de volksholding

2016 Annual report

2016

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.

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 2016. De Volksholding (formerly SNS Holding B.V.) 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.

This annual report contains the reports of the Board of Directors and the Report of the Supervisory Board, the audited consolidated financial statements and the risk paragraph, which – in the absence of activities of the Volksholding itself – are for the most part identical to the information of the annual report of the Volksbank. 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.

Presentation of information

The consolidated financial statements and the company financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report has been prepared in euros (€), the reporting currency applicable to de Volksbank.

PUBLICATION

The annual report of the Volksholding has been filed and is available on the internet site of de Volksbank (www.devolksbank.nl) under Investor Relations. This annual report is also published in English.

Icons used

Read more

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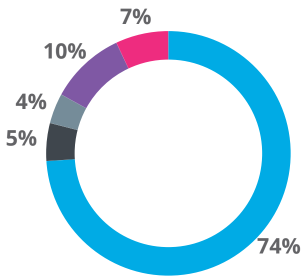
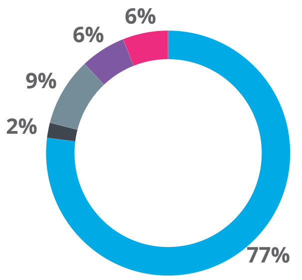
Awards

Key figures

Total assets 2016



Total liabilities 2016



Balance sheet

in € millions	2016	2015	2014	2013	2012
Balance sheet total	61,561	62,690	68,159	74,537	81,341
Loans and advances to customers	48,593	49,217	52,834	53,405	61,768
- of which mortgages	45,538	45,631	47,281	48,458	50,841
Amounts due to customers	47,428	47,440	46,208	43,904	42,344
- of which savings	36,593	36,860	35,666	33,276	32,815
Debt instruments	5,696	6,941	11,252	16,439	21,990
Equity	3,541	3,302	2,963	2,582	1,337

Capital and funding

in € millions	2016	2015	2014	2013	2012
Tier 1 core capital	3,164	2,916	2,520	2,266	1,253
Risk Weighted Assets (RWA)	10,824	11,513	13,771	15,121	20,592
RATIOS					
CET 1 ratio	29.2%	25.3%	18.3%	15.0%	6.1%
Tier 1 ratio	29.2%	25.3%	18.3%	15.0%	7.7%
Total capital ratio	33.8%	29.5%	18.4%	15.0%	9.3%
CET 1 ratio (fully loaded)	29.6%	25.8%	17.4%	12.3%	
Leverage ratio	5.2%	4.7%	3.8%	3.1%	
Leverage ratio (fully loaded)	5.3%	4.8%	3.6%	2.5%	
Loan-to-deposit ratio	104%	105%	113%	122%	148%

Quality loan portfolio

	2016	2015	2014	2013	2012
Loan-to-Value mortgage portfolio	80%	83%	86%	89%	87%
Loans in arrears (%)	1.8%	3.1%	4.3%	4.5%	3.9%
Impaired ratio	1.2%	2.3%	3.1%	3.1%	
Coverage ratio retail mortgages	19%	23%	20%	19%	

Market shares

	2016	2015	2014	2013	2012
Payments (new current accounts)[1]	21%	25%	21%	16%	15%
Retail savings	10.7%	10.9%	10.7%	10.1%	10.3%
Mortgage portfolio (in €)	6.6%	6.7%	7.0%	7.1%	7.4%
New mortgages (#)	5.7%	4.1%	3.7%	1.8%	2.1%

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

Other key figures

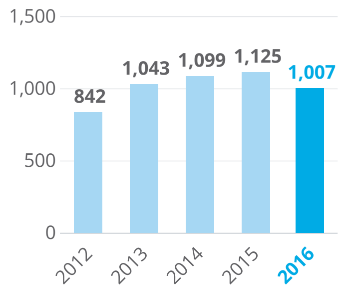
	2016	2015	2014	2013	2012
Number of SNS Shops	196	189	188	166	162
Number of independent advisers RegioBank	536	538	535	526	536
Number of ATMs	393	438	539	537	519

Profit and loss account

in € millions	2016	2015	2014	2013	2012
Net Interest Margin	911	994	1,024	957	705
Net fee and commission income	57	48	44	50	54
Other income	39	83	31	36	83
Total income	**1,007**	**1,125**	**1,099**	**1,043**	**842**
Operating expenses excluding reg. levies	596	575	491	514	469
Regulatory levies	46	15	7	8	10
Total operating expenses	**642**	**590**	**498**	**522**	**479**
Other expenses	1	22	76	8	8
Total expenses	**643**	**612**	**574**	**530**	**487**
Impairment charges	-68	37	207	224	228
Impairment charges goodwill	-	-	67		
Result before taks	**432**	**476**	**251**	**289**	**127**
Net result discontinued operations	-	-	-	-1,536	-813
Taxes	103	128	100	105	33
Net result for the period	**329**	**348**	**151**	**-1,352**	**-719**
- Net result Property Finance				-1,536	-813
-One-off items	-25	13	-143	-79	-36
Adjusted net result for the period	**354**	**335**	**294**	**263**	**130**

Total income

(in € millions)



Performance indicators

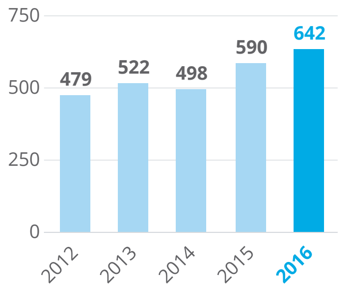
	2016	2015	2014	2013	2012
Efficiency ratio[1]	59.2%	51.2%	44.7%	50.0%	56.9%
Adjusted efficiency ratio[2]	56.0%	53.4%	44.7%	43.5%	
Net Interest Margin (NIM) as % of average assets	1.47%	1.52%	1.43%	1.23%	0.87%
Impairment charges as % of gross loans	-0.14%	0.07%	0.38%	0.39%	0.40%

1 The efficiency ratio is calculated by dividing total operating expenses excluding the impact of regulatory levies by total income

2 The adjusted efficiency ratio is the efficiency ratio excluding the impact of regulatory levies and one-off items (gross amounts)

Operating expenses

(in € millions)



Shared value

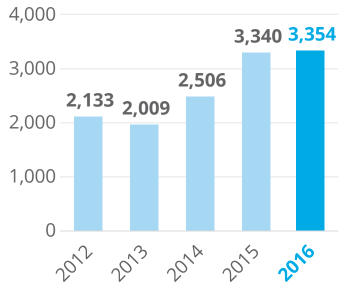
	2016	2015	2014	2013	2012
CUSTOMERS					
Customer weighted average NPS[1]	-8	-12	-16	-21	
Total number of current account customers (in thousands)	1,328	1,240	1,147		
SOCIETY					
Carbon neutral balance sheet	23%	20%	16%		
EMPLOYEES					
eNPS	30%	34%	18%		
SHAREHOLDER					
Return on Equity (ROE)	9.6%	11.1%	5.4%	-69.0%	-44.7%
Adjusted Return on Equity (RoE)[2]	10.3%	10.7%	10.6%	10.2%	

1 Figures shown relate to measurements conducted in the fourth quarter

2 Excluding the impact of one-off items

Number of employees

(FTE)



Net Promoter Score

Brand	2015	2016
ASN Bank	19	14
BLG Wonen	-42	-29
RegioBank	5	2
SNS	-26	-18
Customer weighted	-12	-8

Banking with a

Input

De Volksbank is the fourth-largest bank in the Netherlands with more than
3 million customers § 2.4

We can rely on 200 years of know-how and experience in banking
Established in 1817 § 1.1

With our employees,
3,354 FTE § 2.6

a balance sheet total of
€62 billion p.184

and a shareholders' equity of
€3,5 billion p.184

we finance mortgages,
€45 billion p.184

manage savings totalling
€37 billion p.184

and current accounts for
1.3 million § 2.4
current account customers

Business model

Our ambition § 1.2

Creating benefits for customers

Taking responsibility for society

Providing meaning for employees

Our profile

Focus on customer needs with three core products: mortgages, payments, savings

Focus on Dutch retail market

With four distinctive brands

asn bank BLGwonen RegioBank

Our strategic pillars § 1.3

We are going to strengthen our social identity

We are going to improve our business operations by focusing on simplicity and efficiency

human touch

Achieving returns for the shareholder(s)

Single platform with omni-channel service

SNS

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

Results & objectives | *Added value*

-8
Customer-weighted NPS average of our brands
Our objective: +10 in 2020

1.3 million
current account customers
Our objective:
1.5 million in 2020

Customers

- Contribute to comfortable housing and a financially stable way of living
- Offer safe and transparent products to our customers

23%
Status of our climate neutral balance sheet.
Our objective:
45% in 2020 and
100% in 2030

Society

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

30%
eNPS
Our objective:
40% in 2020

Employees

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

9.6%
Return on Equity
Our objective:
8% in 2020

Shareholder

- Contribute to a stable and sound financial system
- Achieving returns for investors

A sound capital base

29.2%
CET 1 ratio
Our objective:
>15%

5.2%
Leverage ratio
Our objective:
> 4.25%

Interview with the Chairman of the Board of Directors

De Volksbank closed the year 2016 with positive financial results and reformulated its strategy last year. The name change from SNS Bank to de Volksbank, announced in September, became effective on 1 January 2017.

“The bank is financially and commercially sound. This gives us the opportunity to continue our work on banking with a human touch, on reversing the business model and on embedding our shared value philosophy”, says Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank.

OUR STRATEGY WAS UPDATED IN 2016. WHAT HAS REMAINED THE SAME AND WHAT HAS CHANGED?

“Our mission is still the same: banking with a human touch, with room for emotions, I always like to add. We are also satisfied with our current company profile: a Dutch bank that uses four brands to target retail and SME customers with three core products – mortgages, savings and payments.

But we *have* reformulated our ambition: we aim to optimise shared value, a concept we derived from the work of economist Michael Porter. This means that we seek to strike an optimum balance between creating benefits for customers, taking responsibility for society, providing meaning for our employees and achieving adequate returns for our shareholder.

To achieve this ambition, we want to focus on adding increased social significance to our identity, simplify and enhance the efficiency of our business operations and innovate as a ‘smart adopter’.”

WHAT DO YOU MEAN BY INCREASED SOCIAL SIGNIFICANCE OF THE BANK'S IDENTITY AND HOW WILL DE VOLKSBANK BRING THIS ABOUT IN PRACTICE?

"Given our social ambition, we, de Volksbank, particularly intend to make a positive contribution to improving our customers' financial self-reliance and to make progress with our sustainability policy.

As for financial self-reliance, we have already developed some activities, for example giving guest lessons in schools. In 2017 we intend to come up with new initiatives for advising our customers.

ASN Bank has already carved out a fine reputation in the field of sustainability policy and is ahead of the other brands on this point. We have decided that this policy of ASN Bank will guide de Volksbank as a whole. A key element here is the sustainability of our balance sheet: we want it to be fully climate neutral – measured by CO2 emissions – by 2030. With a current level of 23%, we will develop proposals to improve such matters as home insulation because merely investing in green bonds will not get us there. Our business operations are already fully climate neutral, but there is still room for improvement if we tighten our mobility policy."

SIMPLIFYING AND ENHANCING THE BUSINESS OPERATIONS: HOW MUCH COST REDUCTION IS NEEDED AT DE VOLKSBANK?

"We do not have any absolute amount in mind as a cost savings target. Given our return target of 8%, we think that we need a efficiency ratio of 50-52% in 2020. Based on our current insight into income development, we expect that to result in a significantly lower cost level and considerably fewer employees – both internal and external. While the estimates assume a reduction of some 900 full-time jobs, this is not a fixed target imposed from the top down; we will review it from year to year. Having established that costs must come down, we have already formed a € 32 million provision for the current plans, charged against the 2016 result."

WHAT DO YOU SEE AS THE MAIN CHALLENGES FOR DE VOLKSBANK IN TERMS OF INNOVATION?

"The pace of financial and technological change is very rapid, with digitisation and Big Data being two examples. Our first challenge is the crux of the matter: to apply the technological innovations in such a way that customers experience benefits from their relationship with us and from the advice we provide. The second challenge is to keep up with technological innovations in a smart way."

WHAT DO YOU MEAN BY REVERSAL OF THE BUSINESS MODEL?

"We want to move as a bank from a product-driven business model to a customer-driven one. In this way, we want to contribute to regaining the public's confidence in the banking industry. The needs of and our relationship with the customer form our guiding principles when providing advice and offering products. This calls for a total reversal of the structure of all of our processes, products, terms and conditions and – in particular – the way we think *and* act."

this we want to contribute to regaining public confidence in the banking system

DE VOLKSBANK HAS FORMULATED A NUMBER OF LONG-TERM OBJECTIVES REGARDING THE OPTIMISATION OF SHARED VALUE. WHAT ARE THE MOST IMPORTANT ONES AND CAN YOU EXPLAIN THEM PLEASE?

"The main way we measure benefits for customers is using our brands' Net Promoter Scores: we are aiming for a customer-weighted NPS of +10 by 2020. Our score at the end of 2016 was -8. The growth in current accounts is also an important indicator of our reputation. How often do non-customers actively opt for a current account with us? As an indicator of our social ambition, we look primarily at the financial self-reliance of our customers and the sustainability of our balance sheet.

To measure the extent to which our employees find meaning in their work, we apply the 'Employee Net Promoter Score', which we seek to improve from 30% to 40% by 2020. We also want to improve the engagement and commitment of our employees.

For our shareholder, we aim for a return on equity of 8%, with a CET1 ratio of at least 15%, calculated in accordance with current regulations. In our view, 8% is an adequate return that is in line with our company profile. As a result of our shared value philosophy, it is expressly not our aim to maximise profit or return: we want to achieve a good balance between the interests of all stakeholders.”

SNS BANK WAS RENAMED DE VOLKSBANK AS FROM 1 JANUARY 2017. WHAT WAS THE REASON FOR THIS NAME CHANGE AND HOW WAS IT INITIALLY RECEIVED?

“In anticipation of the legal merger between ASN Bank, RegioBank and SNS Bank, we started thinking about an appropriate umbrella name in 2016. Market research revealed that de Volksbank had the most appeal. I personally was immediately enthusiastic: the new name is well-suited to our identity and ambition. External reactions ranged from neutral to positive. Incidentally, nothing much will change for de Volksbank’s customers, as they will continue to bank with our four brands.”

WHAT WERE THE KEY FACTORS INFLUENCING THE FINANCIAL RESULT IN 2016?

“De Volksbank, too, saw its income affected by pressure on net interest income, particularly on the back of falling mortgage rates in the market and a high level of interest rate renewals. We do in fact stimulate the latter ourselves, for example by actively approaching customers with our ‘Mortgage term monitoring service’.

Although our operating expenses excluding regulatory levies and one-off items fell slightly in 2016, there was a sharp increase in regulatory levies for such matters as the Deposit Guarantee Scheme and we also formed a one-off restructuring provision, which meant that our total operating expenses rose last year.

However, the pressure that all these factors exerted on the result was largely offset by a substantial release of provisions for loans in arrears. The release was largely driven by a sharp decline in the number of mortgages in arrears: compared with the end of 2015, this number was almost halved. On the one hand, this was triggered by macroeconomic factors: economic growth in the Netherlands, falling unemployment and the continuing recovery of the housing market. But on the other hand, our Arrears Management department also made up ground, devoting extra attention to customers in long-term arrears and being quicker to approach customers who were beginning to fall behind.

All in all, with the help of the release of provisions, de Volksbank’s net profit for 2016 was € 329 million, slightly down on the level for 2015.”

DE VOLKSBANK’S CORE PRODUCTS ARE MORTGAGES, SAVINGS AND PAYMENTS. WHAT WERE THE COMMERCIAL DEVELOPMENTS HERE?

“After a number of years in decline, our mortgage portfolio remained virtually stable in 2016 at € 45 billion. This is partly explained by the fact that we devoted considerable time and attention to the retention of existing loans for which the fixed-rate period was about to end. At € 3.6 billion, repayments were virtually the same as in 2015, but the production of new mortgages rose by almost 80% to € 3.7 billion. Due to the exceptional success of SNS, RegioBank and in particular BLG Wonen in this area, our market share in new mortgages rose to 5.7%.

Savings deposits held at our brands fell marginally in 2016 to € 36.6 billion. We had to reduce savings rates on various occasions over the course of the year in order to provide some compensation for the effect of lower mortgage rates. Nevertheless, we still offer slightly higher interest rates on savings accounts than most Dutch banks. Our market share remained virtually stable at 10.7%.

I am pleased that our success in growing the number of current accounts continued: in 2016 more than one in five new current accounts in the Netherlands was opened with one of our brands. The net growth of our current-account customers amounted to 88,000, which was somewhat lower than the 93,000 in 2015, but still a considerbale increase."

BANKS ARE DEALING WITH NEW LAWS AND REGULATIONS, SUCH AS BASEL IV, BUT ALSO WITH NEW ACCOUNTING RULES, IFRS 9. WHAT IS THEIR IMPACT ON DE VOLKSBANK?

“It is of course difficult to predict the consequences of new laws, regulations and accounting rules as long as final decisions have not been taken. However, we are working on the assumption that the risk weights of our loans will substantially increase as a result of new guidelines from the Basel Committee, also referred to as Basel IV.

The introduction of IFRS 9 will also impact our loan loss provisions: under these rules we will have to form a provision for expected credit losses at an earlier stage. While this will lead to higher provisions and so to adjusted risk costs, it will also make our bank even more secure.

De Volksbank is currently well positioned to absorb the impact of new laws and regulations on the prudential ratios, ensuring our solid solvency going forward.”

MEASURED AGAINST THE CET1 RATIO, DE VOLKSBANK IS ONE OF THE MOST STRONGLY CAPITALISED COMMERCIAL BANKS IN EUROPE. WHY IS THIS NECESSARY?

“At the end of 2016, de Volksbank’s CET1 ratio stood at 29.2%, making it one of the highest risk-weighted ratios in the European banking landscape. The reason for this is that, under current regulations, the amount of capital needed to meet our leverage ratio target of 4.25% is higher than the capital needed to meet the risk-weighted CET1 ratio target of at least 15%. This is a consequence of our focus on residential mortgages, a low-risk activity with a low risk weight: 15% on average at present.

Standing at 5.2%, our current leverage ratio is considerably higher than even the 4.25% target, because we expect the risk weights of our mortgages to increase considerably under Basel IV, which will lead to a drop in our CET1 ratio. We presently anticipate that our capital will be more than enough to also meet our regulators’ minimum requirements under the new risk weighting.

In other respects, our policy remains geared to maintaining a better-than-average capital position, in combination with a lower-than-average risk profile.”

HOW DO YOU EXPECT PROFITS TO DEVELOP IN 2017?

“We expect profits to be lower in 2017 than in 2016. The net interest income will remain under pressure, though less so than in 2016. We do not anticipate a further release of provisions for loans in arrears in 2017. Incidentally, we do not consider this lower result to be a problem, as our expected profit level for 2017 also indicates sound business operations and a secure balance sheet.”

WHAT WILL THE FOCUS BE IN 2017?

“In 2016, we fine-tuned the bank’s strategy. In 2017 – the year in which we celebrate our bicentennial – we will start implementing that strategy. It is essential to complete the programmes to simplify and enhance the efficiency of our business operations, it is a prerequisite for an independent future of de Volksbank. This means that once again in 2017, we will put great demands on our employees' diligence, meticulousness and willingness to change. The challenge is to actually put ‘banking with a human touch’ and ‘optimising shared value’ into practice.”

Utrecht, 8 March 2017

Interview with the Chairman of the Supervisory Board

INTERVIEW

Jan van Rutte, Chairman of the Supervisory Board

Apart from performing its supervisory duties and the role of employer, the Supervisory Board was closely involved in the reformulation of the strategy in 2016. A strategy that fits well with our bank's mission: banking with a human touch. Part of this was to place our brands ASN Bank, BLG Wonen, RegioBank and SNS under a new family name, de Volksbank.

We speak with Jan van Rutte, Chairman of the Supervisory Board, about the past year.

WE STARTED USING THE NEW NAME 'DE VOLKSBANK' ON 1 JANUARY 2017. WHAT DO YOU THINK OF IT?

"We announced our new name with justifiable pride on 27 September 2016. As well as highlighting our Manifesto's mission – banking with a human touch – it gives us a family name for all of our brands. That is why I believe the new name suits us.

We did more than just change our name. Besides reformulating the strategy and positioning of de Volksbank, the focus throughout the year was on improving our own business operations. I believe it is crucial for our 'house to be in order' if we are to build a bank that stands out as putting a human face on banking. 'House in Order' is our collective term for the portfolio of bank-wide programmes that contribute to even better, controlled business operations."

IS THE HOUSE IN ORDER?

“The Supervisory Board discussed the implementation and progress of the House in Order programmes at every meeting with the Board of Directors (the Board). We also used these meetings to ask critical questions about the deployment of people and resources, and the prioritisation, management and interdependencies of these programmes. Great strides were made in the improvement of internal business operations in 2016. In the Supervisory Board's view, completion of these programmes is a precondition for an independent future of the bank. I am confident that the approach to the programmes and the commitment of many in 2017 will prove fruitful.”

THE STRATEGY HAS BEEN FURTHER DEVELOPED OVER THE PAST YEAR. HOW WOULD YOU SUM THIS UP?

"The strategy has three pillars. Strengthening our social identity, allowing us to be recognised and acknowledged as a bank that puts a human face on banking, forms the first pillar of the strategy. Another important part of our strategy is the 'simplicity and efficiency' pillar that aims to simplify and enhance the efficiency of our business processes. This will be combined with a reduction of jobs for both permanent and temporary employees, necessary to maintain a healthy balance between future costs and income. Not an easy task by any means. The Board has not opted for a top-down approach; it has provided frameworks within which the necessary savings have to be achieved. Teams have subsequently taken on responsibility for developing the details. The Board will determine the options for adjustment on an annual basis. Reflecting the bank that de Volksbank aspires to be, this approach is testament to our great confidence in the knowledge and ability within the organisation. The Supervisory Board supervises the progress of this approach. And finally, the third pillar of the strategy focuses on a flexible organisation able to respond quickly to technological innovation and (changing) customer needs."

WHAT ARE THE MAIN CHALLENGES FOR DE VOLKSBANK IN 2017?

“Achievement of our mission and strategy requires execution of the strategy to an excellent standard. As de Volksbank, we endeavour to optimise value for all of our stakeholders. This shared value ambition demands a revolution, shifting the focus in the way we think and act from the product to the needs of the customer. The reversal of the traditional bank model is an intensive process, which will continue until it has fully permeated the organisation. De Volksbank aims to build on the foundations of this new business model in 2017. The Supervisory Board is following this challenging process with great interest and engagement.”

THE ENVIRONMENT IN WHICH BANKS OPERATE IS CHANGING RAPIDLY. CAN YOU OUTLINE THE CHALLENGES THAT DE VOLKSBANK WILL FACE IN THE LONGER TERM?

“The historically low interest rates have put pressure on net interest income. Non-banking parties are entering our market, partly as a result of increased competition and developments in the fintech sector. All this underlines the importance of innovation and focus – your business needs to exceed customers’ expectations. Whether de Volksbank can make a difference here hinges on its capacity to change. With its family of bank brands and low risk profile, I believe that de Volksbank has good prospects of distinguishing itself even more in this regard and of pleasantly surprising customers with smart solutions.”

DE VOLKSBANK IS OWNED BY THE DUTCH STATE THROUGH NLFI. WHAT IS YOUR VIEW OF DE VOLKSBANK’S FUTURE CONTROL STRUCTURE?

“The Supervisory Board and the Board are discussing the options with respect to future shareholders of de Volksbank. There are various possibilities and we do not wish to rule out any options in advance of course. It is important for the future owners to be a good fit for our bank. Ideally, our shared value vision will tie in seamlessly with control; we are considering what type of governance may be suitable here.”

WHAT IN YOUR VIEW ARE THE OPPORTUNITIES AND CHALLENGES FOR DE VOLKSBANK IN THE CONTEXT OF REGAINING TRUST IN THE BANKING SECTOR?

“De Volksbank’s mission is geared to public demand for helpful banking. This involves services that are not just good for the customer but also for society and the shareholder, *and* that inspire continuing engagement and commitment in our employees. Customers, when offered honest, simple and transparent services, fully attuned to their needs, feel that the bank is there for them, gives them information and puts their interests first.

By way of an example, I would like to refer to the specially developed models that allow us to identify customers with an increased risk of financial problems, so that we can approach and help them on a preventive basis. The successful roll-out of our so-called ‘Mortgage term monitoring service’ is another concrete example of the customers’ interests being put first.

The pace of technological developments in the financial sector (fintech) continues unabated. The ownership and security of data continues to be a key focus area. De Volksbank can stand out by continuing to offer reliable security of customer data and will continue to monitor this. The guiding principle here is that data are and will remain the customer’s property.

While jobs are disappearing in the financial services sector, including at de Volksbank, we must continue to guarantee a high level of service. We need to keep earning customers’ confidence every day.”

THE SUPERVISORY BOARD HAS VARIOUS DUTIES INCLUDING BEING THE BOARD OF DIRECTORS’ EMPLOYER. LOOKING BACK AT 2016, WHAT ARE YOU MOST PROUD OF?

“As in previous years, all Supervisory Board members visited RegioBank branches, a number of SNS shops and several departments, such as the Arrears Management and Mortgage services centres in 2016. This entailed addressing dilemmas faced by employees in their daily work. This is about as close as you can get to daily practice. The members of the Supervisory Board found this experience extremely valuable and were impressed by the way in which the customers’ interests were put first when advice was being given or solutions were being looked for. We were able to experience the Manifesto actually being put into practice. Despite the ongoing changes, de Volksbank’s employees are ready and willing to help our customers every day. That is our basis, and I am proud of it. I would like to take this opportunity to thank all of de Volksbank’s employees for their engaged and committed efforts in 2016.

Jeroen Dijst succeeded Martijn Wissels as CRO on 1 August 2016. Also on behalf of all of the members of the Supervisory Board, I would like to take this opportunity to thank Martijn for his cooperation with us, and for his dedication and contribution to de Volksbank.

In 2016, the Board and the Supervisory Board worked together in good mutual consultation. The Board is holding a steady course and taking all stakeholders’ interests into account properly, which the Supervisory Board greatly appreciates. We have every confidence that we will be able to continue this constructive collaboration in 2017.”

Utrecht, 8 March 2017

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 whose local character and social objectives enabled them to know their customer and be close to them. These roots form 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 simple 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. Supported by the results of an extensive strategic review, we will continue along these lines in the future while maintaining our 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 their customer group. A single back office, a powerful IT infrastructure and a central staff organisation allow de Volksbank to operate effectively and efficiently.

1.2 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.

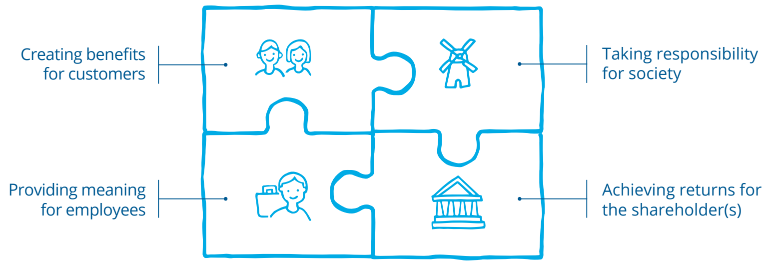
Accordingly, reaching back to our social roots, we are taking our responsibility to shape the banking trade based on what people really need. It means that our financial services are about benefit rather than return – about value rather than money. It particularly means that we are sincere in putting 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.

Banking with a human touch

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



Our ambition is to optimise shared value

We define shared value as de Volksbank serving the joint interests of customers, society, employees and shareholder(s) . We regularly engage with these four groups of stakeholders (see also Section 1.7 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 way of doing this:

- ASN Bank strives for a sustainable, just world.
- BLG Wonen seeks to be the most personal and expert financial services provider of the Netherlands through solid financial solutions and advice from independent advisers.
- RegioBank strives for local connectivity by always having a branch office nearby.
- SNS aims to be a bank for ordinary Dutchmen, a bank that comes up with clever ideas to benefit customers and their finances.

As customer needs should be at the heart of de Volksbank's operations, a change of work is essential – a way of working that starts with taking stock of what customers need. This requires that we listen to what customers want, recognise their underlying emotions and see products as means to an end rather than ends in themselves. 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. Changing the following aspects has priority in achieving this:

- 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.

- We aim to encourage our customers and help them increase their financial resilience. Key aspects in this process are that they know how to balance income and expenses, maintain adequate savings buffers and understand the products purchased.
- Seeking 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.
- We want to familiarise citizens with banking business so that they can fully and independently participate in economic life.

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 employees who enjoy their work and are proud of what they do, as we believe that engaged and committed employees are happier and more productive. Key themes here are being a good employer, good health, equality and sustainable empoyability. To give this concrete form, we will work towards staff vitality, diversity, organisational dynamics, future-proof perspectives for employees and an open and trustful relationship with the employee representative body.

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 simple products. This calls for a financially sound and stable bank with low risk activities and matching returns for our shareholder(s).

1.3 Strategy

We fine-tuned our strategy in 2016, starting with 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 was 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;
- looks from the customer's perspective;
- 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
   Adding increased social significance to its identity, de Volksbank will 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 create a future-proof and low cost level.
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 council is impressed with the Manifesto entitled ‘Banking with a human touch’”

“The Advisory Council tries to hold up a mirror that reflects society to de Volksbank. Banks have forgotten they are not to be compared with commercial and industrial companies. Banks do have a general utility function. The post-banking crisis period has caused a thorough shake-up. Our council is impressed with the Manifesto that has been drawn up by de Volksbank and is entitled ‘Banking with a human touch’. The Manifesto clearly sets out that de Volksbank and its brands aim to be close to their customers, that the bank wants to make a profit, but not at the expense of the customer. De Volksbank’s new name says it all. The bank genuinely strives to be at the heart of society. The bank must ensure that its products are understood by its customers and add real value. A bank that takes responsibility on its own initiative. De Volksbank can then play a leading role and help restore public confidence in banks again.”

OUR SHAREHOLDER

Lilian Gonçalves, NLFI

"We consider the propagation of the shared value as positive and distinctive"

"NL Financial Investments, or NLFI, has been sole shareholder in SNS REAAL on behalf of the Dutch State as from the end of 2013, as well as sole shareholder in de Volksholding - and thus indirectly in de Volksbank - since September 2015. In our advice to the Minister of Finance in June 2016, we endorsed the future strategic positioning of de Volksbank: a safe retail bank that offers simple and transparent financial products and services at fair prices based on a model of operational excellence with a solid liquidity and capital structure. We consider it a positive development and a distinctive feature that the bank has chosen to translate its meaning for its stakeholders into shared value and to carry out these principles consistently. This way, NLFI assumes that shareholders' interests will not be subordinate to those of other stakeholders. To attract future investors, the bank should seek to strike a balance. NLFI considers it important that, in the next few years, de Volksbank acquires a strong position within the Dutch banking landscape and builds a good track record with regard to operational efficiency and achieves a competitive dividend yield. After all, we still aim to return de Volksbank to the market. We are confident that the staff and management of the Volksbank will put up a good performance for all its stakeholders in the years ahead."

1.4 Trends and developments

When defining its strategy, de Volksbank considers developments and trends in society, in the sector and at the company 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).

Social developments

Confidence in the financial services sector remains consistently low

Still at a low level, customer confidence in banks remained stable compared to last year. This emerged from the second edition of the annual Confidence Monitor, performed by the Dutch Banking Association (NVB). Customers 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. Banks receive higher scores from the AFM if they put customers' interests first. The survey reveals that, in terms of confidence, banks occupy a middle position relative to other sectors, such as science, government and healthcare. This situation provides de Volksbank with opportunities to position itself more strongly as a social bank. (Read more about the brands' scores in the Banking Confidence Monitor, Section 2.3)

Not all Dutch consumers are sufficiently financially resilient

Read more about our activities on financial resilience in Section 2.3

The recovery of the Dutch economy continued in 2016, but not all Dutch people reaped the benefits. Many pensioners have not yet felt this in their wallets, and the number of working poor continued to increase. The Scientific Council for Government Policy concluded in a report that the government is insufficiently successful in protecting citizens from debts and overrates their financial self-reliance. Increasing financial resilience continues to be one of de Volksbank's focus areas.

Higher demand for sustainable financial products

Society demands that banks take their social responsibility by investing their money in a responsible way. 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.

Since the Paris climate change conference in 2015, there has been an increasing awareness of the need to identify the impact that investments have on the climate and that the negative impact is to be reduced. Investments in clean energy are being placed higher on the agenda, prompting shortage and lower yields in the green bond market and in the funding of renewable energy projects. De Volksbank has formulated an objective of achieving a climate-neutral bank balance sheet by 2030, which makes us a global forerunner on this subject. De Volksbank will consistently carve out a strong position for itself as a sustainable bank, announcing in mid-2016 that the ASN Sustainability Policy will guide all its activities.

Sector developments

Interest rates stay at historic lows

The recovery of the Dutch economy continued in 2016

Interest rates have reached historically low levels since the financial crisis. Although we have seen some minor upturns by now, there seems to be no indication of any speedy recovery 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 difference between short and long-term rates diminished in 2016 (the yield curve is flattening out).

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

New entrants are changing the market
Competition in financial retail markets is on the rise. 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 technologically 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 are entering the mortgage market, looking for low risks and high-yield investments. The 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 with which the pension funds in particular have gained a foothold, and by an increasing number of parties embracing our ideas of sustainability and social responsibility.

De Volksbank will further innovate its services, availing itself of the advantage of an operational, flexible IT platform that can be used to serve our customers of different brands through different channels, including online and mobile. This makes us agile and brings us in a good position to innovate our services.

Long-lasting appeal on change capacity
As the environment in which banks operate is changing rapidly, change has become a given for the years ahead that we must anticipate. This necessitates a structural increase of 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 quantity of capital to be maintained, liquidity, 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 will be further expanded, requiring management's attention and widely supported awareness within the organisation. New laws and regulations will affect business operations: we will have to adjust policy, procedures and documentation.

Read more about the developments in the regulatory environment in section 2.2

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. A bank must be able to provide all this, while simultaneously containing its costs. Beefed-up competition in our market segments and lower interest income are weighing on profitability, forcing us to place more focus on the costs we incur in serving our customers.

We identified this as a focus area during our strategic reorientation and adopted simple and efficient processes as a strategic pillar. We work with several strategic programmes to cut operating expenses. This process is supported by the Integrated Control Framework (ICF), which brings further order to the organisation, processes and risk management.

Technological developments

Technological innovation here to stay
The fast pace of technological developments in our sector (fintech) continues unabated. 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, focuse 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. Last year, regulators also worked on promoting innovation within the financial services sector. For instance, the AFM and DNB jointly set up the regulatory sandbox, a kind of testing ground where innovative products and business models can be tested in a protected environment.

Technologies such as machine learning, blockchain (e.g. cryptocurrency) and data analytics (e.g. big data) have now proven their worth. The challenge we currently 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). We remain committed to human interaction as a key differentiator in customer experience.

Technological developments are rapidly changing the financial services industry

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, customers 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 techniques to analyse sizeable data files (big data) enabling them to develop services that meet consumers' current needs. With all these developments, the debate on customer privacy continues to make headlines.

In the past few years de Volksbank implemented several programmes intended to improve the quality of internal reports and underlying data, thereby seeking to make data management as a whole more mature. The programmes' components include activities for data definition, extractions from source systems and the setup of a functional data warehouse. We appointed a Chief Data Officer, who is responsible for proper data management and safeguarding the privacy and security of customer data.

Cybercrime threat set to grow

The threat of cybercrime is as great as ever, and we expect it to increase even further. 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) fall prey to cybercriminals, too. 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 ICF.

1.5 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.
- Focus on offering simple and transparent financial mortgage, savings and payment products to the Dutch retail segment.
- Multiple distinctive brands that are close to their specific customer groups and respond to needs and preferences in their own way.
- An effective and efficient business model as our brands are supported by centrally managed mid and back offices and staff departments.
- The robust IT structure ensures stability, enabling us to act as a 'smart adopter' in the market. The solid reputation of data confidentiality is an important basis.

Weaknesses

- The focus on the Dutch retail segment entails a certain 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 controlled and responsible business operations require improvements in the areas of process control and data quality.

Opportunities

- Given its size, de Volksbank has the flexibility to innovate quickly and to position itself as a smart adopter.
- De Volksbank's brands respond to the trend towards greater consumer demand for simple and transparent products, while at the same time taking an individual approach.
- The great commitment and engagement of its employees may help de Volksbank in achieving its ambition.
- De Volksbank positions itself as a social bank – with the ASN Bank brand as the driver of sustainability – in an age in which consumers feel more strongly about this.
- Consumer confidence in banks remains consistently low; as a social bank, de Volksbank can make the difference here.
- In a world where technology companies in particular put pressure on privacy, we see an opportunity for de Volksbank to adopt a privacy-friendly attitude and protect customer data properly.

Threats

- The increasing compliance and regulatory requirements are material for the banking industry and for de Volksbank, leading to increased costs.
- Cost reductions at other banks, as well as low cost levels from other providers of banking products, put pressure on de Volksbank's relative cost position and make a successful execution of the planned cost reduction measures necessary.
- The new requirements for the quantity and quality of capital to be maintained, which are not definitive yet, give rise to uncertainties about the future capital structure.
- Low interest rates lead to an increase in demand for mortgages with longer maturities, putting pressure on net interest income, which is reinforced by increasing competition in the Dutch mortgage market.
- Achieving a climate-neutral balance sheet is impeded as it turns out to be difficult to get customers to make their home more sustainable, despite reasonable efforts on de Volksbank's part.
- New entrants, including non-financial players, gain market share in specific parts of the value chain.

1.6 Strategic objectives and KPIs

Starting from customer needs is a precondition for putting our banking with a human touch mission and shared value ambition into practice:

- Mortgages are not just assets in which we invest, but means that allow customers to make their housing wishes come true.
- We regard savings not merely as retail funding, but as the build-up *and* reliable management of customers' financial buffers.
- We do not see payments as a way to gain a primary customer relationship, but as a secure digital wallet for customers.

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

Benefits for customers

We want to be a bank that makes the customer feel at home, that proactively contributes ideas and that offers fair products. Our aim is to see this reflected in the following results:

- Improvement in the average customer-weighed Net Promoter Score (NPS) from -8 in 2016 to +10 in 2020. The NPS is used to measure general customer satisfaction.
  Other KPIs we measure to monitor 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), brand attitude and the adviser appreciation for our bank.
- Growth of the number of current account customers from 1.3 million in 2016 to 1.5 million in 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: number of multi-customers (customers who have multiple products) and the duration of the customer relationship.

Responsibility for society

We are a bank that seeks to make a relevant and positive contribution to society, thereby placing a focus on financial resilience and sustainability. We intend to bring this about by:

- aiming at a 45% climate-neutral balance sheet in 2020 (100% by 2030), compared to 23% in 2016.
  The principle of the climate-neutral balance sheet has been developed by ASN Bank and is based on a methodology that operates as a pair of scales. On the one side are the positive CO2 impacts of investments that avoid CO2 emissions (such as wind turbines and solar parks). On the other side are the CO2 negative CO2 impacts, i.e. investments that emit CO2 (such as mortgages, bonds and investments in companies). These two should be in balance in 2030.
  Supporting factors that we monitor in this respect are: investments in renewable energy projects and green bonds, CO2 emissions from our own business operations, the climate-neutral score of our investment funds and the energy of financed property.
- Strengthening the financial resilience of our customers.
  The theme of financial resilience is a key part of our mission. By financial resilience we mean that we empower people to maintain control over their own finances independently. This includes building up buffers and providing insight into not only present but also future income and expenses. Helping people become financially resilient goes beyond education and prevention. Helping people to be financially resilient also means supporting people in critical moments, thereby realising that people's own responsibility and cooperation with other organisations are also important aspects to achieve this. To make our ambition in the financial resilience theme visible, we intend to formulate a fitting KPI based on an in-depth customer survey. We will do so by entering into dialogue with customers and several organisations at several moments and places in Netherlands in the summer of 2017. The aim is to collectively refine and deepen the vision, ambition and activities on this theme.

Meaning for employees

We are a bank with enaged and committed employees who are empowered to develop themselves. Our objective in this respect is:

- An eNPS (employee NPS) of 40% in 2020 (2016: 30%).
  Moreover, we annually measure the engagement and commitment of our staff. For both metrics, we aim for a score of 8.0 or higher in 2020.

To keep track of the meaning for employees, we also monitor the following factors: employee vitality, diversity and dynamics in the organisation and future-proof perspectives for employees.

Return for the shareholder

We are a financially sound and stable bank with low-risk activities. The ratio we use here is:

- A Return on Equity (RoE) of 8%.

We have slightly increased our capital ratio objectives, compared to those disclosed in the 2015 Annual Report: we target a Common Equity Tier 1 ratio of more than 15%, based on current regulations (previously: 14%) and a leverage ratio of more than 4.25% (previously: 4%). In anticipation of developments in non-risk weighted capital requirements, de Volksbank intends to further strengthen and diversify its capital base.

Our target range for an efficiency ratio (operating expenses excluding regulatory levies divided by total income) has been set at 50 – 52% for 2020. Taking into account the adverse impact of the current low interest environment on future net interest income and upward pressure on operating expenses due to increasing activities and wage and price inflation, significant efficiency improvements are required to achieve this target.

De Volksbank has the intention to pay out between 40% and 60% of its adjusted net profit[1] to its shareholder. Within this pay-out range we strive for a stable, progressive (slightly increasing) dividend, taking a 5% dividend yield on the € 2.7 billion investment (€ 135 million) in our bank by the State as a starting point.

1.7 Stakeholder engagement

We are a bank that is at the heart of society and 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 their expectations, we regularly engage in dialogue with them to exchange ideas and share experiences in a constructive manner. We use the outcome, for instance, to improve our products and services, to increase our customers' financial resilience and to reduce our impact on the climate. The stakeholders' main expectations are reflected in our strategy and we report on them in our annual report.

In 2016 we again actively engaged in dialogue through various channels and platforms such as customer days, social media and meetings. Here, we describe what our stakeholders expect from us, what their concerns are and how we have acted on this.

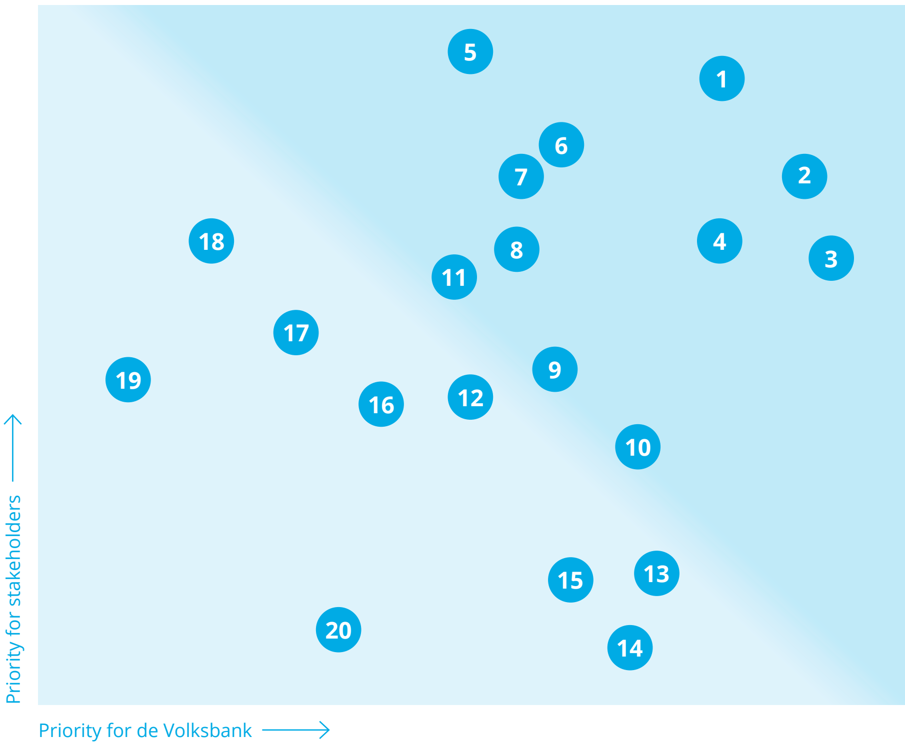
1 Reported net profit adjusted for fair value changes of former DBV mortgage portfolio and related derivatives and items, such as goodwill write-offs and profits or losses on divestments, when material

	What do our stakeholders expect?[1]	How do we start a dialogue?	What were the focus areas?	What action did we take?	Read more
Customers	Fair, high-quality and understandable products (1,5) at a good price A bank that answers their questions and gives them personal and proper service (2) A stable bank that moves with the times (3,9) and that they can trust (5,6,7) A bank where savings and data are safe (6,11) A bank where investments are made in a responsible way (18)	Consumer survey, customer panels, forum, shops, customer service, social media	• Quality of services • Comprehensibility and transparency of products • Consequences of name change • Privacy and use of customer data • Remuneration policy	• Improvement actions focused on customer needs to enhance customer satisfaction • Website completely renewed, Product Application Processes simplified • Customers were informed of the consequences of the name change • Professionalisation of Privacy Office • The last remaining form of variable remuneration will be abolished as of 2018	§2.3., §2.5., §2.7., §5.7.
Society	A stable and financially sound bank (3,8) that complies with laws and regulations and operates with integrity (5,7) A bank that makes responsible investments (18) and contributes to broad social prosperity (4,6,10)	Surveys, platforms, partnerships, talks with NGOs, the media, Advisory Council, Kids Council	• Problematic debts and financial resilience • Launch of IMVO banking covenant • Climate impact of investments	• Stakeholder session on our role in financial resilience in the presence of the Director of Strategy • De Volksbank signs the international CSR (IMVO) banking covenant • De Volksbank adopts the ASN Sustainability Policy for all activities.	§2.3., §2.5., p. 271
Employees	An inspiring mission and strategy enabling them to develop themselves (13), making them committed and engaged (15) and capable of contributing to a better bank for our customers, shareholder(s) and society	Intranet, employee survey, blogs, 'Take my day' with board members, collective labour agreement platform, strategy sessions, consultations with unions and Works Council	• Working together on achieving strategic goals • Sustainable employability and investing in development • Job losses in the industry and at de Volksbank • New Collective Labour Agreement and Social Plan	• Commitment and engagement have become part of strategic KPIs • Start of vitality project group and organisation of health & vitality workshops • Employees are involved in several collective labour agreement issues • The detailing of the frameworks for the reorganisation is performed by departments themselves • New collective labour agreement concluded • Agreement on new redundancy plan with a focus on improving employability	§2.6
Share-holder(s)[2]	Solid and stable financial performance (3). Responsible risk management (8) Timely, transparent and comprehensive information on the financial state of affairs and (strategically) relevant developments A bank that complies with laws and regulations (7)	Analyst presentations, visits to credit rating agencies, meetings with NLFI and potential investors	• Timing and form of privatisation • Updated strategy, objectives and profile	• Regular discussion of results, plans, objectives and strategy with NLFI and rating agencies	§2.4.

1 The numbers behind the topics refer to the materiality matrix included below
2 Including bond holders, rating agencies and supervisory authorities

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 for this purpose among almost 400 stakeholders. The issues that emerge show us where to find the opportunities and possibilities to create shared value for all our stakeholders. Read more about the determination of materiality in the appendix About this Report.

Materiality matrix



1	Clear & transparent products - §2.5	11	Service availability - §2.5 and §3.10
2	Customers' interests & reputation - §2.3 and §2.5	12	Responsible remuneration policy - §2.6 and §5.7
3	Financial performance - §2.4	13	Sustainable employment - §2.6
4	Financial resilience - §2.3	14	Social commitment - §2.3
5	Ethical banking - §2.5 and §3.10	15	Employee satisfaction - §2.6
6	Customer privacy & safety - §2.5 and §3.10	16	Sustainable products and services - §2.3 and §2.5
7	Compliance with laws and regulations - §3.10	17	Stakeholder engagement - §1.7
8	Responsible risk management - H3	18	Responsible investing - §2.3, §2.5 and §7.4
9	Technology & innovation - §2.7	19	Responsible tax policy - §2.4
10	Climate neutral bank - §2.3	20	Employee diversity - §2.6

We see a number of shifts in the material issues compared to 2015. Stakeholders now consider our financial performance to be slightly less important. Ethical banking, providing clear and transparent products, and privacy and data security are just as important as before. This picture is confirmed by other consumer surveys conducted by us last year. There is a clear need for a social bank (see also Section 1.3 Strategy). This management report focuses on the reporting of our strategic themes, for the other material themes, we have included a reference.

1.8 Options for the future

Read the letter of the Minister of Finance to the House of Representatives on our website: devolksbank.nl/pers

Last year, we consulted closely with our shareholder NL Financial Investments (NLFI) regarding de Volksbank's future ownership position, our positioning and our strategic course. This resulted in an advisory report issued by NLFI to the Minister of Finance. The Minister agrees with NLFI's findings, as can be read in his letter to the House of Representatives of 1 July 2016. He writes that the implementation of our strategic plan does not rule out any option for future ownership structures. He is of the opinion that it is too early to take any decision about de Volksbank's future. We will explore our options for the future in consultation with our shareholder, potential investors, regulators and employees.

We will now start working on the implementation of the strategic plan in the next few years. We expect to need at least two or three years to achieve the best possible long-term value creation.

2 Business report

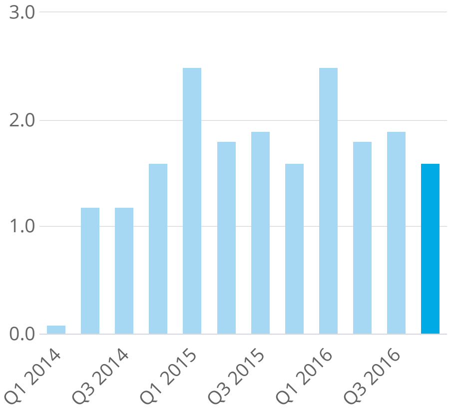
2.1 Economic developments

Dutch economy

In 2016, the Dutch economy saw a convincing recovery with GDP growth rates above the EU average. The expansion was broad-based with capital spending as well as private consumption and foreign trade contributing. Job creation sped up and the unemployment rate fell by nearly 1%-point to a year average of 6.0% of the labour force. Government finances improved as growth in economic activity resulted in higher tax revenues. Inflation fell by 0.3% to a 29-year low, but with the upswing in world oil prices the period of extremely low price increases appears to be over.

Gross domestic product

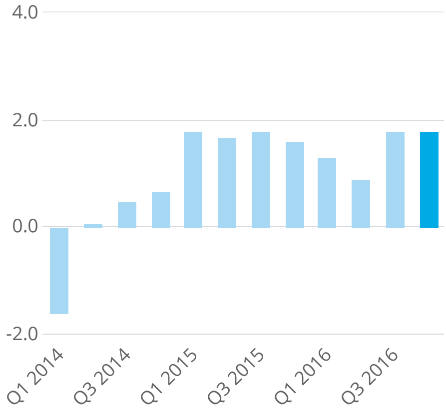
YoY change in %



Source: CBS

Household consumption

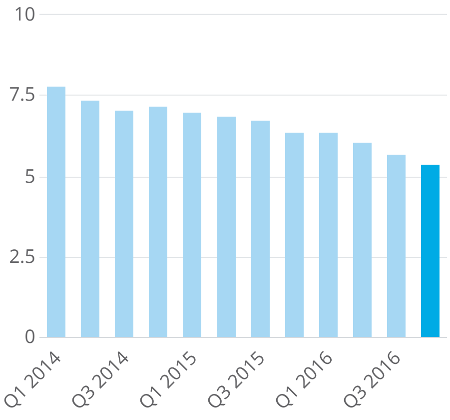
YoY change in %



Source: CBS

Unemployment

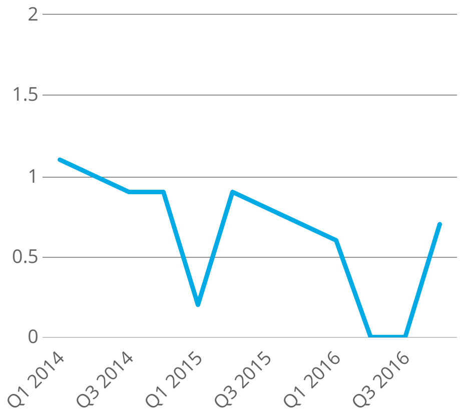
Seasonally adjusted in %



Source: CBS

Inflation

In %



Source: CBS

Interest rate

Aiming to support the Eurozone economy and to combat the threat of deflation, the ECB lowered the deposit rate to -0.4% in March and increased its monthly bond purchases by € 20 billion to € 80 billion as from April. As a result of this policy and Britain's decision to exit the EU (Brexit), German 10-year bond yields reached a low in June. Later in the year, higher inflation expectations and fears of reducing the pace of bond purchasing sent bond yields higher. In December, the ECB announced to extend its bond purchases (albeit at a slower pace) by at least another nine months beyond March 2017, halting the rise in bond yields. At the same time, the ECB decided to lift the restrictions on buying bonds yielding below its deposit rate, which could put additional downward pressure on the short end of the yield curve.

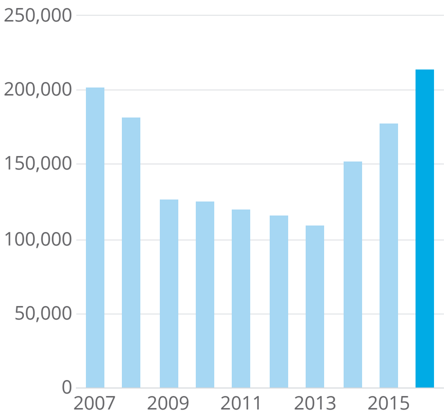
Declining interest rates generally translated into lower customer mortgage rates and savings rates, which hit record low levels. In all, the current macroeconomic environment is reflected in pressure on net interest income and a low cost of risk for retail mortgage loans.

Housing and mortgage market

The housing market continued to improve in 2016

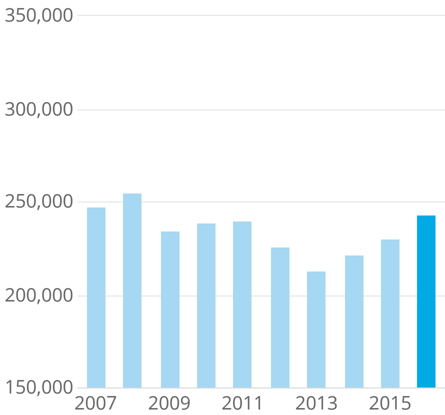
The combination of greater economic growth and a fall in unemployment laid the groundwork for a further improvement in the housing market. House prices rose by 5.1% year-on-year (2015: 2.8%) and the number of houses sold rose by 20% (2015: 16%). The number of transactions is nearly at pre-crisis level. Quite positively, the recovery is broadening as the number of transactions rose in peripheral regions too. In some regions, the housing market was overheating and especially in Amsterdam and Utrecht houses came in short supply.

Number of homes sold



Source: CBS

Average sales price (In €)



Source: CBS

The market for new mortgage production increased from € 62 billion in 2015 to € 81 billion (+31%), the highest level since 2008. Both the number of mortgage loans provided and the average principal were up compared to 2015.

Competition on the Dutch mortgage market remained fierce. In the market for new residential mortgages, the share of loans with a fixed-rate period of more than 10 years remained high at approximately 50% compared to approximately 10% in the years prior to 2014. Competition from insurers and pension funds is mainly visible in this segment.

The low interest environment resulted in high levels of both early redemptions and (early) renewals, including interest rate averaging. Moreover, an increase in house movements and a general trend towards partial repayments during the mortgage term, partly driven by the current low interest rates on savings balances, contributed to a high level of redemptions in the overall mortgage market.

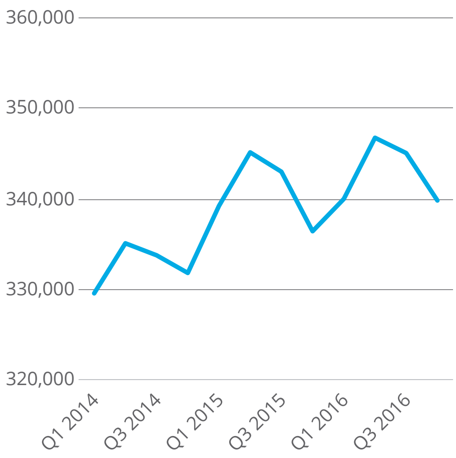
In 2016, the maximum regulatory LtV for new mortgages dropped by 1%-point to 102%. In 2017 and 2018, the maximum LtV will be lowered to 101% and 100% respectively.

As of 1 July 2015, the National Mortgage Guarantee (NHG) maximum has been lowered from € 265,000 to € 245,000. Taking into consideration the increase in residential house prices since then, the planned reduction to € 225,000 as of 1 July 2016 was cancelled. As from 1 January 2017, the NHG maximum will be € 247,500 and € 259,700 for homes without and with energy saving measures respectively.

Savings market
In 2016, the Dutch retail savings market increased to € 340 billion (+1%), from € 336 billion at year-end 2015.

Total savings

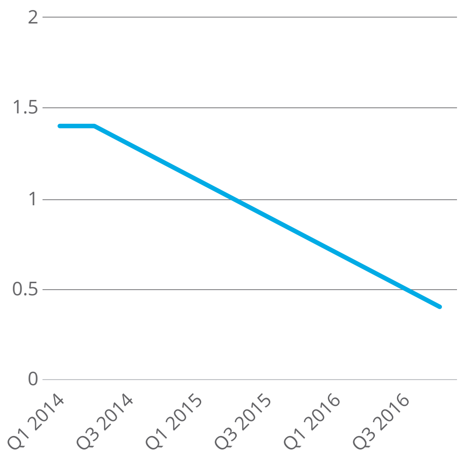
In € millions



Source: CBS

Average savings rate

(notice period < 3 months)



Source: CBS

2.2 Developments in the regulatory environment
Laws and regulations for our sector are constantly evolving. The year 2016 again saw many developments.

The laws and regulations applicable to de Volksbank can be divided into two focus areas: aimed at customers' interests and at prudential supervision. Both will be discussed below. Going forward, the introduction of PSD2, the implementation of IFRS and the Basel IV proposals, including the uncertainty about these Basel proposals, will have the greatest impact on the organisation.

Customers' interests
As in previous years, laws and regulations intended to enhance consumer protection were further developed.

General Data Protection Regulation (GDPR)
On 26 April 2016 the European General Data Protection Regulation (GDPR) was adopted, which will come into force on 25 May 2018. The regulation should ensure that companies are more transparent to customers and employees about the handling of their personal data. De Volksbank is already taking measures by way of preparation, such as an amendment of the privacy and cookie ules and the appointment of a Privacy Officer in 2016. De Volksbank will continue implementing the GDPR in 2017.

Mortgage Credit Directive (MCD)
Taking effect in 2016, the new European MCD aims to create a smoothly functioning European mortgage market with a high level of consumer protection. We implemented the directive in 2016. The main change is the introduction of the European Standardised Information Sheet that customers receive and that allows them to compare different providers.

In addition, a provider may only make a final offer when it possesses all the documents it needs to assess the customer's creditworthiness. We adjusted our application process accordingly. Finally, 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.

Deposit Guarantee Scheme (DGS)
The amended European DGS directive prompted a modification of the national DGS. Last year, we changed two aspects: customers receive the DGS Information Sheet when opening an account, and a reference to the guarantee scheme is now included in both bank statements and the annual financial statement. The banks submitted a final recommendation to DNB for the introduction and setup of individual customer profiles, entailing that banks will report a comprehensive overview per customer for DGS purposes. These reports are expected to be created in 2017. Since 2016 de Volksbank has also contributed to the build-up of the Deposit Guarantee Fund, which ultimately is to comprise 0.8% of covered deposits in the year 2024.

Markets in Financial Instruments Directive (MiFID)
Coming into force on 1 November 2007, the European MiFID aimed to promote competition and transparency within the European financial markets as well as to protect investors. Market changes triggered a recast of the previous directive and the introduction of a new regulation. The recast MiFID and the new MiFIR are jointly referred to as MiFID II. MiFID II creates obligations for markets that have been subject to little regulation so far, such as the trade in derivatives and structured products, and tightens the rules on investor protection and other issues. The directive will be implemented in national laws and regulations first, whereas the regulation has direct effect.

MiFID II was to take effect on 3 January 2017, but the European Commission postponed its implementation date by one year.

Payment Services Directive 2 (PSD2)
Regulating payment services in the European Union, the European Payment Services Directive aims to boost competition in the 'payments landscape' and promote innovation and efficiency in payment services. This will also provide customers with more options and freedom of choice. PSD2 must be implemented in national law by January 2018.

The main change for banks is an obligation for them to give third parties access to customers' current accounts. Third parties – also known as 'third party service providers' or 'TPPs' – 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. The (new) services that PSD2 provides for include the following:
- Account information services: these services allow TPPs to use account information of one or more current accounts in the provision of their own services to the customer.
- Payment initiation services: TPPs may initiate payment transactions from the current account via an external application.

Banks must give third parties the opportunity to do so. Obviously, these services may only be provided after the customer has expressly consented to them.

Prudential
Last year, prudential laws and regulations were once again expanded to further increase the resilience of individual banks and the robustness and stability of the financial system.

Key developments in this area are Basel IV, CRD V/CRR II, BRRD and SRMR, MREL and bail-in, AnaCredit and IFRS 9. Since 2014, the BCBS has initiated a number of consultations regarding Basel IV. If the current proposals are implemented unaltered, this will lead to significantly higher risk-weighted assets and thus a higher capital requirement for de Volksbank. The calculated pro forma CET1 ratio will, however, still be well above the CET1 capital requirement following from the SREP. A final decision has been postponed.

CRD V/CRR II
A detailed proposal for 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% (the anticipated future requirement for the minimum leverage ratio for Dutch banks is 4%);
- Minimum Requirement of Own Funds and Eligible Liabilities (MREL; see also below at BRRD and SRMR) calculated on the basis of risk-weighted assets rather than balance sheet total;
- 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;
- an increase in disclosure requirements as laid down in Pillar 3, in terms of both frequency and level of detail.

For more information on Basel IV as well as on BRRD and SRMR, MREL and bail-in, and IFRS 9, see Section 3.6.4

AnaCredit
Since 2011, the ECB has been preparing European banks to ensure that they have detailed credit information (analytical credit datasets or AnaCredit) available by 2018. The ECB adopted the AnaCredit Regulation on 18 May 2016. Financial institutions located within the European Union must provide DNB and the ECB with information at the level of the individual business loan – i.e. loans extended to enterprises, including small- and medium-sized enterprises. Financial institutions report AnaCredit to the supervisory authority on a monthly or quarterly basis. This information supports the ECB's decision-making in the field of monetary policy and prudential supervision.

2.3 Shared value developments
In 2016, de Volksbank launched several initiatives to put our ambition to optimise shared value further into practice. In this Section, we will describe what we have achieved for each shared value.

Read more about our ambition to optimize shared value in Chapter 1.

Benefits for customers
We wish to be a bank where customers feel at home, that engages in proactive behaviour and provides fair financial results. To achieve this, we have formulated two objectives; an improvement in the customer-weighted average of the Net Promoter Score (NPS) to +10 in 2020, and we aim to further increase our current account customer base to 1.5 million in 2020. This Section describes what we have achieved in these areas in 2016.

Customer satisfaction
Net promoter score

	2016[1]	2015[1]
SNS	-18	-26
ASN Bank	14	19
RegioBank	2	5
BLG Wonen	-29	-42
Weighted average	-8	-12

1 Figures shown relate to measurements conducted in the fourth quarter

Overall customer satisfaction levels, as measured by the Net Promoter Score (NPS), developed well. The customer-weighted average of all brand specific scores improved from -12 at year-end 2015 to -8, with the largest improvements occurring at SNS (from -26 to -18) and BLG Wonen (from -42 to -29). At BLG Wonen, the NPS rebounded after a fall in 2015, owing to the first time inclusion of the negative score of former Reaal Bancaire Diensten customers. ASN Bank and RegioBank maintained their positive NPS and ASN Bank continued to have one of the highest customer satisfaction rates in the industry.

Current account customers
In 2016, ASN Bank, BLG Wonen, RegioBank and SNS combined, welcomed 205,000 new customers on a gross basis. On a net basis, the number of customers rose by 65,000. The number of current account customers rose by 136,000 gross (88,000 net) to 1,328,000 at year-end 2016.

For more information on what actions and measures we took in 2016 to improve customer satisfaction, see Section 2.5

Other initiatives aimed at Benefits for customers

In addition to the two aforementioned objectives, a number of other elements contribute to the shared value Benefits for customers, namely:

CONFIDENCE MONITOR

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 consumer confidence in banks. To attain transparency in this respect, Dutch banks and the AFM jointly survey how much confidence consumers have in banks and how satisfied they are with the services provided. We therefore know where the main opportunities for improvement lie and can take concrete actions that help to further restore trust. We have published the scores of the Banking Confidence Monitor on our brands' websites, thereby fulfilling a wish of the Minister of Finance, the Dutch Consumers' Association, the Dutch Investors' Association (Vereniging van Effectenbezitters; VEB) and the Dutch National Homeowners Association (Vereniging Eigen Huis).

Confidence Monitor scores

Section	Sector	SNS	asn bank	RegioBank
Confidence & perception				
Confidence in banking sector*	2.8	2.8	2.5	2.8
Confidence in own bank*	3.2	3.3	3.8	3.7
Customer orientation*	3.3	3.4	3.7	4.0
Transparancy*	3.5	3.6	4.1	4.1
Expertise*	3.7	3.7	4.0	4.2
Product & advice				
Payments***	4.7	5.0	4.8	4.6
Savings**	4.5	4.8	4.5	4.7
Mortgages**	3.8	4.1	-	-
Loans**	3.0	3.2	-	-
Investment**	3.8	-	-	-
Providing information*	4.0	4.2	-	-
Service & Use				
Online services*	4.2	4.4	4.6	4.5
Customer contacts*	3.6	3.7	3.8	4.2
Handling of complaints*	3.3	3.5	3.8	4.4
Availability in %				
Online banking****	99.75	99.65	99.71	99.74
Mobile banking****	99.79	99.78	99.78	99.78
iDeal****	99.71	99.75	99.77	99.78

* Customer Research by GfK (1-5 scale)
** Figures from the AFM Customer Interests Dashboards (1-5 scale)
*** Developed by the Dutch Payments Association (BVN), discussed with AFM in 2015
**** Figures provided by BVN. The iDeal scores are from March up to and including August 2016.
The Internet banking and Mobile banking scores are from July 2015 up to and including June 2016.

BLG Wonen was not awarded any scores in the Banking Confidence Monitor in 2016 as BLG Wonen did not have its own banking license in 2016

We will continue to engage with consumers and other stakeholders, and will use the feedback received to further improve our services. The Banking Confidence Monitor also forms a good basis for engaging in dialogue on social themes that influence consumer confidence.

AVAILABILITY OF SERVICES

To properly serve our customers, the availability of our services must be good. In 2016, 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 (see Section 3.10 for further explanation).

PRIVACY & DATA MANAGEMENT

De Volksbank invested in the way we store data in our systems and in the way we exchange and incorporate these data in our processes. The data warehouse serves as the pivot in this regard, allowing us to access data from various existing source systems. The functional data warehouse was further expanded in 2016.

Being clear and transparent about how we deal with personal data is important to us; it gives customers confidence that their data is in good hands. De Volksbank starts from the basic premise that data is the customer's property and not the bank's. This means that individualised data will not be used for purposes other than those for which the data has been provided without the customer's consent. Our governance structure includes specific roles, officers and bodies for privacy assurance.

Our Privacy Officer and Privacy Staff monitor compliance with privacy regulations and privacy protection. Privacy Staff are located decentrally in various places in the organisation and are the point of contact for privacy questions. The Privacy Officer is the central point of contact for both de Volksbank's own organisation and the Dutch Data Protection Authority.

We have also taken several initiatives to increase transparency for our customers. For instance, we rewrote the Privacy and Cookie Rules in consultation with customer panels in order to improve accessibility. Please refer to Section 3.10 for more in-depth information on these topics.

REPUTATION

We have been measuring our own and our brands' reputation using a reputation measurement model, RepTrak®, since the end of 2015. It is a scientific and commonly used standard in reputation measurement and management, allowing us to benchmark our scores and perform trend analyses.

In 2016 a cautiously positive development of our reputation emerged from the RepTrak results. In September we announced our new name: de Volksbank. We use the new name since 1 January 2017, which will take centre stage in the RepTrak measurements as from that date.

Responsibility for society

We are a bank that wants to make a relevant and positive contribution to society with a focus on sustainability and financial resilience (see Chapter 1). The objective for sustainability is a 45% climate-neutral balance sheet in 2020 (and a 100% climate-neutral balance sheet by 2030). A fitting objective for financial resilience is yet to be formulated. In the sections below we describe what we achieved in these areas in 2016.

Sustainability

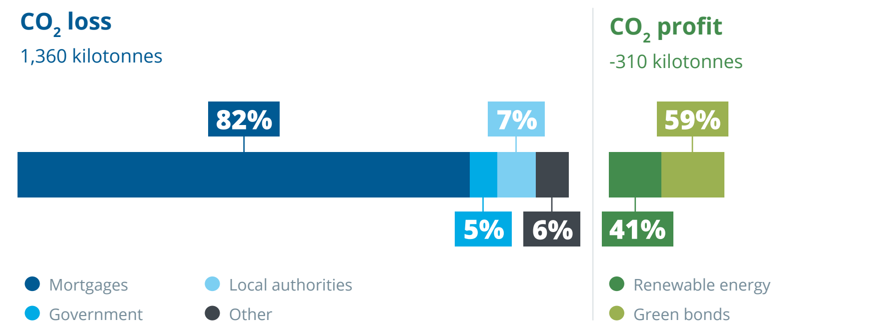
We aim to contribute to a liveable climate and to limiting the global temperature rise to 1.5 degrees Celsius. Over the last few years we have been making such a contribution by improving the sustainability of our business operations. As we believe that our task is primarily to counter climate change through the activities that we fund, we began carbon accounting in 2015 and are managing the CO_2 emissions of our investments. Having adopted the ambition of our brand ASN Bank, we require these investments to be 100% climate neutral by 2030.

Our methodology, which we adopted from ASN Bank and jointly developed in more detail, is publicly available and based on the GHG Protocol. Our focus is on the investments and funding category in particular. Overall, we have determined the level of CO_2 emissions either caused or avoided for around 90% of the assets on our balance sheet.

The methodology can be found on our website.

Well over three-quarters of our CO_2 emissions are caused by the mortgages that we finance. We are aware of the impact that our customers' lifestyle has on the climate. Sustainable homes consume less energy, which is why we monitor the energy labels within our mortgage portfolio.

Climate neutral balance sheet



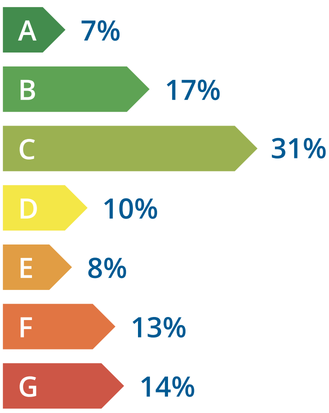
2016 RESULTS

At the end of 2016, our balance sheet was 23% climate neutral (2015: (20%[2]). Progress was mainly brought about by an increase in avoided emission of green bonds, renewable energy and energy-saving projects. Our investments in renewable energy projects and green bonds grew to € 312 million and € 351 million, respectively. The improvement is limited on the loss side of the climate-neutral balance sheet.

The average energy label of our mortgage portfolio remained unchanged at label D. 24% of our customers has a home with energy label A or B. There is room for improvement as regards the other homes that we finance with energy labels C to G, for instance by taking insulation measures or by generating renewable energy using solar panels. In line with our aim of helping customers make their homes more sustainable, BLG Wonen, RegioBank and SNS started various pilot projects in 2016 to help our mortgage customers make their home more sustainable. Read more about the pilot projects and the follow-up in Section 2.5 Brand performance.

With the quality of source data having been improved on a number of points in 2016, more parties are now supplying detailed actual emissions results for green bonds and renewable energy projects, which reduces the margin of uncertainty in our calculation. Together with a number of other financial institutions, we also explored possible ways to take the actual energy consumption of our mortgage customers into account in our calculations on an anonymous basis. We expect to take further steps in this regard in 2017.

Energy labels in our mortgage portfolio



Based on the RVO database with preliminary energy labels (year-end 2014) and final energy labels (year-end 2016). 80% of the homes only has a temporary energy label

DILEMMA: SUSTAINABLE HOUSING

Helping customers make their homes more sustainable is something that we consider to be our responsibility and that forms an important part of our ambition to become climate neutral. Energy-saving measures, such as insulation or low-E glass and generation of renewable energy by solar panels or heat pumps, are becoming increasingly financially attractive. They enhance the comfort of living and the funding options have become more extensive in the last few years. Nevertheless, getting customers enthusiastic about such measures remains challenging. In the pilot projects, we tried to work out the right moment to broach the subject with customers. The pilot projects and customer surveys reveal that the majority of customers do not consider making their home more sustainable until they have purchased it and have lived in it for 1 to 2 years on average. We have learned from direct customer promotions that customers who are interested in creating a more sustainable home find it difficult to decide where to start. The large number of providers in the market makes customers uncertain about choosing the right provider, which leads them to postpone taking the measure in question. As a consequence, our pilot projects' success ratio was variable.

COLLABORATION

On the world stage, we are a relatively minor player and our impact is limited. That is why we set great store by encouraging other financial institutions to follow in our

2 The 2015 percentage has been restated from 22% to 20%. For an explanation, see appendix 'About this report'.

footsteps. We have signed the UNPRI's Montreal Carbon Pledge and the Dutch Carbon Pledge and are working with ten other Dutch financial institutions in the Platform Carbon Accounting Financials (PCAF). PCAF has set itself the goal of presenting a joint methodology for carbon accounting in 2017. The ultimate goal is to convince the participating institutions to be transparent about the CO_2 impact of their investments and to set targets for reducing that impact. PCAF's progress and results are publicly available.

AMBITION

We aim for our balance sheet to be 45% climate neutral by the end of 2020. We have set goals for making homes more sustainable and for our investments in renewable energy projects and green bonds.

BLG Wonen, RegioBank and SNS seek to further reduce the CO_2 emissions of customers' homes in 2017. Various activities have been developed to this end, such as:

- training mortgage advisers and developing resources to support them;
- granting additional mortgage loans for energy-efficient homes and zero-energy homes;
- providing 5% additional financing capacity in mortgage loans for the purpose of making homes more sustainable;
- approaching mortgage customers via advisers, campaigns and targeted customer promotions to encourage them to apply energy-saving measures to their home.

These actions are performed in collaboration with (local) partners.

In addition to the climate-neutral balance sheet, de Volksbank is adopting ASN Bank's sustainability policy in its entirety, we will be working on upscaling the ASN Bank's sustainability policy to de Volksbank until the end of 2018. ASN Bank 's sustainability policy rests on the three pillars human rights, climate change and biodiversity, and is laid down in various policy documents. The policy will be expanded on a number of points but, above all, processes will be set up within de Volksbank to ensure that all of de Volksbank's investments will comply with ASN Bank's sustainability policy.

Financial resilience

By financial resilience we mean that we empower people to maintain control over their own finances independently. This includes building up buffers and providing insight into not only the present but also into future income and expenses. Helping people become financially resilient goes beyond education and prevention. It also means supporting people in critical moments, thereby realising that people's own responsibility and cooperation with other organisations too are important aspects to achieve this. As set out in Chapter 1, a fitting KPI for financial resilience is yet to be formulated. Further down in this section, we will describe what we have achieved in the area of financial resilience of our customers.

Many people in the Netherlands have difficulty getting and keeping their finances in order (see NIBUD), which can sometimes have far-reaching consequences. As a bank, we are in a special position because we have a certain amount of insight into our customers' financial health and possess the knowledge and expertise to monitor or improve their financial resilience. We seek to use that insight and knowledge in the interest of the customer and in our own interest as a bank. Our involvement also fosters the relationship of trust that customers have with us.

Our simple, accessible and safe products and services are paramount. We monitor and improve the quality of our services. We also help customers understand and forecast their finances, enabling them to make sound and well-founded decisions about their finances now and in the future.

In 2016, we directed our help primarily to customers with (impending) mortgage arrears. We also organised guest lessons and provided learning materials for primary school children. Our brands are active in various initiatives for their target groups, such as the SNS housekeeping log book, RegioBank's new current and savings account for children and the Mortgage Support Team that is active across the brands.

We want to encourage and help our customers to increase their financial resilience

More information on our initiatives can be found in Section 2.5

PREVENTIVE MANAGEMENT

Our customers may experience difficulties in making their monthly mortgage payments for a variety of reasons. In our experience, (impending) arrears are often caused by events that have a significant impact, such as job loss, divorce or sickness. Problems may sometimes even get so out of hand that a customer is forced to sell his home or to enter into debt counselling. Together with the customer, we try to avoid such situations.

In order to respond at an early stage to indications that a customer might run into mortgage payment problems, we have set up preventive management at the brands BLG Wonen, RegioBank and SNS. Sometimes it is customers who take the initiative to contact us regarding anticipated payment problems. On other occasions, we get in touch with our customers because they have an increased risk profile. Preventive management involves following a step-by-step plan to provide customers with tailor-made assistance.

We can often help customers with looming payment problems and who we come in contact with through a regular channel. For instance by making a standard adjustment to the mortgage or modifying the associated insurance policies. Occasionally, where this is insufficient, our Mortgage Assistance Team initiates a prevention programme.

The goal of such a programme is to make the mortgage affordable and to keep it affordable so the customer can live at ease. To find out, a meeting takes place with the customer and a financial adviser free of charge to gain insight into the customer's income and expenses. We work with customers to find a solution to their monthly shortfall. In some cases, Budget Support assists customers to gain a better understanding and more control of their financial situation. Tips on how to save money and existing facilities will help the customer make the first move. Alongside Budget Support, we help customers with our regular options such as interest rate averaging. If we cannot make the mortgage affordable using the regular options, the support team may amend the mortgage (conditions) outside the regular frameworks. This is only possible if a customer falls into mortgage arrears within 12 months without our help.

Our goal for 2016 was to approach 5,000 to 6,000 customers with an increased risk profile and to make an appointment with 20% of them. We partly succeeded. We approached 5,078 customers and made an appointment with 2.3% of them. It turns out to be less easy to predict which customers are particularly vulnerable. Not all customers who we approach are likely to run into payment problems and it is by no means necessary to make an appointment in all cases.

In 2016 the Mortgage Support Team helped 654 customers through prevention programmes, 567 of which were completed. We managed to prevent 82% of the customers that received preventive assistance from us from falling back in arrears within the twelve months. As in previous years, this high percentage is testament to the success of the programme. Our services package includes job coaching: we connect customers who have become unemployed to a career coach who will assist them in their search for a new job. Fifteen customers took part in this in 2016. Four of them found a new job, and five are still looking.

MORTGAGE TEST TOOL

Preventive management also focuses on linking preventive measures to the regular mortgage distribution chain, both in commerce and in arrears management. The mortgage test tool is an example of this. SNS, RegioBank and BLG Wonen customers can use this tool to check whether their mortgages are still right for them in view of their current situation. This makes customers aware of any problems at an earlier stage. In 2016, 42,317 customers used the tool, an slight increase compared with 2015.

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

FINANCIAL EDUCATION

Financial education is an important instrument that we use to increase financial resilience. While our primary focus is on financial education for children, we also develop initiatives for other vulnerable groups in society.

Eurowijs

If children learn how to deal with money wisely at a young age, this will stand them in good stead for the rest of their lives. That is why we developed Eurowijs: free financial learning materials for use by teachers or during guest lessons given by one of our employees. Eurowijs is available for primary school children of all ages and is also widely used in special needs schools. Various financial topics are addressed, from recognising euro coins and notes to cash withdrawals and counterfeit money.

In 2016, Eurowijs taught more than 100,000 primary school pupils how to handle money sensibly. This amounts to a growth of more than 500% compared with the previous year and is far higher than the proposed 30,000 pupils that we were aiming to reach. The sharp rise is primarily explained by the fact that teachers can also request the learning materials via the website. To draw extra attention to financial education at primary school level, we organised the first annual Eurowijs Day on 27 October 2016. This involved sixteen members of the Board of Directors and management team giving Eurowijs guest lessons to primary school children of all ages.

Bank voor de klas

We also participate in the '*Bank voor de klas*' programme, part of National Money Week. This is an initiative of the Money Wise Platform, via which more than 40 organisations work together on financial education. The aim of the *Bank voor de klas* guest teaching programme is to make primary school children from groups 6, 7 and 8 'money smart' at a young age.

> 100.000

primary school children were taught how to manage money responsibly

During National Money Week we gave 513 guest lessons to some 12,750 children. Ten members of the Board of Directors and Management Team of de Volksbank also gave guest lessons.

Stichting Geldinzicht

In 2016, we decided to transfer the knowledge and expertise within our foundation *Stichting Geldinzicht* (a foundation focusing on making Dutch people financially resilient) to the National Institute for Family Finance Information (Nibud). For the last four years, *Stichting Geldinzicht* has offered training sessions and workshops aimed at increasing financial self-reliance among consumers over the age of 25. De Volksbank's brands retain the option of arranging for customers and employees to make use of the training sessions.

Workshop for refugees

At the initiative of a few employees, we began a pilot project to give workshops on money matters and budgeting to refugees at the asylum seekers' centre (ASC) in Zeist. Following positive feedback from participants and the ASCs, we expanded the project to involve more ASCs, colleagues and workshops. By the end of 2016, colleagues had given several workshops, helping refugees to prepare for life in the Netherlands.

	2016	2015	2014
Eurowijs guest lessons	513	570	466
Number of pupils reached with Eurowijs learning materials	104,275	14,250	11,899
Bank voor de klas guest lessons	510	573	906
Number of pupils reached with Bank voor de klas	12,750	14,325	22,650

DILEMMA: MEASURING FINANCIAL RESILIENCE

Our ambition to help customers become and remain financially resilient is easier said than done, because we still lack the complete picture of our customers' financial situation that we need to help them properly. For example, based on our data it may look as if a customer is not financially resilient when in fact they have ample savings with another financial institution. We need more insight into such data if we are to keep our promise. Customers may give their consent as soon as PSD2 comes into force. At the same time, we realise that data on customers' payment behaviour and their available financial resources is highly confidential. Our prime consideration is to assist customers in need of support or advice without intruding into their privacy.

AMBITION

Increasing financial resilience requires our attention in various areas. In 2017, we aim to intensify our focus on influencing financially healthy behaviour and increasing our added value for vulnerable customer groups. The Mortgage Support Team intends to make at least 6,000 customers aware of their financial situation, for example by offering mortgage insight, assisting with arrears on pledged policies and helping with preventive management. We also seek to increase our effectiveness by measuring the success ratio of all measures for customers with impending payment problems, and we are going to provide after-sales service via service calls. We are aiming for a success ratio of at least 80% as regards arrangements we make with customers. As financial education for children remains a cornerstone of our financial resilience policy, we aim to use the Eurowijs guest lessons and education packages to reach a further 100,000 primary school pupils in 2017. We will also step up our efforts to boost Eurowijs awareness, for example by our presence at the *Nederlandse Onderwijs Tentoonstelling*, a Dutch education fair for schools and teachers.

Meaning for employees

More information on our achievements can be found in Section 2.6

As described in Chapter 1, we aim for our employees to be engaged and committed, to develop themselves and to find meaning in their work. Our objective is to have an eNPS of 40 in 2020 and that our staff scores an 8 on engagement and commitment. The eNPS at year-end 2016 stood at 30. For more information about achieving these objectives.

Return for the shareholder

As described in Chapter 1, de Volksbank is a financially sound and stable bank with low-risk activities. The ratio we use here is a Return on Equity (RoE) of 8%, with an additional objective for the Common Equity Tier 1 (CET1) ratio of more than 15%. The target range for an efficiency ratio (operating expenses excluding regulatory levies divided by total income) has been set at 50 – 52% in 2020 and we have the intention to pay out between 40% and 60% of the adjusted net result[3] to our shareholder.

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

The adjusted RoE for 2016 amounted to 10.3% (2015: 10.7%), the CET1 ratio showed an increase to 29.2% (2015: 25.3%) and the adjusted efficiency ratio was higher at 56.0% (2015: 53.4%). The proposed dividend pay-out for 2016 amounts to € 135 million. For more information on the financial results.

The commercial and financial results can be found in Section 2.4

DILEMMA: SHAREHOLDER RETURN
Shareholders prefer a stable, predictable and preferably rising dividend and return on the shareholders’ equity. Our ambition may in some cases conflict with shareholders' interests. For example when we offer our customers a higher savings rate and shareholders therefore have to accept lower returns. Do we put the customer first and where then do the interests of shareholders come in? Choices like these can sometimes be difficult in daily practice. Our challenge is to make decisions from which all our stakeholders will ultimately profit and experience it as such.

THE SOCIETY

Gerjoke Wilmink, director of Nibud

"Banks too, play an important role in teaching children financial skills"

"What is learnt in the cradle lasts till the tomb. That saying applies to personal finances too. Time and again, our research shows that people who have had little or no 'financial education' as a child, run a much greater risk of payment problems later on. Parents are primarily responsible when it comes to education, including financial education, but they cannot do it on their own. The government, society and banks alike also have a role in providing know-how and in teaching financial skills. In past centuries, banks played an important role in financial education. In the second half of the nineteenth century, children were enabled to save money at school. This was made possible through the collaboration between several bank. In 1879, Arnold Kerkdijk, former director of the National Savings Bank, wrote the following on the subject: "It is easier to teach children good habits than to get rid of adults' bad habits." By saving money at school, children's' financial behaviour could be influenced, before they were too old to get rid of bad habits. That is why we at Nibud are so grateful to all those bank employees who spend time teaching school children about money in National Money Week. Even in today's society, this social engagement is still required. Commercial pressure on children (and adults) is enormous, and banks play an important role in making them (financially) resilient and teaching them healthy financial behaviour."

2.4 Financial and commercial developments

Commercial developments

Commercial developments

	2016	2015
CUSTOMERS		
Total number of customers (in thousands)	3,072	3,007[1]
Total numer of current account customers (in thousands)	1,328	1,240
MORTGAGES		
Residential mortgages (gross in € billions)	44.9	45.0
Market share new mortgages (in #)	5.7%	4.1%
Market share mortgage portfolio (in €)[2]	6.6%	6.7%
CURRENT ACCOUNTS AND SAVINGS		
Market share new current accounts[3]	21%	25%
Retail savings (in € billions)	36.6	36.9
Market share retail savings	10.7%	10.9%
SME savings (in € billions)	2.7	2.6

1 Total number of customers year-end 2015 adjusted due to change in definition

2 Based on CBS data (previously DNB-data)

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

Customers

In 2016, ASN Bank, BLG Wonen, RegioBank and SNS combined, welcomed 205,000 new customers on a gross basis. On a net basis, the number of customers rose by 65,000. Net growth was lower than 2015 (119,000), mainly due to lower growth of savings customers, partly resulting from the termination of 'spaarloon' accounts, fewer marketing campaigns and a limited outflow of customers whose DGS coverage was impacted by the legal merger between SNS Bank N.V., ASN Bank N.V. and RegioBank N.V. In addition, the phasing-out of investment propositions in 2016 led to a net outflow of a number of customers. The number of current account customers rose by 136,000 gross (88,000 net) to 1,328,000 at year-end 2016.

Current accounts

De Volksbank's market share in new current accounts remained high at 21% (full year 2015: 25%). On a total portfolio basis, our market share amounted to approximately 7.5%.

Mortgages

De Volksbank's new mortgage production increased to €3.7 billion (+76%), from €2.1 billion in 2015. BLG Wonen, RegioBank and SNS all contributed to this increase, supported by increased capacity at the Mortgage Service Centre. The total market share of new retail mortgages increased to 5.7% (2015: 4.1%). The market share based on the total retail mortgage portfolio remained virtually stable at 6.6% compared to year-end 2015.

De Volksbank strives to increase retention through intensifying contact with its mortgage customers. Against this background, SNS introduced the Mortgage term monitoring service (Hypotheek Looptijdservice) in the fourth quarter of 2015. Since then, SNS has pro-actively contacted 114,000 customers, which contributed to a higher retention. De Volksbank was able to retain a lot of mortgage customers whose fixed-rate period ended in 2016 or would have ended in 2017. Volumes of these renewals were substantial as a result of the high mortgage origination in the 2005-2007 period, predominantly mortgages with a 10-year fixed rate period.

Total renewals amounted to nearly € 8.5 billion (2015: nearly € 9.5 billion), of which approximately 40% were early renewals. Total redemptions were virtually stable at € 3.6 billion (2015: € 3.5 billion), despite increased house movements. Taking into account new mortgage production and mortgages with floating interest rates, approximately one-third of the total retail mortgage loan portfolio was impacted by lower mortgage interest rates in 2016.

In all, driven by increased production and high retention, de Volksbank's gross retail mortgage portfolio remained virtually stable compared to year-end 2015 at €44.9 billion. The increased demand for longer term fixed-rate mortgages is reflected in an increased share of mortgages with a fixed-rate period of 15 years or more in the mortgage portfolio of de Volksbank. At yearend 2016, these mortgages amounted to € 7.3 billion (16% of the portfolio), compared to € 6.0 billion at year-end 2015.

Savings

De Volksbank's retail savings balances decreased slightly to €36.6 billion (-1%), from €36.9 billion at year-end 2015, equating to a slightly lower market share of 10.7% (year-end 2015: 10.9%). The decrease in savings balances was partly due to a limited outflow following the announced legal merger between SNS Bank N.V., ASN Bank N.V. and RegioBank N.V., impacting DGS coverage of some customers. Also, in 2016 the brands ran fewer marketing campaigns to attract retail savings.

SME savings, included in Other amounts due to customers, remained virtually stable compared to year-end 2015 at € 2.7 billion.

Financial results

2016 results compared to 2015

Profit and loss account

in € millions	2016	2015	Change
Net interest income	911	994	-8%
Net fee and commission income	57	48	19%
Other income	39	83	-53%
Total income	**1,007**	**1,125**	**-10%**
Operating expenses excluding restructuring charge and levies	564	575	-2%
Restructuring charge	32	--	--
Regulatory levies	46	15	207%
Total operating expenses	**642**	**590**	**9%**
Other expenses	1	22	-95%
Total expenses	**643**	**612**	**5%**
Impairment charges	-68	37	--
Result before tax	**432**	**476**	**-9%**
Taxation	103	128	-20%
Net result for the period	**329**	**348**	**-5%**
Fair value movements former DBV mortgages and related derivatives	-1	35	
Book loss sale SNS Securities	--	-22	
Charge restructuring provision	-24	--	
Total One-off items	**-25**	**13**	
Adjusted net result for the period	**354**	**335**	**6%**
Efficiency ratio[1]	59.2%	51.2%	
Adjusted efficiency ratio[2]	56.0%	53.4%	
Return on Equity (RoE)	9.6%	11.1%	
Adjusted Return on Equity (RoE)[3]	10.3%	10.7%	
Net interest income (NII) as % of average assets	1.47%	1.52%	
Operating expenses as % of average assets[4]	0.96%	0.88%	
Adjusted operating expenses as % of average assets[5]	0.91%	0.88%	

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

In 2016, net profit decreased by € 19 million to € 329 million, of which € 38 million can be explained by a swing in one-off items. Adjusted for one-off items, net profit increased by € 19 million to € 354 million. A substantial net release of loan provisions and higher investment income more than compensated for the impact of lower net interest income and higher regulatory levies. Based on net profit excluding one-off items, the 10.3% RoE was slightly lower compared to 2015 (10.7%), attributable to a higher level of average equity.

The efficiency ratio was 59.2% compared to 51.2% in 2015, partly influenced by the swing in oneoff items. Adjusted for one-off items, the efficiency ratio was 56.0%, up compared to 53.4% in 2015, entirely driven by lower adjusted income (-6%). Adjusted operating expenses were 2% lower.

In 2016, one-off items amounted to € 25 million negative, mainly consisting of a € 24 million net restructuring charge related to plans to improve operational efficiency. In addition, one-off items included € 1 million negative unrealised results on a specific mortgage portfolio and related derivatives. This portfolio was purchased as part of the transfer of DBV Finance B.V. from REAAL Verzekeringen (currently VIVAT Verzekeringen) on 28 January 2011, and is accounted for at fair value with changes running through the profit and loss account. At the end of 2016, this portfolio amounted to € 1.9 billion. The introduction of IFRS9 as from 1 January 2018 will enable de Volksbank to change the accounting of this portfolio to amortised cost, in alignment with other mortgages, thus eliminating this source of volatility in the profit and loss account.

In 2015, one-off items had amounted to € 13 million positive. A € 35 million unrealised gain on former DBV mortgages and related derivatives was partly offset by a € 22 million book loss on the sale of SNS Securities.

Income

Breakdown income

in € millions	2016	2015	Change
Net interest income	911	994	-8%
Net fee and commission income	57	48	19%
Investment income	57	42	36%
Result on financial instruments	-20	39	-151%
Other operating income	2	2	0%
Total income	**1,007**	**1,125**	**-10%**
Fair value movements former DBVmortgages and related derivatives	-1	47	
Adjusted income	**1,008**	**1,078**	**-6%**

NET INTEREST INCOME

Net interest income decreased by € 83 million to € 911 million (-8%), mainly as a result of high (early) renewals at lower mortgage rates in 2015 and 2016. The impact of early renewals included the impact from interest rate averaging, actively offered by SNS as from the second half of 2015, enabling more customers to benefit from the low interest rate environment. Renewals were substantial in 2015 and 2016 due to a high level of mortgages with a 10-year fixed-rate, originated in the 2005-2007 period. In addition, mortgage pricing was affected by increased competition from pension funds and insurance companies and increased customer demand for longer term fixed-rate mortgages.

Lower interest income on mortgages was partly compensated by lower interest expenses as interest rates on savings balances rates declined, in addition to the impact of redemptions of wholesale funding. De Volksbank continued its efforts to offer customers an attractive savings rate compared to peers. Relatively high interest expenses on the subordinated Tier 2 notes issued in the fourth quarter of 2015 partly mitigated the decline in interest expenses.

Net interest income as a percentage of average assets decreased to 147 bps, from 152 bps in 2015.

NET FEE AND COMMISSION INCOME

Net fee and commission income increased by € 9 million to € 57 million due to higher received management fees as a result of higher assets under management and higher mortgage advisory fees. In addition, fees paid by de Volksbank related to securitisations were lower. This was partly offset by a decline in received securities fees resulting from the sale of SNS Securities.

INVESTMENT INCOME
Investment income was substantial in both 2015 and 2016, and increased by € 15 million to € 57 million mainly due to a € 10 million gain on the sale of de Volksbank's share in VISA Europe Ltd. In addition, realised gains on fixed-income investments, sold as part of asset and liability management and to optimise the investment portfolio, increased from € 10 million to € 34 million. A fall in interest rates resulted in an increase of the fair value reserve to € 132 million, from € 111 million at year-end 2015.

RESULT ON FINANCIAL INSTRUMENTS
The result on financial instruments decreased sharply to € 20 million negative, from € 39 million positive in 2015. A swing in unrealised results on former DBV mortgages and related derivatives, both accounted for at fair value with changes through the profit and loss account, explains € 48 million of this decrease. In 2016, these results were € 1 million (gross) negative. The impact of a decreased swap rate and an increased prepayment rate was almost fully compensated by lower customer mortgage rates. In 2015, these results were € 47 million positive, driven by a decline in customer mortgage rates and an increased swap rate.

Excluding the swing in unrealised results on former DBV mortgages and related derivatives, the result on financial instruments decreased by € 11 million. This was mainly due to negative hedge ineffectiveness results on derivatives, partly related to mortgages, driven by interest rate volatility. In 2015, these results were slightly positive. In addition, in 2015 and 2016 the result on financial instruments included negative results related to the revaluation of funding bought back in previous years.

Expenses
Operating expenses and FTE

in € millions	2016	2015	Change
Staff costs	398	371	7%
Depreciation of (in)tangible assets	22	23	-4%
Other operating expenses	222	196	13%
Total operating expenses	**642**	**590**	**9%**
Charge restructuring provision	32	--	
Regulatory levies	46	15	
Total adjustments	**78**	**15**	
Adjusted staff costs	366	371	-1%
Depreciation of (in-)tangible assets	22	23	-4%
Adjusted other operating expenses	176	181	-3%
Adjusted operating expenses	**564**	**575**	**-2%**
Total number of internal FTEs	3,354	3,340	0%
Total number of external FTEs	651	858	-24%
Total numer of FTEs	**4,005**	**4,198**	**-5%**

Total operating expenses increased by € 52 million to € 642 million (+9%), more than wholly due to € 31 million higher regulatory levies, reflected in higher other operating expenses, and a € 32 million charge related to plans to improve operational efficiency, resulting in higher staff costs. Excluding these items, adjusted operating expenses decreased by € 11 million to € 564 million (-2%).

Adjusted staff costs of € 366 million were € 5 million lower, mainly as a result of the absence of the SNS Securities cost base as from the second half of 2016, lower temporary staff costs and lower additions to non-credit related provisions as 2015 had included an addition to the provision for jubilee benefits and a small restructuring provision. This was partly offset by higher costs to facilitate increased mortgage activities and higher pension costs due to an increase in the employer's contribution.

Adjusted other operating expenses of € 176 million were € 5 million lower, mainly due to lower consultancy costs. Other operating expenses in 2016 included € 23 million provisioning charges related to the expected compensation under the

Recovery Framework pertaining to SME interest rate derivatives. The impact of the latter was, however, largely compensated by a release of other non-credit risk related provisions as de Volksbank finalised its dispute with a foundation on losses suffered on investments in foreign investment funds.

In 2016, regulatory levies amounted to € 46 million, of which € 8 million related to the resolution fund contribution and € 38 million to the ex ante DGS contribution. The resolution fund contribution consisted of the ex ante full-year European Single Resolution Fund contribution over 2016 of € 10 million and € 2 million in refunds of the 2015 ex ante contribution. Regulatory levies in 2015 amounted to € 15 million, consisting of a € 12 million ex ante National Resolution Fund contribution and a € 3 million charge for the Dutch banking tax.

Operating expenses divided by average assets increased from 88 bps in 2015 to 96 bps. Adjusted for one-off items, this ratio stood at 91 bps, up compared to 88 bps in 2015 due to lower average assets.

The total number of employees (FTEs) declined to 4,005, compared to 4,198 at year-end 2015 (-5%). This decrease was mainly due to a lower number of external FTEs, which declined from 858 at year-end 2015 to 651 (-24%) partly due to the completion of a control framework project.

The total number of internal FTEs of 3,354 at year-end 2016 remained virtually stable compared to year-end 2015 as a higher head count at mortgage operations to cope with the increased mortgage activities was compensated for by a decline in FTEs following from the sale of SNS Securities.

Impairment charges

in € millions	2016	2015	Change
Impairment charges on retail mortgage loans	-65	34	-291%
Impairment charges on other retail loans	-1	4	-125%
Impairment charges on SME loans	-2	-3	-33%
Total impairment charges on loans and advances	**-68**	**35**	**-294%**
Impairment charges on other assets	--	2	-100%
Total impairment charges	**-68**	**37**	**-284%**
Impairment charges on loans and advances as a % of average gross outstanding loans to customers	-0.14%	0.07%	
Impairment charges on retail mortgage loans as a % of average gross outstanding retail mortgage loans	-0.14%	0.07%	
Impairment charges on SME loans as a % of average gross outstanding SME loans	-0.27%	-0.25%	

Total impairment charges improved by € 105 million leading to a net release of € 68 million.

Impairment charges on retail mortgage loans improved by € 99 million, resulting in a net release of € 65 million, equating to -14 bps of gross outstanding retail mortgages (2015: 7 bps). Impairment charges were positively impacted by a sharp decrease in loans in default due to a high level of recoveries and a low inflow of new defaults. The stock of defaults that arose in the years 2011-2014 more than halved during the year to 2,000 at year-end 2016.

A high number of customers in default recovered as a result of better arrears management in an improving macroeconomic environment. Customers are contacted at an earlier stage and customers with more serious payment problems are supported by a dedicated customer relations case handler to ensure that a trust-based relationship and deep insight in the customers' situation is maintained. Also, arrears management employees received intensive coaching, enabling them to better address the underlying emotions related to payment problems. Our effectiveness is measured in several ways, for instance by means of the percentage of customers who do not fall back in arrear within 12 months (cure rate), the percentage of customers who have recurring arrears and, by monitoring the quality of our conversations. As a result of our efforts, the customer cure rates have been steadily increasing over the past two years. Furthermore, foreclosed loans generally resulted in a lower loss than provided for, resulting in releases.

These positive results were supported by a lower number of execution sales and a higher number of property sales in the open market.

Impairments charges on other retail loans improved by € 5 million to a net release of € 1 million.

Impairment charges on SME loans were € 2 million positive, mainly driven by recoveries, a low inflow of loans in default and a surplus on foreclosures. In 2015, impairment charges on SME loans had also been positive (€ 3 million) driven by releases of provisions of approximately € 10 million, mainly as a result of the positive developments on foreclosures and the revaluation of collateral.

Tax

OVERVIEW OF TAXES PAID IN 2016

For the financial year 2016, de Volksbank accounted for € 103 million in corporate income tax on earnings (23.9% effective tax rate on a nominal tax rate of 25%). This tax relates exclusively to Dutch income tax. De Volksbank has no foreign branches and is, therefore, not subject to foreign income tax. Nor is de Volksbank required to compile country-to-country reporting.

Apart from income tax, de Volksbank is subject to a number of other taxes. For 2016, these taxes and amounts are as follows:

- Payroll tax and social insurance contributions: € 104 million
  Taxes and contributions that are withheld from employees' wages, but - being part of the salary costs - are for the account of and paid by de Volksbank.
- Non-recoverable VAT: € 43 million
  Because of the nature of its services, a financial institution is in a different position than businesses such as IT firms or manufacturers of commercial goods. Most financial services provided by banks are exempt from VAT, i.e. banks do not charge their customers VAT on services provided by them. Whereas this is an advantage for customers, it is a disadvantage for banks as the VAT charged to the bank cannot be recovered from the Dutch Tax and Customs Administration, resulting in a cost increase.
- Bank tax: € 0.1 million
  This tax cannot be deducted from income tax.

GENERAL TAX POLICY

De Volksbank maintains a proactive, open relationship with the Dutch tax authorities. This relationship is characterised by transparency and mutual trust. We share relevant developments that may affect 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 assume 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 drawn up by the Organisation for Economic Co-operation and Development (OECD) and the European Commission. In terms of taxes these are, in particular, the OECD guidelines on Base Erosion and Profit Shifting (BEPS) and the Anti Tax Avoidance Package (ATAP) that is based on BEPS and that has been presented by the European Commission. The purpose of the action items worded in these guidelines is to counter tax avoidance involving the artificial shifting of taxable profits to jurisdictions that charge low, if any, taxes.

De Volksbank does not want to invest in and does not want to provide loans to companies involved in corruption and/or involved in financial, tax, environmental and/or social scandals. In the context of the 'know-your-customer' procedures in respect of corporate customers, we form an opinion on their tax attitude.

TAX POLICY WITH REGARD TO CUSTOMERS

De Volksbank uses procedures and measures for the identification, verification and acceptance of customers. These comply with applicable Dutch and international regulations. De Volksbank has registered its customers' country of residence or country of establishment for tax purposes since 2016. By doing so, de Volksbank complies with the Common Reporting Standard (CRS), under which data are exchanged with tax authorities of other countries regarding accounts of customers who are subject to foreign tax. In addition to the CRS, which is applied globally, de Volksbank also acts in accordance with the Foreign Account Tax Compliance Act (FATCA), which requires the exchange of customer data with the United States via the Dutch Tax and Customs Administration.

De Volksbank does not provide direct tax advice to customers.

TAX POLICY WITH REGARD TO SPECIFIC POSITIONS AND TRANSACTIONS

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

- Fiscal robustness
  The position or transaction must be consistent with relevant (tax) case law as well as (tax) laws and regulations, whereby prior coordination 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 on fiscal position
  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

The Dutch economy is expected to remain on a growth track in 2017. Given its outward orientation, the Netherlands might benefit from the rather favourable developments in the global economy. Domestic demand is expected to continue to underpin expansion. The high level of job vacancies points to further employment growth and a tighter labour market, which, in turn, will pave the way for solid consumer demand. The low level of mortgage rates, rising employment and strong consumer demand could support further gains in the housing markets although the rise in the number of transactions and in prices is expected to level off somewhat.

The low interest rate environment will continue to impact the mortgage market, translating into a continued high customer demand for longer term interest fixed-rate mortgages and a high level of (early) renewals. At de Volksbank, pressure on interest income is expected to continue, although somewhat less than in 2016. Lower funding expenses are expected to mitigate the impact of pressure on interest income.

In 2017, operating expenses, excluding regulatory levies and restructuring charges, are expected to be slightly lower compared to the 2016 level. Additional restructuring charges are expected to be limited.

In 2017, we expect the number of defaults to continue to decline, but at a significantly lower pace compared to 2016. We expect a net charge of loan impairments for 2017 as a whole.

In all, we expect the net result in 2017 to be lower compared to the level of 2016.

We will press ahead with the translation of our vision on banking with a human touch into practical initiatives and optimising our value for all stakeholders by strengthening our social identity, improving our operational efficiency and implementing targeted and timely technological innovations.

2016

The year of de Volksbank's brands at a glance

17 March

ASN Bank receives highest Morningstar sustainability rating
ASN Sustainable Equity Fund and ASN Small & Midcap Fund scored the maximum of 5 globes

25 March

SNS opens its first circular store in Zoetermeer
Materials used in this store are suitable for re-use and have an extended life-span

25 April

RegioBank and SNS win prizes for customer-oriented services
RegioBank crowned most customer-oriented bank in the Netherlands in the Customer Centric DNA Awards SNS chosen as most customer-friendly bank in the Netherlands by SAMR

16 June

Best savings account
RegioBank received the highest rating from MoneyView for Spaar-op-Maat Vrij and Eigen Huis Sparen

19 July

The best current account

SNS Betalen has been proclaimed best current account for the third time in a row by MoneyView, an independent research company that compares products. SNS Betalen was awarded five stars for price and terms and conditions

28 July

JongWijs, the new RegioBank youth package account

A payment and savings account for the child itself. With annual fun and practical money tips for the children as well as parents

27 September

De Volksbank is the new name

SNS Bank NV is renamed de Volksbank NV on 1 January 2017. The four brands, ASN Bank, BLG Wonen, RegioBank and SNS retain their own names and customers continue to bank with these brands

28 October

International CSR covenant human rights signed

De Volksbank and ASN Bank signed an covenant to reduce the risk of human rights violations through lending and investments. This was done jointly with the Dutch Banking Association, other financial institutions, the government, trade unions and non-governmental organisations

22 November

A responsible mortgage for self-employed persons

As from 1 December 2016 self-employed persons can take out a mortgage after having been self-employed for only twelve months under the National Mortgage Guarantee (NHG) at BLG Wonen, RegioBank and SNS

5 December

Free heat scan

BLG Wonen offers customers a free heat scan providing them insight into how and where to improve their home insulation

7 December

100,000 primary schoolchildren learn how to manage money

More than 100,000 primary schoolchildren were taught how to manage money sensibly in 2016 by means of EuroWijs teaching materials (an initiative of de Volksbank). More than five times as many children as in the previous year

2.5 Brand performance

ASN Bank

Money can buy happiness

With money comes the power to make the world a better place, for ourselves and for future generations. That is why ASN Bank invests in sustainable development, on the basis of its sustainability policy, which consists of three pillars, human rights, climate and biodiversity. It has been making these investments ever since its foundation in 1960. ASN Bank only finances and invests in forward-looking companies, sectors and countries, and does so while respecting people, animals and nature. The bank calls this ‘sustainable banking’.

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 on the world around us.

What did ASN Bank achieve in 2016

CUSTOMER BASE

Over 645,000 people in total have chosen to bank with ASN Bank. In 2016 ASN Bank welcomed more than 40,000 new customers, mainly driven by the inflow of new current account customers. Their number rose by more than 20,000.

Anyone wishing to become a customer of a bank is legally obliged to identify themselves. Identification used to take place mostly by post as ASN Bank lacks offices, but many customers regarded this process as time-consuming. Since April 2016, customers may identify themselves at some 750 post offices in the Netherlands.

ASN Bank has digitised several processes. Changes made by customers via online banking or the mobile app now take effect immediately. These changes consist of for instance payment outside the eurozone, and temporary payment limit increases.

ASN Bank records welcome videos especially for new customers. These how-to videos show ease of payment, the app, the switching service, and gives insight into and an overview of all accounts, and monthly investing.

CUSTOMER SATISFACTION

ASN Bank’s Net Promoter Score (NPS) was +14 (2015: +19). Among customers indicating that ASN Bank is their primary bank, the NPS of +30 was significantly higher than the NPS among customers indicating that another bank is their primary bank (+9). Average customer satisfaction was 8.0, compared to a target of over 8.

PAYMENTS

The growth in the number of customers was mainly triggered by the inflow of customers opening a current account: well over 34.000, 69% of whom were not yet ASN Bank customers. Of all current account customers, 67% have a savings account as well.

SAVINGS

The total balance of retail savers at ASN Bank dropped slightly (-1.0%).

The drop was mainly caused by low interest rates, which rendered it financially more favourable for some customers to redeem their residential mortgage or to fund renovations than to save.

Feeling the pressure of the low interest rate level, ASN Bank amended the terms and conditions of the ASN Sparen Zakelijk savings account, reducing the savings balance on which customers receive interest from a maximum of € 5 million to a maximum of € 2.5 million.

INVESTMENT
The ASN Investment Funds grew by € 146 million (6%) to € 2.55 billion (year-end 2015: € 2.40 billion). The number of customers holding an investment account rose by 5,743 toe tot 82,797.

The ASN Sustainable Mix fund won the VWD Cash Fund Award in the Mixed Global Currency Balanced category

FUNDING
ASN Bank provides SME loans to sustainable 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.

ONLINE AND MOBILE BANKING
Of the more than 645,000 customers, over 430,000 customers organise their banking affairs digitally via ASN Online Banking. Of the online customers, 121,000 use mobile banking via the ASN Mobile Banking app. The number of app users increased by 25%. The app is particularly popular among customers who actively engage in online banking: 42% of them also use the app.

At the end of 2016 ASN Bank introduced a few new services to ASN Mobile Banking. The main new feature allows customers to log in using their fingerprint, if their device permits them to do so. Another new feature was the balance chart, which shows balance movements during the month. The cash book function in the app will also be made available via online banking in 2017.

SUSTAINABILITY OBJECTIVES
ASN Bank actively contributes to processes that promote the sustainability of society and has formulated three long-term goals to this end.

Climate neutral balance sheet
In order to make a maximum contribution to solving the highly urgent climate change issue, ASN Bank set a fundamental goal: both the office organisation and the banking activities – all loans and assets on ASN Bank's balance sheet under management by the ASN Investment Funds – will be climate neutral by 2030.

78% of this climate-neutrality objective was achieved at year-end 2016, compared to 68% at year-end 2015[4].

ASN Bank's carbon neutral balance sheet was one of the world's first methods to identify the emissions caused by assets and loans. Our common approach towards reducing these emissions prompted the Dutch branch of the World Wide Fund for Nature (WNF) and Carbon Disclosure Project (CDP) to mention ASN Bank and de Volksbank as an example in November 2016.

In 2016 we took part in alliances in the context of our climate change sustainability pillar, including 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*).

Living Wage
As part of the sustainability pillar in the context of human rights, ASN Bank, together with Impact Centre Erasmus (ICE), performed a baseline measurement at the fourteen garment companies in the ASN Investment Universe in 2016. The measurement not only provided insight into the current situation, but was also useful in formulating the long-term goal that all garment companies in the ASN Investment Universe are to pay their workers a living wage by 2030.

No loss of biodiversity by 2030
As part of the sustainability pillar in the context of biodiversity, ASN Bank performed a baseline measurement that accurately measured how much loss of biodiversity the bank's assets and loans cause. ASN Bank aims to put an end to this loss so that the bank will actively contribute to strengthening nature in the Netherlands by 2030. Last year, this objective was set as follows: No net loss of biodiversity as a result of all of our assets and loans by 2030.

4 The 2015 percentage has been restated from 71% to 68%. For an explanation, see appendix 'About this report'.

Fostering sustainability initiatives

With its online platform For the World of Tomorrow, ASN Bank encourages people to contribute clever ideas for a sustainable world and helps them to develop initiatives and put their ideas into practice, share information and make contact with others. The two main activities that the platform developed in 2016 to stimulate sustainability initiatives were Crowdfunding For the World of Tomorrow and the ASN Bank World Award. These activities are part of all three sustainability pillars. Some 237,000 people visited the www.voordewereldvanmorgen.nl website in 2016, an increase of approximately 30,000 visitors compared to 2015. In 2016, 248 new projects were launched.

Plans for 2017 and beyond

ASN Bank seeks to make the concept of 'sustainability' tangible and concrete for (potential) customers. Starting in 2017, the bank is focusing its communications on how it encourages sustainable progress and how this fits in with the three pillars of its sustainability policy: human rights, climate change and biodiversity. ASN Bank is also working to achieve its long-term goals related to the climate-neutral balance sheet, living wage and fostering sustainable initiatives.

BLG Wonen

Please come in

As BLG Wonen believes that a home is a basic condition for happiness and well-being, it has been helping people to find a suitable mortgage for more than 60 years. Together with independent advisers, it looks for financial solutions using products that are put together by people rather than by computers. BLG Wonen puts customers' dreams and wishes first, irrespective of whether the customer has just entered the market, is moving up or down the housing ladder or is about to start enjoying a well-earned pension.

What did BLG Wonen achieve in 2016

CUSTOMER BASE

BLG Wonen had a total number of customers of nearly 231,000 at the end of 2016. In 2016, BLG Wonen welcomed 13,000 new mortgage customers, increasingly from the Randstad conurbation and other urban areas. Whereas the percentage of mortgage applications made by first-time buyers in the market fell to 30% at the end of the year, this figure rose to 36% at BLG Wonen. This growth was mainly prompted by the competitive 10-year rates offered by BLG Wonen, with first-time buyers benefiting from wider funding options.

A practical step-by-step guide made it easier for first-time home buyers to buy a home

CUSTOMER SATISFACTION

More and more customers are getting acquainted with BLG Wonen's ability to take a constructive approach and its flexible mortgage solutions. First-time buyers, customers with flexible incomes and self-employed persons appreciate this. BLG Wonen presents itself as a mortgage provider that is also willing to look at future prospects and potential income rises. In the customer satisfaction survey, BLG Wonen is praised for its empathy and personal attention. This appreciation translated into an NPS increase from -42 to -29 and an increase in the customer satisfaction score from 7.0 to 7.2.

MORTGAGES

As mortgage origination saw a strong increase of 91% compared with 2015 (including switches to a different mortgage), the projected mortgage volume was more than achieved. BLG Wonen also broke several of its own records, ranging from market share and number of mortgage applications to brand awareness and website visitors. The growth figures are explained not only by market developments, but also by the first national brand campaigns, differential pricing and special attention for existing customers.

An example is having an eye for customers' future perspectives and potential income rises. In this respect, BLG Wonen also avails itself of work prospect statements for flexiworkers and seeks to use favourable income calculations for self-employed persons. On top of this, BLG Wonen offers practical help by means of tools such as the mortgage calculation tool, step-by-step guides on life events and a free heat scan for making one's home more sustainable.

COMFORTABLE AND ENERGY-EFFICIENT HOMES
BLG Wonen sets great store by customers being able to live in affordable and sustainable homes now and in the future. Customers may add to their comfort of living and reduce their energy costs by making modifications to their home, such as cavity wall insulation and low-E glass. In 2016, BLG Wonen ran a pilot project to actively make customers aware of the benefits of home insulation. Customers in five municipalities – Heerlen, Brunssum, Landgraaf, Maastricht and Geleen – were given the opportunity to request a free thermal image. Nearly 300 customers availed themselves of this option to see where their home is losing heat. The warmer the exterior wall surface, the more heat is leaking out. Customers received the thermal image, along with a group insulation offer made by partner Slimwoner.

SAVINGS
Savings decreased. The inflow of savings into the savings portfolio slowed down in 2016, particularly due to lower interest rates on savings and the less prominent attention devoted to savings within BLG Wonen.

COLLABORATION WITH ADVISERS
Characteristic of BLG Wonen is its nationwide network of more than 2,000 independent advisers. In 2016, BLG Wonen worked to further enhance and improve this business network. Working with teams of district managers, account managers and acceptors, BLG Wonen is a personal and expert sparring partner to advisers that is easily contacted because of the short lines of communication. Formal and informal network meetings, such as small-scale meet & greets and the national Advisers' Day, reinforce this contact. The regular adviser satisfaction surveys show that advisers are satisfied with BLG Wonen, assigning a score of 8.5 on average.

Plans for 2017 and beyond
As BLG Wonen intends to continue on the path taken in 2016 and to place a focus on further boosting its name recognition and brand awareness, its consumer campaigns are being optimised and intensified. BLG Wonen is known for being a personal services provider and is committed to retaining this personal touch by, for example, developing campaigns geared to specific target groups – including first-time buyers and homeowners moving up or down the housing ladder – and their housing needs. BLG Wonen will also continue with its digitisation process, new customer and adviser satisfaction surveys and improved customer communication and customer services.

RegioBank

Nearby and committed
Being a neighbourhood bank, RegioBank focuses mainly on villages and small towns: that is precisely where facilities are under pressure, which is detrimental to the quality of life. A bank branch is an important facility that creates local connectivity and can actively contribute to the vitality within the local community. That is why local Independent Advisers who still know their customers and who know what is going on in the area are pivotal in RegioBank's services.

What did RegioBank achieve in 2016
CUSTOMER BASE
RegioBank's customer base grew by more than 50,000 to approximately 620,000 customers in 2016. This growth was mainly attributable to new savings and current accounts customers.

CUSTOMER SATISFACTION
In 2016, RegioBank had a positive NPS of 2 (2015: 5). A positive NPS score is an indication that customers are satisfied with RegioBank and its Independent Advisers. Customers award RegioBank a 7.7 for overall service.

Customer-centricity award
RegioBank won the Customer Centric DNA Award for being the most customer-centric bank in the Netherlands. It is the largest public award to be won by companies in the field of customer-focused business practices in the Netherlands. RegioBank also received an award for being the company that best joins hands

RegioBank won the Customer Centric DNA Award for being the most customer-centric bank in the Netherlands

with its customers (co-creation) following a survey in which 12,000 Dutch people expressed their opinion on companies where they are customers.

MORTGAGES

RegioBank has been offering twelve mortgage rate groups since August 2016, giving customers the opportunity to benefit more rapidly from lower rates, for example when the value of their home has risen or when they make (additional) repayments.

Eigen Huis Sparen received the maximum score of five MoneyView stars for the 'price' component. In a survey commissioned by the National Mortgage Association, RegioBank was considered the best mortgage provider in the Netherlands. The survey looked at several satisfaction aspects, such as email response time, after-sales service, complaints handling, interest and redemption facilities, and clarity in communication.

Since 1 December 2016, self-employed persons have been able to take out a mortgage with RegioBank under the National Mortgage Guarantee (NHG) after just twelve months of self-employment.

ENERGY-EFFICIENT HOMES

RegioBank believes it is important for customers to live in energy-efficient homes. To make its customers aware of their current living conditions, RegioBank sent them a letter inviting them to convert their home's energy label into a definitive label. A home's energy label is classified in classes A (highly efficient) to G (highly inefficient). Approximately two thirds of customers who converted their label into a definitive one obtained a better rating than for their provisional label, which is based on the home's year of construction.

Completing the process of obtaining a definitive energy label makes customers aware of the options they have of making their home energy-efficient. RegioBank customers who made their energy label definitive received compensation.

SAVINGS AND PAYMENTS

RegioBank achieved the largest growth in the number of current account customers, who frequently combine a current account with a savings account. The number of customers availing themselves of online banking and mobile banking also increased significantly.

With continuous campaigns, RegioBank is making every effort to point out the benefits to customers.

Just like last year, independent research agency MoneyView awarded five stars to the product terms and conditions of the Spaar-op-Maat Vrij savings account.

Making children money smart

Launched in 2016, JongWijs is a package designed for children aged 0 to 18 that combines financial education, saving and the step-by-step build-up of the options that a current account offers. Its aim is to help children become financially savvy at a young age. The child and his or her parents receive practical tips each year, for instance about the value of money, the purpose of saving and making safe payments using a debit card. They also receive fun games that are appropriate for the child's age.

JongWijs combines fun and practical money tips for kids and their parents

QUALITY OF LIFE

The growth of RegioBank's brand awareness continued in 2016. Its presence on radio and TV (billboard advertising) and online and its local visibility contributed to this growth. On the radio, we broadcast commercials featuring our own Advisers for the very first time.

In 2016 we introduced Rondje Regio (Tour around the Region) – a cycling event to show our local presence and involvement – and at the same time launched the Fietsknoop app. Our offices jointly supplied 500 places of interest.

The Zilvervlootparade, which allows Independent Advisers to show in a playful way that they are the bank nearby, also adds to brand awareness.

More than 14,000 RegioBank customers cast their vote during the Independent Adviser of the Year election. Customers assigned the maximum of five stars to Financiële Diensten Kloosterzande B.V. and in addition, there are eleven provincial winners.

The Liveability Advisory Council that RegioBank set up in 2015 met five times to exchange information about topical subjects in villages and small towns.

Plans for 2017 and beyond
RegioBank will continue to make and keep bank functions available locally. The bank is exploring the options of investing local savings locally in the form of mortgages while also focusing on the retention of mortgage customers. RegioBank will continue to promote initiatives that stimulate the vitality and liveability of the regions.

SNS

Perfectly normal. SNS
SNS wants to be there for ordinary Dutch consumers – a course that fits in well with SNS's roots. SNS shows that banking can be different, more normal, and wishes to surprise its customers with this. And if it is in customers' interests, SNS want to break with unreasonable banking practices. With its no-nonsense mindset, SNS is a clear alternative to the major banks. It shows (prospective) customers that they really have a choice and proves this by offering unique products and services. It is the bank's ambition to be a larger, visible player, including in the mortgage and payments markets.

What did SNS achieve in 2016
CUSTOMER BASE
SNS's message and services are appreciated: customer inflow is increasing and the number of banking products is decreasing. Last year SNS welcomed over 97,000 new customers, mainly new savings and current account customers. SNS's total customer base rose limitedly to slightly more than 1.5 million.

CUSTOMER SATISFACTION
The Net Promoter Score (NPS) increased from -26 to -18. The NPS score is considerably higher among customers who have had more moments of contact.

SNS was elected most customer-friendly bank in the Netherlands by SAMR

The number of customers who recommend SNS to other people reached a record high this year. The NPS scores for online channels (+16) and services (+6) in the shops were positive.

Customers give SNS an average score of 7.5 for services in general and rate their moments of contact with financial advisers, staff in SNS shops and the customer contact centre with an average score higher than 8.

In 2016 SNS introduced WhatsApp as an additional service channel and answered no fewer than 8,904 customer questions through this channel, which made it the most frequently used social media service channel. SNS also opened eight more shops where customers may ask questions, open an account or take out insurance or a mortgage.

MORTGAGES
With the aim of facilitating contact with us, SNS offers customers the Mortgage term monitoring service: once every two years SNS actively contacts its mortgage customers via telephone or email to discuss whether it is necessary to review the mortgage provided. This conversation is a good opportunity to assess the mortgage's affordability, now and in the future. SNS believes that this service also makes it easier for customers to report any financial difficulties they may encounter. In 2016 SNS contacted more than 114,000 customers via this service.

114,000
customers proactively approached with the Mortgage Term Monitoring Service

SNS is the only bank to offer a selection of other lenders in addition to its own mortgages, making it unique in the Dutch market. The products are complementary, offering the SNS customers and advisers a better choice in finding the right mortgage. Here, SNS proves that it is possible to break with banking conventions with its range of mortgage products.

ENERGY-EFFICIENT HOMES

In line with its sustainability aim, SNS will encourage and help customers to make their living environment more sustainable. SNS will do so, for example, by pointing out the benefits of energy-saving measures to customers. In 2016, SNS also ran a pilot project in which advisers informed customers of measures to make their home more sustainable. An e-learning module, step-by-step plan and knowledge site were developed especially for financial advisers containing background information about how to make homes energy-efficient. Advisers could also offer their customers energy saving advice at a reduced rate (of € 50 rather than € 115).

PAYMENTS

In 2016 the private current account was awarded a maximum of five MoneyView stars for price and flexibility for the third time in a row. Also, SNS is the first provider in the Netherlands to have added purchase protection insurance to the current account. The inflow of current account customers remained at virtually the same level as last year. In 2016, more than 12,500 people used the switching service to switch to SNS. SNS's market share in new current account customers stood at 9%.

SAVINGS

Despite lower interest rates on savings in the market and the fact that consumers are partially using their savings for mortgage repayments, SNS's savings balance remained virtually the same.

ONLINE AND MOBILE BANKING

In addition to personal channels via the shops and the telephone (SNS Service Centres), SNS offers online and mobile banking. The high demand for these types of banking is evident from their use: 74% of customers use online banking, and the number of active users of mobile banking increased to 25% in the past year. This group of customers consulted the mobile banking app 31 times per month on average.

Several aspects of the mobile app were improved and enhanced. SNS was one of the first to enable people to become a customer through the mobile app. Customers give the mobile app a score of 8.6; more than 85% of them recommends the app to others.

In the first six months of 2016 the SNS website and its online banking were fully modernised, with simplicity, completeness and transparency of information being the most important premises.

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. Currently having over 20,000 members, the SNS Community celebrated its fifth anniversary last year.

BRAND POSITIONING

SNS is there for people seeking simple financial products, attractive rates and modern, personal service – because a bank is there to serve people, and not the other way around. That is why its brand promise is: smart solutions for the ordinary Dutchman's wallet. The growth of the customer base and rising customer satisfaction show that this promise is credible and is catching on in the market.

Nearly all of SNS's customer communications are now worded in the '*Taal van Normaal*' , a tone of voice that was circulated further in the organisation this year to ensure that more and more employees write in the same clear language and avoid the use of difficult banking terms. Well over 1,000 customer letters and more than 500 web pages were rewritten, with the latter now also being readable on mobile phones and tablets. The new website was improved even more in response to a survey among users.

The new course was also awarded several leading marketing communication prizes, including an Esprix award, the Radio Branded Content Award, Radio Advertiser of the Year, and a Bronze Effie for effective marketing communication.

Plans for 2017 and beyond

SNS aims to be and remain the perfectly normal bank where customers feel at home, by speaking in plain language, proactively seeking smart solutions for customers' wallets and helping them to make the right financial choices for now and the future. The goal is to have ordinary Dutchmen make a deliberate choice for SNS as their primary bank.

Financial insight combined with professional advice – and underpinned by our products – yields real solutions. As sound and long-term relationships are a precondition for helping customers in the best way possible, it is no longer the transaction or the product that takes centre stage but the relationship with the customer.

ZwitserlevenBank

ZwitserlevenBank, the collaboration between de Volksbank and pension insurer Zwitserleven (part of VIVAT), was discontinued in 2017. The boards of de Volksbank and VIVAT jointly decided to terminate this collaboration. This is a direct consequence of the separation of the bank and the insurer, as a result of which such a collaboration is no longer in line with the new strategy of either de Volksbank or VIVAT. ZwitserlevenBank customers will transfer to the SNS brand in the second quarter of 2017. The SNS brand was selected because customers will experience the fewest possible changes, as the interest rates, terms and conditions, customer processes and digital environment of ZwitserlevenBank and SNS are identical. In short, customers will continue saving in the way they are used to.

The technical transition will start in the second quarter of 2017 and will involve the conversion of ZwitserlevenBank savings accounts into SNS savings accounts. Customers will save at SNS from that moment onwards. The transition is expected to be completed in July 2017.

OUR CUSTOMERS

Theo Veenstra & Jolanda van Huffelen, SNS customers

“We are very pleased that our mortgage could be arranged so quickly”

We took out our first mortgage for our home in Swifterbant at SNS in Heerenveen in 2007. In 2012, we contacted Monique at SNS in Kampen to make a change to our mortgage. The advice she offered was excellent, so we contacted her again a year later when we wanted to change our investment endowment mortgage into a savings-based mortgage. Once more, we went over all the possibilities to enable us to make a well-informed choice. When we decided we might move on to a next home, we contacted Monique again. Thanks to her know-how and proactive contribution of ideas, we have now sold our house and bought a new house. Since the time span between the sale and purchase was only a few weeks, the mortgage loan had to be arranged very quickly. The mortgage offer and a bank guarantee were arranged in a week’s time. We can only say that we are very happy once again. If we ever need to make a change to our mortgage, or need information regarding a new house, we will contact Monique again to provide us with assistance and advice again.”

OUR CUSTOMERS

Anje Haveman, member of the SNS Customer Council

"I am proud of my bank once more. The customer is king again"

"When I began working for the Nutsspaarbank, I was 17 years old. It used to be the bank for the common good. A bank for ordinary people. The customer was king. We were taught that the bank's objective was to give customers peace of mind. And they are still working hard to get closer to their customers. They are also succeeding in going back to basics. SNS Bank has been renamed de Volksbank, and that's a good thing. As a member of the Customer Council, they have really been able to convince me that they say what they do and do what they say. They are there for the people and provide ordinary, modern banking services. I am proud of my bank once more. The customer is king again.

There is one area for improvement however. Apart from being a 40 year customer, I'm a self-employed person. The bank has a business account specifically for self-employed persons, but that's as far as it goes. Bit of a shame really. They often talk of start-up entrepreneurs, which most people also associate with self-employed persons, but that's not who they mean. I truly believe the bank is missing an opportunity here. It must be possible to bind these customers to the bank through SNS's network of some 195 SNS shops across the Netherlands. I believe there is a growing trend towards self-employment in the future, offering de Volksbank an opportunity to directly contribute to the growth of people and society. Not just as a supplier of knowledge, but especially as a binding factor."

2.6 Our people

De Volksbank sets great store by being a good employer. Restoring the human touch in banking is not only the starting point for our banking operations, but also for how we treat our employees and for our leadership style.

Our mission 'Banking with a human touch' governs our work every day. We have defined this mission in our Manifesto, which serves as a beacon guiding our thoughts and actions. Know your customer, be professional and be audacious are the ethical principles we ask of our employees. Each year, employees discuss with their manager how they can put these principles into practice.

Our organisation is large enough to offer sufficient challenges to ambitious, talented people. At the same time, it is small enough to allow individuals to make a difference. Nobody has to do this alone: the point of departure is that we work together to build a better bank for our customers. Cooperation between the various departments and brands is the challenge that we face, as employees have indicated in the employee survey that this subject requires constant attention.

Meaning for employees

Having the ambition to enable employees to find meaning in their work, de Volksbank offers its people the opportunity to make a contribution to its social objectives. It is also our ambition to ensure that employees consider themselves ambassadors of the bank and recommend us as an employer. We believe it is important for our employees to be engaged and committed, that they are empowered to develop themselves and that they take responsibility for their own career development. Shared value also means shared responsibility, between the employer and the employee. De Volksbank creates room for employees to take responsibility in their work and to make choices about their own development. We then expect employees to make use of this room. We are working towards a culture where we fulfil our Manifesto and where customers come first, where we are permitted to make mistakes and where we do not hesitate to hold one another to account.

Where do we stand

We use our annual employee survey to measure how engaged and committed our employees are. Engagement and commitment are key indicators of meaning. Engagement ('I love my job') is measured by the response to four questions on a 1-10 scale (e.g.: 'I am proud of my work'). Commitment ('I love my company') is measured by the response to four statements (e.g.: 'I subscribe to the goals of the organisation' or 'I feel that I fit in with the organisation').

We also measure the eNPS – the employee Net Promoter Score – which indicates the degree to which employees recommend de Volksbank as an employer.

The response rate – 90% – to our 2016 employee survey was high. Employee satisfaction is just as high as last year (7.6) and employee support for the strategy has further improved (from 7.8 to 7.9). Even though engagement and commitment have declined slightly compared with 2015, the scores of 7.4 and 8.1 respectively are satisfactory.

The eNPS is also high, although it fell slightly because the promoters group (employees who award a score of 9 or 10) decreased slightly while the detractors group (employees who award a score of 6 or lower) increased. A possible explanation for the slight drop is the structural decline in the number of jobs in the financial services sector, making it less likely to recommend a bank as an employer. At de Volksbank too, the number of jobs will decline in the years ahead.

Employee survey

	2016	2015
Engagement	8.1	8.2
Commitment	7.4	7.5
ENPS		
Promoters (score 9-10)	44.9%	46.9%
Passives (score 7-8)	40.3%	40.7%
Detractors (score 0-6)	14.8%	12.5%
eNPS (%promoters-%detractors)	30.1	34.4

Ambassadors
Our employees take their role as ambassadors of the bank seriously, as testified by the good scores in employer surveys. In the 2016 Best Employer Survey, de Volksbank ended in twelfth place in the category of for-profit organisations with more than a thousand employees. We achieved third place in the Financial Services sector. This survey, which is designed to objectively assess employer practices in the Netherlands, is conducted annually among 313 organisations by Effectory and Intermediair.

Investing in staff development and vitality
In the interests of the bank and the employees, we encourage staff to grow professionally and personally. Employees who can do what they enjoy or find interesting, and what they are good at, go to work feeling motivated and happy. Immediate colleagues and our customers can reap the benefits. In 2016, the training costs amounted to € 2,159 per employee, compared with € 2,114 in 2015.

We can only grow qualitatively as an organisation if our employees grow along with us and work on their employability. That is why we also make arrangements with our employees about their personal development. Managers play a crucial role here; we ask them to develop their managerial expertise and to support employees in their development.

Employees can develop themselves in their day-to-day work, for example by taking on new duties, but they can also follow a wide range of internal and external courses, training programmes and workshops. These include not only courses in their own professional field and in banking but also training sessions to further develop competencies and programmes for career and/or personal development.

De Volksbank employees must be fully qualified. Employees who have customer contact are required by law to follow certain courses for this purpose. By the end of 2016, 85% of this group of employees had obtained the requisite diplomas. Some employees joined us recently and have yet to obtain the diplomas (in full), while others are currently taking part in the courses but have not yet completed all modules. We also expect employees who do not have customer contact to know how a bank works and what customers expect from us. They are required to obtain the Basis Check diploma. By the end of 2016, 83% of this group of employees had obtained this diploma. Ethical conduct and integrity are examples of basic principles to which we devote attention in our educational programmes.

Programme for new employees
We do not just make new employees familiar with de Volksbank, but also invite them to help improve our organisation. During our introduction programme we ask new employees to provide feedback and to share experiences. Good ideas are developed in more detail. The theme of one of the meetings is the bankers' oath. By taking the bankers' oath, employers declare that they will comply with the rules of conduct that apply to their position and acknowledge that they are subject to the disciplinary rules.

Talent development programmes
Our talent development programmes have been developed so as to interconnect the future of the bank and the development of our talent. At the forefront here are the strategy, the Manifesto, our ethical principles (know your customer, be professional and be audacious) and personal leadership. We focus on developing

and professionalising both managerial talent and top specialists who are in key positions or on their way towards these.

We distinguish three talent development programmes:

1. Traineeship
   A programme for starters (recent graduates of a university master's programme with up to 1 year's work experience) with five specialisations: Business & Retail, Digital Marketing, Finance & Risk, High Tech and Smart Banking.
2. Young Potential
   A programme for talented managers and specialists with growth potential.
3. Thought Leader
   A programme for talented managers and experienced top specialists who are in key positions or on their way towards these positions.

Vitality

Feeling vital and healthy is largely the responsibility of employees themselves. As an employer, we encourage staff vitality, for example by allowing employees to participate in a health check and by implementing the health & safety policy aimed at promoting the health and safety of employees at work.

In September 2016, employees were given the opportunity to join lunch sessions to discuss their expectations of de Volksbank as regards health and vitality. This resulted in a health day being organised in early 2017, where employees could attend workshops on such matters as food, work-life balance and work-related stress. They could have their blood pressure and cholesterol measured and take part in group activities such as rambling or running.

Work pressure is the most common work-related cause of absenteeism. At de Volksbank, 71% of employees rated their workload as good (neither too high nor too low) in 2016. A year earlier, that was a mere 56%. The score for work-life balance was also significantly higher: up from 6.4 in 2015 to 7.2 in 2016.

With an average of 4.1% in 2016, absenteeism is still somewhat high. This led us to develop a vision on employability and absenteeism with a different approach to the latter. Our goal is for employees and managers to deal more consciously with absenteeism and their own employability, for instance by discussing – in the event of absenteeism – what work the employee is still able or is unable to perform. We are using workshops in three different departments to test our vision and alternative absenteeism approach. Based on the experience gained, we will decide in 2017 whether to apply the new vision to the entire organisation.

Result-oriented and inspirational leadership

Managers are essential role models in disseminating our Manifesto and strategy and strongly influence their team's motivation and job satisfaction. This places certain demands on the way they manage, specifically that they, as manager:

- never forget that we are there for the customers;
- are genuinely interested in people;
- can inspire employees with our Manifesto;
- are audacious, with the courage to stand up for their department and for their opinion and to accept and give responsibility.

Enhancing our measurement of the quality of leadership, we have translated it into four core competencies: customer centricity, empathy, ability to inspire and audacity.

In 2016, we rolled out the 'Management as a Profession' programme to support managers in their further professionalisation. The recruitment and selection process for new managers was modified such that selection is now based on the aforementioned four core competencies (among other criteria), and we launched the induction programme for new managers. The various aspects of management at our company addressed in this programme include performance management, excellent business operations, and employability and absenteeism. Due to high levels of interest among managers already employed by de Volksbank, they are given the option of participating as well.

Diversity in the workplace

Diversity is an important means of fulfilling our ambition: the human, social and sustainable bank that aims for diversity of customers using various brands. With more diversity of employees, we can dovetail more effectively with our customers and with society.
That is why we focus on the diversity of composition of the organisation's teams, not only in terms of personal characteristics (gender, age, origin) but also as regards experience, skills and motives. It is our objective that managers apply diversity (from various perspectives) as a guiding principle for every vacancy, alongside professional expertise of course. This has been incorporated into our recruitment and selection processes.

We expressly pay attention to the balance between the number of men and women and to offering opportunities to people with disabilities.

Male/female ratio

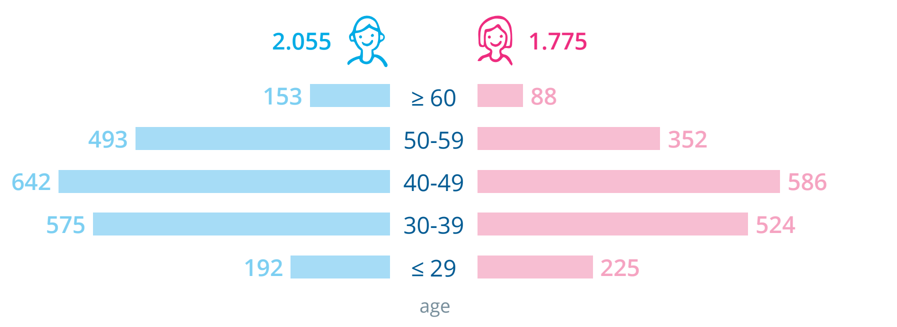
The Management and Supervision Act (*Wet bestuur en toezicht*) prescribes a minimum target of 30% female and 30% male Board of Directors and Supervisory Board members. Although, formally, there is currently no legal target, de Volksbank aims for a balanced distribution of seats between men and women. The Supervisory Board comprises two women and three men. As 40% of the positions are filled by women, the aforementioned target was met in 2016. The Board of Directors of de Volksbank consists of one woman and four men. As this amounts to 20%, the target has not been achieved.

To promote the progression of women to managerial positions, managers have been given the target of 40% of managers being female as at 1 January 2018.

	2016	2015
Male	54%	55%
Female	46%	45%
Female manager	30%	29%

Breakdown by gender and age

(based on numbers)



People with disabilities

It was our goal to place 25 people with partially-reduced work capacity in our organisation by the end of 2016. We were not successful: 12 people had been engaged by the end of 2016. This was because it proved difficult in practice to find suitable candidates who were a good match for the vacant positions. In 2017, we will continue our efforts to engage more people with disabilities. To this end, we are going to intensify our focus on work experience placements and create positions at minimum wage level (internally or with third parties such as suppliers) as the process of filling regular positions is slow. In view of the envisaged reduction in the number of staff, it will be a challenge to achieve our objective this year.

DILEMMA: COLLEAGUES WITH PARTIAL WORK CAPACITY
At de Volksbank, it is our objective to provide work, or work experience, to more people with partially-reduced work capacity (e.g. as a result of a disability). However, it turns out to be difficult to achieve this objective in practice for a variety of reasons. In the years ahead, the organisation is going to have to do the work with fewer people. Also, we are recruiting fewer people, and if we do it is mostly in specialist positions. People with partial work capacity often do not meet the job requirements for these specialist positions. It also turns out that additional time and assistance is needed or that there is a greater risk of lower productivity or dropping out. At a time when there is much to be done, when we have to work more efficiently and have to reduce costs, this often increases the threshold to place a person with a disability. Every time there is a job vacancy, we will have to consciously decide to give someone with partial work capacity a chance. On top of this, employees who have been made (or run the risk of being made) redundant are given priority for vacancies. Going forward, it will therefore be a challenge to achieve our objective.

A socially responsible package of employment conditions

A social bank entails socially responsible employment conditions, meaning employment conditions that are:

- simple and easy to understand;
- modern (with options for the employee, fewer rules and more room for the employee and manager to make more tailor-made arrangements with each other);
- affordable (controllable costs that are proportionate to the bank's total costs and benefits);
- motivating (that not unnecessarily spare, but motivate employees);
- sustainable (arrangements that contribute to lower CO_2)
- competitive (not only comparable with other banks but also with other organisations; no 'golden chains').

These principles of our employment conditions policy are laid down in, for example, the remuneration policy, the collective labour agreement, the redundancy plan and the mobility policy.

Remuneration policy

The guiding principle for our remuneration policy is that it is socially responsible, in line with our aspirations as a bank. Employees who fall under the collective labour agreement may receive a one-off result-related bonus of up to 6.75% (2.25% on average) of their annual salary, depending on their appraisal. This last form of variable remuneration at de Volksbank will be abolished with effect from 2018. For more information on the remuneration policy of de Volksbank, please refer to the website.

Collective labour agreement

The collective labour agreement expired on 1 January 2017. We did not succeed in concluding a new collective labour agreement with the trade unions in 2016. The consultation was continued in early 2017, resulting in a newly negotiated collective labour agreement with trade unions De Unie and CNV Vakmensen. FNV Finance decided not to put the outcome of the negotiations to its members because it does not meet the general FNV policy framework on a number of points.

The key points of the new collective labour agreement are:

- Term: the new collective labour agreement is valid for one year, i.e. 1 January 2017 up to and including 31 December 2017.
- Pay rise: 1% as from 1 May 2017.
- Variable remuneration: the result-related bonus is to be abolished with effect from 1 January 2018. Employees in service on 31 December 2017 will receive compensation for this with effect from January 2018, in the form of a monthly personal supplement of 2.5% of their salary.

Both the trade unions and the employer consider it important to include the views of employees in the consultation. A digital platform has been set up to give employees the opportunity to express their opinion, contribute ideas, respond to blogs and polls and start forum discussions. Sessions have also been organised at the various branches of de Volksbank to provide employees with information and to get them involved in the consultation about their employment conditions.

Sustainable mobility policy
Coming into effect on 1 January 2017, our new company car scheme is the first step towards a fully electric fleet and thus ties in seamlessly with our Manifesto. Our current company car fleet will gradually be actively exchanged for a fully electric fleet. The new company car scheme is part of our overall sustainable mobility policy, which will be given further shape in 2017.

Redundancy plan
Growing into a more efficient and simple bank is part of our strategic plan. This necessitates a change of work that is brought about by such activities as the further digitisation of our processes. This change will demand other skills of our employees. It also means that ultimately we will need fewer people to do the work.

As we want to downsize the company with due care, this process will last several years. There is no blueprint for this process; the Board of Directors has set frameworks and it is up to the organisation to develop the details. The departments have been given the assignment of organising the work differently together and preparing for this in good time. We estimate that approximately 900 jobs will be lost in the years to come. This relates to external and internal employees, and includes a reduction in the number of management positions.

Employees who become redundant can make use of the redundancy plan agreed in late 2016 with the trade unions for the period 2017 through 2020. Proactively working on employability takes centre stage in the redundancy plan, because it is important for every employee to be and to remain employable, and not just once they become redundant. In the event of a foreseeable reorganisation, employees in the business unit where redundancies are expected receive extra resources and support as quickly as possible to increase their employability and employment prospects.

All employees must be conscious of their employability. In an organisation and a sector in which employment is falling sharply, a constant focus on one’s development and employability is crucial. De Volksbank is intensifying the support offered to employees in this respect, for instance by offering an online platform with all kinds of options for employees to work on their development and career.

Committed employee representatives
As an employee representative body, the Works Council is closely involved in developments in and of the organisation. The Works Council was kept informed and acted as a sounding board at every stage of the development and adoption of the strategic plan. The Board of Directors and the Supervisory Board regularly consult with the Works Council on the latest developments in order to consider employee interests as effectively as possible. In April 2016, a new Works Council was elected for a period of 3 years.

That same year, the Works Council formulated a vision of de Volksbank’s future – ‘Working responsibly towards a healthy future for de Volksbank and its employees’. This requires:
- continuity of business operations;
- balance and equilibrium in the business operations;
- sufficient (continued) focus on employees’ interests;
- (continued) adherence to and protection of the values of the Manifesto.

Key figures

	2016	2015	2014	2013
STAFFING				
Number of FTEs	3,354	3,340	2,506[1]	2,009[1]
Average number of FTEs	3,347	2,923	2,258[1]	2,107[1]
Full-time/part-time ratio	70%/30%	71%/29%	69%/31%	66%/34%
Inflow	11.6%	12.1%	10.7%	7.4%
Outflow	10.4%	7.5%	5.4%	13.0%
FLEXIBLE DEPLOYMENT				
Temporary contract	13%	13%	11%	10%
Number of external staff (FTEs) / Total number of FTEs	16%	20%	19%	15%

1 Excluding FTEs in IT&C and Group Audit, which were still part of SNS REAAL in 2014.

OUR EMPLOYEES

Twan Brekelmans, superpromotor

"All employees have the liberty to make that one special extra effort"

"What I notice in particular are the exceptional activities that colleagues undertake in our wonderful company every day. Things that really make a difference for our customers. The Customer Service sending handwritten cards to customers. Regularly holding Dragons' Den sessions to collect the best ideas from our staff. The annual Hackathon during which IT employees and colleagues work out innovations in a 24-hour session. And there is even a colleague in the Arrears Department who lived on the bare minimum for a month to gain a better understanding of customers with whom the Arrears Department has dealings. All of these activities have sprung up from pure enthusiasm and contribute substantively to our Manifesto. Not because we have to, not because it is the outcome of some meeting, not because it is part of the assessment cycle, but because someone had an idea. That's what I like about it. All these initiatives make us the best and most unusual bank in the Netherlands. I believe it is quite normal that we have the liberty to make that special extra effort. What is not quite normal for us yet, is to share these exceptional activities with colleagues and to inspire each other. I strongly believe this would contribute to our Manifesto: creating benefits for our customers, taking responsibility for society, and contributing to a financially sound and stable Volksbank."

OUR EMPLOYEES

Tina van Rijn, superpromoter

> *“Personally, I find it great to see our shared value put into practice in my day-to-day work”*

“After finishing my Master’s in mathematics, I found an ideal position in the Balance Sheet Management department of SNS Bank NV, now de Volksbank, in 2015. Personally, I find it great to see our shared value put into practice in my day-to-day work: how can we give our customers the best possible interest rates on their savings with interest rates at such low levels? The swift developments in laws and regulations make my working environment dynamic and my work interesting. All these changes force us to constantly seek to improve ourselves. That is why de Volksbank offers ample opportunities to employees to attend training courses, and I see colleagues around me seizing these opportunities. By investing in know-how, de Volksbank not only creates high employee engagement and commitment, but also safeguards quality for the future.”

2.7 The importance of information technology

Information technology (IT) is highly relevant if we are to strengthen our identity as a modern and future-proof bank, as the use of technology determines whether we will achieve simplicity and efficiency in our operations. IT enables us to automate even more manual processes and turn them into STP processing and to support knowledge-intensive activities with smart software for such work as word and speech processing and data analysis. On top of this, IT is the driving force behind the smart application of (technological) innovations because it gives us the opportunity to gain relevant technological knowledge and expertise in good time to prepare for the development of innovative business applications, such as biometric authentication on mobile phones and self-learning systems to support assessment and acceptance processes.

De Volksbank boasts a customer-focused system, a modern technical infrastructure and a simple application environment that are based on a high degree of standardisation and use of new technologies, both having a long-term horizon. This infrastructure gives us the flexibility to adapt rapidly to changing circumstances. Our multi-brand & multi-channel / single platform architecture gives us a competitive edge as new functionalities are developed only once and then made available to all our brands and customers. Full digitisation of many of our customer processes allows us to bring customers convenience and low cost of services offered online as well as on mobile platforms. Thanks to a high level of automation of management and development processes, our services are reliable and customers rarely experience disruptions.

Our solid IT infrastructure allows us to act as a smart adopter in the market

IT objectives

We have set the following IT goals:

SIMPLICITY AND EFFICIENCY

The advantage of our simple IT landscape is that it allows us to make changes very effectively and to properly control operating expenses. The alignment of the management of all systems and applications in our organisation to their entire life cycle – from building or purchase to replacement or phase-out – will be improved even more to safeguard and secure that our IT landscape is and remains robust, cost-effective and future-proof.

SMART ADOPTER

Seeking to be the smart adopter of innovations, we are strengthening and developing our knowledge and expertise in the area of emerging distinctive technologies, applying agile development methods and entering into partnerships with fintechs and startups. These partners bring in specific expertise in such areas as blockchain, artificial intelligence, data analysis and cyber security. Our IT landscape is technologically up to date. The application of technological innovations in the IT landscape itself allows us to be a smart follower in the fields in which we want to keep up and to act as a first mover in innovations that reinforce our mission of banking with a human touch.

Improvements in the IT domain

INNOVATIONS SUPPORTING THE CONTINUITY OF SERVICES

Continuity and availability of IT systems are crucial to our customers and our bank brands. We demonstrated in the last few years that the availability of our core systems via the mobile and online channels was very satisfactory.

As the financial services market is demanding an increasing level 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 reparability of our payment systems to meet current requirements and why we have further automated and improved the building, testing and implementation process.

Multi-disciplinary teams ensure the continuous delivery of new functionalities in our customer channels.

INNOVATIONS IN BACK OFFICE AND DATA MANAGEMENT

The Finance & Risk information supply has been simplified by reducing the diverse range of systems and databases. Several brand-specific systems were standardised and rationalised for the mortgage business.

We are also implementing this application simplification in the distribution chain (advice, assessment and acceptance) and turning service and management processes into fully automated processes (STP). As a result, new functionalities that will underpin our mortgage growth ambitions can be made available more simply and rapidly for multiple brands and sales channels.

Data management has become more professional in essential areas on the back of improved control and quality of data. As a result, our reports are better and more readily available to external stakeholders and for the purposes of internal control and decision-making. The value we attach to good data, combined with regulatory requirements, ensures that data quality and control will continue to be a point of great focus.

INNOVATIONS IN LINE WITH IT INNOVATION OBJECTIVES

We established the Technology Centre to permanently give innovation the attention it requires. The Centre's primary tasks are to build up knowledge and expertise and expand relationships with partners in the field of innovative technologies, such as established tech companies, startups and educational institutions. We are studying the potential use of artificial intelligence, or cognitive computing, mainly in order to support more knowledge-intensive processes such as mortgage arrangement. Furthermore, we are looking at the possible applications of the technological concepts 'blockchain' and 'open banking', in which banking services such as account information and making payments are made available to selected third parties as automated services.

THE SOCIETY

Arne van der Wal, co-founder of Follow the Money

"An innovative bank at the forefront of technologies, radiating a warm and friendly atmosphere"

"Customers expect several things from a bank. Reliability is one of them. To put it simply, you want your money to be safe and you want your bank to handle it sensibly. Efficiency and low costs are also high on the list. But above all, you want understanding. For your personal financial situation. You want your bank to come up with ideas when it matters, and not to impose penalties afterwards. To offer a helping hand when it is needed. These needs often clash with those of shareholders. They demand the highest possible compensation for the risk they run. The financial crisis was partly caused by the one-sided emphasis on their needs. Too often at the expense of customers. You might say that this focus on financial performance, including all the accompanying perverse incentives, has more or less led to the creation of what is now de Volksbank. The Minister of Finance has not yet taken a decision on the bank's future. I fervently hope that it will not be a public offering. This is an ideal opportunity to create a true 'people's bank'. An innovative bank at the forefront of technologies, while radiating a warm and friendly atmosphere. A bank for which a human touch is the guiding principle of action. Where having its customer's best interests at heart is embedded in the very fabric of the organisation. Where a customer is not fleeced, but treated as a guest. A dream? Just imagine. It could really work - but only if de Volksbank continues to be for and of the public at large. One way or the other, Follow the Money will continue to follow de Volksbank. Persistently if need be, constructively if possible. A people's bank too, deserves a good watchdog."

3 Risk, capital & liquidity management

Reading 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

3.1 Moderate risk profile

De Volksbank is a Dutch bank that focuses on retail customers with three simple core products: payments, savings and mortgages. Our business model demands low-risk activities with the corresponding solid buffers. We form adequate provisions for any credit losses we may reasonably expect, while maintaining an ample capital position to absorb unexpected losses.

Our focus on the Dutch market entails concentration risks; it makes the bank sensitive to macroeconomic, 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. Our explicit choice for 'Banking with a human touch' and our ambition of shared value that reflects this identity allows us to develop the competitive strength we need to absorb the adverse effects of this concentration.

Nearly three-quarters of de Volksbank's assets comprises residential mortgages. The portfolio's quality and size may be impacted by economic conditions, house prices, changes to the tax treatment of mortgage rates or interest rate developments. Our portfolio management focuses on the responsible funding of new customers, retention of the existing portfolio and effective 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. See also Section 3.3.1.

Savings that customers entrust to us 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, as 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 own operating activities, we may run risks on all sorts of fronts. As these risks may harm the bank, its organisation and its reputation, we have identified and analysed them. We continuously seek to take timely and adequate control measures.

3.2 Risk management objectives

Risk management contributes to the achievement of our shared value ambition and supports the returns for all current and future stakeholders. Below, we describe how we put it into practice.

Benefits for customers	Risk management seeks to guarantee such matters as fair and transparent products, expert customer contact, security of customer data, and reliable processes and systems to support excellent services.
Responsibility for society	Our risk management activities support an ethical banking system and are intended to restore trust. We contribute to a reliable financial infrastructure. We increasingly involve sustainability in our risk-return considerations. The ASN Bank sustainability policy now guides de Volksbank as a whole.
Meaning for employees	We need motivated and competent people to implement our strategy. We encourage our staff to further develop their professional skills, offering them opportunities and providing frameworks for professional conduct and expertise.
Returns for shareholders	Risk management protects the shareholders' investments by hedging or closely monitoring unwanted risks. This is how we contribute to creating a financially sound and stable bank as well as the desired returns.

3.3 Top risks

We are seeing various developments inside and outside de Volksbank that may affect the achievement of our strategic objectives (see also Section 1.4). We have analysed them and have 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 a few top risks that are associated with internal and external developments. They may jeopardise the achievement of our strategic objectives if they are not properly controlled or mitigated.

In the texts below we descibe the top risks showing arrows in the margin. The arrows show if the extent of the cause of the risk increases, remains the same or decreases. The arrows shown at the external developments 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

RISK OF LOW AND FLAT INTEREST RATES

The (historically) low interest rates greatly affect de Volksbank. The current flat rates translate into a relatively small difference between the mortgage rates received and the interest rates paid on customers' savings. As savings are highly important for the bank's funding, we do not pass on interest rate decreases to savings customers in full. What is more, current interest rates are prompting customers to reduce their mortgage payments or fix their contracts for longer periods of time, at de Volksbank or elsewhere. Both developments impact the commercial margins and are manifestations of business risk.

Controlling the risk

We control interest rate risk by pursuing an active policy on our assets and liabilities in terms of their maturities and interest rate sensitivity. We are aiming for lower operating expenses and are stepping up our customer retention efforts in order to maintain a sufficient margin.

Flat and low interest rates also lead to changes in our management of the balance sheet's interest rate sensitivity. We will address interest rate risk management in more detail in Section 3.8.

RISK OF COMPETITION AND DISRUPTIVE TECHNOLOGY

Increased competition in financial retail markets is threatening our margins and market share. New technologies and innovative forms of service are emerging. Consumers are adjusting their expectations, demanding that we offer similar solutions.

Controlling the risk

We avail ourselves of the advantage of a flexible IT platform that can be used to serve customers through different channels, including online and mobile. Having said that, we can only keep up with new technological possibilities if we invest in innovation in a targeted and timely manner. We will seek to collaborate with external parties that have developed innovative technologies and services. At the same time, we need to carve out a position that is highly distinctive from other parties, including new entrants, emphasising our identity as a sustainable bank.

Increased competition is a business risk, for which we have developed a strategic approach (Section 1.3). See also Section 3.10 for IT risk control.

RISK OF CYBERCRIME

Cyber attacks may damage the entire financial services industry and may disrupt services. Examples are theft of financial resources, loss of customer data, failure of critical services such as money transfers or of ATMs. Cybercrime may erode trust in our bank and may harm our reputation.

Controlling the risk

De Volksbank deploys its own cyber resilience organisation to repel these attacks in a structured and effective manner. Specialists from the business, the risk organisation and IT work together in this organisation and keep in touch with other banks, the police and judicial authorities. We use cyber intrusion mitigation strategies to limit the chances of suffering a successful targeted attack.

Cybercrime is an operational risk involving an outside threat of fraudulent activities. See also Section 3.10 for cybercrime control.

RISK OF PRESSURE ON THE ORGANISATION DUE TO LAWS & REGULATIONS

Laws and regulations affect business operations, including policy, procedures and the accounting system. Ultimately, new laws and regulations may even impact profitability, the value of assets and – consequently – the strategy and choice of products or business activities. Any delay or flaws in compliance with laws and regulations may result in, for example, reprimands, fines, claims and loss of reputation. Supervision has been intensified, too.

Controlling the risk

De Volksbank closely monitors the stream of new laws and regulations. With the aim of properly and efficiently serving the supervisory authority, we have set up an ECB Office to coordinate communication to and from the supervisory authority. We also have a separate department that conducts major in-house investigations and deals with queries made by the supervisory authority. Adequate process control and properly accessible data in our systems contribute to an efficient supply of information, including to our supervisory authority.

The extent and impact of amendments to laws and regulations are a type of business risk. See also Section 2.2 on changing laws and regulations in general, and Section 3.6.4 for the potential impact that developments related to laws and regulations have on capital in particular.

3.3.2 Top risks resulting from internal causes

RISK RELATED TO THE POWER OF EXECUTION

The new strategy calls for organisational changes, for a transformation of de Volksbank. Strategy implementation comes on top of the activities that had already started, for instance activities to improve internal control or incorporate (new) laws and regulations. This may result in activity accumulation. If we do not succeed in adequately responding to the developments, our strategy will fail and we will lack the power we intend to strengthen. Customers, society, our employees and shareholders as well as the supervisory authority will then be disappointed with the substance and pace of the changes. We are relying on the can-do attitude and collaboration within our organisation.

Controlling the risk

In our strategic reorientation we identified our capacity to change as a factor that will be decisive for success. That is why we are setting up a separate change programme as part of the strategy implementation. As an organisation-wide change is required, the Board of Directors is adjusting the tone at the top accordingly and is to set an example in this regard.

Our heavy reliance on the power of execution is a type of operational risk. See also Section 3.10, which also discusses the capacity to change.

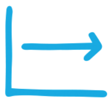
RISK RELATED TO POSSIBLY INADEQUATE CONTROL OF OUR OWN ORGANISATION

Proper control of the organisation directly contributes to lower costs and higher quality. Improved control also allows us to execute our processes with fewer unexpected setbacks. In addition, in what is known as the ‘Supervisory Review and Evaluation Process’, the supervisory authority determines the amount of capital it considers necessary. These capital requirements are based on such aspects as the quality of our internal control.

Controlling the risk

We have adopted simple and efficient processes as a strategic priority. To this end we are working with a number of strategic programmes, such as the Integrated Control Framework (ICF) and the Value Stream Management (VSM) programme. These will boost the quality and predictability of process performance, improve risk cost estimates and deepen our understanding of senior management’s process performance.

Control of our own organisation is an operational risk. See also Section 3.10 for the Integrated Control Framework and other components intended to control our internal organisation.



RISK RELATED TO DATA MANAGEMENT QUALITY

Effective data management contributes to rapid and reliable insight into the risks and curbs reporting costs. We also need proper data management to enhance our competitive strength and make de Volksbank an attractive partner for innovative new entrants. Investments are of the essence here.

Controlling the risk

In the past few years de Volksbank has implemented several strategic programmes intended to improve the quality of internal reports and underlying data. Programme components include activities for data definition, extractions from source systems and the setup of a functional data warehouse. We have appointed a Chief Data Officer, who is responsible for permanently safeguarding proper data management.

Data management quality is an operational risk and impacts reporting risk. See also Section 3.10 for reporting risk control and the importance of data management.

3.4 Risk classification and risk appetite

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 to 3.10.

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 or a change of strategy or risk capacity. The risk classification remained virtually unchanged in 2016.

De Volksbank has set out its risk appetite for each of the types of risk in a 'risk appetite statement', which describes the risk management we seek to achieve. We have linked all types of risk to specific risk indicators with their corresponding ranges. We use several risk indicators to establish a risk score for every type of risk.

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 in 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 • Quickly adapting to circumstances • Providing excellent services to customers		Short-term outlook is positive. We are aware of pressure on interest income, the cost structure reduction required and extensive change processes in the long run.
Capital adequacy • Sound and well-diversified capital position • In line with low risk-activities • Well above minimum capital requirements		We are strongly capitalised in the short and medium terms. We foresee possible pressure from potential new regulations.
Credit risk • Control is such that it does not threaten our financial position (capital and liquidity)		Our loan portfolio has improved. We intend to place a stronger focus on the acceptance process, the write-off policy and arrears monitoring.
Interest rate risk in the banking book • Protecting and stabilising net interest income, economic value and capital, as a result of interest rate and credit spread movements		We use several indicators to control the interest rate risk and will further fine-tune the risk measures.
Market risk • Low risk appetite • Hedged by a comfortable amount of capital, against potential losses caused by movements in market variables		The indicators are within our low risk appetite.
Liquidity risk • Low risk appetite • Strong liquidity and funding position		We boast a strong liquidity position. Our stable funding position consists of our customers' savings and long-term wholesale transactions.
Operational risk • Effective, high-quality processes, low error rate acceptance • Sufficient and competent staff and a pleasant working environment • Efficient IT environment • Low level of tolerance regarding disruptions in system integrity and continuity and the reliability, confidentiality and integrity of information		Our process control is improving, but it has not reached the desired level at this time. We are paying attention to enhancing the organisation's capacity to change and its power of execution in order to achieve our ambitions. IT control is at a high level. The threat of cybercrime is real and sometimes serious.
Reporting risk • Reasonable degree of assurance that the information provided is reliable		The results for improved data quality are positive. We mainly see opportunities for improvement in the integrated control of the reporting chain.

Risk Appetite Statement	Relative score	Note to the score
Compliance risk • No tolerance of violations of company standards and values or legislation and regulations		We are struggling to keep on track with the implementation of new laws and regulations. We wish to improve our ability to know our customer and prevent our integrity from being jeopardised.
Model risk • Controlled model development and strong model governance • Limited model risk by avoiding products with complex properties		A number of important models are not maturing as fast as we would like.
Legal risk • Excellent business processes in place to help prevent claims • Settlement of any claims with due care		The situation in respect of legal proceedings, contracts and legal awareness is stable. We have identified a number of points requiring attention as regards 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.
Legend Current risk profile corresponds to risk appetite Current risk profile slightly above risk appetite Current risk profile above risk appetite		

STRESS TESTING

We use stress testing in addition to risk indicators. The stress testing tool gives us insight into the sensitivity of 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, 3.7.2, 3.8.3 and 3.9.3 for the use of stress testing in relation to capitalisation and credit, market and liquidity risks.

3.5 Risk management organisation

3.5.1 Developments in 2016

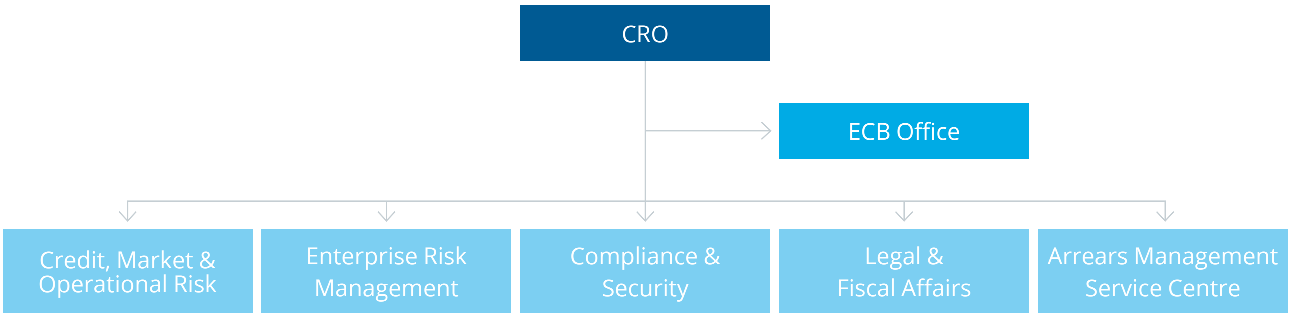
The bank's management and organisational structures were redesigned and optimised in anticipation of a stand-alone future.

We implemented a number of organisational changes that allow us, as a risk management organisation, to work in a more professional way. An ECB Office was created as part of the risk management organisation for improved engagement with European banking supervision. Also, the activities of retail credit management and business credit management were merged. Prompter responses to changes are possible as Finance and Risk matched their activities to one another in a more effective way.

In addition to the existing Regulatory Board, which focuses on new and changing prudential laws and regulations, we established a second, similar board for non-prudential laws and regulations.

Our risk management organisation is as follows:

Risk management organisation



We developed an integrated process to manage risks, which clarified several relationships and allowed us to improve the connection between them. For instance, we are now using economic capital more explicitly as input for other elements of the risk management process. We also introduced qualitative improvements in subareas of risk management, such as a Strategic Risk Assessment at board level.

The roll-out of the Integrated Control Framework (ICF) in our organisation, which includes the PERDARR[5] project and the data management programme, is still an ongoing process. Please refer to Section 3.10 for more information about the progress made by these programmes.

The year 2016 also saw a staff change, as Martijn Wissels resigned from his position as CRO of de Volksbank. Jeroen Dijst, who had been interim CRO since September 2015, was appointed as his successor as from 1 August 2016.

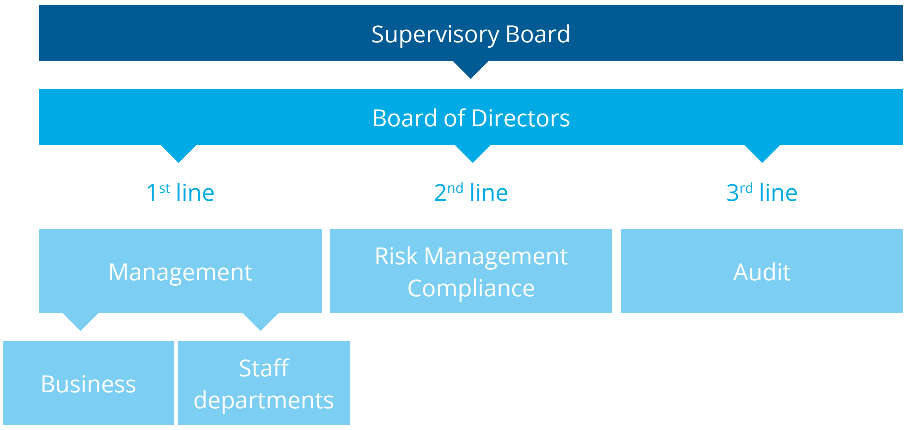
3.5.2 Risk governance Audited

THREE LINES OF DEFENCE

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

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

Three lines of defence-model



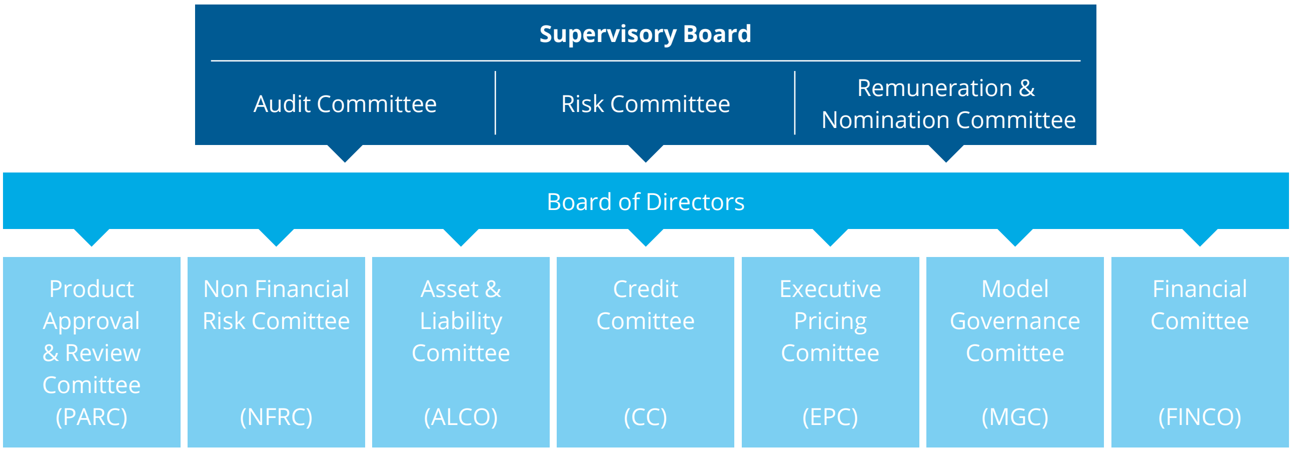
In this model, line management (the 'business') is responsible for the organisation and the (risk) control of its own processes. The business is supported by the second line, which sets frameworks, provides advice and monitors whether the business is actually performing its responsibilities. The third 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 within the bank. 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.

On a yearly basis, the Board of Directors identifies the top risks and, where necessary, 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 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

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 the interests and perspectives of all stakeholders and expresses its point of view without voicing disapproval. 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 as the risk organisation intends to grow into its role even more.

TONE AT THE TOP

As we want the risk culture to be supported by the entire organisation, we believe that the tone at the top is important and are committed to promoting it even more effectively. 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

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 the 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.

We performed a complete self-assessment for all risk committees at the end of 2016. The results were predominantly positive, and the committees defined points for improvement 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 aim of being a social bank with low-risk activities. Our guidelines are subject to continuous fine-tuning. We expect the intensified focus on customers, society, employees and shareholders to trigger a change in risk-return thinking in the next few years, with aspects such as benefits, meaning and responsibility being valued alongside financial returns.

INCREASING RISK POLICY KNOWLEDGE

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. Knowledge sessions are held for risk organisation staff to create a better understanding of, for instance, one another's work or the strategic programmes affecting risk management.

INTERNAL CODE OF CONDUCT

An internal code of conduct applying to all employees guides the ethical actions that we expect of them. 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

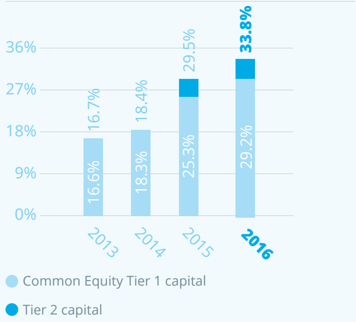
Our remuneration policy takes into account the right balance between risk and return. Our ambition dictates that, in addition to financial return, other aspects are important as well. We set goals that are aimed at creating shared value for all stakeholders. Our internal guidelines describe the conditions to be fulfilled by any – relatively limited – variable remuneration. The Supervisory Board and the Board of Directors are excluded from variable remuneration. Since the end of 2016, this exclusion has also applied to staff whose salaries exceed the industry-wide pay scales. See also the Remuneration Report in Section 5.7.

3.6 Capital management

In 2016, our capital buffers once again meet external and internal standards, taking into account regulatory requirements, customers' and investors' interests and rating consequences.

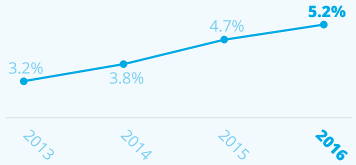
Total capital ratio

(on a transitional basis)



Leverage ratio

(on a transitional basis

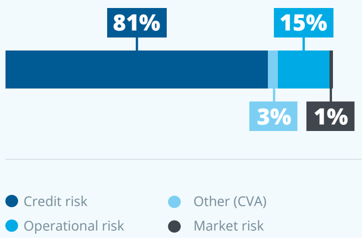


29.2%

Common Equity Tier 1 ratio year-end 2016

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, taking into account the requirements of supervisory authorities, the expectations of rating agencies and the interests of customers and investors. We also apply internal targets that must be met. These targets are consistent with our aim of performing low-risk activities.

3.6.1 Developments in 2016

Development CET1 ratio and leverage ratio

in € millions	2016	2015
CRD IV common equity Tier 1 capital	3,164	2,916
Common Equity Tier 1 ratio (transitional)	29.2%	25.3%
Common Equity Tier 1 ratio (fully phased-in)	29.6%	25.8%
Leverage ratio (transitional)	5.2%	4.7%
Leverage ratio (fully phased-in)	5.3%	4.8%

De Volksbank has a solid risk-weighted[6] Common Equity Tier 1 ratio (CET1 ratio), which increased from 25.3% at year-end 2015 to 29.2% at year-end 2016 (and from 25.8% to 29.6% fully phased-in[7]). The ratios are well above the 9.25% CET1 capital requirement following from the SREP (11.0% fully phased-in), as explained in Section 3.6.2.

6 The term 'risk-weighted' indicates the calculation of the capital ratio using the Risk-Weighted Assets (RWA) in the denominator, where outstanding exposures are weighted on the basis of risk weights. For non-weighted capital ratios, the full outstanding exposure is used in the denominator.

7 The capital adjustments pursuant to the Capital Requirements Regulation (CRR) are introduced in phases (starting in 2014) 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 increase in CET1 capital by € 248 million, and to a lesser extent by the decrease in risk-weighted assets in 2016 (change of € 0.7 billion).

The total capital ratio rose from 29.5% (fully phased-in 30.1%) at year-end 2015 to 33.8% (fully phased-in 34.3%) at year-end 2016.

The main non-risk-weighted capital ratio, the leverage ratio, rose from 4.7% at year-end 2015 to 5.2% at year-end 2016 (and from 4.8% to 5.3% fully phased-in).

At year-end 2016, the non-risk-weighted MREL ratio stood at 8.0%. The MREL ratio expresses the ratio between an easily bail-inable buffer to absorb losses and the risk exposure applicable to MREL.

Well positioned to comply with capital requirements arising from future regulations

The dividend policy was adopted in 2016. In line with this policy, de Volksbank proposes to pay out a dividend of € 135 million from the 2016 annual profit.

Its already strong capital position has placed de Volksbank in a good position to comply with capital requirements arising from future regulations. These include the further determination of the leverage ratio, the proposals of the Basel Committee on Banking Supervision (BCBS) for the calculation of credit risk and the possible introduction of a capital floor. These also comprise the bail-in requirements Minimum Requirement for own funds and Eligible Liabilities (MREL) and Total Loss Absorbing Capacity (TLAC).

A detailed explanation of the increase in the capital position is provided in Section 3.6.5.

A detailed explanation of the leverage ratio and MREL is provided in Section 3.6.6.

3.6.2 Capital requirements

SREP REQUIREMENT

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

The countercyclical capital buffer is intended to protect banks against risks arising when credit growth is excessive. A high buffer requirement in the event of strong credit growth in the Netherlands will put the brakes on lending. During economic downturns (e.g. during a crisis), reducing the buffer will keep lending at the desired level and will enable banks to absorb credit losses. Each quarter DNB sets the level of the buffer for the Netherlands, which in principle varies from 0% to 2.5%[8]. The countercyclical capital buffer is presently 0% for exposures to Dutch counterparties.

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

[8] DNB has the discretion to set the countercyclical capital buffer above 2.5%.

Minimum capital requirements de Volksbank

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

INTERNAL MINIMUM LEVEL

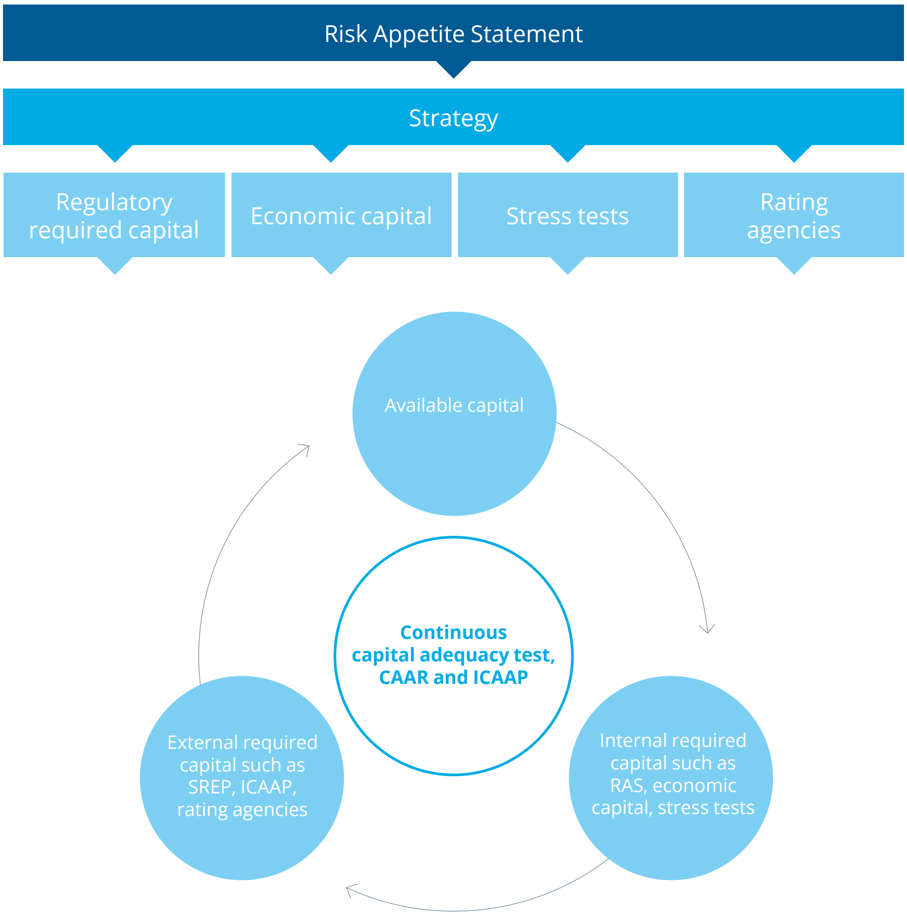
De Volksbank applies an internal minimum level of 15.0% for the risk-weighted CET1 capital ratio, and of 4.25% for the leverage ratio.

3.6.3 Management and control Audited

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

Our capital management process is presented in the next figure.

Capital processes



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

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

1. Our calculations of economic capital include all material risks for which capital is to be maintained, in de Volksbank's opinion. This means that we consider more types of risk in these calculations than in the calculations for regulatory capital.
2. Using our own insight to guide us, we translate our risk appetite into adjusted internal capital requirements, partly on the basis of the desired rating. This makes the resulting estimate of economic capital relatively conservative compared to regulatory capital.

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

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

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

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

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

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

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

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

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

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

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

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

3.6.4 Developments in capital requirements

BCBS CONSULTATIONS: REVISED STANDARDISED APPROACH (SA) FOR CREDIT RISK RWA

The BCBS intends to revise the Standardised Approach (SA) for credit risk RWA and to apply a capital floor to the outcome of credit risk RWA calculated based on Internal Risk Based models on basis of this revised SA. Based on the consultation released in December 2015, a Quantitative Impact Study (QIS) was to be performed in April 2016. De Volksbank currently applies the IRB approach to determine the risk-weighting of its residential mortgages, resulting in an average risk-weighting of 15.0% as per year-end 2016. On basis of the QIS, the average risk-weighting of de Volksbank's residential mortgages under the revised SA for credit risk RWA could double after applying a capital output floor of 75%. Furthermore, according to the BCBS proposal, the risk-weighting of retail mortgages under the revised SA might increase to 100% if the required documentation is not available. The treatment of NHG guaranteed mortgages is not addressed in the consultation paper.

De Volksbank takes the possible impact of the QIS into account in the capital planning. Applying the possible risk-weighting of residential mortgages as of year-end 2016 results in a pro forma CET1 ratio, which is still well above the CET1 capital requirement following from the SREP.

A final decision of the BCBS on the SA for credit risk RWA, originally planned for January 2017, has been postponed. It is unclear if and how the Federal Reserve will continue the BCBS negotiations after new representatives of the Trump administration have been appointed. It might even lead to a full review of the BCBS agreements realised to date. As a result of these developments, it is unclear if and when a final decision will be made. We will closely monitor developments and adjust our capital planning if and when necessary.

BCBS CONSULTATIONS: CONSTRAINTS ON INTERNAL RATINGS BASED MODELS

In March 2016, the BCBS issued a consultative document on constraints for the use of IRB approaches to credit risk. In this document, the BCBS proposed (1) to remove the option to use the IRB approaches for certain exposures and (2) to adopt model-parameter floors to ensure a minimum level of conservatism for portfolios where IRB approaches remain applicable (e.g. input floors for PD (0.05%) and LGD (10%) for retail mortgages).

In June 2016, the BCBS performed an additional 'ad hoc' QIS to assess the impact of this proposal.

On the basis of the 'ad hoc' QIS, the expected impact on the risk-weighting of de Volksbank's residential mortgages is a limited increase of approximately 1%-point.

IFRS 9

New IFRS 9 accounting principles will be implemented as from 1 January 2018. Under the impairment requirements of IFRS 9, credit risk provisioning will be based on expected losses rather than solely incurred losses. As a result, credit risk provisions will increase and likely become more volatile. The quantitative impact of the transition from IAS 39 to IFRS 9 will largely be dependent on the (macro) economic circumstances at the moment of transition and the assets held by de Volksbank at that time.

Furthermore, IFRS 9 transition accounting allows de Volksbank to change the current treatment of part of the mortgage portfolio, i.e. the DBV mortgages that are currently accounted for at fair value, to amortised cost, aligning it with the accounting treatment of other mortgages. When the measurement basis is changed, this may result in a step up or step down from fair value to the amortised cost value.

Since the fair value is currently higher than the amortised cost value, de Volksbank anticipates a step down and thus a negative impact on equity at transition. At year-end 2016, this negative impact would amount to € 129 million after tax. The final impact may vary, however, depending on interest rate developments during 2017. Due to this accounting change, the current fair value volatility in the income statement related to the DBV mortgages will be fully eliminated as from 2018.

GONE-CONCERN CAPITAL: MREL AND TLAC

The Bank Recovery and Resolution Directive (BRRD) aims to provide authorities with comprehensive and effective measures to deal with failing banks. The BRRD came into force in the EU in 2015 and was implemented into Dutch law in the fourth quarter of 2015. The BRRD includes different resolution tools, including a bail-in tool that ensures that systemic institutions can be resolved in case of failure without jeopardising financial stability. 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 (including own funds) or, under certain conditions, 20% of RWA before any funds from the Single Resolution Fund may be injected into a bank under resolution. To enable effective application of the bail-in resolution tool, the BRRD introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL) as an easily bail-inable buffer to absorb losses. The bank-specific MREL requirement is expected to be set by the resolution authorities (Single Resolution Board (SRB)/National Resolution Authority (NRA)) in the next years and is closely interlinked with the resolution strategy for each bank. Bank-specific MREL-eligible liabilities will also be defined by the resolution authorities in the years ahead. On top of equity, eligible MREL liabilities will consist of Additional Tier 1 (AT1) capital, Tier 2 capital, subordinated debt that is not Tier 1 or Tier 2 capital and, possibly, other eligible liabilities with a remaining maturity of more than 1 year.

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

On 23 November 2016, the European Commission (EC) presented proposals to amend the BRRD (BRRD II), the Single Resolution Mechanism Regulation (SRMR), the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). The proposals incorporate the Total Loss Absorption Capacity (TLAC) framework as proposed by the Financial Stability Board (FSB) for global systemically important institutions (G-SIIs). The proposals do not extend the requirement to comply with TLAC for non G-SIIs, such as de Volksbank. However, in alignment with the TLAC standard, the MREL should be expressed as a percentage of the total risk exposure amount and of the leverage ratio exposure amount.

According to the BRRD II proposal, resolution authorities should be able to require that the MREL is met with equity and subordinated liabilities, in particular when losses of bailed-in not subordinated creditors in case of resolution are likely to exceed their losses in case of insolvency. Clear, harmonised rules on the position of bondholders in the bank creditors' hierarchy in case of insolvency and resolution facilitate the way bail-in is applied. To this end, the BRRD II proposal includes an EU-wide amendment to the creditor hierarchy by creating a new asset class of non-preferred senior debt (so called senior resolution notes) that will only be bailed-in during resolution after other capital instruments, but ranks before other senior liabilities. The ambition is that member states will have incorporated the BRRD II proposal into national legislation as from July 2017.

At the beginning of February 2017, the SRB has informed us that it supports the designation of de Volksbank N.V. as the resolution entity (OpCo funding model). De Volksbank intends to issue the aforementioned senior resolution notes that are junior to other senior notes, but have priority over Tier 2 notes.

3.6.5 Capital structure

De Volksbank has a strong capital position, in terms of both risk-weighted capital ratios and the leverage ratio. Including the possible impact of new capital requirements as discussed by the BCBS committee, de Volksbank expects to have a CET1 ratio that remains well above the CET1 capital requirement following from the SREP. The exact magnitude of the impact is, however, still uncertain.

De Volksbank's capital structure consists of Common Equity Tier 1 capital and Tier 2 capital and can be presented as follows:

Capitalisation Audited

	CRD IV transitional		CRD IV fully phased in	
In € millions	**2016**	2015	**2016**	2015
Shareholders' equity	**3,541**	**3,302**	**3,541**	**3,302**
Not eligible interim profits	-223	-104	-223	-104
Not eligible retained earnings previous years[1]	--	-2	--	--
Shareholders' equity for CRD IV purposes	**3,318**	**3,196**	**3,318**	**3,196**
Increase in equity resulting from securitised assets	--	-9	--	-9
Cash flow hedge reserve[2]	-44	-57	-44	-57
Fair value reserve[2]	-54	-67	--	--
Other prudential adjustments	-3	-3	-3	-3
Total prudential filters	**-101**	**-136**	**-47**	**-69**
Intangible assets	-15	-15	-15	-15
Deferred tax assets	--	--	--	--
IRB shortfall[3]	-38	-29	-47	-42
Facility SRH[4]	--	-100	--	-100
Total capital deductions	**-53**	**-144**	**-62**	**-157**
Total regulatory adjustments to shareholders' equity	**-154**	**-280**	**-109**	**-226**
CRD IV common equity Tier 1 capital	**3,164**	**2,916**	**3,209**	**2,970**
Additional Tier 1 capital	--	--	--	--
Tier 1 capital	**3,164**	**2,916**	**3,209**	**2,970**
Eligible Tier 2	500	493	500	493
IRB shortfall[3]	-9	-12	--	--
Total Tier 2 capital	**491**	**481**	**500**	**493**
Total capital	**3,655**	**3,397**	**3,709**	**3,463**

1 In 2015, an, as yet, unamortised transaction result on a settled Tier 2 loan was deducted directly from shareholders' equity (€ 2 million) and the cash flow hedge and fair value reserves are presented separately. The comparative figures have been adjusted accordingly.

2 Effective 2015, an, as yet, unamortised transaction result on a settled Tier 2 loan is deducted directly from shareholders' equity (€ 2 million) and the cash flow hedge and fair value reserves are presented separately. The comparative figures have been adjusted accordingly.

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

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

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

In 2016, the net profit of the second half of 2015 and of the first nine months of 2016 was added to CET1 capital (€ 377 million). After deduction of € 100 million dividend payment over 2015 and € 167 million dividend reservation[9] for 2016, this

9 Dividend reservation is based on the upper boundary of the payout ratio target range. If the dividend reservation is higher than the actual dividend to be paid out, the surplus will

led to a net increase in CET1 capital of € 110 million. As a result, the dividend reservation and the net profit of the last three months of 2016 (together € 223 million) were deducted from shareholders' equity to determine CET1 capital.

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

Tier 2 capital instruments Audited

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

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

be released to the Common Equity Tier 1 capital after the General Meeting of Shareholders in 2017.

3.6.6 Figures, ratios and trends

RISK WEIGHTED ASSETS

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

De Volksbank avails itself of an Advanced Internal Rating Based (Advanced IRB or AIRB) model, called PHIRM[10], to determine the credit risk in its retail mortgage portfolio. Please refer to Section 3.7.4 for more information on our internal model. We use the Standardised Approach (SA) – rather than internal models – to calculate the credit risk of other portfolios and to calculate market risk and operational risk. Please refer to Section 3.8 for more information on market risk and to Section 3.10 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

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

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

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

The Exposure at Default (EAD) rose from € 59.7 billion to € 60.0 billion at year-end 2016, which was triggered in particular by the EAD increase in the retail mortgages category from € 42.1 billion to € 43.4 billion. This rise can mainly be attributed to

10 Particuliere Hypotheken Interne Rating Model

the termination of the Hermes XII securitisation transaction (EAD increase of € 1.0 billion). In addition to the growth of the EAD for retail mortgages, our exposure to bonds in the trading portfolio also increased by € 0.2 billion. The EAD increase prompted by these developments was largely offset by a € 0.6 billion decline in securitisation positions and a € 0.8 billion decline in central governments and central banks.

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

In 2016, the Internal Rating Based (IRB) model for the retail mortgages portfolio was updated. As a consequence, RWA of this portfolio increased by € 661 million. In addition, securitisation Hermes XII was called in March 2016, resulting in an IRB RWA increase of € 171 million. These RWA increases were more than offset by a € 1.1 billion decrease mainly due to decreasing probabilities of default (PDs) and loss given defaults (LGDs) as a result of improved economic circumstances. RWA density[11] of retail mortgages decreased from 16.0% at year-end 2015 to 15.0% at year-end 2016. Credit risk RWA subject to the Standardised Approach (SA) decreased by € 143 million to € 2.2 billion. RWA for operational and market risk and the Credit Value Adjustment together decreased by € 198 million to € 2.1 billion.

The BCBS's proposals as explained in Section 3.6.4 are expected to result in a significant RWA increase.

Development RWA

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

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

Capital ratios

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

11 RWA density is defined as risk-weighted assets divided by the exposure at default.

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

De Volksbank's relatively high risk-weighted capital ratios are expected to decrease in the wake of the BCBS proposals, as explained in Section 3.6.4. The amount of capital required to meet the leverage ratio target – presently the most binding capital target – is expected to be below the capital amount required to meet the risk-weighted targets.

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

LEVERAGE RATIO

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

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

Leverage ratio

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

The transitional leverage ratio increased from 4.7% to 5.2%. This was driven by a Tier 1 capital increase of € 248 million, as well as by a decrease in the exposure measure as defined by the Capital Requirements Regulation (CRR) of € 1.1 billion. The latter was mainly caused by an equally lower balance sheet, mainly due to a € 0.6 billion decrease in loans and advances to customers and a € 0.5 billion decrease in derivatives. The fully phased-in leverage ratio increased from 4.8% to 5.3%. From year-end 2016, leverage ratio reporting is based on the Delegated Act definition.

The 5.2% leverage ratio is well above the anticipated requirement of 4%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount of capital necessary to meet risk weighted capital ratio requirements. This is a consequence of de Volksbank's focus on residential mortgages, a low-risk activity, with a correspondingly low risk-weighting.

MREL

The table below shows non-risk weighted and risk-weighted MREL ratios per year-end 2016 and 2015[12]. The non-risk weighted metrics reflect the amount of eligible liabilities versus de Volksbank's total exposure, while the risk-weighted metrics reflect the amount of eligible liabilities versus RWA.

MREL

in € millions	2016	2015[1]
CET1 capital	3,164	2,916
Tier 2 capital	491	481
Total capital	**3,655**	**3,397**
Other eligible unsecured liabilities with remaining maturity longer than 1 year	1,126	1,597
Total capital including other eligible liabilities	**4,781**	**4,994**
Exposure measure as defined by the BRRD (MREL)	59,636	60,592
Risk-weighted assets	10,824	11,513
MREL BRRD		
MREL (Total capital)	6.1%	5.6%
MREL (Total capital including other eligible liabilities)	8.0%	8.2%
MREL Risk weighted assets		
MREL (Total capital)	33.8%	29.5%
MREL (Total capital including other eligible liabilities)	44.2%	43.4%

1 Figures 2015 have been restated due to sharpened interpretation of regulations.

Including total capital and all other unsecured liabilities that are MREL-eligible according to the current BRRD, the non-risk weighted MREL ratio amounts to 8.0% (year-end 2015: 8.2%) and the risk-weighted MREL ratio equals 44.2% (year-end 2015: 43.4%). The decrease in the non-risk weighted MREL ratio is mainly due to the decrease in other eligible unsecured liabilities, while the increase of the risk weighted MREL ratio was mainly due to the decrease in RWA.

The non-risk weighted MREL ratio including only eligible liabilities subordinated to ordinary senior unsecured liabilities amounts to 6.1% at the end of 2016 (year-end 2015: 5.6%) and the risk-weighted MREL ratio according to this definition equals 33.8% (year-end 2015: 29.5%). For de Volksbank, the eligible liabilities subordinated to ordinary senior unsecured currently consist of CET1 capital and Tier 2 capital.

De Volksbank monitors MREL developments closely and plans to strenghten and diversify its easily bail-inable buffer to absorb losses accordingly.

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12 As of June 2016, the calculation of the MREL numerator ratio has changed (comparative figures as of year-end 2015 have also been restated resulting in a 0.5% decline from 8.7% to 8.2%), mainly due to adjustments in the numerator: (1) the amount of senior unsecured debt > 1 year is now included based on book value instead of nominal value as de Volksbank believes that using book values is most consistent with the current requirements under the BRRD based on de Volksbank's outstanding liabilities; and (2) deposits from natural persons and SMEs for amounts over € 100,000 with a remaining maturity exceeding 1 year are no longer included.

3.7 Credit risk

Credit risk is a major financial risk for de Volksbank. We are aiming for a healthy credit portfolio so as not to jeopardise the financial position of both our customers and the bank. In 2016, the risk profile of the portfolio improved.

-54%
Decrease in volume default portfolio retail mortgages in 2016

80%
Average Loan-to-Value retail mortgages year-end 2016

Loans and advances to customers

93%
Retail

5%
Corporate

2%
Other

3.7.1 Risk profile

RETAIL MORTGAGES AND OTHER RETAIL LOANS

The credit risk profile of the retail mortgage portfolio in the Dutch market largely determines de Volksbank's credit risk because of its size in relation to the total balance sheet. The mortgage portfolio has a low credit risk profile. The size of the retail mortgage portfolio was gross € 44.9 billion at year-end 2016.

The portfolio's credit risk profile improved further in 2016. We no longer sell any new savings mortgages or investment mortgages, as these have become unattractive for our customers following tax measures taken by the government. Government measures are also making interest-only mortgages less and less tax efficient. This has triggered a gradual shift towards the annuity and linear mortgage categories at the portfolio level. These developments will result in lower exposure per customer and a relative increase in coverage. What is more, the risk profile improved further as the economy picked up and internal measures were tightened.

In addition to the retail mortgage portfolio, there is a relatively small portfolio of other retail loans. Comprising 0.4% of the total loans and advances to customers, this gross € 191 million portfolio covers products such as revolving credit, debit balances in current accounts, personal loans, credit cards and security-backed loans.

SME PORTFOLIO

The SME loan portfolio is characterised by loans provided to small- and medium-sized enterprises (SMEs) with mortgages as collateral. This portfolio's risk profile is in line with the bank's risk appetite.

The total loan portfolio comprises more than 3,800 customers and a gross outstanding amount of € 909 million (gross).

We make a distinction in the loan portfolio based on credit exposure and credit limit. The portfolio mainly consists of customers with credit limits of up to € 1 million.

We are endeavouring to reduce the risk profile. On the one hand we seek to retain customers who are within our risk appetite and to whom we can grant additional loans where necessary, and on the other we look at the options for customers to make additional or accelerated payments, thus reducing the size of the portfolio. The bank's policy did not change in 2016.

PRIVATE AND SUSTAINABLE LOANS

The private and sustainable loan portfolio is de Volksbank's portfolio with other commercial and semi-public loans (excluding the business loans provided to SMEs). The portfolio mostly consists of the ASN Bank portfolio and loans provided to VIVAT.

The ASN Bank portfolio mainly contains loans to housing corporations, healthcare institutions and companies owned by or affiliated with the government. These sectors align well with de Volksbank's objectives and the ASN Bank brand due to their social character. 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), resulting in low risk for this portfolio. Some of the private loans have also been subsumed under sustainable loans via ASN Bank. We provide these loans to sectors contributing to a sustainable society, and to the renewable energy sector in particular.

This may give rise to a concentration risk, which we mitigate by a thorough knowledge of the sector and a careful diversification of investments across geographical areas, types of energy production (solar, wind, thermal storage), underlying sponsors and suppliers (solar panels, wind turbines). In addition, we stipulate sufficient collateral and recovery conditions. As the majority of loans we extend for renewable energy projects involve government-guaranteed electricity prices and guaranteed purchase contracts, decreases in energy prices in the market have a limited impact on income from the projects.

The other part of the private loan portfolio, so excluding the ASN Bank portfolio, predominantly comprises loans to former sister company VIVAT, which participates in our securitisation programmes. Offset mortgages are securitised as part of the securitisation programme, in which respect the savings policy is issued by VIVAT and the mortgage is provided by the bank. VIVAT receives a loan from the bank to finance sub-participations in these securitisation entities. Savings premiums that customers pay on these policies may only be held on deposit with the bank. The amount of the loans is identical to the savings premiums paid (31 December 2016: € 725 million; 31 December 2015: € 763 million). As the loans to VIVAT may be set off against the savings premiums that VIVAT holds with the bank in the event of default, no credit risk on this exposure remains for de Volksbank.

LOANS AND ADVANCES TO THE PUBLIC SECTOR

Loans and advances to the public sector are mostly loans provided to local authorities (municipalities and provinces) or government-guaranteed loans to (public sector) institutions. In addition, we lend cash to municipalities.

LOANS AND ADVANCES TO BANKS AND INVESTMENTS

The loans and advances to banks and the investments are largely the result of liquidity management. They have a low credit risk because of the stringent requirements they must meet to be included in the liquidity portfolio.

INTEREST RATE DERIVATIVES

In the context of asset & liability management, we use interest rate derivatives. These derivative 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

RETAIL MORTGAGES

In credit risk management, we take into account management both on a portfolio level and on an individual customer level.

At the portfolio level, we examine the characteristics in terms of inflow, outflow and status of the performing and non-performing portfolios.

When new loans are granted (the inflow), we see to it that the mortgages provided meet the standards we apply to such aspects as the customer's income and collateral. In accordance with our manifesto, we put customers' interests first. We seek to provide mortgages that customers can afford.

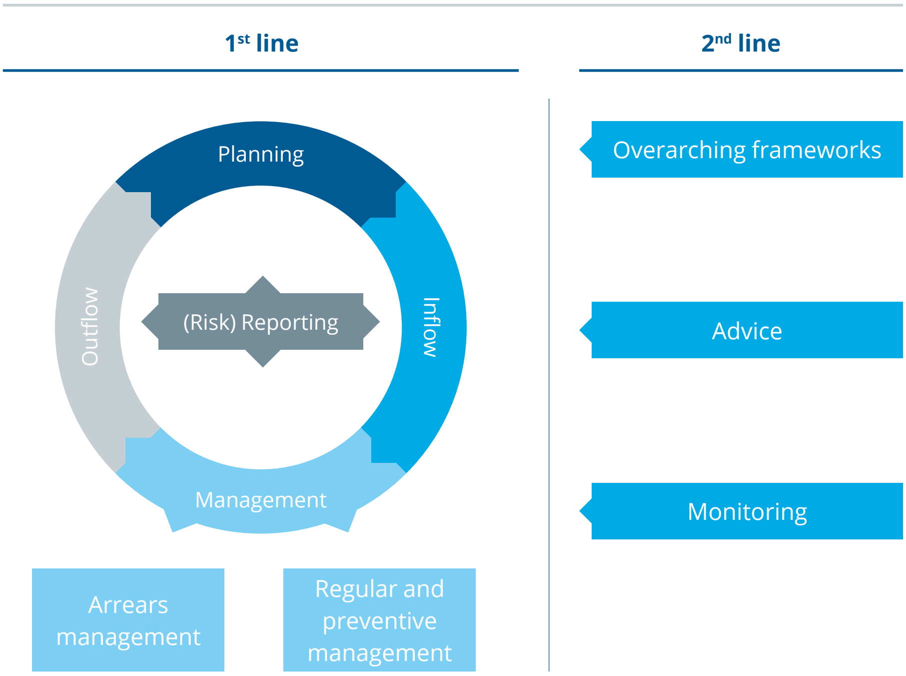
We predict the long-term affordability for the customer by using such tools as the acceptance scorecard. We limit potential losses resulting from credit risk by setting conditions on collateral, such as the value of the collateral and possibly the issue of a guarantee of Nationale Hypotheek Garantie (NHG). See also Section 3.7.10 on risk-mitigating measures.

For the portfolio outflow, attention is devoted to controllable and non-controllable redemptions separately. These are subjected to an examination of the reasons for redemption as well as the characteristics of these items in terms of quality and projected expected loss.

We monitor the development of the performing portfolio mainly in terms of quality, collateral value (such as the average Loan-to-Value or the percentage covered by NHG) and expected loss.

The second line establishes frameworks as part of control. It monitors and provides advice about the quality of the credit exposures and the associated control.

Credit cycle management



ARREARS MANAGEMENT FOR RETAIL CUSTOMERS

We manage the credit risk through an active and customer-oriented policy on customers in arrears in the arrears and default (non-performing) portfolio, offering early help to customers who are running into problems paying their mortgage. 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', see below). If recovery is impossible, we support the customer in selling their home.

Early help to customers who are running into payment problems

FORBEARANCE

We define 'forbearance' as an arrangement or scheme agreed 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 do this to prevent payment problems from arising or increasing or to avoid situations in which the loan has to be called in. The latter is seen in situations where it is expected or may be expected that a customer will fail to meet their financial obligations. The measure may entail a credit 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 a loan, this customer's other products are also at risk. We apply forbearance measures to all of that customer's products and classify all of that customer's contracts as 'forborne'. This is in line with daily practice at arrears management, where we look at the customer's situation as a whole to decide which measures are appropriate. We lay down the forbearance measures in a uniform manner, making the best possible estimate of past measures.

We continuously evaluate the management processes that are part of the credit cycle in terms of their effectiveness and introduce improvements where possible.

SME PORTFOLIO
We monitor our SME customers' payment behaviour using behavioural scoring models that were redeveloped in 2015 and validated in early 2016. The models help to enhance our understanding of the loan portfolios' risk profile, thereby contributing to further improvement of the management cycle.

The models calculate the predictive probability of default and the potential loss for the bank if that default actually occurs, allowing us to identify the customers with a high risk profile at an earlier stage. The early identification of a higher risk profile gives us more options for taking appropriate measures in consultation with the customer.

ARREARS MANAGEMENT FOR CORPORATE CLIENTS
We take direct, proactive action as soon as a corporate client falls into arrears or states that it anticipates payment problems, or the behavioural scoring model shows significantly altered ratios.

Together with our client, we explore the options for restoring the client's liquidity and profitability position based on the key principles of continuity of the client concerned and the potential for loan recovery. As soon as a client has recovered and a stable situation has arisen, arrears management supervision ceases and the client is transferred back to the regular management cycle.

Recovery may not always be possible. In such a situation, we support the client in selling the collateral with the aim of limiting the losses for the client and the bank.

PRIVATE AND SUSTAINABLE LOANS IN THE ASN BANK PORTFOLIO
Asset manager ACTIAM manages the ASN Bank portfolio according to a strict mandate. One major condition is that the private loans may be subject to only few, if any, capital requirements.

We use an internally developed rating model to finance sustainable projects. 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 enables a comparison of the credit quality of projects and monitoring of the portfolio developments. In addition, we use a credit class model to monitor the credit quality of corporate clients.

Returns are low in the sustainable loans market, partly as a result of pressure on rates. We endeavour to finance projects that meet our internal return targets. In addition to return targets, the bank applies targets for CO_2 reduction. We include their impact in our decision-making on funding. The bank does not proceed to provide funding if a project does not satisfy the targets set.

REPORTING
We continuously monitor developments in the loan portfolios and corresponding risk indicators and periodically report on this to the Credit Committee and the Board of Directors.

Every month, we prepare the dashboard for the mortgage portfolio for each brand and discuss it with the relevant stakeholders in the mortgage distribution chain. We provide a detailed report for the loan provisions on a quarterly basis, giving insight into the internal and external developments affecting the amount of the loan provisions.

IFRS 9

The implementation of IFRS 9 on 1 January 2018 requires a substantial number of changes to be made to the determination of provisions in accordance with the new IFRS 9 impairment standard. By way of preparation major steps were taken in 2016, which focused on developing the main components of the IFRS 9 – Impairment framework: the Expected Credit Loss (ECL) models, the determination of the Significant Increase in Credit Risk and the process for determining macroeconomic projections. First- and second-line departments were involved in developing these components. As part of the programme set up by de Volksbank for IFRS 9 implementation, we also have an independent assessment performed as to whether the proposals comply with IFRS 9 requirements.

For the IFRS 9 ECL models, we distinguish a number of portfolios based on homogenous credit risk characteristics. The retail mortgage portfolio is the largest of these portfolios in terms of size. In 2016 we made great strides in modelling the retail mortgage portfolio, resulting in an ECL model that we are presently validating and implementing internally. Most of the ECL models for the other portfolios are under development. A first initial simulation of the IFRS 9 ECL models based on draft model versions supplemented by several assumptions was performed in 2016. In 2017, we will perform parallel runs for all IFRS 9 ECL portfolios to test the implementation and operation of the ECL models. We also started preparations for the drafting and amendment of related policy documents required under IFRS 9.

STRESS TESTING

A comprehensive stress test is performed at least once every year, usually as part of the Internal Capital Adequacy Assessment Process. In 2016 de Volksbank also participated in the SSM[13] SREP stress test exercise, which supplements the EBA's EU-wide stress test. One of the stress test's key elements is to determine the impact that an extreme yet plausible macroeconomic scenario would have on de Volksbank's credit risk. To establish this impact, we use portfolio-specific models based on the historical relationship between the portfolio developments and the main macroeconomic parameters. In defining this relationship, we take account of the customer's characteristics as well as contractual features such as the type of collateral. For retail mortgage portfolios, unemployment rates and house price developments are the main macroeconomic parameters. The portfolios' sensitivities to the various macroeconomic parameters are also subject to assessment.

3.7.3 Figures, ratios and trends

CREDIT RISK EXPOSURE

The following table presents the credit risk exposure on the balance sheet, taking into account the provisions formed that have been deducted from the receivables but not the collateral received or other credit risk mitigating instruments.

[13] SSM: Single Supervisory Mechanism

Credit risk exposure Audited

in € millions	2016	2015
Cash and cash equivalents	2,297	2,259
Loans and advances to banks	2,532	2,081
Loans and advances to customers	48,593	49,217
Investments	5,139	5,708
Derivatives	1,533	1,993
Other	621	639
Assets held for sale	--	16
On-balance sheet exposure to credit risk	**60,715**	**61,913**
Liabilities from irrevocable facilities and guarantees	2,120	1,831
Repurchase commitment[1]	1,222	--
Off-balance sheet exposure to credit risk	**3,342**	**1,831**
Total maximum exposure to credit risk	**64,057**	**63,744**

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. In 2015 these commitments amounted to € 1.4 billion.

Most of the exposures (2016: € 48.6 billion, 80% of the on-balance sheet exposure to credit risk) pertain to ‘Loans and advances to customers’. The decline in this category primarily relates to a € 0.5 billion decline in the ‘loans to the public sector’ category.

The ‘Cash and cash equivalents’ category concerns deposits with the Dutch Central Bank 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 investments in 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
The table below provides a further breakdown of the ‘Loans and advances to customers’ category.

Loans and advances to customers Audited

in € millions	2016	2015
Exposure retail loans	44,962	44,971
- of which residential mortgages	*44,797*	*44,787*
- of which retail other loans	*165*	*184*
Exposure commercial loans	2,578	2,729
- of which commercial loans to SME	*835*	*990*
- of which private loans	*1,743*	*1,739*
Loans to the public sector	1,053	1,517
Total	**48,593**	**49,217**

The exposures within ‘Loans and advances to customers’ are concentrated in the ‘Retail mortgages’ category (92%). An explanation of each category is given in Sections 3.7.4 to 3.7.8.

Loans and advances by region Audited

in € millions	2016	2015
the Netherlands	47,856	48,666
EMU excl. the Netherlands	569	470
Swiss	98	6
United Kingdom	38	40
Other	32	35
Total	**48,593**	**49,217**

Loans and advances to customers by region

in € millions

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

Loans and advances to customers 2016 Audited

in € millions	Gross amount	Specific provision	IBNR provision	Book value loans	Loans in arrears[1]	Non default loans	Impaired default loans[2]	Loans in arrears (%)	Impaired ratio	Coverage ratio
Retail mortgage loans	44,911	-80	-34	44,797	682	260	422	1.5%	0.9%	19.0%
Retail other loans	191	-25	-1	165	44	4	40	23.0%	20.9%	62.5%
Total retail loans	**45,102**	**-105**	**-35**	**44,962**	**726**	**264**	**462**	**1.6%**	**1.0%**	**22.7%**
SME loans[3]	909	-70	-4	835	146	--	146	16.1%	16.1%	47.9%
Other commercial and semi-public loans	1,743	--	--	1,743	--	--	--	--	--	--
Loans to the public sector	1,053	--	--	1,053	--	--	--	--	--	--
Total loans and advances to customers	**48,807**	**-175**	**-39**	**48,593**	**872**	**264**	**608**	**1.8%**	**1.2%**	**28.8%**

1 Retail mortgage loans in arrears exclude loans measured at fair value in the balance sheet of € 23 million.

2 A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations.

3 Gross SME loans include mortgage backed loans for a gross amount of € 815 million.

Loans and advances to customers 2015 Audited

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

1 Retail mortgage loans in arrears exclude loans measured at fair value in the balance sheet of € 30 million.

2 A customer is in default if the period in arrears is longer than 90 days, when a customer has not yet recovered or when a customer is deemed unlikely to pay its credit obligations.

3 Gross SME loans include mortgage backed loans for a gross amount of € 943 million.

Compared to year-end 2015, total gross loans and advances to customers decreased by € 0.8 billion to € 48.8 billion, mainly due to lower loans to the public sector and SME customers. As a result of liquidity management transactions, loans to the public sector decreased by € 0.5 billion. SME loans decreased by € 0.2 billion, in line with the bank's strategy to focus on SME customers with an exposure below € 1 million.

The total loan loss provision as a percentage of total gross loans decreased to 0.44%, from 0.79% at year-end 2015. A more detailed explanation per portfolio is included in the sections below.

EXPOSURE AT DEFAULT

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	2016	2015
Total assets (IFRS balance sheet total)	61,561	62,690
Items that are not subject to credit risk exposure	-846	-777
On-balance sheet exposure to credit risk	60,715	61,913
OFF-BALANCE SHEET		
Credit facilities and guarantees	2,120	1,831
Repurchase commitment[1]	1,222	--
Total maximum exposure to credit risk	**64,057**	**63,744**
Adjustments on assets[2]	--	-475
Valuation adjustments[3]	-4,735	-5,164
Recalculation off-balance credit facilities and guarantees to EAD[4]	-2,072	-972
Total Exposure at Default	**57,250**	**57,133**
Credit risk risk-weighted assets/total exposure at default	15.2%	16.1%

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. In 2015 these commitments amounted to € 1.4 billion.

2 'Adjustments on assets' pertain to securitised mortgages.

3 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).

4 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 2016

Positive developments in the Dutch economy contributed to an improvement in credit quality of the retail mortgage portfolio. Falling unemployment rates reduced the probability of default by customers and rising house prices positively impacted the collateral value.

The acceptance criteria for mortgages were brought in line with the bank's more stringent risk appetite. The current and expected credit quality of customers is an essential part of this, allowing the bank to limit both its own risks and its customers' risks.

In the first half of 2016, we implemented a new method that allows for a more detailed (per municipality and real estate type) and higher frequency (monthly) indexation of the collateral. On average, the new indexation method resulted in a minor increase in the indexed collateral values.

We applied a stricter arrears and preventive management policy concerning the mortgage portfolio to bolster the credit quality improvement. Impaired default loans decreased to € 422 million (€ 921 million at year-end 2015), driven by intensified arrears management that was supported by the economic developments mentioned above. This led to a decline in inflow into default and an increase in customers who recovered. The coverage ratio improved to 19.0% (year-end 2015: 22.5%), which can be interpreted as a reflection of the improved credit quality of the mortgage portfolio.

KEY FIGURES

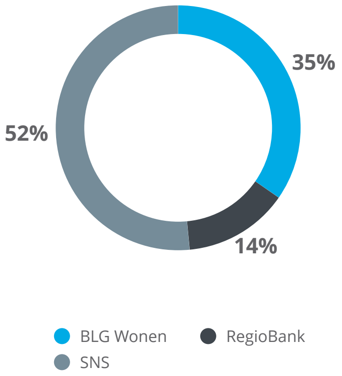
The table below shows the book value of the retail mortgage loans, including the specific provision and the Incurred But Not Reported (IBNR) provision.

Exposure to retail mortgages Audited

in € millions	2016	2015
Residential mortgage loans	44,911	45,044
Specific provision	-80	-207
IBNR provision	-34	-50
Total residential mortgage loans	**44,797**	**44,787**

The total exposure to retail mortgages remained virtually the same in 2016 as new production was offset by redemptions; more customers prefer to repay their mortgages now that interest rates on savings are so low.

Retail mortgages by brand



Remaining principals of retail mortgages Audited

in € millions	2016	2015
Balancesheet amount retail mortgages	44,797	44,787
Credit provision	114	257
IFRS value adjustments[1]	-667	-812
Total remaining principle amounts	**44,244**	**44,232**

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

Remaining principles by brand

in € millions	2016	2015
BLG Wonen	15,282	14,735
RegioBank	6,149	5,538
SNS	22,813	23,959
Total remaining principle amounts	**44,244**	**44,232**

As the table above shows, the SNS brand manages the largest part of the mortgage portfolio within SNS, handling more than half (52%) of the portfolio.

Remaining principles by redemption type

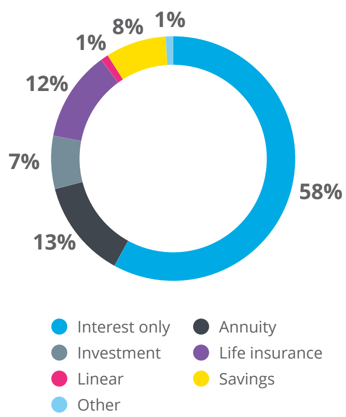
in € millions	2016	2015
Interest only (100%)	13,189	14,091
Interest-only (partially)	12,265	12,461
Annuity	5,783	3,664
Investment	3,268	3,671
Life insurance[1]	5,185	5,727
Savings	3,604	3,864
Linear	525	303
Other	425	451
Total remaining principle amounts	**44,244**	**44,232**

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

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, both the gross amount and the share of annuity and linear mortgages in the total retail mortgage portfolio increased. This development also contributed to the improvement of LtVs.

When an interest-only mortgage matures, a situation may arise in which the refinancing of the loan does not meet the acceptance criteria applicable at that time. Both de Volksbank and the customer accepted the risk when they closed the mortgage loan. In such situations, de Volksbank seeks to retain the customer relationship. We will then aim at refinancing using a repayment component to prevent this situation in the future.

Retail mortgages by redemption type



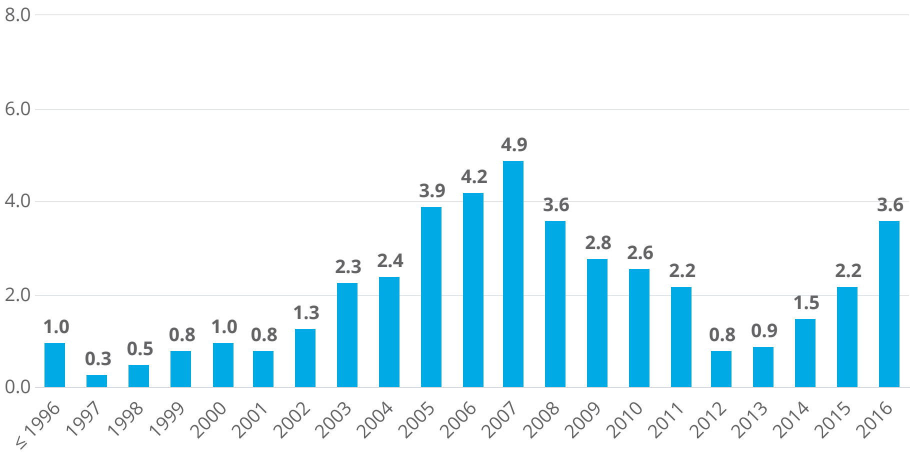
Remaining principles by fixed-rate maturity

in € millions	2016	2015
Floating rate	3,540	4,425
≥ 1 and < 5 yrs fixed	1,757	1,970
≥ 5 and < 10 yrs fixed	6,640	9,414
≥ 10 and < 15 yrs fixed	24,604	21,917
≥ 15 yrs fixed	7,262	6,036
Overig	441	470
Total remaining principle amounts	**44,244**	**44,232**

In line with the trend visible in 2015, the retail mortgage loans with fixed interest rates of 10 years or more increased and the loans with fixed interest rates of less than 10 years decreased. This shift was caused by the continued low interest rate environment. Currently, mortgages with a fixed-rate period of more than 10 years make up approximately 50% of the new mortgage production in the Dutch market.

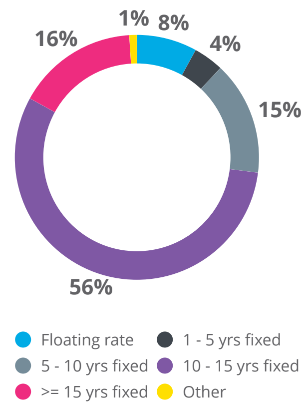
De Volksbank aims to grow its market share in the mortgage market. As a consequence, de Volksbank has increased its share of long-term fixed-rate mortgage loans in its mortgage production. In all, the share of mortgages with fixed interest rates between 10 and 15 years increased from 50% at year-end 2015 to 56%. The shares of floating interest rates and fixed-rates up to 10 years decreased correspondingly.

Remaining principles by year of origin (in billions)



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

Retail mortgages by fixed-rate maturity



The overall risk profile of the retail mortgage portfolio can be divided in the following origination periods:

≤ 2004: Given their time on book and the fact they were originated more than 4 years prior to the crisis, the risk profile of these mortgages is relatively low and stable (less sensitive to macroeconomic changes).

2005-2008: These mortgages have been the primary driver for the overall risk profile of the mortgage portfolio, due to their relative contribution to the total exposure. Compared to more recently originated mortgages, they were subject to less strict acceptance criteria. However, given their current stage in the lifecycle and the state of the Dutch residential housing market, these mortgages are expected to continue to show an improvement in their risk profile.

2009-2011: Mortgages originated during this period were subject to stricter acceptance criteria, but were also negatively impacted by the effects of the crisis and have, therefore, historically shown a relatively high risk profile. Like the mortgages originated in 2005-2008, we expect the risk profile of these mortgages to continue to improve.

2012-2014: In this period, mortgage origination volume was relatively low, acceptance criteria were tightened under more strict external regulations and internal policies and the macroeconomic environment stabilised. All these factors contributed to a low average risk profile.

2015-2016: Mortgages originated in this period contribute relatively little to the overall risk profile (13% of total portfolio). Also, because of the limited time on book, the period in which the risk has been able to materialise is limited.

We expect a positive impact on the overall risk profile from the volume of mortgages that was originated in the past few years, as well as from the volume that will be originated in the years ahead.

LOAN-TO-VALUE BREAKDOWN

The Loan-to-Value (LtV) is the amount borrowed expressed as a percentage of the market 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. In 2016, the maximum statutory LtV for new mortgages dropped by 1%-point to 102%. In 2017 and 2018, the maximum LtV will be lowered to 101% and 100%, respectively.

In 2014, the maximum statutory lending percentage upon origination was already limited to 104%, and in 2015 to 103%. As a major part of the current portfolio consists of mortgages taken out prior to 2013, the impact of the more stringent policy with regard to the lending percentage 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 stricter lending conditions and criteria. Redemptions and the provision of almost all new loans on an annuity basis will reinforce the improvement of the credit risk profile.

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

Breakdown retail mortgages by LtV bucket

in € millions[1]	2016		2015	
National Mortgage Guarantee scheme (NHG)	12,673	30%	12,507	30%
- of which LtV ≤ 75%	3,398	8%	3,092	7%
- of which LtV >75 ≤ 100%	6,125	15%	4,903	12%
- of which LtV >100 ≤ 110%	1,859	4%	2,358	6%
- of which LtV >110 ≤ 125%	1,126	3%	1,810	4%
- of which LtV > 125%	165	0%	344	1%
Non-NHG	29,483	70%	29,705	70%
- of which LtV ≤ 75%	14,230	34%	13,427	32%
- of which LtV >75 ≤ 100%	8,450	20%	7,637	18%
- of which LtV >100 ≤ 110%	3,182	8%	3,223	8%
- of which LtV >110 ≤ 125%	2,824	7%	4,054	10%
- of which LtV > 125%	797	2%	1,364	3%
Total	**42,156**	**100%**	**42,212**	**100%**
IFRS value adjustments[2]	667		812	
Savings deposits	2,088		2,020	
Credit provisions	-114		-257	
Total retail mortgage loans	**44,797**		**44,787**	

1 LtV based on indexed market value of collateral.

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

Collateral values are indexed based on house price developments. Loan-to-Values (LtVs) of retail mortgage loans improved as a consequence of increased residential house prices, resulting in shifts of loans to lower LtV classes as well as in an improvement within LtV classes. In the first half of 2016, we implemented a new method that allows for a more detailed (per municipality and real estate type) and higher frequency (monthly) indexation of collateral. This new method resulted in a minor increase in the average indexed collateral values. Comparative figures have been adjusted accordingly. In addition to this, LtVs improved due to redemptions.

The amount of a 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 a NHG guarantee.

As of 1 July 2015, the National Mortgage Guarantee (NHG) maximum has been lowered from € 265,000 to € 245,000. Taking into consideration the increase in residential house prices since then, the planned reduction to € 225,000 as of 1 July 2016 was cancelled. As from 1 January 2017, the NHG maximum will be € 247,500 and € 259,700 for homes without and with energy saving measures respectively.

Although the share of NHG mortgages in de Volksbank's new production declined from 59% in 2015 to 36% in 2016, it remained virtually stable at 30% at portfolio level.

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

Arrears in retail mortgage loans Audited

in € millions	2016	2015
No arrears	44,206	43,697
Arrears non-default loans	282	420
- of which 1 - 3 months in arrear	*282*	*418*
- of which 4 - 6 months in arrear	--	*1*
- of which 7 - 12 months in arrear	--	*1*
- of which > 12 months in arrear	--	--
Arrears impaired default loans	423	927
- of which 1 - 3 months in arrear	*132*	*240*
- of which 4 - 6 months in arrear	*75*	*169*
- of which 7 - 12 months in arrear	*75*	*157*
- of which > 12 months in arrear	*141*	*361*
Subtotal arrears[1]	**705**	**1,347**
Provision	-114	-257
Totaal	**44,797**	**44,787**

1 'Loans in arrears' do include mortgages that are stated at market value in the balance sheet (2016: € 23 million, 2015: € 30 million). The 'loans in arrears' in the table coverage ratio do not include these amounts.

The total book value of retail mortgage loans in arrears decreased by € 642 million, to € 705 million (-48%) compared to year-end 2015. This decrease was visible in all periods in arrears, mainly driven by our intensified focus on recoveries and preventing payment arrears altogether. The decrease was also supported by the positive economic developments mentioned above.

MOVEMENTS IN PROVISION
The table below shows the movements in the provision for 2016.

Movement provision retail mortgages Audited

	Specific		IBNR		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015
Balance as at 1 January	207	266	50	60	257	326
Withdrawals/usage	-75	-108	-7	--	-82	-108
Additions	22	85	13	12	35	97
Releases	-78	-41	-22	-22	-100	-63
Other changes	4	5	--	--	4	5
Balance as at 31 December	**80**	**207**	**34**	**50**	**114**	**257**

The specific loan loss provision for the retail mortgage portfolio decreased by € 127 million in 2016. We devoted more attention to customers who are in arrears for a prolonged period of time. In cases where recovery was no longer possible, this led to more foreclosures. A high number of these foreclosures resulted in a usage of the provision. The usage of the provision was lower than in 2015 as 2016 saw further recoveries and improved results on homes sold.

The additions to the provision in 2016 were lower than in 2015, mainly driven by a lower inflow of new default loans.

Foreclosures, more than sufficiently provided for in previous years, contributed positively to the release of the provision in both years.

The IBNR provision dropped by € 16 million to € 34 million in 2016, which is in line with the lower risk profile of the retail mortgage portfolio.

COVERAGE RATIO

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	2016	2015
Gross amounts	**44,911**	45,044
Loans in arrears[1]	682	1,317
Non default	260	396
Impaired default	422	921
Specific provision	-80	-207
Percentage loans in arrears	1.5%	2.9%
Impaired ratio	0.9%	2.0%
Coverage ratio	19.0%	22.5%

1 'Loans in arrears' do not include mortgages that are stated at market value in the balance sheet (2016: € 23 million, 2015: € 30 million).

The credit quality of retail mortgage loans improved considerably. Impaired default retail mortgage loans fell by € 499 million, driven by intensified arrears management and supported by a further improvement of the Dutch economy and housing market. This led to a decline in inflow of customers into default and an increasing number of customers who recovered from an arrear.

PORTFOLIO BREAKDOWN BY INTERNAL RATING GRADE

Most of the mortgage loan collateral is located in the Netherlands. In order to weigh the credit risk in this portfolio, we use an internally developed AIRB model, PHIRM. 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 of the retail mortgage portfolio. They form the basis of the IFRS loan provision calculations, but also serve as input for vital internal risk reports.

In April 2016, the calibrated models (EAD, PD and LGD) for the retail mortgage portfolio (PHIRM 2.1) were deployed following the regular approval process. This calibration consisted of the use of more recent data as well as the use of a new collateral indexation method.

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

PD-risk category retail mortgages 2016

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

PD-risk category retail mortgages 2015

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

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

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

3.7.5 Other retail loans

MAIN DEVELOPMENTS IN 2016

The size of the portfolio of other retail loans decreased from € 219 million gross to € 191 million during 2016. The decrease was primarily caused by the outflow of customers with personal loans and revolving credit and by the settlement of most of the securities loan portfolio.

KEY FIGURES

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

Exposure to other retail loans Audited

in € millions	2016	2015
Other retail loans	191	219
Specific provision	-25	-33
IBNR provision	-1	-2
Total other retail loans	**165**	**184**

Arrears in other retail loans Audited

in € millions	2016	2015
No arrears	147	158
Arrears non-default loans	4	13
- of which 1 - 3 months in arrear	*4*	*13*
- of which 4 - 6 months in arrear	--	--
- of which 7 - 12 months in arrear	--	--
- of which > 12 months in arrear	--	--
Arrears impaired default loans	40	48
- of which 1 - 3 months in arrear	*7*	*1*
- of which 4 - 6 months in arrear	*2*	*3*
- of which 7 - 12 months in arrear	*2*	*4*
- of which > 12 months in arrear	*29*	*40*
Subtotal arrears	**44**	**61**
Provision	-26	-35
Totaal	**165**	**184**

The total amount of loans and advances in arrears dropped from € 61 million to € 44 million at year-end 2016. This drop is primarily attributable to the settlement of the securities loan portfolio in the first quarter of 2016.

MOVEMENT IN PROVISION
The statement of changes in the provision for other retail loans dropped even more in 2016, mainly driven by withdrawals resulting from the settlement of customers in default.

Statement of changes in provision for other retail loans Audited

	Specific		IBNR		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015
Balance as at 1 January	33	52	2	3	35	55
Withdrawals/usage	-9	-24	--	--	-9	-24
Additions	3	7	--	1	3	8
Releases	-2	-2	-1	-2	-3	-4
Balance as at 31 December	**25**	**33**	**1**	**2**	**26**	**35**

Coverage ratio other retail loans Audited

in € millions	2016	2015
Gross loans	191	219
Loans in arrears	44	61
Non default	4	13
Impaired default	40	48
Specific provision	-25	-33
Percentage loans in arrears	23.0%	27.9%
Impaired ratio	20.9%	21.9%
Coverage ratio	62.5%	68.8%

The change in the portfolio's coverage ratio to 62.5% in 2016 is particularly the result of a decline in loans in arrears.

3.7.6 SME loans

MAIN DEVELOPMENTS IN 2016
In 2016 we devoted attention to risk profile reduction. The size of the loan portfolio decreased further from € 990 million (net of provisions) to € 835 million.

On a gross basis, SME loans decreased from € 1,089 million at year-end 2015 to € 909 million. Within the SME segment, de Volksbank targets the market for small businesses and thus focuses on smaller loans. In that context we seek to actively phase out loans in excess of € 1 million, taking into account the interests of our existing customers.

The credit quality of the SME loan portfolio improved. Impairment charges on SME loans decreased. The loans in arrears dropped from € 178 million at year-end 2015 to € 146 million. The coverage ratio for SME loans is 47.9%, compared to 53.4% at year-end 2015.

KEY FIGURES

Exposure to SME loans Audited

in € millions	2016	2015
SME loans	909	1,089
Specific provision	-70	-95
IBNR provision	-4	-4
Total retail other loans	**835**	**990**

The SME loan portfolio contracted further, mainly on the back of the decline in the segment with loans in excess of € 1 million.

Arrears in SME loans Audited

in € millions	2016	2015
No arrears	763	911
Arrears non-default loans	--	--
Arrears impaired default loans	146	178
- of which 1 - 3 months in arrear	*19*	*10*
- of which 4 - 6 months in arrear	*4*	*6*
- of which 7 - 12 months in arrear	*10*	*21*
- of which > 12 months in arrear	*113*	*141*
Subtotal arrears	**146**	**178**
Provision	-74	-99
Totaal	**835**	**990**

Our focus in 2016 on the recovery of defaults and the prevention of new defaults, supported by positive developments in the economy, resulted in a decrease in all periods in arrears of 4 months and more.

MOVEMENT IN PROVISION
The movements in the provision for SME loans for 2016 were as follows:

Statement of changes in provision for SME loans Audited

	Specific		IBNR		Total	
in € millions	2016	2015	2016	2015	2016	2015
Balance as at 1 January	95	123	4	6	99	129
Withdrawals/usage	-26	-27	--	--	-26	-27
Additions	12	24	--	--	12	24
Releases	-15	-25	--	-2	-15	-27
Other changes	4	--	--	--	4	--
Balance as at 31 December	**70**	**95**	**4**	**4**	**74**	**99**

The improved economic conditions combined with improved arrears management translated into a lower inflow of new default customers and a decline in the number of existing default customers. The lower inflow of new default customers resulted in lower additions to the provision for SME loans compared with 2015. The decline in the number of existing default customers and higher proceeds from assets sold created releases in the provision in 2016, just as in 2015.

COVERAGE RATIO
The coverage ratio gives the coverage of the specific provision formed in relation to the impaired default loans, expressed as a percentage, as included in the table below.

Coverage ratio SME loans Audited

in € millions	2016	2015
Gross loans	909	1,089
Loans in arrears	146	178
Non default	--	--
Impaired default	146	178
Specific provision	-70	-95
Percentage loans in arrears	16.1%	16.3%
Impaired ratio	16.1%	16.3%
Coverage ratio	47.9%	53.4%

The higher valuation of the collateral provided to us and the write-off of a few large loans with an extremely high coverage ratio translated into a change in the coverage ratio.

3.7.7 Private and sustainable loans

Private loans Audited

in € millions	2016	2015
Private loans to VIVAT	725	763
Private loans ASN Bank	949	965
- of which sustainable project funding ASN Bank	*346*	*327*
Other loans to private sector	69	11
Total	**1,743**	**1,739**

MAIN DEVELOPMENTS IN 2016

The size of the total private loan portfolio remained stable in 2016. The private loans at ASN Bank showed a gradual decrease on account of scheduled mortgage payments.

In 2016, we had positive experiences with the new policy framework established for private loans in 2015. Stricter requirements regarding analysis, approval and reporting have applied to this portfolio since the implementation of the framework. We also started using an internally developed key ratio scoring model.

3.7.8 Loans and advances to the public sector

Loans and advances to the public sector Audited

in € millions	2016	2015
Total loans and advances to the public sector	1,053	1,517
- of which private loans ASN Bank	*685*	*772*

As fewer cash loan have been provided to the public sector, at year-end 2016 the total loans and advances to the public sector were € 0.5 billion lower than at year-end 2015.

ASN Bank's private loans to the public sector in the Netherlands dropped in 2016 from € 772 million to € 685 million on account of scheduled mortgage payments.

3.7.9 Investments

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

Breakdown of fair value investments (rating) Audited

in € millions	2016	2015
AAA	2,691	3,236
AA	2,165	2,161
A	232	173
BBB	30	112
< BBB	--	--
No rating	21	26
Total	**5,139**	**5,708**

INVESTMENTS ASN BANK PORTFOLIO

The table below provides a breakdown of investments at ASN Bank.

Investments ASN Bank portfolio Audited

in € millions	2016	2015
Government bonds	3,217	3,581
Greenbonds and sustainable bonds	465	421
Other (corporate)bonds	656	602
Equity	16	15
Total	**4,354**	**4,619**

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 us to invest in fixed-income securities in the fields of renewable energy, energy reduction and biodiversity. These bonds contribute to achieving de Volksbank's internal objective of having a fully carbon-neutral balance sheet by 2030.

OTHER (CORPORATE) BONDS
The portfolio contains other (corporate) bonds with a moderate risk profile.

INVESTMENTS OTHER COMMERCIAL PORTFOLIO

Investments other commercial portfolio Audited

in € millions	2016	2015
Government bonds	620	755
Other (corporate)bonds	160	323
Equity	5	11
Total	**785**	**1,089**

The decrease in this portfolio is attributable to liquidity management.

3.7.10 Risk mitigation

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

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

The 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 € 989 million (2015: € 1,268 million).

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

Financial assets and liabilities 2016 Audited

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

Financial assets and liabilities 2015 Audited

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

COLLATERAL

Retail mortgages

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

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

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

SME portfolio

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

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

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

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

Exposure secured by collateral, guarantees and credit derivatives 2016

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

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

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

Exposure secured by collateral, guarantees and credit derivatives 2015

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

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

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

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

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

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

We do not use credit derivatives as collateral.

Collateral concentration Audited

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

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

COUNTERPARTY RISK ON DERIVATIVE POSITIONS

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

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

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

Other risk-mitigating measures include the following:

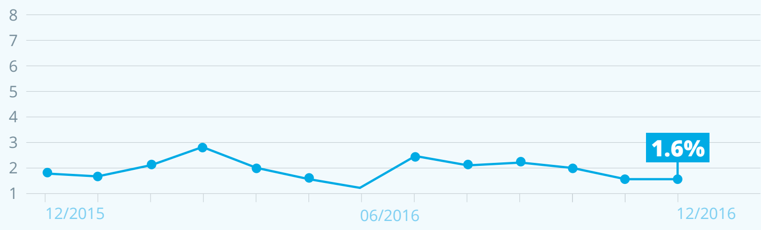
- De Volksbank checks every day whether the market value development of positions with collateral arrangements are proportionate to the collateral to be received or to be provided;
- De Volksbank settles forward exchange transactions via the Continuous Linked Settlement system, a global settlement system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

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

3.8 Market risk

In 2016, market risk was strongly influenced by higher mortgage prepayments. We aimed at a low interest rate sensitivity of our equity. Our trading positions are limited.

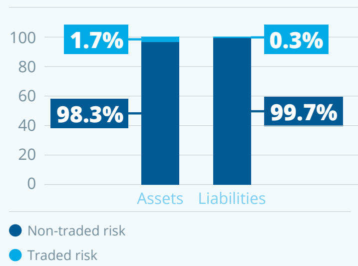
Duration of equity in 2016



€50mln

Volume of Earnings at Risk year-end 2016

Market risk exposure year-end 2016



The market risk arises because de Volksbank concludes contracts and enters into obligations with customers and professional counterparties. We enter into these contracts and obligations for the purposes of services to customers and for the purposes of raising funding, investing funds and other transactions as part of balance sheet management. Market risk occurs in the banking book and the trading portfolio.

3.8.1 Risk profile

The market risk in the banking book mainly comprises interest rate risk. The equity risk in the banking book is very limited with an equity exposure of € 21 million. The exchange rate risk is minimised in the banking book 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 trading portfolio, which is limited in size, contains interest rate, credit spread and exchange rate positions.

3.8.2 Developments in 2016

Market rates continued their downward trend throughout 2016 as compared to the level of 2015. It was mainly because of this, and partly because of the improving housing market, that a relatively large number of customers redeemed their mortgages early or converted them – early or according to schedule – to longer-term fixed-rate mortgages. The conversion of mortgages to a longer term raises the interest rate risk. We mitigated this risk by steering the interest rate risk profile using interest rate swaps. In addition, low market rates resulted in lower mortgage and savings rates in 2016.

3.8.3 Management and control Audited

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk management aims to protect and optimise the economic value of current and future interest cash flows and to achieve a stable net interest income. We take an optimal interest rate position, taking account of projected portfolio changes and 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 such matters as future prepayments on mortgage loans, early adjustments of mortgage rates, behavioural aspects of demand deposits, customer options in the products as well as 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 make adjustments by means of interest rate derivatives in particular. The interest rate risk measures are reported to the ALCO on a monthly basis.

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

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

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

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

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

MARKET RISK IN THE TRADING BOOK

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 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%.

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.

3.8.4 Figures, ratios and trends

MARKET RISK EXPOSURE TRADED AND NON-TRADED 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 traded and non-traded risk

in € millions	Carrying amount	Market risk measure Non-traded risk	Market risk measure Traded risk	Carrying amount	Market risk measure Non-traded risk	Market risk measure Traded risk	Primary Risk Sensitivity
	2016	2016	2016	2015	2015	2015	
ASSETS SUBJECT TO MARKET RISK							
Investments held for trading	831	--	831	668	--	668	interest rate, exchange rate, credit spread
Investments available for sale	5,139	5,139	--	5,708	5,708	--	interest rate, credit spread
Derivatives	1,533	1,310	223	1,993	1,797	196	interest rate, exchange rate, credit spread
Loans and advances to customers	48,593	48,593	--	49,217	49,217	--	interest rate
Loans and advances to banks	2,532	2,532	--	2,081	2,081	--	interest rate
Cash and cash equivalents	2,297	2,297	--	2,259	2,259	--	interest rate
Assets held for sale	--	--	--	110	16	94	interest rate, exchange rate, credit spread
Other	636	636	--	654	654	--	
Total assets	**61,561**	**60,507**	**1,054**	**62,690**	**61,732**	**958**	
LIABILITIES SUBJECT TO MARKET RISK							
Subordinated debts	501	501	--	493	493	--	interest rate
Debt certificates	5,696	5,696	--	6,941	6,941	--	interest rate, exchange rate
Derivatives	1,861	1,673	188	2,189	1,984	205	interest rate, exchange rate, credit spread
Savings	36,593	36,593	--	36,860	36,860	--	interest rate
Other amounts due to customers	10,835	10,835	--	10,580	10,580	--	interest rate
Amounts due to banks	1,446	1,446	--	1,000	1,000	--	interest rate
Other	4,629	4,629	--	4,627	4,627	--	
Total liabilities	**61,561**	**61,373**	**188**	**62,690**	**62,485**	**205**	

The overview demonstrates that, given its activities, de Volksbank is most sensitive to the non-traded interest rate risk of the banking book.

MARKET RISK PROFILE BANKING BOOK
INTEREST RATE RISK

Specification interest rate risk

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

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

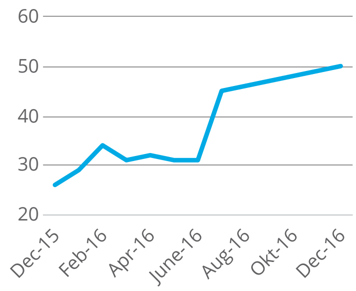
At year-end 2016, the EaR was € 50 million (€ 26 million at year-end 2015). The net interest income is most sensitive to the ‘steepener’ scenario. In this scenario, the yield curve steepens, with interest rate points for less than twelve months gradually falling by a maximum of -/- 200 basis points and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

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

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

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

Development Earnings at Risk (in € millions)



Sensitivity interest rates Audited

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

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

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

Net interest income
An interest rate hike yields a positive impact on net interest income of € 16 million, predominantly triggered by the gradual pass-through of the rate hike to floating-rate mortgages and our liquidity position. An interest rate decrease has a negative impact of € 34 million, primarily driven by the assumption that the decrease will be passed through to savings rates to a lesser extent than to floating-rate mortgages and our liquidity position.

Fair value option
An interest rate hike has a negative impact on the mortgages accounted for at fair value and a positive impact on the corresponding derivatives. These effects are reversed in the event of an interest rate decrease. The negative impact of an interest rate hike on the mortgages is not as substantial as the positive impact produced by the derivatives, resulting in an overall positive impact of € 3 million. In

the event of an interest rate decrease, swap rates for the valuation of derivatives are capped at -/-0.75%, which limits the negative effect. This cap does not apply to the mortgage portfolio as customer rates are still positive in the event of a 1% interest rate decrease. As a result, in the event of an interest rate decrease its negative impact on the derivatives is more than offset by the positive impact ensuing from the mortgage portfolio, resulting in an overall impact of € 2 million.

IFRS equity

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

MARKET RISK PROFILE IN THE TRADING BOOK

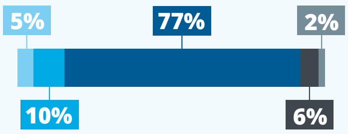
De Volksbank has a limited trading book. Market risk is managed on a daily basis using portfolio limits for a 1-day Value at Risk (VaR) with 99% confidence, as well as portfolio limits for a fixed set of stress scenarios. The total VaR limit for the trading book was € 3 million in early 2016, thereby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

3.9 Liquidity management and financing

The bank maintains a strong liquidity position to continuously meet its financial obligations. Retail savings are increasingly important in our funding mix. In 2016, our long-term credit ratings have improved.

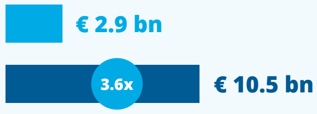
€10.5bn
Volume of strong liquidity buffer

Financieringsmix



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

Wholesale funding maturing in 2017 vs liquidity buffer



- Wholesale funding maturing in 2017
- Liquidity buffer

BBB+/Baa1
Long-term senior unsecured credit rating

Liquidity risk is the risk that de Volksbank 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 management supports de Volksbank's strategy and is in line with our risk appetite.

3.9.1 Risk profile

The bank has a strong liquidity position so as to retain its ability to meet its financial obligations at all times. We manage our liquidity position in such a way that it can absorb the consequences of bank-specific stress factors such as tensions in the money and capital markets.

The basic principle in meeting its liquidity need is support of de Volksbank's retail strategy, in which respect it aims for diversification of funding sources. That is why we fund ourselves with various funding instruments with a spread of maturities, markets, regions and investor types.

3.9.2 Developments in 2016

In 2016 de Volksbank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements. In the fourth quarter of 2016, de Volksbank successfully issued a € 0.5 billion covered bond with a maturity of 15 years. This transaction, the first covered bond issuance since 2012, reflects de Volksbank's good access to the capital market.

The decline of the Loan-to-Deposit ratio to 104% from 105% at year-end 2015, was mainly due to a decline of € 0.3 billion in SME loans and loans to the public sector, whereas deposits increased by € 0.1 billion.

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained above the (future) regulatory minimum of 100%. This minimum already applies to the LCR, and it will apply to the NSFR as from 2018.

3.9.3 Management and control Audited

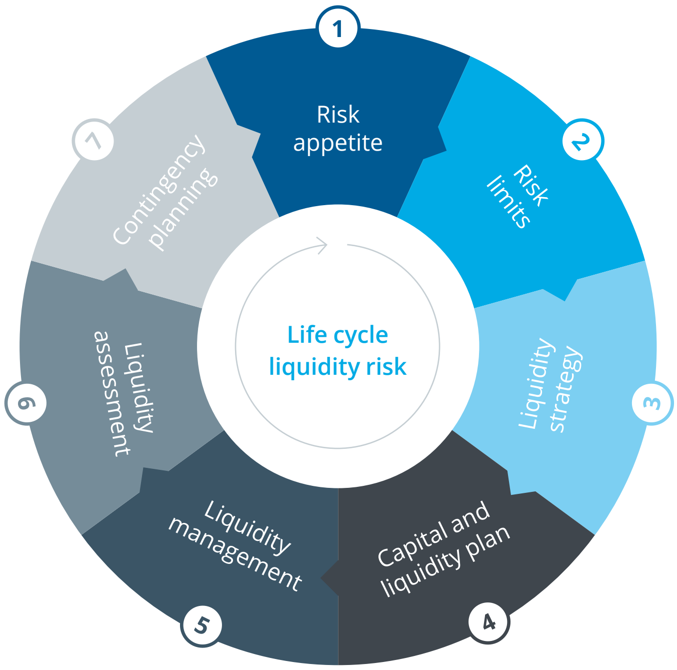
Liquidity management supports our strategy and is in line with our risk appetite. Liquidity risk management begins by identifying, measuring and controlling the various types of liquidity risk. This system of frameworks, methods and guidelines is laid down in the liquidity risk policy.

To meet our financial obligations at all times, we maintain a liquidity buffer consisting of the cash position, a low-risk eligible bond portfolio largely comprising government bonds, and Residential Mortgage Backed Securities (RMBS) secured by the bank's mortgages. The desired buffer size is determined on the basis of stress tests performed on the bank's liquidity position. We then steer the liquidity to the preferred level.

Every year we review our strategic objectives, while identifying all associated risks. Based on the risk appetite we determine the frameworks for the liquidity need. We then draft a capital and liquidity plan, which forms part of the operational plan cycle. The capital and liquidity plan compares the projected available liquidity with the required liquidity amount ensuing from the operational plan. This is done for both the total liquidity buffer and the cash position. We work out multiple scenarios to this end. We compare the available liquidity with the internal standards derived from the current regulatory framework. Instruments to raise funding and to strengthen the liquidity buffer are used to steer liquidity.

We make adjustments to achieve the desired liquidity position based on business plans and the requirements imposed by supervisory authorities, rating agencies and investors. Our appeal to investors, which can be inferred from credit ratings as well as from general developments in the financial markets, is decisive for our access to the capital markets and the feasibility of liquidity actions.

Liquidity management process



MANAGEMENT INSTRUMENTS

KEY LIQUIDITY RATIOS

Two liquidity ratios have been introduced in the context of the EU regulation and directive CRR/CRD IV: the LCR and the NSFR. The purpose of the LCR is to test whether sufficient liquid assets are available to absorb a thirty-day stress scenario. Having a horizon of one year, the NSFR serves to determine the extent to which longer-term assets are financed with more stable forms of funding. The regulatory standard for both liquidity measures is 100%. This minimum will apply to the NSFR as from 2018. In managing the liquidity position we focus on both the total liquidity position that we report in the liquidity reports to DNB and the LCR and NSFR. We also focus on the Loan-to-Deposit ratio and the degree of asset encumbrance in managing the liquidity position.

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 and contractual wholesale cash flows within 10 days.

LIQUIDITY BUFFER
The purpose of the liquidity buffer, of which the cash position also forms part, is to absorb unexpected changes/increases in our liquidity need. We set high liquidity requirements on the underlying investments that can be used as collateral.

The liquidity buffer comprises (highly) liquid investments that are not only eligible as ECB collateral but can also be sold in (highly) liquid markets or can be used in repo transactions.

The liquidity buffer mainly consists of government bonds and debt certificates of de Volksbank's own securitisations. The liquidity value of investments in the liquidity buffer is determined on the basis of the market value of the investments after application of the ECB haircuts. The ECB periodically publishes a list of permitted collateral along with their corresponding haircuts, which are mark-downs on the liquidity value in case of lending.

LIQUIDITY STRESS TESTING
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 greatest impact. In this scenario we take into account, among other things, a strong outflow of savings and credit funds, a lack of funding options in the money and capital markets, and a decline in the market value of the liquidity buffer. The combined severe stress test also considers the additional collateral requirements in the event of a 3-notch downgrade in de Volksbank's rating, a decline in the market value of derivatives and a possible liquidity outflow in the event that committed credit lines are drawn. De Volksbank's liquidity management is aimed at surviving this severe stress scenario for a certain minimum period of time. We update the combined severe stress test every month and review the stress testing principles every year.

CONTINGENCY PLANNING AND RECOVERY PLAN
The financial crisis led us to increase our focus on contingency planning, which is intended to safeguard de Volksbank's continuity. The contingency planning is worked out in the liquidity contingency plan as part of the recovery plan (see Section 3.6.3).

3.9.4 Figures, ratios and trends
In 2016 de Volksbank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements.

Key liquidity indicators

	2016	2015
LCR	>100%	>100%
NSFR	>100%	>100%
Loan-to-Deposit ratio[1]	104%	105%
Liquidity buffer (in € millions)	10,533	12,136

1 The Loan-to-Deposit ratio is calculated by dividing retail loans by retail funding.

The LCR and NSFR remained well above the (future) regulatory minimum requirement of 100%. The LCR is based on the LCR Delegated Act definition, which came into force for banks within the European Union on 1 October 2015. The regulatory minimum requirement of 100% for the LCR already applies, while the regulatory minimum requirement of 100% for the NSFR will apply as from 2018.

The table below shows the liquidity buffer composition, with liquid assets included at market value after the ECB haircut.

Liquidity position Audited

in € millions	2016	2015
Cash position[1]	2,816	2,447
Sovereigns	2,713	3,762
Regional/local governments and supranationals	755	702
Other liquid assets	351	413
Eligible retained RMBS	3,898	4,812
Liquidity buffer	**10,533**	**12,136**

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

The liquidity buffer remained high, but nevertheless declined to € 10.5 billion from € 12.1 billion at year-end 2015. This was more than sufficient to withstand the severe stress scenario for a certain period of time (see Section 3.9.3). An amount of € 0.5 billion government bonds was sold or redeemed in 2016. In addition, the amount of sovereign debts in the liquidity buffer declined due to a higher volume of repo transactions in which government bonds were used as collateral. Eligible retained RMBS decreased due to the repayment of mortgages underlying the securitised positions and the exercise of the call option of the Hermes XII securitisation.

The cash position increased by € 0.4 billion in 2016. Cash outflows from wholesale redemptions of € 2.0 billion were more than offset by cash inflows. Cash inflows mainly stemmed from a € 0.7 billion higher volume of repo transactions, the € 0.5 billion reduction in government bonds, the € 0.5 billion inflow from a covered bond transaction and the € 0.3 billion inflow from the reduction in SME loans and loans to the public sector. Furthermore, deposits increased by € 0.1 billion and net earnings contributed to cash inflows.

In addition to the liquidity buffer, the current volume of de Volksbank's short-term cash management investments outside the cash definition equalled € 2.0 billion versus € 1.9 billion at year-end 2015. This volume is also available as liquidity at short notice.

3.9.5 Encumbered and unencumbered assets

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

Encumbered and unencumbered assets 2016

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

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

Encumbered and unencumbered assets 2015

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

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

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

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

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

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

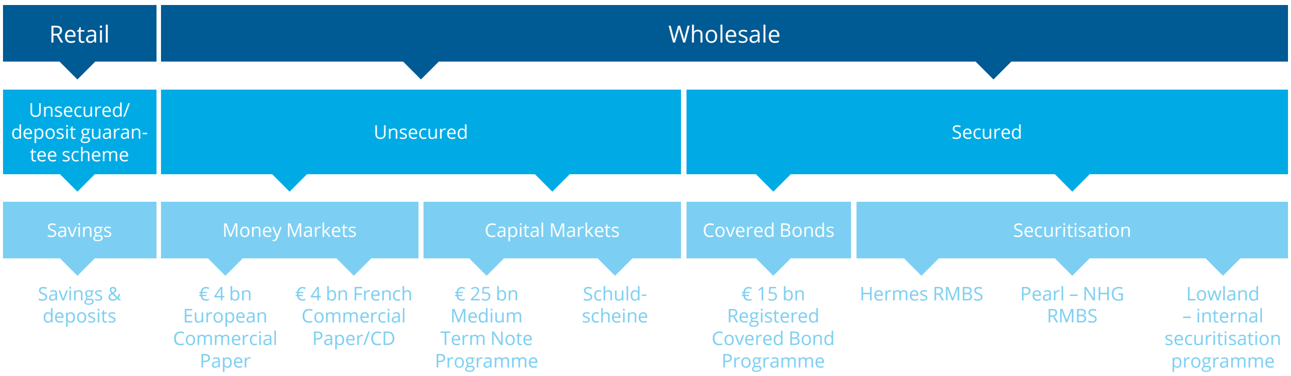
TOTAL ENCUMBERED ASSETS
The Bank's total encumbered assets amount to € 10.0 billion (2015: € 11.3 billion) and mainly consist of pledged mortgages related to securitisation transactions. The total amount of liabilities related to these assets amounts to € 8.2 billion (2015: € 7.6 billion) and mainly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

3.9.6 Funding strategy

De Volkbank's funding strategy aims at optimising and ensuring access to diversified funding sources in order to maintain the bank's targeted long-term funding position and liquidity profile, while complying with regulatory requirements at all times. Savings from retail customers are the primary funding source and constitute a sound core funding base that is complemented by wholesale funding.

The figure below presents an overview of the various public funding programs (including maximum volumes) of de Volksbank. In addition, other important sources of funding are presented.

Funding instruments

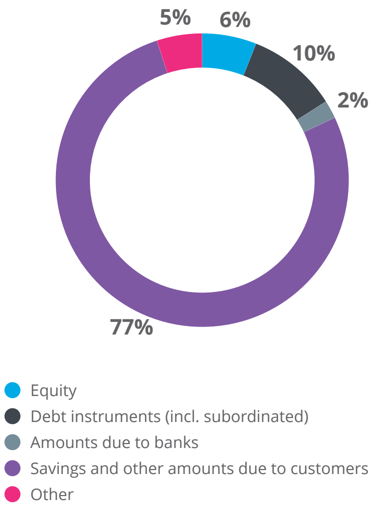


Through our different brands, we attract term deposits, sight deposits and current account balances from retail customers. Furthermore, de Volksbank funds itself via savings and current account balances from SME customers. In 2016, total deposits increased to € 46.2 billion, from € 46.1 billion at year-end 2015.

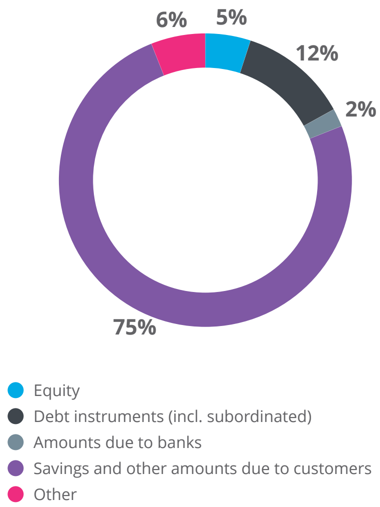
De Volksbank also attracts funding from the capital market, taking into account the actual situation on the financial markets. We aim to diversify our sources of wholesale funding. Therefore, de Volksbank funds itself with various funding instruments spread over different maturities, markets, regions and investor types.

The figures below present an overview of the composition of total liabilities and equity as of year-end 2016 and year-end 2015. The information presented is based on the book value of the positions. An increasing percentage of our funding is made up of savings and other amounts due to customers.

Liability mix 2016: € 61.6 billion

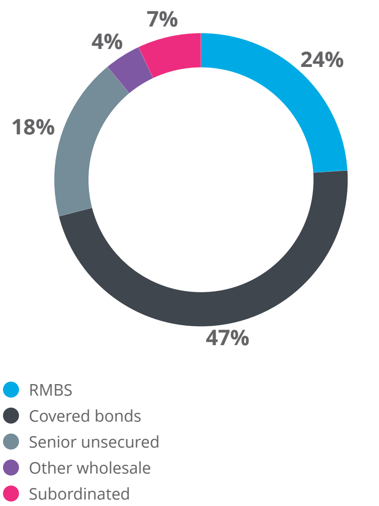


Liability mix 2015: € 6.7 billion

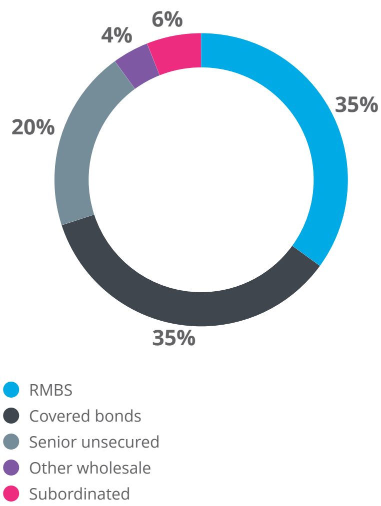


In the capital market, de Volksbank issues term funding with a term in excess of one year by means of senior unsecured debt, (mortgage) securitisations (RMBS), covered bonds and subordinated debt. De Volksbank issues funding with a term of less than one year in the money markets via European and French commercial paper programmes. The covered bond programme permits not only 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 overview below presents the various public funding programmes (including maximum amounts) available to de Volksbank. In addition, the overview includes other important funding sources.

Wholesale funding mix 2016: € 7.4 billion



Wholesale funding mix 2015: € 8.9 billion

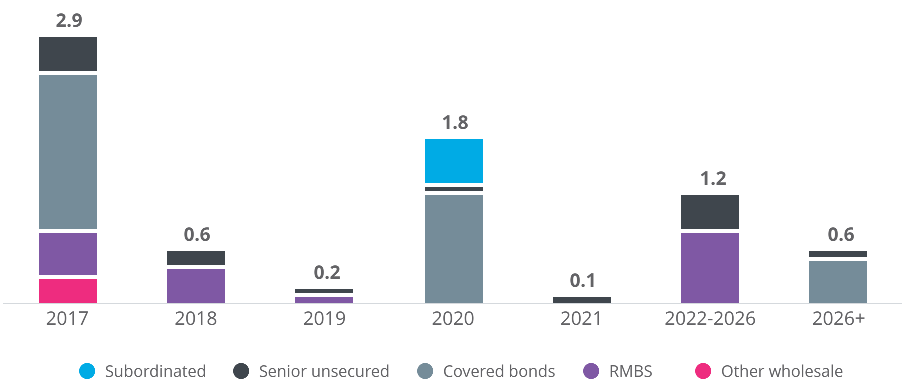


The information presented is based on the nominal value of the positions. This nominal value differs from the IFRS measurement in the balance sheet, which is predominantly based on amortised cost.

The figures above present an overview of the outstanding wholesale funding with an original maturity of more than one year as of year-end 2016 and year-end 2015. In the balance sheet, such wholesale funding is recognised under debt certificates, amounts due to banks and other amounts due to customers. The change in the wholesale funding mix in 2016 was primarily the result of redemptions of senior unsecured debt (€ 0.5 billion) and in respect of the Hermes XII (€ 0.6 billion) and Pearl 2 (€ 0.5 billion) securitisations, next to the issuance of a € 0.5 billion covered bond.

The figure below presents an overview of the maturity calendar of the outstanding wholesale funding with an original maturity of more than one year, assuming first call dates are adhered to. In 2017, we expect to mainly issue senior resolution notes and covered bonds to meet our wholesale funding needs.

Wholesale funding maturity calendar (in € billions)



MATURITY OF ASSETS AND LIABILITIES
Set out below is an overview of assets and liabilities, with a breakdown by remaining contractual (liquidity) maturity. The net (assets minus liabilities) nominal amounts due at maturity give an indication of the liquidity risk and of obligations that may not be met from inflows on time.

The table represents de Volksbank's liquidity profile at year-end 2016 and 2015 on the basis of the remaining contractual maturity. Non-maturity savings and current account balances are presented in the '<1 month' column. In the table, we maintain the contractual maturity without taking prepayments into account.

De Volksbank's asset & liability management takes behavioural aspects into account. A shorter term to maturity is used for mortgages due to expected prepayments. A longer term to maturity is used for non-maturity savings and balances in customers' current accounts, because customers tend to keep such products for more than one day under normal conditions.

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.

We refined the breakdown by maturity bucket in 2016. The comparative figures for 2015 have been adjusted accordingly.

Remaining contractual maturity of assets and liabilities in 2016 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Provision	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	661	130	322	2,143	45,551	--	-214	48,593
Loans and advances to banks	919	507	139	291	676	--	--	2,532
Other assets	2,334	--	145	228	--	226	--	2,933
Assets held for sale	--	--	--	--	--	--	--	--
Total assets	**4,743**	**958**	**760**	**4,539**	**50,549**	**226**	**-214**	**61,561**
LIABILITIES								
Shareholders' equity	--	--	--	--	--	3,541	--	3,541
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*
Other liabilities	909	--	13	26	81	59	--	1,088
Liabilities held for sale	--	--	--	--	--	--	--	--
Total equity and liabilities	**39,999**	**1,272**	**2,381**	**5,882**	**8,427**	**3,600**	--	**61,561**

Remaining contractual maturity of assets and liabilities in 2015 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Not determined	Provision	Total
ASSETS								
Investments (interest bearing)	425	263	284	1,942	3,462	--	--	6,376
Derivatives	74	48	101	716	1,054	--	--	1,993
Loans and advances to customers	1,212	141	356	2,287	45,612	--	-391	49,217
Loans and advances to banks	496	785	35	349	416	--	--	2,081
Other assets	2,237	297	--	--	--	379	--	2,913
Assets held for sale	--	--	110	--	--	--	--	110
Total assets	**4,444**	**1,534**	**886**	**5,294**	**50,544**	**379**	**-391**	**62,690**
LIABILITIES								
Shareholders' equity	--	--	--	--	--	3,302	--	3,302
Subordinated debts	--	--	--	493	--	--	--	493
Debt certificates	17	633	694	4,290	1,307	--	--	6,941
- of which senior unsecured	*17*	*76*	*228*	*351*	*236*	--	--	*908*
- of which covered bonds	--	*575*	--	*2,902*	*30*	--	--	*3,507*
- of which RMBS	--	--	*476*	*1,056*	*999*	--	--	*2,531*
Derivatives	80	50	91	898	1,070	--	--	2,189
Savings	31,421	152	628	2,094	2,565	--	--	36,860
- of which due on demand	*30,852*	--	--	--	--	--	--	*30,852*
Other amounts due to customers	6,362	26	963	722	2,507	--	--	10,580
- of which senior unsecured	--	*25*	*64*	*431*	*415*	--	--	*935*
- of which covered bonds	--	--	--	*274*	*84*	--	--	*358*
Amounts due to banks	81	31	22	590	276	--	--	1,000
- of which senior unsecured	*30*	*20*	--	*47*	*37*	--	--	*134*
- of which other wholesale	--	--	--	*380*	--	--	--	*380*
Other liabilities	967	--	5	9	3	304	--	1,288
Liabilities held for sale	--	--	37	--	--	--	--	37
Total equity and liabilities	**38,928**	**892**	**2,440**	**9,096**	**7,728**	**3,606**	**--**	**62,690**

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 2016 and at year-end 2015. These tables also present the related future cashflows, such as interest payments. These have not been discounted.

We refined the breakdown by maturity bucket in 2016. The comparative figures for 2015 have been adjusted accordingly.

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	32,607	128	616	1,731	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	**40,698**	**1,290**	**2,659**	**5,008**	**7,541**	**57,196**

Maturity schedule for financial liabilities 2015 Audited

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Subordinated debts	--	--	19	576	--	595
Debt certificates	19	701	799	4,443	1,636	7,597
Savings	32,287	158	728	2,262	2,603	38,038
Other amounts due to customers	6,641	43	887	881	2,949	11,401
Amounts due to banks	517	20	3	426	30	996
Total	**39,464**	**922**	**2,435**	**8,588**	**7,218**	**58,627**

Maturity schedule for derivatives 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**

Maturity schedule for derivatives 2015 Audited

in € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	47	92	374	1,104	512	2,129
Currency contracts	75	10	5	--	--	90
Total	**122**	**102**	**379**	**1,104**	**512**	**2,219**

Credit ratings for senior unsecured debt

S&P

Long-term rating
BBB+

Outlook
Stable

Short-term rating
A-2

MOODY'S

Long-term rating
Baa1

Outlook
Positive

Short-term rating
P-2

FITCH

Long-term rating
BBB+

Outlook
Stable

Short-term rating
F2

3.9.7 Credit ratings

In 2016, all of de Volksbank's credit ratings for senior unsecured debt received a one-notch uplift. Whereas at Moody's and Fitch this was the result of improved stand-alone ratings, S&P granted one notch of support on top of the stand-alone rating because of the strong capital buffer we have in place.

RATING AMBITION

De Volksbank seeks to further improve its long-term ratings by means of stronger stand-alone ratings, reinforced where possible by additional upgrades resulting from an improved balance sheet structure. There is still room for improvement as regards the assessment of our company profile and market position in particular. A further increase in our market share in mortgages and stable profitability are essential in this regard.

RATING CHANGES IN CHRONOLOGICAL ORDER

On 14 April 2016, Fitch upgraded de Volksbank's rating by one notch from BBB (outlook: stable) to BBB+, its viability rating from bbb to bbb+ and its short-term rating from F3 to F2. The outlook was stable. The rating upgrade reflected our continuing solid financial metrics and Fitch's expectation that we will maintain these metrics and the more conservative risk profile. The rating actions were part of a periodic review of major Benelux banking groups rated by Fitch.

On 11 August 2016, S&P raised its rating on de Volksbank from BBB (outlook: positive) to BBB+. At the same time it affirmed its A-2 short-term rating. The outlook is now stable. The higher long-term rating was the result of the granting of one notch of support on the basis of S&P's Additional Loss Absorbing Capacity analysis. Thanks to our high capital buffers and S&P's expectation that they will remain that way in the next two years, we qualified for this 'extra' notch of support on top of the stand-alone rating. The Stand-Alone Credit Profile remained unchanged at bbb.

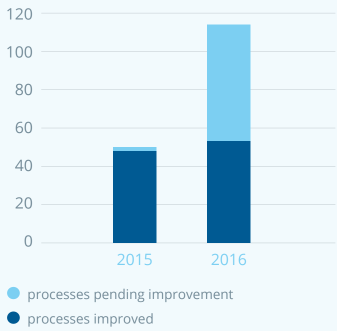
On 22 November 2016, Moody's upgraded de Volksbank's rating from Baa2 (outlook: stable) to Baa1. The upgrade was the result of an increase in the Baseline Credit Assessment by one notch, from baa3 to baa2, and reflected de Volksbank's improved credit fundamentals. The outlook is positive, indicating the potential for a further increase in the rating.

3.10 Non-financial risks

The impact of non-financial risks is increasing. We protect our integrity and that of others. We make efforts to control our processes and data. Continuity is important: the availability of our systems was high in 2016.

Non-financial risks

Improved process control



99.98%

Average availability of ATM and payment devices between 6:00 and 00:30 in 2016

Besides financial risks, de Volksbank also runs non-financial risks. Non-financial risks, too, are affected by internal factors and external developments, as we described above for the top risks in Section 3.3. 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, historically low interest rates, 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 reputation damage if we fail to anticipate the risks or fail to take control measures in a timely and adequate manner. This is why it is highly important that we also identify the non-financial risks we run in the short and long terms 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 six types of risk: operational, reporting, compliance, model, legal and reputation risk.

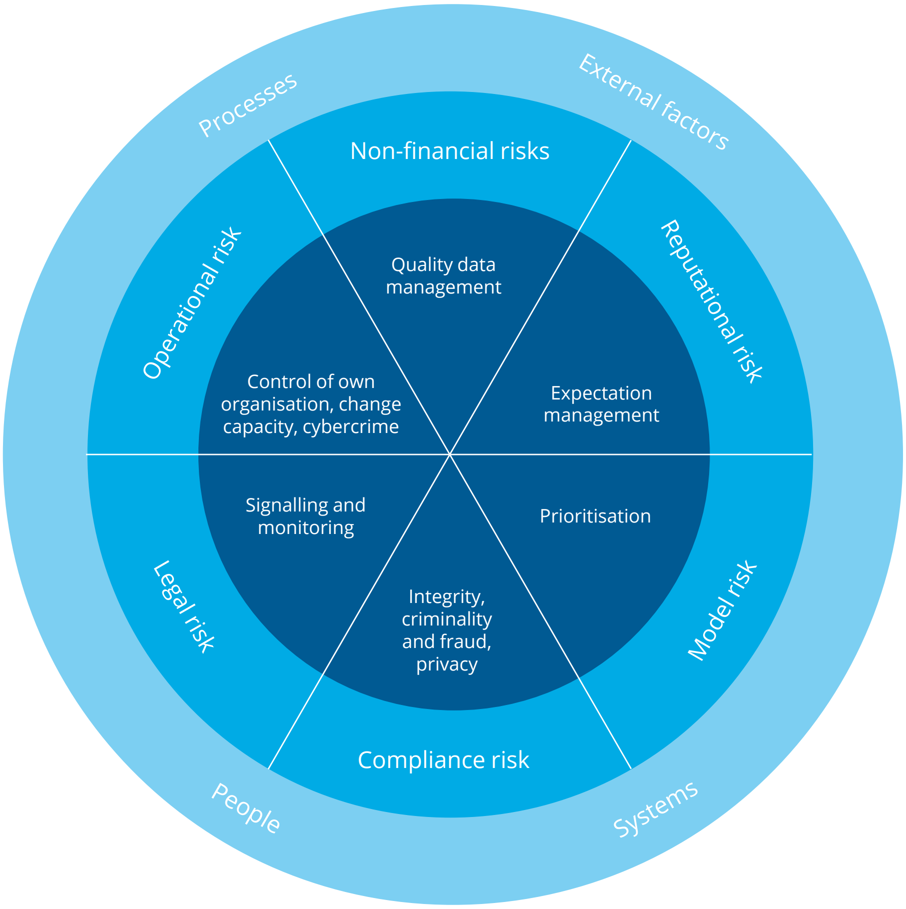
For a number of risk types, the current risk profile of non-financial risks lies above our risk appetite (see Section 3.4). Operational risk clearly emerges as one of the top risks, as we face challenges in controlling our continuously changing organisation, the security of our IT structure and the improvement of data management. Compliance risk should not be underestimated in these developments either: increasingly stringent laws and regulations that we want to – and must – comply with and efficiently meeting the growing information needs of supervisory authorities.

Although IT risk control and cybercrime protection in particular are in line with our risk appetite, we are aware that our efforts to stay within these parameters must never cease.

3.10.2 Types of risk and focus areas

This section identifies the six types of risk that constitute the non-financial risks and discusses the main developments seen in 2016.

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.

FOCUS AREAS
Top risks – Control of our own organisation, capacity to change
We aim for effective and efficient processes that guarantee high quality. Our target is a low error rate. Where we do make mistakes, we intend to learn from them. Our objective is to gain an (even) better understanding of our operations and to provide management with better control information in the form of performance and risk indicators, facilitating alignment with our risk appetite.

A proper balance between the availability of sufficient, competent staff in relation to the activities to be performed is vital. The number and large scale of activities requires that we deploy our employees' capacities in an efficient and effective way. In doing so, we also pay attention to our organisation's focus on results in order to achieve the objectives as envisaged.

A controlled organisation also means that we have a secure, efficient and flexible 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.

In addition, information security and the continuity of services for our customers – 24 hours a day – have top priority. We perform vulnerability assessments and do our utmost to prevent (security) incidents. Any incidents and calamities that occur nevertheless are handled as fast and as good as possible by a crisis organisation that regularly holds exercises. We periodically test the resilience of our services against calamities using so-called disaster recovery tests and continually invest in creating security awareness among our staff.

Developments in 2016

In 2016, we took steps to further transfer risk ownership of the operational risks to line management. Line managers are responsible for analysing and controlling the risks from their own focus area. Business Risk Coordinators have been appointed within the most critical business units to advise, assist and provide facilities to the relevant business unit's management in managing non-financial risks.

In 2016, too, we made large efforts to improve process control, which is part of the multi-year programmes Integrated Control Framework (ICF) and Value Stream Management (VSM). Providing insight into the material risks at process level, VSM can be used to enhance our control of process performance and costs.

A great deal of (security) research was performed this year as well, (security) incidents were identified in a timely fashion or resolved in an adequate manner, and existing policies were tightened further. Collaboration within de Volksbank and in the industry is essential here. The availability of our core systems (including our mobile and online channels) was again among the highest in our sector in 2016.

Top risk – Cybercrime threat

De Volksbank strives to minimise inconvenience for customers and business units resulting from cyber attacks and any consequences these may have. We take measures to prevent cyber attacks. This is a challenge, because the growing use of our digital services goes hand in hand with an increase in the frequency and scope of cyber attacks.

De Volksbank continuously invests in further strengthening its 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 2016

In 2016 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 several fraud prevention processes were integrated further, prompting the formation of the Continuous Fraud Detection Team. This department focuses on combating fraud in online payment transactions 24/7. This way, we ensure that all layers of the organisation pay attention to cyber risk control.

VERSLAGLEGGINGSRISICO

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.

FOCUS AREAS

Top risk – Data management quality

We seek to provide reliable information both internally and externally. The source of this information is found in reliable and accessible data. Active (customer) data management is becoming increasingly important in banks' business operations. On the one hand, data forms an essential source of information for strategic and operational management and for serving customers more effectively. On the other hand, the supervisory authority is setting increasingly high requirements for the quality, level of detail and rapid availability of data. More and more frequently, the supervisory authority requests data that is more extensive than the information included in the regular reports.

Developments in 2016

De Volksbank invested in the way we store data in our systems and in the way we exchange and incorporate these data in our processes. The data warehouse serves as the locus in this regard, allowing us to access data from various existing source systems. The data warehouse was further expanded in 2016. We are carrying out the strategic Data Management programme to work towards a single integrated data set. Our business operations will be able to function more effectively and efficiently and reporting will be simplified. By doing so, we intend to get within our risk appetite parameters. Improved data management will also make it easier for us to meet the supervisory authority's increasing demand for data.

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, which 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.

FOCUS AREAS

Employee integrity

In its manifesto, de Volksbank propagates a culture of banking with a human touch. As our employees make the difference for our customers, we want them to act in the spirit of this manifesto. That is why we extended this philosophy to the amended 'Common Sense, Clear Conscience' code of conduct and the supplementary rules of conduct. All employees take the Bankers' Oath.

We investigate internal fraud and will always report any suspected criminal offence. De Volksbank has a Sanctions Committee that determines whether measures should be imposed on employees who break the rules of conduct and what those measures should be. The acts concerned are those that lead to a serious breach of trust between the bank and its employee(s) and/or damage to the bank's reputation. If there is reason to do so, the Sanctions Committee decides whether a report should be filed with the supervisory authorities or the Foundation for Banking Ethics Enforcement.

Developments in 2016

In July 2016, we amended the rules of conduct for all staff. The rules now include a general prohibition against trading in de Volksbank securities (such as bonds), as we do not want any potential personal financial interest of our employees to conflict with customers' interests. The trading prohibition is special: we are the only bank to apply it.

Integrity questions were asked in this year's employee survey, too. Again, the score for integrity improved slightly from 7.6 to 7.7. The topic of 'approachability' scores highly within de Volksbank, which is indicative of an open culture.

One year after the introduction of the Bankers' Oath, we launched an internal campaign intended to consistently keep the Bankers' Oath fresh in employees' minds.

Ethical products

Transparent and fair products match de Volksbank's standards and values. When evaluating new products and services, we always ask ourselves how they serve the customer's interests. To this end we keep track of social developments as well as innovations such as fintech and we periodically assess existing products, even those developed a long time ago. We make our assessment based on the principles of the manifesto, insight obtained from social developments and new laws and regulations.

Within the bank, we place a particular focus on simplifying products and services. Aiming to avoid any misunderstanding about products or services, we believe that our advertisements should be clear and easily understood. We ensure that communications to customers are fair, thus contributing to our aim of developing low-risk activities.

Developments in 2016

We devoted special attention to current mortgages that are not certain to be redeemed. Although the products meet such needs as low monthly mortgage payments and flexibility, they do pose a risk to customers who make insufficient provisions for the situation arising at the end of the term. We will inform these customers accordingly on the basis of information available about their personal situation.

Customer integrity

Knowing its customers well allows de Volksbank to prevent its integrity from being jeopardised. This is a consistent point of focus. De Volksbank does not maintain a relationship with persons or organisations that may erode the trust that people have in us. Customer Due Diligence (CDD) is one of the tools to achieve this. A proper application of CDD prevents de Volksbank from being abused for inappropriate purposes. Important examples of abuse in this context include money laundering, financing of terrorism and fraud. CDD is part of our ethical business conduct.

Developments in 2016

In 2016, de Volksbank took additional measures - taking into account the requirements from regulators in this field - to monitor and review customers, accounts and transactions on a continuous basis (transaction monitoring) with the aim of preventing our bank from being abused for inappropriate purposes, such as money laundering. At the same time, we made our policies and processes in the field of sanctions regulations more stringent. We abide by the rules and guidelines applicable to countries, organisations and persons subject to (international) sanctions.

Crime, fraud and corruption

Just like other banks, de Volksbank has a role to play in keeping the financial system healthy, by taking measures to prevent money laundering and services to sanctioned parties. There is a marked tendency to view threats from the perspective of the public interest as well and to address them at sector level and together with the government. We regard crime fighting as a common goal within the industry.

Developments in 2016

De Volksbank sets great store by preventing and combating fraud and crime when mortgages and other loans are taken out, and by countering their use for criminal activities. De Volksbank is highly attentive to any signs of corruption in activities that we or partnerships undertake and in transactions initiated by customers and processed through de Volksbank. Any signs indicating the use of our payment facilities for corrupt purposes are investigated and, where necessary, blocked or reported to the authorities.

We are increasingly shifting our focus to the dangers posed by ATM ram raids and ATM gas attacks, particularly on account of the major social impact they have. We always seek to collaborate with other financial institutions in this regard. The police are working on preventing and combating these raids and attacks, including by the timely exchange of information about possible groups of offenders and the methods used.

Customer and employee privacy

Being clear and transparent about how we deal with personal data is important to us; it gives customers and employees confidence that their data are in good hands.

Our governance structure includes specific roles, officers and bodies for privacy assurance. Our Privacy Office and Privacy Staff monitor compliance with privacy regulations and privacy protection. Privacy Staff are located decentrally in various places in the organisation and are the point of contact for privacy questions. The Privacy Officer is the central point of contact for both de Volksbank's own organisation and the Dutch Data Protection Authority.

Another type of assurance is the implementation of the Privacy by Design principle. This means that, in the development of products and services for example, we analyse privacy risks and take the appropriate control measures at an early stage. This principle will be implemented further in 2017.

Developments in 2016

Customers are positive about the new privacy and cookie rules

Ample attention is given to our staff's privacy awareness. To this end, we arranged such matters as compulsory e-learning for all employees and training sessions for several departments and management, and created open office hours during which employees are welcome to ask questions on privacy.

We have also taken several steps to increase transparency for our customers. For instance, we rewrote the privacy and cookie rules in consultation with customer panels in order to improve accessibility and we added more information to the websites of de Volksbank and the brands about the right of inspection and how our customers may exercise this right.

Coming into force on 1 January 2016, the Data Leaks (Reporting Obligation) Act (*Wet meldplicht datalekken*) prompted us to make a few reports to the Dutch Data Protection Authority. The persons involved have been informed. We were able to fine-tune and improve processes on the basis of the reports.

MODEL RISK

As economic models present a (highly) simplified version of reality, the use of models creates uncertainty. The risk that models return incorrect results, or the risk that models are used or interpreted in the wrong way, is referred to as 'model risk'.

Our aim is to limit model risk to the extent possible. We have clearly divided the duties related to the development, use and maintenance of models: one department is working on improving existing models or developing new, more advanced models, while an independent department is validating all models, thereby analysing model risk and making proposals to reduce this risk.

Developments in 2016

In 2016, we introduced major improvements to, for example, the existing credit models, which are of great importance to the bank. The PHIRM model was adapted to new regulations and a new framework now allows us to make even better estimates of capital requirements. What is more, the framework shows that PHIRM produces stable, reliable projections for the loan portfolio.

Also, major steps were taken in streamlining the model landscape, giving us more insight into the risks within model chains and thus enabling us to tackle these risks in a more effective way. Another point of focus was assigning the right priority to all models to allow us to work as efficiently as possible.

The heatmap below classifies our models according to their importance to the bank (model impact) and how high the model risk is. As the number of important models with a high/critical risk is higher than desirable, we intend to reduce this number even further.

LEGAL RISK

De Volksbank takes legal risk to mean on the one hand the risk that it does not comply with applicable laws and regulations (or any unforeseen interpretation of these laws and regulations) or agreements and, on the other, the risk of non-contractual liability.

When these risks materialise, they result in financial loss, sanctions imposed by supervisory authorities or reputation damage. We may be held liable for current and future claims or we ourselves may suffer damage, for example as a result of incorrectly drafted contracts or incorrect product documentation.

Developments in 2016

In 2016, we defined key risk indicators as part of legal risk management and control. Seeking to reflect the current risk, these indicators identify developments in such matters as complaints, case law and society to enable the timely observation of trends that may indicate unforeseen interpretations or that may lead to liability for de Volksbank in any other way. We make adjustments where necessary.

In 2016, we also refined the framework for the identification, analysis, implementation and monitoring of regulations to mitigate legal risk. We made great strides in embedding this process by means of an identification meeting and regulatory boards. Other major points of focus are innovation and the development of products and services within the parameters of current and future regulations via the product approval process.

The notes to the off-balance sheet commitments include an overview of legal proceedings in which the bank is involved. Section 2.2 gives an explanation of recent developments in laws and regulations.

REPUTATION RISK

Reputation risk is the risk that objectives are not achieved or cannot be achieved because insufficient account is taken of the picture and opinion that external parties have of the company (including customers, counterparties, shareholders and supervisory authorities).

Expectation management

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 the 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 to win customers, employees and – in the longer term – investors.

Developments in 2016

We have been measuring our own and our brands' reputation using a tried and tested reputation measurement model, RepTrak®, since the end of 2015. It is a scientific and commonly used standard in reputation measurement and management, allowing us to benchmark our scores effectively and perform reliable trend analyses.

In 2016 a cautiously positive development of our reputation emerged from the RepTrak results. In September we announced our new name: de Volksbank. The name was well-received and generated positive media attention. We have used the new name since 1 January 2017, which has taken centre stage in the RepTrak measurements since that date.

Heatmap model risk

impact of the model	Model risk: low	Model risk: medium	Model risk: high
high	2	7	1
medium	1	3	-
low	1	5	1

3.11 Link to 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 the label 'Audited' is shown at a text or 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.

3.12 Management statement

IN-CONTROL STATEMENT

The Board of Directors of de Volksholding B.V. 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 Volksholding and de Volksbank are 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 Volksholding and 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 Section 3.5.2).

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 that are associated with the implementation of the OP are identified. This cycle is carried out throughout 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 2016, the Board of Directors reviewed the business, 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. 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 2016;
- 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 2017.

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

De Volksbank will continue to work on further improving its controlled and responsible business operations by means of the Integrated Control Framework (ICF). Improvements are mainly directed at internal control design and accountability, 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.

In 2016, de Volksbank's objective with respect to controlled and responsible business operations was translated into specific action plans, which are based on the starting points of the ICF. This year, we will further operationalise, optimise and periodically evaluate control on the basis of updated actions plans.

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 performed at an adequate level in 2016 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 Volksholding prepares the 2016 consolidated and company financial statements of de Volksholding 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 2016 and the financial results and companies included in the consolidation;
- The 2016 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 Volksholding faces are described in the 2016 annual report.

Utrecht, 8 March 2017

BOARD OF DIRECTORS

M.B.G.M. Oostendorp (Chairman)
A.T.J. van Melick
V.A. Baas
R.G.J. Langezaal
J.R. Dijst

4 Report of the Supervisory Board

Composition of the Supervisory Board

As at 31 December 2016, the Supervisory Board of de Volksholding consisted of Jan van Rutte (Chairman), Charlotte Insinger, Monika Milz, Jos Nijhuis and Ludo Wijngaarden.

The Supervisory Board is composed in such a way that, within the context of the profile of the Supervisory Board, its members can operate independently of each other and independently of the Board of Directors of de Volksholding (the Board). In 2016, in addition to fulfilling its supervisory role, the Supervisory Board also acted as the Board of Director's employer, adviser and sparring partner.

Meetings

In 2016, the Supervisory Board of de Volksbank and de Volksholding convened fifteen times in a combined meeting, or otherwise. Virtually every meeting was attended by all members of the Supervisory Board. The availability of the members of the Supervisory Board for interim consultation was good, and their absence was restricted to situations of force majeure.

Members of the Board of Directors are permanent guests at the Supervisory Board meetings. The Supervisory Board meets privately for the first hour of every meeting. In 2016, two (informal) meetings took place in the absence of the Board of Directors. Matters discussed at these meetings included the (self-)evaluation of the Supervisory Board and the assessment of the members of the Board of Directors.

For more information on the composition, appointment and duties of the Supervisory Board, please refer to Section 5.2.

Subjects discussed in 2016

Subjects to which attention was devoted during the combined meetings of the Supervisory Board of de Volksbank and de Volksholding in 2016 included:

Spot On strategy

The strategy initiated under the name Spot On is key to the development of de Volksbank's future positioning and thus for the long-term value creation. De Volksbank aims to be a bank that offers simple and transparent financial products at fair prices with an operationally excellent result for the customer and a market-competitive return. Shared value, which optimises the total value for all stakeholders, is another ambition of de Volksbank. To achieve this, de Volksbank is first going to tackle a number of internal, operational and structural challenges. One topic of discussion was cost savings and how these would have to relate to the additional investments needed for innovation. Discussion of all subjects entailed consideration of the bank's social role, its conduct and its culture. The Supervisory Board was kept well-informed about Spot On. Strategy is an agenda item at every meeting. The supervisory boards of de Volksbank and de Volksholding are closely involved in the Board's constructive dialogue with NL Financial Investments (NLFI) and the Minister of Finance on de Volksbank's future.

'Samen' project

With effect from 1 January 2017, SNS Bank N.V. was renamed de Volksbank N.V. – a name that is better suited to our mission and strategy. Bundling the banking licences of SNS Bank N.V., ASN Bank N.V. and RegioBank N.V. as from 31 December 2016 has made de Volksbank simpler and more efficient. SNS Holding B.V. continued under the name of de Volksholding B.V. as from 1 January 2017. To facilitate this merger and name change, the '*Samen*' (Together) project was launched in 2016. The boards of de Volksbank and de Volksholding discussed the desirability of the merger and the impact analysis with the supervisory boards of de Volksbank and de Volksholding, elaborating on the (operational, reputational and financial) risks associated with this decision and its consequences for customers in the context of the Deposit Guarantee Scheme. The supervisory boards of de Volksbank and de Volksholding have been involved in this project since the beginning; the subject was addressed at every meeting and was ultimately successfully presented to the Dutch public.

Other subjects
In 2016, the Supervisory Board also discussed subjects that require decision making under the Articles of Association at de Volksholding level.
For more information on other issues discussed, please refer to Chapter 4 of the Annual Report of de Volksbank on our website www.deVolksbank.nl.

Quality assurance of supervisory function
Lifelong Learning sessions contribute to the enhancement and where necessary to the broadening of the Supervisory Board's expertise. In 2016, the Supervisory Board, in conjunction with the Board of Directors, attended three Lifelong Learning (PE) sessions on current issues within de Volksbank and the financial services sector:
- Strategic alignment;
- Cybercrime and improved cyber resilience;
- Fintech, status and consequences for the financial services sector.

The Supervisory Board annually evaluates its own functioning. Once every three years, this evaluation is performed with the assistance of an external supervisor. The Supervisory Board performed a self-evaluation for 2016 under its own management. To this end, in December 2016 and January 2017 one of the Supervisory Board members interviewed all Supervisory Board members, all members of the Board of Directors, the Company Secretary, the Strategy Director and the HR&C Director of de Volksbank. The findings were shared and discussed in a Supervisory Board meeting in January 2017.

The self-evaluation focused specifically on:
- the desired preconditions for effective functioning of the Supervisory Board;
- the Supervisory Board's key duties (supervising, serving as a sounding board for the Board of Directors, acting as employer of the Board of Directors, ensuring balance between the Supervisory Board and the Board of Directors).

The Supervisory Board considered the competencies that are available within and that would be desirable in the future for the Supervisory Board, partly in light of the maximum terms of office. It discussed its information needs too, also giving consideration to the contacts within and outside the organisation in this respect. Attention was given to the procedures of the Supervisory Board and its committees. The 'tone at the top', dynamics within the Supervisory Board, and the themes and effectiveness of the Lifelong Learning sessions were subjects of reflection in 2016.

As regards its supervisory duty the Supervisory Board observed that, in 2016, a great deal of attention was devoted to the 'House in Order' projects and compliance with external regulatory requirements. There is a risk of this leading to a lack of focus on business development. It could also prevent the Supervisory Board from properly fulfilling its role of serving as a sounding board for the Board of Directors. Extra attention will be devoted to these subjects in 2017.

The Supervisory Board concluded that the fulfilment of the employer's role required a different, more direct approach than the supervisory and sounding board roles. This resulted in, inter alia, the duties of the Remuneration and Nomination Committee of the Supervisory Board of de Volksbank being updated.

The Supervisory Board concluded that the roles of supervisor, sounding board and employer were being fulfilled satisfactorily in many respects. The discussion of the self-evaluation outcomes with the Board of Directors reflects the openness and involvement that characterises the relationship between the Supervisory Board and the Board of Directors.

Relationship and consultation with the shareholder

Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, 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 of Association of de Volksbank and de Volksholding. The MoU contains supplementary arrangements about the manner in which powers under the Articles of Association are exercised in the day-to-day operations. Regular meetings also take place between the Supervisory Board and NLFI in accordance with a schedule drawn up annually. Within this consultation structure, the evaluation of the Board of Directors and the Supervisory Board is discussed and the General Meeting of Shareholders (GMS) is prepared. The GMS was held on 26 May 2016.

Financial statements and dividend proposal

Prior to publication, the 2016 financial statements were discussed in (combined) meetings of the boards and supervisory boards of de Volksbank and de Volksholding. On 8 March 2017, the external auditor of de Volksbank in 2016, EY, issued an unqualified auditor's report on the 2016 Financial Statements. On 8 March 2017, the Supervisory Board approved the financial statements. At this meeting, the Supervisory Board approved the Board proposal to pay a dividend of € 135 million to its shareholder NLFI.

5 Corporate governance

5.1 Composition, appointment and functioning of the Board of Directors

Composition of the Board of Directors

The members of the Board of Directors of de Volksholding (the Board) are also the members of the Board of Directors of de Volksbank. Thus, the Board and the members of the Board of de Volksbank form a personal union. The composition of the Board is set out on the next page.

Martijn Wissels, whose term of office expired on 1 November 2016, stepped down on 1 August 2016. Due to the illness of Martijn, Jeroen Dijst was appointed acting CRO from 1 September 2015 to 1 August 2016, on which date he was appointed to the Board.

The profile for the Board is drawn up by the Supervisory Board, in consultation with the Board. The profile defines the required know-how, suitability, expertise, diversity, integrity and availability of the (members of the) Board. The Board's profile will subsequently be adopted by the GMS. In 2016, 20% of the Board members was female, fulfilling the target set in the Act on management and supervision for a more balanced distribution of management functions of large public and private companies.

Appointment of the members of the Board of Directors

The GMS appoints a member of the Board on the nomination of the Supervisory Board. The Supervisory Board appoints the Chairman of the Board after obtaining GMS approval. The GMS suspends and dismisses a member of the Board. Rhe Supervisory Board is also authorised to suspend a member of the Board.

Name	Appointed until
Maurice Oostendorp	17 August 2019
Alexander Baas	1 October 2019
Rob Langezaal	1 October 2019
Annemiek van Melick	1 October 2019
Jeroen Dijst	General meeting 2020

Functioning of the Board of Directors

In performing its duties and responsibilities, the Board continuously weighs up the interests of all its stakeholders to reflect the mission and the shared value ambition, as previously explained in Section 1.2, as much as possible.

The Articles of Association of de Volksholding (Articles) contain regulations on the functioning of the Board, a list of its duties and responsibilities of the Board and the resolutions of the Board that require Supervisory Board and/or the GMS approval.

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 to exercise authorities under the Articles in practice.

The Articles, the MoU and the Regulations have been adapted for the new name in accordance with the Articles and were formally adopted on 1 January 2017.

The Board meets when there are issues that fall[] under decision making of de Volksholding and decides by a majority of votes cast. Because of the personal union, meetings of the boards of de Volksbank and de Volksholding are combined.

Maurice Oostendorp
1956 – Nationality: Dutch

Maurice Oostendorp has been appointed Chairman of the Board of de Volksholding for the period from 30 September 2015 to 17 August 2019. Maurice is Chief Executive Officer. Other board positions held by Maurice are: Member of the Supervisory Board of the Nederlandse Waterschapsbank (NWB), member of the Advisory Board of Women in Financial Services in the Netherlands (WIFS) and member of the Board of the Dutch Banking Association (NVB). Before joining de Volksbank, Maurice was CFRO of SNS REAAL N.V. Prior to that, he served as CFO and member of the Board of Directors at Coöperatie VGZ. Maurice began his career at ABN AMRO, where he held several positions, among them Director General Group Finance.

Alexander Baas
1966 – Nationality: Dutch

Alexander Baas has been appointed as a member of the Board of de Volksholding for the period from 30 September 2015 to 30 September 2019. Alexander is Chief Operations Officer. Other board positions held by Alexander are: member of the Board of the Betaalvereniging Nederland and Chairman of the Advisory Council of Stichting HBO-I. Alexander began his career at Bondsspaarbank MNO in 1988, after which he worked at Raadgevend Ingenieursbureau Intercai Nederland since 1991. After joining de Volksbank (and its predecessors in title), Alexander held various IT positions. In 2005, he was appointed Director SNS IT / CIO of SNS Bank N.V.

Jeroen Dijst
1971 – Nationality: Dutch

Jeroen Dijst was appointed acting Chief Risk Officer and acting member of the Board of de Volksholding on 1 September 2015. On 1 August 2016, he was appointed to the Board of de Volksholding. This term of office will expire on the date of the General Meeting of Shareholders (GMS) in 2020. Jeroen is Chief Risk Officer and holds no other board positions. Before joining de Volksbank, Jeroen served as Managing Director of Asset & Liability Management/Treasury and member of the Management Group at ABN AMRO. Prior to that, Jeroen served as CRO and member of the Board of Directors of Fortis Bank Nederland. Jeroen began his career at VSB Bank as an Economic Research Treasury/ALM assistant.

Rob Langezaal
1958 – Nationality: Dutch

Rob Langezaal has been appointed as a member of the Board of de Volksholding for the period from 30 September 2015 to 30 September 2019. Rob is Chief Commercial Officer. Other board positions held by Rob are: Chairman of the Supervisory Board of SNS Beleggingsfondsen N.V. and member of the Committee on Consumer Affairs of the Dutch Banking Association (NVB). Rob joined de Volksbank (and its predecessors in title) in 2007. Prior to this, Rob held various management positions at KPN, such as Retail Director.

Annemiek van Melick
1976 – Nationality: Dutch

Annemiek van Melick has been appointed as a member of the Board of de Volksholding for the period from 30 September 2015 to 30 September 2019. Annemiek is Chief Financial Officer. In addition, Annemiek is a member of the Supervisory Council of the Dutch Banking Association (NVB). Annemiek joined SNS REAAL N.V. in 2008, first of all in the position of Director of Corporate Strategy, Mergers & Acquisitions of SNS REAAL N.V. She was appointed Chief Financial & Risk Officer of SNS Bank N.V. (predecessor in title of de Volksbank) in 2012. Annemiek has ample experience in the financial services sector and employers include Goldman Sachs in London.

5.2 Composition, appointment and functioning of the Supervisory board

Composition of the Supervisory Board (on December 31st 2016)

Jan van Rutte
1950 – Nationality: Dutch

Jan van Rutte was appointed Chairman of the Supervisory Board of de Volksholding on 1 October 2015. His term of office at de Volksholding will expire on the first (combined) GMS of de Volksbank and de Volksholding to be held after 1 November 2017.

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 Stichting de Koninklijke Schouwburg Den Haag
- 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
- Adviser to the Monitoring Committee of the Dutch Banking Code

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.

Charlotte Insinger
1965 – Nationality: Dutch

Charlotte Insinger was appointed as a member of the Supervisory Board of de Volksholding on 1 October 2015. Her term of office at de Volksholding will expire on the first (combined) GMS of de Volksbank and de Volksholding to be held after 6 June 2017.

Other positions held by Charlotte are:
- Member of the Supervisory Board of Vastned Retail N.V.
- Member of the Supervisory Board of DELTA N.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 1 October 2015. Her term of office at de Volksholding will expire on the first (combined) GMS of de Volksbank and de Volksholding to be held after 1 November 2017.

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.

Jos Nijhuis
1957 – Nationality: Dutch

Jos Nijhuis was appointed as a member of the Supervisory Board of de Volksholding on 1 October 2015. His term of office at de Volksholding will expire on the first (combined) GMS of de Volksbank and de Volksholding to be held after 6 June 2017.

Other positions held by Jos are:
- President and Chief Executive Officer of the Schiphol Group
- Member of the Supervisory Board/Non-executive Board Member of Aéroports de Paris S.A.
- Member of the Supervisory Board of Brisbane Airport Corporation PTY ltd
- Member of the General and Executive Board of the Confederation of Netherlands Industry and Employers (VNO-NCW)
- Member of the Supervisory Board of van AON Groep Nederland B.V.
- Member of the Supervisory Council of Stichting Nationale Opera & Ballet

Jos began his career at Berk Accountants and Tax Advisers in 1978. From 1980 until 2008, he held various positions at PricewaterhouseCoopers, among them Partner Financial Advisory Services Netherlands, Vice-Chair and Chair of the Board of Directors. As from 2008, Jos is a member of the Management Board and, as from 2009, President & CEO of the Schiphol Group.

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 at de Volksholding will expire on the first (combined) GMS of de Volksbank and de Volksholding to be held after 6 June 2017.

Other positions held by Ludo are:
- Member of the Supervisory Board of Rochdale
- 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 Foreign Affairs. 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 of the individual members of the Supervisory Board, defining the required know-how, suitability, expertise, diversity and availability of the (members of the) Supervisory Board. When appointing a new member, 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 said Chairman. The Supervisory Board can make a proposal thereto to NLFI. The GMS appoints the members of the Supervisory Board on the nomination 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.

De Volksbank and de Volksholding have a personal union. The boards 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
Charlotte Insinger	6 June 2017
Monika Milz	1 November 2017
Jos Nijhuis	6 June 2017
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 have 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 exercises its duties and powers.

The Articles, the Regulations and the MoU have been adapted for the new name under the Articles and were formally adopted on 1 January 2017.

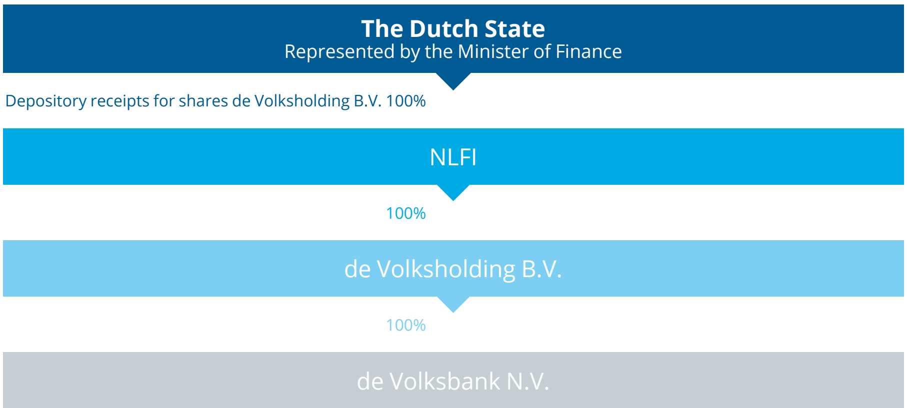
The Supervisory Board meets at least twice a year, and resolutions are passed by a majority of the votes cast. Because of the personal union, meetings of the Supervisory Board of de Volksbank and de Volksholding are combined.

For more 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

Outline of the legal structure as from 1 January 2017

Holding structure



De Volksholding (formerly SNS Holding B.V.) is a wholly owned subsidiary company of NLFI, which has issued depository receipts for shares to the Dutch State, as schematically shown above.

The developments that have led to a change in the structure of de Volksbank can be found in Section 5.3 of the Annual Report of de Volksbank. For more information, see www.devolksbank.nl

5.4 Update EC commitments

The European Commission has set de Volksbank and de Volksholding 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 European Commission.
- 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. De Volksbank expects to fulfil the EC commitment for the remaining portfolio over the short term.

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 2016. For more information on the remuneration policy of de Volksbank, we refer you to Section 5.3 of the Annual Report of de Volksbank on our website www.deVolksbank.nl.

Annual report

CONSOLIDATED FINANCIAL STATEMENTS 170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 174

COMPANY FINANCIAL STATEMENTS 220

NOTES TO THE COMPANY FINANCIAL STATEMENTS 222

Consolidated financial statements

Consolidated balance sheet

Before result appropriation and in € millions	Notes[1]	31-12-2016	31-12-2015
ASSETS			
Cash and cash equivalents	1	2,297	2,259
Derivatives	2	1,533	1,993
Investments	3	5,970	6,376
Loans and advances to banks	4	2,532	2,081
Loans and advances to customers	5	48,593	49,217
Property and equipment	6	73	77
Intangible assets	7	15	15
Deferred tax assets	8	137	284
Other assets	10	411	278
Assets held for sale	19	--	110
Total assets		**61,561**	**62,690**
EQUITY AND LIABILITIES			
Savings	11	36,593	36,860
Other amounts due to customers	12	10,835	10,580
Amounts due to customers		**47,428**	**47,440**
Amounts due to banks	13	1,446	1,000
Debt certificates	14	5,696	6,941
Derivatives	2	1,861	2,189
Deferred tax liabilities	8	59	216
Corporate income tax	9	18	11
Other liabilities	15	891	955
Other provisions	16	103	83
Provision for employee benefits	17	17	23
Subordinated debts	18	501	493
Liabilities held for sale	19	--	37
Total other liabilities		**10,592**	**11,948**
Share capital		--	--
Other reserves		3,212	2,954
Retained earnings		329	348
Shareholders' equity		**3,541**[2]	**3,302**
Minority interests		--	--
Total equity		**3,541**	**3,302**
Total equity and liabilities		**61,561**	**62,690**

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]	2016	2015
INCOME			
Interest income		1,592	1,888
Interest expense		681	894
Net interest income	**25**	**911**	**994**
Fee and commission income		108	103
Fee and commission expenses		51	55
Net fee and commission income	**26**	**57**	**48**
Investment income	27	57	42
Result on financial instruments	28	-20	39
Other operating income	29	2	2
Total income		**1,007**	**1,125**
EXPENSES			
Staff costs	30	398	371
Depreciation and amortisation of tangible and intangible assets		22	23
Other operating expenses	31	222	196
Impairment charges	32	-68	37
Other expenses	33	1	22
Total expenses		**575**	**649**
Result before taxation		**432**	**476**
Taxation	34	103	128
Net result continued operations		**329**	**348**
ATTRIBUTION:			
Net result attributable to shareholder		329	348
Net result attributable to minority interests		--	--
Net result for the period		**329**	**348**

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	2016	2015
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
Other changes in comprehensive income	2	-1
Total items never reclassified to profit or loss	**2**	**-1**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedgereserve	-13	-22
Change in fair value reserve	21	14
Total items that are reclassified to profit or loss	**8**	**-8**
Change in other comprehensive income (after tax)	**10**	**-9**

TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

in € millions	2016	2015
Net result continued operations	329	348
Change in other comprehensive income (after tax)	10	-9
Total comprehensive income	**339**	**339**
ATTRIBUTION:		
Total comprehensive income to shareholder	339	339
Total comprehensive income to minority interests	--	--
Total comprehensive income	**339**	**339**

Consolidated statement of changes in equity

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
Balance as at 1 January 2015	--	4,168	1	57	111	-1,383	348	3,302
Transfer of net result 2014	--	--	--	--	--	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 2015	--	--	--	--	--	--	329	329
Total result 2015	**--**	**--**	**3**	**-13**	**21**	**347**	**-19**	**339**
Dividend	--	--	--	--	--	-100	--	-100
Total changes in equity 2015	**--**	**--**	**3**	**-13**	**21**	**247**	**-19**	**239**
Balance as at 31 December 2015	**--**	**4,168**	**4**	**44**	**132**	**-1,136**	**329**	**3,541**

1 Issued capital is € 1

2 Revaluations of property in own use are included in the revaluation reserve.

Consolidated statement of changes in equity 2015

in € millions	Issued capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2015	381	3,787	--	79	97	-1,532	151	2,963
Transfer of net result 2014	--	--	--	--	--	151	-151	--
Unrealised revaluations	--	--	--	-22	48	--	--	26
Realised revaluations through P&L	--	--	--	--	-34	--	--	-34
Realised revaluations through equity	--	--	1	--	--	-1	--	--
Other movements	--	--	--	--	--	-1	--	-1
Impairments	--	--	--	--	--	--	--	--
Amounts charged directly to total equity	**--**	**--**	**1**	**-22**	**14**	**149**	**-151**	**-9**
Net result 2015	--	--	--	--	--	--	348	348
Total result 2015	**--**	**--**	**1**	**-22**	**14**	**149**	**197**	**339**
Transactions with shareholder	**-381**	**381**	**--**	**--**	**--**	**--**	**--**	**--**
Total changes in equity 2015	**-381**	**381**	**1**	**-22**	**14**	**149**	**197**	**339**
Balance as at 31 December 2015	**--**	**4,168**	**1**	**57**	**111**	**-1,383**	**348**	**3,302**

1 Issued capital is € 1

2 Revaluations of property in own use are included in the revaluation reserve.

Consolidated cashflow statement

in € millions	Notes[1]	2016	2015
CASHFLOW FROM OPERATING ACTIVITIES			
Operating profit before tax		432	476
ADJUSTMENTS FOR			
Depreciation and amortisation of tangible and intangible assets	6.7	22	21
Changes in other provisies and deferred tax	8,16,17	4	146
Impairment charges and reversals	32	-68	37
Unrealised results on investments through profit or loss	27	10	23
Tax paid		-140	--
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in advances and liabilities to customers	5.12	879	3,655
Change in advances and liabilities to banks	4.13	-5	-482
Change in savings	11	-267	1,194
Change in trading portfolio	3	-150	209
Change in other operating activities		-89	-1,572
Net cashflow from operating activities		**628**	**3,707**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Sale of property and equipment	6	--	1
Sale and redemption of investments and derivatives	2.3	3,059	3,505
Purchase of intangible assets	7	-4	-6
Purchase of property and equipment	6	-13	-14
Purchase of investments and derivatives	2.3	-2,337	-3,165
Net cashflow from investment activities		**705**	**321**
CASHFLOW FROM FINANCE ACTIVITIES			
Issue of subordinated loans	18	--	493
Issues of debt certificates	14	545	216
Redemption of subordinated loans	18	--	-40
Redemption of debt certificates	14	-1,740	-4,406
Paid dividends		-100	--
Net cashflow from financing activities		**-1,295**	**-3,737**
Net decrease of cash and cash equivalents		**38**	**291**
Cash and cash equivalents as at 1 January	1	2,259	1,968
Change in cash and cash equivalents	1	38	291
Cash and cash equivalents as at 31 December		**2,297**	**2,259**
ADDITIONAL DISCLOSURE WITH REGARD TO CASHFLOWS FROM OPERATING ACTIVITIES			
Interest received		2,033	2,239
Dividends received		1	--
Interest paid		1,100	1,190

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 Volksholding'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 Volksholding B.V. (referred to as 'de Volksholding'), is a public limited liability company incorporated under the laws of the Netherlands. De Volksholding's registered office is located at Croeselaan 1, 3521 BJ Utrecht (CC 63650185).

All shares of de Volksholding are held by Stichting administratiekantoor beheer financiële instellingen (NLFI). De Volksholding B.V. is the parent company of de Volksbank.

Adoption of the financial statements

The consolidated financial statements of de Volksholding for the year ended 31 December 2016 were drawn up by the Board of Directors and authorised for publication following approval by the Supervisory Board on 8 March 2017. The financial statements will be submitted to the General Meeting of Shareholders for adoption which will take place on 20 April 2017. 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 by the Board of Directors requires prior approval from the General Meeting of Shareholders of de Volksholding (NLFI).

Basis of preparation

Statement of IFRS compliance

De Volksholding 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 Volksholding 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 2016

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2016, 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 Volksholding.

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IFRS 10, IFRS 12, and IAS 28: Investment Entities, applying the consolidation exception
- Amendments to IAS 27: Equity method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Annual Improvements to IFRSs 2012-2014

Interpretations of existing standards or amendments to standards, not yet effective in 2016

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2016 and effective for accounting periods beginning on or after 1 January 2017 were not early adopted by de Volksholding.

- IFRS 9 Financial Instruments (EU-endorsed)
- IFRS 15 Revenue from contracts with Customers (EU-endorsed)
- IFRS 16 Leases
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate of Joint Venture
- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses

- Amendments to IAS 7: Disclosure initiative
- 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
- Annual improvements to IFRSs 2014-2016
- Amendments to IAS 40: Transfers of investment property

The changes that are most relevant and may have a material impact on the financial statements of de Volksholding are discussed below.

IFRS 9 FINANCIAL INSTRUMENTS

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

Classification and Measurement

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

Impairments

De Volksholding has a programme to implement IFRS 9 ECL models. In 2016 de Volksholding has continued its work on the model build and design phase of the ECL models. In 2017 parallel runs are planned to test the implementation of the impairment models.
The IFRS 9 impairment requirements include key changes from the IAS 39 impairment requirements:

- Credit loss recognition for all financial instruments: the scope of the impairment requirements is broadened under IFRS 9. Under IAS 39, loan loss provisions are only recorded for arrears or due to another indication of a loss event that results in an expectation that the customer is unlikely to meet its payment requirements. Under IFRS 9 entities are required to record expected credit loss provisions for all credit exposures measured at amortised cost and fair value through OCI, including expected credit losses on loan commitments and financial guarantee contracts (off-balance sheet positions).
- Forward looking information: the IFRS 9 model is making more and more use of forward looking information. Not only historical information should be considered but also current and forward looking macro-economic information. De Volksholding intends to incorporate this forward looking information through modelling three scenarios (upturn, normal and downturn macro-economic conditions), where an expert group will make use of relevant data and forecasts from a number of external sources and apply these on a time horizon and appropriate weight consistent with our internal operational forecast.

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

Hedge accounting

De Volksholding has not yet made a final decision on the option to adopt IFRS 9 hedge accounting requirements as per 1 January 2018. Irrespective of this decision, the impact of the hedge accounting requirements on the financial statements is expected to be limited.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. Main principle is that an entity recognises revenues based on what the expected receipts will be for the rendered goods and services. In order to apply this principle the following steps are required:

1. identify contracts with clients;
2. identify and differentiate contractual obligations;
3. determine the price of the transaction;
4. allocate the price of the contract to the identified obligations;

5. recognise revenue if contractual obligations are met and risk and rewards are transferred to the client.

However the requirements of IFRS 15 shall not apply to contracts that fall within the scope of the lease standard or financial instruments standard. De Volksholding 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.

Changes in accounting policies, estimates and presentation

In 2016 there are no changes in accounting policies or presentation.

CHANGE IN ACCOUNTING ESTIMATE FOR PREPAYMENT ASSUMPTION MORTGAGES

The fair value of the DBV mortgages is determined based on a discounted cashflow method. In determining the expected cashflows, future redemptions are taken into account, both contractual redemptions and expected prepayments. The methodology to determine the expected prepayments has been refined, such that only penalty-free prepayments are taken into account. Where penalties are received in relation to prepayment, these penalties can be considered a compensation for the potential fair value loss. As per 31 December 2016, this change in methodology had a positive impact of € 6 million on the fair value of the DBV mortgages.

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 Volksholding. 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 Volksholding 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 are 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 regarding fair valuations of financial instruments are further described in the note of financial statements item '21 Fair value of financial assets and liabilities'.

Basis for consolidation

Subsidiaries, i.e. all companies and other entities, including special purpose entities, which are controlled by de Volksholding, are consolidated in accordance with IFRS 10 Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which control is transferred to de Volksholding. They are de-consolidated from the date control ceases. The financial statements of these subsidiaries, drafted for the purpose of these de Volksholding financial statements, are fully consolidated and aligned with the accounting principles applied by de Volksholding.

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 Volksholding and its associates are eliminated to the extent of de Volksholding'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.

Associated companies

Investments in associated companies (associates) are entities in which de Volksholding generally has between 20% and 50% of the voting rights, or over which de Volksholding can exercise significant influence on the operational and financial policies, but over which it has no control.

The consolidated financial statements include de Volksholding's share in the total results of associates from the date that de Volksholding acquires significant influence to the date that significant influence ceases. The result is accounted for using the equity method, after adjusting the result to comply with de Volksholding's accounting principles, if needed.

Upon recognition, associates are initially accounted for at the cost price (including the transaction costs) and subsequently according to the equity method. The item also includes goodwill paid upon acquisition less accumulated impairment losses, where applicable.

Under the equity method, de Volksholding's share in the result of associates is recognised in the income statement under 'share in the result of associates'. De Volksholding's share in changes in the reserves of associates is recognised directly in shareholders' equity (change in share of associates in other comprehensive income).

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 Volksholding commits itself to buy or sell the asset or liability. Except "loans and advances to customers" for which settlement date accounting is used.

Derecognition

A financial asset is derecognised when the rights to receive cashflows from the asset have expired. De Volksholding 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 Volksholding has transferred substantially all the risks and rewards of the asset; or
- De Volksholding 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

The sale of SNS Securities N.V. to NIBC Bank N.V. was completed on 30 June 2016. A provision of € 22 million had been made for the book loss on the sale in 2015. The actual book loss, € 23 million, exceeded the provision by € 1 million.

In 2016 there are no acquisitions or other disposals.

1 Cash and Cash equivalents

ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash, the non-restricted and restricted demand deposits with the Dutch Central Bank (DNB) and advances from the banking activities to credit institutions with a 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	2016	2015
Non-restricted demand deposits at Dutch Central Bank	1,573	1,372
Restricted demand deposits at Dutch Central Bank	386	375
Short-term bank balances	281	448
Cash	57	64
Total	**2,297**	**2,259**

The mandatory cash reserve was recognised under the restricted demand deposits at Dutch Central Bank.

As at the end of December 2016, € 84 million (2015: € 253 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 cash flow model or an option valuation model. De Volksholding 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’.

Embedded derivatives
An embedded derivative is treated as a separate derivative if there is no close relationship between the economic characteristics and risks of the derivative and the host contract, if the host contract is not measured at fair value through profit or loss and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value through profit or loss.

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	2016	2015	2016	2015	2016	2015
Derivatives held for cashflow hedge accounting	12	59	1	27	11	32
Derivatives held for fair value hedge accounting	921	1,245[1]	1,154	1,282	-233	-37
Derivatives held for asset and liability management that do not qualify for hedge accounting	377	493[1]	518	675	-141	-182
Derivatives held for trading	223	196	188	205	35	-9
Total	**1,533**	**1,993**	**1,861**	**2,189**	**-328**	**-196**

1 There is a reclassification of € 5 million between the Derivatives held for fair value hedge accounting and Derivatives held for asset and liability management that do not qualify for hedge accounting.

Most derivatives are held to hedge against undesired markets risks. This is explained in note 22 Hedging and hedge accounting.

Statement of changes in derivatives

in € millions	2016	2015
Balance as at 1 January	-196	-564
Settlements	-81	134
Revaluations	-59	219
Exchange rate differences	8	15
Balance as at 31 December	**-328**	**-196**

The derivatives held for trading are not included in the tables below.

Derivatives for hedging purposes 2016

	Nominal amounts				Fair value	
in € millions	< 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**

Derivatives for hedging purposes 2015

	Nominal amounts				Fair value	
in € millions	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
INTEREST RATE CONTRACTS						
- Swaps and FRAs	8,085	11,765	20,118	**39,968**	1,265	1,309
- Options	--	195	1,045	**1,240**	4	--
CURRENCY CONTRACTS						
- Swaps	24	50	16	**90**	35	--
Total	**8,109**	**12,010**	**21,179**	**41,298**	**1,304**	**1,309**

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 Volksholding 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 restated 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 deferred taxes.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as ‘investment income’. De Volksholding 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 Volksholding assesses whether there is objective evidence of impairment of investments classified as available for sale. Impairment losses are recognised directly in the income statement under 'impairment charges'. With investments available for sale, any revaluation reserve of shareholders' equity is deducted, before any impairment charge is recognised in the income statement.

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	2016	2015
Fair value through P&L (held for trading)	831	668
Available for sale	5,139	5,708
Total	**5,970**	**6,376**

Fair value through profit or loss: listing

	Held for trading					
	Equity and similar investments		Fixed-income investments		Total	
in € millions	2016	2015	2016	2015	2016	2015
Listed	--	--	831	668	831	668
Unlisted	--	--	--	--	--	--
Total	**--**	**--**	**831**	**668**	**831**	**668**

Fair value through profit or loss: statement of changes

	Held for trading					
	Equity and similar investments		Fixed-income investments		Total	
in € millions	2016	2015	2016	2015	2016	2015
Balance as at 1 January	--	1	668	816	668	817
Reclassifications	--	--	11	24	11	24
Revaluations	--	--	2	5	2	5
Change in investments held for trading[1]	--	-1	150	-208	150	-209
Transfer to assets held for sale	--	--	--	31	--	31
Balance as at 31 December	**--**	**--**	**831**	**668**	**831**	**668**

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	2016	2015	2016	2015	2016	2015
Listed	--	--	5,118	5,682	5,118	5,682
Unlisted	21	26	--	--	21	26
Total	**21**	**26**	**5,118**	**5,682**	**5,139**	**5,708**

Available for sale: statement of changes

in € millions	Equity and similar investments 2016	2015	Fixed-income investments 2016	2015	Total 2016	2015
Balance as at 1 January	26	10	5,682	6,174	5,708	6,184
Purchases and advances	4	--	2,333	3,159	2,337	3,159
Disposals and redemptions	-14	--	-2,964	-3,633	-2,978	-3,633
Revaluations	5	16	101	-21	106	-5
Amortisation	--	--	-28	19	-28	19
Other	--	--	-6	-16	-6	-16
Balance as at 31 December	**21**	**26**	**5,118**	**5,682**	**5,139**	**5,708**

Available for sale: valuation

in € millions	Equity and similar investments 2016	2015	Fixed-income investments 2016	2015	Total 2016	2015
(amortised) Cost price	17	21	4,761	5,380	4,778	5,401
Unrealised gains in value	4	5	357	302	361	307
Total	**21**	**26**	**5,118**	**5,682**	**5,139**	**5,708**

Part of the investments has been pledged as collateral for amounts due to banks (repos). The book value of assets pledged as collateral at 31 December 2016 amounts to € 1.8 billion (31 December 2015: € 1.9 million).

In addition, investments in the amount of € 7.9 billion (2015: € 10.5 billion) were pledged to the European System of Central Banks (ESCB). Of this amount, € 2.1 billion is recognised under investments and the remaining € 5.8 billion pertains to bonds of the bank's own securitised mortgages held for own account. These bonds held on own book are eliminated in the consolidated financial statements.

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.

At year-end 2016, loans and advances to banks consisted entirely of deposits of € 2,532 million (2015: € 2,081 million).

Part of the loans and advances to banks, in the amount of € 1,055 million (2015: € 851 million) was provided as collateral to third parties in respect of derivative transactions.

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. A number of securitised mortgages with mortgage collateral, mortgages to be securitised and related derivatives and liabilities are measured at fair value with changes through the income statement. This relates to the mortgages of the Holland Homes MBS securitisation programme and mortgages held for trading.

Provisions for loans and advances to customers
As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there is objective evidence that de Volksholding will not be able to collect all the amounts in accordance with the contractual terms. Objective evidence can either be the result of arrears or due to another indication of a loss event that results in an expectation that the customer is unlikely to meet its payment requirements. For loans and advances, that are individually significant, the provision equals the difference between the book value and the

recoverable value. The recoverable value equals the expected future cashflows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

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

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

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

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

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

Specification loans and advances to customers

	Loans		Provisions		Net amount	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015
Mortgages Retail	44,911	45,044	-114	-257	44,797	44,787
Other Retail	191	219	-26	-35	165	184
SME	909	1,089	-74	-99	835	990
Other	2,796	3,256	--	--	2,796	3,256
Total	**48,807**	**49,608**	**-214**	**-391**	**48,593**	**49,217**

De Volksbank has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 13.1 billion (2015: € 15.6 billion), of which € 5.8 billion (2015: € 6.9 billion) is on own book and a loan of € 4 .5 billion (2015: € 4.5 billion) is provided by Woonhuishypotheken BV. Woonhuishypotheken BV 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 23 related parties.

An amount of € 7.8 billion (2015: € 8.6 billion) of the mortgage loans has been provided as collateral to third parties under the Hermes, Pearl, Holland Homes securitisation programmes and issued covered bonds. The underlying obligations were sold to third parties. The collateralisations took place under normal market conditions.

Some of the retail mortgages are measured at fair value with changes in value through the profit and loss account. The book value of these mortgages is € 1,850 million (2015: € 2,047 million) and the maximum credit risk is € 1,667 million (2015: € 1,859 million). This part of the loans and advances to customers is included in level 3.

Under the other loans and advances, € 725 million (2015: € 763 million) relates to loans and advances to insurance companies. These insurance companies are participating in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by insurance companies. The same amount is recognised as financing from the insurance companies under other amounts due to customers.

Statement of changes in loans and advances to customers 2016 (gross)

in € millions	Mortgages Retail	Other Retail	SME	Other	Total
Balance as at 1 January	45,044	219	1,089	3,256	**49,608**
Reclassifications	--	--	--	--	**--**
Advances	3,859[1]	--	20	11,360[2]	**15,239**
Redemptions	-3,862[1]	--	-200	-11,830[2]	**-15,892**
Change in fair value as a result of hedge accounting	-85	--	--	8	**-77**[3]
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**
Transfer assets held for sale	--	--	--	--	**-**
Balance as at 31 December	**44,911**	**191**	**909**	**2,796**	**48,807**

1 The advances and redemptions mentioned in this table include conversions of € 169 million for new production and -/- € 247 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 2016, the fair value as a result of hedge accounting amounted to € 515 million (2015: € 593 million).

Movement in current accounts of € 28 million (2015: € 45 million) relates to short-term exposures. Of the other movements, € 41 million relates to amortisation of penalty interest, agency fees and arrangement fees.

Statement of changes in loans and advances to customers 2015 (gross)

in € millions	Mortgages Retail	Other Retail	SME	Other	Total
Balance as at 1 January	46,556	268	1,164	5,356	**53,344**
Reclassifications	4	--	--	-4	**--**
Advances	2,363[1]	--	--	41,264[2]	**43,627**
Redemptions	-3,719[1]	--	-106	-43,358[2]	**-47,183**
Change in fair value as a result of hedge accounting	-168	--	--	--	**-168**
Exchange rate differences	--	--	--	--	**--**
Change in mortgage loans at fair value through P&L	1	--	--	--	**1**
Movement in current accounts	--	-49	--	4	**-45**
Other movements	7	--	31	-2	**36**
Transfer assets held for sale	--	--	--	-4	**-4**
Balance as at 31 December	**45,044**	**219**	**1,089**	**3,256**	**49,608**

1 The advances and redemptions mentioned in this table include conversions of € 217 million for new production and -/- € 233 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.

In 2009, de Volksbank purchased a part of the mortgages from VIVAT, which it held for trading and measured at fair value in VIVAT's balance sheet at that time. Management changed the intention to hold these mortgages for trading purposes and decided to hold them for the foreseeable future or until maturity. In this respect, de Volksbank used the reclassification option under IAS 39.50D in 2009, reclassifying an amount of € 680 million in mortgages from the fair value through profit or loss category to loans and receivables. As a result of sales and redemptions, this portfolio had a value of € 445 million as at 31 December 2016 (2015: € 496 million; 2014: € 538 million; 2013: € 576 million; 2012: € 604 million; 2011: € 628 million; 2010: € 649 million; 2009: € 674 million). The fair value change of the portfolios was marginal and would not have significantly affected results. At the moment of reclassification, the weighted average effective interest rate of the reclassified mortgages was 5.2%. The expected recoverable cash flows amounted to € 700 million for the portfolio at the time of reclassification in 2009.

Statement of changes in specific provision loans and advances to customers

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

Statement of changes in IBNR provision loans and advances to customers

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

The total provision for loans and advances to customers decreased to € 214 million from € 391 million at year-end 2015. Both the retail mortgage portfolio and the SME portfolio contributed to this decrease, reflecting the improved market developments.

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 is recognized 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	2016	2015
Land and buildings in own use	17	16
IT equipment	13	14
Other assets	43	47
Total	**73**	**77**

Statement of changes in property and equipment 2016

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisition 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
Impairments	--	--	--	--
Balance as at 31 December	**17**	**13**	**43**	**73**

At year-end 2016 the renovations to the leased office premises, which are not yet in use, amount to € 1 million (2015: € 3 million).

Statement of changes in property and equipment 2015

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	52	32	85	169
Accumulated revaluations	-13	--	--	-13
Accumulated amortisation and impairments	-23	-18	-38	-79
Balance as at 31 December	**16**	**14**	**47**	**77**
Balance as at 1 January	23	14	49	86
Reclassifications	-2	--	2	--
Revaluations	-2	--	--	-2
Investments	--	7	7	14
Divestments	-1	--	--	-1
Disposals	--	-1	-1	-2
Depreciation	--	-6	-10	-16
Impairments	-2	--	--	-2
Balance as at 31 December	**16**	**14**	**47**	**77**

Rental income

Future rental income based on irrevocable operational leases

in € millions	2016	2015
< 1 year	3	1
1 - 5 year	6	1
> 5 year	--	--
Total	**9**	**2**

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. Other land and buildings in own use are valued once every three years.

The valuations were carried out in the period between May and December 2016.

Valuation of land and buildings in own use

in € millions	Appraised book value	Total book value	% Appraised book value
2016	**11**	**17**	**65%**
2015	9	16	59%
2014	14	23	61%

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	--	--	16	**16**
Land and buildings in own use 2014	--	--	23	**23**

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 Volksholding 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 Volksholding 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	2016	2015
Software	9	8
Other intangible assets	6	7
Total	**15**	**15**

At year-end 2016, the book value of internally developed and capitalised software amounts to € 9 million (2015: € 8 million). Other intangible assets comprise the distribution network of RegioBank of € 6 million (2015: € 7 million).

Statement of changes in intangible assets

	Software		Other intangible assets		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015
Accumulated acquisition costs	15	19	21	34	36	53
Accumulated amortisation and impairments	-6	-11	-15	-27	-21	-38
Balance as at 31 December	**9**	**8**	**6**	**7**	**15**	**15**
Balance as at 1 January	8	6	7	9	15	15
Capitalised costs	4	6	--	--	4	6
Depreciation capitalised costs	-3	-3	--	--	-3	-3
Depreciation purchases	--	--	-1	-2	-1	-2
Impairments	--	-1	--	--	--	-1
Balance as at 31 December	**9**	**8**	**6**	**7**	**15**	**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 only recognised if sufficient tax profits are probable to be realised in the near future to compensate these temporary differences. 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 Volksholding 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

in € millions	2016	2015
Deferred tax assets	137	284
Deferred tax liabilities	59	216
Total	**78**	**68**

Origin of deferred tax assets and liabilities 2016

in € millions	1 January	Change through P&L	Change through equity	Other movements	31 December
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
Tax-deductible losses	--	--	--	--	--
Other	7	-3	--	-2	2
Total	**68**	**34**	**-3**	**-21**	**78**

Origin of deferred tax assets and liabilities 2015

in € millions	1 January	Change through P&L	Change through equity	Other movements	31 December
Intangible assets	--	-1	--	--	-1
Property and equipment	3	--	--	--	3
Investments	-90	47	-4	--	-47
Derivatives	190	-80	7	--	117
Loans and advances to customers	-201	167	--	--	-34
Provisions	16	2	--	5	23
Tax-deductible losses	239	-239	--	--	--
Other	6	1	--	--	7
Total	**163**	**-103**	**3**	**5**	**68**

Specification tax-effect changes shareholders' equity

in € millions	2016	2015
Change in cashflow hedge reserve	4	7
Change in fair value reserve	-7	-4
Change in other reserve	--	5
Total	**-3**	**8**

Tax-deductible losses

in € millions	2016	2015
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 2016 included in particular a DTA related to a temporary valuation difference. The remaining term of this temporary valuation difference is 4.5 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, and it immediately resulted in part of the deferred corporate income tax due shifting to immediately due corporate income tax. This effect has been incorporated under the other movements in the 2016 statement of changes.

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 2013 is irrevocable. The corporate income tax return for 2014 was filed in 2016. The corporate income tax due by the various subsidiaries of the fiscal unity for corporate income tax purposes based on the final assessments as well as the return filed have been settled with the head of the fiscal unity, i.e. SRH N.V. Only the first six months of 2015 (being the period in which SNS Bank still formed part of the fiscal unity SRH) still has to be settled with SRH as the fiscal unity's parent company. This settlement will be made as soon as the return for the first six months of 2015 has been filed (which is expected to take place in the first quarter of 2017).

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 (DSG) 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 Volksholding from clients and the clearing counterparty regarding derivative positions.

Specification other assets

in € millions	2016	2015
Accrued interest	148	170
Other accrued assets	174	86
Accrued assets	**322**	**256**
Other advances	89	22
Total	**411**	**278**

Other accrued assets include the advanced contribution of de Volksbank to the Dutch Central Bank of € 51 million (2015: € 48 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 retail clients. 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 based on the effective interest method is recognised under 'interest expense' in the income statement during the term of these savings.

Specification savings

in € millions	2016	2015
Due on demand	31,406	31,421
Other savings	5,187	5,439
Total	**36,593**	**36,860**

The interest payable on savings is included under other liabilities.

Savings include an amount of € 2,936 million (2015: € 2,923 million) in bank savings and € 197 million (2015: € 195 million) in life-course savings.

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 based on the effective interest method is recognised under 'interest expense' in the income statement during the term of these amounts owed.

Specification other amounts due to customers

in € millions	2016	2015
Private loans	1,207	1,301
Private loans securitisation programme	725	763
Due on demand	6,581	6,358
Mortgage deposits	234	138
Savings deposits	2,088	2,020
Total	**10,835**	**10,580**

The interest payable on other amounts due to customers is included under other liabilities.

Under private loans, € 796 million (2015: € 877 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 € 358 million (2015: € 358 million). Additional repayment security was given by SNS Covered Bond Company for these private loans. For more information about the covered bond programme, reference is made to note 23 Related parties.

The private loans under the securitisation programme of € 725 million (2015: € 763 million) relate to the amount for which insurance companies participate in securitisation programmes in which offset mortgages have been securitised, with the savings policies being administered by insurance companies. The same amount in private loans granted to the insurance companies is recognised under 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 2016, the savings capital accrued totalled € 1,651 million (2015: € 1,636 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 based on the effective interest method is recognised under 'interest expense' in the income statement during the term of these amounts owed.

Specification amounts due to banks

in € millions	2016	2015
Due on demand	313	486
Deposits and certificates	52	--
Repo-contracts	724	--
Private loans	357	514
Total	**1,446**	**1,000**

The interest payable on amounts due to banks is included under other liabilities.

Liabilities related to repurchase agreements (repos), hedged by means of a temporary sale of investments, amounted to € 724 million in 2016 (2015: nil).

Under private loans, € 82 million (2015: € 114 million) relates to the placement of debt instruments (Schuldscheine) with banks. In addition, loans totalling € 80 million (2015: € 80 million) were placed via the covered bond programme and financing took place in the amount of € 194 million (2015: € 300 million), for which lowland bonds were provided as collateral.

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 income (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	2016	2015
Medium-term notes (MTN)	3,867	3,828
Debt certificates issued under Hermes, Pearl and Lowland Securitisation programmes	1,303	2,528
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	526	585
Balance as at 31 December	**5,696**	**6,941**

Medium Term Notes

Specification Medium Term Notes

	Coupon rate	Book value	Nominal value	Book value	Nominal value
in € millions		2016	2016	2015	2015
SNS Bank N.V.	Fixed	3,407	3,286	3,200	3,034
SNS Bank N.V.	Structured	256	224	414	381
SNS Bank N.V.	Floating	204	187	208	208
SNS Bank N.V.	Zero	--	--	6	10
Total		**3,867**	**3,697**	**3,828**	**3,633**

The Medium Term Notes comprise both private loans and public loans that are issued under the EMTN programme. Under the line item Medium Term Notes, € 3.3 billion (2015: € 2.9 billion) bonds were issued under the covered bond programme by de Volksbank. for more information see paragraph consolidated structured entities).

In 2016, Medium Term Notes in the amount of € 287 million (2015: € 385 million) were repurchased.

In October 2016, new bonds were issued in the amount of € 500 million under the covered bond programme. These bonds have a maturity of 15 years.

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 2016 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

	Initial principal	Start of securitisation	Book value		First call-option date	Contractual expiration
in € millions			**2016**	2015		
Hermes XII	2,241	10-2006	--	1,016	18-03-2016	01-12-2038
Hermes XVIII	960	10-2012	680	752	18-09-2017	01-09-2044
Pearl 1	1,014	09-2006	887	984	18-09-2026	01-09-2047
Pearl 2	852	05-2007	--	528	18-06-2014	01-06-2046
Lowland 1	3,793	01-2012	2,283	2,556	18-02-2017	18-01-2044
Lowland 2	1,917	07-2013	1,312	1,464	18-07-2018	18-10-2042
Lowland 3	2,613	12-2013	1,903	2,100	18-12-2018	18-09-2045
Total	**13,390**		**7,065**	**9,400**		
On own book			-5,762	-6,872		
Total			**1,303**	**2,528**		

In 2016, de Volksbank holds bonds, issued under the securitisation programmes, with an amortised cost of € 5.8 billion (2015: € 6.9 billion).

Part of the senior tranches of Hermes XVIII, Pearl 1 and all of the Lowland securitisations are held for own account and qualify as eligible assets at the European Central Bank.

The debt certificates issued under the securitisation programmes Hermes XII and Pearl 2 were redeemed in 2016.

The debt certificates issued under the Lowland 1 securitisation programme were redeemed on 20 February 2017.

On 20 February 2017, de Volksbank issued a new securitisation named Lowland IV in the 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

in € millions	Initial principal	Start of securitisation	Book value 2016	Book value 2015	Date put-option	Contractual expiration
Holland Homes MBS 2000-1 BV	350	11-2000	79	92	n.a.	24-09-2030
Holland Homes Oranje MBS BV	1,601	04-2006	447	493	20-01-2018	31-12-2083
Total	**1,951**		**526**	**585**		
On own book			--	--		
Total			**526**	**585**		

The contractual non-discounted amount that will have to be redeemed at the maturity date of the bonds amounts to € 528 million (2015: € 608 million).

15 Other liabilities

ACCOUNTING POLICY FOR OTHER LIABILITIES
Other liabilities primarily 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 Volksholding to clients and amounts due to the clearing counterparty regarding derivative positions.

Specification other liabilities

in € millions	2016	2015
Other taxes	15	16
Other liabilities	466	354
Accrued interest	410	585
Total	**891**	**955**

16 Other provisions

ACCOUNTING POLICY FOR OTHER PROVISIONS
General
Provisions are made if de Volksholding has a present obligation, legally or constructive , arising from events in the past, and which 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 cash flows. Additions and any subsequent releases are recorded in the income statement.

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 Volksholding recognises severance payments if de Volksholding 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. 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 Volksholding 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 the Volksholding becomes virtually certain.

Specification other provisions

in € millions	2016	2015
Restructuring provision	39	13
Other provisions	64	70
Total	**103**	**83**

See Note 20 Legal proceedings for a more detailed explanation of the main pending legal proceedings against de Volksbank.

In 2016, € 22 million of the € 23 million book loss on the sale of SNS Securities was charged to the provisions and the remaining € 1 million was recognised under other expenses. For more information see Note 19 Assets and liabilities held for sale.

In 2016, de Volksbank added € 32 million to the restructuring provision for the strategic plan 'Spot On'.

In 2016, de Volksbank added € 23 million to the other provisions with regard to the compensation expected for the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives.

Moreover, other provisions comprise planned compensation to customers in connection with offset mortgages (*spaarhypotheken*).

Statement of changes in other provisions

	Restructuring provision		Other provisions		Total	
in € millions	2016	2015	2016	2015	2016	2015
Balance as at 1 January	13	15	70	40	83	55
Additions / releases	31	9	35	35	66	44
Withdrawals	-5	-11	-41	-6	-46	-17
Transfer liabilities held for sale	--	--	--	1	--	1
Balance as at 31 December	**39**	**13**	**64**	**70**	**103**	**83**

17 Provision for employee benefits

ACCOUNTING POLICY FOR PROVISION FOR EMPLOYEE BENEFITS
De Volksholding 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.

Employee commitments

in € millions	2016	2015
Pension commitments	--	4
Other employee commitments	17	19
Total	**17**	**23**

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.

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.

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 2016. 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 until 31 December 2017.

Statement of changes in other employee commitmets

in € millions	2016	2015
Balance as at 1 January	19	--
Change in group structures	--	13
Allocation to / release from other employee commitments	--	6
Withdrawals	-2	--
Balance as at 31 December	**17**	**19**

18 Subordinated debts

ACCOUNTING POLICY FOR SUBORDINATED DEBTS
Subordinated debt is measured at fair value upon initial recognition, which ordinarily corresponds to the issue income (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.

The subordinated debts of de Volksholding form part of the own funds used in determining the solvency position of de Volksholding.

In 2015, de Volksbank placed subordinated (Tier 2) bonds for a total amount of € 500 million, with a book value of € 501 million as at 31 December 2016 (2015: € 493 million). The Tier 2 bonds, with a maturity of ten years, have a fixed coupon rate of 3.75% with a one-off option to redeem or to adjust the rate after five years.

19 Assets and liabilities held for sale

ACCOUNTING POLICY FOR ASSETS AND LIABILITIES HELD FOR SALE
Non- current assets shall be classified as held for sale when the assets are available for immediate sale and it is highly probable that the sale of the assets is completed within twelve months from the date of the held for sale classification. The assets and liabilities held for sale are measured at book value or lower fair value less costs to sell with the exception of assets that fall outside the IFRS 5 measurement scope. The main assets of SNS Securities are financial instruments and therefore fall outside the IFRS 5 measurement scope. Depreciation on assets classified as held for sale is ceased.

The assets and liabilities classified as held for sale are presented separately.

Specification assets held for sale

in € millions	2016	2015
Cash and cash equivalents	--	4
Loans and advances to banks	--	11
Investments	--	94
Other assets	--	1
Total	**--**	**110**

Specification liabilities held for sale

in € millions	2016	2015
Other amounts due to customers	--	4
Amounts due to banks	--	25
Other provisions	--	--
Corporate income tax	--	3
Other liabilities	--	5
Total	**--**	**37**

The balances of the assets and liabilities held for sale as at 31 December 2015 wholly consist of assets and liabilities of SNS Securities, which were sold in the second quarter of 2016. The sale led to a book loss of approximately € 23 million, of which € 22 million was charged to the provision formed in 2015.

In 2015, SNS Securities has several intercompany positions with other units of de Volksbank. These intercompany positions are eliminated when drawing up the consolidated financial statements of 2015 and, therefore, are not part of the assets and liabilities held for sale.

20 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 Volksholding. 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 live up to their contractual obligations and that all the existing collateral is without value.

Contingent liabilities

Specification contingent liabilities

in € millions	2016	2015
Liabilities from pledges and guarantees given	17	15
Liabilities from irrevocable facilities	1,562	1,255
Repurchase commitments	1,222	1,425
Total	**2,801**	**2,695**

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 € 838 million (2015: € 964 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 € 384 million as at 31 December 2016 (2015: € 461 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	2016	2015[1]
< 1 year	49	83
1 - 5 year	106	128
> 5 year	1,067	1,214
Total	**1,222**	**1,425**

1 The method for determining the maturity schedule was amended in 2016. The comparative figures have been adjusted accordingly.

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 new rules is a new, 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 € 38 million to the DGS in 2016.

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 € 8 million (2015: € 13 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	2016	2015
< 1 year	14	15
1 - 5 year	48	50
> 5 year	51	58
Total	**113**	**123**

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 € 6 million for a period up to one year (2015: € 6 miljoen) and € 4 million (2015: € 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 € 20 million (2015: € 24 million).

Maturity calendar future IT commitments

in € millions	2016	2015
< 1 year	11	12
1 - 5 year	9	12
> 5 year	--	--
Total	**20**	**24**

Legal proceedings

De Volksbank and its other 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 April 2010, a foundation acting on behalf of a group of execution-only customers initiated legal proceedings against de Volksbank for alleged losses suffered on investments in certain foreign investment funds (including Madoff feeder funds). In January 2013, in the proceedings before the court, the court reached a verdict. The court ruled that de Volksbank made mistakes and therefore failed to meet its contractual obligations. Having lodged an appeal, de Volksbank concluded its dispute with the foundation this year, bringing the proceedings to an end. 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. The proceedings against the feeder funds have been formally stayed, but the trustees are attempting to restart these. 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. 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.

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 2016 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 cash flows 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, for the period 2006 – present. 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 will defend themselves against this request. The Enterprise Chamber is expected to render judgment in the second half of 2017, 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 assert 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. SRH, de Volksbank and Propertize lodged an appeal against this at the Enterprise Chamber. At the end of December 2015, the Enterprise Chamber also declared the objection well-founded. SRH and de Volksbank have lodged an appeal in cassation, on which the Supreme Court will render judgment in 2017. The outcome of these objection proceedings as such will not have any material significance for the balance sheet of de Volksbank. No provisions have been made for the underlying asserted claims that Propertize disputes.

The receivers in the bankruptcies of the 2SQR companies have now commenced proceedings at the District Court regarding the claim they assert to have against Propertize – for which they hold de Volksbank liable pursuant to the 403 Guarantee. The asserted claim is thus subject to substantive assessment in these proceedings.

Furthermore, some counterparties of Propertize who are conducting legal proceedings against Propertize have also summoned de Volksbank to appear. The legal basis for this is unclear and de Volksbank considers the chance of success of these claims against de Volksbank to be limited.

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. The Enterprise Chamber and the Supreme Court have now commented on the basic principles for the value assessment. These entail that the Enterprise Chamber itself must determine the compensation, so independently of the offer, in which respect it is irrelevant how the Minister explained his offer. This means that the compensation might still be set at € 0.

Compensation principles were also given, including the significance of the share price for the value assessment and the question of whether DNB's actions prior to the expropriation (known as the SREP decision) may be taken into account.

On 26 February 2016, the Enterprise Chamber decided that the value of the expropriated securities and assets, and consequently whether or not any compensation is due, is to be determined by court-ordered expert examination. In this context, the Enterprise Chamber appointed three experts. It follows from the ruling that the Enterprise Chamber aims to ensure delivery of the expert examination on 1 October 2017. Any ensuing damages arising from these proceedings will be paid by the Dutch State.

Other

AFM INVESTIGATION INTO 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. De Volksbank is participating in the Recovery Framework and – like other participating banks – commenced a pilot phase with the Committee of Experts and the AFM in the summer of 2016. 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. It expects to obtain AFM approval for this plan in January 2017, and to begin implementing the Recovery Framework thereafter. De Volksbank, which sets great store by the Recovery Framework, will carefully reassess the interest rate derivatives and will take the necessary corrective action. 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, an amount of € 23 million was recognised for this purpose.

21 Specific disclosures on 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 Volksholding 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 cash flow calculation to valuation models that use accepted economic methodologies. Input for the valuation models is, where available, observable market information. All valuation methods used are assessed and approved in-house according to de Volksbank's governance procedures.

Fair value of financial assets and liabilities

in € millions	31-12-2016 Fair value	Book value	31-12-2015 Fair value	Book value
FINANCIAL ASSETS				
INVESTMENTS				
- Fair value through P&L: held for trading	831	831	668	668
- Available for sale	5,139	5,139	5,708	5,708
Derivatives	1,533	1,533	1,993	1,993
Loans and advances to customers	50,758	48,593	50,962	49,217
Loans and advances to banks	2,532	2,532	2,081	2,081
Other assets	411	411	278	278
Cash and cash equivalents	2,297	2,297	2,259	2,259
Assets held for sale	--	--	110	110
Total financial assets	**63,501**	**61,336**	**64,059**	**62,314**
Financial liabilities	--	--	--	--
Subordinated debts	516	501	493	493
Debt certificates	5,671	5,696	6,964	6,941
Derivatives	1,861	1,861	2,189	2,189
Savings	37,113	36,593	37,557	36,860
Other amounts due to customers	10,964	10,835	10,742	10,580
Amounts due to banks	1,446	1,446	1,015	1,000
Other liabilities	891	891	955	955
Liabilities held for sale	--	--	37	37
Total financial liabilities	**58,462**	**57,823**	**59,952**	**59,055**

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.

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.

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 the Volksbank Group whose contractual obligation it is, differentiated to maturity and type of instrument.

Debt certificates
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, 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 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
Assets held for sale	--	--	--	--	--
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[1]	46,743	--	--	48,908	48,908
Loans and advances to banks	2,532	--	--	--	2,532
Other assets	411	--	--	--	411
Cash and cash equivalents	2,297	--	--	--	2,297
Assets held for sale	--	--	--	--	--
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
Liabilities held for sale	--	--	--	--	--

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

Hierarchy financial assets and liabilities 31 December 2015

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	668	668	--	--	668
- Fair value through P&L: designated	--	--	--	--	--
- Available for sale	5,708	5,502	179	27	5,708
Derivatives	1,993	--	1,786	207	1,993
Loans and advances to customers[1]	2,047	--	--	2,047	2,047
Assets held for sale	94	3	90	1	94
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[1]	47,170	--	--	48,915	48,915
Loans and advances to banks	2,081	--	--	--	2,081
Other assets	278	--	--	--	278
Cash and cash equivalents	2,259	--	--	--	2,259
Assets held for sale	16	--	--	--	16
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	2,189	--	1,842	347	2,189
Debt certificates[1]	585	--	--	585	585
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	493	--	493	--	493
Debt certificates[1]	6,356	--	--	6,379	6,379
Savings	36,860	--	33,831	3,726	37,557
Other amounts due to customers	10,580	--	10,742	--	10,742
Amounts due to banks	1,000	--	1,015	--	1,015
Other liabilities	955	--	--	--	955
Liabilities held for sale	37	--	--	--	37

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

Change in level 3 financial instruments 2016

in € millions	Available for sale	Loans and advances to customers	Assets held for sale	Derivatives assets	Derivatives liabilities	Debt certificates
Balance as at 1 January	27	2,047	1	207	347	585
Transfers into level 3	--	--	--	--	--	--
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
Other	--	--	-1	--	--	--
Balance as at 31 December	**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'.

Change in level 3 financial instruments 2015

in € millions	Available for sale	Loans and advances to customers	Assets held for sale	Derivatives assets	Derivatives liabilities	Debt certificates
Balance as at 1 January	11	2,206	4	379	677	1,107
Transfers into level 3	--	--	--	--	--	--
Purchases/advances	6	--	--	--	--	--
Unrealised gains or losses recognised in P&L[1]	--	1	--	-152	-307	37
Unrealised gains or losses recognised in other comprehensive income[2]	16	--	--	--	--	--
Movement accrued interest	--	--	--	-20	-23	--
Sale/settlements	-6	-159	-3	--	--	-560
Other	--	-1	--	--	--	1
Balance as at 31 December	**27**	**2,047**	**1**	**207**	**347**	**585**

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	2016	2015
Bonds issued by financial institutions	--	1
Equity	22	27
Derivatives	141	207
Loans and advances to customers	1,850	2,047
Total assets	**2,013**	**2,282**
Derivatives	247	347
Debt certificates	526	585
Total liabilities	**773**	**932**

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 2016

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

Sensitivity non-market observable parameters financial instruments level 3 2015

in € millions	Valuation technique	Main assumption	Carrying value	Reasonably possible alternative assumptions: Increase in fair value	Reasonably possible alternative assumptions: Decrease in fair value
Assets					
Loans and advances to customers	Discounted cashflow	Discount curve	2,047	39	37
		Pre-payment rate	2,047	9	8
Derivatives	Discounted cashflow	Discount curve	207	22	23
		Pre-payment rate	207	7	7
LIABILITIES					
Debt certificates	Discounted cashflow	Discount curve	585	6	6
		Pre-payment rate	585	--	--
Derivatives	Discounted cashflow	Discount curve	347	22	23
		Pre-payment rate	347	8	8

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 table below presents the fair value changes caused by the credit risk.

Changes fair value caused by credit risk

	Carrying amount	Accumulated changes in fair value due to credit risk	Carrying amount	Accumulated changes in fair value due to credit risk
in € millions	**2016**		**2015**	
Loans and advances to customers	1,850	22	2,047	16
Total assets	**1,850**	**22**	**2,047**	**16**
			--	--
Debt certifiates	526	-2	585	-23
Total liabilities	**526**	**-2**	**585**	**-23**

The cumulative changes in the fair value due to credit risk in the loans and advances to customers amounts to € 22 million (2015: € 16 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 2016 is € 6 million (2015: € 89 million).

TRANSFERS BETWEEN CATEGORIES 2016

No significant movements occurred in 2016 and 2015.

22 Hedging and hedge accounting

ACCOUNTING POLICY FOR HEDGING AND HEDGE ACCOUNTING

De Volksholding uses derivatives as part of 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 changes in the fair value are 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 Volksholding 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 Volksholding assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or variability of the cash flows 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 line item Results financial instruments.

De Volksholding discontinues hedge accounting when the hedge relationship ceased to be effective or when the derivative or hedged item is sold or otherwise terminated.

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 Results 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 over the expected residual term of the previously hedged item, or taken directly to the income statement if the hedged item is derecognised.

De Volksholding 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. The fair value changes of derivative transactions used to hedge against economic risk exposures that do not qualify for IAS39 hedge accounting, or for which it is not cost beneficial to apply hedge accounting, are recognised directly through profit or loss.

Derivatives for hedging purposes 2016

in € millions	Fair value hedges			Cashflow hedges			Economic hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
		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**	**--**	**12**	**1**	**--**	**600**	**706**

Derivatives for hedging purposes 2015

in € millions	Fair value hedges			Cashflow hedges			Economic hedges		
	Nominal amounts	Fair value		Nominal amounts	Fair value		Nominal amounts	Fair value	
		Positive	Negative		Positive	Negative		Positive	Negative
Interest rate contracts	34,333	1,210	1,282	6,875	59	27	21,161	598	790
Currency contracts	90	35	--	--	--	--	9,338	91	90
Total	**34,423**	**1,245**	**1,282**	**6,875**	**59**	**27**	**30,499**	**689**	**880**

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.

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 8;
- 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 2016, no transactions were concluded in order to hedge the quotation risk. The value accrued in shareholders' equity was € 59.3 million positive (gross) as at 31 December 2016 (2015: € 76.2 million positive (gross)).

The maturity profile of the forecasted principal balances designated in the macro cashflow hedge is as follows:

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**

Maturity schedule 2015

in € millions	< 3 months	> 3 months - 1 year	> 1 year - 5 year	Total
Assets	750	400	2,326	**3,476**
Liabilities	--	--	2,025	**2,025**
Net	**750**	**400**	**301**	**1,451**

23 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 Volksholding maintains various forms of ordinary business relationships with related companies and parties. Related parties of de Volksholding are de Volksbank, 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 BV, a fully consolidated subsidiary of de Volksbank, amounted to € 4.5 billion (2015: € 4.5 billion) as at 31 December 2016. 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 € 38 million (2015: € 33 million).

Positions and transactions with managers in key position 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). In the table below, the column “Other” also includes the members of the Executive Board of SNS REAAL until September 2015.

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	2016	2015	2016	2015	2016	2015
Fixed annual income	1,911	1,927	196	1,383	2,107	3,310
Pension contribution	100	90	12	52	112	142
Termination benefits	--	--	--	132	--	132
Total	**2,011**	**2,017**	**208**	**1,567**	**2,219**	**3,584**

'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 € 101,519 (2016) is included in the table under fixed annual income.

‘Termination benefits’ means the pay under termination of the employment contract, including any compensation to which the employee is entitled in connection with the employment termination without performing work.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate[1]		Redemptions		Advances	
in € thousands	2016	2015	2016	2015	2016	2015	2016	2015
Mortgage loans	984	998	3.48%	2.88%	14	188	--	--

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 2016. 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 paragraph 5.7 Remuneration report which is part of the financial statements.

Subsidiaries de Volksholding B.V.

On 31 December 2016, the subsidiaries RegioBank and ASN Bank merged with de Volksbank.

Overview subsidiaries de Volksholding B.V.

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	The Hague	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%
Woningfonds 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 Beleggingsfondsen N.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%

Consolidated structured entities

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	2016	2015
Hermes	680	1,768
Pearl	887	1,512
Lowland	5,498	6,120
Holland Homes	526	585
Total	**7,591**	**9,985**

De Volksbank set up various securitisations with approximately € 7.6 billion notes outstanding at year-end 2015 (2015: € 10 billion). De Volksbank holds € 5.8 billion (2015: € 6.9 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 € 3.3 billion (2015: € 2.9 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.

In October 2016, new bonds were issued in the amount of € 500 million under the covered bond programme. These bonds have a maturity of 15 years.

24 Post balance sheet events

January 2017 saw a € 50 million private placement under the covered bond programme.

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

The debt certificates issued under the Lowland 1 securitisation programme were redeemed on 20 February 2017.

25 Net interest income

ACCOUNTING POLICY FOR NET INTEREST INCOME

Interest income

Interest income comprises interest income on financial assets of 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 Volksholding 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 Volksholding will conclude a particular loan agreement. If the commitment expires without de Volksholding 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.

Penalty interest received related to an existing financial asset, whereby the terms of the financial asset do not have significantly changed compared to the original terms, is treated as an adjustment to the effective interest rate and is recognised over the remaining expected maturity of the instrument.

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 valued at amortised cost. Interest expenses on financial liabilities that are classified at fair value through profit or loss are accounted for based on nominal interest rates.

Specification net interest income

in € millions	2016	2015
Interest income	1,592	1,888
Interest expenses	681	894
Net interest income	**911**	**994**

At year-end the interest income includes € 25 million (2015: € 45 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 € 467 million (2015: € 792 million) and interest expenses derivatives € 574 million (2015: € 860 million).

Specification interest income

in € millions	2016	2015
Mortgages	1,492[1]	1,765
Other loans and advances to customers	76	98
Loans and advances to banks	5	-9
Investments	17	34
Other	2	--
Total	**1,592**	**1,888**

1 Interest income on mortgages at fair value amounts to € 88 million (2015: 98 million).

Specification interest expenses

in € millions	2016	2015
Debt certificates	23	79
Subordinated debt	19	4
Savings	466	641
Other amounts due to customers	144	155
Amounts due to banks	10	15
Loans and advances to banks	19	--
Total	**681**	**894**

At year-end 2016 is for € 19 million negative interest paid on loans and advances to banks. The negative interest income on loans and advances to banks is driven by the negative short-term EURIBOR interest rates.

26 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 Volksholding. 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	2016	2015
FEE AND COMMISSION INCOME:		
Money transfer and payment charges	35	35
Advice and agency activities	16	15
Management fees	32	29
Securities activities	4	7
Insurance agency activities	16	16
Other activities	5	1
Total fee and commission income	**108**	**103**
FEE AND COMMISSION EXPENSES		
Money transfer and payment charges	8	7
Management fees	19	23
Securities activities	2	2
Fee franchise	17	19
Other activities	5	4
Total fee and commission expenses	**51**	**55**
Total	**57**	**48**

27 Investment income

ACCOUNTING POLICY FOR INVESTMENT INCOME
Investment income consists of interest, dividend and revaluations.

Interest
This item interest comprises interest income from investments.

Dividend
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 represent 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 represent the difference between the sales proceeds and amortised cost of investments sold.

Specification investment income

in € millions	2016	2015
Fair value through P&L	-24	-163
Available for sale	81	205
Total	**57**	**42**

Included in the investment income is a net gain due to foreign exchange rate movements of € 10 million (2015: € 10 million gain).

Breakdown of investment income 2016

in € millions	Fair value through P&L		Available for sale	Total
	Held for trading	Designated		
Dividend	--	--	13	13
Exchange rate differences	--	10	--	10
Realised revaluations	-2	-31	28	-5
Unrealised revaluations	--	-1	40	39
Total	**-2**	**-22**	**81**	**57**

An amount of € 40 million (2015: € 19 million), relating to hedge accounting, is recognised under the unrealised gains and losses available for sale.

Investment income increased primarily due to a € 10 million gain resulting from the sale of the share in VISA Europe Ltd.

Breakdown of investment income 2015

in € millions	Fair value through P&L		Available for sale	Total
	Held for trading	Designated		
Dividend	--	--	--	--
Exchange rate differences	--	10	--	10
Realised revaluations	--	-143	186	43
Unrealised revaluations	--	-30	19	-11
Total	**--**	**-163**	**205**	**42**

28 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 an hedging instrument, the recognition of a resulting gain or loss depends on the nature of the hedge relationship (reference is made to note 22 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 receivables 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, realized results from these buy backs are accounted for in this line item.

Specification result on financial instruments

in € millions	2016	2015
Fair value movements in hedging instruments	-23	6
Fair value movements in hedged item attributable to hedged risks	22	1
Fair value movements in derivatives held for fair value hedge accounting	**-1**	**7**
Fair value movements in derivatives held for trading	-1	-1
Fair value movements in other derivatives	-34	-19
Fair value movements in other financial instruments	32	64
Repurchase debt instruments	-16	-12
Total	**-20**	**39**

In 2016, the result on financial instruments was € 1 million negatively (2015: € 47 million positively) impacted by unrealised losses 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.

29 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 2016 amounted to € 2 million (2015: € 2 million).

30 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 17 Provision for employee benefits.

All staff is employed by de Volksbank.

Specification staff costs

in € millions	2016	2015
Salaries	190	186
Pension costs	38	33
Social security	29	28
Other staff costs	141	124
Total	**398**	**371**

The increase in staff costs is due to a higher head count at operations to cope with the increased mortgage activities.

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 2016. 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 one year until 31 December 2017.

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and vocational education and training costs. The lease commitments of the fleet amount to € 4 million (2015: € 4 million) and hiring staff € 82 million (2015: € 88 million).

Number of FTEs

in numbers	2016	2015
Number of FTEs	3,354	3,340

Specification phantom shares (awarded in financial year)

	Shares (in numbers)		Fair value per share (in €)	
	2016	2015	**2016**	2015
Total	111	117	4,141	3,842

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.

The value development of the phantom shares is based on the development of de Volksbank's result, possibly adjusted for non-recurring income or expenses. The value of the phantom shares is paid in cash at the end of the specified period of time. For 2016, € 450,000 (2015: € 445,000) in phantom shares will be awarded. At year-end 2016, the total amount of liabilities arising from the phantom shares is € 1,090,211 (2015: € 584,000).

31 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	2016	2015
Housing costs	19	20
Information technology costs	26	21
Marketing and public relations costs	35	36
Consultancy costs	24	28
Prudential costs	46	15
Other costs	72	76
Total	**222**	**196**

Other expenses comprise costs for payment transactions, securities management and printed matter. Other costs also comprise € 16 million (2015: € 17 million) in costs on account of lease commitments.

Prudential costs include an amount of € 8 million (2015: € 13 million) in relation to de Volksbank's annual contribution to the Resolution Fund and € 38 million relates to Deposit Guarantee Scheme (DGS).

32 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 specific principles for impairment are explained in more detail in section specific balance sheet principles under the applicable line items.

Specification impairment charges / (reversals) by asset class

	Impairments		Reversals		Total	
in € millions	**2016**	2015	**2016**	2015	**2016**	2015
Loans and advances to customers	51	129	119	95	**-68**	34
Property and equipment	--	2	--	--	**--**	2
Intangible assets	--	1	--	--	**--**	1
Total through profit or loss	**51**	**132**	**119**	**95**	**-68**	**37**

Impairment charges were positively impacted by a decrease in loans in default due to a high level of recoveries and a low inflow, positive macroeconomic developments and improvements in arrears management. In addition, rising residential house prices contributed to a surplus on foreclosures.

33 Other expenses

ACCOUNTING POLICY FOR OTHER EXPENSES
Other expenses comprises all the expenses that cannot be accounted for under other line items in the income statement. These expenses have no direct relation with the primary and secondary business operations, happen occasionally, and occur in a single financial year, or arise in a single financial year, and are amortised over multiple financial years.

In 2015, the € 22 million book loss in connection with the sale of SNS Securities is recognised under other expenses.

34 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	2016	2015
In financial year	79	22
Prior year adjustments	-5	3
Corporate income tax due	**74**	**25**
Due to temporary differences	29	103
Deferred tax	29	103
Total	**103**	**128**

Reconciliation between the statutory and effective tax rate

in € millions	2016	2015
Statutory income tax rate	25.0%	25.0%
Result before tax	432	476
Statutory corporate income tax amount	**108**	**119**
Exemptions	--	1
Prior year adjustments (including tax provision release)	-5	3
Permanent differences	--	5
Total	**103**	**128**
Effective tax rate	23.9%	26.9%

DIVIDEND
The Board of Directors of de Volksbank proposes to pay out a dividend of € 135 million (2015: € 100 million) to the shareholder NLFI.

Utrecht, 8 March 2017

SUPERVISORY BOARD
J.C.M. van Rutte (chairman)
C.M. Insinger
M.R. Milz
J.A. Nijhuis
L.J. Wijngaarden

BOARD OF DIRECTORS
M.B.G.M. Oostendorp (chairman)
A.T.J. van Melick
V.A. Baas
R.G.J. Langezaal
J.R. Dijst

Company financial statements

Company balance sheet

Before result appropriation and in € millions	Notes	31-12-2016	31-12-2015
ASSETS			
Subsidiaries	1	3,541	3,302
Total assets		**3,541**	**3,302**
EQUITY AND LIABILITIES			
Share capital	2	--	--
Share premium reserve	2	3,196	3,247
Statutory reserve associates	2	18	7
Other reserves	2	-2	-1
Retained earnings	2	329	49
Total equity		**3,541**	**3,302**
Total equity and liabilities		**3,541**	**3,302**

Company income statement

in € millions	2016	2015
Result on subsidiaries after tax	329	49
Other results after tax	--	--
Net result	**329**	**49**

Principles for the preparation of the company financial statements

De Volksholding B.V. prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on subsidiaries after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to apply the same principles for valuation and the determination of the results that are used in the consolidated financial statements for the company financial statements. Reference is made to the accounting principles for 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 TradeRegister 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 statutory reserve associates.

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	2016	2015
Balance as at 1 January	3,302	--
Capital contribution/Share premium	--	3,247
Revaluations	10	6
Result	329	49
Dividend	-100	--
Balance as at 31 December	**3,541**	**3,292**

2 Equity

Statement of changes in equity 2016

in € millions	Issued capital[1]	Share premium reserve	Statutory reserves associates	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2016	--	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
Dividend[2]	--	-51	--	-49	--	-100
Amounts charged directly to equity	--	-51	11	-1	-49	**-90**
Net result 2016	--	--	--	--	329	329
Total result 2016	--	-51	11	-1	280	**239**
Total changes in equity 2016	--	-51	11	-1	280	**239**
Balance as at 31 December 2016	**--**	**3,196**	**18**	**-2**	**329**	**3,541**

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 2015

in € millions	Issued capital[1]	Share premium reserve	Statutory reserves associates	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2015	--	--	--	--	--	**--**
Unrealised revaluations	--	--	24	--	--	24
Realised revaluations through P&L	--	--	-18	--	--	-18
Other changes	--	--	1	-1	--	--
Transactions with shareholder	--	3,247	--	--	--	3,247
Amounts charged directly to equity	--	3,247	7	-1	--	**3,253**
Net result 2015	--	--	--	--	49	49
Total result 2015	--	3,247	7	-1	49	**3,302**
Total changes in equity 2015	--	3,247	7	-1	49	**3,302**
Balance as at 31 December 2015	**--**	**3,247**	**7**	**-1**	**49**	**3,302**

1 Issued capital is € 1

ISSUED SHARES

The issued share capital is fully paid up and comprises one share. The nominal value of the share is € 1. During the year, no shares were issued.

3 Overview subsidiaries

Overview of de Volksholding B.V. subsidiaries

	Place of business	Proportion of ordinary shares
De Volksbank N.V.	Utrecht	100%
SNS Beheer B.V.	The Hague	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%
Woningfonds 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 Beleggingsfondsen N.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 2016	KPMG Accountants 2015
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	1,598	1,904
Other assurance services	525	437
Tax advisory services	--	--
Other non-audit services	--	--
Total	**2,123**	**2,341**

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.

Profit or loss appropriation

De Volksholding proposes to pay out a dividend of € 135 million (2015: € 100 million) to the shareholder NLFI. The dividend payment will be charged from the retained earnings for 2016. The profit after dividend payment for the financial year 2016 will be added to the other reserves.

Utrecht, 8 March 2017

SUPERVISORY BOARD
J.C.M. van Rutte (Chairman)
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J.R. Dijst

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 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of de Volksholding B.V. ('de Volksholding' or 'the Company'), 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 2016, and of its result and its cash flows for 2016 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 2016, and of its result for 2016 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 2016
- The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income and 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 2016
- The company income statement for 2016
- 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. in accordance with 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 30 million
Benchmark applied	1% of equity (rounded)
Explanation	Based on our professional judgment we consider equity-based measures as the most appropriate basis to determine materiality for de Volksholding B.V. as it provides us with a consistent year on year basis for determining materiality and is one of the key performance measures for the users of the financial statements. Based on the actual equity amount as of 31 December 2016 the materiality would exceed the initial planning materiality of EUR 30 million as set in course of our planning phase. 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 agreed with the Supervisory Board that misstatements in excess of EUR 1.5 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. represents 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.

Estimation uncertainty with respect to impairment losses on mortgages

Key audit matter	The majority of the retail mortgage loan portfolio as at 31 December 2016 is measured at amortized cost, less a provision for loan losses. This provision is accounted for 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. For a full description of the accounting principles applied to mortgage loans, we refer to the accounting principles included in the financial statements. 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 an inherently 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. The associated risk management disclosure is complex and dependent on the quality of the data. As disclosed in note 5 to the financial statements, during 2016 there has been a net release of the loan loss provisions. Given the relative size of the mortgage portfolio of de Volksholding, the movements in loan loss provisions and the subjectivity involved in the judgments made, we considered this to be an important item for our audit.
Our audit approach	We assessed and tested the design and operating effectiveness of the controls over the impairment calculations including the quality of underlying data and systems. These procedures 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. During our audit we also considered the process regarding the internal validation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models. In addition we performed substantive audit procedures. We reviewed the adequacy of the provisioning models used by ascertaining whether, on the basis of the model documentation, the models were adequately designed. This included the involvement of our own credit risk management specialists. Furthermore, we tested the accuracy of the data used in the models with respect to the mortgage portfolio as of 31 December 2016 by reconciling this information to the underlying information systems. Lastly, 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 loan to value. Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provisions to assess compliance with disclosure requirements included in EU-IFRS.

Estimation uncertainty with respect to fair values of financial instruments related to the DBV portfolio	
Key audit matter	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. The associated risk management disclosure is complex and dependent on the quality of the data. As disclosed in notes 5, 14 and 28 to the financial statements, de Volksholding measures a specific mortgage portfolio (the 'DBV portfolio'), swaps and related securitization notes at fair value with movements directly recorded in the income statement. Specific areas of focus related to the DBV portfolio include the valuation of financial instruments with high estimation uncertainty for which observable market prices or market parameters are not available. Given the judgment applied in the estimation of the fair values involved and the relative high fair value profit and loss account volatility in accounting for this portfolio, we determined this to be an important item for our audit.
Our audit approach	We have performed independently price verification and model testing. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included a challenge of prepayment assumptions and, where relevant, comparison of judgments made to current and emerging market practice and reperformance of valuations. Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial assets and liabilities to assess compliance with disclosure requirements included in EU-IFRS, including valuation sensitivity and fair value hierarchy.
Initial audit engagement	
Key audit matter	The audit of the 2016 financial statements of de Volksholding is an so-called initial audit by us. Additional considerations are involved in performing initial audit engagements. Additional planning activities and considerations are required to establish an appropriate audit strategy and audit plan. Also we rely on the audit of the 2015 financial statements as performed by the previous audit firm.
Our audit approach	After being appointed as de Volksholding's auditors starting 2016, we developed a transition plan, which included specific planning activities, to ensure an effective transition from the previous audit firm. The specific planning activities included, but were not limited to, obtaining an initial understanding of de Volksholding and its business, including background information, strategy, business risks, IT landscape and its financial reporting and internal controls framework, to assist us in performing our risk assessment procedures. We have assessed the opening balance and the selection and consistent application of accounting policies by discussing the audit with the previous audit firm and reviewing their audit file. Furthermore, in January and February 2016, we attended various closing meetings related to the audit of the 2015 financial statements. The foregoing has been used as a input to our 2016 audit plan. We discussed and agreed our 2016 audit plan with the Audit Committee of de Volksholding in May 2016 and have provided status updates, progress reports and key audit matters from our audit process on a regular basis.

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, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

We were engaged by the Supervisory Board as auditor of de Volksholding B.V. on 12 October 2015, 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 company'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 company 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 company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company'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:

- 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 company'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 company'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 a company 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, 8 March 2017

Ernst & Young Accountants LLP

signed by N.M. Pul

Definitions

Term	Definition
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 I	The Basel I Capital Accord is the 1988 agreement among the G10 central banks (at that time) to apply common minimum capital standards to the banking industry.
Basel II	The Basel II Framework offers a new set of standards for establishing minimum capital requirements for banks. It was prepared by the Basel Committee on Banking Supervision.
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.
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.
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.

Term	Definition
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.
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 cash flows to bondholders.
Return on equity (ROE)	Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.
Savings-based mortgages	Savings-based mortgages are mortgages with an insurance-linked savings scheme whereby the accumulated capital will be used to repay the principal at maturity. A bank savings-based mortgage operates on the same principle, except it is linked to a bank savings account.
Securitisation	Structuring and bundling debts and trading them in the form of securities.
Special credit servicecentre	Service centre that deals with customers who have problems paying their mortgage.

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	IFRS	International Financial Reporting Standards[1]
AFM	The Netherlands Authority for the Financial Markets	IIRC	International Integrated Reporting Council
AFS	Available for Sale	ILAAP	Internal Liquidity Adequacy Assessment Process
AIRB	Advanced Internal Rating Based-benadering[1]	IRB	Internal Rating Based (approach)
ALCO	Asset & Liability Committee[1]	ISDA	International Swaps and Derivatives Association
ALM	Asset Liability Management	KPI	Key Performance Indicator
AQR	Asset Quality Review	LCP	Liquiditeit Contingency Plan
ASN	Algemene Spaarbank voor Nederland	LCR	Liquidity Coverage Ratio[1]
AuM	Assets under Management[1]	LGD	Loss Given Default
BCBS	Basel Committee for Banking Supervision	LTRO	Long Term Refinancing Operation
BLG	Bouwfonds Limburgse Gemeenten	LtV	Loan to value
BRC	Bank Risk Committee	MBS	Mortgage Backed Securities
BRRD	Bank Recovery and Resolution Directive	MFH	Mixed Financial Holding
BSM	Balance Sheet Management	MGC	Model Governance Committee[1]
CAAR	Capital Adequacy Assessment Report	MREL	Minimum Requirement for own funds and eligible liabilities
CC	Credit Committee[1]	MPC	Management Pricing Committee
CCO	Chief Commercial Officer	MVO	Corporate social responsibility
CDO	Collaterised Debt Obligation	NFRC	Non-Financial Risk Committee[1]
CEO	Chief Executive Officer	NHG	National Mortgage Guarantee
CFO	Chief Financial Officer	NLFI	Stichting administratiekantoor beheer financiële instellingen
CLA	Collective Labour Agreement	NRA	National Resolution Authority
CLO	Collaterised Loan Obligation	NPS	Net Promoter Score
CO_2	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
CRD	Capital Requirements Directive	RAROC	Risk Adjusted Return On Economic Capital
CRO	Chief Risk Officer	RAS	Risk Appetite Statement
CRR	Capital Requirements Regulation	RC	Risk Committee
CSA	Credit Support Annex	ReNomCo	Remuneration- en Nomination Committee of the SB
CVA	Credit Valuation Adjustment[1]	RMBS	Residential Mortgage Backed Securities[1]
DMA	Disclosure on Management Approach	ROE	Return on Equity
DNB	Dutch Central Bank	RWA	Risk Weighted Assets
EAD	Exposure at Default[1]	SA	Standardised Approach
EaR	Earnings at Risk	SB	Supervisory Board
EBA	European Banking Authority	SME	Small Medium Entities
EC	European Committee	SPV	Special Purpose Vehicle
ECB	European Central Bank	SRB	Single Resolution Board
EDTF	Enhanced Disclosure Task Force	SREP	Supervisory Review and Evaluation Process
EMTN	European Medium Term Note	STP	Straight Through Processing
EPC	Executive Pricing Comité[1]	SWOT	Strengths, Weaknesses, Opportunities & Threats
ES	Expected Shortfall	TLAC	Total Loss-Absorbing Capacity
ESCB	European System of Central Banks	VaR	Value at Risk
EU	European Union	Wft	Financial Supervision Act
EVE	Economic Value of Equity	WfZ	Guarantee fund for the health care
FinCo	Financial Comité[1]	WSW	Social Housing Guarantee Fund
FTE	Full Time Equivalent		
GRI	Global Reporting Initiative		
IAS	International Accounting Standard		
IBNR	Incurred but not Reported		
ICAAP	Internal Capital Adequacy Assessment Process		
ICF	Integrated Control Framework		

1 See for further information the definition list.

About this report

Scope and boundaries

We present our non-financial information for the calendar year 2016 with the aim of informing our stakeholders of our role in society related to our mission 'Banking with a human touch', our updated strategy and objectives. We define 'non-financial information' as information pertaining to the non-financial issues emerging from our determination of materiality.
The scope of the non-financial information presented in this annual report, including the GRI table 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 parts of the organisation other than de Volksbank, this will be indicated with the relevant data. Forward-looking information is reported in the report in a clearly recognisable manner as 'plans for 2017' and 'ambitions'. In many cases, goals are based on (informed) estimates and assumptions.

Management approach to corporate responsibility

As corporate responsibility is firmly rooted at the heart of de Volksbank, this issue is not organised centrally but has been allocated to different places in the organisation. In addition to overarching responsibility for the issue, we focus specifically on sustainable investment policy, sustainability and the Manifesto – issues that have been assigned to separate departments.

Overarching

The Chairman of the Board of Directors bears responsibility for the development and implementation of the corporate responsibility policy. As a member of the strategic meeting, the Strategy Director is responsible for developing the corporate responsibility strategy. Various units of the bank are in charge of strategy implementation.

The Corporate Responsibility Manager reports to the Strategy Director and the strategic meeting and is responsible for the coordination and day-to-day management of various non-financial issues. This means, for instance, that the Corporate Responsibility Manager maintains relations with relevant stakeholders within and outside the bank.

The Corporate Responsibility department reports to the Board of Directors once every quarter on the progress made with objectives and to discuss new proposals or developments. In addition, the department coordinates the reporting and data collection with regard to non-financial issues in the annual report, stakeholder engagement and the monitoring and evaluation of objectives, and is in charge of providing information for various external benchmarks.

De Volksbank 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 Advisory Council meets three times per year and consists of seven members from the worlds of business, politics and science and from social organisations. The Advisory Council deals with issues ranging from strategic to operational issues and from corporate responsibility and Manifesto to brand positioning.

Investment policy

Internal coordination takes place with the Sustainability & Research department of ASN Bank, the Manifesto Director and the Sustainability Director. External coordination includes keeping in touch and re-establishing the bonds with 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. 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 – the service centres for SME, Financial Markets and Sustainable Housing – are charged with achieving the objectives.

Manifesto

With the aim of further embedding the Manifesto, we have added a specific function at board level: the Manifesto Director is charged mainly with coordination of the cultural adjustments related to the implementation of the Manifesto's core principles.

Sustainability

In 2016, de Volksbank also created the position of Sustainability Director, who is in charge of putting the bank's climate-neutral ambition into practice. This position further consists of refining the identity and positioning of de Volksbank's brands, as well as maintaining and expanding the social network.

Data collection and reporting

Guidelines

This report was published on 9 March 2017 and drawn up in accordance with the 'core' option of the GRI G4 guideline 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 2016 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 in the GRI Index or 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 2016.

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 2016. 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 2015 up to and including the third quarter of 2016.

The Corporate Responsibility department reviewed the acquired data by means of a plausibility check.

Reporting process

The contents of the report were subsequently reviewed and verified within the business units and by the various staff departments. The Audit department has an annual budget for studies into sustainability issues. In 2016, this department analysed integrated reporting and our climate-neutral balance sheet objective. The results and follow-up actions of these studies are communicated to the Board of Directors and monitored on a quarterly basis.

In 2016 de Volksbank's strategy was further fine-tuned, with a focus on creating shared value for our stakeholders. We introduced a set of objectives to put our strategy into practice, including a new KPI on de Volksbank's weighted customer satisfaction and tighter and detailed KPI standards for the other objectives. It is our ambition to further improve these objectives and the corresponding reporting in the years to come, particularly by introducing an objective for the financial resilience theme. We also wish to analyse the contribution that our climate-neutral objective makes to the Paris climate target (science-based target setting).

Calculation of CO_2 emissions – climate-neutral operations

Our operations are net climate neutral, which means that we have a zero carbon footprint. We achieve this by purchasing as many green energy sources as possible. Where these are not yet available or are only available to a very limited extent, such as for car fuels and natural gas, we offset our remaining CO_2 emissions by purchasing Gold Standard credits after the end of the financial year, with which investments are made in efficient cooking stoves in Ghana, which reduces CO_2 emissions there. 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. In order to monitor our progress, we annually report the CO_2 emissions of our own operations on the basis of scopes 1, 2 and 3 of the Greenhouse Gas Protocol.

Scope 1: all direct CO_2 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 CO_2 emissions from our operations (consumption of electricity).
Scope 3: other indirect CO_2 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 CO_2 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 CO_2 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 CO_2 income statement identifies the CO_2 emissions of virtually all (95%) of de Volksbank's balance sheet items. 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 official methodology exists as yet to identify category 15 emissions, de Volksbank has adopted, and for some operating activities expanded, the methodology applied by ASN Bank. The CO_2 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. The data are verified in-house by the Corporate Responsibility department and by ASN Bank's Sustainability & Research department and reported in QBRs and risk reports. Ecofys checks the calculations and analyses the results. The results are presented as an income statement comparable with prevailing financial accounting methods. 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 CO_2 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 2016, the total margin of uncertainty was 18% (2015: 17%). The data on assets avoiding CO_2 are relatively reliable (7% margin of uncertainty) compared with assets causing CO_2 (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 of the end of 2014. The use of energy labels rather than actual energy consumption entails approximately 20% uncertainty. A second uncertainty is the lack of Eurostat data on the CO_2 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. In 2017, we want to take further steps in improving data quality. For instance, 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.

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 2016. Previously reported results are restated if the changes have a significant impact on the percentage reported (at least 10%) and could have been known at the time of calculation. For this reason, in 2016 adjustments were made to the emission factors for some green bonds as a result of the reclassification of some green bonds and as more specific information on emissions actually avoided became available. The results for 2015 are therefore lower than reported in the 2015 annual report: 20% climate neutral instead of 22%.

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 a 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 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 eNPS indicates the ratio between the so-called detractors (colleagues advising against de Volksbank as an employer) and promoters (colleagues recommending de Volksbank). A score between 1 and 6 means that the employee advises against de Volksbank as an employer. Scores 7 and 8 are considered passive scores, and employees giving a score of 9 or 10 are promoters. 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 objective availability during prime time hours. The scores for iDEAL are based on the period from March 2016 up to and including August 2016. The scores for online banking and mobile banking are based on the period from July 2015 up to and including June 2016. 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.: 99.5%
- standard non-prime time from 1 a.m. to 7 a.m.: 93.5%

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. In 2016, we conducted an extensive materiality analysis by means of a quantitative survey among almost 400 internal and external stakeholders. We have presented stakeholder wishes and expectations in the materiality determination.

The materiality determination is based on five steps:
1. Determining a longlist of relevant issues
   We can only determine the materiality of issues if we first establish whether we are working with a complete list of issues. For this purpose, we have established a longlist of issues based on an extensive analysis of various sources, such as consumer surveys, annual reports of other financial institutions and media reports.
2. Translating a longlist into a shortlist.
   The longlist of issues was reduced to a shortlist by determining how often an issue emerged in the extensive analysis.
3. Stakeholder survey to determine external priority
   All the issues from the shortlist were presented to the stakeholders, who were subdivided into the four groups from our shared value model:
   - Employees and sales advisors
   - Customers
   - Shareholders, regulatory authorities and rating agencies[14]
   - Society, consisting of: sector organisations, social organisations, knowledge institutes, suppliers
   Stakeholder selection is based on parties that have influence on de Volksbank or that are influenced by de Volksbank. Stakeholders were asked to give a score ranging from 1 to 4 for every issue, which resulted in a priority score for every issue.
4. Internal prioritisation of issues
   We make an estimate of the internal reporting priority for all shortlisted issues based on five criteria, such as our influence and impact on the issue, the risk if we were to do nothing about it and the alignment with our strategy and policy. This proposal was presented to the Board of Directors and adjusted on several points.
5. Drafting a materiality matrix
   A materiality matrix was drafted using insight obtained from the analysis. The x-axis of the matrix was determined on the basis of the results of step 4. The y-axis was determined on the basis of the priority scores of de Volksbank's stakeholders (step 3). The materiality matrix is shown in Section 1.7 Stakeholder engagement of this report. The matrix reflects how we report on issues. The issues stated at the top right corner are reported in the annual

[14] In order to maintain the consistency with shared value, a broad definition of Shareholder was used.

report; the other issues may also be discussed in an appendix or on the website.

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 the annual report of de Volksbank 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). We refer to the annual report of de Volksbank N.V. to the assurance report of the independent auditor.

The non-financial information is described in Chapters 1 and 2, and the appendices Additional stakeholder information, About this report and the GRI table. 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.

No assurance is provided for forward-looking information.

External benchmarks

In the annual general policy survey conducted by the Fair Bank Guide (Annual Update 2016), both de Volksbank and ASN Bank obtained a top 3 position as banks with the most sustainable policy. We were given ten out of ten once and nine out of ten no less than eight times. The Fair Bank Guide's website lets you compare our performance with that of other banks.

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 2015 annual report scored 184 points, up 12 points compared to last year. With this score, we climbed from 27th to 23rd position.

Financial institutions score relatively high in the Transparency Benchmark; "at 23rd place we are in the middle of the sector".

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.

Additional stakeholder information

Lobby discussions

As from 2016, de Volksbank no longer has a specific department that engages in lobbying activities and contact with political parties and policymakers. In our view, lobbying practices are not in line with de Volksbank's social profile. We are (passively) in touch with government authorities, legislators and policymakers through our membership of industry associations such as the Dutch Banking Association (NVB), the European Savings and Retail Banking Group (ESBG) and the World Savings and Retail Banking Institute (WSBI). Our memberships and the guidelines we endorse are published on our website.
As regards topics that may be of material importance to de Volksbank, subject-matter experts may engage in contact with policymakers, political parties and government authorities. In practice, they do so on a limited number of subjects, and generally via involvement in NVB and ESBG-WSBI working groups. Examples include position papers, responses to formal consultations by national governments and local/regional authorities on forthcoming financial regulations, '*Bouwsparen'* and the privatisation of de Volksbank. The experts involved are responsible for the discussions as well as for representing de Volksbank's position. Decisions of the experts are – if applicable – presented to the Board of Directors for approval. The latter bears ultimate responsibility for the views adopted. Maurice Oostendorp (CEO) is also a member of the NVB and ESBG boards, where important sector-wide views and lobbying activities are discussed.

Advisory Council

De Volksbank has an Advisory Council that considers, from a social perspective, the future plans, dilemmas and issues we face as a company. As the members of our Advisory Council come from different sectors of civil society, we create additional critical power and advice that help de Volksbank improve its social positioning. The composition of the Council remained unchanged in 2016: Gerhard van den Top (Chairman), Peter Verhaar, Giuseppe van der Helm, Fokko Wientjes, Henriëtte Prast, Melek Usta and Jaap Smit.

In 2016, the Advisory Council met three times. It devoted extensive discussion to the updating of our strategy, addressing in this regard shared value, our positioning as a social bank, putting the customer first and, more specifically, KPIs such as financial resilience and employees. In addition to the meetings, there were discussions with the individual members; they were also consulted outside the context of the Advisory Council. For example, in 2016 Peter Verhaar spoke about the strength of retail banking at a meeting for managers.

Climate-neutral business operations

Over 99% of our total carbon dioxide (CO_2) impact is caused by the assests 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 CO_2 emissions that need to be offset.

In 2016, as in previous years, we were 100% climate neutral as we offset our CO_2 emissions with Gold Standard certificates. The CO_2 emissions from our offices and transportation decreased by 8% compared to 2015, 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 newly ordered company car is 100% electric. 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 2017 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	2016	2015	Change	2014
Energy consumption of offices					
Green gas	GJ	6,407	6,552	-2%	7,156
Grey gas[1]	GJ	6,383	6,586	-3%	5,119
Generators	GJ	-	-	0%	12
Green energy[2]	GJ	30,590	24,755	24%	25,361
Total energy consumption	GJ	43,380	37,893	14%	37,648
Energy consumption per FTE[3]	GJ	12.0	14.4	-17%	11.8
Energy consumption per m²	GJ	1	0.8	-5%	0.8
Share of green energy consumption of offices					
% green energy	% of total	100%	100%	0%	100%
% green energy consumption	% of total	85%	83%	3%	86%
CO_2 emissies					
Heating	tonnes	499	482	4%	493
Company cars	tonnes	2,159	2,288	-6%	2,344
Scope 1	**tonnes**	**2,658**	**2,770**	-4%	**2,837**
Electricity	tonnes	4,469	3,191	40%	3,297
Scope 2	**tonnes**	**4,469**	**3,191**	40%	**3,297**
Flights[4]	tonnes	138	174	-21%	365
Commuting	tonnes	2,223	1,989	12%	3,674
Business travel	tonnes	794	1,332	-40%	780
Scope 3	**tonnes**	**3,155**	**3,495**	-10%	**4,819**
Gross CO2 emissions	tonnes	10,283	9,456	9%	10,953
Net CO2 emissions	tonnes	5,431	5,894	-8%	7,249
CO_2 in tonnes per FTE	tonnes	1.50	1.77	-15%	2.0
Modes of transport					
Company cars[5]	km	9,123,504	9,649,224	-5%	10,004,033
Flights[4]	km	667,442	906,696	-26%	1,939,547
Commuting (car)[6]	km	6,526,675	6,551,292	0%	11,554,574
Commuting (public transport)	km	16,123,815	14,128,706	14%	20,457,606
Business travel (car)[6]	km	3,607,031	3,245,537	11%	3,503,435
Business travel (public transport)	km	-	-	0%	726,199
Total travel	**km**	**36,048,468**	**34,481,455**	5%	48,185,394
Kilometres per FTE	*km*	*10,856*	*11,315*	-4%	13,600
Paper consumption					
Paper	tonnes	605	639	-5%	685
Paper in kg per FTE	*kg per fte*	*168*	*192*	-13%	193
Waste[7]					
Residual waste	tonnes	134	156	-14%	95
Biodegradable waste	tonnes	23	55	-58%	33
Small chemical waste	tonnes	1.10	0.76	45%	0.3
Business waste	tonnes	8	10	-20%	5
Paper and cardboard waste	tonnes	116	137	-15%	112
Plastic	tonnes	11	25	-56%	15
Total waste	**tonnes**	**293**	**383**	-23%	**261**
Share of residual waste	*%*	*46%*	*41%*	12%	*36%*
Waste in kg per FTE	*kg per fte*	*81*	*115*	-29%	*82*

1 An additional building was taken into use (C building) at headquarters in 2015
2 In 2016, we have included the energy consumption of the shops in our figures. This was not the case in 2015 and 2014. The 2016 figures include a green gas consumption of 1,455 GJ (resulting in 87 gross tonnes of CO2 emissions) and a green electricity consumption of 7,130 GJ (resulting in 1,042 gross tonnes of CO2 emissions) related to the energy consumption of the shops.
3 Point of departure is the number of FTEs stationed in the large offices
4 2014 result is based on an assumption of the distribution of flights by former SNS REAAL between the bank and the insurer
5 Since 2016, company car figures have been entered in kilometers. The 2015 and 2014 figures have been adjusted accordingly
6 Results for 2014 and 2015 have been revised in connection with double counting of lease kilometres in total transportation mileage
7 The retail organisation was included in the waste data for the first time in 2015

International CSR (IMVO) banking covenant

Banks in the Netherlands asked the Dutch Banking Association (NVB) to create an international CSR covenant for the banking sector. De Volksbank signed the covenant on 28 October 2016, along with the NVB, other financial institutions, the government, trade unions and non-governmental organisations.

The aim of the covenant is to reduce the risk of human rights violations resulting from financing and investment decisions made by banks based in the Netherlands. Aspects such as working conditions, freedom of association, child labour and land rights may be relevant here. Work in pursuit of this aim includes implementing the UN Guiding Principles for Business and Human Rights (UNGPs) and putting the OECD Guidelines for Multinational Enterprises into practice.

To learn from each other, the parties taking part will conduct joint research and share experiences (best practices) regarding successful ways to exert influence on companies in risk sectors. The parties have also agreed that analyses of specific risk sectors will be conducted, starting with the palm oil, cocoa and gold industries. A steering group has been set up to support the implementation of this covenant.

Disclaimer

The forward-looking statements made in this annual report are only applicable as from the date of publication of this report. De Volksbank 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 Volksbank N.V. may make in its interim reports.