de volksbank

2016 Results

Press release

de volksbank

asn bank BLGwonen RegioBank SNS

De Volksbank posts 2016 net profit of € 329 million

Improvement in our banking franchise: 21% of new current accounts in the Netherlands opened at ASN Bank, Regiobank or SNS; higher market share new retail mortgages; stabilisation retail mortgage portfolio

Utrecht, the Netherlands, 23 February 2017

UPDATE ON STRATEGY

- SNS Bank N.V. renamed de Volksbank N.V. as from 1 January 2017, to emphasise the course the bank has set to strengthen its identity as a social, people-oriented and sustainable bank
- Focus on optimising 'shared value' for customers, society, employees and our shareholder

BANKING WITH A HUMAN TOUCH

- Improvement in overall customer satisfaction score; several banking industry-specific awards; successful roll-out of 'Mortgage term monitoring service'
- Employee NPS of 30% (2015: 34%)
- 23% climate neutral balance sheet (2015: 20%)

COMMERCIAL DEVELOPMENTS

- De Volksbank welcomed 136,000 new current account customers: net growth of 88,000 (+7%)
- Sharp increase in new retail mortgage production to € 3.7 billion (+76%); market share new retail mortgages higher at 5.7% (2015: 4.1%); retail mortgage portfolio virtually stable at € 44.9 billion
- 1% decrease in retail savings balances to € 36.6 billion; slightly lower market share of 10.7%

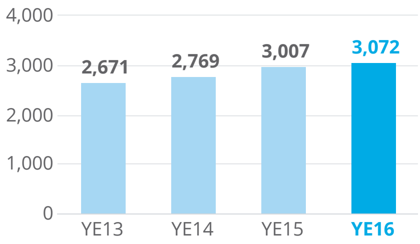
FINANCIAL PERFORMANCE

- Lower net profit of € 329 million (2015: € 348 million), impacted by a swing in fair value movements of former DBV mortgages and related derivatives (-€ 36 million) and other one-off items
- The 2016 net profit includes a € 24 million net one-off provision for plans to improve operational efficiency
- Higher net profit excluding one-off items of € 354 million (2015: € 335 million), with a substantial release of loan provisions and higher investment income more than compensating for the impact of lower net interest income and higher regulatory levies
- The release of loan provisions of € 68 million was mainly driven by a sharp decline of loans in arrears (2015: impairment charges of € 37 million)
- Adjusted efficiency ratio higher at 56.0% (2015: 53.4%) due to lower income; adjusted operating expenses down by 2%
- Adjusted Return on Equity of 10.3% (2015: 10.7%)
- Increase in Common Equity Tier 1 ratio to 29.2% (2015: 25.3%); leverage ratio: 5.2% (2015: 4.7%)
- € 135 million dividend payment for 2016 to NLFI proposed (2015: € 100 million)

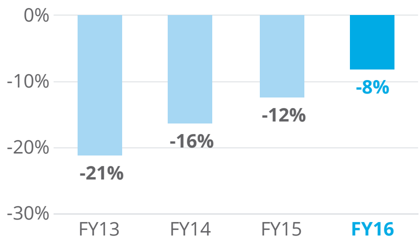
"In 2016, our continued focus on banking with a human touch has led to a further strengthening of our banking franchise, as evidenced by improvements in our market share in new retail mortgages, customer numbers and satisfaction scores. The quality of our loan book has improved. Consequently, our 2016 net profit benefitted from a substantial release of loan provisions, mitigating the impact of lower net interest income. Going forward, our ambition is to optimise the value of our bank for all our stakeholders, i.e. customers, society, employees and our shareholder, by strengthening our social identity, lowering our cost base and executing a smart adopter innovation policy. The 2016 results and our strong capital position provide de Volksbank and its brands with a solid basis to put our plans into practice", says Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank.

Key figures

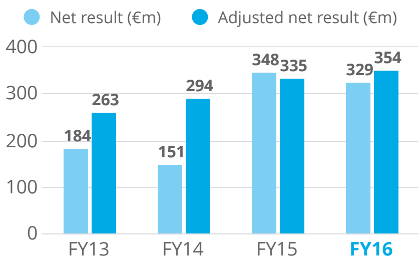
Customers (in 1,000)



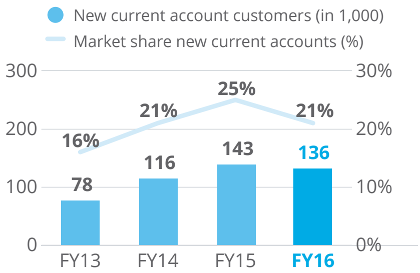
Net Promoter Score (customer-weighted average of all brands %)



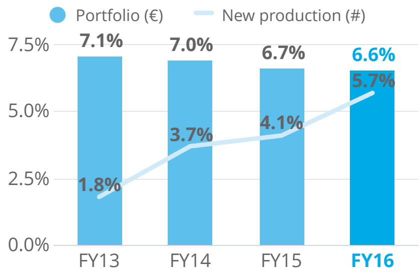
Net result / adjusted net result[1] (€m)



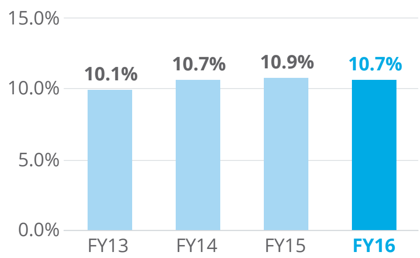
Current accounts[2]



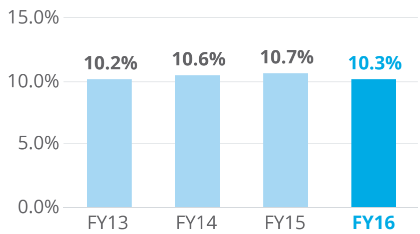
Market share mortgages (%)



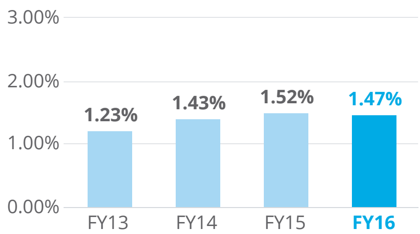
Market share retail savings (%)



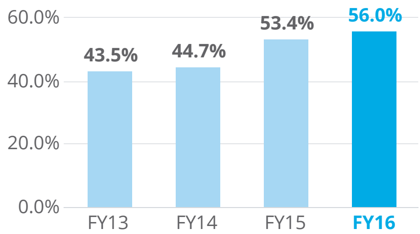
Adjusted Return on Equity[1] (%)



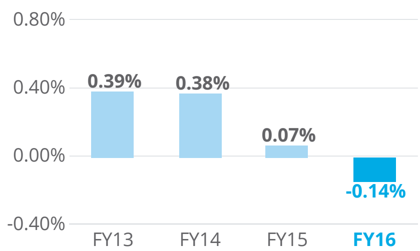
Net interest income (% average assets)



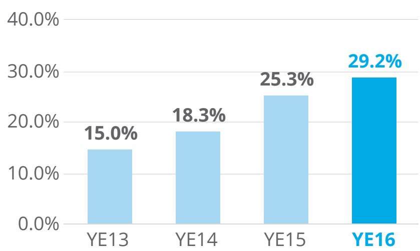
Adjusted efficiency ratio[1] (%)



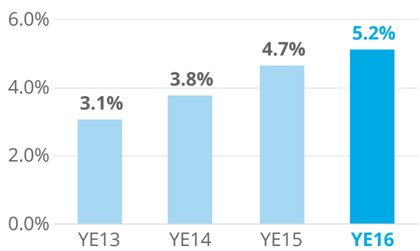
Loan impairments (% of average gross loans)



Common Equity Tier 1 ratio (%)



Leverage ratio (%)



1. Adjusted for one-off items

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

Foreword

Update on strategy and objectives

To reinforce its distinctive identity, SNS Bank was renamed de Volksbank as from 1 January 2017. The change of name emphasises the course the bank has set to strengthen its identity as a social, people-oriented and sustainable bank. De Volksbank's four brands, ASN Bank, BLG Wonen, RegioBank and SNS, retain their own names and customers continue to bank with these brands.

Following the legal merger between SNS Bank N.V., RegioBank N.V. and ASN Bank N.V. on 31 December 2016, the banking licences of ASN Bank N.V. and RegioBank N.V. have lapsed. All brands now operate under the banking licence of de Volksbank N.V., making the business operations more simple and efficient.

Based on an extensive strategic review, completed in the course of 2016, de Volksbank re-affirmed its choice to be a retail bank that focuses on offering simple and transparent products and services in the areas of mortgages, savings and payments to Dutch retail customers and SME. It also reaffirmed its mission of banking with a human touch. To live up to this mission, de Volksbank has formulated an ambition based on the principle of shared value. Shared value is directed towards social and economic as well as towards financial and non-financial aspects, which go hand in hand. De Volksbank’s ambition is to optimise this shared value by creating benefits for its customers, taking responsibility for society, providing meaning for its employees and achieving adequate returns for its shareholder(s).

To fulfil this ambition, de Volksbank focuses on:

1. Maximum strengthening of its social identity
2. Further simplifying and enhancing the efficiency of its business operations
3. Developing towards a flexible organisation that innovates as a smart adopter

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

CREATING BENEFITS FOR OUR CUSTOMERS

- A customer-weighted average of all brand-specific Net Promoter Scores (NPS) of +10 in 2020 (2016: -8)
- 1.5 million current account customers in 2020 (2016: 1.3 million)
  We aim to further increase our current account customer base, with an emphasis on active current accounts. We regard the development of these accounts as an important indicator for the quality of our brand-customer relationship

TAKING RESPONSIBILITY FOR SOCIETY

- A 45% climate neutral balance sheet in 2020 (2016: 23%). We also maintain our objective of a 100% climate neutral balance sheet in 2030
- We aim to contribute to an increase in the number of customers who are financially resilient and are currently developing a metric to measure this aspect

PROVIDING MEANING FOR OUR EMPLOYEES

- We aim for an eNPS (Employee NPS) of 40% in 2020 (2016: 30%). Moreover, we annually measure the engagement and commitment of our staff by means of an employee survey. 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 aim for a score of 8.0 for both metrics in 2020. In 2016, the score for engagement was 7.4 and for commitment 8.0.

ACHIEVING RETURNS FOR OUR SHAREHOLDER(S)

- A return on equity (RoE) of 8%

We have slightly raised our capital ratio objectives, compared to those disclosed in the 2015 Annual Report: we now 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 the efficiency ratio (operating expenses excluding regulatory levies divided by total income) has been set at 50 – 52% in 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. In the second half of 2016 we executed a value chain analysis that focused on customer needs and the most cost-effective manner to meet these needs. This analysis, involving over 250 employees, resulted in a number of initiatives aimed at improving operational efficiency, including straight through processing, increased digitalisation, optimising support functions, further automation and optimisation of IT processes and moderation of our remuneration policy.

A restructuring provision of € 32 million (€ 24 million net) was charged against the 2016 result for the initiatives that have already resulted in specific plans.

Our current plans assume a decline in FTE of approximately 900 by 2020, in broad outline equally divided over internal and external employees. Going forward these numbers may be adjusted, depending on developments in financial markets and our banking franchise. We take our joint responsibility for the employability of our staff seriously and are in a constructive dialogue with our employees and the Works Council to facilitate this.

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.

Banking with a human touch in 2016

In 2016, de Volksbank launched several initiatives to put our ambition to be a people-oriented, social and sustainable bank further into practice.

PEOPLE-ORIENTED

In 2016, SNS proactively contacted 114,000 customers with its Mortgage term monitoring service to discuss whether there had been a change in their needs or personal situation that might affect the suitability of their mortgage. In August 2016, SNS and RegioBank introduced more sophisticated Loan-to-Value buckets in their pricing policy, enabling more diversified pricing. This allows more customers to benefit from increased house prices. BLG Wonen will follow this initiative in 2017.

RegioBank further expanded its financial services in smaller villages and communities and launched a new payment and savings account for children ('JongWijs!'), which combines fun and practical money tips for children as well as their parents.

BLG Wonen continued to make it easier for first-home buyers to purchase a house by offering a step-by-step guide in the mortgage application process. Together with SNS and RegioBank, BLG Wonen simplified the mortgage process for self-employed persons.

In 2016, our brands won several banking industry specific awards. The ASN Sustainable Mix fund won the VWD Cash Fund Award for the second time in a row. RegioBank was voted as most customer-oriented bank in the Netherlands (CCDNA Awards) and was considered the best mortgage provider, according to research commissioned by the National Mortgage Association. SNS was awarded a price for most customer-friendly bank in the Netherlands (SAMR Awards) and received a Bronze Effie Award for the most effective advertising campaign to regain confidence from consumers. SNS and RegioBank also received highest honours (5-star rating by MoneyView) for their payments and savings services.

In 2016, we realised an overall positive development of customer satisfaction scores. Our customer-weighted Net Promoter Score (NPS) improved from -12 to -8, with the largest improvements occurring at our SNS brand (from -26 to -18) and BLG Wonen (from -42 to -29). ASN Bank and RegioBank maintained their positive NPS.

The 'Best employer of 2016' award honoured de Volksbank with the highest score for a bank. With a 7.5, we took third place in the financial services industry. In the profit organisations with over 1,000 employees category, de Volksbank took 12th place. Our eNPS, was 30%, slightly below the level at year-end 2015 (34%), but still consolidating the sharp increase in the previous year from 18% at year-end 2014.

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

SOCIAL

De Volksbank attaches great importance to making a positive contribution to society in the broadest sense of the word.

De Volksbank actively participates in organisations that aim to further develop financial education for individuals. Our employees gave over 500 guest lessons at primary schools in the 'National Money Week'. Moreover, through our 'Eurowijs' programme, over 100,000 schoolchildren in primary schools were taught how to handle money sensibly.

In order to make a positive contribution to the financial resilience of our customers we intend to introduce a fitting KPI and target for 2020, following a customer survey and a dialogue with customers and several organisations planned for the summer.

SUSTAINABLE

ASN Bank, a pioneer in social impact measurement, continued to successfully promote its philosophy of sustainable banking. in 2016, ASN Bank announced its long-term human rights goal that all garment companies in the ASN Investment Universe are to have introduced a living wage[2] by 2030.

De Volksbank aims to become 100% climate neutral with the assets on its balance sheet by 2030. At the end of 2016, our balance sheet was 23% climate neutral[3] (2015: 20%[4]). The progress was mainly caused by an increase in avoided emissions of green bonds, renewable energy and energy efficiency projects. The average energy label of our mortgage portfolio also showed a slight improvement compared to 2015. BLG Wonen, RegioBank and SNS started pilot projects and took initiatives in order to support customers in improving their home insulation.

Our office organisation is already 100% climate neutral. We achieve this by purchasing Gold Standard certificates at the end of the financial year that offset the remaining CO2 emissions of our offices and car fleet. In the first quarter of 2016, SNS opened its first circular shop in Zoetermeer. Materials used in this shop are suitable for reuse and have an extended lifespan. SNS intends to build all new shops based on these circular principles.

Commercial developments

In 2016, the different brands of de Volksbank jointly welcomed 205,000 new customers. On a net basis, the number of customers rose by 65,000. This was driven by the growth in current account customers, which on a net basis increased by 88,000. De Volksbank's market share in new current accounts stood at 21%, slightly below the level in 2015 (25%). As from 2014, de Volksbank's market share in new current accounts has surpassed 20%. On a total portfolio basis, de Volksbank's market share in current accounts stood at approximately 7.5%[5].

After years of contraction, de Volksbank managed to stabilise its retail mortgage portfolio at € 44.9 billion. Supported by increased capacity at the Mortgages Service Centre, new mortgage production increased to € 3.7 billion, from € 2.1 billion in 2015 (+76%). BLG Wonen, RegioBank and SNS all contributed to this increase. In a growing market for new mortgages, de Volksbank's total market share rose to 5.7% (2015: 4.1).

Total redemptions were virtually stable at € 3.6 billion, despite increased house movements. Due to increased customer retention efforts, such as the Mortgage term monitoring service, de Volksbank was able to retain many mortgage customers whose fixed-rate period ended in 2016 or 2017. Volumes of mortgages up for renewal were substantial as a result of the high mortgage origination in the 2005-2007 period, which predominantly carried a 10-year fixed rate.

Retail savings balances remained virtually stable at € 36.6 billion (year-end 2015: € 36.9 billion). In a growing market, de Volksbank's market share in savings decreased slightly to 10.7% (year-end 2015: 10.9%).

Financial performance

In 2016, de Volksbank posted a net profit of € 329 million, a decrease of € 19 million compared to the € 348 million net profit in 2015. The decrease was more than wholly due to a € 38 million negative swing in one-off items: unrealised results on a DBV mortgage portfolio and related derivatives were € 36 million lower and other one-off items were on balance € 2 million lower.

2 A wage that is high enough to maintain a normal living standard
3 A document describing the methodology to measure the impact of our activities on the climate, originally developed by ASN Bank, is available on the website of de Volksbank N.V.
4 2015 figures are restated from 22% to 20% following reclassification of some green bonds
5 Based on market research

Excluding one-off items, net profit increased by € 19 million to € 354 million (+6%) as a substantial release of loan provisions (€ 68 million) and higher investment income more than compensated the impact of lower net interest income and higher regulatory levies.

In 2016, one-off items amounted to € 25 million negative, mainly consisting of a € 24 million net (€ 32 million gross) restructuring charge related to the execution of plans to improve operational efficiency. Unrealised results on a specific former DBV mortgage portfolio and related derivatives valued at fair value were € 1 million negative in 2016.

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

Net interest income decreased by € 83 million to € 911 million (-8%), mainly as a result of a high level of (early) renewals of mortgages in 2015 and 2016 at lower interest rates. The high level of renewals was in part due to the relatively high share in our loan portfolio of mortgages originated in the 2005-2007 period with a 10-year fixed rate. Furthermore, declining interest rates led to a higher demand for interest rate renewals, including interest rate averaging, on mortgage loans that were not yet up for regular renewal. In addition, mortgage pricing was impacted by fierce competition from pension funds and insurance companies and an increased customer demand for longer term fixed-rate mortgages. Lower interest income on mortgages was partly compensated by lower interest expenses as rates on savings balances declined further in 2016.

Operating expenses, excluding one-off items and regulatory levies, went down by 2%. This was attributable to lower additions to non-credit related provisions, the absence of the SNS Securities cost base as of the second half of 2016 and lower temporary staff costs. This more than compensated for higher costs to facilitate the increased mortgage activities and higher pension costs. The adjusted efficiency ratio was 56.0%, up compared to 2015 (53.4%), entirely due to lower total (adjusted) income. Regulatory levies increased by € 31 million to € 46 million, mainly due to the full-year contribution to the Deposit Guarantee Scheme.

Impairment charges improved by € 105 million, resulting in a net release of loan provisions of € 68 million. Loan provisions were positively impacted by an exceptionally high level of recoveries of loans in default. Since the second half of 2015, loans in default have trended down. Improvements at our Arrears Management department contributed to the reduction of the stock of loans in default that had its origin in the years 2011-2014 and also reduced the inflow of loans in default. Moreover, improving economic circumstances also contributed to higher recoveries. In all, the number of loans in default more than halved in 2016. Moreover, increased house prices (+5.1% year-on-year) resulted in lower shortages whenever a default resulted in the sale of collateral.

Based on net profit excluding one-off items, return on equity (RoE) was at 10.3% slightly lower compared to 2015 (10.7%), due to a higher average level of equity.

Mainly driven by net profit retention and the termination of a € 100 million credit facility to SRH N.V., the Common Equity Tier 1 (CET1) ratio increased to 29.2%, from 25.3% at year-end 2015. The leverage ratio increased to 5.2%, from 4.7% at year-end 2015. At the end of 2016, de Volksbank's CET1 ratio was well above the CET1 capital requirement following from the Supervisory Review and Evaluation Process (SREP), both on a transitional basis (9.25%), which applies from 1 January 2017, and on a fully phased-in basis (11%). The current capital position offers a substantial buffer against the estimated impact of developments in capital regulation on de Volksbank's risk-weighted capital ratios.

De Volksbank proposes to pay out € 135 million in dividend to NLFI (2015: € 100 million), for the financial year 2016.

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.

Macroeconomic developments

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 to a 29-year low of 0.3%, but with the upswing in world oil prices the period of extremely low price increases appears to be over.

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.

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.

Commercial developments

Commercial developments

	December 2016	June 2016	December 2015
CUSTOMERS			
Total number of customers (in thousands)	3,072	3,037	3,007[1]
Total number of current account customers (in thousands)	1,328	1,282	1,240
NET PROMOTER SCORE			
ASN Bank	14	14	19
BLG Wonen	-29	-27	-42
RegioBank	2	0	5
SNS	-18	-19	-26
Weighted average	-8	-9	-12
MORTGAGES			
Residential mortgages (gross in € billions)	44.9	45.0	45.0
Market share new mortgages (in #)	5.7%	4.8%	4.1%
Market share mortgage portfolio (in €)[2]	6.6%	6.7%	6.7%
CURRENT ACCOUNTS AND SAVINGS			
Market share new current accounts[3]	21%	25%	25%
Retail savings (in € billions)	36.6	37.7	36.9
Market share retail savings	10.7%	10.8%	10.9%
SME savings (in € billions)	2.7	2.7	2.6

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

2 Based on CBS data (previously: DNB data)

3 Source: 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.

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

Mortgages

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.

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 year-end 2016, these mortgages amounted to € 7.3 billion (16% of the portfolio), compared to € 6.0 billion at year-end 2015.

Savings

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

Results 2016 compared to 2015

Profit and loss account

in € millions	2016	2015	Change	2nd half year 2016	1st half year 2016
Net interest income	911	994	-8%	439	472
Net fee and commission income	57	48	19%	26	31
Other income	39	83	-53%	32	7
Total income	**1,007**	**1,125**	**-10%**	**497**	**510**
Operating expenses excluding restructuring charge and levies	564	575	-2%	279	285
Restructuring charge	32	--	--	32	--
Regulatory levies	46	15	207%	19	27
Total operating expenses	**642**	**590**	**9%**	**330**	**312**
Other expenses	1	22	-95%	--	1
Total expenses	**643**	**612**	**5%**	**330**	**313**
Impairment charges	-68	37	--	-23	-45
Result before tax	**432**	**476**	**-9%**	**190**	**242**
Taxation	103	128	-20%	42	61
Net result for the period	**329**	**348**	**-5%**	**148**	**181**
Fair value movements former DBV mortgages and related derivatives	-1	35		11	-12
Book loss sale SNS Securities	--	-22		--	--
Charge restructuring provision	-24	--		-24	--
Total One-off items	**-25**	**13**		**-13**	**-12**
Adjusted net result for the period	**354**	**335**	**6%**	**161**	**193**
Efficiency ratio[1]	59.2%	51.2%		62.6%	55.9%
Adjusted efficiency ratio[2]	56.0%	53.4%		57.9%	54.2%
Return on Equity (RoE)	9.6%	11.1%		8.4%	10.8%
Adjusted return on Equity (RoE)[3]	10.3%	10.7%		9.2%	11.5%
Net Interest Income (NII) as % of average assets	1.47%	1.52%		1.39%	1.49%
Operating expenses as % of average assets[4]	0.96%	0.88%		0.99%	0.90%
Adjusted operating expenses as % of average assets[5]	0.91%	0.88%		0.89%	0.90%

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 one-off 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	2nd half year 2016	1st half year 2016
Net interest income	911	994	-8%	439	472
Net fee and commission income	57	48	19%	26	31
Investment income	57	42	36%	20	37
Result on financial instruments	-20	39	--	11	-31
Other operating income	2	2	0%	1	1
Total income	**1,007**	**1,125**	**-10%**	**497**	**510**
Fair value movements former DBV mortgages and related derivatives	-1	47		15	-16
Adjusted income	**1,008**	**1,078**	**-6%**	**482**	**526**

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	2nd half year 2016	1st half year 2016
Staff costs	398	371	7%	208	190
Depreciation of (in-)tangible assets	22	23	-4%	11	11
Other operating expenses	222	196	13%	111	111
Total operating expenses	**642**	**590**	**9%**	**330**	**312**
Charge restructuring provision	32	--		32	--
Regulatory levies	46	15		19	27
Total adjustments	**78**	**15**		**51**	**27**
Adjusted staff costs	366	371	-1%	176	190
Depreciation of (in-)tangible assets	22	23	-4%	11	11
Adjusted other operating expenses	176	181	-3%	92	84
Adjusted operating expenses	**564**	**575**	**-2%**	**279**	**285**
Total number of internal FTEs	3,354	3,340	0%	3,354	3,413
Total number of external FTEs	651	858	-24%	651	775
Total number of FTEs	**4,005**	**4,198**	**-5%**	**4,005**	**4,188**

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	2nd half year 2016	1st half year 2016
Impairment charges on retail mortgage loans	-65	34	-25	-40
Impairment charges on other retail loans	-1	4	1	-2
Impairment charges on SME loans	-2	-3	1	-3
Total impairment charges on loans and advances	**-68**	**35**	**-23**	**-45**
Impairment charges on other assets	--	2	--	--
Total impairment charges	**-68**	**37**	**-23**	**-45**
Impairment charges on loans and advances as a % of average gross outstanding loans to customers	-0.14%	0.07%	-0.10%	-0.18%
Impairment charges on retail mortgage loans as a % of average gross outstanding retail mortgage loans	-0.14%	0.07%	-0.11%	-0.18%
Impairment charges on SME loans as a % of average gross outstanding SME loans	-0.27%	-0.25%	0.15%	-0.68%

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.

Results second half of 2016 compared to first half of 2016

Compared to the first half of 2016, net profit decreased from € 181 million to € 148 million. The impact of one-off items was almost similar in both periods: €12 million and € 13 million negative respectively. Both periods were impacted by unrealised results related to fair value movements of former DBV mortgages and related derivatives, which were € 11 million positive in the second half of 2016 and € 12 million negative in the first half of 2016. The second half of 2016 also included a € 24 million net one-off restructuring charge.

Adjusted for one-off items, net profit decreased from € 193 million in the first half of 2016 to € 161 million. The main factors behind this decrease were lower adjusted total income and a lower release of loan provisions.

In the second half of 2016, net interest income of € 439 million was lower compared to the € 472 million net interest income in the first half of 2016, mainly caused by (early) renewals at lower mortgage rates. Lower interest expenses on account of savings rates reductions only partially compensated for this decrease.

Net fee and commission income decreased € 5 million to € 26 million, almost entirely due to lower securities related fees following the sale of SNS Securities.

Investment income of € 20 million was € 17 million lower compared to the first half of 2016, which had included a € 10 million gain on the sale of de Volksbank's share in VISA Europe Ltd. In addition, realised gains and trading results on investments were lower.

The result on financial instruments increased from € 31 million negative in the first half of 2016 to € 11 million positive. Unrealised results on former DBV mortgages and related derivatives explain € 31 million of this increase. In addition, hedge ineffectiveness results were positive compared to slightly negative in the first half of 2016.

Operating expenses of € 330 million were € 18 million higher, entirely due to the € 32 million restructuring charge related to plans to improve operational efficiency, partly compensated by an € 8 million decline in regulatory levies. This decline was mainly due to the fact that the full-year contribution to the resolution fund was entirely recognised in the first half of 2016. Excluding regulatory levies and the restructuring charge, operating expenses decreased € 6 million. This decrease was driven by the absence of the SNS Securities cost base as from the second half of 2016, resulting in lower staff costs. This was partly offset by higher additions to non-credit related provisions and costs of changing the name of SNS Bank into de Volksbank, resulting in higher other operating expenses.

The first and second half of 2016 both included a net release of loan provisions, although the release decreased from € 45 million to € 23 million. Impairments on retail mortgages decreased from a net release of € 40 million in the first half of 2016 to a net release of € 25 million. The inflow of loans in default was low in both periods, while recoveries of loans in default decreased compared to the first half of 2016.

Risk, capital, funding and liquidity management

Credit risk

Positive developments in the Dutch economy and housing market and improvements in arrears management in 2016 contributed to improvements in the credit quality of both the retail mortgage portfolio and SME loan portfolio.

Loans and advances to customers

Loans and advances to customers December 2016

in € millions	Gross amount	Specific provision	IBNR provision	Book value loans	Loans in arrears[1]	Non-default loans[2]	Impaired default loans	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%**

Loans and advances to customers December 2015

in € millions	Gross amount	Specific provision	IBNR provision	Book value loans	Loans in arrears[1]	Non-default loans[2]	Impaired default loans	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 Loans in arrears - Retail mortgage loans in arrears exclude loans measured at fair value of € 23 million (year-end 2015: € 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 € 898 million (year-end 2015: € 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.

Retail mortgage loans remained virtually stable at € 44.9 billion. 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 in default and an increasing number of recoveries.

Statement of changes in provision for loans and advances to customers

in € millions	December 2016				December 2015			
	Retail mortgage loans	Retail other loans	SME loans	Total	Retail mortgage loans	Retail other loans	SME loans	Total
Balance as at 1 January	257	35	99	391	326	55	129	510
Usage	-82	-9	-26	-117	-108	-24	-27	-159
Addition	35	3	12	50	97	8	24	129
Release	-100	-3	-15	-118	-63	-4	-27	-94
Other changes	4	--	4	8	5	--	--	5
Balance as at end	**114**	**26**	**74**	**214**	**257**	**35**	**99**	**391**

In 2016, the total provision for loans and advances to customers decreased by € 177 million to € 214 million (-45%), mainly related to retail mortgage loans. More defaults recovered and financial results on homes sold improved too, resulting in a usage (write off) of € 117 million, a decrease of € 42 million compared to 2015.
At € 50 million, additions were € 79 million lower compared to 2015, mainly due to a lower inflow of new defaults.

The shortages in case of foreclosures were lower than provisioned for, supported by increased house prices. This positively contributed to a release of the provision in both 2015 and 2016. The total loan provision as a percentage of total gross loans decreased to 0.44%, from 0.79% at year-end 2015.

Retail mortgage loans

Retail mortgage loans in arrears

in € millions	**December 2016**		**December 2015**	
No arrears	**44,206**	98.7%	**43,697**	97.6%
1 - 3 months	414	0.9%	658	1.5%
4 - 6 months	75	0.2%	170	0.4%
7 - 12 months	75	0.2%	158	0.4%
> 12 months	141	0.3%	361	0.8%
Subtotal arrears[1]	**705**	**1.6%**	**1,347**	**3.0%**
Provision	-114	-0.3%	-257	-0.6%
Total retail mortgage loans	**44,797**	**100.0%**	**44,787**	**100.0%**

1 Including loans measured at fair value of € 23 million (year-end 2015: € 30 million)

In 2016, the book value of retail mortgage loans in arrears decreased by € 642 million, to € 705 million (-48%). This decrease was visible in all periods in arrears.

Retail mortgage loans by LtV buckets

in € millions	December 2016		December 2015	
National Mortgage Guarantee scheme (NHG)	12,673	30.1%	12,507	29.6%
- of which LtV ≤ 75%	3,071	7.3%	3,092	7.3%
- of which LtV >75 ≤ 100%	5,751	13.6%	4,903	11.6%
- of which LtV >100 ≤ 110%	2,092	5.0%	2,358	5.6%
- of which LtV >110 ≤ 125%	1,594	3.8%	1,810	4.3%
- of which LtV > 125%	165	0.4%	344	0.8%
Non-NHG	29,483	69.9%	29,705	70.4%
- of which LtV ≤ 75%	13,530	32.1%	13,427	31.8%
- of which LtV >75 ≤ 100%	8,286	19.7%	7,637	18.1%
- of which LtV >100 ≤ 110%	3,841	9.1%	3,223	7.6%
- of which LtV >110 ≤ 125%	3,029	7.2%	4,054	9.6%
- of which LtV > 125%	797	1.9%	1,364	3.2%
Total	**42,156**	**100.0%**	**42,212**	**100.0%**
Weighted average indexed LtV	**80%**		**83%**	
IFRS value adjustments[1]	667		812	
Savings parts	2,088		2,020	
Provision	-114		-257	
Total retail mortgage loans	**44,797**		**44,787**	

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

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. Collateral values are indexed based on residential house price developments. In the first half of 2016, we implemented a new method that allows for a more detailed indexation of collateral (per municipality and real estate type) and a higher frequency (monthly). 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.

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. 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.

Retail mortgage loans by redemption type

in € millions	December 2016		December 2015	
Interest-only (100%)	13,189	29.8%	14,091	31.9%
Interest-only (partially)	12,265	27.7%	12,461	28.2%
Life insurance[1]	5,185	11.7%	5,727	12.9%
Annuity	5,783	13.1%	3,664	8.3%
Bank savings	3,604	8.1%	3,864	8.7%
Investment	3,268	7.4%	3,671	8.3%
Linear	525	1.2%	303	0.7%
Other	425	1.0%	451	1.0%
Total	**44,244**	**100.0%**	**44,232**	**100.0%**
IFRS value adjustments[2]	667		812	
Provision	-114		-257	
Total retail mortgage loans	**44,797**		**44,787**	

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

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

Interest payments on mortgages provided as from 2013 are only tax deductible if the mortgage is paid off through an annuity or linear scheme over a maximum period of thirty years. As a result, 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.

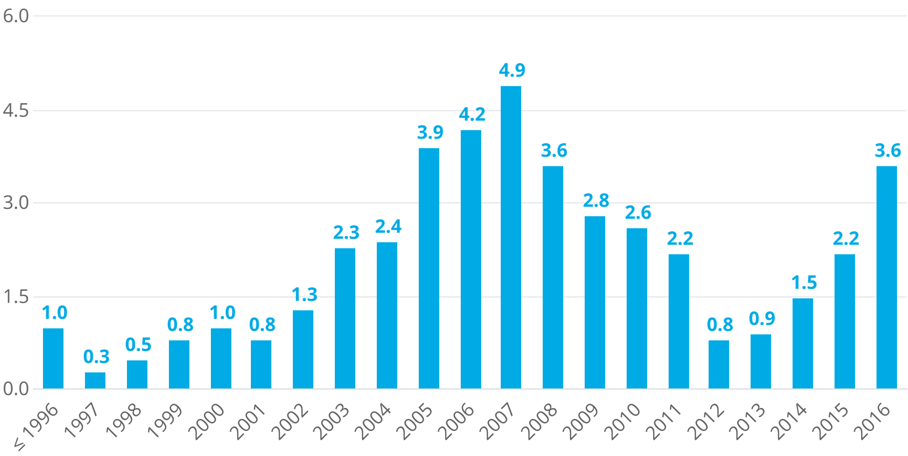
Retail mortgage loans by fixed-rate maturity

in € millions	December 2016		December 2015	
Floating rate	3,540	8.0%	4,425	10.0%
≥ 1 and < 5 yrs fixed rate	1,757	4.0%	1,970	4.5%
≥ 5 and < 10 yrs fixed rate	6,640	15.0%	9,414	21.3%
≥ 10 and < 15 yrs fixed rate	24,604	55.6%	21,917	49.6%
≥ 15 yrs fixed rate	7,262	16.4%	6,036	13.6%
Other	441	1.0%	470	1.1%
Total	**44,244**	**100.0%**	**44,232**	**100.0%**
IFRS value adjustments[1]	667		812	
Provision	-114		-257	
Total retail mortgage loans	**44,797**		**44,787**	

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

In line with the trend visible in 2015, the retail mortgage loans with a fixed-interest rate period of 10 years or more increased and the loans with a fixed rate period of less than 10 years decreased. 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. At year-end 2016, mortgages with a fixed-rate period of 15 years or more amounted to € 7.3 billion (16% of the portfolio), compared to € 6.0 billion at year-end 2015.

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



1 the amounts in this table include conversions of mortgages and exclude granted mortgages in progress

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

The 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.

Interest rate risk banking book

In 2016, market interest rates decreased furhter, prompting a further decline in the interest rates of two of our main products: mortgage loans and savings. As a result, the mortgage prepayment rate rose somewhat further, mainly due to a higher number of early renewals, with either a penalty or interest rate averaging. Both new and renewed mortgage loans consisted mostly of mortgages with a fixed-rate period of 10 years or more. This had an upward effect on the duration of equity in 2016, which was largely mitigated by interest rate swaps. At the end of 2016, the duration of equity of de Volksbank stood at 1.6 (year-end 2015: 1.8).

At the end of 2016, the Earnings at Risk (EaR) amounted to € 50 million, compared to € 26 million at year-end 2015. The increase was mainly caused by increasing the severity of the EaR scenario given the low interest rate environment. Due to the increased severity the short-term market rates decline further in the EaR scenario. As a result, the interest received on the cash position decreases more in this scenario and the EaR measures a higher earnings sensitivity of the cash position.

Market risk

De Volksbank has a limited trading portfolio. The market risk resulting from this portfolio is managed on a day-to-day basis by limits on a 1-day Value at Risk (VaR) with a confidence level of 99%. At the beginning of 2016, the total VaR limit was € 3 million, reflecting the relatively low risk profile of these activities in terms of actual size. As a result of the sale of SNS Securities, the VaR limit was lowered to € 2 million.

Capital management

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 Supervisory Review and Evaluation Process (SREP). The exact magnitude of the impact is, however, still uncertain.

Capitalisation

With effect from 1 January 2017, de Volksbank is required to meet a minimum Total Capital ratio of 12.75% (Overall Capital Requirement, OCR), of which 9.25% CET1 capital. This requirement follows from the SREP performed by the European Central Bank (ECB). The OCR serves as a Maximum Distributable Amount (MDA) trigger level and includes a Pillar 1 own funds requirement of 8.0%, a Pillar 2 CET1 requirement of 3.0% (together the Total SREP Capital Requirement) and a Combined Buffer Requirement (CBR) of 1.75%.

Capital requirements

	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	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%**

The CBR to be held in CET1 capital consists of a capital conservation buffer, a buffer for Other Systemically Important Institutions ('O-SII buffer') and a countercyclical capital buffer. The capital conservation buffer is equal to 1.25% as from 1 January 2017 and will increase by 0.625% per annum until 2.5% per 1 January 2019. The O-SII buffer for de Volksbank is equal to 0.5% as from 1 January 2017 and will increase by 0.25% per annum, up to 1% in 2019. Fully phased-in, the OCR for de Volksbank is therefore equal to 14.5%, of which 11.0% CET1 capital. The countercyclical capital buffer for the Netherlands is currently set at 0%.

Capitalisation

	December 2016	June 2016	December 2015	December 2016	June 2016	December 2015
in € millions	*CRD IV transitional*	*CRD IV transitional*	*CRD IV transitional*	*CRD IV fully phased-in*	*CRD IV fully phased-in*	*CRD IV fully phased-in*
Shareholders' equity	**3,541**	**3,432**	**3,302**	**3,541**	**3,432**	**3,302**
Not eligible interim profits	-223	-170	-104	-223	-170	-104
Not eligible previous years' retained earnings	--	-1	-2	--	-1	-2
Shareholders' equity for CRD IV purposes	**3,318**	**3,261**	**3,196**	**3,318**	**3,261**	**3,196**
Increases in equity resulting from securitised assets	--	--	-9	--	--	-9
Cash flow hedge reserve	-44	-51	-57	-44	-51	-57
Fair value reserve	-54	-67	-67	--	--	--
Other prudential adjustments	-3	-3	-3	-3	-3	-3
Total prudential filters	**-101**	**-121**	**-136**	**-47**	**-54**	**-69**
Intangible assets	-15	-14	-15	-15	-14	-15
IRB shortfall	-38	-43	-29	-47	-54	-42
Facility SRH	--	--	-100	--	--	-100
Total capital deductions	**-53**	**-57**	**-144**	**-62**	**-68**	**-157**
Total regulatory adjustments to shareholders' equity	**-154**	**-178**	**-280**	**-109**	**-122**	**-226**
CRD IV Common Equity Tier 1 capital	**3,164**	**3,083**	**2,916**	**3,209**	**3,139**	**2,970**
Additional Tier 1 capital	--	--	--	--	--	--
Tier 1 capital	**3,164**	**3,083**	**2,916**	**3,209**	**3,139**	**2,970**
Eligible Tier 2	500	500	493	500	500	493
IRB shortfall	-9	-11	-12	--	--	--
Tier 2 capital	**491**	**489**	**481**	**500**	**500**	**493**
Total capital	**3,655**	**3,572**	**3,397**	**3,709**	**3,639**	**3,463**
Risk-weighted assets	**10,824**	**11,610**	**11,513**	**10,824**	**11,610**	**11,513**
Exposure measure as defined by the CRR	**60,331**	**63,901**	**61,464**	**60,360**	**63,957**	**61,518**
Common Equity Tier 1 ratio	**29.2%**	**26.6%**	**25.3%**	**29.6%**	**27.0%**	**25.8%**
Tier 1 ratio	29.2%	26.6%	25.3%	29.6%	27.0%	25.8%
Total capital ratio	33.8%	30.8%	29.5%	34.3%	31.3%	30.1%
Leverage ratio	5.2%	4.8%	4.7%	5.3%	4.9%	4.8%

In 2016, de Volksbank's transitional CET1 ratio rose to 29.2% from 25.3% at year-end 2015, well above the 9.25% CET1 capital requirement following from the SREP. The fully phased-in CET1 ratio rose to 29.6% from 25.8% at year-end 2015.

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 fair value reserve. This fair value reserve is the difference between the market and the book value of the Available For Sale (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 shareholder's equity to determine CET1 capital for CRD IV puposes.

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[6] for 2016, this led to a net increase in CET1 capital of € 110 million. As a result, the dividend reservation and the net profit of the last three months of 2016 (€ 223 million in total) were deducted from shareholder's 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 the CET1 capital.

In 2016, the transitional total capital ratio rose to 33.8% from 29.5% at year-end 2015, well above the 12.75% SREP requirement. The fully phased-in total capital ratio increased to 34.3% from 30.1% 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.

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.

Risk-weighted assets

in € millions	**December 2016**	**June 2016**	**December 2015**
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based approach (IRB)	6,508	7,058	6,856
Credit risk - standardised approach (SA)	2,222	2,292	2,365
Operational risk	1,672	1,698	1,698
Market risk	88	150	209
Credit Valuation Adjustment (CVA)	334	412	385
Total	**10,824**	**11,610**	**11,513**

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 mortgage portfolio was updated. As a consequence, RWA of this portfolio increased by € 630 million. In addition, securitisation Hermes XII was called in March 2016, resulting in an IRB RWA increase of € 160 million. These RWA increases were more than offset by a € 1,140 million decrease mainly due to decreasing probabilities of default (PDs) and loss given defaults (LGDs) as a result of improved economic circumstances. RWA density[7] 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.

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

6 Dividend reservation is based on the upper boundary of the payout ratio target range.
7 RWA density is defined as risk-weighted assets divided by the exposure at default (EaD).

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 Rating Based (IRB) 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 this '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 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 non-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 (senior resolution notes) that will only be bailed-in during resolution after other capital instruments, but 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 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.

The table below shows non-risk weighted and risk-weighted MREL ratios per year-end 2016 and 2015[8]. 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 and TLAC

				Non-risk weighted		Risk-weighted	
in € millions	**31-12-2016**	31-12-2015		**31-12-2016**	31-12-2015	**31-12-2016**	31-12-2015
CET1 capital	3,164	2,916					
Tier 2 capital	491	481					
Total capital	**3,655**	3,397	MREL (own funds)	**6.1%**	**5.6%**	33.8%	29.5%
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	MREL (including all eligible liabilities)	**8.0%**	**8.2%**	44.2%	43.4%
Exposure measure as defined by the BRRD (MREL)	59,636	60,592					
Risk-weighted assets	10,824	11,513					

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

8 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.

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.

Dividend

De Volksbank has set a dividend pay-out ratio target range of 40%-60% of net adjusted profit[9]. 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 in our bank by the State as a starting point. For 2016, de Volksbank proposes a dividend payment of € 135 million, equating to a payout ratio of 41%, which is within the dividend pay-out ratio target range.

9 For the year 2016 amounting to € 330 million, consisting of reported net profit of € 329 million adjusted for € 1 million negative fair value changes of former DBV mortgage portfolio and related derivatives

Liquidity and funding

Liquidity

In 2016 de Volksbank maintained a strong liquidity position that amply complied with both internal targets and regulatory requirements.

Key liquidity indicators

	December 2016	June 2016	December 2015
LCR	>100%	>100%	>100%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio[1]	104%	101%	105%
Liquidity buffer (in € millions)	10,533	11,189	12,136

1 The Loan-to-Deposit ratio is calculated by dividing retail loans by retail funding.

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

De Volksbank maintains a liquidity buffer in order to withstand severe liquidity stress events. Regular stress test analyses aim to ensure that the composition and volume of the liquidity buffer are adequate. The liquidity buffer consists of the cash position, high quality liquid assets and retained RMBS notes that qualify as ECB-eligible collateral. The table below shows the liquidity buffer composition, with liquid assets included at market value after the ECB haircut.

Liquidity buffer composition

in € millions	December 2016	June 2016	December 2015
Cash position[1]	2,816	3,086	2,447
Sovereigns	2,713	2,746	3,762
Regional/local governments and supranationals	755	719	702
Other liquid assets	351	294	413
Eligible retained RMBS	3,898	4,344	4,812
Liquidity buffer	**10,533**	**11,189**	**12,136**

1 As of December 2016 the cash definition has been revised. Cash definition within the liquidity position comprises Central Bank reserves, accounts with correspondent banks and contractual wholesale cash flows due within 10 days. Comparative 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. In 2016, € 0.5 billion in government bonds was sold or redeemed. 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.

Funding

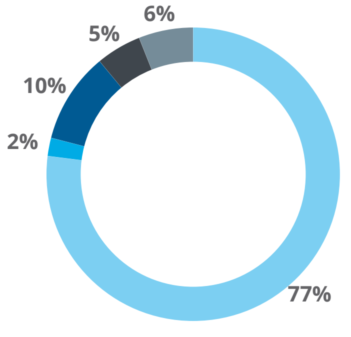
De Volkbank's funding strategy aims at optimising and ensuring access to diversified funding sources in order to maintain the bank's targeted long-term funding position and liquidity profile, while complying with regulatory requirements at all times. Savings from retail customers are the primary funding source and constitute a sound core funding base that is complemented by wholesale funding.

Through our different brands, we attract term deposits, sight deposits and current account balances from retail customers. In addition, de Volksbank funds itself through savings and current account balances from SME customers. In 2016, total deposits increased to € 46.2 billion, from € 46.1 billion at year-end 2015.

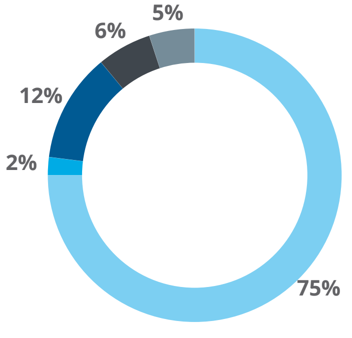
De Volksbank also attracts funding from the capital market. We aim to diversify our sources of wholesale funding. De Volksbank, therfore, funds itself with various funding instruments spread over different maturities, markets, regions and investor types.

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.

Equity and liability mix December 2016: € 61.6 billion



Equity and liability mix December 2015: € 62.7 billion

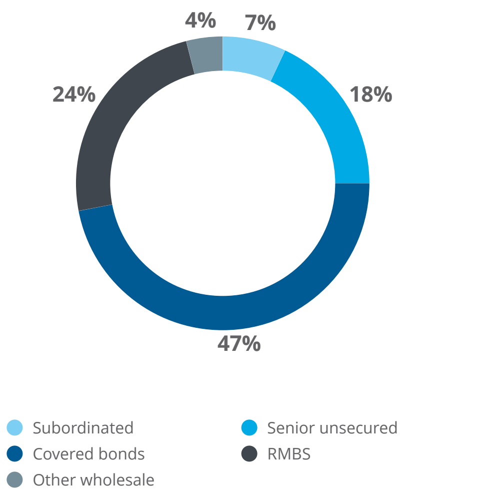


- Savings and other amounts due to customers
- Amounts due to banks
- Debt instruments (incl. subordinated)
- Other
- Equity

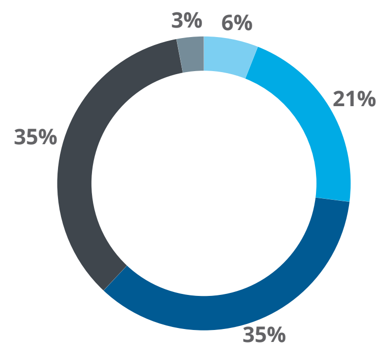
In the capital market, de Volksbank issues term funding with a term in excess of one year by means of senior unsecured debt, (mortgage) securitisations (RMBS), covered bonds and subordinated debt. De Volksbank issues funding with a term of less than one year in the money markets via European and French commercial paper programmes.

In the fourth quarter of 2016, de Volksbank successfully issued a € 0.5 billion covered bond with a maturity of 15 years. This transaction was the first covered bond issuance since 2012.

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



Wholesale funding mix December 2015: € 8.9 billion [1]

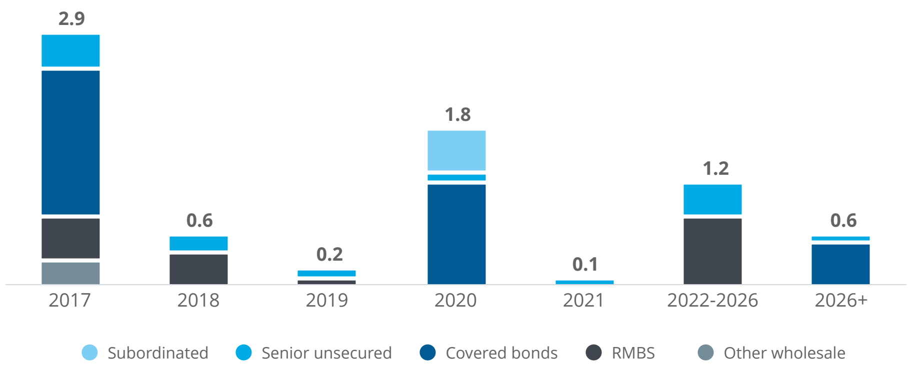


1 The information presented is based on the nominal value of the positions. This nominal value differs from the IFRS measurement in the balance sheet, which is predominantly based on amortised cost

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 in respect of the Hermes XII (€ 0.6 billion) and Pearl II (€ 0.5 billion) securitisations and senior unsecured debt (€ 0.5 billion), 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 maturities (in € billions)



Consolidated financial statements

Consolidated balance sheet

Before result appropriation and in € millions	31-12-2016	31-12-2015
ASSETS		
Cash and cash equivalents	2,297	2,259
Derivatives	1,533	1,993
Investments	5,970	6,376
Loans and advances to banks	2,532	2,081
Loans and advances to customers	48,593	49,217
Property and equipment	73	77
Intangible assets	15	15
Deferred tax assets	137	284
Other assets	411	278
Assets held for sale	--	110
Total assets	**61,561**	**62,690**
EQUITY AND LIABILITIES		
Savings	36,593	36,860
Other amounts due to customers	10,835	10,580
Amounts due to customers	**47,428**	**47,440**
Amounts due to banks	1,446	1,000
Debt certificates	5,696	6,941
Derivatives	1,861	2,189
Deferred tax liabilities	59	216
Corporate income tax	18	11
Other liabilities	891	955
Other provisions	103	83
Provision for employee benefits	17	23
Subordinated debts	501	493
Liabilities held for sale	--	37
Total other liabilities	**10,592**	**11,948**
Share capital	381	381
Other reserves	2,831	2,573
Retained earnings	329	348
Shareholders' equity	**3,541**	**3,302**
Total equity and liabilities	**61,561**	**62,690**

Consolidated income statement

in € millions	2016	2015
INCOME		
Interest income	1,592	1,888
Interest expense	681	894
Net interest income	**911**	**994**
Fee and commission income	108	103
Fee and commission expenses	51	55
Net fee and commission income	**57**	**48**
Investment income	57	42
Result on financial instruments	-20	39
Other operating income	2	2
Total income	**1,007**	**1,125**
EXPENSES		
Staff costs	398	371
Depreciation and amortisation of tangible and intangible assets	22	23
Other operating expenses	222	196
Impairment charges	-68	37
Other expenses	1	22
Total expenses	**575**	**649**
Result before taxation	**432**	**476**
Taxation	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**

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 total equity

Consolidated statement of changes in total equity 2016

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2016	381	3,787	1	57	111	-1,383	348	3,302
Transfer of net result 2015	--	--	--	--	--	348	-348	--
Unrealised revaluations	--	--	--	-10	50	--	--	40
Realised revaluations through P&L	--	--	--	-3	-29	--	--	-32
Realised revaluations through equity	--	--	3	--	--	--	--	3
Other movements	--	--	--	--	--	-1	--	-1
Amounts charged directly to total equity	**--**	**--**	**3**	**-13**	**21**	**-1**	**--**	**10**
Net result 2016	--	--	--	--	--	--	329	329
Total result 2016	**--**	**--**	**3**	**-13**	**21**	**347**	**-19**	**339**
Dividend	--	--	--	--	--	-100	--	-100
Total changes in equity 2016	**--**	**--**	**3**	**-13**	**21**	**247**	**-19**	**239**
Balance as at 31 December 2016	**381**	**3,787**	**4**	**44**	**132**	**-1,136**	**329**	**3,541**

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

2 Revaluations of property in own use are included in the revaluation reserve.

Consolidated statement of changes in total equity 2015

in € millions	Issued share 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
Amounts charged directly to total equity	**--**	**--**	**1**	**-22**	**14**	**-2**	**--**	**-9**
Net result 2015	--	--	--	--	--	--	348	348
Total result 2015	**--**	**--**	**1**	**-22**	**14**	**149**	**197**	**339**
Dividend	--	--	--	--	--	--	--	--
Total changes in equity 2015	**--**	**--**	**1**	**-22**	**14**	**149**	**197**	**339**
Balance as at 31 December 2015	**381**	**3,787**	**1**	**57**	**111**	**-1,383**	**348**	**3,302**

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

2 Revaluations of property in own use are included in the revaluation reserve.

general information

Other information

De Volksbank's annual accounts are prepared in accordance with International Financial Reporting Standards. In preparing the financial information in this press release, except as described otherwise, the same accounting principles are applied as in the 2015 de Volksbank's consolidated annual accounts. The preparation of the financial statements for 2016 is in progress. The figures in this press release have not been audited.

About de Volksbank

GENERAL

De Volksbank N.V. (de Volksbank) is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 61.6 billion and 3.354 internal employees (FTE), which makes it a major player in the Dutch market. The head office of de Volksbank is located in Utrecht.

MISSION AND AMBITION

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

OUR BRANDS

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

ASN BANK

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

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

www.asnbank.nl

BLG WONEN

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

Products: mortgages, savings, insurance and investments.

www.blg.nl

REGIOBANK

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

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

www.regiobank.nl

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

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

www.snsbank.nl

Disclaimer

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