding in 2017 included:

Strategy

In order to acquire and maintain a distinctive position within the Dutch banking industry, de Volksbank has a number of operational and structural challenges. These challenges are addressed through the bank's three strategic pillars, i.e.:
1. Strengthening our social identity;
2. Simplifying and improving the efficiency of our business operations;
3. Implementing our innovation strategy as a smart adopter.

In refining the strategy, the supervisory boards of de Volksbank and de Volksholding acted as sparring partner. Moreover, the Supervisory Board approved the refined strategy and monitored its implementation.

Governance of de Volksholding and de Volksbank

The supervisory boards of de Volksbank and de Volksholding are closely involved in the Board of Directors' constructive dialogue with NL Financial Investments (NLFI) and the Minister of Finance on the future of de Volksbank. The governance structure that best fits the de Volksbank strategy is currently being studied, as are the options to reflect the shared value ambition in the bank's governance structure. The Board of Directors actively involves the supervisory boards of de Volksbank and de Volksholding in this process.

Quality assurance of supervisory function

Lifelong learning sessions contribute to the enhancement and, where required, broadening of the Supervisory Board's expertise. In 2017, the Supervisory Board, in conjunction with the Board of Directors, attended three lifelong learning sessions on current topics at de Volksbank and the financial services sector:

- Corporate governance (such as the Dutch Corporate Governance Code that was revised on 8 December 2016 and the consequences for de Volksbank);
- Follow the money (money laundering and terrorist financing);
- Reversing the traditional banking model (all building blocks of the organisation must contribute to customer experience, working together on the basis of trust, Banking with a human touch).

Each year, the Supervisory Board evaluates its own performance. Once every three years, this evaluation is performed with the assistance of an external consultant.

As a follow-up to the discussion of the self-evaluation for 2016, the Supervisory Board held follow-up sessions in 2017 under the supervision of an external councillor. In these sessions, the Supervisory Board extensively discussed its collaboration and every member's role within the Supervisory Board to further increase the effectiveness of the Supervisory Board's supervision. On 18 April 2017, the Supervisory Board and the Board of Directors evaluated the collaboration between the Supervisory Board and the Board of Directors. This discussion included placing and prioritisation of items on the agenda, the pro-active sharing of dilemmas, giving feedback, and the location of the various meetings. In the meeting of 14 December 2017, the follow-up of the actions was discussed and it was concluded that all actions had been adequately followed up.

In the light of the anticipated changes to the Supervisory Board in April 2018, the Supervisory Board decided to implement the self-evaluation for 2017 under its own management. During an informal meeting of the Supervisory Board in February 2018, the Supervisory Board discussed the results of the self-evaluation. In preparation of this, all members of the Supervisory Board gave scores on the functioning of the Supervisory Board on the basis of a number of statements. The Board of Directors also provided input on these statements. The Supervisory Board then reflected on the collaboration and dynamics between the members of the Supervisory Board, and between the Board of Directors and the Supervisory Board. The Supervisory Board also evaluated the way in which the Supervisory Board and its committees conduct their meetings. It has come to the conclusion that the Supervisory Board is functioning well, the meetings of the Supervisory Board are sufficiently effective and all members of the Supervisory Board make an adequate contribution to the various roles of the Supervisory Board. A number of points for improvement also follow from the discussion of the self-evaluation. The discussion of the self-evaluation also brought to light a number of points for improvement. The advisory role of the Supervisory Board may be improved by asking more open-ended questions during meetings. In addition, the Supervisory Board can further deepen its role of employer. By gaining even more insight into the performance of the directors, unity of the Supervisory Board can be confirmed. Finally, the Supervisory Board wants to make a greater effort to achieve a professional talent management organisation within de Volksbank.

Relationship and consultations with the shareholder

NLFI is the sole shareholder of de Volksholding. De Volksholding, in turn, is the sole shareholder of de Volksbank. NLFI, de Volksholding and de Volksbank have signed a Memorandum of Understanding (MoU) as a supplement to the Articles and the Articles of Association (AoA) of de Volksbank. The MoU contains supplementary arrangements about the manner in which powers under the AoA are exercised in the day-to-day operations. The Supervisory Board also holds regular meetings with NLFI. These meetings are held in accordance with a schedule that is drawn up annually. Within this consultation structure, matters discussed include the quarterly figures and the evaluation of the Board of Directors and the Supervisory Board. In addition to this, the general meeting of shareholders (GMS) is jointly prepared. The GMS was held on 20 April 2017.

On 14 September 2017 the House of Representatives received NLFI's progress report on de Volksbank's strategy. The report states how De Volksbank further put into effect the implementation of the three pillars of the Spot On strategy in the past year. The identity of de Volksbank was further strengthened (pillar 1). Initial efforts were made to make the organisation simpler and more efficient (pillar 2). Provisions and investments were made for a sustainable cost reduction in the future. Moreover, processes and departments involved in innovation were reorganised in 2017, with the aim to operate more efficiently and effectively (pillar 3). De Volksbank also worked on concrete risk management improvements, particularly in the area of non-financial risks. NLFI's progress report also states that de Volksbank is not yet ready for an exit. According to NLFI, de Volksbank requires another two to three years (starting from mid-2016) to be able to realise optimal long-term value creation, before a decision on possible privatisation can be made.

Financial statements and dividend proposal

Prior to publication, the 2017 financial statements were discussed in (combined) meetings of the Board of Directors of de Volksbank and de Volksholding and Supervisory Board of de Volksbank and de Volksholding. On 7 March 2018, EY - de Volksbank's external auditor for 2017 - issued an unqualified auditor's report on the 2017 financial statements. On 7 March 2018, the Supervisory Board adopted the financial statements in a combined meeting of the supervisory boards of de Volksbank and de Volksholding. At this meeting, the Supervisory Board approved the Board of Directors' proposal to pay a dividend of € 190 million to its sole shareholder NLFI.

5 Corporate governance

5.1 Composition, appointment and functioning of the Board of Directors

Composition of the Board of Directors

The Supervisory Board of de Volksholding draws up a profile for the Board in consultation with the latter. This profile specifies the required knowledge, suitability, expertise, integrity and availability of (the members of) the Board. In addition, this profile sets out relevant aspects of diversity, such as nationality, age, gender and background regarding education and professional experience. The profile for the Board is subsequently adopted by the General Meeting of Shareholders (GMS) and published on the website of de Volksbank.

On the page below you will find detailed information on the individual members of the Board as at 31 December 2017.

De Volksbank and de Volksholding form a personal union. The Boards of Directors and Supervisory Boards of de Volksbank and de Volksholding are, therefore, made up of the same individuals.

Appointment of the members of the Board of Directors

The GMS appoints a member of the Board with prior approval of the Supervisory Board. The Supervisory Board appoints the Chairman of the Board on the nomination of the GMS. The GMS suspends and dismisses a member of the Board. The Supervisory Board is also authorised to suspend a member of the Board.

Rob Langezaal stepped down from the Board of Directors on 1 January 2018. The recruitment process for his replacement has not yet been completed.

Name	Appointed until
Maurice Oostendorp	18 August 2019
Alexander Baas	1 October 2019
Rob Langezaal	1 January 2018
Annemiek van Melick	1 October 2019
Jeroen Dijst	General meeting 2020[1]

1 Until the date of the General Meeting in 2020.

Functioning of the Board of Directors

The Articles of Association of de Volksholding (Articles) contain a list of the duties and responsibilities of the Board and regulations on the functioning of the Board.

In addition to the Articles, NLFI, de Volksholding and de Volksbank have signed a Memorandum of Understanding (MoU). Both the Regulations for the Board (Regulations) and the MoU contain additional arrangements on how the Board is to exercise its duties and powers under the Articles. The Articles and the MoU were not amended in 2017.

The Board meets if there are topics that are subject of the decision-making of de Volksholding and decides by majority vote. Because of the personal union, meetings of the statutory boards of de Volksbank and de Volksholding are often combined.

5.2 Composition, appointment and functioning of the Supervisory board

Composition of the Supervisory Board (on 31 December 2017)

From left to right: Charlotte Insinger, Ludo Wijngaarden, Sonja Barendregt-Roojers, Monika Milz, Jan van Rutte

Jan van Rutte
1950 – Nationality: Dutch

Jan van Rutte was appointed Chairman of the Supervisory Board of de Volksholding on 30 September 2015. His term of office at the Volksholding will expire on the first GMS to be held after 1 November 2017. A proposal for reappointment will be placed on the AGM agenda of 19 April 2018.

Other board positions held by Jan are:
- Member of the Supervisory Board of ORMIT Holding B.V.
- Member of the Supervisory Board of Nederlandse Investeringsinstelling N.V.
- Member of the Supervisory Board of Bank Nederlandse Gemeenten N.V.
- Member of the Supervisory Council of PGGM N.V.
- Member of the Supervisory Council of Stichting Health Center Hoenderdaal
- Member of the Board of Stichting ABN AMRO Foundation
- Member of the Board of Stichting Administratiekantoor Aandelen KAS BANK

Until 2013, Jan served as CFO Group Holding at ABN AMRO. From 2001 to 2010, Jan served as CEO and as a board member of Fortis Bank Nederland. From 1981 Jan held various positions at MeesPierson (and its predecessors in title) including that of Company Director and Head of Finance. He began his career in 1978 at the Algemene Bank Nederland.

Sonja Barendregt-Roojers
1965 – Nationality: Dutch

Sonja Barendregt-Roojers was appointed as a member of the Supervisory Board of de Volksholding on 1 September 2017. Her term of office will expire on the first GMS to be held after 1 September 2021.

She is also an accountancy examinations expert at the Erasmus School of Accounting & Assurance.
Between 1 January 1998 and 1 July 2017, Sonja was a partner at PwC, specialised in the financial services sector. From 1975 to 1998, Sonja held various positions at PwC and legal predecessors.

Charlotte Insinger

1965 – Nationality: Dutch

Charlotte Insinger was appointed as a member of the Supervisory Board of de Volksholding on 30 September 2015. Her term of office will expire at the GMS to be held on 19 April 2018.

Other positions held by Charlotte are:
- Member of the Supervisory Board of Vastned Retail N.V.
- Member of the Supervisory Board of PZEM N.V.
- Independent adviser and interim member of the Board of Directors of New Company Investment Holding B.V.
- Managing Director Cerberus Global Investments B.V.
- Member of the Supervisory Council of Hogeschool Rotterdam
- Member of the Supervisory Council of Luchtverkeersleiding Nederland
- Member of the Supervisory Council of Stichting Nederlands Fonds voor de film
- Member of the Strategic Audit Committee of the Ministry of Foreign Affairs

Charlotte has been a professional supervisor and interim director since 2010. She began her career at Shell in 1989, where she held various financial positions until 1998. From 1998 to 2005, Charlotte served as Executive Vice President at Robeco. Directly after this, she was a member of the Board of Directors of the Erasmus Medisch Centrum until 2010.

Monika Milz

1957 – Nationality: German and Dutch

Monika Milz, was appointed as a member of the Supervisory Board of de Volksholding on 30 September 2015 and reappointed on 20 April 2017. Her term of office will expire at the first GMS to be held after 20 April 2021.

Other positions held by Monika are:
- Member of the Supervisory Board of HandelsVeem Beheer B.V.
- Member of the Supervisory Board of Zuidema Beheer B.V.
- Chair of the Green Deal Board

Monika has been working as an independent management consultant and interim director since 2010. She began her career at ABN AMRO in 1980, where she held various positions until 2000. From 2000 to 2010, Monika worked for the Rabobank Group. During this period, she held several positions among them Director Corporate Clients, Director SME and Director Corporate Communication.

Ludo Wijngaarden

1947 – Nationality: Dutch

Ludo Wijngaarden was appointed as a member of the Supervisory Board of de Volksholding on 1 October 2015. His term of office will expire at the GMS to be held on 19 April 2018.

Other positions held by Ludo are:
- Member of the Board of DAK Intermediairscollectief
- Board member of PBLQ
- Chairman of the Advisory Board of IPsoft Nederland B.V.
- Member of the Advisory Board of the Dutch Data Protection Authority
- Chairman of the Supervisory Board of Woningstichting Stek

Ludo began his career in 1973 at Bureau Holtrop where he held various positions from 1973 to 1981. From 1981 to 1988 Ludo worked in the Ministry of the Interior and Kingdom Relations. In the period from 1988 to 2008 he held various positions at the ING Group, among them Head of HR, CEO ING Bank Slaski, CEO Postbank, CEO Nationale Nederlanden and member of the Board of ING Nederland.

Profile

The Supervisory Board is composed such that it has sufficient expertise to properly perform its duties and responsibilities. The Supervisory Board shall draw up a profile for its individual members, specifying the required know-how, suitability, expertise, diversity and availability of the (members of the) Supervisory Board. In addition, this profile sets out relevant aspects of diversity, such as nationality, age, gender and background regarding education and professional experience. On 21 February 2018, a specific diversity policy was adopted for de Volksbank. In essence, the diversity policy is aimed at recognising and appreciating - differences between - people, both customers and employees, to contribute optimally to the realisation of the strategy. The diversity policy also applies to the Supervisory Board. For a description of the current (2017) diversity policy and its results, see Section 2.6 Our people.

The profile of the Supervisory Board is adopted by the GMS and published on the website of de Volksbank. When a new member is appointed, the Supervisory Board shall, taking the profile into account, nominate this individual to the GMS.

Appointment of members of the Supervisory Board

The GMS appoints the Chairman of the Supervisory Board and may dismiss or suspend the Chairman. Members of the Supervisory Board are appointed by the GMS on the recommendation of the Supervisory Board. One third of the members of the Supervisory Board is appointed in accordance with the reinforced right of recommendation of the Works Council. The GMS suspends and dismisses members of the Supervisory Board.

In the fourth quarter of 2017, the recruitment process for two new members of the Supervisory Board was started as the term of office of Charlotte Insinger and Ludo Wijngaarden as Supervisory Board member expire. De Volksholding strives to fill the vacancies before the end of the second quarter of 2018.

Both the resignation of Charlotte Insinger and Ludo Wijngaarden and the extension of the term of appointment of Jan van Rutte will be placed on the GMS agenda of 19 April 2018.

De Volksbank and de Volksholding form a personal union. The boards of directors and supervisory boards of de Volksbank and de Volksholding are, therefore, made up of the same individuals.

Name	Resignation at the latest at the end of the AGM following on
Jan van Rutte	1 November 2017
Sonja Barendregt-Roojers	1 September 2021
Charlotte Insinger	6 June 2017
Monika Milz	20 April 2021
Ludo Wijngaarden	6 June 2017

Functioning of the Supervisory Board

In performing its duties and responsibilities, the Supervisory Board continuously weighs up the interests of all its stakeholders to reflect the ambitions with respect to the Manifesto and shared value as much as possible. The Supervisory Board is composed such that its individual members can operate independently of each other and of the Board of Directors.

The Articles of Association of de Volksholding (Articles) contain regulations on the functioning of the Supervisory Board, a list of its duties and responsibilities of the Supervisory Board and the Supervisory Board resolutions that require GMS approval.

In addition to the Articles, NLFI, de Volksholding and de Volksbank signed a Memorandum of Understanding (MoU). Both the Regulations for the Supervisory

Board (Regulations) and the MoU contain practical arrangements on how the Supervisory Board is to exercise its duties and powers.

The Articles and the MoU were not amended in 2017.

The Supervisory Board meets at least two times a year, and resolutions are passed by a majority of the votes cast. Because of the personal union, meetings of the Supervisory Boards of de Volksbank and de Volksholding are combined.

For more detailed information on the functioning of the Supervisory Board, please refer to Chapter 4 Report of the Supervisory Board.

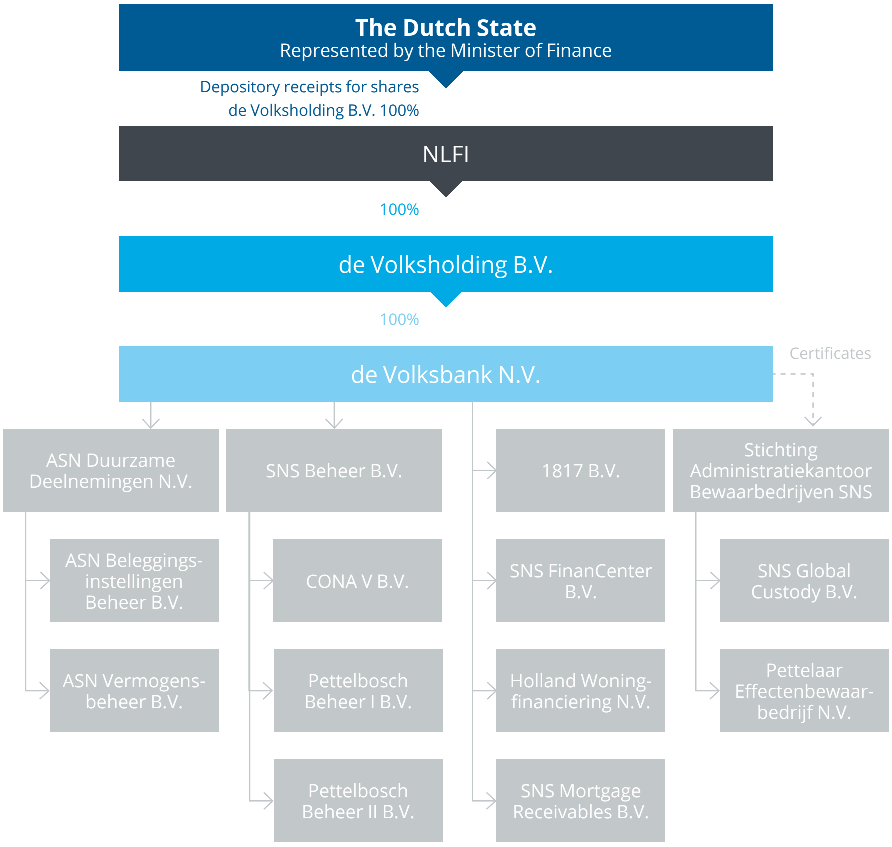
5.3 Developments legal structure of de Volksholding

De Volksbank is a wholly-owned subsidiary company of de Volksholding. De holding is a wholly owned subsidiary company of NLFI, which has a direct participating interest in the holding, which issued depositary receipts for shares to the Dutch State.

On 29 December 2017, Woningfonds B.V. merged with de Volksbank, in line with de Volksbank's aim to have the simplest form of legal structure possible.

The overview below schematically shows all 100% participating interests as at 31 December 2017.

Holding structure



For more information see www.devolksbank.nl

5.4 Update EC commitments

The European Commission has set de Volksbank a number of conditions and restrictions. These conditions and restrictions follow from the nationalisation of SNS REAAL (currently SRH N.V.) in 2013 and will run until the end of the restructuring period on 31 December 2017, unless specified differently. The main conditions and restrictions of the EC decision are:

- An acquisition ban will apply for a period of three years starting from the adoption of the EC decision.
- State ownership will not be advertised – nor will any reference be made to State support in the communication with existing and/or potential customers and investors.
- No payments will be made on the hybrid debt instruments outstanding at the time of the EC decision, unless those payments stem from a legal obligation, and not call or buy back those instruments without prior approval of the EC.
- Remuneration restrictions apply to employees and senior management until the end of the restructuring period.
- The portfolio with SME loans and individual positions in excess of € 1 million will be phased out. The original portfolio has at this time been phased out for the most part. Over the past year de Volksbank has given sufficient substance to the EC commitment.

5.5 Remuneration Report

The members of the Board and the Supervisory Board do not receive any remuneration from de Volksholding for their activities as these activities are part of their responsibilities as a member of the Board and member of the Supervisory Board of de Volksbank, respectively. De Volksbank does, however, pay remuneration for both the position of member of the Board and member of the Supervisory Board of de Volksholding, respectively, and the position of member of the Board and member of the Supervisory Board of the Volksbank, respectively. The Remuneration Report covers the remuneration of the Board and the compensation of the Supervisory Board of de Volksbank for the year 2017. For more information on the remuneration policy of de Volksbank, we refer you to Section 5.7 of the Annual Report of de Volksbank on our website www.devolksbank.nl.

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Consolidated financial statements

Consolidated balance sheet

Before result appropriation and in € millions	Notes[1]	31-12-2017	31-12-2016
ASSETS			
Cash and cash equivalents	1	2,180	2,297
Derivatives	2	1,075	1,533
Investments	3	5,094	5,970
Loans and advances to banks	4	2,643	2,532
Loans and advances to customers	5	49,322	48,620
Property and equipment	6	67	73
Intangible assets	7	14	15
Deferred tax assets	8	110	137
Corporate income tax	9	22	-
Other assets	10	365	411
Total assets		**60,892**	**61,588**
EQUITY AND LIABILITIES			
Savings	11	36,575	36,593
Other amounts due to customers	12	10,280	10,835
Amounts due to customers		**46,855**	**47,428**
Amounts due to banks	13	2,681	1,446
Debt certificates	14	4,900	5,696
Derivatives	2	1,252	1,861
Deferred tax liabilities	8	45	59
Corporate income tax	9	-	25
Other liabilities	15	822	891
Other provisions	16	125	120
Subordinated debts	17	498	501
Total other liabilities		**10,323**	**10,599**
Share capital		-	-
Other reserves		3,385	3,212
Retained earnings		329	349
Shareholders' equity		**3,714**[2]	**3,561**
Minority interests		-	-
Total equity		**3,714**	**3,561**
Total equity and liabilities		**60,892**	**61,588**

1 The references next to the balance sheet items relate to the notes to the consolidated financial statements.

2 The equity statement in the company financial statements is leading for the legal distribution of equity components.

Consolidated income statement

in € millions	Notes[1]	2017	2016
INCOME			
Interest income	24	1,423	1,623
Interest expense	24	499	685
Net interest income		**924**	**938**
Fee and commission income	25	104	108
Fee and commission expenses	25	55	51
Net fee and commission income		**49**	**57**
Investment income	26	41	57
Result on financial instruments	27	13	-20
Other operating income	28	1	2
Total income		**1,028**	**1,034**
EXPENSES			
Staff costs	29	381	398
Depreciation and amortisation of tangible and intangible assets		21	22
Other operating expenses	30	201	222
Impairment charges	31	-24	-68
Other expenses		-	1
Total expenses		**579**	**575**
Result before taxation		**449**	**459**
Taxation	32	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**

1 The references next to the income statement items relate to the notes to the consolidated income statement.

Consolidated statement of comprehensive income

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 equity

Consolidated statement of changes in 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	-	4,117	4	44	132	-1,085	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**
Dividends	-	-	-	-	-	-	-135	-135
Total changes in equity 2017	**-**	**-**	**2**	**-8**	**-34**	**-872**	**-20**	**153**
Closing balance	**-**	**4,117**	**6**	**36**	**98**	**-872**	**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 Revaluations of property in own use are included in the revaluation reserve.

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

Consolidated statement of changes in equity 2016

in € millions	Issued capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Opening balance	-	4,168	1	57	111	-1,383	348	3,302
Transfer of net result 2015	-	-	-	-	-	348	-348	-
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**	**347**	**1**	**359**
Dividend	-	-51[3]	-	-	-	-49[4]	-	-100
Total changes in equity 2016	**-**	**-51**	**3**	**-13**	**21**	**298**	**1**	**259**
Closing balance	**-**	**4,117**	**4**	**44**	**132**	**-1,085**	**349**	**3,561**

1 Issued capital is € 1

2 Revaluations of property in own use are included in the revaluation reserve.

3 Dividend payout for the year 2015 is deducted by € 51 million from the share premium reserve.

4 Dividend payout for the year 2015 is deducted by € 49 million from the retained earnings.

Consolidated cashflow statement

in € millions	Notes[1]	2017	2016
CASHFLOW FROM OPERATING ACTIVITIES			
Operating profit before tax		449	459
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible and intangible assets	6.7	18	22
Changes in other provisies and deferred tax	8, 9, 16	18	4
Impairment charges and reversals	31	-24	-68
Unrealised results on investments through profit or loss	26	63	10
Tax paid		-131	-140
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances and liabilities to customers	5.12	-1,257	852
Change in advances and liabilities to banks	4.13	1,510	-391
Change in savings	11	-18	-267
Change in trading portfolio	3	669	-150
Change in other operating activities		-297	-89
Net cashflow from operating activities		**1,000**	**242**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment	6	1	-
Sale and redemption of investments and derivatives	2.3	2,699	3,059
Purchase of intangible assets	7	-2	-4
Purchase of property and equipment	6	-9	-13
Purchase of investments and derivatives	2.3	-2,554	-2,337
Net cashflow from investment activities		**135**	**705**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	17	-	-
Issues of debt certificates	14	5,202	545
Redemption of subordinated loans	17	-	-
Redemption of debt certificates	14	-5,933	-1,740
Paid dividends		-135	-100
Net cashflow from financing activities		**-866**	**-1,295**
Net decrease of cash and cash equivalents		**269**	**38**
Cash and cash equivalents as at 1 January	1	1,911	2,259
Change in cash and cash equivalents	1	269	-348
Cash and cash equivalents as at 31 December		**2,180**	**1,911**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		1,852	2,037
Dividends received		-	1
Interest paid		916	1,104

1 The references next to the items relate to the notes to the consolidated financial statements.

Notes to the consolidated financial statements

Accounting principles for the consolidated financial statements

This section describes de Volksbank's significant accounting policies and critical accounting estimates or judgments relating to the annual financial statements. If an accounting policy or a critical accounting estimate relates to a specific note, it is included within the disclosures of the relevant note.

To combine disclosures where possible and to reduce duplication, the IAS 1 Risk and Financial instrument disclosures and IFRS 7 Risk disclosures of financial instruments have been integrated in Chapter 3 Risk, capital & liquidity management. These disclosures are an integral part of the Consolidated Annual Financial Statements and as such, support the compliance to these IFRS requirements.

General information

De Volksbank N.V. (referred to as 'de Volksbank'), is a public limited liability company incorporated under the laws of the Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht (CC 16062338).

All shares of de Volksbank are held by de Volksholding (referred to as 'de Volksholding'). De Volksholding B.V. is the parent company of de Volksbank. All shares of de Volksholding are held by Stichting administratiekantoor beheer financiële instellingen (NLFI).

Adoption of the financial statements

The consolidated financial statements of de Volksbank for the year ended 31 December 2017 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 7 March 2018. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 19 April 2018. The General Meeting of Shareholders has the possibility to amend the financial statements.

Based on the articles of association of de Volksholding, the adoption of the (consolidated) annual financial statements of de Volksbank by the Board of Directors of de Volksholding requires prior approval from the General Meeting of Shareholders of de Volksholding (NLFI).

Basis of preparation

Statement of IFRS compliance

De Volksbank prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, de Volksbank prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements.

Changes in published Standards and Interpretations effective in 2017

In 2017, the following standards and interpretations issued by the International Accounting Standards Board (IASB and the IFRS Interpretations Committee (IFRIC) respectively, became mandatory, and are adopted by the European Union. The changes, as a result of these publications, have no material effect on the consolidated financial statements of de Volksbank.

- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses (EU-endorsed)
- Amendments to IAS 7: Disclosure initiative (EU-endorsed)

Interpretations of existing standards or amendments to standards, not yet effective in 2017

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2017 and effective for accounting periods beginning on or after 1 January 2018 were not early adopted by de Volksbank.

- IFRS 9 Financial Instruments (EU-endorsed)
- IFRS 15 Revenue from contracts with Customers (EU-endorsed)
- IFRS 16 Leases (EU-endorsed)
- IFRS 17 Insurance Contracts
- Clarification to IFRS 15: Revenue from contracts with customers
- Amendments to IFRS 2: classification and measurement of share based payment transactions
- Amendments to IFRS 4: applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts (EU-endorsed)
- Annual improvements to IFRSs 2014-2016 (EU-endorsed)
- Amendments to IAS 40: Transfers of investment property
- Amendments to IFRS 9: Prepayment features with negative compensation

• Amendments to IAS 28: Long term interests in associates and joint ventures
• IFRIC 22 Foreign Currency Transactions and Advance Consideration
• IFRIC 23 Uncertainty over Income Tax Treatments

The changes that are most relevant and may have a material impact on the financial statements of de Volksbank are discussed below.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 standard is effective as from 1 January 2018. IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. Main principle is that an entity recognises revenues based on what the expected receipts will be for the rendered goods and services. In order to apply this principle the following steps are required:
1. identify contracts with clients;
2. identify and differentiate contractual obligations;
3. determine the price of the transaction;
4. allocate the price of the contract to the identified obligations;
5. recognise revenue if contractual obligations are met and risk and rewards are transferred to the client.

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

IFRS 16 LEASES

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

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 standard is effective as from 1 January 2018. For more information about IFRS 9, reference is made to paragraph IFRS 9.

Changes in accounting policies, estimates and presentation

CHANGE IN ACCOUNTING POLICIES FOR RECOGNITION OF INTEREST INCOME FROM PENALTY INTEREST

De Volksbank decided to change its accounting policies regarding the timing for the recognition of interest income from penalty interest. The comparative figures 2016 have been adjusted accordingly. This change in accounting policies contributes to the consistent recognition of penalty interest in the future, since the former recognition of penalty interest will no longer be permitted under IFRS 9 from 2018 onwards. In order to be able to interpret the impact for the years 2017 and comparative figures 2016 in the most consistent and transparent way, de Volksbank has decided to implement this change in 2017 as this accounting policy change is also allowed under IAS 39. This change in accounting policies as such leads to more relevant information.

This change in accounting policies has a positive impact after tax of € 20 million on total equity as per 31 December 2016 (2017: € 40 million). Furthermore, the net result increased by € 20 million in 2016 (2017: € 20 million). The impact on equity as per 1 January 2016 is negligible.

Impact change in accounting policies

In millions (€)	Mortgages	Current tax liability	Equity
Balance 31 December 2016	-	-	-
Effect on P/L for the period	27	7	20
Adjusted balance 31 December 2016	**27**	**7**	**20**
Balance 31 December 2016	27	7	20
Effect on P/L for the period	26	6	20
Adjusted balance 31 December 2016	**53**	**13**	**40**

Impact interest income and tax

In millions (€)	31-Dec-2016	31-Dec-2017
Effect on interest income	27	26
Effect on income tax expense	7	6
Increase of profit for the period	**20**	**20**

Impact equity

In millions (€)	31-Dec-2016	31-Dec-2017
Increase of profit for the period	20	20
Increase of total comprehensive income for the period after taxation	**20**	**20**

CHANGE IN ACCOUNTING ESTIMATE

Prepayment assumption mortgages

The forecast of the interest result and the measurement of interest rate risk depend on the exact timing of cashflows of all balance sheet items. For mortgages, the timing of the cashflows cannot be fully derived from the mortgage contract. A part of our mortgage customers will early redeem its mortgage before the contractual end date of the contract for instance due to relocation or interest rate averaging. A prepayment model is used that translates the contractual cashflows of mortgages in behavioural expected cashflows. In 2017 this prepayment model is replaced by a new model.

The new model has the following characteristics:

- A forecast is determined on individual loan level. All loan characteristics are taken into account such as age and the interest on the mortgage.
- The model takes account of current market conditions such as the level of mortgage interest rates on the Dutch market and the size of the housing market.
- The model is forward looking: a forecast of the interest rate environment and housing market is taken into account.

The new model has a significant impact on the measurement of the interest rate risk of de Volksbank. As the risk appetite of de Volksbank has not been changed, the duration of equity at the time of the introduction of the new model has been adjusted to the level before the model change.

The new model had a positive impact of € 12 million on the fair value of the DBV mortgages. As such this change in accounting estimate will also impact the future fair value of the DBV mortgages. This effect is dependent on the development of the prepayment rate and is therefore practically impossible to estimate.

Portfolio hedge accounting amortisation

De Volksbank uses fair value hedge accounting to mitigate the accounting mismatch for derivatives in the financial reporting. Value adjustments to the carrying amount of the hedged item are amortised to the income statement. These value adjustments of the carrying amount arise during the term of the hedge and shall be amortised after a regular termination of the hedge.

For the amortisation of the value adjustments of portfolio fair value hedges a method was used based on the average maturity distribution of the entire hedged portfolio. This method is refined during 2017. The refined approach determines the amortisation period on the underlying remaining interest rate maturity of the hedged item. As a result, value adjustment for individual contracts are amortised over its respective maturity bucket.

This change in accounting estimate will also impact the future amortisation of value adjustments. This effect is dependent on future fair value heges and is therefore practically impossible to estimate.

The changed amortisation method did not result in a material profit and loss impact in 2017.

CHANGE IN PRESENTATION

Negative interest expenses are in 2017 reclassified to interest income. The comparative figures for this change in presentation are adjusted accordingly.

Restricted demand deposits with the Dutch Central Bank (DNB) are reclassified from the balance sheet item 'Cash and cash equivalents' to 'Loans and advances to banks. The comparative figures for this change in presentation are adjusted accordingly.

CHANGE IN PRESENTATION DIVIDEND PAY-OUT

With effect from 2017, the dividend paid out in 2016 (over 2015) has been partially reclassified from Other reserves to Share premium reserve.

Accounting principles for the consolidated financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All subsidiaries have applied the accounting principles consistently, for the purposes of these consolidated financial statements.

Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional and reporting currency of de Volksbank. All financial data presented in euros are rounded to the nearest million, unless stated otherwise. Counts are based on unrounded figures.

Significant accounting policies

GENERAL

The preparation of the consolidated financial statements requires de Volksbank to make estimations and assumptions based on complex and subjective opinions and best estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Hereby, management judges situations on the basis of available information and financial data which could potentially change going forward. Although the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Estimations and underlying assumptions are reviewed on a regular basis. The impact of changes in estimates on the accounting outcome is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting principles involving the use of estimates concern the methods for determining the fair value of assets and liabilities, determining impairments on loans and advances and determining other provisions.

For detailed information and disclosure of the accounting estimates and assumptions reference is made to the next sections and the notes to the financial statements items.

The use of estimates and assumptions in the preparation of the financial statements

Valuation of certain balance sheet items is highly dependent on the use of estimations and assumptions. Further disclosure is made on the use of estimations and assumptions in the specified accounting principles of these balance sheet items. The use of estimations and assumptions concern the following sections:

- Impairment losses on loans and receivables – refer to chapter 3 Risk, capital & liquidity management;
- Fair value of financial instruments (including prepayment assumption mortgages and amortisation hedge accounting) – refer to note 19 Specific disclosures of financial instruments;
- Provisions – refer to note 16 Provisions.

Basis for consolidation

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksbank, are consolidated in accordance with IFRS 10 Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which control is transferred to de Volksbank. They are de-consolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of these de Volksbank financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksbank.

Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between de Volksbank and its associates are eliminated to the extent of de Volksbank's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currencies are recorded in the income statement under 'investment income' or 'result on financial instruments', depending on the balance sheet item to which they relate.

Accounting based on transaction date and settlement date
All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, more specifically, the date on which de Volksbank commits itself to buy or sell the asset or liability. For "loans and advances to customers" and "amounts due to customers" settlement date accounting is used.

Derecognition
A financial asset is derecognised when the rights to receive cashflows from the asset have expired. De Volksbank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition. A transfer only qualifies for derecognition if either:
- De Volksbank has transferred substantially all the risks and rewards of the asset; or
- De Volksbank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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

Cashflow statement
The cashflow statement is prepared according to the indirect method, and distinguishes between cashflows from operational, investment and financing activities. Cashflows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cashflow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cashflow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cashflow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

Acquisitions and disposals
In 2017 there are no acquisitions or other disposals.

IFRS 9
1 CLASSIFICATION AND MEASUREMENT
1.1 General
Under IFRS 9, the classification and measurement of financial assets are determined partly on the basis of the business model that incorporates the relevant financial asset. IFRS 9 distinguishes three different objectives that a business model may have. Firstly, business models whose objective is reached by collecting the contractual cashflows from the corresponding financial assets (‘Hold to Collect’ business model). This basically comprises portfolios that are held to maturity unless specific circumstances arise. Secondly, IFRS 9 defines a category of business models in which both contractual cashflows are collected and assets are sold in the interim to achieve the underlying objective (‘Hold to Collect and Sell’ business model). Finally, IFRS 9 identifies business models in the ‘other’ category, which includes trading portfolios that are mainly managed based on buy and sell transactions.

In addition to the business model analysis, under IFRS 9 the classification and measurement of financial assets are determined on the basis of the cashflow characteristics of individual instruments. In this respect, IFRS 9 distinguishes between instruments that may be characterised as standard loan agreements and other instruments. The cashflows from a standard loan agreement solely consist of interest payments and principal repayments (‘Solely Payments of Principal and Interest’, or SPPI). Interest payments must be pure compensation for the time value of money, credit risk and other customary basis risks, such as liquidity risk surcharges and costs. Derivative contracts do not satisfy the SPPI criteria and are measured at fair value for that reason, irrespective of their underlying business model.

1.2 Classification and measurement analysis

To support its IFRS 9 business model analysis, de Volksbank grouped its financial instruments in portfolios according to their product characteristics, underlying source systems and the departments responsible for their day-to-day management. Then the responsible departments were interviewed and asked to fill out questionnaires to determine which IFRS 9 business model applies to the portfolios. The business models were subsequently described, with the results being assessed by the Balance Sheet Management department and other parties.

De Volksbank used the product characteristics and a detailed decision tree to establish which instruments may be characterised as standard loan agreements. This assessment failed to give immediate clarity for a small number of instruments. A detailed and occasionally additional quantitative analysis was performed in those instances.

IFRS 9 transition accounting allows de Volksbank to reconsider the current treatment of a part of the mortgage portfolio, the DBV mortgages, historically elected to be accounted for at fair value. As a result, de Volksbank has decided to change the measurement basis to amortised cost, resulting in a step down from fair value to amortised cost on 1 January 2018. De Volksbank also reassessed the measurement basis for part of its liquidity portfolio, which led it to decide to change the measurement basis for part of its liquidity portfolio from available for sale to amortised cost.

It was concluded that IFRS 9 does limitedly impact de Volksbank's classification and measurement of financial liabilities.

2 IMPAIRMENTS

2.1 General

The scope of the impairment requirements is broadened under IFRS 9. Under IAS 39 loan loss provisions are only recorded for realised credit losses. This means that loan loss provisions are created in the event of arrears or other indications of an event that results in an expectation that the customer is unlikely to meet their payment requirements. Under IFRS 9 de Volksbank records expected credit loss provisions for credit exposures measured at amortised cost and fair value through OCI, including expected credit losses on loan commitments and financial guarantee contracts (off-balance sheet positions).

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well.

2.2 De Volksbank implementation process

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

- Retail mortgage loans
- Financial markets exposures
- Private and sustainable loans of the ASN Bank brand ('ASN portfolio')
- SME loans
- Other retail loans

The expert groups consisted of representatives from first- and second-line departments. The policy documents were independently assessed for compliance with IFRS 9 regulations by a Technical Board, with one of the members being an external adviser, and definitively confirmed by the IFRS 9 Steering Group.

The policy documents state 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 policy documents form the basis for the credit risk and provisioning policies that will be pursued as from 1 January 2018.

The Modelling department has worked on building IFRS 9 ECL models. As each portfolio differs in size and has different characteristics, several approaches have been selected. The new IFRS 9 ECL models are 'Point-in-Time' (PIT). This PIT nature has been created partly by adding macroeconomic variables to the models. In principle, the IFRS 9 risk models produce more volatile results of the provision than current IAS 39 requirements, as IFRS 9 models align more closely with the macroeconomic situation and expectations. The Model Validation department has assessed all ECL models developed and any findings have been considered in the development processes.

Following model development, the implementation of the ECL models in the bank's systems was commenced. Not all IFRS 9 models had been fully implemented in the envisaged IT applications at the beginning of 2018; we will start with an interim solution for some portfolios. 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.

2.3 ECL MODELS

Credit risk management of ECL models

To manage its customer groups in the various loan portfolios, de Volksbank calculates several customer risks using its own credit risk models on a monthly basis. Monitoring customer developments and portfolio development are of the utmost importance if we are to make proper estimates of expected losses arising from credit risk. The credit risk must be hedged by maintaining capital and we must maintain provisions for expected losses. As from 1 January 2018, the IFRS 9 ECL models for the various loan portfolios will be applied and the model results will be used to determine the provision level.

Model techniques

Various techniques were used for the individual portfolios to arrive at the ECL models.

The 'survival model' technique was used for the retail mortgage and SME loan portfolios; this is a method for calculating the month-on-month probability of a customer defaulting on payments, remaining healthy or recovering to a healthy situation. These probabilities are calculated for basic (base), slightly increasing (up) and slightly decreasing (down) scenarios, the results of which lead to the final value through a weight allocation. This method is used to determine the probability of default (PD), probability of recovery, probability of foreclosure, probability of immediate loss and the associated expected losses. The various probability components and the corresponding expected losses are applied to the projected outstanding principal based on scheduled mortgage payments and possible additional repayments to determine the total expected loss.

Another modelling technique is used for the Financial Markets and ASN portfolio, in which PD curves are derived from Credit Default Swap curves (CDS curves), which are correlated with the counterparty's creditworthiness (credit rating). Specific CDS curves have been selected for various portfolio components. The credit ratings originate from well-known rating agencies such as S&P and Moody's. For the loss rates to be applied (LGD), ASN and VFM use generic sector-related market rates that are annually reviewed and therefore up to date and Point-in-Time (PIT). Both the PD and the LGD are applied to the outstanding principal. The expected loss (ECL) is determined by multiplying these components.

A specific method has also been developed for the portfolio containing other retail loans (revolving credit, personal loans, current accounts – overdrafts – and credit cards). Rather than calculating an individual PD, we opted to assign every customer a rating that determines whether an increased credit risk exists. The factors used to determine the rating include registered arrears, use of the limit available and the possession of multiple debt products. Customers are divided into stages based on their rating. Observed default rates have been used to set an average PD for each stage, and historical data have been used to determine an average product-specific LGD. The expected loss (ECL) is determined by multiplying the stage-dependent PD and product-specific LGD by the amount of the credit facility.

Stage allocation

A method has been defined for each ECL model to establish whether a customer's credit rating is subject to significant deterioration (SICR).

- Retail mortgages and SME loans. For the retail mortgage and SME ECL model, customers are classified into PD buckets according to their individual lifetime PD at Origination. Depending on the PD bucket to which the customer has been assigned, the current PD lifetime may show a capped relative deterioration compared to the individual lifetime PD at Origination. If the capped relative deterioration is exceeded, there is a significant deterioration and the customer will be transferred to stage 2.
- Financial Markets exposures. For the exposures in the Financial Markets portfolio, the current external credit rating and PD are used to assess whether there is a significant deterioration relative to the external credit rating and PD upon initial recognition. If a pre-determined capped deterioration is (absolutely and relatively) exceeded in the external credit rating and PD, there is a significant deterioration and the exposure will be transferred to stage 2.
- ASN portfolio. For loans in the ASN portfolio, it is assessed whether the current PD has deteriorated by more than a certain relative percentage compared to the PD at Origination. In addition, it is assessed whether there is an absolute increase in the PD at Origination. If both limits are exceeded, there is a significant deterioration and the loan will be assigned to Stage 2.
- Other retail loans. For the portfolio containing other loans, the customer receives a rating. If this rating exceeds a pre-determined limit, there is a significant deterioration and the customer will be transferred to stage 2.

From an IFRS 9 perspective we regard customers in default as 'credit impaired'; they are placed in stage 3. De Volksbank applies specific default definitions to the portfolios for which loan loss provisions are determined under IFRS 9. For de Volksbank, the default definition of the retail mortgage portfolio has the greatest impact on reporting. For this portfolio, arrears are registered from the date of occurrence, without taking account of any threshold value. A customer goes into default once three monthly instalments have not been paid and the past-due amount exceeds a threshold value or if we consider it unlikely that the customer will be able to comply with their obligations.

In addition to the assessment of whether the credit risk has significantly deteriorated and the use of the default definition for the stage allocation, the prudential non-performing[18] and forbearance[19] criteria are used for the stage allocation. If a customer is subject to a forbearance measure but is not, or no longer, considered to be non-performing, the customer will be assigned to stage 2. Non-performing customers subject to a forbearance measure who are in default are assigned to stage 3. Also, non-performing customers who have been in default for the past 36 months or part of this period and who are subject to an additional forbearance measure or who have been in arrears for more than 30 days are assigned to stage 3. All other non-performing customers subject to a forbearance measure are assigned to stage 2.

Forward-looking information

Forward-looking information may be included in all ECL models. For the retail mortgage portfolio, the Dutch unemployment rate and the average Dutch mortgage rate have been incorporated into the model as macroeconomic variables. The Dutch unemployment rate and the number of bankruptcies have been used for the SME portfolio. In the Financial Markets and ASN Bank ECL model, the macroeconomic impact is factored into the CDS curves that are used. The model for other retail loans uses the Dutch unemployment rate.

HEDGE ACCOUNTING

The IFRS 9 standard provides users with the option of starting to apply the IFRS 9 hedge accounting rules or to continue to apply the IAS 39 hedge accounting rules. De Volksbank has decided to continue to apply the IAS 39 hedge accounting requirements as from 1 January 2018.

IFRS 9 impact table

	Measurement category		Carrying amount		
in € millions	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
FINANCIAL ASSETS					
Cash and cash equivalents	Loans and receivables	Amortised cost	2,180	2,180	-
Loans and advances to banks	Loans and receivables	Amortised cost	2,643	2,643	-
Loans and advances to customers - Former DBV mortgages[1]	Fair value through P&L	Amortised cost	1,688	1,527	-161
Loans and advances to customers - Other	Loans and receivables	Amortised cost	47,634	47,626	-8
Derivatives - Trading	Fair value through P&L	Fair value through P&L	264	264	-
Derivatives - Hedging	Fair value through P&L	Fair value through P&L	690	690	-
Derivatives - Asset and Liability management	Fair value through P&L	Fair value through P&L	121	121	-
Investments - Available for sale - HTCS business model	Available for sale	Fair value through other comprehensive income	4,932	2,172	-2,760
Investments - Available for sale - HTC business model[1]	Available for sale	Amortised cost	-	2,651	2,651
Investments - Held for trading	Fair value through P&L (held for trading)	Fair value through P&L	162	162	-

1 Reclassification is elected by de Volksbank.

[18] A customer is non-performing if it is considered unlikely that the customer will be able to comply with their obligations and/or is more than 90 days in arrears on a material exposure and/or is (credit) impaired.

[19] Forbearance exists if a debtor is having difficulty or is about to encounter difficulties complying with their financial obligations and their contract terms have been changed or the loan has been refinanced as a result.

IFRS 9 change of book value

in € millions	Carrying amount IAS 39 as at 31-12-2017	Remeasurement		Carrying amount IFRS 9 as at 1-1-2018	Impact retained profits
		IAS 39 carrying amount[1]	Increase in provisions		
FINANCIAL ASSETS					
Cash and cash equivalents	2,180	-	-	2,180	-
Loans and advances to banks	2,643	-	-	2,643	-
Loans and advances to customers - Former DBV mortgages[2]	1,688	-160	-1	1,527	-120
Loans and advances to customers - Other	47,634	-	-8	47,626	-7
Derivatives - Trading	264	-	-	264	-
Derivatives - Hedging	690	-	-	690	-
Derivatives - Asset and Liability management	121	-	-	121	-
Investments - Available for sale - HTCS business model	4,932	-2,759	-1	2,172	-80
Investments - Available for sale - HTC business model[2]	-	2,652	-1	2,651	-1
Investments - Held for trading	162	-	-	162	-
Off-balance sheet commitments			-8		-6

1 In addition to the IFRS 9 classification and measurement adjustments, de Volksbank has reclassified its accrued interest for financial assets from other assets to the balance sheet item where the accrued interest relates to as per 1 January 2018. This adjustment is not included in above table.

2 Reclassification is elected by de Volksbank.

Please refer to Section 3 Risk, capital & liquidity management for the quantitative impact that IFRS 9 has on the capital position and capital ratios.

1 Cash and Cash equivalents

ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash, the non-restricted demand deposits with the Dutch Central Bank (DNB) and advances from the banking activities to credit institutions with an original remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairments.

Specification cash and cash equivalents

in € millions	2017	2016[1]
Non-restricted demand deposits at Dutch Central Bank	1,894	1,573
Short-term bank balances	240	281
Cash	46	57
Total	**2,180**	**1,911**

1 The restricted demand deposits at Dutch Central Bank are reported in the note 'Loans and advances to banks'. The comparative figures have been adjusted accordingly.

As at the end of December 2017, € 26 million (2016: € 89 million) of the short-term bank balances was encumbered on account of securitisations, covered bonds and repurchase transactions.

2 Derivatives

ACCOUNTING POLICY FOR DERIVATIVES
General
Derivatives are recognised at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed prices. The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a discounted cashflow model or an option valuation model. De Volksbank recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Changes in the fair value of derivatives that do not qualify for cashflow hedge accounting are accounted for in the income statement under 'result on financial instruments' and 'investment income'.

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Derivatives held for cashflow hedge accounting	11	12	-	1	11	11
Derivatives held for fair value hedge accounting	679	921	804	1,154	-125	-233
Derivatives held for asset and liability management that do not qualify for hedge accounting	121	377	169	518	-48	-141
Derivatives held for trading	264	223	279	188	-15	35
Total	**1,075**	**1,533**	**1,252**	**1,861**	**-177**	**-328**

Most derivatives are held to hedge against undesired markets risks. This is explained in note 20 Hedging and hedge accounting.

Statement of changes in derivatives

in € millions	2017	2016
Opening balance	-328	-196
Purchases	23	-
Settlements	-68	-81
Revaluations	174	-59
Exchange rate differences	22	8
Closing balance	**-177**	**-328**

The derivatives held for trading and derivatives that are held for asset and liability management that do not qualify for hedge accounting are not included in the tables below.

Derivatives for hedging purposes 2017

in € millions	Nominal amounts				Fair value	
	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
INTEREST RATE CONTRACTS						
- Swaps and FRAs	7,653	18,506	6,951	33,110	662	804
- Options	-	-	1,240	1,240	-	-
CURRENCY CONTRACTS						
- Swaps	-	57	84	141	28	-
Total	**7,653**	**18,563**	**8,275**	**34,491**	**690**	**804**

Derivatives for hedging purposes 2016

in € millions	Nominal amounts				Fair value	
	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
INTEREST RATE CONTRACTS						
- Swaps and FRAs	7,868	12,279	10,862	31,009	908	1,155
- Options	-	-	1,240	1,240	1	-
CURRENCY CONTRACTS						
- Swaps	-	50	24	74	24	-
Total	**7,868**	**12,329**	**12,126**	**32,323**	**933**	**1,155**

3 Investments

ACCOUNTING POLICY FOR INVESTMENTS

Fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading purposes ('held for trading') or if it is designated as such upon initial recognition ('designated'). Investments are only designated as valued at fair value through profit or loss if:

- this eliminates or considerably limits an inconsistency in valuation; or
- de Volksbank manages and assesses the investments on the basis of fair value.

Realised and unrealised gains and losses are recognised directly in the income statement under 'Investment income'.

Interest income earned on securities is recognised as interest income under the 'Interest income'. Dividend received is recorded under 'Investment income'.

Available for sale (fair value through other comprehensive income)

Investments that do not meet the criteria defined by management for ‘loans and receivables’ or ‘fair value through profit or loss’ are classified as available for sale.

After initial recognition, investments available for sale are measured at fair value on the balance sheet. Unrealised gains and losses resulting from fair value adjustments of these investments are recognised in other comprehensive income (shareholders’ equity), taking account of taxes.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as ‘investment income’. De Volksbank applies the average cost method to determine these results, where necessary.

Interest income earned on securities is recognised as interest income under ‘Interest income’. Dividend received is recorded under 'Investment income'.

(Reversal of) Impairment of investments and debt securities

Each reporting date, de Volksbank assesses whether there is objective evidence of impairment of investments classified as available for sale. Impairment losses on available for sale debt securities are recognised directly in the income statement under ‘impairment charges’ after any revaluation reserve is deducted from shareholders’ equity.

Investments in debt securities measured at available for sale are tested for impairment if there are objective indications of financial difficulties at the counterparty, declining markets for the product of the counterparty or other objective evidence of impairment. This test comprises both quantitative and qualitative considerations. Debt securities are assessed on aspects including credit losses already incurred (for example due to default), market data on credit losses and other evidence of the issuer's inability to meet its payment commitments.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recorded impairment loss is reversed in the income statement.

Investments: overview

in € millions	2017	2016
Fair value through P&L (held for trading)	162	831
Available for sale	4,932	5,139
Total	**5,094**	**5,970**

Fair value through profit or loss: listing

	Held for trading					
	Equity and similar investments		Fixed-income investments		Total	
in € millions	2017	2016	2017	2016	2017	2016
Listed	-	-	162	831	162	831
Unlisted	-	-	-	-	-	-
Total	**-**	**-**	**162**	**831**	**162**	**831**

Fair value through profit or loss: statement of changes

	Held for trading					
	Equity and similar investments		Fixed-income investments		Total	
in € millions	2017	2016	2017	2016	2017	2016
Opening balance	-	-	831	668	831	668
Reclassifications	-	-	-	11	-	11
Revaluations	-	-	-	2	-	2
Change in investments held for trading[1]	-	-	-669	150	-669	150
Closing balance	**-**	**-**	**162**	**831**	**162**	**831**

1 Purchases and disposals in the trading portfolio are reported as net amount under the line item "change in investments held for trading".

Available for sale: listing

	Equity and similar investments		Fixed-income investments		Total	
in € millions	2017	2016	2017	2016	2017	2016
Listed	-	-	4,916	5,118	4,916	5,118
Unlisted	16	21	-	-	16	21
Total	**16**	**21**	**4,916**	**5,118**	**4,932**	**5,139**

Available for sale: statement of changes

in € millions	Equity and similar investments 2017	2016	Fixed-income investments 2017	2016	Total 2017	2016
Opening balance	21	26	5,118	5,682	5,139	5,708
Purchases and advances	-	4	2,531	2,333	2,531	2,337
Disposals and redemptions	-7	-14	-2,624	-2,964	-2,631	-2,978
Revaluations	2	5	-67	101	-65	106
Amortisation	-	-	-28	-28	-28	-28
Other	-	-	-14	-6	-14	-6
Closing balance	**16**	**21**	**4,916**	**5,118**	**4,932**	**5,139**

Available for sale: valuation

in € millions	Equity and similar investments 2017	2016	Fixed-income investments 2017	2016	Total 2017	2016
(amortised) Cost price	10	17	4,707	4,761	4,717	4,778
Unrealised gains in value	6	4	209	357	215	361
Total	**16**	**21**	**4,916**	**5,118**	**4,932**	**5,139**

The total value of investments dropped from € 5,970 million in 2016 to € 5,094 million in 2017, mainly because the relative amount of sales exceeded purchases. Part of the investments has been pledged as collateral for amounts due to banks (repos). This is explained in more detail in note 22 Transferred and encumbered assets.

End of 2017 the investments in structured entities amounted to € 74.5 million (€ 50.8 million).

4 Loans and advances to banks

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO BANKS
Loans and advances to banks are measured at amortised cost using the effective interest method, less any impairment losses. This item includes receivables to banks with a remaining maturity of one month or more. This item relates to loans and advances to banks, excluding interest-bearing securities, and restricted demand deposits with the Dutch Central Bank (DNB).

in € millions	2017	2016
Deposits	2,226	2,532
Other	23	-
Restricted demand deposits at Dutch Central Bank[1]	394	386
Total	**2,643**	**2,918**

1 The restricted demand deposits at Dutch Central Bank are reported in the note 'Loans and advances to banks'. The comparative figures have been adjusted accordingly.

The mandatory cash reserve is recognised under the restricted demand deposits at *De Nederlandsche Bank* (Dutch Central Bank, DNB). As from 2017, the restricted demand deposits at DNB are presented under Loans and advances to banks. Reason for the adjustment is that only items that are immediately due or have a remaining maturity of less than a month, are recognised under Cash and cash equivalents. Part of the Loans and advances to banks in the amount of € 673 million (2016: € 1,055 million) is related to paid collateral on derivative transactions.

Other loans and advances to banks relate to reverse repurchase contracts (€ 23 million).

5 Loans and advances to customers

ACCOUNTING POLICY FOR LOANS AND ADVANCES TO CUSTOMERS
Loans and advances to customers are measured at amortised cost using the effective interest method less any impairment losses. Former DBV mortgages and related derivatives and liabilities are measured at fair value through profit or loss.

Provisions for loans and advances to customers
As far as the loans and advances are measured at amortised cost, a provision for impairment is made if there is objective evidence that de Volksbank will not be able to collect all the amounts in accordance with the contractual terms. Objective evidence can either be the result of arrears or due to another indication of a loss event that results in an expectation that the customer is unlikely to meet its payment requirements. For loans and advances, that are individually significant, the provision equals the difference between the book value and the recoverable value. The recoverable value equals the expected future cashflows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

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

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

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

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

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

Specification loans and advances to customers

	Loans		Provisions		Net amount	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Mortgages Retail	45,892	44,938[1]	-72	-114	45,820	44,824
Other Retail	139	191	-28	-26	111	165
SME	786	909	-49	-74	737	835
Other	2,654	2,796	-	-	2,654	2,796
Total	**49,471**	**48,834**	**-149**	**-214**	**49,322**	**48,620**

1 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 regarding the changes in accounting policies, reference is made to Changes in accounting policies, estimates and presentation.

De Volksbank has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 13.8 billion (2016: € 13.1 billion), of which € 7.0 billion (2016: € 5.8 billion) is on own book and a loan of € 4.5 billion (2016: € 4.5 billion) is provided by Woonhuishypotheken B.V.. Woonhuishypotheken B.V. is a fully consolidated subsidiary of de Volksbank. Further information on securitisation transactions is provided under note 14 debt certificates and for more information about intragroup transactions see note 21 related parties. More information regarding asset encumberance can be found in note 22 Transferred and encumbered assets.

Some of the retail mortgages are measured at fair value with changes in value through the profit and loss account. As from 1 January 2018, this portfolio will be valued at amortised costs, in line with other mortgages. The book value of these mortgages is €1,688 million (2016: € 1,850 million) and the maximum credit risk is € 1,517 million (2016: € 1,667 million). This part of the loans and advances to customers is included in level 3.

Under the other loans and advances, € 702 million (2016: € 725 million) relates to loans and advances to VIVAT. VIVAT is participating in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. The same amount is recognised as financing from VIVAT in the note 12 Other amounts due to customers.

Statement of changes in loans and advances to customers 2017 (gross)

in € millions	Mortgages Retail	Other Retail	SME	Other	Total
Opening balance	44,938	191	909	2,796	48,834
Advances	5,434[1]	-	35	9,353[2]	14,822
Redemptions	-4,224[1]	-	-158	-9,485[2]	-13,867
Change in fair value as a result of hedge accounting	-238	-	-	-3	-241[3]
Exchange rate differences	-	-	-	-6	-6
Change in mortgage loans at fair value through P&L	-12	-	-	-	-12
Movement in current accounts	-	-52	-	-	-52
Other movements	-6	-	-	-1	-7
Closing balance	**45,892**	**139**	**786**	**2,654**	**49,471**

1 The advances and redemptions mentioned in this table include conversions of € 178 million for new production and -/- € 242 million for redemptions.

2 These are short-term deposits with governments and pension funds in particular, with the advances and repayments being administered on a daily basis.

3 At year-end 2017, the fair value as a result of hedge accounting amounted to € 274 million (2016: € 515 million).

Movement in current accounts of € 52 million (2016: € 28 million) relates to short-term exposures.

Statement of changes in loans and advances to customers 2016 (gross)

in € millions	Mortgages Retail	Other Retail	SME	Other	Total
Opening balance	45,044	219	1,089	3,256	49,608
Reclassifications	27[1]	-	-	-	27
Advances	3,859[2]	-	20	11,360[3]	15,239
Redemptions	-3,862[2]	-	-200	-11,830[3]	-15,892
Change in fair value as a result of hedge accounting	-85	-	-	8	-77[4]
Exchange rate differences	-	-	-	1	1
Change in mortgage loans at fair value through P&L	-4	-	-	-	-4
Movement in current accounts	-	-28	-	-	-28
Other movements	-41	-	-	1	-40
Closing balance	**44,938**	**191**	**909**	**2,796**	**48,834**

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

2 The advances and redemptions mentioned in this table include conversions of € 169 million for new production and -/- € 247 million for redemptions.

3 These are short-term deposits with governments and pension funds in particular, with the advances and repayments being administered on a daily basis.

4 At year-end 2016, the fair value as a result of hedge accounting amounted to € 515 million (2015: € 593 million).

Statement of changes in specific provision loans and advances to customers

in € millions	Mortgages Retail 2017	Mortgages Retail 2016	Other Retail 2017	Other Retail 2016	SME 2017	SME 2016	Total 2017	Total 2016
Opening balance	80	207	25	33	70	95	175	335
Write-offs	-22	-75	-5	-9	-19	-26	-46	-110
Additions	17	23	7	3	10	12	34	38
Releases	-33	-79	-	-2	-17	-15	-50	-96
Other movements	2	4	-	-	3	4	5	8
Closing balance	**44**	**80**	**27**	**25**	**47**	**70**	**118**	**175**

Statement of changes in IBNR provision loans and advances to customers

in € millions	Mortgages Retail 2017	Mortgages Retail 2016	Other retail 2017	Other retail 2016	SME 2017	SME 2016	Total 2017	Total 2016
Opening balance	34	50	1	2	4	4	39	56
Write-offs	-1	-7	-	-	-	-	-1	-7
Additions	10	13	-	-	-	-	10	13
Releases	-15	-22	-	-1	-2	-	-17	-23
Closing balance	**28**	**34**	**1**	**1**	**2**	**4**	**31**	**39**

The total provision for loans and advances to customers decreased to € 149 million from € 241 million at year-end 2016. Both the retail mortgage portfolio and the SME portfolio contributed to this decrease, reflecting the improved market developments. More details can be found in Chapter 3 Risk, capital & liquidity management.

6 Property and equipment

ACCOUNTING POLICY FOR PROPERTY AND EQUIPMENT

Land and buildings in own use

Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based on yearly valuations, performed by external, independent valuators.

Increases in the fair value exceeding the cost price are recognised in the revaluation reserve in shareholders' equity. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are recognised in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are performed on land and buildings.

Upon the sale of a property, the part of the revaluation reserve related to the sold property, within equity, is transferred to 'other reserves'.

IT equipment and other assets

All other tangible assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the assets and is depreciated on a straight- line basis over the useful life, taking into account any residual value. The estimated useful life can vary from 3 to 10 years.

Results on the sale of property and equipment are recognised as part of 'other operating income'.

Specification property and equipment

in € millions	2017	2016
Land and buildings in own use	17	17
IT equipment	12	13
Other assets	38	43
Total	**67**	**73**

Statement of changes in property and equipment 2017

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisition costs	48	28	85	161
Accumulated revaluations	-8	-	-	-8
Accumulated amortisation and impairments	-23	-16	-47	-86
Closing balance	**17**	**12**	**38**	**67**
Opening balance	17	13	43	73
Reclassifications	-1	-	1	-
Revaluations	2	-	-	2
Investments	-	5	4	9
Divestments	-1	-	-	-1
Disposals	-	-	-1	-1
Depreciation	-	-6	-9	-15
Closing balance	**17**	**12**	**38**	**67**

At year-end 2017 the renovations to the leased office premises, which are not yet in use, amount to € 0.3 million (2016: € 1 million).

Statement of changes in property and equipment 2016

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	50	29	86	165
Accumulated revaluations	-10	-	-	-10
Accumulated amortisation and impairments	-23	-16	-43	-82
Balance as at 31 December	**17**	**13**	**43**	**73**
Balance as at 1 January	16	14	47	77
Reclassifications	-2	-	2	-
Revaluations	3	-	-	3
Investments	-	6	7	13
Divestments	-	-	-	-
Disposals	-	-1	-1	-2
Depreciation	-	-6	-12	-18
Balance as at 31 December	**17**	**13**	**43**	**73**

Rental income

Future rental income based on irrevocable operational leases

in € millions	2017	2016
< 1 year	3	3
1 - 5 year	6	6
> 5 year	-	-
Total	**9**	**9**

Valuation of land and building in own use

Land and buildings in own use with a fair value of more than € 1 million are valued by an external surveyor every year, with the exception for the building of ASN Bank in The Hague. Other land and buildings in own use are valued once every three years.

The valuations were carried out in December 2017.

Valuation of land and buildings in own use

in € millions	Appraised book value	Total book value	% Appraised book value
2017	**12**	**17**	**71%**
2016	11	17	65%
2015	9	16	59%

Determination of the fair value of property and equipment hierachy

The table below categorises property and equipment recognised in the balance sheet at fair value into level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on observable market data) and level 3 (the fair value is not based on observable market data).

Hierarchy property and equipment

In € millions	Level 1	Level 2	Level 3	Total
Land and buildings in own use 2016	-	-	17	**17**
Land and buildings in own use 2015	-	-	17	**17**
Land and buildings in own use 2014	-	-	16	**16**

De Volksbank classifies land and buildings in own use as level 3 fair value measurement. These assets are measured based on yearly valuations. The main parameters for these valuations are the market rental value and the expected return. As these parameters are not directly observable in the market, we classify land and buildings in own use as level 3.

7 Intangible assets

ACCOUNTING POLICY FOR INTANGIBLE ASSETS

General

Intangible assets are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

Software

Costs that are directly related to the development of identifiable software products that de Volksbank controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of software are included as an expense in the period during which they are incurred.

The capitalised development costs for software are amortised on a straight-line basis over the useful life, with a maximum of five years. Every reporting date an assessment is carried out for possible impairments.

Other intangible assets

The other intangible assets of de Volksbank consist of the distribution network of former Regiobank and are amortised in accordance with the straight-line method over their useful life or amortised on the basis of the profit flows from the underlying portfolios, which is in general between five and fifteen years. If objective indications require so, an impairment test will be performed.

ACCOUNTING POLICY FOR IMPAIRMENTS OF INTANGIBLE ASSETS

General

An intangible asset measured at amortised cost is subject to impairment if its book value exceeds the realisable value from continued use (value-in-use) or sale of the asset. The realisable value of assets is estimated if there are indications of impairment of the asset. Intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Software and other intangible assets

On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indicators of possible impairments.

Reversal of impairments on intangible assets

Except for goodwill, if applicable, impairment losses on intangible assets are reversed if there is proof that a change in the estimates of the realisable value occurred after the impairment loss was recognised. The reversal is included under 'impairment charges' in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Specification intangible assets

in € millions	2017	2016
Software	10	9
Other intangible assets	4	6
Total	**14**	**15**

At year-end 2017, the book value of internally developed and capitalised software amounts to € 10 million (2016: € 9 million). Other intangible assets comprise the distribution network of RegioBank of € 4 million (2016: € 6 million).

Statement of changes in intangible assets

	Software		Other intangible assets		Total	
in € millions	**2017**	2016	**2017**	2016	**2017**	2016
Accumulated acquisition costs	18	15	21	21	39	36
Accumulated amortisation and impairments	-8	-6	-17	-15	-25	-21
Closing balance	**10**	**9**	**4**	**6**	**14**	**15**
Opening balance	9	8	6	7	15	15
Capitalised costs	5	4	-	-	5	4
Depreciation capitalised costs	-4	-3	-	-	-4	-3
Depreciation purchases	-	-	-2	-1	-2	-1
Closing balance	**10**	**9**	**4**	**6**	**14**	**15**

8 Deferred tax assets and liabilities

ACCOUNTING POLICY FOR DEFERRED TAX ASSETS AND LIABILITIES
Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless de Volksbank can determine the time at which these temporary differences will end and if it is probable that these differences will not end in the near future.

Deferred tax assets are assessed at the balance sheet date and if it is no longer probable that the related tax income will realised, the asset is reduced to the recoverable value.

The most significant temporary differences arise from the revaluation of property and equipment, certain financial assets and liabilities, including derivative contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value of the acquired net assets and (b) the tax value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realization included in the income statement together with the deferred revaluations.

Specification deferred tax assets and liabilities

in € millions	2017	2016
Deferred tax assets	110	137
Deferred tax liabilities	45	59
Total	**65**	**78**

Origin of deferred tax assets and liabilities 2017

in € millions	Opening balance	Change through P&L	Change through equity	Other movements	Closing balance
Intangible assets	-1	-	-	-	-1
Property and equipment	2	-	-1	-	1
Investments	-43	-	11	-	-32
Derivatives	-15	-	3	-	-12
Loans and advances to customers	115	-25	-	-	90
Provisions	18	-1	-	-	17
Other	2	-	-	-	2
Total	**78**	**-26**	**13**	**-**	**65**

Origin of deferred tax assets and liabilities 2016

in € millions	Opening balance	Change through P&L	Change through equity	Other movements	Closing balance
Intangible assets	-1	-	-	-	-1
Property and equipment	3	-	-1	-	2
Investments	-47	-3	-6	13	-43
Derivatives	117	32	4	-168	-15
Loans and advances to customers	-34	13	-	136	115
Provisions	23	-5	-	-	18
Other	7	-3	-	-2	2
Total	**68**	**34**	**-3**	**-21**	**78**

Specification tax-effect changes shareholders' equity

in € millions	2017	2016
Change in cashflow hedge reserve	3	4
Change in fair value reserve	11	-7
Change in other reserve	-1	-
Total	**13**	**-3**

Tax-deductible losses

in € millions	2017	2016
Total tax-deductible losses	1	1
Deferred tax assets calculated on tax-deductible losses	-	-
Average tax rate	25.0%	25.0%

Deferred tax assets (DTA) as at year-end 2017 mostly related to a temporary valuation difference in loans and advances to customers. The remaining term of this temporary valuation difference is 3.5 years.

Pursuant to an agreement concluded with the Dutch Tax and Customs Administration in 2016, the financial instruments in the tax return may be valued on the basis of the same accounting principles as those that apply to the financial statements for reporting purposes. This agreement will lead to fewer differences between the valuation for reporting purposes and the valuation for tax purposes. This was recognised at year-end 2016; last year this resulted in part of the deferred corporate income tax due shifting to immediately due corporate income tax.

9 Corporate income tax

ACCOUNTING POLICY FOR CORPORATE INCOME TAX

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any Corporate income tax includes dividends withholding tax, which is settled through the corporate income tax return. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

Corporate income tax receivable and payable for the years up to and including 2015 is irrevocable. The first half of 2015 (being the period in which SNS Bank still formed part of the fiscal unity SRH) has been settled with SRH as the fiscal unity's parent company. The return for the second half of 2015 – the first period in which de Volksbank was an independent Fiscal Unity – was filed in 2017 and definitively assessed in early January 2018. The corporate income tax due by the various subsidiaries of the fiscal unity for corporate income tax purposes based on the final assessment as well as the return filed have been settled with the head of the fiscal unity, i.e. de Volksbank N.V. The corporate income tax return for 2016 must be filed before 1 May 2018.

For more information regarding the changes in accounting policies, reference is made to Changes in accounting policies, estimates and presentation

10 Other assets

ACCOUNTING POLICY FOR OTHER ASSETS
Other assets consist of taxes (including VAT, payroll tax), other receivables and accrued assets. The net amount of advances and provisions in relation to the Deposit Guarantee Scheme (DGS) is accounted for under other receivables. Accrued assets also include the accumulated interest on financial instruments measured at amortised cost, as well as other accruals, which item includes amounts receivable by de Volksbank from clients and the clearing counterparty regarding derivative positions.

Specification other assets

in € millions	2017	2016
Accrued interest	137	148
Other accrued assets	185	174
Accrued assets	**322**	**322**
Other advances	43	89
Total	**365**	**411**

Other accrued assets include the advanced contribution of de Volksbank to the Dutch Central Bank of € 54 million (2016: € 51 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank.

11 Savings

ACCOUNTING POLICY FOR SAVINGS
Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of households. Upon initial recognition, savings, are measured at fair value, Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these savings by using the effective interest method.

Specification savings

in € millions	2017	2016
Due on demand	32,023	31,406
Other savings	4,552	5,187
Total	**36,575**	**36,593**

The interest payable on savings is included under other liabilities.

The bank savings accounts amount to € 3,442 million (2016: € 2,936 million). The life-course savings accounts amount to € 192 million (2016: € 197 million).

12 Other amounts due to customers

ACCOUNTING POLICY FOR OTHER AMOUNTS DUE TO CUSTOMERS
Other amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits, cash and mortgage deposits.

Upon initial recognition other amounts due to customers are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost. Except for saving accounts related to mortgages which are measured at fair value through profit and loss, which are measured at fair value accordingly.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these amounts owed by using the effective interest method.

Specification other amounts due to customers

in € millions	2017	2016
Private loans	1,194	1,207
Private loans securitisation programme	702	725
Due on demand	5,916	6,581
Mortgage deposits	374	234
Savings deposits	2,094	2,088
Total	**10,280**	**10,835**

The interest payable on other amounts due to customers is included under other liabilities.

Under private loans, € 660 million (2016: € 796 million) relates to debt instruments (Schuldscheine) issued by pension funds and insurance companies.

A part of the private loans is issued by the covered bond programme of de Volksbank. The bookvalue of the private loans amounts to €347 million (2016: € 358 million). Additional repayment security was given by the Covered Bond Company for these private loans. For more information about the covered bond programme, reference is made to note 21 Related parties.

The private loans under the securitisation programme of € 702 million (2016: € 725 million) relate to the amount for which VIVAT participates in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by VIVAT. VIVAT receives a private loan from the bank to finance its (sub-)participations in the securitisation entities. The same amount in private loans granted to VIVAT is recognised under 5. Loans and advances to customers.

As part of an offset mortgage arrangement, de Volksbank and insurer Vivat have agreed that the savings premiums the insurer receives from the customer will be held with the bank. These savings premiums and the interest credited (the savings capital designated for mortgage redemption) mean that, in principle, the insurer has an unsecured claim against the bank. To spread the insurer's default risk, a cession/retrocession agreement has been concluded under which the insurer transfers the savings capital to the bank in exchange for a partial and joint right to the offset mortgage claims. In 2017, the savings capital accrued totalled € 1,613 million (2016: € 1,651 million).

13 Amounts due to banks

ACCOUNTING POLICY FOR AMOUNTS DUE TO BANKS
Amounts due to banks comprise unsubordinated debts to credit institutions. Bonds issued to or held by banks are recognised under 'debt certificates'. Amounts due to banks include private loans, current accounts and outstanding repos.

Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value is recognised under 'interest expense' in the income statement during the term of these amounts owed by using the effective interest method.

Specification amounts due to banks

in € millions	2017	2016
Due on demand	212	313
Deposits and certificates	1,129	52
Repo-contracts	1,305	724
Private loans	35	357
Total	**2,681**	**1,446**

The interest payable on amounts due to banks is included under other liabilities.

Liabilities related to repo-contracts, hedged by means of a temporary sale of investments, amounted to € 1,305 million in 2017 (2016: € 724 million).

In December, de Volksbank was able to recognise $ 1.1 billion (€ 959 million) by subscribing to a 3-week ECB tender loan. This item is recognised under deposits and certificates. Its counterpart is recognised under cash and cash equivalents. The transaction was settled in January.

Under private loans, € 35 million (2016: € 82 million) relates to the placement of debt instruments (Schuldscheine) with banks.

14 Debt certificates

ACCOUNTING POLICY FOR DEBT CERTIFICATES
Outstanding debt certificates are measured at fair value upon initial recognition, which ordinarily corresponds to the issue proceeds (the fair value of the payment received) net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

A specific category of outstanding debt certificates (the securitised mortgages through Holland Homes MBS securitisation transactions) remains measured at fair value after initial recognition, whereby subsequent value adjustments are accounted for in the income statement so that a mismatch in valuation is eliminated that would otherwise arise from the different valuation principles of the related assets and liabilities.

When de Volksbank purchases its own debt securities, these debt securities are derecognised.

Specification debt certificates

in € millions	2017	2016
Medium-term notes (MTN)	3,274	3,867
Certificates of deposits	472	-
Debt certificates issued under Hermes, Pearl and Lowland Securitisation programmes	711	1,303
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	443	526
Balance as at 31 December	**4,900**	**5,696**

Statement of changes debt certificates

	Medium Term Notes		Certificates of Deposit		Issued under securitisation programmes		Classified as Fair value through P&L		Total	
in € millions	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	3,867	3,828	-	-	1,303	2,527	526	585	5,696	6,940
Issues	2,479	545	472	-	2,251	-	-	-	5,202	545
Redemptions	-3,011	-473	-	-	-2,837	-1,186	-85	-80	-5,933	-1,739
Revaluations	-63	-49	-	-	-	-	2	21	-61	-28
Reclassifications	-	11	-	-	-	-	-	-	-	11
Other adjustments	2	6	-	-	-6	-38	-	-	-4	-32
Closing balance	**3,274**	**3,867**	**472**	**-**	**711**	**1,303**	**443**	**526**	**4,900**	**5,696**

Within the securitisation programme, € 1.9 billion has been reclassified, i.e. the redemption of Lowland 1 and issue of Lowland 4.

Medium Term Notes

Specification Medium Term Notes

in € millions[1]	Coupon rate	Book value 2017	Nominal value 2017	Book value 2016	Nominal value 2016
De Volksbank N.V.	Fixed	3,018	2,950	3,407	3,286
De Volksbank N.V.	Structured	221	191	256	224
De Volksbank N.V.	Floating	35	27	204	187
Total		**3,274**	**3,168**	**3,867**	**3,697**

1 MTN's before 2017 were issued under the name SNS Bank N.V.

The Medium Term Notes have a maturity of less than five years and comprise both private loans and public loans that are issued under the EMTN programme. Under the line item Medium Term Notes, € 2.5 billion (2016: € 3.3 billion) bonds were issued under the Covered Bond programme by de Volksbank (for more information, see Section Consolidated structured entities).

In 2017, from almost € 2.5 billion Medium Term Notes were issued and € 3 billion were redeemed. Of the notes placed, € 500 million was issued in September 2017 with an interest rate of 0.125% and a maturity of 3 years.

Certificates of Deposit

Certificates of Deposit are debt securities with a fixed interest rate and a short-term maturity. At the end of 2017, de Volksbank issued € 472 million (2016: € 0 million) in Certificates of Deposit.

Debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

De Volksbank has securitised part of the mortgage loans. In these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans were transferred at nominal value plus a deferred selling price. A positive result within the separate companies leads to the creation of a positive value of the deferred selling price. De Volksbank thus retains an economic interest in these companies. On the basis of this economic interest and other criteria established by IFRS for dominant control, de Volksbank has these companies fully consolidated in the financial statements.

Securitisation transactions have a so called call + step-up structure. This means that after a specific call date, the company will have the right to early redeem the bonds. Additionally, at this specific date, the coupon on the bonds will be subject to a rise in interest rate (step-up). Under normal market conditions, this will create an economic incentive to redeem the bonds early. All notes issued under the securitisation programmes with a call date in 2017 have been called. An overview of the securitisations as at 31 December is provided below:

Overview debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

in € millions	Initial principal	Start of securitisation	Book value 2017	Book value 2016	First call-option date	Contractual expiration
Hermes XVIII	960	10-2012	-	680	18-09-2017	01-09-2044
Pearl 1	1,014	09-2006	789	887	18-09-2026	01-09-2047
Lowland 1	3,793	01-2012	-	2,283	18-02-2017	18-01-2044
Lowland 2	1,917	07-2013	1,178	1,312	18-07-2018	18-10-2042
Lowland 3	2,613	12-2013	1,724	1,903	18-12-2018	18-09-2045
Lowland 4	4,114	02-2017	4,051	-	18-02-2022	18-02-2054
Total	**14,411**		**7,742**	**7,065**		
On own book			-7,031	-5,762		
Total			**711**	**1,303**		

In 2017, de Volksbank holds bonds, issued under the securitisation programmes, with an amortised cost of € 7.0 billion (2016: € 5.8 billion).

Part of the senior tranches of Pearl 1, Lowland 2, Lowland 3 and Lowland 4 securitisations are held for own account and qualify as eligible assets at the European Central Bank.

In 2017, the debt certificates issued under the Lowland 1 and Hermes XVIII securitisation programme were redeemed.

On 20 February 2017, de Volksbank issued a new securitisation named Lowland IV for an amount of € 4,114 million.

Holland Homes securitisation programmes

Besides its regular securitisation programmes, de Volksbank has securitised part of its mortgages through the Holland Homes transactions. Companies established for the purpose of these transactions (special purpose entities, SPEs) are funded through long-term bonds issued by these SPEs. The obligations to bondholders and the income from the mortgages are matched by means of interest rate swaps.

Since these derivative contracts were concluded with parties outside de Volksbank, an accounting mismatch could arise after consolidation of the companies since derivatives, unlike the bonds and the mortgages, are measured at fair value through profit or loss. By measuring not only the derivatives, but also the bonds and mortgages at fair value through profit or loss, this mismatch is partially eliminated. A mismatch may, however, occur when a maturity difference arises from early redemption of the bonds.

The securitisation transactions have a so-called clean-up call structure. This means that if the amount of outstanding notes is less than 10% of the initial outstanding notes (notional), the issuer has the option to redeem the bonds.

Apart from the above mentioned clean-up call these securitisation transactions also have a put plus step-down structure. This means that the bondholder is entitled to call for early redemption of the bonds from a predetermined date (put). If the bondholder exercises this right and neither de Volksbank, which will be offered the bonds first as it is the initiating party, nor a potential third party repurchase the bond, the interest rate of the coupon will be increased. The coupon rate on the bond will be lowered after this date if the bondholders do not exercise this right. Under normal market conditions, this will create an economic incentive to redeem the notes early.

Specification Holland Homes securitisatisation programme

	Initial principal	Start of securitisation	Book value	Book value	Date put-option	Contractual expiration
in € millions			**2017**	**2016**		
Holland Homes MBS 2000-1 BV	350	11-2000	67	79	n.a.	24-09-2030
Holland Homes Oranje MBS BV	1,601	04-2006	376	447	20-01-2018	31-12-2083
Total	**1,951**		**443**	**526**		
On own book			-	-		
Total			**443**	**526**		

The contractual non-discounted amount that will have to be redeemed at the maturity date of the bonds amounts to € 443 million (2016: € 528 million).

On 22 January 2018 the debt certificates Holland Homes Oranje (book value 31 December 2017: € 375.5 million) bought back with a put option on transaction date.

15 Other liabilities

ACCOUNTING POLICY FOR OTHER LIABILITIES

Other liabilities consist of interest accrued on financial instruments that are stated at amortised cost. This item also includes creditors, other taxes and accrued liabilities, which item also includes amounts due by de Volksbank to clients and amounts due to the clearing counterparty regarding derivative positions.

Specification other liabilities

in € millions	**2017**	**2016**
Other taxes	15	15
Other liabilities	574	466
Accrued interest	233	410
Total	**822**	**891**

16 Provisions

ACCOUNTING POLICY FOR PROVISIONS

General

Provisions are made if de Volksbank has a present obligation, legally or constructive, arising from events in the past, and to which it is more likely than not that the settlement of the obligation requires an outflow of assets, and a reliable estimate of the size of the obligation can be made. Provisions are measured at the present value of the expected future cashflows. Additions and any subsequent releases are recorded in the income statement.

Provision for employee benefits

De Volksbank recognises a provision for pension obligations and other employee commitments including various forms of employee benefit plans such as health insurance, savings, mortgages and jubilee benefits schemes. The measurement is based on the net present value taking into account actuarial assumptions.

Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or constructive obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

De Volksbank recognises severance payments if de Volksbank has demonstrably committed itself, to:

- the termination of the employment contracts of current employees in accordance with an announced detailed formal plan without the option of the plan being withdrawn; or
- the payment of termination benefits as a result of an offer to encourage voluntary redundancy that cannot be withdrawn. Termination benefits that are due after more than twelve months after the balance sheet date are discounted.

Other provisions

The Other Provisions mainly consists of legal provisions. De Volksbank recognises a provision for legal proceedings at the balance sheet date for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the payments due during the course of the legal proceedings, where relevant, any possible external coverage of the legal claim will result in the recognition of an asset if and when payment to de Volksbank becomes virtually certain.

Specification provisions

in € millions	2017	2016
Employee commitments	16	17
Restructuring provision	41	39
Other provisions	68	64
Total	**125**	**120**

See note 18 Legal proceedings for a more detailed explanation of the main pending legal proceedings against de Volksbank.

The restructuring provision was reassessed and increased in 2017 to € 41 million. The restructuring provision runs up to and including 2020 and are predominantly long-term in nature.

In 2017 there was a small release of for the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives. The provision amounts currently € 21.5 million and is a part of other provisions.

Part of the other provisions consists of compensations to customers in connection with the risk surcharge of offset mortgages and the costs required to be made to bring back customer files from debt collection agencies (€ 4 million). The employee commitments and other provisions are predominantly long-term in nature.

Statement of changes in other provisions

	Employee commitments		Restructuring provision		Other provisions		Total	
in € millions	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	17	19	39	13	64	70	120	102
Additions/releases	-	-	8	31	16	35	24	66
Withdrawals	-1	-2	-6	-5	-12	-41	-19	-48
Closing balance	**16**	**17**	**41**	**39**	**68**	**64**	**125**	**120**

17 Subordinated debts

ACCOUNTING POLICY FOR SUBORDINATED DEBTS
Subordinated debt is measured at fair value upon initial recognition, which ordinarily corresponds to the proceeds net of the transaction costs incurred. Subsequently, these instruments are measured at amortised cost, using the effective interest method.

The subordinated debts of de Volksbank form part of the eligible own funds which is used in determining the solvency position of de Volksbank.

The (Tier 2) bonds have a book value of € 498 million as at 31 December 2017 (2016: € 501 million). These subordinated debts were placed in 2015 for a total amount of € 500 million. The bonds, with a maturity of ten years, have a fixed coupon rate of 3.75% and with a one-off option to redeem or to adjust the rate after five years.

Statement of changes subordinated debts

in € millions	2017	2016
Opening balance	501	493
Revaluations	-3	8
Closing balance	**498**	**501**

18 Off-balance sheet commitments

ACCOUNTING POLICY FOR CONTINGENT LIABILITIES AND COMMITMENTS
Contingent liabilities are liabilities not recognised in the balance sheet whose existence is contingent on one or more uncertain future events that may or may not occur in the future not wholly within the control of de Volksbank. It is not possible to make a reliable estimate of such liabilities. This includes loan commitments, repurchase commitments and other contingent liabilities.

The contingent liabilities are stated based on the maximum potential credit risk. In determining the maximum potential credit risk it is assumed that all the counterparties will no longer fulfil to their contractual obligations and that all the existing collateral is without value.

Contingent liabilities

Specification contingent liabilities

in € millions	2017	2016
Liabilities from pledges and guarantees given	16	17
Liabilities from irrevocable facilities	1,040	1,562
Repurchase commitments	1,040	1,222
Total	**2,096**	**2,801**

The irrevocable facilities mainly consist of credit facilities pledged to customers, but against which no claim has yet been made. These facilities are pledged for a fixed term and at a variable interest rate. Collateral has been secured for the majority of the irrevocable credit facilities.

Some of the collateralised loans and advances of € 718 million (2016: € 838 million) were sold in the past by a legal predecessor of de Volksbank. This sales transaction entails that, as legal successor, de Volksbank has a repurchase obligation on the interest repricing date of the loans and advances.

In addition, de Volksbank and SRLEV agreed in 2015 that de Volksbank would (re)purchase a mortgage portfolio from SRLEV. The value of the mortgage portfolio to be repurchased was € 321 million as at 31 December 2017 (2016: € 384 million). The mortgages are repurchased on a monthly basis if a loan component meets certain conditions, such as interest repricing date and conversion of the form of redemption.

Maturity calendar repurchase commitments

in € millions	2017	2016
< 1 year	38	49
1 - 5 year	82	106
> 5 year	920	1,067
Total	**1,040**	**1,222**

Guarantee and compensation systems

The European Deposit Guarantee Scheme Directive was implemented in Dutch legislation on 26 November 2015. The Deposit Guarantee Scheme Directive establishes common standards across the EU and aims to strengthen the protection of depositors. It ensures that depositors will continue to benefit from a guaranteed coverage up to € 100,000 in case of bankruptcy. This will be backed by funds that will be collected from the banking sector. A significant component of the rules is a pre-funded Deposit Guarantee Scheme (DGS). In the new DGS, banks will pay quarterly contributions into a new Deposit Guarantee Fund (DGF). The level of the contribution paid by de Volksbank depends on the amount of guaranteed deposits at de Volksbank and the risk profile, partly in relation to the other banks that are part of the Scheme. The target size of the Fund is equal to 0.8% of the total guaranteed deposits of the banks collectively, a target that needs to be reached by 2024. De Volksbank paid € 33 million to the DGS in 2017 (2016: € 38 million).

In order to finance an orderly winding up of failing banks, a National Resolution Funds (NRF) was established in 2015, which is ex-ante financed by contributions raised from the banks. The NRF will be replaced by the Single Resolution Fund (SRF) as of 2016. The SRF will be built up over eight years, reaching a target level of at least 1% of the amount of covered deposits of all credit institutions of all the participating member states. De Volksbank contributed € 10 million (2016: € 8 million) to the NRF in 2016.

Future commitments

The future minimum operating lease commitments relate to leased premises.

Maturity calendar future minimum operating lease commitments

in € millions	2017	2016
< 1 year	15	14
1 - 5 year	48	48
> 5 year	38	51
Total	**101**	**113**

The moment the future operating lease commitments are incurred, they are recognised under the item Other operating expenses. The most important contracts have renewal options. Under the operating leases there are no options to acquire property and no imposed restrictions. De Volksbank took over the lease for head office from SRH (former parent company SNS REAAL), and these commitments are included in the above table. Part of the headquarters will be sublet to third parties (to former sister company VIVAT and SRH). For a period of up to 1 year, this future rental income amounts to € 3 million, and for a period of 1 to 5 years to € 6 million.

The future payment obligations for company car contracts stand at € 2 million for a period up to one year (2016: € 2 miljoen) and € 2 million (2016: € 4 miljoen) for a period exceeding one year. There is no commitment for a period longer than 5 years.

De Volksbank concluded some large long-term IT support contracts in the amount of € 25 million (2016: € 20 million).

Maturity calendar future IT commitments

in € millions	2017	2016
< 1 year	10	11
1 - 5 year	13	9
> 5 year	2	-
Total	**25**	**20**

Legal proceedings

De Volksbank and its subsidiaries are and may become from time to time involved in governmental, legal and arbitration proceedings that relate to claims by and against it which ensue from its normal business operations. The most important proceedings are described below.

MADOFF

In 2010, three Madoff feeder funds initiated legal proceedings in New York against, amongst others, the custody entity of de Volksbank, SNS Global Custody, and its clients as former beneficial owners of investments in these funds. A similar proceeding was initiated by one of these funds against SNS Global Custody in the British Virgin Islands (BVI). They claim repayment of payments made by the funds for redemptions of investments by these beneficial owners. In line with these lawsuits, Madoff's trustee initiated proceedings against de Volksbank and SNS Global Custody. At first instance, de Volksbank was successful in proceedings against Madoff's trustee, but the trustee has appealed. The proceedings against the feeder funds have been formally stayed, but their trustees are attempting to restart these. In view of the initial character and complexity of the Madoff cases, no reliable estimate can be made as to a potential provision for these claims. With regard to a number of important preliminary questions about the claim on the BVI, judgment was given in favour of de Volksbank by final judgment. With this ruling de Volksbank asked the BVI Court to prevent the trustees of the feeder funds from pursuing the US Litigation. This request was dismissed by two judicial authorities, last on 20 November 2017. The BVI proceedings have ended.

Proceedings following the nationalisation

GENERAL

Various former holders of the securities and capital components expropriated in 2013 have initiated legal proceedings to seek compensation for damages. At the time that the financial statements were drawn up, no court proceedings had (yet) been initiated against de Volksbank other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of former holders or other parties affected by the nationalisation may result in a liability, or the level of the financial impact on de Volksbank. For this reason, at year-end 2017 no provisions were made in respect of possible legal actions by former holders and other affected parties. As the outcomes of possible legal proceedings cannot be predicted with certainty, it cannot be ruled out that a negative outcome may have a material negative financial impact on the capital position, results and/or cashflows of de Volksbank.

INQUIRY PROCEEDINGS BY DUTCH INVESTORS' ASSOCIATION

In November 2014 the Dutch Investors' Association (Vereniging van Effectenbezitters; 'VEB') filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (the 'Enterprise Chamber') for an inquiry into the management of SNS REAAL, currently SRH, SNS Bank, currently de Volksbank, and the former SNS Property Finance, currently Propertize.. Other parties concerned have joined these proceedings. SRH, de Volksbank and Propertize disputed the authority to file a petition for an inquiry. The Enterprise Chamber granted the request related to SRH and rejected the request related to Propertize. The decision related to de Volksbank has so far been deferred by the Enterprise Chamber. SRH appealed against the decision to grant the request in October 2015. De Volksbank and Propertize joined this application for cassation. On 4 November 2016, the Supreme Court held that the VEB had locus standi to request an inquiry against SRH and remitted the case back to the Enterprise Chamber. The request for an inquiry can thus be assessed substantively. SRH and de Volksbank have defended themselves against this request. The Enterprise Chamber expects to render judgment in first quarter of 2018 ordering an inquiry or otherwise.

GUARANTEES PURSUANT TO SECTION 2:403, VOLUME 2 OF THE DUTCH CIVIL CODE FOR PROPERTIZE ET AL.

These proceedings are not directly related to the expropriation decree but ensue from the subsequent transfer of Propertize. In the context of this transfer, SRH and de Volksbank have withdrawn the 403 Guarantees issued for Propertize et al. in the past. The expiry of the objection period made this withdrawal irrevocable for all creditors, with the exception of two parties that asserted to have claims against Propertize et al., being Commerzbank and – briefly put – the receivers in the bankruptcies of the 2SQR companies, former Propertize clients. In January 2015, the objection that these parties had raised against the withdrawal of the 403 Guarantees was declared well-founded by the District Court. The Supreme Court upheld this judgement by ruling of 31 March 2017. The outcome of these objection proceedings has not changed the view of de Volksbank that no provision was necessary for the main claim against Propertize.

Besides the objection proceedings, the receivers in the bankruptcies of the 2SQR companies simultaneously commenced proceedings at the District Court regarding their main claim against Propertize. These proceedings have been settled by Propertize ultimo 2017 therefor also ending the 403-liablity of de Volksbank with regard to 2SQR.

OTHER PROCEEDINGS RELEVANT TO DE VOLKSBANK

In addition, there are proceedings to which de Volksbank is not a party or in which it is not the direct subject of investigation, but the course and results of which may have a material impact on de Volksbank's position.

This applies first and foremost to the compensation proceedings before the Enterprise Chamber initiated by former holders of expropriated securities and capital components of SRH and de Volksbank. Following initial proceedings leading to a Supreme Court ruling on the basic principles for the assessment of the value of the expropriated securities and capital components, the Enterprise Chamber has appointed three experts. The experts delivered their draft report on 15 December 2017. The parties concerned - including de Volksbank - were given the opportunity to give their comments on the draft report until 14 February 2018, after which it will be finalized. The Enterprise Chamber will take this expert report into account when it will render a decision whether any compensation has to be paid and if so, to what amount. Any ensuing damages arising from these proceedings will be paid by the Dutch State.

Other

INTEREST RATE DERIVATIVES

In the past, de Volksbank entered into interest rate derivatives with customers. This involves a small portfolio, and no further interest rate derivatives have been entered into with customers since 2010. At the AFM's request, de Volksbank reassessed its customers' interest rate derivatives in 2014 and 2015 in order to establish whether customers had been adequately advised in the past.

In December 2015, the AFM informed de Volksbank that the reassessment of the interest rate derivatives by the banks, including de Volksbank, contained shortcomings and that a new reassessment of the interest rate derivatives might have to be carried out. The Minister of Finance subsequently appointed three independent experts (the Committee of Experts) to set up a uniform recovery framework in collaboration with the banks. This uniform recovery framework defines how the new reassessments are to be conducted and what corrective action should be taken.

On 5 July 2016, the Committee of Experts presented the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives (Recovery Framework) to the Minister of Finance. The Recovery Framework focuses on small and medium sized enterprises and provides for a detailed step-by-step plan for conducting reassessments and taking corrective action. Implementation of the Recovery Framework takes place with the involvement of an external assessor, who ensures that the Framework is correctly applied by de Volksbank. The Committee of Experts published the definitive Recovery Framework on 19 December 2016. De Volksbank has drawn up a definitive action plan based on this Framework which was approved by the AFM. De Volksbank started implementing the Recovery Framework in 2017. At year end, de Volksbank has made an offer to all customers with a derivative that fall within the scope of the Recovery Framework and informed all customers that fall outside the scope. De Volksbank expects to finalise the administrative activities of these offers in the first half of 2018. On the basis of the Recovery Framework as published on 19 December 2016, de Volksbank has reviewed the provision maintained for compensation. At year-end 2017, an amount of € 21.5 million was recognised for this purpose, see note 16 Provisions.

19 Specific disclosures of financial instruments

ACCOUNTING POLICY FOR FAIR VALUE FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined on the basis of quoted prices where available. Such quoted prices are primarily derived from transaction prices for listed instruments. If quoted prices are not available, market prices from independent market participants or other experts are used. De Volksbank applies an exit price when determining fair value, therefore financial assets are recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain financial instrument. Selecting the most appropriate price requires management judgement.

For certain financial assets and liabilities, no market price is available. The fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from discounted cashflow calculation to valuation models that use generally accepted economic methodologies. Observable market information, where available, is used as input for the valuation models. All valuation methods used are assessed and approved in-house according to de Volksbank's governance procedures.

Overview of financial assets and liabilities by measurement base 2017

in € millions	Amortised Cost	Fair value through profit or loss - Trading	Fair value through profit or loss - Other	Available for sale financial assets	Total
Financial assets					
Cash and cash equivalents	2,180	-	-	-	2,180
Derivatives	-	264	811	-	1,075
Investments	-	162	-	4,932	5,094
Loans and advances to banks	2,643	-	-	-	2,643
Loans and advances to customers	47,634	-	1,688	-	49,322
Other assets	137	-	-	-	137
Total financial assets	**52,594**	**426**	**2,499**	**4,932**	**60,451**
FINANCIAL LIABILITIES					
Derivatives	-	279	973	-	1,252
Amounts due to banks	2,681	-	-	-	2,681
Savings	36,575	-	-	-	36,575
Other amounts due to customers	9,973	-	307	-	10,280
Debt certificates	4,457	-	443	-	4,900
Subordinated debt	498	-	-	-	498
Other liabilities	233	-	-	-	233
Total financial liabilities	**54,418**	**279**	**1,723**	**-**	**56,419**

Overview of financial assets and liabilities by measurement base 2016

in € millions	Amortised Cost	Fair value through profit or loss - Trading	Fair value through profit or loss - Other	Available for sale financial assets	Total
Financial assets					
Cash and cash equivalents	1,911	-	-	-	1,911
Derivatives	-	223	1,309	-	1,533
Investments	-	831	-	5,139	5,970
Loans and advances to banks	2,918	-	-	-	2,918
Loans and advances to customers	46,770	-	1,850	-	48,620
Other assets	148	-	-	-	148
Total financial assets	**51,747**	**1,054**	**3,159**	**5,139**	**61,100**
FINANCIAL LIABILITIES					
Derivatives	-	188	1,673	-	1,861
Amounts due to banks	1,446	-	-	-	1,446
Savings	36,593	-	-	-	36,593
Other amounts due to customers	10,526	-	309	-	10,835
Debt certificates	5,170	-	526	-	5,696
Subordinated debt	501	-	-	-	501
Other liabilities	410	-	-	-	410
Total financial liabilities	**54,646**	**188**	**2,508**	**-**	**57,342**

NOTES TO THE VALUATION FINANCIAL ASSETS AND LIABILITIES
The following techniques and assumptions have been used to determine the fair value of financial instruments.

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

Loans and advances to customers
The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each

sub-portfolio due to differences in maturity, Loan-to-Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.

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

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

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

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

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

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

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

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

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

Other liabilities
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

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

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

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

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

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

Hierarchy financial assets and liabilities 31 December 2017

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
INVESTMENTS					
- Fair value through P&L: held for trading	162	162	-	-	162
- Available for sale	4,932	4,761	154	17	4,932
Derivatives	1,075	-	992	83	1,075
Loans and advances to customers[1]	1,688	-	-	1,688	1,688
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[1]	47,634	-	-	50,231	50,231
Loans and advances to banks	2,249	-	-	-	2,249
Other assets	365	-	-	-	365
Cash and cash equivalents	2,574	-	-	-	2,574
Total financial assets	**60,679**	**4,923**	**1,146**	**52,019**	**63,276**
Financial liabilities measured at fair value					
Derivatives	1,252	-	1,083	169	1,252
Debt certificates[1]	443	-	-	443	443
Financial liabilities not measured at fair value					
Subordinated debts	498	-	534	-	534
Debt certificates[1]	4,457	-	-	4,442	4,442
Savings	36,575	-	34,002	3,250	37,252
Other amounts due to customers	10,280	-	10,387	-	10,387
Amounts due to banks	2,681	-	2,681	-	2,681
Other liabilities	822	-	-	-	822
Total financial liabilities	**57,008**	**-**	**48,687**	**8,304**	**57,813**

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

The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. This table only includes financial assets and liabilities. Balance sheet items that do not meet the definition of a financial asset or liability are not included. The total of the fair value presented above does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

Hierarchy financial assets and liabilities 31 December 2016

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
INVESTMENTS					
- Fair value through P&L: held for trading	831	831	-	-	831
- Available for sale	5,139	5,066	51	22	5,139
Derivatives	1,533	-	1,392	141	1,533
Loans and advances to customers[1]	1,850	-	-	1,850	1,850
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[1]	46,770	-	-	48,908	48,908
Loans and advances to banks	2,532	-	-	-	2,532
Other assets	411	-	-	-	411
Cash and cash equivalents	2,297	-	-	-	2,297
Total financial assets	**61,363**	**5,897**	**1,443**	**50,921**	**63,501**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,861	-	1,614	247	1,861
Debt certificates[1]	526	-	-	526	526
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	501	-	516	-	516
Debt certificates[1]	5,170	-	-	5,145	5,145
Savings	36,593	-	33,600	3,513	37,113
Other amounts due to customers	10,835	-	10,964	-	10,964
Amounts due to banks	1,446	-	1,446	-	1,446
Other liabilities	891	-	-	-	891
Total financial liabilities	**57,823**	**-**	**48,140**	**9,431**	**58,462**

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

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

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

Change in level 3 financial instruments 2017

in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	22	1,850	141	247	526
Purchases/advances	-	-	-	-	-
Unrealised gains or losses recognised in P&L[1]	-	-12	-56	-76	2
Unrealised gains or losses recognised in other comprehensive income[2]	2	-	-	-	-
Movement accrued interest	-	-	-2	-2	-
Sale/settlements	-7	-150	-	-	-85
Closing balance	**17**	**1,688**	**83**	**169**	**443**

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

2 These are included in the line item 'Fair value reserve'.

Change in level 3 financial instruments 2016

in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	27	2,047	207	347	585
Purchases/advances	4	-	-	-	-
Unrealised gains or losses recognised in P&L[1]	-	-4	-60	-93	21
Unrealised gains or losses recognised in other comprehensive income[2]	5	-	-	-	-
Movement accrued interest	-	-	-6	-7	-
Sale/settlements	-14	-193	-	-	-80
Closing balance	**22**	**1,850**	**141**	**247**	**526**

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

2 These are included in the line item 'Fair value reserve'.

Breakdown level 3 financial instruments

in € millions	2017	2016
Equity	17	22
Derivatives	83	141
Loans and advances to customers	1,688	1,850
Total assets	**1,788**	**2,013**
Derivatives	169	247
Debt certificates	443	526
Total liabilities	**612**	**773**

SENSITIVITY OF LEVEL 3 VALUATIONS OF FINANCIAL INSTRUMENTS

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

Sensitivity non-market observable parameters financial instruments level 3 2017

in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
ASSETS					
Loans and advances to customers	Discounted cashflow	Discount curve	1,688	33	31
		Pre-payment rate	1,688	7	7
Derivatives	Discounted cashflow	Discount curve	83	8	8
		Pre-payment rate	83	3	3
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	443	-	-
		Pre-payment rate	443	-	-
Derivatives	Discounted cashflow	Discount curve	169	5	5
		Pre-payment rate	169	5	5

Sensitivity non-market observable parameters financial instruments level 3 2016

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

The introduction of IFRS 9 as from 1 January 2018 means that no more mortgages are reported at fair value as from this date. For more information, see Section 3.8.3 Figures, ratio's and trends on the sensitivity of mortgages at fair value in 2017.

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

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

The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve. How this unobservable discount curve is determined in the valuation process is discussed in the notes on the accounting techniques and assumptions applied for determining the fair value of loans and advances to customers. With regard to the discount curve, the assumptions to determine the creditrisk surcharge in particular are not observable in the market. De Volksbank adjusted the discount curve upwards or downwards by 50 basis points and had the expectation of early redemptions increased or decreased by 1% in order to calculate sensitivity. It should be noted here that a direct relationship exists between the fair values of the loans and advances to customers, debt certificates and some of the derivatives, as these positions form part of a securitisation structure. As a result, any changes in the value of loans and advances to customers are offset by changes in the value of the debt certificates and derivatives. The other level 3 derivatives also relate to securitisation transactions. Here, too, there is a relationship between the fair values this is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programmes Hermes, Pearl and Lowland, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-by-back by de Volksbank.

The valuation of the mortgages at fair value is based on the expected future cashflows, taking into account an estimate for early repayments. We include the cashflows at representative customer rates from the Dutch market on reporting date. A change in the prepayment assumption of -/- 1% has a positive impact on the value of the former DBV mortgage portfolio of € 7.4 million. A 1% higher prepayment assumption has a negative impact of € 6.9 million. In addition, a lower discount[] assumption of 0.5% has a positive impact of € 32.4 million and a higher discount assumption of 0.5% has a negative impact of € 31 million on the value of the former DBV mortgage portfolio.

The next table presents the fair value changes caused by the credit risk.

Changes fair value caused by credit risk

in € millions	Carrying amount	Accumulated changes in fair value due to credit risk	Carrying amount	Accumulated changes in fair value due to credit risk
	2017		2016	
Loans and advances to customers	1,688	35	1,850	22
Total assets	**1,688**	**35**	**1,850**	**22**
			-	-
Debt certifiates	443	-	526	-2
Total liabilities	**443**	**-**	**526**	**-2**

The cumulative changes in the fair value due to credit risk in the loans and advances to customers amounts to € 35 million (2016: € 22 million). This has been calculated from 2010, the moment at which the (mortgage) loans were recognised in the balance sheet by de Volksbank. The movement as a result of credit risk in 2017 is € 13 million (2016: € 6 million).

TRANSFERS BETWEEN CATEGORIES 2017
No significant movements occurred in 2017 and 2016.

20 Hedging and hedge accounting

ACCOUNTING POLICY FOR HEDGING AND HEDGE ACCOUNTING
De Volksbank uses derivatives as part of its asset and liability management and risk management. Derivatives are used for hedging interest rate and foreign currency risks in assets, liabilities and future transactions. The accounting treatment of the hedged item and the hedging instrument depends on whether the hedge relationship qualifies for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Under IFRS, derivatives are measured at fair value in the balance sheet and any change in the fair value is accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, causing volatility in the results. In these cases, hedge accounting is applied to mitigate as much as possible the accounting mismatch and volatility.
De Volksbank can designate certain derivatives as either:
1. a hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
2. a hedge of the variability of future cashflows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cashflow hedge).

Both at the inception of the hedge and on an ongoing basis, de Volksbank assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or variability of the cashflows of the hedged item, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome. Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in the income statement in the line item Result on financial instruments.

De Volksbank discontinues hedge accounting when the hedge relationship ceased to be effective or when the derivative or hedged item is sold or otherwise terminated.

The changes in fair value for derivatives that hedge economic risks and do not comply with the IAS 39 conditions for hedge accounting or for which it is not cost-efficient to apply hedge accounting, are recognised directly in the profit and loss account.

Fair value hedge accounting
Fair value hedges are hedge relationships by which a derivative hedges the exposure to changes in the fair value of a hedged item that is attributable to a hedged risk. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the Income statement within Result on financial instruments. Hedge effectiveness for fair value hedges is measured as the amount by which the changes in fair value of the derivatives compensates the changes in the fair value of the hedged item. When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged item is amortised to the income statement. During 2017 the amortisation approach is refined. The refined approach determines the amortisation

period on the underlying remaining interest rate maturity of the hedged item. As a result, value adjustment for individual contracts are amortised over the respective maturity bucket. The moment the hedged position is no longer recognised, i.e. is sold or redeemed, the non-amortised part of the fair value adjustment of the hedged asset is recognised directly in the profit and loss account.

De Volksbank applies fair value hedge accounting for portfolio hedges of interest rate risk as allowed under the EU carve out version of IAS 39. Amongst others the EU carve out enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument in the bank's macro fair value hedging model and removes some of the limitations in macro fair value hedge accounting with respect to underhedging strategies.

Cashflow hedge accounting

Derivatives can be designated to hedge the risk of variability of future cashflows of a recognised asset or liability or highly probable forecast transaction. Hedge ineffectiveness for cashflow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cashflow in the cashflow hedge. The effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in the cashflow hedge reserve as a separate component of shareholders' equity. Any ineffective part of the cashflow hedge is recognised in Results financial instruments immediately. The valuation of the hedged item included in the cashflow hedge relationship, remains unchanged.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cashflow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cashflow hedge reserve fully remains in the cashflow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

Derivatives for hedging purposes 2017

	Fair value hedges			Cashflow hedges			Other hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative		Positive	Negative
Interest rate contracts	34,150	656	804	200	7	-	9,512	201	253
Currency contracts	73	23	-	68	4	-	27,288	184	195
Total	**34,223**	**679**	**804**	**268**	**11**	**-**	**36,800**	**385**	**448**

Derivatives for hedging purposes 2016

	Fair value hedges			Cashflow hedges			Other hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
in € millions		Positive	Negative		Positive	Negative		Positive	Negative
Interest rate contracts	30,749	895	1,154	1,500	14	1	15,570	476	625
Currency contracts	52	26	-	22	-2	-	11,573	124	81
Total	**30,801**	**921**	**1,154**	**1,522**	**12**	**1**	**27,143**	**600**	**706**

The nominal amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These nominal amounts provide no indication of the size of the cashflows, the market and credit risks related to the transactions.

Other hedges relate to the hedges that are held for balance sheet management and hedges held for trading purposes.

Hedging

De Volksbank uses derivatives for the following objectives:

- To hedge the basis risk;
- To manage the duration of the shareholders' equity. The policy is that this duration ranges between 0 and 3.5;

- To hedge specific embedded options in mortgages. It concerns mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to customers;
- To convert fixed-rate funding into floating-rate funding;
- To hedge the quotation risk when offering mortgages if the new business of fixed-rate mortgages is substantial;
- To hedge foreign exchange risks by converting non-euro funding into euro funding; and
- To hedge risks associated with investment portfolios.

Hedge accounting
In most of the hedging strategies explained above, de Volksbank applies hedge accounting. In addition to the main distinction between fair value hedges and cashflow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. Micro hedging is a technique used to hedge individual contracts. Macro hedging is a technique used to hedge the risk on a portfolio of contracts. De Volksbank applies the following types of hedge accounting:

Fair value hedges
Hedging the interest rate risk in the banking book (macro hedge)
The portfolio hedged comprises fixed-rate mortgages of de Volksbank. These are mortgages that have a fixed-rate interest period of more than 6 months. The hedging instruments are interest rate swaps entered into as part of the interest rate risk management in the ALM process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates.

Hedging embedded derivatives in mortgages (macro hedge)
The mortgage portfolio contains mortgages with interest rate derivatives embedded in the mortgage. These 'embedded options' are hedged by purchasing mirrored interest rate derivatives in the market. The two mortgage products for which hedge accounting is applied are the *Rentedemperhypotheek* and the *Plafondhypotheek*. The hedge covers the interest rate risk that results from writing the embedded interest rate option to the customer.

Hedging the interest rate risk on funding (micro hedge)
De Volksbank conducts micro hedging to convert fixed-rate funding into floating interest rates by means of interest rate swaps. If such funding is denominated in a foreign currency, cross-currency swaps are entered into. In addition to converting foreign currencies into euros and fixed-rate funding into floating-rate funding, de Volksbank also uses derivatives to convert structured funding into floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. The funding programme also includes interest rate structures such as floating-rate coupons with a multiplier or a leverage factor. De Volksbank fully hedges the interest rate risk on these structures.

Hedging the interest rate risk on investments (macro hedge)
The interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating interest rate with interest swaps and interest rate futures. The country or credit spread is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments.

Cashflow hedges
Hedging floating interest rate cashflows
De Volksbank applies macro cashflow hedge accounting to hedge the risk of floating interest rate cashflows on the cash position, floating interest rate mortgages, quotations and floating-rate funding by entering into interest rate swaps and basis swaps. The future cashflows are derived from the projected balance sheet resulting from the asset and liability management models that form the basis for interest rate risk management. In the projected balance sheet, the assets and liabilities are allocated until maturity into clusters where these assets and liabilities are repriced. The interest rate swaps are allocated to these clusters based on the repricing index and maturity. Where the availability of the projected cashflows in the clusters is not constant, the cashflows are evaluated on a monthly basis. Changes in the cashflow projections may result in revision of the hedge relationship to enable effective hedging to continue. The accrued value of the derivatives is included in shareholders' equity over the remaining term of the hedge. In 2017, no transactions were concluded in order to hedge the quotation risk. The value accrued in shareholders' equity was € 48.6 million positive (gross) as at 31 December 2017 (2016: € 59.3 million positive (gross)).

The maturity profile of the forecasted principal balances designated in the macro cashflow hedge is as follows:

Maturity schedule 2017

in € millions	< 3 months	> 3 months - 1 year	> 1 year - 5 year	Total
Assets	-	210	-	210
Liabilities	-	-	-	-
Net	**-**	**210**	**-**	**210**

Maturity schedule 2016

in € millions	< 3 months	> 3 months - 1 year	> 1 year - 5 year	Total
Assets	525	840	210	1,575
Liabilities	500	800	-	1,300
Net	**25**	**40**	**210**	**275**

21 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. As a part of its ordinary business operations, de Volksbank maintains various forms of ordinary business relationships with related companies and parties. Related parties of de Volksbank could be parent company de Volksholding, associated companies, joint ventures, SNS REAAL Pensioenfonds, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administration.

Transactions with related parties have been conducted under normal market terms and conditions ('at arm's length'), except where stated otherwise. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III. 6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

Positions and transactions related parties

FISCAL UNITY

De Volksbank and its subsidiaries and/or group companies formed a fiscal unity for corporate income tax and VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

For more information about the current corporate income tax receivables and payables reference is made to note 9 Corporate income tax of the consolidated financial statements.

MORTGAGE-RELATED INTRAGROUP TRANSACTIONS AND POSITIONS

The mortgage-backed loan that ASN Bank provided to Woonhuishypotheken B.V., a fully consolidated subsidiary of de Volksbank, amounted to € 4.5 billion (2016: € 4.5 billion) as at 31 December 2017. The underlying mortgages were originally initiated by SNS and RegioBank.

OTHER TRANSACTIONS

De Volksbank pays pension premiums for its employees to the SNS REAAL pension fund in the amount of € 39 million (2016: € 38 million).

Positions and transactions with managers in key positions of de Volksbank

In 2016, the managers in key positions comprised the members of the Board of Directors of de Volksbank and a temporary replacement for one of the members of the Board of Directors. At the end of 2016, 5 persons were regarded as managers in key positions (end of 2015: 6 members).

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Fixed annual income	1,945	1,911	-	196	1,945	2,107
Pension contribution	100	100	-	12	100	112
Total	**2,045**	**2,011**	**-**	**208**	**2,045**	**2,219**

'Fixed annual income' includes all remuneration components paid by the employer with the exception of pension accrual and any termination benefits recorded separately in the table.

'Pension contribution' means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee. Extra (salary) payments to compensate for the loss of pension above € 103,317 (2017) are included in the table under fixed annual income.

As from 1 January 2018, one statutory director of de Volksbank resigned. He will perform other activities until 1 July 2018 and his remuneration will continue to apply unchanged. The employer pays a compensation of one fixed annual salary in connection with the termination of the employment contract.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate[1]		Redemptions		Advances	
in € thousands	2017	2016	2017	2016	2017	2016	2017	2016
Mortgage loans	970	984	3.42%	3.48%	14	14	-	-

1 The average interest rate is the interest paid as a percentage of the average outstanding mortgage loan balances.

The table above provides an overview of the loans granted to managers in key positions that were outstanding on 31 December 2017. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

The remuneration of individual members of the Board of Directors and members of the Supervisory Board are explained in more detail in Section 5.7 Remuneration report which is part of the financial statements.

Subsidiaries de Volksholding B.V.

On 29 December 2017, the subsidiary Woningfonds merged with de Volksbank.

Overview subsidiaries de Volksbank N.V.

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	Utrecht	100%
CONA V B.V.	Utrecht	100%
Pettelbosch Beheer I B.V.	Utrecht	100%
Pettelbosch Beheer II B.V.	Utrecht	100%
SNS FinanCenter B.V.	Utrecht	100%
Holland Woningfinanciering N.V.	Utrecht	100%
SNS Mortgage Receivables B.V.	Utrecht	100%
1817 B.V.	Utrecht	100%
ASN Beleggingsinstellingen B.V.	The Hague	100%
ASN Vermogensbeheer B.V.	The Hague	100%
Stichting Administratiekantoor Bewaarbedrijven SNS	Utrecht	100%
SNS Global Custody B.V.	Utrecht	100%
Pettelaar Effectenbewaarbedrijf N.V.	Utrecht	100%
ASN Duurzame Deelnemingen N.V.	Utrecht	100%

Above mentioned subsidiaries are consolidated in a public annual report.

Consolidated structured entities

According to IFRS standards, the structured entities over which de Volksbank can exercise control are consolidated. De Volksbank's activities involving structured entities are explained below in the following categories:

- Securitisation programme
- Covered bond programme

De Volksbank does not have a contractual obligation to provide financial support other than liquidity facilities to its consolidated structured entities. Neither of the consolidated structured entities have taken benefit of the liquidity facilities, nor has de Volksbank provided voluntary non-contractual financial support to the Loan Loss Provision (LLP) over the reported periods.

SECURITISATION PROGRAMMES

De Volksbank entered into securitisation programmes to obtain funding and to improve liquidity. Within the programme de Volksbank sells mortgage receivables originated by itself to a Special Purpose Vehicle (SPV). The SPV issues securitised notes which are eligible collateral for the European Central Bank. In most programmes, de Volksbank acts as investor of the securitised notes. As the SPVs are set up for the benefit of de Volksbank and there is limited transfer of risks and rewards, de Volksbank continues to consolidate the SPVs.

Specification securitisations

in € millions	2017	2016
Hermes XVIII	-	680
Pearl 1	789	887
Lowland 1	-	2,283
Lowland 2	1,178	1,312
Lowland 3	1,724	1,903
Lowland 4	4,051	-
Holland Homes (MBS 2000-1)	67	79
Holland Homes (MBS (Oranje) 2005-1)	376	447
Total	**8,185**	**7,591**

De Volksbank set up various securitisations with approximately € 8.1 billion notes outstanding at year-end 2017 (2016: € 7.6 billion). De Volksbank holds € 7.0 billion (2016: € 5.8 billion) on own book.

COVERED BOND PROGRAMME

De Volksbank issued bonds under a covered bond programme. At year-end 2016, the book value of the issued bonds was € 2.5 billion (2016: € 3.3 billion). Payment of interest and principal is guaranteed by a structured entity SPV, SNS Covered Bond Company BV ('CBC'). To enable CBC to fulfil its guarantee, de Volksbank legally transferred Dutch mortgage loans originated by de Volksbank to CBC. Furthermore, de Volksbank offers protection against the deterioration of the mortgage loans. CBC is fully consolidated by de Volksbank.

With regards to the covered bond program de Volksbank undertakes upon request of the CBC, to offer to transfer eligible assets to the CBC, provided that the CBC shall only request a transfer of eligible assets if it determines that the Asset Cover Test has been breached. The Asset Cover Test is an arithmetic test that determines the minimum amount of assets needed to cover the liabilities guaranteed by the CBC.

22 Transferred and encumbered assets

ACCOUNTING POLICY FOR TRANSFERRED AND ENCUMBERED ASSSETS

Transferred financial assets are transactions for which de Volksbank has:
- transferred the contractual rights to receive the cashflows of the financial asset to a third party, or;
- retained the contractual rights to receive the cashflows of that financial asset, but assumes a contractual obligation to pay the cashflows to a third party.

Depending on the circumstances, these transfers may either result in financial assets that are not derecognised in their entirety or in assets that are derecognised in their entirety. If transferred financial assets continue to be recognised on the balance sheet, de Volksbank is still exposed to changes in the fair value of the assets.

Encumbered assets are assets that can be used as collateral for funding, for example mortgages used as collateral for covered bond programs, securitized assets and collateral for certain repurchase agreement (Repo) transactions. In addition, the mandatory cash reserve is also included in encumbered assets. Assets that are committed to undrawn credit facilities are not regarded as encumbered (for example securitization notes held by the bank itself which qualify as eligible collateral for the European Central Bank).

The next table shows the transferred assets from which the contractual rights to receive a cashflow have been transferred. The assets are still on the balance sheet. The transferred assets mainly consist of securitised mortgages that have been transferred to a third party. The related liabilities are also shown in this table.

Transferred assets

in € millions	Securitisations 2017	Securitisations 2016	Repo Transactions 2017	Repo Transactions 2016
Debt certificates	-	-	1,275	729
Loans and advances	1,400	2,111	-	330
Total transferred assets as at 31 December	**1,400**	**2,111**	**1,275**	**1,059**
Amounts due to banks	-	-	1,305	998
Debt certificates	1,154	1,829	-	-
- Issued under securitisation programmes Hermes, Pearl and Lowland	711	1,303	-	-
- Classified at fair value through profit or loss	443	526	-	-
Total transferred liabilities as at 31 December	**1,154**	**1,829**	**1,305**	**998**

In 2017, the transferred assets amounted to € 2,675 million (2016: € 3,170 million). The reduction of the transferred assets is mainly caused by a reduction of the outstanding debt securities.

SECURITISATIONPROGRAMMES
For more information on the securitisation programmes, see note 21 Related parties, of the consolidated financial statements.

Encumbered assets

in € millions	2017	2016
Other investment instruments	1,913	1,162
- Of which debt securities	1,913	1,162
Loans and advances	7,554	8,849
Cash and cash equivalents	21	84
Loans and advances to banks	394	386
Closing balance	**9,882**	**10,481**

The encumbered assets consist of the assets put up as collateral and the mandatory cash reserve at DNB. The encumbered assets are shown at book value at the end of the year.

COLLATERAL RECEIVED
De Volksbank received a total amount of € 212 million in collateral at year-end 2017 (2016: € 308 million). This consists entirely of cash deposits that serve as collateral for the positive fair value of outstanding derivative positions.

23 Post balance sheet events

On 22 January 2018, the debt certificates Holland Homes Oranje (with a book value at 31 December 2017 of € 375.5 million) were repurchased in a put on the transaction date.

In December, de Volksbank was able to recognise $ 1.1 billion (€ 959 million) by subscribing to a 3-week ECB tender loan. This item is recognised under deposits and certificates. Its counterpart is recognised under cash and cash equivalents. The transaction was settled in January.

24 Net interest income

ACCOUNTING POLICY FOR NET INTEREST INCOME

Interest income

Interest income comprises interest income on financial assets that is attributable to the period. Interest on financial assets is accounted for using the effective interest method.

The effective interest method is based on the estimated future cashflows, taking into account the risk of early redemption of the financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, de Volksbank calculates the cashflows over the full contractual term of the financial instruments.

Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that de Volksbank will conclude a particular loan agreement. If the commitment expires without de Volksbank providing the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment term.

Interest income on financial assets that have been subject to impairment and written down to the estimated recoverable value or fair value is subsequently recognised on the basis of the interest rate used to determine the recoverable value by discounting the future cashflows.

Interest expenses

Interest expenses comprise interest expenses arising from financial liabilities. Interest expenses on financial liabilities that are classified at fair value through profit or loss are accounted for based on nominal interest rates whereas interest expenses on financial liabilities that are valued at amortised cost are accounted for using the effective interest method.

Specification net interest income

in € millions	2017	2016
Interest income	1,423	1,623[1]
Interest expenses	499	685[2]
Net interest income	**924**	**938**

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

2 The negative interest costs on liabilities are per 2017 reported in the table 'specification interest income'. Comparative figures have been adjusted accordingly.

For more information regarding the changes in accounting policies, reference is made to Changes in accounting policies, estimates and presentation.

At yeard-end the interest income includes € 13 million (2016: € 25 million) interest income on impaired assets. Interest income and expenses also include the interest results from derivative positions insofar as they have been established with the aim of limiting the interest rate risk on hedged financial instruments. Interest income derivatives amount to € 263 million (2016: € 467 million) and interest expense derivatives amount to € 422 million (2016: € 574 million). Interest income and expenses are largely included in interest income of mortgages.

Specification interest income

in € millions	2017	2016
Mortgages	1,330	1,519[1]
Other loans and advances to customers	70	76
Loans and advances to banks	4	5
Investments	8	17
Other	3	2
Amounts due to banks	8	4[2]
Total	**1,423**	**1,623**

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

2 The negative interest costs on liabilities are per 2017 reported in the table 'specification interest income'. Comparative figures have been adjusted accordingly.

At year-end 2017 € 8 million (2016: € 4 million) negative interest is received on amounts due to banks. The negative interest expenses on amounts due to banks is driven by the negative short-term EURIBOR interest rates.

The total interest income not measured at fair value through profit and loss amounts to € 1,346 million (2016: € 1,535 million).

Specification interest expenses

in € millions	2017	2016
Debt certificates	12	23
Subordinated debt	19	19
Savings	300	466
Other amounts due to customers	140	144
Amounts due to banks	13	14[1]
Loans and advances to banks	15	19
Total	**499**	**685**

1 The negative interest costs on liabilities are per 2017 reported in the table 'specification interest income'. Comparative figures have been adjusted accordingly.

At year-end 2017 € 15 million (2016: € 19 million) negative interest is paid on loans and advances to banks. The negative interest income on loans and advances to banks are driven by the negative short-term EURIBOR interest rates.

The total interest expenses not measured at fair value through profit and loss amounts to € 442 million (2016: € 601 million).

25 Net fee and commission income

ACCOUNTING POLICY FOR NET FEE AND COMMISSION INCOME

Fee and commission income

Fee and commission income consist of income from securities transactions of clients, asset management and other related services offered by de Volksbank. Fees and commission income are recognised in the reporting period in which the services are rendered.

Fee and commission expenses

Commission expenses and management fees are accounted for as 'fee and commission expense' to the extent services are acquired in the reporting period.

Specification net fee and commission income

in € millions	2017	2016
FEE AND COMMISSION INCOME:		
Money transfer and payment charges	36	35
Advice and agency activities	11	16
Management fees	38	32
Securities activities	-	4
Insurance agency activities	15	16
Other activities	4	5
Total fee and commission income	**104**	**108**
FEE AND COMMISSION EXPENSES		
Insurance agency activities	1	-
Money transfer and payment charges	8	8
Management fees	19	19
Securities activities	1	2
Fee franchise	21	17
Other activities	5	5
Total fee and commission expenses	**55**	**51**
Total	**49**	**57**

26 Investment income

ACCOUNTING POLICY FOR INVESTMENT INCOME
Investment income consists of dividend income and revaluations.

Dividend income
Dividend income is recognised in the income statement when entitlement is established. For listed securities, this is the date on which these securities are quoted ex-dividend.

Revaluations
Revaluations consist of unrealised and realised results. Unrealised results recognised in profit or loss represents the change in fair value during the reporting period of investments in the category fair value through profit or loss. Realised results recognised in profit or loss represents the difference between the sales proceeds and amortised cost of investments sold.

Specification investment income

in € millions	2017	2016
Fair value through P&L	54	-24
Available for sale	-13	81
Total	**41**	**57**

Included in the investment income is a net gain due to foreign exchange rate movements of € 15 million (2016: € 10 million gain).

Breakdown of investment income 2017

	Fair value through P&L			
in € millions	Held for trading	Designated	Available for sale	Total
Dividend	-	-	5	5
Exchange rate differences	-	15	-	15
Realised revaluations	-2	43	68	109
Unrealised revaluations	-	-2	-86	-88
Total	**-2**	**56**	**-13**	**41**

An amount of € 75 million negatively (2016: € 40 million positively), relating to hedge accounting, is recognised under the unrealised gains and losses available for sale.

Breakdown of investment income 2016

	Fair value through P&L			
in € millions	Held for trading	Designated	Available for sale	Total
Dividend	-	-	13	13
Exchange rate differences	-	10	-	10
Realised revaluations	-2	-31	28	-5
Unrealised revaluations	-	-1	40	39
Total	**-2**	**-22**	**81**	**57**

27 Result on financial instruments

ACCOUNTING POLICY FOR RESULT ON FINANCIAL INSTRUMENT
This line item includes revaluation result on derivatives and other financial instruments classified as fair value through profit and loss. For derivatives that are designated as a hedging instrument, the recognition of a resulting gain or loss depends on the nature of the hedge relationship (reference is made to note 20 Hedging and hedge accounting). The ineffective portion of any gains or losses of hedge relations are recognised directly under 'result on financial instruments'.

Furthermore, this line item also includes the results from the revaluation of loans and advances to customers and the outstanding debt certificates, which are measured at fair value at initial recognition and subsequent measurement, with value adjustments recorded in the income statement. In addition, when de Volksbank purchases its own debt certificates, realised results from these buy backs are accounted for in this line item.

Specification result on financial instruments

in € millions	2017	2016
Fair value movements in hedging instruments	134	-23
Fair value movements in hedged item attributable to hedged risks	-133	22
Fair value movements in derivatives held for fair value hedge accounting	**1**	**-1**
Fair value movements in derivatives held for trading	-1	-1
Fair value movements in other derivatives	-2	-34
Fair value movements in other financial instruments	19	32
Repurchase debt instruments	-4	-16
Total	**13**	**-20**

In 2017, the result on financial instruments was € 17 million positively (2016: € 1 million negatively) impacted by unrealised gains on former DBV mortgages and related derivatives, both accounted for at fair value with changes through the profit and loss account. The fair value of these mortgages is influenced by changes in customer mortgage rates and the fair value of related derivatives is mainly influenced by swap rate movements.

28 Other operating income

ACCOUNTING POLICY FOR OTHER OPERATING INCOME
This comprises all other income that cannot be accounted for under the aforementioned line items of the income statement.

The total other operating income in 2017 amounted to € 1 million (2016: € 2 million).

29 Staff costs

ACCOUNTING POLICY FOR STAFF COSTS
These costs comprise all costs related to personnel. This includes, inter alia, salaries, social security costs, pension costs and other salary-related costs. Staff costs are recognised in the period in which the employees provide the services to which the payments relate. The accounting policies for employee benefits are included in note 16 Provisions.

Specification staff costs

in € millions	2017	2016
Salaries	186	190
Pension costs	39	38
Social security	29	29
Other staff costs	127	141
Total	**381**	**398**

The decrease of the staff costs is mainly caused by the decrease in other staff costs, due to lower additions to the reorganisation provision. The decrease is partly offset by an increase in temporary staff costs.

The pension rights of the majority of employees of de Volksbank are included in the defined contribution plan of the independent Stichting Pensioenfonds SNS REAAL. De Volksbank pays a fixed annual contribution for the accrual of new rights; a fixed percentage of 23.6% of gross wages was paid in 2017 (2016: 23.6%). As there is no commitment either enforceable by law or otherwise to pay additional contributions, pension benefits and related investments have not been included in the balance sheet. Employees pay an employee contribution of 4.5% of pensionable earnings (after deduction of the contribution-free amount). The existing administration agreement with Stichting Pensioenfonds SNS REAAL has been extended by three years until 31 December 2020. For the yearly contribution of de Volksbank with a range between 22% and 24%. The premium for 2018 consists of 24%. The additional contribution of the employees increased by 0.5% tot 5%.

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and vocational education and training costs. The cost of hiring staff amount to € 89 million (2016: € 82 million) and lease commitments of the fleet amount to € 3 million (2016: € 4 million).

Number of FTEs

in numbers	2017	2016
Number of FTEs	3,231	3,354

The revised Regulation on Sound Remuneration Policies (RBB) was activated as from 1 January 2012. Under this new regulation, which came into force on 1 January 2013, a possible variable remuneration granted to de Volksbank staff is partly awarded in phantom shares. The fair value per phantom share is obtained by comparing the equity at the end of the year of performance against the number of outstanding ordinary shares (initial value). Subsequently, the share will annually be revalued with the results of the current year.

Specification phantom shares (awarded in financial year)

	Shares (in numbers)		Fair value per share (in €)	
	2017	2016	2017	2016
Total	2	70	4,195	4,141

The variable remuneration in phantom shares for the senior staff is removed in 2017. For a limited number of staff the variable remuneration is awarded.

The value development of the phantom shares is based on the development of de Volksbanks' results, possibly adjusted for non-recurring income or expenses. The value of the phantom shares is paid in phases and in cash, one part after 1 year and the remaing part after the specified period of time (4 years). For 2017, € 8,000 in phantom shares will be awarded. The actual amount awarded in 2016 was € 285,000. At year-end 2017, the total amount of liabilities arising from the phantom shares is € 516,906 (2016: € 1,090,211).

30 Other operating expenses

ACCOUNTING POLICY FOR OTHER OPERATING EXPENSES
Costs are recognised in the period in which services have been provided and to which the payments relate. This line item includes costs for housing, information technology, marketing, consultancy and other operating costs and prudential costs.

Specification other operating expenses

in € millions	2017	2016
Housing costs	19	19
Information technology costs	28	26
Marketing and public relations costs	31	35
Consultancy costs	18	24
Prudential costs	43	46
Other costs	62	72
Total	**201**	**222**

Other expenses comprise costs for payment transactions, securities management and printed matter. Other costs also comprise € 16 million (2016: € 16 million) in costs on account of lease commitments.

Prudential costs include an amount of € 10 million (2016: € 8 million) in relation to de Volksbank's annual contribution to the Resolution Fund and € 33 million (2016: €38 million) relates to Deposit Guarantee Scheme (DGS).

31 Impairment charges (reversals)

ACCOUNTING POLICY FOR IMPAIRMENT CHARGES/(REVERSALS)
This item includes downward revaluations of assets for which the book value exceeds the recoverable value or discounted value of estimated future cashflows. Loans and advances, intangible assets, property and equipment, associated companies, investments, receivables and other assets may be subject to impairment. As soon as impairment is identified, the difference between the carrying amount and the recoverable value or discounted value of estimated future cashflows is recognised in the income statement as an impairment charge. The accounting principles for impairment are explained in more detail in the accounting principles of the balance sheet items that are subject to impairments.

Specification impairment charges/(reversals) by asset class

in € millions	2017	2016
Impairments	44	51
Reversals/releases	-68	-119
Total through profit or loss	**-24**	**-68**
Provisions closing balance	**-149**	**-214**

Impairment charges were positively impacted by a decrease in loans in default due to a high level of recoveries, positive macroeconomic developments and improvements in arrears management. In addition, rising residential house prices contributed to a surplus on foreclosures.

32 Taxation

ACCOUNTING POLICY FOR TAXATION
Income tax consists of current and deferred tax. Income tax is recognised in the income statement in the period in which profits arise and measured using tax rates enacted at the balance sheet date.

Specification Tax

in € millions	2017	2016
In financial year	86	86[1]
Prior year adjustments	8	-5
Corporate income tax due	**94**	**81**
Due to temporary differences	26	29
Deferred tax	**26**	**29**
Total	**120**	**110**

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

Reconciliation between the statutory and effective tax rate

in € millions	2017	2016
Statutory income tax rate	25.0%	25.0%
Result before tax	449	459[1]
Statutory corporate income tax amount	**112**	**115**
Prior year adjustments (including tax provision release)	8	-5
Total	**120**	**110**
Effective tax rate	26.7%	24.0%

1 De Volksbank changed the accounting policies for the recognition of prepayment charges on early mortgage renewals, comparative figures have been adjusted accordingly.

Dividend

The Board of Directors of de Volksbank proposes to pay out a dividend of € 190 million (2016: € 135 million) to the shareholders NLFI. A dividend of € 226 (2016: € 161) per share can be paid for 2017.

Utrecht, 7 March 2018

BOARD OF DIRECTORS
Maurice Oostendorp (chairman)
Annemiek van Melick
Alexander Baas
Jeroen Dijst

SUPERVISORY BOARD
Jan van Rutte (chairman)
Sonja Barendregt-Roojers
Charlotte Insinger
Monika Milz
Ludo Wijngaarden

Company financial statements

Company balance sheet

Before result appropriation and in € millions	Notes	31-12-2017	31-12-2016
ASSETS			
Subsidiaries	1	3,714	3,561
Total assets		**3,714**	**3,561**
EQUITY AND LIABILITIES			
Share capital	2	-	-
Share premium reserve	2	3,196	3,196
Statutory reserve associates	2	-22	18
Other reserves	2	211	-2
Retained earnings	2	329	349
Total equity		**3,714**	**3,561**
Total equity and liabilities		**3,714**	**3,561**

Company income statement

in € millions	2017	2016
Result on subsidiaries after tax	329	349
Other results after tax	-	-
Net result	**329**	**349**

Principles for the preparation of the company financial statements

When preparing the company financial statements, de Volksholding B.V. makes use of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code of applying the same principles for valuation and the determination of the results as are used in the consolidated financial statements for the company financial statements. Reference is made to the accounting principles for the consolidated financial statements.

For additional information on items not explained further in the notes to the company balance sheet, reference is made to the notes to the consolidated financial statements.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which de Volksholding B.V. has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by de Volksholding B.V. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cashflow and fair value reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the other statutory reserve.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with de Volksholding B.V. accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

Notes to the company financial statements

1 Subsidiaries

Statement of changes in subsidiaries

in € millions	2017	2016
Openingsbalans	3,561	3,302
Capital contribution/Share premium	-	-
Revaluations	-41	10
Result	329	349
Dividend	-135	-100
Closing balance	**3,714**	**3,561**

2 Equity

Statement of changes in equity 2017

in € millions	Issued capital[1]	Share premium reserve	Statutory reserves associates	Other reserves	Retained earnings	Total Equity
Opening balance	-	3,196	18	-2	349	3,561
Transfer of 2016 net result	-	-	-	-	-	-
Unrealised revaluations	-	-	-23	-	-	-23
Realised revaluations through P&L	-	-	-19	-	-	-19
Realised revaluations through equity	-	-	2	-	-	2
Other changes	-	-	-	-1	-	-1
Amounts charged directly to equity	**-**	**-**	**-40**	**-1**	**-**	**-41**
Net result 2017	-	-	-	-	329	329
Total result 2017	**-**	**-**	**-40**	**-1**	**329**	**288**
Dividenduitkering[2]	-	-	-	-	-135	-135
Total changes in equity 2017	**-**	**-**	**-40**	**213**	**-20**	**153**
Closing balance	**-**	**3,196**	**-22**	**211**	**329**	**3,714**

1 Issued capital is € 1

2 In 2016, dividend regarding 2015 have been charged against freely distributable reserves as follows: other reserves -/- 49 million and share premium reserve -/- € 51 million.

Statement of changes in equity 2016

in € millions	Issued capital[1]	Share premium reserve	Statutory reserves associates	Other reserves	Retained earnings	Total Equity
Opening balance	-	3,247	7	-1	49	3,302
Transfer of 2015 net result	-	-	-	-	-	-
Unrealised revaluations	-	-	40	-	-	40
Realised revaluations through P&L	-	-	-32	-	-	-32
Realised revaluations through equity	-	-	3	-	-	3
Other changes	-	-	-	-1	-	-1
Amounts charged directly to equity	-	-	11	-1	-	**10**
Net result 2016	-	-	-	-	329	329
Net result 2016 caused by change in accounting policies	-	-	-	-	20	20
Total result 2016	-	-	11	-1	349	**359**
Dividenduitkering[2]	-	-51	-	-49	-	-100
Total changes in equity 2016	-	-51	11	-1	300	**259**
Closing balance	**-**	**3,196**	**18**	**-2**	**349**	**3,561**

1 Issued capital is € 1

2 In 2016, dividend regarding 2015 have been charged against freely distributable reserves as follows: other reserves -/- 49 million and share premium reserve -/- € 51 million.

3 Related parties

Positions and transactions between de Volksholding B.V. and subsidiaries

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	Utrecht	100%
CONA V B.V.	Utrecht	100%
Pettelbosch Beheer I B.V.	Utrecht	100%
Pettelbosch Beheer II B.V.	Utrecht	100%
SNS FinanCenter B.V.	Utrecht	100%
Holland Woningfinanciering N.V.	Utrecht	100%
SNS Mortgage Receivables B.V.	Utrecht	100%
1817 B.V.	Utrecht	100%
ASN Beleggingsinstellingen B.V.	The Hague	100%
ASN Vermogensbeheer B.V.	The Hague	100%
Stichting Administratiekantoor Bewaarbedrijven SNS	Utrecht	100%
SNS Global Custody B.V.	Utrecht	100%
Pettelaar Effectenbewaarbedrijf N.V.	Utrecht	100%
ASN Duurzame Deelnemingen N.V.	Utrecht	100%

4 Audit fees

Notes to the audit fees

in € thousands, excluding applicable VAT	EY Accountants 2017	EY Accountants 2016
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,021	944
Other assurance services	1,152	1,165
Tax advisory services	-	-
Other non-audit services	-	-
Total	**2,173**	**2,109**

The audit fees for de Volksholding are also included in the table above.

The audit fees relate to the financial year to which the financial statements pertain, regardless of whether the external auditor and the audit firm performed the work during the financial year.

In addition to the statutory audit and the performance of other statutory audits, the auditor also provides a number of other assurance services. These other assurance services consist of the assessment of interim financial information, the assessment of the non-financial information as included in this annual report and activities relating to separation of assets, prospectuses and bond issues. Furthermore, these activities include reporting activities to the regulatory authority and securitisations and the covered bond programme in relation to mortgage pools within the context of outsourcing. The comparative figures have been adjusted accordingly, in line with the relevant EU regulation.

Profit or loss appropriation

De Volksholding proposes to pay out a dividend of € 190 million (2016: € 135 million) to the shareholder NLFI. The dividend payment will be charged from the retained earnings for 2017. The profit after dividend payment for the financial year 2017 will be added to the other reserves.

Utrecht, 7 March 2018

BOARD OF DIRECTORS
Maurice Oostendorp (chairman)
Annemiek van Melick
Alexander Baas
Jeroen Dijst

SUPERVISORY BOARD
Jan van Rutte (chairman)
Sonja Barendregt-Roojers
Charlotte Insinger
Monika Milz
Ludo Wijngaarden

Provisions regarding profit or loss appropriation

Provisions of the Articles of Association regarding profit or loss appropriation

ARTICLE 33

1. The net result shall be at the free disposal of the General Meeting of Shareholders.
2. The company may only make distributions to shareholders and other persons entitled to the distributable profits in so far as its equity exceeds the total amount of its issued share capital plus the reserves required to be held by law.
3. Distribution of profits shall only take place upon adoption of the financial statements from which it appears that such distribution is allowed.

ARTICLE 34

1. Dividends shall be made payable fourteen days of declaration of dividend, unless the General Meeting of Shareholders determines another on a motion by the Board of Directors.
2. Dividends that have not been collected within five years after having been made payable shall revert to the company.
3. If the General Meeting of Shareholders so determines on a motion by the Board of Directors, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of the provisions in article 2:105, paragraph 4 of the Dutch Civil Code.
4. A deficit may only be offsett against reserves required by law in so far as permitted by law.

Independent auditor's report

To: the shareholders and Supervisory Board of de Volksholding B.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of de Volksholding B.V. ('the entity'), based in Utrecht. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of de Volksholding B.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of de Volksholding B.V. as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the following statements for 2017: the consolidated income statement, the consolidated statements of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company income statement for 2017;
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of de Volksholding B.V. as required by the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	EUR 20 million
Benchmark applied	5% of the result before taxation (rounded)
Explanation	Based on our professional judgment, a benchmark of 5% of the result before taxation is an appropriate quantitative indicator of materiality for de Volksholding B.V. as it is one of the key performance measures for the users of the financial statements. Based on the actual result before taxation over 2017, the materiality would exceed the initial planning materiality of EUR 20 million. We continued to apply the materiality initially set.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We have agreed with the supervisory board that misstatements in excess of EUR 1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

De Volksholding B.V. is at the head of a group of entities. The consolidated financial statements of de Volksholding B.V. represent the financial information of this group. In order to obtain sufficient and appropriate audit evidence about the group's financial information we have performed a full-scope audit on the consolidated financial information for the group as a whole. The audit procedures performed for the group are performed by one audit team.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Compared to the audit of the financial statements 2016 of de Volksholding B.V. there has been a change in key audit matters. The key audit matter 'Initial audit engagement' is no longer applicable because the audit of the financial statements 2017 is our second year. New key audit matter for the audit of the financial statements 2017 of de Volksholding B.V. is 'Change in accounting for the recognition of prepayment charges on early mortgage renewals'.

Estimation uncertainty with respect to impairment losses on mortgages

Key audit matter	With the exception of one sub-portfolio, the retail mortgage loan portfolio of de Volksholding B.V. is measured at amortized cost, less a provision for impairment losses. An impairment loss is recorded if, at balance sheet date, there is objective evidence, for example the existence of certain payment arrears, that not all the contractually-agreed cash flows will be collected. The appropriateness of loan loss provisions is a key area of judgment for the board of directors. The identification of impairment and the determination of the recoverability of mortgage loans are inherently an uncertain process involving assumptions and factors including the financial condition of the counterparty and expected future cash flows. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. As disclosed in note 5 to the financial statements, and similar to prior year, during 2017 there has been a net release of the loan loss provisions. Given the relative size of the mortgage portfolio of de Volksholding B.V., the movements in loan loss provisions and the subjectivity involved in the judgments made, we considered this to be a key audit matter.
Our audit approach	We have tested the design and operating effectiveness of the controls over the impairment calculations including the quality of underlying data and systems. These procedures are focused on controls regarding the origination of mortgage loans, the accurate recording of loan and collateral static data in information systems and the process for identifying arrears and the management thereof. In addition we have performed substantive audit procedures. We assessed the adequacy of the provisioning models used by ascertaining whether, on the basis of the model documentation, the models were adequately designed, as well as the periodic evaluation of parameters used in the models. This included the involvement of our own credit risk specialists. Furthermore, we tested the accuracy of the data used in the models with respect to the mortgage portfolio as of 31 December 2017 by reconciling to underlying source data. In order to challenge and verify the outcomes of the model, we performed a number of alternative analyses that consider the size of the loan loss provisions in relation to the developments in the underlying mortgage portfolio, such as in- and outflow from arrears, results on executions and improvements in average collateral value. Also, we inspected the variance analysis of the provision for impairment losses on mortgages compared to the provision, calculated based on the new standard of EU-IFRS for financial instruments (IFRS 9), which is applicable from 1 January 2018. Finally, we assessed the completeness and accuracy of the disclosures relating to the provision for impairment losses, as disclosed in note 5 to the financial statements, to evaluate compliance with disclosure requirements included in EU-IFRS.
Key observations	Based on our procedures performed we consider the provision for impairment losses on mortgages to be reasonable. The disclosure relating to the provision for impairment losses is in our opinion in accordance with EU-IFRS.

Estimation uncertainty with respect to fair values of financial instruments related to the DBV portfolio

Key audit matter	As disclosed in notes 5, 14 and 28 to the financial statements, de Volksholding B.V. measures a specific mortgage portfolio (the 'DBV portfolio'), swaps and related securitization notes at fair value with movements directly recorded in the income statement. Fair value measurement of financial instruments and associated valuation adjustments can be subjective areas and more so for areas where the market relies on model based valuations or with limited liquidity and price discovery. Valuation techniques and models used can be subjective in nature and involve assumptions regarding pricing and prepayment behaviour. Also, considering the current low interest rate environment, existing prepayment models could lose predictive value. The use of alternative valuation techniques and assumptions could produce significantly different estimates of fair value for the mortgages and associated financial instruments. A focus area related to the valuation of the DBV portfolio is the sensitivity of the valuation to changes in the estimated prepayments on mortgages. The disclosure 'change in accounting estimate' describes that a new behavioural model has been implemented that allows for better modelling of contractual cash flows into behaviourally expected cash flows. Given the judgment involved in the estimation and the potential relatively large impact of the volatility of the fair value of the DBV portfolio on the financial results, we considered this to be a key audit matter.
Our audit approach	We have tested the design of internal controls related to the process of determining fair values of the DBV portfolio. As part of our substantive procedures, our valuation specialists have independently performed price verification to test the fair value of the DBV mortgage portfolio. Furthermore, we performed additional procedures related to important model factors such as client rates, interest swap rates and prepayments. Finally, to validate the outcomes, we have inspected the fair value change attribution analysis as prepared by de Volksholding B.V. We assessed the accuracy and completeness of the disclosure related to the fair values of financial assets and liabilities, as included in the disclosure 'change in accounting estimate' 5, 14 and 27 of the financial statements, to evaluate compliance with disclosure requirements, as included in EU-IFRS.
Key observations	Based on our procedures performed we did not note any material errors in the fair value of financial instruments related to the DBV portfolio per 31 December 2017. The related disclosures in the financial statements are in our opinion in accordance with EU-IFRS.

Change in accounting for the recognition of prepayment charges on early mortgage renewals

Key audit matter	Early mortgage renewals can lead to a prepayment charge. When a mortgage is renewed before the end of the fixed term with a change in interest, de Volksholding B.V. accounted the penalty through amortization over the new fixed interest period, regardless whether the payment of the penalty took place directly or whether it was averaged out through a surcharge on the annual interest. Under the new EU-IFRS standard for financial instruments (IFRS 9), applicable from 1 January 2018, different rules apply related to the accounting of prepayment charges. As a consequence, prepayment charges are now amortized over the original (remaining) fixed interest term. Because accounting of the prepayment charges through amortization over the original (remaining) fixed interest term is allowed under current EU-IFRS rules, de Volksholding B.V. has chosen to voluntarily change its accounting policy. This change in accounting policy is applied retrospectively per 1 January 2016. As disclosed in the section 'change in accounting policy' of the financial statements, this accounting policy change aims to contribute to consistent and transparent reporting towards the future and as such to provide more relevant information. Because of the choice for the voluntary change in accounting policy and the impact on the annual results, we considered this to be a key audit matter.
Our audit approach	We have verified whether the change in accounting policy with respect to the recognition of prepayment charges on early mortgages renewals is acceptable and in accordance with the requirements as included in EU-IFRS. We audited the impact of the change in accounting policy and calculations of the prepayment charges substantively. We assessed the underlying key assumptions to determine future expected cash flows related to accrued prepayment charges. Finally, we assessed the accuracy and completeness of the disclosure related to the change in accounting policy in the section 'change in accounting policy' of the financial statements, to evaluate compliance with requirements under EU-IFRS.
Key observations	The change in accounting policy with respect to the recognition of prepayment charges on early mortgage renewals and the related disclosure in the financial statements is in our opinion in accordance with EU-IFRS.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Introduction;
- Report of the board of directors, including strategic report, business report and risk, capital & liquidity management;
- Report of the supervisory board;
- Corporate governance;
- Other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the Report of the board of directors and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of de Volksholding B.V. as of the audit for the year 2016 and have operated as statutory auditor since that date.

Description of responsibilities for the financial statements

Responsibilities of the Board of Directors and the Supervisory Board for the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as the board of directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the entity's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board of directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the entity's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the entity's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- concluding on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause an entity to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures;
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 7 March 2018

Ernst & Young Accountants LLP

signed by A.B. Roeders

Definitions

Term	Definition
AC	audit committee of the supervisory board of de Volksbank N.V.
Advanced Internal Ratings Based (AIRB)	The highest and most detailed method for calculating the capital requirements for credit risk under Basel II on the basis of internal credit risk models.
Advanced Measurement Approach (AMA)	Assets, including investment funds and assets of individuals and institutions, that are professionally managed to maximise investment returns.
Asset & Liability Comité (ALCO)	Risk committee that takes decisions on how to optimally control interest income, capital and the liquidity position. The ALCO is also responsible for identification, controlling and management of these risks with a view to achieving long-term growth.
Basel III	The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards prescribe higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.
Basis point (BPS)	One hundredth of 1 percentage point.
Business risk	The risk that business earnings and franchise value decline and/or deviate from expectations because of uncertainty in business income or in the expenses incurred to generate business income.
Capital adequacy	Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.
Capital adequacy risk	The risk that the capital position is insufficient to serve as a buffer for the occurrence of unexpected losses that may arise if one or more risks to which the Company is exposed manifest themselves.
CO2	A greenhouse gas that is produced primarily through the burning of fossil fuels and that contributes to climate change. Also known as carbon dioxide.
Compliance risk	The risk that the Company and / or its employees do not completely or accurately comply with the (ratio) of written and unwritten rules of corporate integrity and conduct and may be held responsible for such conduct, which may lead to loss of reputation and / or financial loss.
Concentration risk	The risk arising from large individual exposures or accumulation of similar individual exposure (s) within or between categories of risks
Core Tier 1-ratio	The bank's core capital, excluding preference shares, expressed as a percentage of total risk exposure amount.
Counterparty Valuation Adjustment (CVA)	The market value of counterparty credit risk compared to the (total) market value of a derivative.
Coverage ratio	The coverage ratio gives the coverage of the specific IFRS loan loss provision formed in relation to the impaired default loans, expressed as a percentage.
Covered bonds (CB)	Covered bonds (CB) are secured long-term funding Instruments (bonds). This type of bond differs from a standard bond by recourse to a pool of assets (cover assets). In a default event, the bondholder has recourse to the issuer and this pool of assets.
Credit Comité	Risk committee that is responsible for controlling credit risks within the frameworks and within the planning and budgeting cycle. The CC controls and monitors the development of credit risk in the portfolios.
Credit equivalent	Sum of the costs of replacement transactions (when counterparties fail to fulfil their obligations) and the potential future credit risk, reflected in a mark-up percentage on the principal of the contract. The mark-up percentage depends on the nature and remaining term of the contract.
Credit rating	Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the creditworthiness of a country, company or institution.
Credit risk	The risk that the Company suffers a financial loss or a material decrease in solvency, due to the fact that a borrower/counterparty does not meet a financial or other contractual obligation to the Company or due to a material detoriation of the creditworthiness of that borrower/counterparty.
Credit-impaired financial asset	A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows of that financial asset have occured.
de Volksbank	de Volksbank N.V.
de Volksholding	de Volksholding B.V.
Duration of equity	The duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve.
Economic capital	An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.
Executive Pricing Comité (EPC)	Risk committee that aims for a sustainably profitable portfolio by weighing volume, risk and return within the frameworks of external regulations, risk policy and our Manifesto.
Exposure at Default (EAD)	The EAD is the expected counterparty credit exposure at the time of default.
Financial Comité (FinCo)	Committee that is responsible for controlling the financial and consolidation processes, management information and internal and external reporting. The FINCO is also charged with the management of cost/benefit, treasury and tax matters.
GMS	General meeting of shareholders of de Volksholding B.V.

Term	Definition
Hedging	Complete or partial hedging of a financial position by entering into a transaction of which the change in value moves in the opposite direction of the change in value of the original position, often through derivatives.
IBNR loan loss provision	A general IFRS loan loss provision made for incurred but not reported losses.
In arrears	A customer is in arrears if the payment of any interest and/or redemption amount is late by more than one day.
In default	A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations.
Impaired default loans	Loans whose customers are in default and where a specific IFRS loan loss provision has been made.
Impairment losses on loans and other receivables	Charge to the income statement to cover possible loan losses on non-performing loans.
Interest rate risk banking book	The current or prospective risk to the economic value, capital and earnings of the banking book arising from adverse movements in interest rates.
International Financial Reporting Standards (IFRS)	The IFRS, formerly known as International Accounting Standards (IAS), are drawn up and recommended by the International Accounting Standards Board. With effect from the financial year 2005, all listed companies in the EU are required to report under IFRS.
Legal risk	The risk related to a failure to adhere to (i) applicable laws and regulations or unexpected interpretation thereof, (ii) agreements; and related to (iii) non-contractual liability, resulting in financial loss, regulatory sanctions or damage to the Company's reputation. As a result, the Company may be held liable for any current and future claims or may incur damages itself, for example as a result of incorrectly drawn up contracts or incorrect product documentation
Liquidity Coverage Ratio (LCR)	The Liquidity Coverage Ratio (LCR) is an indicator that provides insight into whether sufficient liquid assets are available to absorb a 30-day stress scenario.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses. In addition, liquidity risk is understood to mean the likelihood that the balance sheet structure will develop in such a way that the Company is excessively exposed to disruptions in its funding sources.
Market risk	The risk that equity, the result or continuity is threatened by movements in the level and/or volatility of market prices to which the Company is exposed.
Model Governance Comité (MGC)	Risk committee that monitors the quality and uniformity of all financial risk and valuation models.
Model risk	The risk of making decisions based on inadequate or erroneous model output, caused by improper implementation, application or interpretation of the models.
MoU	Memorandum of Understanding as mutually agreed upon by NLFI, de Volksholding B.V. and de Volksbank N.V.
Net Stable Funding Ratio (NSFR)	The NSFR aims to determine the extent to which longer-term assets are funded with stable forms of funding.
NLFI	NL Financial Investments; Stichting administratiekantoor beheer financiële instellingen
Non-default	A customer is non-default when the customer is not in arrears or when the customer is in arrears but not in default.
Non-Financial Risk Comité (NFRC)	Risk committee that is responsible for controlling the risk frameworks and risk appetite for non-financial risks. Its responsibilities include setting standards and limits in the area of non-financial risks.
Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, from human failures or errors, or external events such as fraud or criminal acts.
Options	The contractual right, during a certain period or on a specified date, to purchase (call option) or to sell (put option) a certain number of underlying shares or currency at an agreed price.
Preventive management	A joint project of SNS, RegioBank and BLG Wonen that provides customers with looming payment problems with preventive assistance.
Product Approval & Review Comité (PARC)	Risk committee that is charged with the approval and periodic evaluation of new and existing products and services that we offer to our customers. The risk profile of existing and new products and services is controlled on the basis of legislation and regulations, customers' interests and our Manifesto.
RC	risk committee of the supervisory board of de Volksbank N.V.
ReNomCo	remuneration and nomination committee of the supervisory board of de Volksbank N.V.
Repo	A repo, also known as a repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a certain date.
Reporting risk	The risk that the financial and / or non-financial reporting of the institution contains incorrect or incomplete information of substantial importance, or that internal and external stakeholders cannot take note of in a timely manner.
Reputation risk	The risk that the institution's reputation is tarnished and targets are not met because insufficient account is taken of the Company's image and opinion shared by the outside world (including customers, counterparties, shareholders and regulators).
Residential Mortgage Backed Securities (RMBS)	RMBS, or mortgage securitisations, are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cashflows to bondholders.
Return on equity (ROE)	Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.

Term	Definition
Specific loan loss provision	A specific IFRS loan loss provision for impairment made if there is objective evidence that de Volksbank will not be able to collect all the amounts in accordance with the original contract.
Standardised approach (Basel II and III)	The standardised approach for credit risk calculates the credit risk according to a standardised methodology, using external credit assessments.
Stresstest	A method of testing a system's or entity's stability when exposed to exceptional conditions by means of a simulation.
the Board	the board of directors of de Volksholding B.V.
the SB	the supervisory board of de Volksholding B.V.
the Secretary	the company secretary of de Volksholding B.V.
the Articles	the articles of association of de Volksholding B.V.
Unencumbered assets	Assets that were pledged or subject to an arrangement, either explicitly or implicitly, in any way to secure, collateralise or credit enhance a transaction.

Abbreviations

Abbreviations	Description	Abbreviations	Description
AC	Audit Committee	ICAAP	Internal Capital Adequacy Assessment Process
AFM	The Netherlands Authority for the Financial Markets	ICF	Integrated Control Framework
AFS	Available for Sale	IFRS	International Financial Reporting Standards[1]
AIRB	Advanced Internal Rating Based-benadering[1]	IIRC	International Integrated Reporting Council
ALCO	Asset & Liability Committee[1]	ILAAP	Internal Liquidity Adequacy Assessment Process
ALM	Asset Liability Management	IRB	Internal Rating Based (approach)
AQR	Asset Quality Review	ISDA	International Swaps and Derivatives Association
ASN	Algemene Spaarbank voor Nederland	KPI	Key Performance Indicator
AuM	Assets under Management[1]	LCP	Liquiditeit Contingency Plan
BCBS	Basel Committee for Banking Supervision	LCR	Liquidity Coverage Ratio[1]
BLG	Bouwfonds Limburgse Gemeenten	LGD	Loss Given Default
BRC	Bank Risk Committee	LTRO	Long Term Refinancing Operation
BRRD	Bank Recovery and Resolution Directive	LtV	Loan to value
BSM	Balance Sheet Management	MBS	Mortgage Backed Securities
CA	Collective Agreement	MFH	Mixed Financial Holding
CAAR	Capital Adequacy Assessment Report	MGC	Model Governance Committee[1]
CC	Credit Committee[1]	MREL	Minimum Requirement for own funds and eligible liabilities
CCO	Chief Commercial Officer	MVO	Corporate social responsibility
CD	Certificates of Deposit	NFRC	Non-Financial Risk Committee[1]
CDO	Collaterised Debt Obligation	NHG	National Mortgage Guarantee
CEO	Chief Executive Officer	NLFI	Stichting administratiekantoor beheer financiële instellingen
CFO	Chief Financial Officer	NPS	Net Promoter Score
CLO	Collaterised Loan Obligation	NRA	National Resolution Authority
CO2	Carbon dioxide[1]	NSFR	Net Stable Funding Ratio[1]
COO	Chief Operations Officer	PARC	Product Approval and Review Committee[1]
COR	Central Works Council	PD	Probability of Default
CP	Commercial Paper	RAROC	Risk Adjusted Return On Economic Capital
CRD	Capital Requirements Directive	RAS	Risk Appetite Statement
CRO	Chief Risk Officer	RC	Risk Committee
CRR	Capital Requirements Regulation	ReNomCo	Remuneration- en Nomination Committee of the SB
CSA	Credit Support Annex	RMBS	Residential Mortgage Backed Securities[1]
CVA	Credit Valuation Adjustment[1]	ROE	Return on Equity
DMA	Disclosure on Management Approach	RWA	Risk Weighted Assets
DNB	Dutch Central Bank	SA	Standardised Approach
EAD	Exposure at Default[1]	SB	Supervisory Board
EaR	Earnings at Risk	SME	Small Medium Entities
EBA	European Banking Authority	SPV	Special Purpose Vehicle
EC	European Committee	SRB	Single Resolution Board
ECB	European Central Bank	SREP	Supervisory Review and Evaluation Process
EDTF	Enhanced Disclosure Task Force	STP	Straight Through Processing
EMTN	European Medium Term Note	SWOT	Strengths, Weaknesses, Opportunities & Threats
EPC	Executive Pricing Comité[1]	TLAC	Total Loss-Absorbing Capacity
ES	Expected Shortfall	VaR	Value at Risk
ESCB	European System of Central Banks	Wft	Financial Supervision Act
EU	European Union	WfZ	Guarantee fund for the health care
EVE	Economic Value of Equity	WSW	Social Housing Guarantee Fund
FinCo	Financial Comittee[1]		
FTE	Full Time Equivalent		
GMS	General Meeting at Shareholders		
GRI	Global Reporting Initiative		
IAS	International Accounting Standard		
IBNR	Incurred but not Reported		

1 See for further information the definition list.

About the non-financial information in this report

Scope and boundaries

We present our non-financial information for the calendar year 2017 with the aim of informing our stakeholders of our role in society related to our mission 'Banking with a human touch', our strategy and our objectives. We define 'non-financial information' as information pertaining to the non-financial issues emerging as relevant from our determination of materiality.

The scope of the non-financial information presented in this annual report, including the GRI Content Index and appendices, covers de Volksbank N.V. and its business units and brands. They are jointly referred to as 'de Volksbank' in this annual report. Where possible, we also report data and results regarding previous years. The appendices contain both less material and more specified data, for example broken down by business unit. The performance of our suppliers, customers and other actors in our value chain is not included in our figures, unless explicitly stated otherwise. Where non-financial data relate to business units of the organisation, this will be indicated.

Forward-looking information is reported in the report in a clearly recognisable manner as 'plans for 2018' and 'ambitions'. In many cases, goals are based on (informed) estimates and assumptions.

Management approach to corporate responsibility

Corporate responsibility is rooted at the heart of de Volksbank. Our organisation model encourages individual responsibility and the involvement of employees in social and sustainable banking by assigning responsibilities decentrally as much as possible.

The Chairman of the Board of Directors bears responsibility for the development and implementation of the corporate responsibility policy. The current main issues relating to corporate responsibility have been assigned to separate departments, as follows:

1. The climate neutral balance sheet and implementation of ASN Bank's sustainability policy for de Volksbank have been assigned to ASN Bank's Sustainability & Research department. Once every quarter, the results of the climate neutral balance sheet are discussed and approved by the climate neutral committee chaired by the CFO.
2. Sustainable Housing and Financial resilience have been assigned to the Marketing department.
3. The 'Banking with a human touch' programme encourages corporate responsibility by supporting employees, line management and teams to further implement Banking with a human touch, resulting in modifications to services, advice, policy, processes, systems and behaviour. The programme provides support and advice to line management in order to effect change.
4. The HR department is responsible for implementing corporate responsibility in relation to staff, including, for example, the diversity policy. For more information, please refer to Section 2.6 Our people.
5. The External Reporting department is responsible for coordinating all non-financial issues in the annual report, including stakeholder engagement.

De Volksbank also has an Advisory Council in order to obtain sufficient feedback from the outside world about issues that are important to the organisation, in addition to stakeholder engagement. The Council consists of members from the worlds of business, politics and science and from social organisations and deals with issues ranging from strategic to operational issues and from corporate responsibility and Manifesto to brand positioning.

Please refer to the Chapter 'Other stakeholder information' for more information on the Advisory Council.

Investment policy

The investment policy of de Volksbank relates to all financing and investments. De Volksbank issues loans (notably mortgages) to retail customers and small and medium-sized enterprises. ASN Bank also issues private placements to local governments, healthcare institutions and educational institutes. Moreover, ASN Bank is active in project financing (such as windmill projects and solar parks).

The investment policy is determined by the Sustainability & Research department of ASN Bank. This department keeps in touch with external parties including NGOs (non-governmental organisations), other financial institutions, academics, politicians and the media. ASN Bank takes the lead in maintaining and implementing the investment policy and the policy to arrive at a climate neutral balance sheet by 2030 and in developing other human rights and biodiversity initiatives. The *ASN Beleggingsfondsen* pursue the policy as determined by the Sustainability Policy & Research department.

In addition, relationships exist with commercial departments and staff departments to provide support in determining objectives (KPIs) and actually putting those objectives into practice. These departments are charged with achieving the objectives.

Data collection and reporting

Guidelines

This report was published on 8 March 2018 and drawn up in accordance with the 'core' option of the GRI Standards guidelines of the Global Reporting Initiative (GRI). The process of determining material issues and reporting priorities is presented in the Section Determination of materiality in this appendix. The report provides an overview of the main developments and performance of de Volksbank in 2017 and is based on the issues that the Board of Directors and our stakeholders have labelled as material. More static issues, such as our responsible investment policy and responsible procurement policy, are reported on our website. The same goes for less material issues. In accordance with the recommendations from the International Integrated Reporting Council (IIRC), this report shows how we created financial and non-financial value for our stakeholders in 2017. Where reclassifications have taken place compared to the previous annual report, this is explicitly described.

Data collection

The quantitative and qualitative information in this report was collected on the basis of qualitative interviews and quantitative data requests. For this purpose, we consulted those responsible within the business units and staff departments (project managers, policy officers, programme managers, etc.). They provided the quantitative data requested and manage the non-financial issues on a daily basis.

Additional information, such as data concerning the composition of our mortgage portfolio, information on employees and environmental performance, was retrieved from central or specific information systems. The reported non-financial data relate to the reporting year 2017. These do not include the environmental performance of the business operations, which are reported on the basis of the actual results for the fourth quarter of 2016 up to and including the third quarter of 2017.

Reporting process

The contents of the report were subsequently reviewed and verified within the business units and by the various staff departments. In 2017, the internal audit department examined matters including corporate responsibility, ASN sustainable loans, shared value KPIs, remuneration and privacy. The results and follow-up actions of these studies are communicated to the Board of Directors and Audit Committee and monitored on a quarterly basis.

In 2017 we started executing our fine-tuned strategy, with a focus on creating shared value for our stakeholders. We introduced a set of objectives to put our strategy into practice in 2016. The KPI for financial resilience was developed further last year, and we began work on our Financial Barometer to measure the financial concerns of Dutch people and our customers. This also includes questions about the extent to which our customers believe we have helped them to relieve their financial concerns.

Calculation of CO2 emissions – climate-neutral operations

Our business operations are net climate neutral. We achieve this by purchasing as many green energy as possible. Where these are not yet available or are only available to a very limited extent, such as for car fuels and district heating, we offset the CO2 emissions by purchasing Gold Standard credits[20] after the end of the financial year, with which investments are made in projects in Brazil to combat deforestation, support the community and increase biodiversity, thus reducing CO2 emissions. Our climate neutrality does not stop us from continuing our efforts to reduce our absolute energy consumption and to avail ourselves of more green energy sources. We have taken a major step by adapting our company car scheme in which our starting point is to have a fully electric fleet. In order to monitor our progress, we annually report the CO2 emissions of our own operations on the basis of scopes 1, 2 and 3 of the Greenhouse Gas Protocol.

Scope 1: all direct CO2 emissions caused by fuels that we ourselves purchase and consume (natural gas for office heating and the fuel for our company cars).
Scope 2: indirect CO2 emissions from our operations (consumption of electricity).
Scope 3: other indirect CO2 emissions from energy we did not personally purchase or emit directly, including commuting by our employees who have no company car and consumption by third parties from which we obtain services (such as air travel).

Calculation of CO2 emissions – climate-neutral income statement

De Volksbank signed the PRI Montreal Pledge in 2015. This means that we report in a transparent way on the impact our investments have on the climate. In our annual report, we report on our climate neutral income statement to indicate where we stand in achieving our objective to be climate neutral with all our assets on the balance sheet in 2030. The climate neutral income statement identifies the climate impact, expressed in CO_2 emissions, of all of de Volksbank's relevant balance sheet items (92%). All relevant balance sheet items for the climate-neutral balance sheet includes all balance sheet items, except for cash and cash equivalents and derivatives. The GHG Protocol 'Corporate Value Chain Standard' offers guidance to identify and report on scope 3 emissions. These also include emissions from assets, which are reported under scope 3, category 15, Investments. Category 15 is the most material category for banks. As no method existed to identify category 15 emissions, de Volksbank has adopted, and for some operating activities expanded, the methodology applied by ASN Bank.

The CO2 calculations were set up by external consultancy firm Ecofys and are performed in accordance with the operational control method of the GHG Protocol. Data collection and calculations for the climate neutral income statement take place every quarter. Ecofys checks the calculations and analyses the results.

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20 The Gold Standard Premium Quality Carbon Credits is a standard for reduced carbon emissions via small-scale renewable energy projects in developing countries, enabling them to profit from climate funds.

The results are presented as an income statement comparable with prevailing financial accounting methods. In addition, the data are verified in-house by ASN Bank's Sustainability & Research department and discussed and approved by the climate neutral committee chaired by the CFO. The data are also reported in QBRs and risk reports.

De Volksbank's emissions are shown as a loss for the climate and the emissions avoided are seen as a profit for the climate balance sheet. In order for us to achieve full climate neutrality, the CO2 loss must be equal to the CO_2 profit. We identify the margin of uncertainty of the calculations resulting from assumptions made in the methodology. In 2017, the total margin of uncertainty was 18% (2016: 18%). The data on assets avoiding CO2 are relatively reliable (7% margin of uncertainty) compared with assets causing CO2 (20% uncertainty). The uncertainty on the loss side is mainly caused by the fact that we do not yet have insight into our customers' actual energy consumption. Instead, we work with average gas and electricity consumption for each energy label. The energy labels have been obtained from the database of the Netherlands Enterprise Agency (RVO). For definitive labels we work with the most recent year-end label composition, which allows us to also include any changes in definitive labels in our calculations. The provisional energy labels are based on the RVO database from April 2017. The use of energy labels rather than actual energy consumption entails approximately 20% uncertainty. In collaboration with other financial institutions we have submitted a request to use the actual energy consumption of our mortgage customers in a fully anonymous manner. A second uncertainty is the lack of Eurostat data on the CO2 emissions of a number of European countries, which prevents us from making a reliable calculation of the climate impact of some government bonds. Instead, we work with the average climate impact of the countries whose figures we do have.

The complete methodology has been published on our website and offers a detailed overview of the calculations made, the definitions used and the measurement methods. Insight is also provided into the assumptions made and the limitations that are inherent in the methodology. There were no changes in the methodology in 2017. However, reclassifications were implemented in 2017, with the 2016 results being adjusted as a consequence of an investment fund being brought in line with our CO2 methodology. Various reclassifications were applied to the 2016 results, specifically adjustments to the emission factors for some green bonds as a result of the reclassification of these bonds and as more specific information on emissions actually avoided became available.

Climate-neutral business operations

Over 99% of our total carbon dioxide (CO2) impact is caused by the assets on our balance sheet and only 1% by our offices and transportation. We nevertheless believe that our aim to be a sustainable bank is not credible without having green business operations. That is why we have set ourselves the aim of achieving 100% climate neutral business operations. We also want to continue to save energy in order to continually reduce the CO2 emissions that need to be offset.

In 2017, as in previous years, our business operations were 100% climate neutral as we offset our CO2 emissions with Gold Standard certificates. The gross CO2 emissions from our offices and transportation decreased by 15% compared to 2016, which was primarily driven by fewer flights and business kilometres.

Transportation is the key cause of emissions from business operations, accounting for around 50% of such emissions. In 2016, this prompted us to examine how to make our transportation more sustainable, resulting in the introduction of a new company car scheme in January 2017. Where possible, every new lease car ordered is to be fully electric, provided this is practible for employees driving long distances. We have also made it easier for company car drivers to commute by public transport. We have thus taken the first steps towards a fully electric and climate neutral fleet and the achievement of our climate objectives. Our ambition for 2018 is to encourage sustainable commuting and sustainable business travel.

The proposals are based on increasing flexibility, rewarding public transport use and discouraging car travel using fossil fuels.

Category	Units	2017	2016	Change
ENERGY CONSUMPTION OF LARGE OFFICES AND OWN RETAIL NETWORK				
Green gas	GJ	5,630	6,030	-7%
Natural gas (grey)	GJ	413	377	10%
District heating	GJ	6,166	6,383	-3%
Generators	GJ	-	108	0%
Green energy	GJ	23,353	29,948	-22%
Grey energy	GJ	637	642	-1%
Total energy consumption[1]	GJ	36,199	43,488	-17%
Energy consumption per FTE	GJ	11	12.0	-8%
Energy consumption per m²	GJ	1	0.8	-21%
SHARE OF GREEN ENERGY CONSUMPTION				
% green energy	% of total	97%	98%	-1%
% green energy consumption	% of total	80%	83%	-3%
CO2 EMISSIONS				
Heating	tonnes	464	499	-7%
Lease cars	tonnes	1,914	2,159	-11%
Scope 1	**tonnes**	**2,378**	**2,658**	-11%
Electricity	tonnes	3,505	4,469	-22%
Scope 2	**tonnes**	**3,505**	**4,469**	-22%
Flights	tonnes	73	138	-47%
Commuting	tonnes	2,133	2,223	-4%
Business travel	tonnes	658	794	-17%
Scope 3	**tonnes**	**2,863**	**3,155**	-9%
Gross CO2 emissions	tonnes	8,746	10,283	-15%
Net CO2 emissions	tonnes	4,587	5,431	-16%
CO2 in tonnes per FTE	tonnes	1.4	1.5	-6%
MODE OF TRANSPORT				
Company cars	km	8,161,568	9,123,504	-11%
Flights	km	350,065	667,442	-48%
Commuting (car)	km	6,326,341	6,526,675	-3%
Commuting (public transport)	km	15,144,017	16,123,815	-6%
Business travel (car)	km	2,988,740	3,607,031	-17%
Total mode of transport	**km**	**32,970,731**	**36,048,468**	-9%
Kilometres per FTE	*km*	*10,129*	*10,856*	-7%
PAPER CONSUMPTION				
Paper	tonnes	403	605	-33%
Paper in kg per FTE	*kg per fte*	*124*	*168*	-26%
WASTE				
Residual waste	tonnes	118	134	-12%
Biodegradable waste	tonnes	47	23	104%
Small chemical waste	tonnes	0.5	1.1	-55%
Business waste	tonnes	13	8	63%
Paper and cardboard waste	tonnes	102	116	-12%
Plastic	tonnes	10	11	-9%
Total waste	**tonnes**	**291**	**293**	-1%
Share of waste	*%*	*41%*	*46%*	-11%
Waste in kg per FTE	*kg per fte*	*89*	*81*	10%

1 To determine the CO2 emissions of our business operations we use the emission factors given at CO2-emissiefactoren.nl. In order to control our emissions throughout the year, we keep the emission factors in a year as constant as possible, in accordance with our policy. As from December 2017 the emission factors for electricity and gas were updated. These new factors will be included in the calculations as from the first quarter of 2018.

How we obtain the results for other non-financial issues

De Volksbank measures the Net Promoter Score (NPS) for all brands on a quarterly basis. This is the relational NPS, which involves the customer expressing a satisfaction rating (in terms of probability of recommendation) in general and not specifically in the context of concrete contact or transaction. The survey is conducted by an external party. Every quarter a representative sample is drawn from an external consumer panel for each brand. The sample size varies per brand and ranges from 500 to 1,000 customers. The eNPS indicates the ratio between the so-called detractors (customers advising against de Volksbank as a service provider) and promoters (customers recommending de Volksbank). A score between 1 and 6 means that the customer advises against de Volksbank as a service provider. Scores 7 and 8 are considered passive scores, and customers giving a score of 9 or 10 are promoters. The total result of the NPS for de Volksbank is calculated as a weighted average based on the total number of customers per brand and is reported based on the result in the last quarter. Reporting for the brands is also based on the result in the last quarter of the reporting period.

The eNPS is measured once a year as part of the annual employee survey, which is conducted by a third party among all of de Volksbank's employees. In the survey, employees are asked whether they would recommend de Volksbank as an employer to others. The calculation of eNPS equals the calculation of NPS and the eNPS result is the weighted score for all participating employees.

We report the availability rates of online banking, mobile banking and iDEAL in line with the methodology used for the NVB's Confidence Monitor. The rates represent the availability during prime time hours, which is reviewed internally for any inaccurate outcomes, such as online unavailability at the measurement points, and adjusted where necessary. The scores for iDEAL are based on the period from January 2017 up to and including December 2017. The scores for online banking and mobile banking are based on the period from July 2016 up to and including June 2017. Prime time hours for online and mobile banking are considered to be the following time periods: on workdays and Saturdays from 7 a.m. to 1 a.m., and on Sundays and public holidays from 8 a.m. to 1 a.m. The night hours are not included because the banks usually perform system maintenance during those hours. The standards set for iDEAL availability are:
- standard prime time from 7 a.m. to 1 a.m.: 99.64%
- standard non-prime time from 1 a.m. to 7 a.m.: 98.50%

Determination of materiality

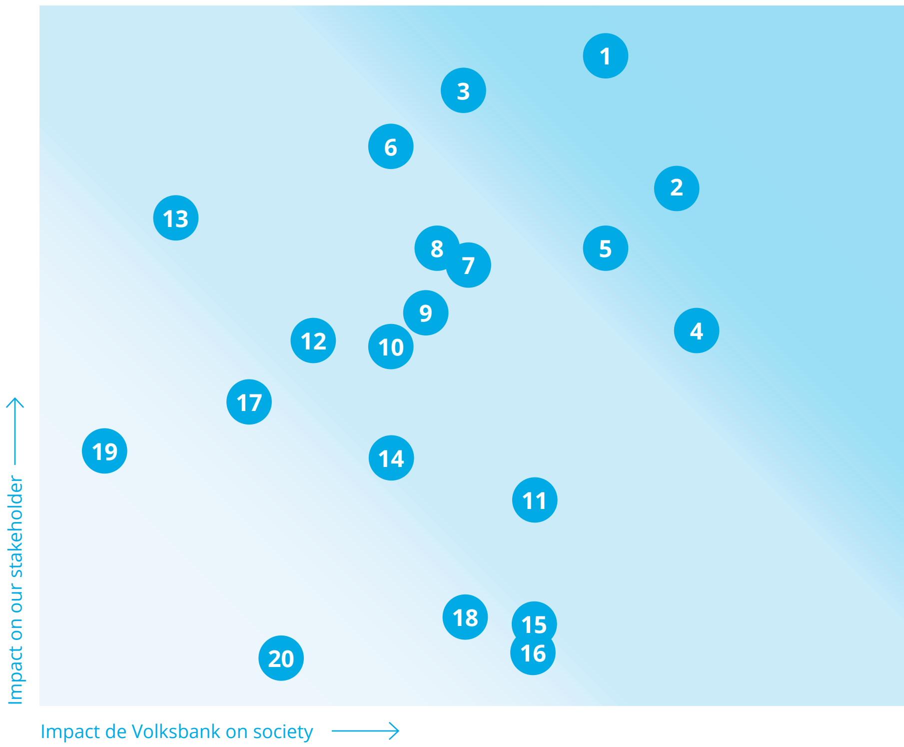
The materiality determination is performed every year before the annual report is drafted, which allows us to tailor the information we provide to the information needs of our stakeholders. The Board of Directors approves the materiality determination. Last year, we conducted an extensive materiality analysis by means of a quantitative survey among almost 400 internal and external stakeholders. This extensive analysis, which is described in more detail in our annual report for 2016, served as the basis for the review of the materiality analysis that took place in 2017.

The review of the materiality determination was based on four steps:
1. Validation list of issues.
   We examined whether it was necessary to update the list of themes from previous years in view of trends and developments. Based on our media analyses, contact with stakeholders, the GRI Standards requirements, any themes put forward by stakeholders and issues under internal control, we concluded that the themes considered in 2016 were still current in 2017. The associated definitions per theme also remain relevant.
2. Prioritisation of issues – x-axis (Impact of de Volksbank on society)

Internal prioritisation took place via consultation conducted by employees who jointly represent a broad cross-section of the various disciplines within de Volksbank, specifically the Annual Report core team. During a work session, they reviewed the relevance of each theme in terms of the economic, social and ecological impacts of de Volksbank on society, in line with the definition of the x-axis in the GRI Standards. The prioritisation of themes during the internal consultation was subsequently weighed against the materiality analysis from 2016.

3. Prioritisation of issues – y-axis (Impact on stakeholders)
   For the review of the external axis, we looked at a number of customer surveys and documents that identify trends and developments in de Volksbank's sector. The external materiality analysis for 2016 was based in particular on the SNS brand. The addition of the customer surveys results in stronger representation of the other brands' stakeholders as well. The survey results also give a good insight into what stakeholders consider important. Based on these surveys, materiality from the stakeholder perspective has been increased for some issues in line with the definition of the y-axis in the GRI Standards. Amending the names of the material themes in a few respects was also felt to be desirable, to align these more closely with the terminology as applied by de Volksbank.
4. Drafting a materiality matrix
   A materiality matrix was drafted using insight obtained from the second step, prioritisation of the x-axis issues.
   The x-axis of the matrix was determined on the basis of the results of step 2. The y-axis was determined on the basis of the document analysis (step 3). De Volksbank applied the new GRI Standards in its review of the axes' definition, which was included in the prioritisation at steps 2 and 3. The materiality matrix is shown below and a table showing all material issues has also been included in this report at Section 1.2 Stakeholder engagement. The matrix reflects how we report on issues. The five issues stated at the top right corner are reported extensively in the annual report; the other issues may be discussed more briefly in the annual report or on the website.

Materiality matrix



1	Simple & transparent products - §2.5	11	Climate neutral bank - §2.3
2	Customers' interests & reputation - §2.3 / §2.5	12	Sustainable products and services - §2.3 / §2.5
3	Privacy & customer data safety - §2.3 / §2.7	13	Responsible investing - §2.3 / §2.5
4	Financial performance - §2.4 / §2.8 / §3.6	14	Responsible remuneration policy - §2.6 / §5.7
5	Financial resilience - §2.3	15	Sustainable employment - §2.6
6	Ethical banking - §2.5 / §3.10	16	Social commitment - §2.3
7	Technological innovations - §2.3 / §2.7	17	Stakeholder engagement - §1.2
8	Compliance with laws and regulations - §2.2 / §2.3 / §3.10	18	Committed and engaged employees - §2.8
9	Responsible risk management - Chapter 3	19	Responsible tax policy - §2.4
10	Service availability - §2.3 / §2.5 / §3.10	20	Employee diversity - §2.6

MOST MATERIAL TOPICS

In the table below the five most material topics are explained.

Material topic	Definition 2017 de Volksbank
1 Simple & transparant products	De Volksbank provides its customers with understandable and clear information about its products and services.
2 Customers' interests & reputation	Focus on customers' needs, including the development and offering of products and services that match the customers' needs and helping customers choose products that best suits their personal situation. Clear communication and brand image play an important role in this respect.
3 Privacy & customer data safety	A sound policy regarding privacy and data safety, so both customers and employees can be confident that their data are safe.
4 Financial performance	To ensure that de Volksbank is a financially sound and stable bank.
5 Financial resilience	To help customers and other target groups to increase and maintain their financial resilience, for exampe through training and coaching, educational programmes, offering services to expand customers' financial understanding and preventive management.

NEXT REPORTING YEAR (ANNUAL REPORT 2018)

In the next reporting year, 2018, an extensive internal and external analysis will again be conducted. It is our ambition to compile a new list of issues that does more justice to the new composition of our organisation, based on all possible information (strategy, media, peers, etc.). These themes will be prioritised according to the most material issues on the basis of internal and external stakeholder consultation.

External assurance

In order to give our stakeholders more confidence in the reliability of our data and information, we asked audit firm EY to verify the non-financial information in this annual report and to issue an assurance report with a 'limited level of assurance' in that respect. EY performed its work in accordance with Dutch Assurance Standard 3810N 'Assurance engagements relating to sustainability reports' as drawn up by the Netherlands Institute of Chartered Accountants (NBA). The non-financial information is described in Chapters 1 and 2 (with the exception of Section 2.8 Financial results), and in the appendices About the non-financial information in this report, Additional stakeholder information, and the GRI Content Index. All appendices form an integral part of this annual report. We attach importance to the validation of these sections of the report in order to emphasise its reliability, completeness and transparency in respect of our stakeholders. Internally the FinCo (Financial Committee) is involved in the external verification of non-financial information. No assurance is provided for forward-looking information.

External benchmarks

Henri Sijthoff prize

This year we received the Henri Sijthoff prize (for non-listed companies) for the last annual report, in recognition of our report's new composition, which reflects the way in which the organisation has been set up anew. The jury was positive about the pleasantly readable interviews, the clear overview of the business model and the brands, and the excellent risk disclosures.

Fair bank guide

In 2017, the Fair Bank Guide conducted research into transparency and accountability in respect of Dutch banks' loan portfolios. With an overall score of 6 (satisfactory), de Volksbank received the second highest score for 'Responsible lending policy', and 'Accountability, reporting and verification', but scored low on 'Transparency on engagement activities[21]'. This score was low because we conduct little engagement as regards business loans. De Volksbank grants little business loans and tests all applications for such investments against our sustainability policy. Investments do not pass the test if it entail (major) sustainability risks. This way we prevent entering into dialogue, because that is only necessary if something goes wrong or is at risk of going wrong. Consequently, we conduct little engagement as regards business loans, and therefore we are not awarded any points for this by the Fair Bank Guide.

Oekom research

The German oekom research agency rates businesses throughout the world on their sustainable investment policy. Businesses can receive ratings from D- (poor) tot A+ (excellent). Oekom awarded de Volksbank a rating of C+, placing de Volksbank in the top three leaders in the financial sector (commercial banks and capital markets). According to oekom, the score reflects 'the integration of sustainable and social aspects into the investment policy of de Volksbank'.

Transparency benchmark

Our annual report is assessed in the annual Transparency Benchmark of the Ministry of Economic Affairs – an annual survey of the content and quality of social reporting by Dutch enterprises in which approximately 500 companies participate. The 2016 annual report scored 188 points, up 4 points compared to last year. With this score, we climbed from 23rd to 19th position.

[21] Engagement concerns active shareholdership, whereby the investor enter into a dialogue with the management of companies that we invest in, in order to implement improvements, for example in relation to sustainability.

Financial institutions score relatively high in the Transparency Benchmark; our top 20 position places us among the front-runners with the most transparent reports in the Netherlands.

Sustainalytics

In July 2017, de Volksbank was awarded first place on the list of 339 banks worldwide analysed by Sustainalytics. Sustainalytics conducts global research into companies' policies in relation to matters including sustainability and corporate governance. According to Sustainalytics, de Volksbank's high score – 90 out of 100 – is recognition of, inter alia, the fact that de Volksbank has adopted ASN Bank's sustainability policy.

EU Directive table

Topic	Subtopic	Included (yes/no)	Chapter / Page reference
Business model	General description	Yes	De Volksbank
	Structure and governance	Yes	Corporate Governance
	Markets in which the institution is active	Yes	Banking with a human touch
	Strategy and objectives	Yes	Strategic Report
	Important factors that can have influence on the future development of the company	Yes	SWOT-analysis
Relevant social and personnel maters (e.g. HR, safety etc.)	A description of the policies pursued, including due diligence	Yes	2.6 Our people Privacy and data management
	The outcome of those policies	Yes	2.6 Our people Privacy and data management
	Principle risks in own operations and within value chain	Yes	Compliance risk, 3.2 Moderate risk profile, 3.4 Risk classification and risk appetite, 3.5 Risk management organisation
	How risks are managed	Yes	Compliance risk, 3.2 Moderate risk profile, 3.4 Risk classification and risk appetite, 3.5 Risk management organisation
	Non-financial key performance indicators	Yes	2.6 Our people Privacy and data management
Relevant Environmental maters (e.g. climate-related impacts)	A description of the policies pursued, including due dilligence	Yes	Responsibility for society
	The outcome of those policies	Yes	Responsibility for society
	Principle risks in own operations and within value chain	Yes	Climate-neutral balance sheet, Three sustainability objectives, 3.4 Risk classification and risk appetite
	How risks are managed	Yes	Climate-neutral balance sheet, Three sustainability objectives, 3.4 Risk classification and risk appetite
	Non-financial key performance indicators	Yes	Responsibility for society, Climate-neutral balance sheet, Three sustainability objectives
Relevant matters with respect for human rights (e.g. labour protection)	A description of the policies pursued, including due dilligence	Yes	Living wage, Three sustainability objectives, Human rights, Responsibility for society
	The outcome of those policies	Yes	Human rights, Three sustainability objectives
	Principle risks in own operations and within value chain	Yes	Human rights, Three sustainability objectives
	How risks are managed	Yes	Human rights, Three sustainability objectives
	Non-financial key performance indicators	Yes	Human rights, Three sustainability objectives
Relevant matters with respect to anti-corruption and bribery	A description of the policies pursued, including due dilligence	Yes	Taxation
	The outcome of those policies	Yes	Customer integrity, crime, fraud and corrpution

Topic	Subtopic	Included (yes/no)	Chapter / Page reference
	Principle risks in own operations and within value chain	Yes	3.10 Non-financial risks, Compliance Risk Customer integrity, crime, fraud and corrpution
	How risks are managed	Yes	Developments in 2017
	Non-financial key performance indicators	Yes	Developments in 2017
Insight into the diversity (executive board and the supervisory board)	A description of the policies pursued	Yes	Diversity policy, Remuneration en Nomination committee, 4. Report of the supervisory board, composition of the supervisory board, 5.1 Composition, appointment and functioning of the Board of Directors
	Diversity targets	Yes	Diversity, Remuneration en Nomination committee, 5.2 Composition, appointment and functioning of the Supervisory Board
	Description of how the policy is implemented	Yes	Diversity, Remuneration en Nomination committee, 5.2 Composition, appointment and functioning of the Supervisory Board
	Results of the diversity policy	Yes	Diversity policy, Remuneration en Nomination committee, 4. Report of the supervisory board, composition of the supervisory board, 5.1 Composition, appointment and functioning of the Board of Directors

De Volksbank values your opinion on this annual report

We invite all stakeholders, including social organisations, to ask questions, express complaints and share tips via verantwoord.ondernemen@devolksbank.nl.

Other stakeholder information

Lobbying

As from 2016, de Volksbank no longer has a special department that engages in lobbying activities and maintains contact with political parties and policymakers. We are (passively) in touch with government authorities, legislators and policymakers through our membership of associations for the banking sector such as the Dutch Banking Association (NVB), the European Savings and Retail Banking Group (ESBG) and the World Savings and Retail Banking Institute (WSBI). For a complete list of memberships of associations, please refer to our website: https://www.devolksbank.nl/verantwoord-ondernemen/lidmaatschappen-verdragen.html.

If there are topics of material importance to de Volksbank, experts on the subject matter may contact policymakers, political parties and government authorities. In practice, they only do so on a limited number of topics, and generally via their involvement in NVB and ESBG-WSBI working groups. It concerns, for example, position papers, responses to formal consultations by (national) governments and local/regional authorities on forthcoming financial regulations, *Bouwsparen*, the shared value strategy and the privatisation of de Volksbank. Experts involved are responsible for the discussions as well as for representing de Volksbank's position. Where appropriate, decisions to be taken by these experts will be presented to the Board of Directors for approval. The Board of Directors bears ultimate responsibility for the positions adopted. In addition, Maurice Oostendorp (Chairman) is on the board of the NVB and ESBG, where important sector-wide views and lobbying activities are discussed.

Advisory Council

De Volksbank has an Advisory Council that considers the future plans, dilemmas and issues we face as a company from a social perspective. The members of our Advisory Council originate from different sections of civil society, thus creating additional critical power and advice that help de Volksbank improve its social positioning. The composition of the Advisory Council remained unchanged in 2017: Gerhard van den Top (Chairman), Peter Verhaar, Giuseppe van der Helm, Fokko Wientjes, Henriëtte Prast, Melek Usta and Jaap Smit.

The Advisory Council met three times in 2017. Topics discussed with the Board of Directors included de Volksbank's positioning as a social bank, the implementation of shared value, financial resilience, financial stress, a climate-neutral balance sheet and the privacy and data protection policy. In addition to the joint meetings with the Board of Directors, there were consultations with individual members of the council; member of the council were also consulted outside the scope of the Advisory Council.

EDTF references

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
	General			
1	Present all related risk information together in any particular report	Chapter 3 Risk, capital & liquidity management 3.1 Risk management objectives	Pillar 3 report 2.1 at objectives risk management	
2	Define the bank's risk terminology and risk measures and present key parameter values used	3.4 Risk classification and risk appetite 3.6 Capital management 3.7 Credit risk 3.8 Market risk 3.9 Liquidity management and financing 3.10 Non-financial risks	2.1 at Risk classification and risk appetite 3 Capital management and leverage 4 Credit risk 9.1 Liquiditymanagement 10. Market risk 12. Operational risk	
3	Describe and discuss top and emerging risks. Include quantitative disclosures and changes in risk exposures	3.3 Top risks 3.4 Risk classification and risk appetite 3.6 Capital management 3.7 Credit risk 3.8 Market risk 3.9 Liquidity management and financing 3.10 Non-financial risks	2.1 at Risk classification and risk appetite 4 Credit risk 9.1 Liquiditymanagement 10. Market risk 12. Operational risk	
4	Once the applicable rules are finalised, outline plans to meet each new key ratio and provide them	3.6.2 Capital requirements 3.6.4 Developments in capital requirements 3.6.6 Figures, ratios and trends 3.6.6 at MREL and TLAC 3.9.3 Management and control - liquiditymanagement 3.9.4 Figures, ratios and trends	3.4 Macroprudential supervisory measures - at Capital requirements 9.1 Management and control - liquidity risk and liquiditymanagement 9.2 LCR	
	Risk governance and risk management strategies/business model			
5	Summarise the bank's risk management organisation, risk management processes and risk management key functions	3.5 Risk management organisation 3.5.2 Risk governance 3.5.3 at Clear governance	2.2 at Risk management organisation 2.2 at Risk governance 2.2 at Clear Governance 4.1 at Management and control - retail mortgages	
6	Provide a description of the bank's risk culture. Procedures and strategies to support the culture	3.5.3 Risk culture	2.2 at Risk culture	
7	Describe the key risks from the bank's business models and activities. Risk appetite and describe how the bank manages such risks	3.2 Moderate risk profile 3.3 Top risks 3.4 Risk classification and risk appetite 3.6.3 Management and control - capital management 3.6.3 Management and control - economic capital 3.7.2 Management and control - credit risk 3.8.2 Management and control - market risk 3.9.3 Management and control - liquidity risk management	2.1 at Moderate risk profile 2.1 at Risk classification and risk appetite 3.1 Management and control - own funds 3.1 at Economic capital 4.1 at Management and control - credit risk 9.1 at Management and control - liquidity risk management 10.2 at Management and control - market risk	
8	Describe the use of stress testing within the bank's governance and capital framework	3.4 at Stress testing 3.6.3 at Stress testing - capital management 3.7.2 at Stress test - credit risk 3.8.2 at Market risk in the trading book 3.9.3 Management and control - liquidity stress testing 3.9.3 at Liquidity stress testing	2.1 at Stresstesting 3.1 at Stresstesting - capital 4.1 at Stresstesting and sensitivity analysis - credit risk 9.1 at Management and control - liquidity stress testing	

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
	Capital adequacy and risk-weighted assets			
9	Provide minimum Pillar 3 capital requirements, surcharges, counter cyclical and conservation buffers, minimal internal ratios	3.6.3 at Regulatory capital and MREL 3.6.3 at Continuous capital adequacy assessment 3.6.6 Figures, ratios and trends 3.6.6 at Capital ratio's 3.6.6 at Leverage ratio	3.1 at regulatory capital and MREL 3.1 at Continuous capital adequacy assessment 3.3 Capital requirements 3.4 Macroprudential supervisory measures 3.5 Leverage ratio	
10	Provide an overview of the main components of capital, including capital instruments and regulatory adjustments. Reconciliation accounting B/S to regulatory B/S	3.6.5 Capital structure	1.3 Consolidation 1.4 Scope of application 3.2 Own funds 3.5 Leverage ratio at table Reconciliation of accounting assets and the leverage ratio exposure	Scope of consolidation is the same. Also includes de Volksholding
11	Flow statement of movements in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital	3.6.5 Capital structure	3.2 Own funds	
12	Qualitatively and quantitatively discuss capital planning, of the required or targeted level of capital and how this will be established	3.6.4 Developments in capital requirements	3.4 at Capital requirements	Quantitative capital planning
13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks	3.6.6 Figures, ratios and trends	3.3 Capital requirements	
14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk. Information on significant models	3.6.6 Figures, ratios and trends 3.6.6 at table Risk weighted assets (RWA) and capital requirement	3.3 Capital requirements 5.2 Quantitative information regarding the us of the Standardized approach 6.2 Quantitative information regarding the use of the IRB-approach	Models: downturn parameters, methodology LGD
14	Idem for market risk and operational risk	3.6.6 Figures, ratios and trends 3.6.6 at table Risk weighted assets (RWA) and capital requirement	3.3 Capital requirements - table RWA 6.2 Quantitative information regarding the use of the IRB-approach 10.1 Capital requirements - market risk 12.1 Capital requirements - operational risk	
15	Tabulate credit risk in the banking book showing average probability of default (PD), LGD, exposure at default (EAD). For non-retail the PD bands against external credit ratings	3.7.4 at Portfolio breakdown by internal rating grade	5.2 Quantitative information regarding the us of the Standardized approach 6.2 Quantitative information regarding the use of the IRB-approach	
16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type	3.6.6 at table Risk weighted assets (RWA) and capital requirement 3.6.6 table Development RWA	6.2 credit risk - at Quantitative information regarding the use of the IRB-approach	Standardized approach used for Market and Operational risk. Limited impact
17	Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including		6.2 at table IRB approach - Backtesting	

EDTF	Brief description of articles	In risk disclosures/annual report	In Pillar 3 report	Non or limited disclosure
	assessment of model performance and model validation against default and loss			
	Liquidity			
18	Describe how the bank manages its potential liquidity needs. Provide a quantitative analysis of the components of the liquidity reserve held to meet these needs. Explanation of possible limitations on the use of the liquidity reserve	3.9.1 Risk profile Liquidity management and financing 3.9.3 Management and control - liquidity management and financing 3.9.4 Figures, ratios and trends	9 Liquidity risk	
	Funding			
19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet category	3.9.5 Encumbered and unencumbered assets	9.3 Encumbered and unencumbered assets	
20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Disclose instruments separately... Management's approach to determining the behavioural characteristics of financial assets and liabilities	3.9.6 table Remaining contractual maturity of assets and liabilities		Maturity schedule off-balance sheet items
21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight	3.9.6 Funding strategy	9.2.1 at Funding strategy	
	Market risk			
22	Information on the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures	3.8.4 Figures, ratios and trends - market risk	10 Market risk 10.2 Interest rate risk not included in the trading portfolio	Linkage income statement
23	Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk	3.8.4 Figures, ratios and trends - market risk	10 Market risk 10.2 Interest rate risk not included in the trading portfolio	
24	Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time, reasons for back-testing exceptions and how results are used to enhance the parameters of the model	3.8.1 Risk profile - market risk 3.8.4 Figures, ratios and trends - market risk	10.2 Interest rate risk not included in the trading portfolio	Standardized approach. Limited impact
25	Description of risk management techniques to measure and assess the risk of loss beyond reported risk measures and parameters. Discuss how market liquidity horizons are considered and applied within such measures	3.8.2 Management and control - market risk	10.2 Interest rate risk not included in the trading portfolio - at Management and control	Standardized approach. Limited disclosure due to low materiality
	Credit risk			
26	Provide information on the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type	3.7.1 Risk profile - credit risk 3.7.3 Figures, ratios and trends, credit risk 3.7.3 at Loans and advances to customers by category and region 3.7.3 at Exposure at default 3.7.5 Other retail loans 3.7.6 SME loans 3.7.10 Risk mitigation	4.2 General quantitative information regarding credit risk 4.4 General quantitative information regarding credit risk mitigation 5.2 Quantitative information regarding the us of the Standardized approach 6.2 Quantitative information regarding the use of the IRB-approach	
27	Describe the policies for identifying impaired or non-performing loans. including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans. Explanations of loan forbearance policies	3.7.2 Management and control (See also annual accounts note 5 Loans and advances to customers)	4.1 General qualitative information regarding credit risk - at Management and control	Quantitative forbearance information

Disclaimer

The forward-looking statements made in this annual report are only applicable as from the date of publication of this report. De Volksholding does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this report, and de Volksbank does not assume any responsibility to do so. The reader should, however, take into account any further disclosures of a forward-looking nature that de Volksholding may make in its interim reports.