de volksbank

Interim financial report 2018

Press release

2018

This interim financial report, including the original interim financial statements, was drafted in Dutch. This document is an English translation of the original. In case of any discrepancy between the English and the Dutch text, the latter will prevail.

De Volksbank posts first-half 2018 net profit of € 149 million; Banking with a human touch mission further implemented

Utrecht, 23 August 2018

Commercial developments

- **New mortgages:** market share in mortgages higher at 7.5% (2017: 6.8%); 12% increase in new mortgage production to € 2.9 billion (first-half 2017: € 2.6 billion)
- **Mortgage portfolio:** retail mortgage portfolio grew by € 880 million to € 46.7 billion (year-end 2017: € 45.9 billion)
- **Current accounts:** market share in new current accounts of 23% (2017: 20%); net growth current account customers of 33,000 to 1.44 million
- **Savings:** 2% growth in retail savings to € 37.7 billion; market share of 10.6% (2017: 10.7%)

Financial performance

- **Result:** net profit of € 149 million: a decrease compared to the first half of 2017 (€ 187 million); slight increase compared to the second half of 2017 (€ 142 million)
- **Income:** decrease in total income by € 49 million to € 480 million, due to lower realised results on fixed-income investments (exceptionally high in the first half of 2017) and 4% lower net interest income; slight increase in interest margin and net interest income (+2%) compared to the second half of 2017
- **Expenses:** operating expenses excluding regulatory levies € 1 million higher at € 272 million; 6% decrease compared to the second half of 2017; impact efficiency measures and lower non-credit risk related provisions partly offset by higher expenses for regulatory and compliance-related projects and increased commercial activities
- **Impairment charges:** net release of provisions for loans of € 16 million (first-half 2017: € 20 million; second half of 2017: € 4 million) due to improved economic conditions and outlook
- **Capital position:** the Common Equity Tier 1 ratio stood at 34.3% (year-end 2017: 34.1%), and the leverage ratio at 5.2% (year-end 2017: 5.5%)

Banking with a human touch

Good progress on initiatives to optimise shared value:

- **Customers:** improvement in customer-weighted Net Promoter Score to 0 (year-end 2017: -3)
- **Society:** 33% climate-neutral balance sheet (year-end 2017: 27%); introduction Financial Confidence Barometer and objective for financial resilience
- **Employees:** decrease in employee Net Promoter Score to -14 (year-end 2017: -2); commitment and engagement stable at 7.7 and 7.4 respectively
- **Shareholder:** return on equity of 8.5% against a target of 8% (first-half 2017: 10.5%)

Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank

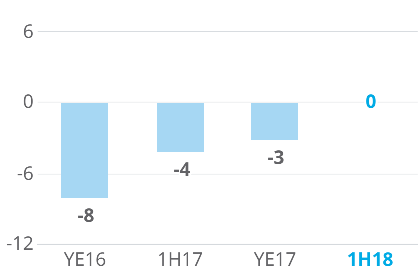
“In the first half of 2018, our focus on the implementation of our banking with a human touch mission resulted in a considerable number of initiatives. We introduced a concrete objective for financial resilience and entered into dialogue with customers who may run into difficulties with their interest-only mortgage in the future. Our social profile is now also reflected in high ESG ratings.

The growth of our mortgage portfolio and the number of customers is satisfactory. Customer satisfaction at our brands continued to improve, for the first time resulting in a break-even average Net Promoter Score. Having said that, there is still enough work to be done to achieve our Shared Value ambition. In the first six months, the employee NPS deteriorated against a background of reorganisations at de Volksbank and in the financial services sector in general. The climate neutrality of our balance sheet showed strong improvement, but our target is still some way off.

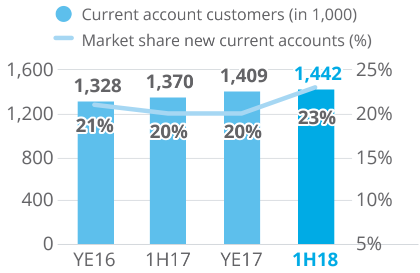
Pressure on the interest margin and lower investment income resulted in lower interim profits, in keeping with our earlier indication for the whole of 2018. Compared to the second half of 2017, net profit showed a slight increase and at 8.5% the return on equity remained at a good level. De Volksbank continues to be one of the best capitalised banks in Europe and is well-positioned for the future.”

Key figures

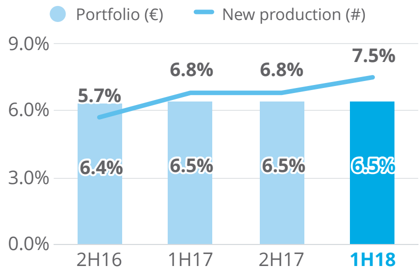
Net Promoter Score[1]



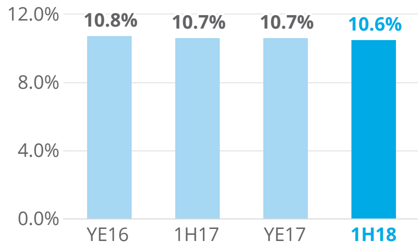
Current account customers[2]



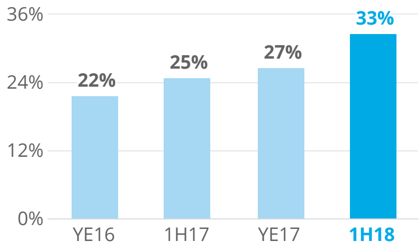
Market share mortgages



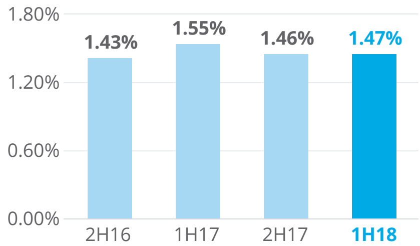
Market share retail savings



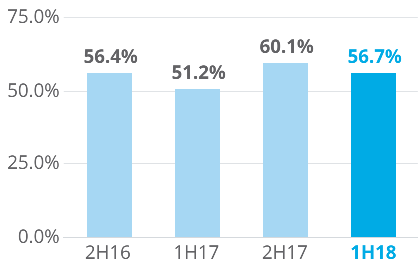
Climate-neutral balance sheet



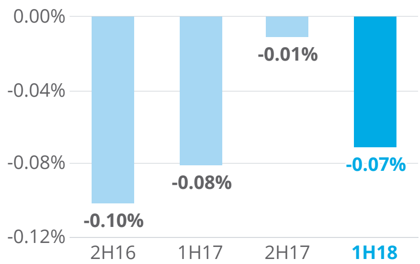
Net interest margin



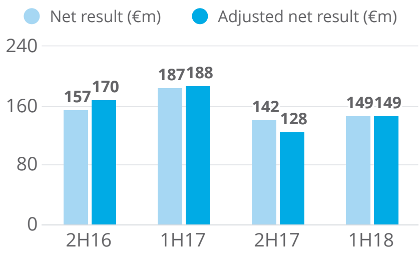
Adjusted cost/income ratio[3]



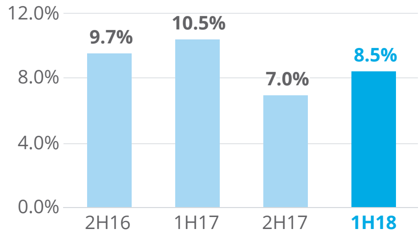
Cost of risk total loans



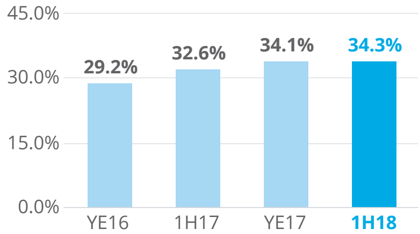
Net result / adjusted net result[3]



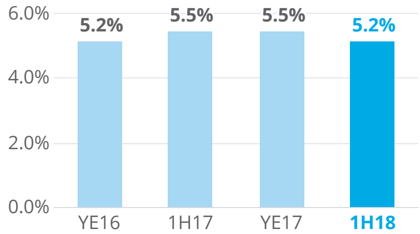
Adjusted Return on Equity[3]



Common Equity Tier 1 ratio[4]



Leverage ratio[4]



1 Customer-weighted average of all brands. Source NPS: market research company Miles Research.

2 Source: market share new current accounts: GfK market research, based on Moving Annual Total (MAT) look-back period one year at the end of each reported period.

3 Adjusted for incidental items.

4 2016 and 2017 on a transitional basis, as of 2018 fully phased-in.

Foreword

Progress on strategy

De Volksbank wants to put its mission - Banking with a human touch - actively into practice. It is our ambition to optimise the value for all our stakeholders by creating benefits for our customers, taking responsibility for society, providing meaning for our employees and achieving adequate returns for our shareholder. We seek to achieve this by focusing on the following three pillars:

1. Implementing Banking with a human touch;
2. Simplifying and enhancing our business operations;
3. Implementing our innovation strategy as a smart adopter.

BANKING WITH A HUMAN TOUCH

In late 2017, we launched a programme that aims to support the organisation in achieving distinctive customer propositions that make employees, customers and other stakeholders feel that de Volksbank is a bank that banks with a human touch. We organise in-house workshops to guide our employees' thoughts and actions towards banking with a human touch. These workshops are based on the following four principles: know your customer, trust the customer and each other, allocate responsibilities close to the customer and ensure good multidisciplinary cooperation.

In the past six months, we developed various initiatives to implement Banking with a human touch:

- De Volksbank aims to increase its customers' financial resilience. In this respect, we have focused attention to customers with an interest-only mortgage. Characteristic of these mortgages is that customers are not obliged to make repayments on their loan during the mortgage term, but have to fully repay the loan at the end of the term. If they are unable to do so, they have to sell or refinance their home. De Volksbank aims to stimulate all customers with an interest-only mortgage to make repayments on their loan and / or to build up capital. We have taken the initiative to explain this to customers when necessary an offer possible solutions. We have by now approached more than 48,000 customers and actually discussed this subject with approximately 12,500 of them. We know there are customers who are nearing the end of their term and have not built up enough capital to repay their loan. For these customers, we will provide a suitable solution that best suits their interests. This always requires a tailored approach, as every situation is different. Our starting point is that these customers must be able to continue living in their home and, when necessary, we will give them more time to repay the loan.
- We started to actively bring back 4,000 customer files from debt collection agencies, after we had already ceased handing over new loans in arrears in 2017.
- De Volksbank has responded to the more relaxed rules of the National Mortgage Guarantee (NHG), making it possible to meet the needs of more senior customers; our brands have been offering the special 'NHG Proposition for Seniors' since June of this year.
- In May, we announced we would recalculate the compensation amounts for early mortgage repayments and early renewals made in the period from 14 July 2011 to 14 July 2016. Our own inquiry into the original method for calculating the compensation revealed that we could have done better on certain points. A total of 34,000 customers received a letter announcing the recalculation. Customers who, on the basis of the new calculation, paid too much, will be refunded. Consumer organisations rated our new calculation method as 'appropriate and fair'.
- The pilot project in which financial advisers have the discretionary power to give mortgage loan approval was successful and will be expanded. Placing the mandate with the advisers allows them to more rapidly provide customers with confirmation about their mortgage application, while observing our strict acceptance criteria of course.
- We examined how simpler and more accessible terms and conditions can boost people's confidence in our services. Based on this examination, we will modify a number of issues in our payment and savings conditions step by step. We will do the same with our mortgage conditions.

SIMPLIFYING AND ENHANCING THE EFFICIENCY OF OUR BUSINESS OPERATIONS

At the end of 2016, we expressed the expectation that the number of jobs at de Volksbank would decrease by 800 - 900 up to and including 2020. Approximately half of this number relates to our permanent staff. The number of permanent employees has now dropped by 199 FTEs to 3,155 FTEs, from 3,354 FTEs as at the end of 2016. This drop is largely due to natural employee turnover and to a lesser extent to the departure of employees whose positions have become

redundant. In the same period, the number of external staff rose by 120 FTEs to 771 FTEs to fill temporary shortages in connection with regulatory and compliance-related projects, extra activities related to bringing back customers from debt collection agencies and personally approaching vulnerable interest-only mortgage customers.
The top management structure was simplified in 2017. Our ambition is to considerably reduce the number of senior management positions in the period up to 2020. We have so far achieved a reduction from 47 to 36 positions. The number of middle management positions will also decline in line with the reduction in the total number of jobs.

By simplifying our business operations, we are improving the services and processes for our customers. For example, the introduction of the ‘Mortgage without Advice’ enables first-time buyers in the housing market to structure and take out their mortgage online, without the involvement of a mortgage adviser.
After a successful pilot project, we will also introduce a new electronic application process for overdraft facilities for SME customers. Digitisation of the application process for payment and savings products for these customers was greatly enhanced, significantly reducing the processing time for customers, while cutting costs at the same time. In addition, we are working on the rationalisation of our product range.

IMPLEMENTING OUR INNOVATION STRATEGY AS A SMART ADOPTER

The purpose of our smart adopter innovation strategy is twofold: we wish to rapidly follow up on customers’ expectations of our core bank processes, and at the same time we wish to innovate when it comes to applications that truly shape banking with a human touch.
Seeking to follow innovations in core banking functions, we put a great deal of effort in joining Payconiq in the first half of 2018. Our customers will be able to use this function during the second half of the year. Moreover, we were the second bank in the Netherlands to launch the IBAN name check:

- Payconiq is a new mobile payments app making it easy for customers to pay in web shops, physical shops and to pay their friends.
- When a customer enters a funds transfer using online banking or mobile banking, the IBAN name check verifies whether the name corresponds to the beneficiary’s IBAN account number.

The distinctive character of our innovation strategy is found in the way in which we put our mission into practice. In the digital world, the use of artificial intelligence (AI) is particularly suited for creating more personal services. That is why, in the first half of 2018, we created an AI Centre of Excellence and set up a new infrastructure for data analysis. However, we only use AI with the customer's explicit consent.

In the past six months, we put our mission into practice with the following innovations:

- We developed a beta app allowing us to test new applications directly in a fully real-life situation: Sl!m. The first new function we are testing in this app is ‘My Budget’, in which we use AI to analyse a person’s income and spending pattern and thus give the user optimum insight in their budget.
- Last year, we introduced the ‘One-Two’ app, which enables customers to select their own adviser for finance-related questions. The pilot project was expanded in the past six months; customers can now put more types of questions to their adviser. From small issues to major decisions, the customer can always turn to a staff member who knows them and can help them.
- We continued developing the mortgage approval pilot project using AI and transaction data. In this pilot project, we have a fundamentally different way of looking at the amount a customer can spend on a home, as we base it on their (payment) behaviour.
- A year before Payment Services Directive 2 (PSD2) is formally introduced, we have made it possible to display all of a customer’s accounts at the various brands in a single list in the mobile banking apps of all our brands. Furthermore, within the context of PSD2 we worked on a separate master switch for customers to switch the transfer of payment data to third parties on or off at any time.

PROGRESS ON OBJECTIVES

We measure the progress in achieving our Banking with a human touch mission and Shared Value ambition on the basis of concrete main objectives for our four stakeholder groups:

Objectives	30 June 2018	2017	Target 2020
BENEFITS FOR CUSTOMERS			
Customer-weighted average Net Promoter Score (NPS)[1]	0	-3	+10
Current account customers (in 1,000)	1,442	1,409	1,500
RESPONSIBILITY FOR SOCIETY			
Climate-neutral balance sheet[1]	33%	27%	45%
Financial resilience	na	na	>50%
MEANING FOR EMPLOYEES			
Employee NPS (eNPS)[1]	-14	-2	+40
RETURNS FOR THE SHAREHOLDER			
Return on Equity (RoE)	8.5%[2]	8.7%[2]	8.0%
OTHER LONG-TERM FINANCIAL OBJECTIVES			
Cost/income ratio	56.7%[2]	55.4%[2]	50-52%
Common Equity Tier 1 ratio	34.3%	34.1%	> 15.0%
Leverage ratio	5.2%	5.5%	> 4.25%

1 For the method of the measurement of these KPIs reference is made to the annual report 2017, chapter About the non-financial information.

2 Adjusted for the impact of incidental items (see Financial results).

CREATING BENEFITS FOR OUR CUSTOMERS

For the first time, the customer-weighted average of all brand-specific Net Promoter Scores (NPS) reached a break-even level and improved from -3 at year-end 2017 to 0. The NPS at ASN Bank, RegioBank and SNS improved once again. ASN Bank and RegioBank remain among the select group of Dutch banks with a positive NPS. SNS continued the steady trend towards a positive NPS; it now achieved a score of -8, compared to a score of -39 in 2013. At BLG Wonen, the NPS remained stable.

In the first half of 2018, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 115,000 new customers. Netted with customers who left de Volksbank, the number of customers increased by 32,000. The number of current account customers rose by 81,000 (33,000 net) to 1,442,000 at the end of June 2018. We consider the development of these accounts to be an important indicator of the reputation and quality of the customer-brand relationships of our brands.

TAKING RESPONSIBILITY FOR SOCIETY

Based on our core activities of mortgages, savings and payments, we expect that we can bring about a significant positive impact on sustainability in our chain and the financial resilience of our customers.

Sustainability

We aim to contribute to keeping the planet habitable and to limiting the global temperature rise through the activities we fund. That is why we aim for a 100% climate-neutral balance sheet by 2030, with an intermediate target of 45% by 2020. In mid-2018, our balance sheet was 33% climate neutral (year-end 2017: 27%). The increase primarily ensues from the funding of an offshore wind farm and net growth of sustainable bonds in the amount of € 155 million.
The average energy label of our mortgage portfolio remained unchanged at 'D'. A total of 25% of our customers have a home with energy label A or B. As regards the other homes that we finance, those with energy labels C to G, there is room for improvement, for example by improving insulation or by generating renewable energy using solar panels.

We want to actively help our customers make their homes more sustainable. That is why sustainable housing is one of the standard topics in consultations with our advisers. As from 2018, customers can immediately see their savings options in an advisory report. In more than 15 regions, customer days have been organised on this topic in collaboration with suppliers on the *Slimwoner* website and local providers.

In the first half of 2018, we sent over 200,000 customers an email containing energy-savings tips that can be easily put into practice. We contacted 490,000 of our current account and mortgage customers with an offer for solar panels. Customers can use the solar test on the *Slimwoner* website, developed in cooperation with *Natuur & Milieu*[1] to decide whether it is more attractive to buy, lease or share solar panels, or to buy a 100% solar energy product.

Our sustainability policy and activities are rated by independent institutions. The German firm oekom research, which assesses companies all over the world for the sustainability of their investment policy, raised de Volksbank's rating from C+ to B- at the end of March 2018. This means that de Volksbank is one of the financial institutions worldwide that received a top 3 rating from oekom. According to oekom, this high score reflects the integration of sustainable and social aspects in the business operations and policies of de Volksbank.
Moreover, de Volksbank ranks first in the overall list of 339 financial institutions analysed by Sustainalytics.

Financial resilience
Financial resilience is a large and complex social issue. That is why, in April 2018, we engaged in discussion with scholars, experts, civil society organisations and politicians about the following question: 'How do we make Dutch citizens financially resilient and less concerned?' We did so during a first and successful edition of the Volkscafé, a symposium for which our SNS brand took the lead.
In the first half of 2018, SNS also started setting up a Financial Resilience centre of expertise to lead the way in this area within de Volksbank. The centre of expertise develops initiatives in the following three areas: strengthening financial skills, reducing financial concerns, and keeping or making financial positions stable.

To strengthen the financial skills of children, we developed the *Eurowijs* (Eurowise) financial education package. Our target for 2018 is to reach 225,000 primary school children through *Eurowijs*.
And for seniors, SNS organises workshops entitled *Webwijs* (Webwise) to help them arrange their banking affairs in a digital world.

A second component of financial resilience is helping customers to reduce their financial concerns. To identify these concerns we worked together with the Behavior Change Group and the National Institute for Family Finance Information (Nibud) to develop the Financial Confidence Barometer, which gives insight into people's concerns and the cause of their worries. Our aim for 2020 is that more than 50% of our customers will indicate that the bank is ready to help them when they have financial stress. According to a baseline measurement conducted in January 2018, this percentage was 40%.

The third component of financial resilience is the financial position. We use our services to help our customers keep or make their financial affairs stable. Our special focus is on customers with an interest-only mortgage. As previously mentioned, we contact customers who may be unable to repay their loan at the end of the mortgage term to offer them a possible solution to enable them to continue living in their home. We also help customers whose income and spending have become unbalanced, as a result of unemployment or divorce for example, with our 'preventive management' programme. On top of this, a pilot project that will commence in the summer of 2018 will directly assist customers in reducing their fixed costs with the help of a Saving Expert.

Obviously, the financial resilience of our staff is just as important. We have started offering a departure scan, which gives financial insight upon termination of employmen, and financial coaching to employees losing their jobs due to the reorganisation. In addition, we assist employees who experience financial difficulties.

PROVIDING MEANING FOR OUR EMPLOYEES
We strive to ensure that our employees are committed and engaged, can develop themselves and find meaning in their work. The objectives in this respect are an employee NPS (eNPS) of 40 by 2020 and a score of 8 for commitment and engagement.

The eNPS is measured in a way that is comparable to the NPS for customers: at a range of 1 to 10, someone is a 'promoter' with a score of 9 and 10, 'passively satisfied' with a score of 7 and 8 and a 'criticaster' with a score of 6 or lower. A positive eNPS requires that the percentage of promoters is higher than the percentage of criticasters.

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[1] A Dutch nature conservation and environmental organisation that works for a sustainable and healthy world.

The fact that our eNPS objective is ambitious and at odds with the reduction in the number of jobs in the financial services sector and the reorganisation within de Volksbank is apparent from the actual figure of the eNPS: it dropped further from -2 (end of 2017) to -14 (May 2018). Commitment and engagement were stable at 7.7 and 7.4, respectively.

ACHIEVING RETURNS FOR OUR SHAREHOLDER

The return on equity amounted to 8.5%, above our target of 8%, but lower than in the first half of 2017 (10.5%). This decline was driven by a lower net profit.

OTHER OBJECTIVES

Our capitalisation objectives are a Common Equity Tier 1 (CET1) ratio of more than 15% based on current regulations, and a leverage ratio of at least 4.25%.

The CET1 ratio showed an increase to 34.3% (year-end 2017: 34.1%), despite a negative impact of 2%-points due to the implementation of IFRS 9 on 1 January 2018. This was more than fully compensated by net profit retention and a decrease in risk-weighted assets (RWA) by € 0.3 billion compared to year-end 2017.

Based on the agreement reached on Basel IV regulations in December 2017, we expect our RWA to increase by approximately 40% and our CET1 ratio to decrease by approximately 9.5%-point accordingly.

The leverage ratio decreased to 5.2% (year-end 2017: 5.5%), well above our minimum objective. This decrease was the result of the introduction of IFRS 9 and a € 1.7 billion increase in risk exposure.

For the cost/income ratio, defined as operating expenses excluding regulatory levies divided by total revenues, we apply a target range of between 50% and 52% in 2020. In the first half of 2018, the cost/income ratio was 56.7% (first half of 2017: 51.3%). This increase is attributable to lower total income. Compared to the second half of 2017 (57.9%), the cost/income ratio did show a slight decrease.

Commercial developments

Net growth of the number of current account customers amounted to 33,000, thus lagging behind the first half of 2017 (42,000). The lower growth rate was the result of a 13,000 adjustment for inoperative current account customers. The market share in new current accounts remained high at 23%.

Our retail mortgage portfolio grew by € 0.8 billion to € 46.7 billion. Compared to the first half of 2017, new mortgage production rose by 12% to € 2.9 billion. The total level of repayments of € 2.1 billion was marginally up. The market share in new retail mortgages rose to 7.5%.

The retail savings rose by € 0.9 billion to € 37.7 billion, compared to year-end 2017. In a slightly expanding market, the market share showed a slight decrease to 10.6% (year-end 2017: 10.7%).

Financial performance

Net profit decreased to € 149 million, compared to € 187 million in the first half of 2017 (-20%). This decrease was almost entirely attributable to lower total income, which decreased by € 49 million to € 480 million (-9%) as a result of lower net interest income and lower investment income.

Net interest income decreased by € 21 million to € 455 million (-4%). Lower interest expenses as a result of interest rate reductions on savings partly compensated lower interest income on mortgages and higher interest expenses related to derivatives to manage the interest rate risk. Lower net interest income was reflected in an interest margin that dropped to 147 basis points (bps), compared to 155 bps in the first half of 2017.

Investment income fell by € 32 million to € 3 million negative, largely as a result of lower realised results on fixed-income investments, sold as part of asset and liability management and the optimisation of the investment portfolio.

Total operating expenses rose by € 2 million to € 301 million. At € 29 million, regulatory levies were € 1 million higher than in the first half of 2017. Operating expenses, excluding regulatory levies (adjusted operating expenses), also rose by € 1 million, to € 272 million. Operating expenses were positively impacted by a swing in non-credit risk related provisions and further efficiency improvements. However, this was offset by higher costs for regulatory and compliance-related projects, for increased commercial activities and an increase in labour costs, including higher social security costs.

The first half of 2018 saw a net release of provisions for loans of € 16 million under IFRS 9. In the first half of 2017, the net release amounted to € 20 million, under IAS 39. The net release in the first half of 2018 was for € 8 million related to retail mortgages and for € 7 million to the SME loan portfolio, and was mainly due to the improved economic outlook in scenarios used to determine the loan loss provision, resulting in a decrease in stage 2 loans. In addition, there was a decrease in stage 3 (default) loans, driven by improved economic conditions. (For an explanation on stage 1, 2 and 3 loans, please refer to Loans and advances to customers (see page 18)

Options for the future

In addition to further implementing our strategy, de Volksbank is preparing for an independent future. In our 2017 Annual Report, we stated that as part of this, we are examining what governance structure would be most fitting for our strategy. This examination is conducted in consultation with the Supervisory Board and NLFI. The examination and the dialogue on this subject have not yet been finalised.

Outlook

The Dutch economy is projected to continue to perform well. With the high level of job security and indications of higher wage growth, consumers will continue to increase their spending and further drive economic expansion. Given the low level of unemployment and the high number of vacancies, it can be expected that the observed acceleration of wage growth will continue, causing inflation to pick up somewhat. Specifically in 2019, an increase in the low VAT rate and energy taxes will have an additional upward effect on the inflation rate.

We assume the extent of the trade conflict between the US and its trading partners to remain limited; it does, however, present a clear risk. In this regard, the Netherlands, being a small open economy, is more vulnerable than the average country.

Given the strong economic conditions, capital market rates are low, and with the ECB stepping back as the dominant buyer in the euro zone bond market, these rates are now expected to rise. For the time being, money market rates will remain low. The ECB has announced that it will keep its interest rates at their present levels until at least through the summer of 2019.

Net interest income in 2018 is projected to be somewhat lower than in 2017. Furthermore, we expect the level of operating expenses, excluding regulatory levies, to be comparable to the level of 2017.

The number of customers in arrears on their mortgage or SME loan is expected to fall further. Due to the positive macroeconomic developments and a continued rise in house prices, we expect impairment charges on loans to remain limited. However, in the second half of 2018 we do not anticipate a release of provisions for loans equivalent to that of the first half of 2018. We also expect impairment charges to show a more volatile picture because of the implementation of IFRS 9.

Slightly lower interest income and possibly a lower release of provisions for loans for the whole year are expected to result in a lower net profit for 2018 versus 2017.

Macroeconomic developments

THE DUTCH ECONOMY

The Dutch economy lost some pace in the first half of 2018. This is attributable to exports, which grew less strongly because the pace of world trade growth flattened. Consumers remained confident and increased their spending. Entrepreneurs were positive too; a lack of production capacity prompted them to increase their investments. Hiring was strong and at 2% on an annual basis, job growth remained high. It was characteristic of a strong labour market that the number of permanent employment contracts increased faster than the number of flexible contracts for the first time in a long while. Compared to the end of last year, unemployment fell by 0.5%-point to 3.9% of the professional labour market. Although wage growth accelerated somewhat, on balance, it remained moderate. Driven by rising world oil prices, inflation rose to 1.7% at the end of June.

INTEREST RATES AND BOND YIELDS

The European Central Bank (ECB) kept the deposit rate unchanged at -0.4%, keeping money market rates extremely low throughout the reporting period. Dutch capital market rates rose considerably in the first half of 2018. The reason for this must be sought in the United States of America, where a high wage growth rate aroused the fear that the US Federal Reserve would raise the interest rates more firmly. Halfway through the reporting period, however, Trump's protectionist measures became the dominant market factor and interest rates settled back again. Concerns about the political developments in Italy and the consequences for the euro project later strengthened the flight to safety, causing interest rates to fall further. ECB's announcement to halve bond purchases to € 15 billion per month from October this year and to stop completely at the end of this year was considered less stringent than anticipated and therefore had no upward effect on interest rates.

Throughout the reporting period, the Dutch 10-year government bond yield fell by 6 bps to 0.47%. The latter percentage also marked the lowest point of the reporting period. The highest interest rate was 0.80% and was reached in early February.

HOUSING MARKET

The favourable economy and low interest rates led to a further tightening of the housing market. Prices of owner-occupied homes continued to rise considerably and for the first time exceeded the August 2008 peak. In the first half of 2018, house prices rose by 8.9% on average. Although the Randstad conurbation saw the strongest increases, prices in surrounding areas also accelerated to substantial percentages. As house prices are rising and the housing supply is drying up, the number of home sales have started to decline. In 2017 the number of transactions increased by an average of 12.6%; in the first half of 2018, however, the number of transactions decreased by 8.1%. In contrast to the recent past, the decline is also occurring in the areas around big cities; an indication that the symptoms of the tightening market are expanding across the regions.

Commercial developments

Commercial developments

	30-6-2018	31-12-2017	30-6-2017
CUSTOMERS AND CURRENT ACCOUNTS			
Total number of customers (in 1,000)	3,160	3,128	3,091
Total number of current account customers (in 1,000)	1,442	1,409	1,370
Market share new current accounts[1]	23%	20%	20%
NET PROMOTER SCORE[2]			
ASN Bank	19	17	16
BLG Wonen	-24	-24	-27
RegioBank	10	7	6
SNS	-8	-13	-14
Customer-weighted average	0	-3	-4
MORTGAGES			
Retail mortgages (gross in € billions)	46.7	45.9	45.4
Market share new mortgages (in #)	7.5%	6.8%	6.8%
Market share mortgage portfolio (in €)[3]	6.5%[4]	6.5%	6.5%
SAVINGS			
Retail savings (in € billions)	37.7	36.8	37.4
Market share retail savings	10.6%	10.7%	10.7%
SME savings (in € billions)	2.7	2.7	2.7

1 Source: GfK market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.

2 Source: market research firm Miles Research.

3 Based on CBS data. Market shares 30-6-2017 and 31-12-2017 are adjusted due to adjusted market size figures by CBS.

4 First quarter of 2018 figures because market size figures are not yet available.

Customers

In the first half of 2018, de Volksbank's brands combined welcomed 115,000 new customers. Netted with customers who left the bank, the number of customers increased by 32,000. This net growth was higher than in the first half of 2017 (15,000), despite a 13,000 adjustment for inoperative current account customers[2]. This was mainly attributable to a successful growth in the number of current account customers. In the first half of 2017 there was also a limited outflow of customers following the discontinuation of the ZwitserlevenBank proposition.

Customer satisfaction levels generally developed well. The customer-weighted average of all brand-specific Net PromoterScores (NPS) reached a break-even level for the first time, and improved from -3 at year-end 2017 to 0. The NPS at ASN Bank, RegioBank and SNS improved once more. ASN Bank and RegioBank remained among the select group of Dutch banks with a positive NPS. SNS continued the steady trend towards a positive NPS; it now reported a -8, compared to -39 in 2013. The NPS at BLG Wonen remained stable.

Current accounts

Gross growth in the number of current account customers amounted to 81,000, a considerable increase compared to the first half of 2017 (71,000). This was mainly attributable to the success of creating a distinctive profile for our brands. In the first quarter of 2018, many consumers took action as a result of media attention for the banking sector. At 33,000, net growth lagged behind somewhat compared with the first half of 2017 (42,000) as a result of a 13,000 adjustment for inoperative current account customers. De Volksbank's market share in new current accounts increased to 23% (year-end 2017: 20%). This market share has been 20% or more since 2014, significantly higher than the market share of approximately 8%[3]on a total portfolio basis.

2 Current accounts with a balance of nil or lower and on which no customer-driven transaction has taken place for at least 13 months.

3 Based on the market share of all existing current accounts as of 1 January 2018: Gfk market research.

Mortgages

The market for new mortgages grew in the first half of 2018. The number of mortgage loans taken out dropped, but the average principal showed an increase of approximately 8%. Competition on the Dutch mortgage market for new retail mortgages continued to be fierce. In this market, the share of mortgage loans with a fixed-rate period of more than 10 years remained high at approximately 50%. In this segment, the share of mortgages with a term of more than 20 years rose compared to the first half of 2017.

De Volksbank's new mortgage production rose to € 2.9 billion, from € 2.6 billion in the first half of 2017. The market share in new retail mortgages rose to 7.5% (first half of 2017: 6.8%) and was thus higher than the market share on a total retail mortgage portfolio basis (6.5%), which is stable compared with year-end 2017.

Interest rate renewals amounted to nearly € 1.7 billion, a significant decrease compared to the first half of 2017 (€ 3.1 billion). Of these renewals, 30% was made up of early interest rate renewals (first half of 2017: nearly 40%). Compared with the first half of 2017, early renewals decreased as a large part of the portfolio had already been renewed in previous years. In the first half of 2017, regular interest rate renewals were higher because of the high mortgage production in 2007, predominantly mortgages with a fixed-rate period of 10 years.

The total level of repayments in the amount of € 2.1 billion was up marginally compared with the first half of 2017 (€ 1.9 billion), despite of a slight decrease in the number of people moving home. Contractual repayments gradually increased, in line with the changing composition of the mortgage portfolio, particularly reflected in an increase in annuity mortgages.

Thanks to the increased mortgage production and high level of customer retention, de Volksbank managed to grow its mortgage portfolio from € 45.9 billion at year-end 2017 to € 46.7 billion. The demand for mortgages with a fixed-rate period of more than 10 years remained high. At the end of June, € 8.3 billion of the portfolio consisted of this type of mortgage (18%), compared with € 8.0 billion (18%) at the end of 2017.

Savings

The Dutch retail savings market increased slightly to € 354 billion (+4%), from € 341 billion at year-end 2017. De Volksbank's retail savings balances increased to € 37.7 billion, compared with € 36.8 billion at year-end 2017. This translated into a slight decrease in the market share to 10.6%. SME savings, included in Other amounts due to customers, remained virtually stable at € 2.7 billion.

Financial results

Profit and loss account

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)	Change	2nd half 2017 (IAS 39)
Net interest income	455	476	-4%	448
Net fee and commission income	21	26	-19%	23
Other income	4	27	-85%	28
Total income	**480**	**529**	**-9%**	**499**
Operating expenses excluding regulatory levies	272	271	0%	289
Regulatory levies	29	28	4%	15
Total operating expenses	**301**	**299**	**1%**	**304**
Total expenses	**301**	**299**	**1%**	**304**
Impairment charges	-16	-20	20%	-4
Result before taxation	**195**	**250**	**-22%**	**199**
Taxation	46	63	-27%	57
Net result	**149**	**187**	**-20%**	**142**
Fair value movements former DBV mortgages and related derivatives	-	-1		14
Total incidental items	**-**	**-1**		**14**
Adjusted net result	**149**	**188**	**-21%**	**128**
Cost/income ratio[1]	56.7%	51.3%		57.9%
Adjusted cost/income ratio[2]	56.7%	51.2%		60.1%
Return on Equity (RoE)[3]	8.5%	10.5%		7.8%
Adjusted Return on Equity (RoE)[4]	8.5%	10.5%		7.0%
Net interest margin (bps)[5]	1.47%	1.55%		1.46%
Cost/assets ratio[6]	0.88%	0.88%		0.94%
Adjusted cost/assets ratio[7]	0.88%	0.88%		0.94%

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items
3 Net result / average month-end total equity for the reporting period.
4 Net result adjusted for incidental items / average month-end total equity for the reporting period.
5 Net interest income / average month-end total assets for the reporting period.
6 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.
7 Operating expenses adjusted for regulatory levies and incidental items (gross values) / average month-end total assets for the reporting period.

NET PROFIT

Net profit showed a decrease to € 149 million, compared to € 187 million in the first half of 2017 (-20%), almost wholly attributable to € 49 million lower total income (-9%).

Compared to the second half of 2017, net profit increased from € 142 million to € 149 million. The second half of 2017 included an incidental item related to fair value changes of former DBV mortgages and related derivatives of net € 14 million positive.

Net profit, adjusted for incidental items, increased to € 149 million, from € 128 million in the second half of 2017. This increase was mainly attributable to lower adjusted operating expenses and a higher net release of loan provisions.

Return on equity (RoE) was 8.5%, a decrease compared to the first half of 2017 (10.5%), as a result of a lower net profit.

The cost/income ratio stood at 56.7% (first half of 2017: 51.3%). This increase was attributable to lower total income.

As a result of the reclassification of the former DBV mortgages from fair value to amortised cost, volatility in the income statement on account of fair value changes of the DBV mortgage portfolio has been eliminated from 2018 onwards. In the first half of 2017, fair value changes of former DBV mortgages and related derivatives were € 1 million negative (second half of 2017: € 18 million positive).

Income
Breakdown income

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)	Change	2nd half 2017 (IAS 39)
Net interest income	455	476	-4%	448
Net fee and commission income	21	26	-19%	23
Investment income	-3	29	-110%	12
Result on financial instruments	7	-2	450%	15
Other operating income	-	-	0%	1
Total income	**480**	**529**	**-9%**	**499**
Fair value movements former DBV mortgages and related derivatives	-	-1		18
Adjusted income	**480**	**530**	**-9%**	**481**
Net interest margin (bps)	1.47%	1.55%		1.46%

In the first half of the year, total adjusted income fell by € 50 million to € 480 million, mainly driven by lower interest income and a swing in investment income.

Compared to the second half of 2017, total adjusted income decreased marginally by € 1 million. Lower investment income was almost entirely compensated by higher net interest income and a higher result on financial instruments (adjusted for fair value changes of the former DBV mortgages and related derivatives).

NET INTEREST INCOME
Net interest income decreased by € 21 million to € 455 million (-4%). Lower interest expenses on account of savings rate reductions partly compensated lower interest income from mortgages and higher interest expenses related to derivatives used to manage interest rate risk.

Lower income on mortgages was the result of (early) renewals in 2017 and the first half of 2018 at lower mortgage rates than before the moment of renewal. In addition, new mortgage production was concluded at substantially lower rates than the rates of mortgages repaid in the first half of 2018. These effects were partly compensated by the growth of the mortgage portfolio.

Higher interest rate expenses related to derivatives to manage interest rate risk were mainly attributable to the high new mortgage production and renewals at longer fixed-rate maturities and the full effect of a model improved in 2017 to estimate early repayments and interest rate renewals.

Finally, net interest income was positively impacted by a reclassification of distribution fees paid by RegioBank[4].

Lower net interest income is reflected in an interest margin that fell to 147 bps, compared to 155 bps in the first half of 2017.

Net interest income was higher compared to the € 448 million in the second half of 2017. This was mainly due to lower interest expenses as a result of a reduction in savings rates, an addition to non-credit risk provisions in the second half of the 2017 and a reclassification of distribution fees paid by RegioBank. On the other hand, interest income on mortgages was lower as a result of (early) interest rate renewals. In addition, new mortgage production in the first half of 2018 and the second half of 2017 was concluded at lower interest rates than mortgages repaid in the same period. Finally, interest expenses related to derivatives to manage interest rate risk were higher.
Compared to the second half of 2017, the interest margin remained almost stable.

NET FEE AND COMMISSION INCOME
Net fee and commission income decreased by € 5 million to € 21 million. This decline was the result of the reclassification of distribution fees paid by RegioBank and a release of a provision in the first half of 2017. This exceeded the increase in management fees received, driven by an increase in assets under management.

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4 In 2017, RegioBank changed its commission fee model from a savings balance-related model to a customer-related model. As a consequence, distribution fees paid are classified as fee and commission expenses instead of interest expenses. As 2017 was a transitional year, the full effect will be visible as from 2018. The modified classification has no impact on total income.

Net fee and commission income of € 21 million showed a slight decrease compared to the second half of 2017 (€ 23 million). This decline was the result of the reclassification of distribution fees paid by RegioBank. This more than offset the increase in management fees received.

INVESTMENT INCOME

Investment income fell by € 32 million to € 3 million negative, largely due to lower realised results on fixed-income investments, sold as part of asset and liability management and the optimisation of the investment portfolio. These results decreased from € 22 million positive to € 2 million negative. In both the first and second half of 2017, the results from the sale of bonds on account of risk management were relatively high. The negative result in the first half of 2018 was mainly related to the reduction in Italian fixed-income securities positions.

RESULT ON FINANCIAL INSTRUMENTS

The result on financial instruments was € 7 million positive, compared to € 2 million negative in the first half of 2017. Of this improvement, € 1 million is attributable to the fair value changes of former DBV mortgages and related derivatives. In addition, losses related to the revaluation of loans repurchased in previous years were higher in the first half of 2017.

The decrease in the result on financial instruments compared to the second half of 2017 is more than wholly attributable to fair value changes of former DBV mortgages and related derivatives of € 18 million positive in the second half of 2017.

Expenses

Operating expenses and FTE

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)	Change	2nd half 2017 (IAS 39)
Staff costs	200	187	7%	194
Depreciation of (in)tangible assets	11	10	10%	11
Other operating expenses	90	102	-12%	99
Total operating expenses	**301**	**299**	**1%**	**304**
Regulatory levies (other operating expenses)	29	28		15
Adjusted operating expenses	**272**	**271**	**0%**	**289**
Cost/income ratio	56.7%	51.3%		57.9%
Adjusted cost/income ratio	56.7%	51.2%		60.1%
Cost/assets ratio as a % of average assets	0.88%	0.88%		0.94%
Adjusted cost/assets ratio as a % of average assets	0.88%	0.88%		0.94%
FTE				
Total number of internal FTEs	3,155	3,288	-4%	3,231
Total number of external FTEs	771	673	15%	714
Total number of FTEs	**3,926**	**3,961**	**-1%**	**3,945**

Total operating expenses increased marginally by € 2 million to € 301 million. At € 29 million, regulatory levies were € 1 million higher than in the first half of 2017. Excluding regulatory levies, adjusted operating expenses also rose by € 1 million, to € 272 million.

Adjusted operating expenses were positively impacted by a swing from an addition of € 11 million to non-credit risk related provisions in the first half of 2017, to a € 1 million release in the first half of 2018, and further efficiency improvements. This was offset by increased costs for regulatory and compliance-related projects, wage inflation including higher social security costs, and costs related to increased commercial activities.

Compared to the second half of 2017, total adjusted operating expenses decreased by € 17 million to € 272 million owing to a swing in additions to non-credit risk related provisions, lower marketing costs and lower staff costs of internal employees.

Staff costs include a € 9 million addition to non-credit risk provisions, mainly consisting of additional reorganisation expenses in connection with further initiatives to simplify and improve our business operations.

This was more than compensated by a release of provisions of € 10 million in Other operating expenses, which was in particular related to provisions related to the compensation under the Uniform Recovery Framework pertaining to SME Interest Rate Derivatives. Before the end of 2017, de Volksbank sent all SME customers who have an interest rate derivative and are covered by the Uniform Recovery Framework (URF) a letter. Of these 212 customers, 76 received an offer of compensation. The remaining 136 customers have been informed that they are not eligible for compensation and/or recovery. The administrative processing and payment of compensation was largely completed in the first half of 2018.

Additions to provisions in the first half of 2017 were mostly related to additional restructuring and provisions related to protection against ATM explosive attacks.

Regulatory levies amounted to € 29 million, of which € 14 million was related to the resolution fund contribution (first half of 2017: € 10 million) and € 15 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution (first half of 2017: € 18 million). The resolution fund contribution increase reflects a higher contribution for all Dutch banks as the growth of the fund lagged behind the growth of covered deposits. The decrease in the ex-ante contribution to the DGS reflects the improvement of de Volksbank's underlying liquidity and solvency indicators.

Regulatory levies were € 14 million higher than in the second half of 2017, wholly attributable to the fact that the full annual contribution to the resolution fund is recognised in the first half of 2018.

Adjusted operating expenses divided by average total assets remained stable at 88 bps.

Compared to year-end 2017, the number of internal employees declined from 3,231 to 3,155 FTEs. This decline was due to the increased effects of efficiency and reorganisation measures.

The number of external employees rose by 57 FTEs to 771 FTEs, partly in connection with additional activities related to bringing back customer files from debt collection agencies, regulatory and compliance-related projects and personally approaching potentially vulnerable customers with an interest-only mortgage.

Breakdown impairment charges

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)	Change	2nd half 2017 (IAS 39)
Retail mortgage loans	-8	-18	56%	-3
Other retail loans	-2	1	-300%	5
SME loans	-7	-3	-133%	-6
Other	1	-	0%	-
Total impairment charges	**-16**	**-20**	**20%**	**-4**
Cost of risk total loans	-0.07%	-0.08%		-0.01%
Cost of risk retail mortgage loans	-0.03%	-0.08%		-0.02%
Cost of risk SME loans	-1.98%	-0.75%		-1.45%

The first half of 2018 saw a net release of provisions for loans of € 16 million under IFRS 9; the first half of 2017 saw a net release of € 20 million under IAS 39. In the second half of 2017, the release amounted to € 4 million. At the time, parameter adjustments of provisioning models led to additional provisions for Other retail loans. These included the introduction of minimum coverage ratios for impaired loans, rising linearly to 100% for retail loans 24 months or more in arrears.

The total net release of retail mortgage provisions amounted to € 8 million, which is equivalent to 3 bps of the gross outstanding retail mortgages. This release was due to the improved economic outlook in scenarios used to determine the loan loss provision, resulting in a decrease in stage 2 loans. In addition, there was a decrease in stage 3 (default) loans, due to improved economic conditions.

In the first half of 2017, the total net release of impairments on retail mortgages amounted to € 18 million, thanks to a substantial decrease in impaired retail mortgages as a result of improved macroeconomic conditions and a rise in house prices.

Impairment charges on Other retail loans resulted in a net release of € 2 million, largely attributable to lower debit balances on current accounts.

The net release of provisions on the SME loan portfolio amounted to € 7 million. Stage 2 loans decreased due to the improved economic outlook in scenarios used to determine the loan loss provisions, such as unemployment and the number of bankruptcies. Stage 3 loans also decreased, mainly due to a recovery of loans in default.

In the first half of 2017, the total net release of impairment charges on the SME loan portfolio amounted to € 3 million, due to a decrease in the impaired SME loan portfolio.

TAXES

At 23%, the effective tax burden was lower than the nominal rate of 25% as a result of a tax gain related to an adjustment of the tax result for 2016. In the second half of 2017, the effective tax burden was 29% as a result of an adjustment of the tax result for 2014 and 2015.

Risk, capital, funding and liquidity management

Credit risk

IFRS 9 in € millions	30 June 2018	1 January 2018
Retail mortgage loans[1]	46,726	45,846
Retail other loans	123	143
SME loans	753	791
Other commercial loans and loans to the public sector	2,726	2,667
Total loans and advances to customers[2]	**50,328**	**49,447**
CREDIT RISK INDICATORS		
Total loans and advances to customers		
Loans and advances in stage 3	759	862
Stage 3 ratio	1.5%	1.7%
Stage 3 coverage ratio	14.0%	14.0%
Retail mortgage loans		
Retail mortgage loans in stage 3	634	718
Stage 3 ratio	1.4%	1.5%
Stage 3 coverage ratio	7.6%	7.4%
In arrears	1.1%	1.4%
NHG guaranteed	30%	30%
Weighted average indexed LtV	72%	74%

1 Including IFRS value adjustments.

2 Gross carrying amounts.

Loans and advances to customers

Total gross loans and advances to customers rose by € 0.9 billion in the first half of 2018, which was almost completely caused by an increase in retail mortgages. Other retail loans and SME loans showed a limited decrease.

Thanks to favourable macroeconomic conditions, the strong housing market and continuous efforts of the Arrears Management department to help customers with financial problems, the risk profile of the loan portfolio improved compared to the end of 2017. The stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) dropped from 1.7% to 1.5%, at an unchanged coverage ratio of 14%. As a result, the provisions fell in the first half of 2018, from € 166 million as at 1 January 2018 to € 137 million at the end of June 2018.

In our key loan portfolio – retail mortgages – the favourable economic climate is reducing the number of customers running into financial problems, and rising house prices have a positive impact on the coverage of outstanding loans. Here, the stage 3 ratio dropped to 1.4% and the Loan-to-Value improved from 74% to 72%. Loans in arrears decreased from 1.4% of the portfolio to 1.1%.

Since 1 January 2018, we have been under an obligation to form loan loss provisions in accordance with the requirements of IFRS 9. These new guidelines make the provisions inherently more volatile, as anticipated macroeconomic developments must be included in the calculations.

Based on our risk models, we make monthly calculations for all our customers to estimate their risk of running into financial difficulties:

- Customers for whom no deterioration in creditworthiness is observed compared to when they assumed a debt obligation to us are placed in stage 1. This means that a 12-month 'expected credit loss' provision is formed.
- Customers who have shown a significant deterioration in creditworthiness compared to when they assumed a debt obligation to us must be placed in stage 2. Payment arrears between 30 and 90 days is such an example. A 'lifetime expected credit loss' provision is made for stage 2 items.

- Customers who are known to have financial stress on the measurement date, for example as a result of payment arrears of more than 90 days, are placed in stage 3. This means that a 'lifetime expected credit loss' provision is formed.

The stages are decisive for the calculation method and the amount of the provision to be made. However, payment arrears are not the only criterion for staging, it is possible that a customer is not yet in arrears but is placed on stage 2 or 3 based on other available information.

The application of these risk models results in a more volatile character of the provisions because the expected macroeconomic developments are taken into account in the calculation of both the 12-month and the lifetime expected credit losses.

RETAIL MORTGAGES

The share of stage 1 debts is relatively high in retail mortgages: 94.3%. New mortgage production and positive macroeconomic conditions resulted in an absolute increase in stage 1 retail mortgages in the first half of 2018. Stage 2 and 3 debts also moved to better stages. Stage 3 retail mortgages amounted to € 634 million at the end of June 2018. Provisions totalling € 48 million had been formed for this, which translated into a coverage ratio of 7.6% (beginning of 2018: 7.4%).

The debts of a limited group of customers with interest-only mortgages, who run a very high risk of being unable to repay their loans at the end of the term, have been placed in stage 3.

OTHER RETAIL LOANS

The percentage of stage 3 loans is relatively high in Other retail loans. This is partly caused by inoperative current accounts, which may create a negative balance due to continuous direct debits for product costs. The share of stage 3 debts is also relatively high for revolving credit. This portfolio is being phased out.

Other retail loans are unsecured, as a result of which they are almost fully provisioned: the stage 3 coverage ratio was 96.4% as at the end of June 2018 (beginning of 2018: 94.1%).

SME LOANS

The share of stage 1 debts in SME loans is smaller than in retail mortgages. We are nevertheless making every effort to also make more SME customers financially resilient and transfer them to stage 1. Hardly any new loans are provided in this segment, and in the first half of 2018 debts in all three stages decreased for that reason. Foreclosures resulted in a lower stage 3 volume, and debts also moved to better stages. The stage 3 volume dropped from € 110 million at the beginning of 2018 to € 97 million at the end of June 2018; the coverage ratio was 32.0% (compared to 32.7% at the beginning of 2018).

OTHER COMMERCIAL LOANS AND LOANS TO THE PUBLIC SECTOR

The portfolio of Other SME loans and Loans to the public sector is characterised by mostly secured loans and an extremely low credit risk profile. The majority of loans were placed in stage 1, as was the case at the beginning of 2018. This portfolio does not contain any loans and advances in stage 3.

Loans and advances to customers as at 30 June 2018 Reviewed [1]

IFRS 9 in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgage loans	43,706	-2	43,704	94.3%	0.0%
Retail other loans	82	-	82	66.7%	0.0%
SME loans	553	-1	552	73.4%	0.2%
Other commercial loans and loans to the public sector	2,524	-1	2,523	92.6%	0.0%
Total loans and advances to customers stage 1	**46,865**	**-4**	**46,861**	**93.8%**	**0.0%**
STAGE 2					
Retail mortgage loans	2,030	-11	2,019	4.4%	0.5%
Retail other loans	13	-1	12	10.6%	7.7%
SME loans	103	-8	95	13.7%	7.8%
Other commercial loans and loans to the public sector	202	-1	201	7.4%	0.5%
Total loans and advances to customers stage 2	**2,348**	**-21**	**2,327**	**4.7%**	**0.9%**
STAGE 3					
Retail mortgage loans	634	-48	586	1.4%	7.6%
Retail other loans	28	-27	1	22.8%	96.4%
SME loans	97	-31	66	12.9%	32.0%
Other commercial loans and loans to the public sector	-	-	-	0.0%	0.0%
Total loans and advances to customers stage 3	**759**	**-106**	**653**	**1.5%**	**14.0%**
TOTAL STAGE 1, 2 AND 3					
Retail mortgage loans	46,370	-61	46,309		0.1%
Retail other loans	123	-28	95		22.8%
SME loans[2]	753	-40	713		5.3%
Other commercial loans and loans to the public sector	2,726	-2	2,724		0.1%
Total loans and advances to customers stage 1, 2 and 3	**49,972**	**-131**	**49,841**		**0.3%**
IFRS value adjustments[3]	356	-	356		
Total loans and advances to customers	**50,328**	**-131**	**50,197**		**0.3%**
Off-balance sheet items[4]	2,601	-6	2,595		0.2%
Total maximum credit exposure loans and advances to customers	**52,929**	**-137**	**52,792**		**0.3%**

1 Tables marked 'Reviewed' are an integral part of the condensed consolidated interim financial statements and are part of the Independent auditor's review report.

2 Gross SME loans include mortgage-backed loans for a gross amount of € 679 million.

3 Consisting of fair value adjustments from hedge accounting and amortisations.

4 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Loans and advances to customers as at 1 january 2018 Reviewed [1]

IFRS 9 in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgage loans	42,366	-3	42,363	91.4%	0.0%
Retail other loans	92	-	92	74.8%	0.0%
SME loans	558	-1	557	74.1%	0.2%
Other commercial loans and loans to the public sector	2,394	-	2,394	87.8%	0.0%
Total loans and advances to customers stage 1	**45,410**	**-4**	**45,406**	**90.9%**	**0.0%**
STAGE 2					
Retail mortgage loans	2,467	-18	2,449	5.3%	0.7%
Retail other loans	17	-2	15	13.8%	11.8%
SME loans	123	-12	111	16.3%	9.8%
Other commercial loans and loans to the public sector	273	-1	272	10.0%	0.4%
Total loans and advances to customers stage 2	**2,880**	**-33**	**2,847**	**5.8%**	**1.1%**
STAGE 3					
Retail mortgage loans	718	-53	665	1.5%	7.4%
Retail other loans	34	-32	2	27.6%	94.1%
SME loans	110	-36	74	14.6%	32.7%
Other commercial loans and loans to the public sector	-	-	-	0.0%	0.0%
Total loans and advances to customers stage 3	**862**	**-121**	**741**	**1.7%**	**14.0%**
TOTAL STAGE 1, 2 AND 3					
Retail mortgage loans	45,551	-74	45,477		0.2%
Retail other loans	143	-34	109		23.8%
SME loans[2]	791	-49	742		6.2%
Other commercial loans and loans to the public sector	2,667	-1	2,666		0.0%
Total loans and advances to customers stage 1, 2 and 3	**49,152**	**-158**	**48,994**		**0.3%**
IFRS value adjustments[3]	295	-	295		
Total loans and advances to customers	**49,447**	**-158**	**49,289**		**0.3%**
Off-balance sheet items[4]	2,615	-8	2,607		0.3%
Total maximum credit exposure loans and advances to customers	**52,062**	**-166**	**51,896**		**0.3%**

1 Tables marked 'Reviewed' are an integral part of the condensed consolidated interim financial statements and are part of the Independent auditor's review report.

2 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million.

3 Consisting of fair value adjustments from hedge accounting and amortisations.

4 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Loans and advances to customers as at 31 December 2017

IAS 39 in € millions	Gross carrying amount[1]	Specific provision	IBNR pro-vision	Book value loans	Loans in arrears[2]	Non-default[2]	Default[2]	Loans in arrears	Impaired ratio	Coverage ratio
Remaining principle amounts	45,552	-44	-28	45,480	541	264	277	1.2%	0.6%	15.9%
IFRS value adjustments[3]	454			454						
Retail mortgage loans	**46,006**			**45,934**						
Retail other loans	142	-27	-1	114	37	3	34	26.1%	23.9%	79.4%
Total retail loans	**46,148**	**-71**	**-29**	**46,048**	**578**	**267**	**311**	**1.3%**	**0.7%**	**22.8%**
SME loans[4]	786	-47	-2	737	104	-	104	13.2%	13.2%	45.2%
Other commercial loans and loans to the public sector	2,674	-	-	2,674	-	-	-	-	-	-
Total loans and advances to customers	**49,608**	**-118**	**-31**	**49,459**	**682**	**267**	**415**	**1.4%**	**0.8%**	**28.4%**

1 Accrued interest was previously reported under line item 'Other assets'; as from 2018, accrued interest is reported under the line item to which it relates. Comparative figures for 2017 have been adjusted accordingly.

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

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

4 Gross SME loans include mortgage-backed loans for a gross amount of € 712 million.

Statement of changes in provisions for loans and advances to customers first half 2018 Reviewed [1]

in € millions	Retail mortgage loans	Retail other loans	SME loans	Other[2]	Off-balance positions[3]	Total
Closing balance 31 December 2017 IAS 39	72	28	49	-	-	149
Change in accounting policies IFRS 9	2	6	-	1	8	17
Opening balance 1 January 2018 IFRS 9	**74**	**34**	**49**	**1**	**8**	**166**
Changes due to change in credit risk	-5	1	-5	1	-2	-10
Originations and acquisitions	1	-	2	-	-	3
Derecognitions	-3	-1	-4	-	-	-8
Write-offs	-6	-6	-2	-	-	-14
Net increase	**-13**	**-6**	**-9**	**1**	**-2**	**-29**
Other changes	-	-	-	-	-	-
Closing balance 30 June 2018	**61**	**28**	**40**	**2**	**6**	**137**

1 Tables marked 'Reviewed' are an integral part of the condensed consolidated interim financial statements and are part of the Independent auditor's review report.
2 Other commercial loans and loans to the public sector.
3 Off-balance liabilities from irrevocable facilities, guarantees and repurchase commitments.

Statement of changes in provisions for loans and advances to customers first half 2017

in € millions	Retail mortgage loans	Retail other loans	SME loans	Other[1]	Off-balance positions[2]	Total
Closing balance 31 December 2016	114	26	74	-	-	214
Net additions and releases	-18	1	-3	-	-	-20
Write-offs	-14	-3	-4	-	-	-21
Net increase	**-32**	**-2**	**-7**	**-**	**-**	**-41**
Other changes	2	-	2	-	-	4
Closing balance 30 June 2017	**84**	**24**	**69**	**-**	**-**	**177**

1 Other commercial loans and loans to the public sector.
2 Off-balance liabilities from irrevocable facilities, guarantees and repurchase commitments.

Retail mortgage loans in arrears as at 30 June 2018 Reviewed [1]

IFRS 9 in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	43,706	43,660	46	-	-	0.1%
Stage 2	2,030	1,852	141	37	-	8.8%
Stage 3	634	364	58	68	144	42.6%
Subtotal	**46,370**	**45,876**	**245**	**105**	**144**	**1.1%**
IFRS value adjustments[2]	356	-	-	-	-	
Total	**46,726**	**45,876**	**245**	**105**	**144**	

1 Tables marked 'Reviewed' are an integral part of the condensed consolidated interim financial statements and are part of the Independent auditor's review report.
2 Consisting of fair value adjustments from hedge accounting and amortisations.

Retail mortgage loans in arrears as at 1 January 2018 Reviewed [1]

IFRS 9 in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	42,366	42,319	46	1	-	0.1%
Stage 2	2,467	2,190	237	40	-	11.2%
Stage 3	718	388	81	82	167	46.0%
Subtotal	**45,551**	**44,897**	**364**	**123**	**167**	**1.4%**
IFRS value adjustments[2]	295	-	-	-	-	
Total	**45,846**	**44,897**	**364**	**123**	**167**	

1 Tables marked 'Reviewed' are an integral part of the condensed consolidated interim financial statements and are part of the Independent auditor's review report.
2 Consisting of fair value adjustments from hedge accounting and amortisations.

Breakdown retail mortgage loans by LtV buckets

in € millions[1]	30-06-2018 (IFRS 9)		31-12-2017 (IAS 39)	
NHG[2]	**13,348**	**30%**	**13,184**	**30%**
LtV ≤ 75%	4,667	11%	4,320	10%
LtV >75 ≤100%	7,559	17%	7,299	17%
LtV >100 ≤110%	821	2%	1,129	3%
LtV >110 ≤125%	258	1%	381	1%
LtV > 125%	43	0%	55	0%
Niet-NHG	**30,820**	**70%**	**30,160**	**70%**
LtV ≤ 75%	17,427	39%	16,546	38%
LtV >75 ≤100%	10,444	24%	9,840	23%
LtV >100 ≤110%	1,932	4%	2,345	5%
LtV >110 ≤125%	726	2%	1,090	3%
LtV > 125%	291	1%	339	1%
Total	**44,168**	**100%**	**43,344**	**100%**
Weighted average indexed LtV	**72%**		**74%**	
Credit provisions	-61		-72	
IFRS value adjustments[3]	356		454	
Accrued interest	110		114	
Savings deposits	2,093		2,094	
Total retail mortgage loans	**46,666**		**45,934**	

1 LtV based on indexed market value of collateral.

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

3 Consisting of fair value adjustments of mortgages measured at fair value (2017), fair value adjustments from hedge accounting and amortisations.

Retail mortgage loans by redemption type

in € millions	30-6-2018 (IFRS 9)		31-12-2017 (IAS 39)	
Interest-only (100%)	12,035	26%	12,344	27%
Interest-only (partially)	12,643	27%	12,474	28%
Annuity	9,881	21%	8,571	19%
Investment	2,736	6%	2,896	6%
Life insurance[1]	4,310	9%	4,622	10%
Bank savings	3,237	7%	3,303	7%
Linear	938	2%	796	2%
Other	481	1%	432	1%
Total	**46,261**	**100%**	**45,438**	**100%**
Credit provision	-61		-72	
Accrued interest	110		114	
IFRS value adjustments[2]	356		454	
Total retail mortgage loans	**46,666**		**45,934**	

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 (2017), fair value adjustments from hedge accounting and amortisations.

Interest-only (100%) mortgages by LtV bucket

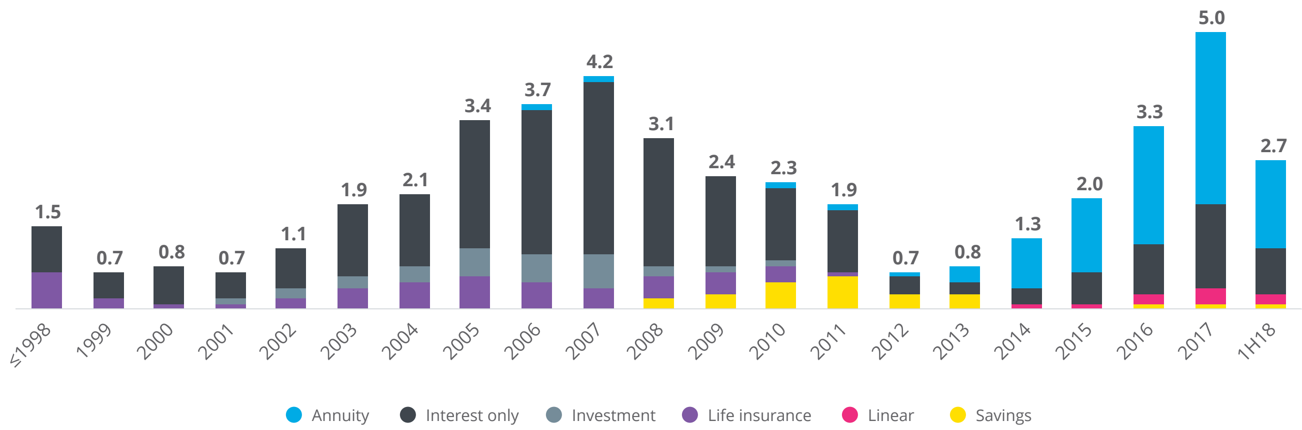
in percentages	30-6-2018	31-12-2017
LtV ≤ 75%	83%	81%
LtV >75 ≤ 100%	13%	14%
LtV >100 ≤ 110%	2%	3%
LtV >110 ≤ 125%	1%	1%
LtV > 125%	1%	1%
Total	**100%**	**100%**

Retail mortgage loans by remaining fixed-rate maturity

in € millions	30-6-2018 (IFRS 9)		31-12-2017 (IAS 39)	
Floating rate	2,549	5%	2,754	6%
≥ 1 and < 5-year fixed-rate	1,247	2%	1,331	3%
≥ 5 and < 10-year fixed-rate	4,506	10%	5,108	11%
≥ 10 and < 15-year fixed-rate	29,209	64%	27,810	61%
≥ 15-year fixed-rate	8,267	18%	8,001	18%
Other	483	1%	434	1%
Total	**46,261**	**100%**	**45,438**	**100%**
Credit provision	-61		-72	
Accrued interest	110		114	
IFRS value adjustments[1]	356		454	
Total retail mortgage loans	**46,666**		**45,934**	

1 Consisting of fair value adjustments of mortgages measured at fair value (2017), fair value adjustments from hedge accounting and amortisations.

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



1 The amounts in this chart include conversions of mortgages and exclude granted mortgages in progress, bridge loans, and 'extra ruimte' mortgages.

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

Interest rate risk banking book

De Volksbank aims for stable interest income, both in the short term and long term. As market rates are persistently low and are expected to rise only slowly, the interest rate risk has hardly changed compared to year-end 2017.

In interest rate risk management, the primary interest rate risk indicator is 'duration of equity'. The main interest income risk indicator for a one-year horizon is 'Earnings at Risk' (EaR).

As at the end of June 2018, the duration of equity stood at 1.6 (year-end 2017: 1.6). This indicator reflects the sensitivity to interest rate changes, taking into account all future cashflows expected to arise from the balance sheet at that time. A low duration of equity limits the sensitivity of the interest rate to interest rate changes. In the first half of 2018 we kept the equity duration at a low level. Stricter supervisory tests (Supervisory Outlier Test)[5] may affect our interest rate management. We will further investigate this over the coming period.

At the end of June 2018, the EaR amounted to € 82 million (year-end 2017: € 75 million). The EaR reflects the maximum impact on interest income in different scenarios over a one-year horizon.

Market risk

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

Non-financial risks

OPERATIONAL RISK

In the first six months, de Volksbank took important steps in further strengthening the risk organisation to control non-financial risks.
The project activities of the In-Control Framework (ICF) were transferred to the line organisation at year-end 2017.
Based on a comparative survey at other banks this year, the bank identified relevant points for improvement in the structure of the organisation and the ICF. These improvements will be incorporated in current and future improvement initiatives.
The incident registration and operational risk assessment process was further improved in the first half of 2018.

CYBER RESILIENCE

The cybercrime processes were professionalised in recent years. Partly because of this, interruption of services resulting from cyber attacks and system failure remained limited in the first half of 2018 and within the limits set by de Volksbank. The same goes for losses – for which customers are compensated – ensuing from phishing malware and skimming of debit cards and credit cards. The operation of the back-up facility of the main bank systems is tested periodically. It has been established that, after a disruption, all systems are operational within the required period of time.

CUSTOMER INTEGRITY, CRIME, FRAUD AND CORRUPTION

Following a direction issued by De Nederlandsche Bank (DNB), de Volksbank implemented control measures that continuously mitigate integrity risks in customer acceptance and transaction monitoring.
In April 2018, DNB concluded after an examination that de Volksbank is complying with the line of conduct provided in the direction. De Volksbank continuously takes measures to prolong adequate safeguarding of transaction monitoring in the organisation.
The implementation of the 4th EU Anti-Money Laundering Directive in Dutch regulations is delayed and is expected in the course of 2018. The bank annually adjusts its policy, including on the basis of these new regulations, to keep the management of integrity risks at the desired maturity level.

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[5] EBA Final Report on Guidelines on the management of interest rate risk arising from non-trading book activities, 19 July 2018.

Capital management

Capitalisation

CRR/CRD IV requirements as from 1 January 2018

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

1 Fully phased-in.

With effect from 1 January 2018, de Volksbank is required to meet a minimum total capital ratio of 13.13% (Overall Capital Requirement, OCR) at consolidated level, of which at least 9.63% consists of CET1 capital. The fully phased-in total capital ratio for de Volksbank is 14.0%, of which at least 10.5% consists of CET1 capital. This requirement follows from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB).

The background and structure of the capital requirements were explained in the 2017 Annual Report.

De Volksbank aims for a CET1 ratio of at least 15.0%, and a leverage ratio of at least 4.25%. Our objective for the CET1 ratio includes Pillar 2 Guidance and an ample management buffer, on top of the SREP requirement of 10.5%. The management buffer incorporates such aspects as the combined impact on our capital ratios of the final Basel III standards, also known as Basel IV, and the impact of stress testing.

Capitalisation

	CRD IV fully phased-in			CRD IV transitional	
in € millions	**30-06-2018**	**31-12-2017**	**30-06-2017**	**31-12-2017**	**30-06-2017**
Shareholders' equity	3,456	3,714	3,543[1]	3,714	3,543[1]
Non-eligible interim profits	-119	-226	-145	-226	-145
Non-eligible previous years' retained earnings	-	-20	-	-20	-
Shareholders' equity for CRD IV purposes	**3,337**	**3,468**	**3,398**	**3,468**	**3,398**
Cashflow hedge reserve	-32	-36	-40	-36	-40
Fair value reserve	-	-	-	-20	-20
Other prudential adjustments	-2	-3	-4	-3	-4
Total prudential filters	**-34**	**-39**	**-44**	**-59**	**-64**
Intangible assets	-10	-14	-14	-14	-14
IRB shortfall[2]	-47	-62	-40	-56	-36
Total capital deductions	**-57**	**-76**	**-54**	**-70**	**-50**
Total regulatory adjustments to shareholders' equity	**-91**	**-115**	**-98**	**-129**	**-114**
CRD IV CET 1 capital	**3,246**	**3,353**	**3,300**	**3,339**	**3,284**
Additional Tier 1 capital	-	-	-	-	-
Tier 1 capital	**3,246**	**3,353**	**3,300**	**3,339**	**3,284**
Eligible Tier 2	500	500	500	500	500
IRB shortfall[2]	-	-	-	-6	-4
Impact EBA interpretations CRR Article 82	-344	-329	-	-344	-
Tier 2 capital	156	171	500	150	496
Total capital	**3,402**	**3,524**	**3,800**	**3,489**	**3,780**
Risk-weighted assets	**9,452**	**9,781**	**10,060**	**9,781**	**10,060**
Risk exposure as defined by the CRR	62,013	60,350	60,215	60,345	60,207
CET1 ratio	**34.3%**	**34.3%**	**32.8%**	**34.1%**	**32.6%**
Tier 1 ratio	34.3%	34.3%	32.8%	34.1%	32.6%
Total capital ratio	36.0%	36.0%	37.8%	35.7%	37.6%
Leverage ratio	5.2%	5.6%	5.5%	5.5%	5.5%

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

2 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgage provision. In the transitional phase the shortfall (initially divided equally over Tier 1 and Tier 2 capital) is increasingly attributed to Tier 1 capital.

The table above shows the capitalisation at consolidated level.

Shareholders’ equity decreased by € 258 million to € 3,456 million in the first half of 2018, particularly as a result of the impact of IFRS 9 (€ 214 million) and the dividend payout for 2017 (€ 190 million), partly compensated by the net profit for the first half of 2018 (€ 149 million).

In order to determine shareholders’ equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders’ equity. After profit appropriation by the General Meeting of Shareholders (GMS) in April 2018, non-eligible (interim) profits as at the end of 2017 in the amount of € 226 million were added to the CET1 capital after deduction of the dividend payout of € 190 million, as were non-eligible retained earnings as at the end of 2017 of € 20 million from previous years.

Furthermore, net profit for the first quarter of 2018 was added to CET1 capital (€ 30 million) after deduction of 60% dividend reservation. The profit not yet eligible as CRD IV equity for 2018 amounts to € 119 million and consists of the dividend reservation on the net profit for the first quarter and the full net profit for the second quarter of 2018.

At the end of 2017, de Volksbank changed its accounting policy with respect to prepayment charges and interest rate averaging surcharges received for early mortgage repayments. As a result, the other reserve increased by € 20 million at year-end 2017, which also counted towards CET1 capital after the GMS of April 2018.

The implementation of IFRS 9 with effect from 1 January 2018 triggered a drop in shareholders’ equity for CRD IV purposes of € 214 million. This drop was the result of a reclassification of DBV mortgages from fair value to amortised cost (€ 120 million), a change of the measurement basis for part of the liquidity portfolio from ‘available for sale’ to ‘hold to collect’ (€ 80 million) and an increase in the loan loss provisions (€ 14 million).

In order to determine the CET1 capital under CRD IV, shareholders' equity was subject to a number of regulatory adjustments for CRD IV purposes until year-end 2017. Full phase-in applies with effect from 2018, with a weighting of 0% instead of 20% at year-end 2017. Total regulatory adjustments amounted to € 91 million at the end of June 2018 (2017: € 129 million, transitional) and consisted mainly of the cashflow hedge reserve and a deductible item under the IRB shortfall. In the first half of 2018, the cashflow hedge reserve decreased by € 4 million to € 32 million. In addition, the deductible item on account of the IRB shortfall dropped from € 56 million to € 47 million.

On balance, the CRD IV CET1 capital decreased by € 93 million to € 3,246 million.

The fully phased-in CET1 ratio was flat at 34.3% in the first half of 2018, driven by a decrease in both CET1 capital and risk-weighted assets (RWA). The CET1 ratio thus remained well above our target of at least 15%.

The CET1 capital at consolidated level is equal to the CET1 capital at solo bank level. The effective amount of Tier 2 capital at consolidated level is lower than at solo bank level as a result of the EBA interpretation of CRR Article 82 regulations for financial holding companies. At consolidated level, the haircut on Tier 2 capital that de Volksbank has issued to third parties is related to the surplus of available capital in relation to the minimum capital requirements. Based on the transitional OCR at solo bank level, the effective amount of Tier 2 capital as at the end of June 2018 was € 156 million at consolidated level versus € 500 million at solo bank level. We are investigating how we can mitigate the impact of the EBA interpretation.

The fully phased-in total capital ratio remained unchanged at 36.0%. Without the adjustment for the EBA interpretation, the total capital ratio would have been 39.6%.

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

LEVERAGE RATIO

The leverage ratio dropped from 5.5% at year-end 2017 (transitional) to 5.2%, driven by a decrease in CET1 capital (€ 93 million) and an increase in the leverage ratio denominator (€ 1.7 billion) in line with the balance sheet increase. The leverage ratio denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR).

The 5.2% leverage ratio was well above the regulatory requirements and our target of at least 4.25%. Under current regulations, the amount of capital necessary to meet the leverage ratio requirement is higher than the amount necessary to meet risk-weighted capital ratio requirements. This is the consequence of de Volksbank's focus on retail mortgages, a low-risk activity with a correspondingly low risk-weighting. After the full implementation of Basel IV, the amount of capital required to meet the leverage ratio target may be below the capital amount required to meet the risk-weighted targets.

Risk-weighted assets (RWA)

in € millions	30-06-2018	31-12-2017	30-06-2017
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based approach (IRB)	5,787	6,077	5,883
Credit risk - standardised approach (SA)	1,831	1,824	2,159
Operational risk	1,633	1,633	1,672
Market risk	27	44	71
Credit Valuation Adjustment (CVA)	174	203	275
Total	**9,452**	**9,781**	**10,060**

RWA decreased by € 329 million to € 9.5 billion. This decline was mainly caused by a € 290 million reduction related to the credit risk of the retail (non-SME) mortgage portfolio, calculated according to the Internal Ratings Based (IRB). The decrease was mainly driven by a further improvement of this portfolio's credit quality as a result of improved economic conditions, which is reflected in lower probabilities of default (PDs) and loss given defaults (LGDs). The average risk weighting (RWA density) of retail mortgages declined from 13.5% at year-end 2017 to 12.7%.

The RWA for credit risk calculated under the Standardised Approach (SA), including the RWA for SME mortgages remained almost stable at € 1.8 billion. RWA for operational risk, market risk and Credit Valuation Adjustment together decreased by € 46 million to € 1.8 billion.

Developments in capital requirements

BCBS

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV. Based on the balance sheet position at the end of the first half of 2018, we estimate that our RWA will increase by approximately 40%[6] due to these changes, and that our CET1 ratio will decrease by approximately 9.5 %-points. The largest effect comes from the output floor (72.5% phased-in) on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal rating approach based on PHIRM[7].

We had previously indicated that - following the Basel IV introduction - our RWA would increase by approximately 35% based on the balance sheet position at the end of 2017. The difference with our new estimate of 40% is mainly driven by a decrease in the average risk weighting of retail mortgages as at 30 June 2018. As a result of this, the impact of the Basel IV output floor will be relatively higher.

The decrease in the CET1 ratio following the Basel IV introduction, on the basis of an estimate as at 30 June 2018, is higher than the previously indicated 8% due to the relatively greater impact on our RWA, in combination with a decrease in CET1 capital compared with year-end 2017.

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

If the final Basel IV regulations are implemented in European legislation without change, we estimate that, on the basis of our balance sheet position at the end of June 2018, our CET1 ratio under the fully-phased-in Basel IV framework will still exceed our minimum objective of 15%. This will allow us to both continue our growth path and pay out dividend.

TARGETED REVIEW OF INTERNAL MODELS

As de Volksbank uses models developed internally, the bank is part of the Targeted Review of Internal Models (TRIM) carried out by the supervisory authority. It is a project that assesses such aspects as the degree of compliance with laws and regulations, the modelling technique used, including data lineage, and the model's applicability to the portfolio concerned. The final review report has not given de Volksbank a reason to expect any significant impact on the bank's RWA.

IFRS 9

As from 1 January 2018 de Volksbank is required to apply the IFRS 9 Classification and Measurement and the IFRS 9 Expected Credit Loss (ECL) impairment requirements. As from 1 January 2018, the DBV mortgages have been reclassified from fair value to amortised cost. The classification is now in line with our other mortgages and the volatility in the income statement related to the DBV mortgage portfolio has been fully eliminated. The reclassification had a negative impact on IFRS equity and CET1 capital of € 120 million (after tax).

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

Finally, the transition to expected loss recognition under IFRS 9 resulted in an increase in loan loss provisions. This had a negative impact on IFRS equity of € 14 million (after tax) and due to the decrease of the IRB shortfall, a negative effect of € 11 million on CET1 capital.
These changes had a total impact of approximately -2%-points on the CET1 ratio and of -0.3%-points on the leverage ratio.

Gone-concern capital: MREL

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

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6 Starting from (1) loan-splitting for retail mortgages, (2) the application of NHG as credit risk-mitigating measure, and (3) the assumption that 90% of the retail mortgages meets the document requirements.

7 Particuliere Hypotheken Interne Rating Model (Internal Rating Model for Retail Mortgages)

At the beginning of February 2017, the Single Resolution Board (SRB) informed us that it supports the designation of de Volksbank as the resolution entity. On 6 June 2018, the SRB set the MREL for de Volksbank at 8.0% of total liabilities and shareholders' equity.
The SRB also decided that de Volksbank must comply with the MREL on 1 January 2020 at the latest. Furthermore, the BRRD and the SRB's MREL policy require that the MREL of de Volksbank – as an Other Systemically Important Institution (O-SII) – must consist of subordinated instruments for at least 15.5% of the RWA.

On 23 November 2016, the EC proposed to amend the BRRD by including a new asset class of non-preferred senior debt (Senior Non-Preferred (SNP) notes). These notes will be subordinated to other senior bonds, but will receive preference to Tier 2 bonds. The EU approved this proposal in late 2017 and an amendment of Dutch insolvency law must therefore be implemented by the second half of 2018.

MREL

in € millions	30-6-2018	30-6-2017	30-6-2017	Minimum requirement
CET1 capital	3,246	3,339	3,284	
Tier 2 capital	500	494	496	
Total capital	**3,746**	**3,833**	**3,780**	
Other eligible unsecured liabilities with remaining maturity of more than 1 year	1,632	1,435	1,027	
Total capital including other eligible liabilities	**5,378**	**5,268**	**4,807**	
Exposure as defined by the BRRD (MREL)	61,196	59,499	59,552	
Risk-weighted assets	9,452	9,781	10,060	
MREL BRRD				
MREL (Total capital including other eligible liabilities)	8.8%	8.9%	8.1%	8.0%[1]
MREL RISICOGEWOGEN ACTIVA				
MREL (Total capital)	39.6%	39.2%	37.6%	15.5%

1 As from 1-1-2020

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

Including total capital and all other unsecured liabilities that are MREL eligible according to the current BRRD, the non-risk-weighted MREL ratio was 8.8% (year-end 2017: 8.9%). The eligible liabilities rose by € 110 million to € 5,378 million. On the one hand, this is the result of the issue of € 500 million in senior unsecured debt in June 2018. On the other hand, in the first half of 2018 de Volksbank decided on the SRB's instructions that € 0.2 billion in structured unsecured debts would be disregarded in the determination of MREL-eligible liabilities for the time being. Furthermore, the exposure measure as defined by the BRRD rose. The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,746 million), both subordinated to other outstanding liabilities, amounted to 39.6% (year-end 2017: 39.2%).

Current views on future subordination requirement regulations have led de Volksbank to apply the basic assumption in its capital planning that the minimum non-risk-weighted MREL requirement of 8% must fully consist of subordinated liabilities on 1 January 2024 (Tier 1 capital, Tier 2 capital and SNP notes). Given this point of departure and based on our current capital position, we expect to issue SNP notes totalling € 1.0 to € 1.5 billion in the next few years. De Volksbank is closely monitoring the developments concerning a potential MREL subordination requirement and will adjust its capital planning if necessary.

Dividend

De Volksbank has set a dividend payout target range of 40% - 60% of net adjusted result. Given its solid capital position, de Volksbank has paid out a dividend of € 190 million for 2017 to NLFI. This implies a payout ratio of 60%, at the top of the target range we use. We expect to pay out a 60% dividend for 2018, too.

Liquidity and funding

Liquidity

In the first half of 2018, de Volksbank maintained a strong liquidity position that amply complied with both its internal targets and regulatory requirements.

Key liquidity indicators

	30-06-2018	31-12-2017	30-06-2017
LCR	156%	177%	195%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio	105%	107%	103%
Liquidity buffer (in € millions)[1]	15,343	10,751	12,058

1 As of June 2018, the definition of the liquidity buffer has been changed. In addition to the cash position, the liquidity buffer consists of (highly) liquid assets for which it is now determined which unencumbered ECB-eligible bonds will be registered in the DNB collateral pool in ten days, because a ten-day horizon is also used for the cash position. We determine the liquidity value of the bonds in the liquidity buffer on the basis of the market value of the bonds after application of the haircut determined by the ECB. Comparative figures have been adjusted accordingly.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum requirement of 100%. The LCR stood at 156% as at 30 June 2018.

The ratio between loans outstanding and deposits attracted (the Loan-to-Deposit ratio) dropped from 107% at year-end 2017 to 105%, which was caused by a growth in deposits that exceeded the growth in loans:
- Deposits grew by € 1.4 billion, mainly as a result of an increase in retail savings;
- Loans increased by € 0.7 billion, driven by growth in retail mortgages.

Liquidity buffer composition

in € millions	30-06-2018	31-12-2017	30-06-2017
Cash position[1]	4,240	3,753	3,314
Sovereigns	1,046	1,759	2,563
Regional/local governments and supranationals	819	850	805
Other liquid assets	426	421	377
Eligible retained RMBS	8,812	3,968	4,999
Liquidity buffer[2]	**15,343**	**10,751**	**12,058**

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

2 As of June 2018, the definition of the liquidity buffer has been changed. In addition to the cash position, the liquidity buffer consists of (highly) liquid assets for which it is now determined which unencumbered ECB-eligible bonds will be registered in the DNB collateral pool in ten days, because a ten-day horizon is also used for the cash position. We determine the liquidity value of the bonds in the liquidity buffer on the basis of the market value of the bonds after application of the haircut determined by the ECB. Comparative figures have been adjusted accordingly.

The liquidity buffer remained high in the first half of 2018 and rose from € 10.8 billion at year-end 2017 to € 15.3 billion.

In the first half of 2018, the cash position increased by € 0.5 billion to € 4.2 billion. The funding need, which mainly resulted from € 0.9 billion retail mortgage growth and the € 0.5 billion wholesale funding redemptions, was more than satisfied by cash inflows.

The liquidity value of other liquid assets in the liquidity buffer rose from € 7.0 billion at year-end 2017 to € 11.1 billion:
- The amount of sovereign debts in the liquidity buffer declined by € 0.7 billion, mainly due to a higher use of sovereign debts as collateral for (repo) transactions. Repo transactions supported the cash position at the end of June 2018;
- The liquidity value of eligible retained Residential Mortgage Backed Securities (RMBS) increased by € 4.8 billion as a maturing transaction was replaced by a transaction of significantly greater size. Furthermore, eligible retained RMBS were released as collateral compared to year-end 2017.

As at 30 June 2018, the volume of the short-term cash management investments outside the cash position definition amounted to € 0.6 billion (year-end 2017: € 0.5 billion). These investments are also available as short-term liquid assets.

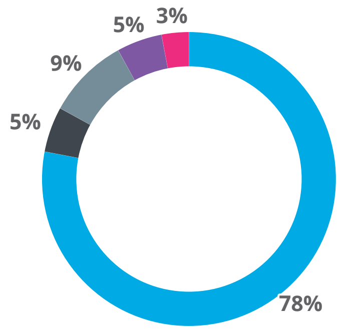
Funding

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

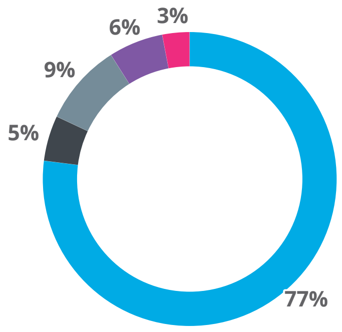
Through different brands, term deposits, savings deposits and current account balances are attracted from retail customers. In addition, funding takes place through savings balances and current account balances from SME customers. In the first half of 2018, funding from customers increased to € 47.3 billion, from € 45.9 billion at year-end 2017.

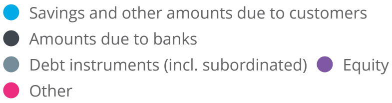
The diagrams below provide an overview of the composition of the total liabilities as at 30 June 2018 and year-end 2017 based on the book value. The percentage of our funding that is made up of savings and other amounts due to customers rose from 77% at year-end 2017 to 78%.

Equity and liability mix 30 June 2018: € 62.5 billion



Equity and liability mix 31 December 2017: € 61.6 billion





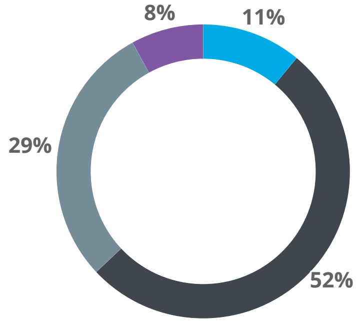
In the first half of 2018, de Volksbank successfully executed a number of wholesale funding transactions, namely:

- € 0.5 billion in senior unsecured debt with a maturity of 5 years;
- € 0.5 billion in (public) covered bonds with a maturity of 10 years;
- € 150 million in covered bonds (private placement transactions) with a maturity of 15-20 years.

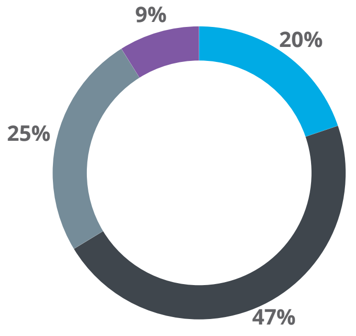
In addition to the financing transactions executed, the wholesale funding mix changed in the first half of 2018 (from € 5.8 billion to € 6.4 billion), primarily due to the redemption of:

- debt certificates under the Holland Homes Oranje securitisation (€ 0.4 billion);
- senior unsecured funding (€ 0.1 billion).

Wholesale funding mix 30 June 2018: € 6.4 billion [1]



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

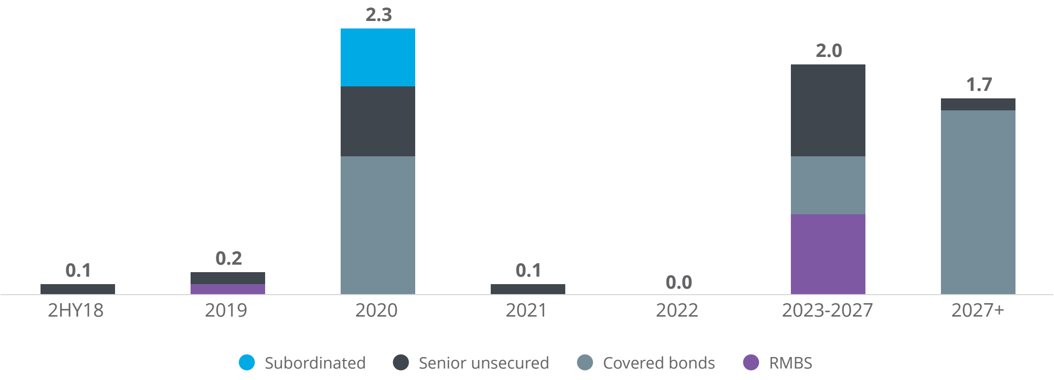


RMBS
Covered bonds
Senior unsecured
Subordinated

1 The figures present an overview of the outstanding wholesale funding with an original maturity of more than one year as from 30 June 2018 and year end 2017. In the balance sheet, such wholesale funding is recognised under debt certificates, amounts due to banks and other amounts due to customers. The information presented is based on the nominal value of the (hedged) positions. This nominal value differs from the IFRS measurement in the balance sheet, which is predominantly based on amortised cost.

The figure below presents an overview of the outstanding wholesale funding maturities with an original term to maturity of more than one year as at 30 June 2018. It is assumed that this funding will be redeemed on the first possible dates. In the second half of 2018, we expect to mainly issue covered bonds to meet our wholesale funding needs.

Wholesale funding maturities (in € billions)



Responsibility statement

Pursuant to section 5:25d, paragraph 2(c), of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* (Wft), the members of the Board of Directors state that to the best of their knowledge:

- The condensed consolidated interim financial statements, for the six months period ending on 30 June 2018, give a true and fair view of the assets, liabilities, size and composition of equity, financial position and profit or loss of de Volksbank N.V. and the companies included in the consolidation; and
- The Interim Financial Report, for the six months period ending on 30 June 2018, gives a true and fair view of the information required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of de Volksbank N.V. and the companies included in the consolidation.

Utrecht, 22 August 2018

THE BOARD OF DIRECTORS

Maurice Oostendorp, Chief Executive Officer

Annemiek van Melick, Chief Financial Officer

Jeroen Dijst, Chief Risk Officer

Alexander Baas, Chief Operations Officer

Condensed consolidated interim financial statements

Consolidated balance sheet

Before result appropriation and in € millions	30-6-2018	31-12-2017
ASSETS		
Cash and cash equivalents	3,114	2,180
Derivatives	898	1,075
Investments	5,331	5,094
Loans and advances to banks	2,373	2,643
Loans and advances to customers	50,197	49,459
Tangible and intangible assets	76	81
Tax assets	214	132
Other assets	331	228
Total assets	**62,534**	**60,892**
EQUITY AND LIABILITIES		
Savings	37,674	36,756
Other amounts due to customers	10,835	10,306
Amounts due to customers	**48,509**	**47,062**
Amounts due to banks	2,859	2,683
Debt certificates	5,378	4,920
Derivatives	1,091	1,252
Tax liabilities	20	45
Other liabilities	598	590
Provisions	112	125
Subordinated debts	511	501
Total liabilities	**59,078**	**57,178**
Share capital	381	381
Other reserves	2,926	3,004
Retained earnings	149	329
Shareholders' equity	**3,456**	**3,714**
Total equity and liabilities	**62,534**	**60,892**

Consolidated income statement

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)
INCOME		
Interest income	801	736
Interest expense	346	260
Net interest income	**455**	**476**
Fee and commission income	54	51
Fee and commission expenses	33	25
Net fee and commission income	**21**	**26**
Investment income	-3	29
Result on financial instruments	7	-2
Total income	**480**	**529**
EXPENSES		
Staff costs	200	187
Depreciation and amortisation of tangible and intangible assets	11	10
Other operating expenses	90	102
Impairment charges	-16	-20
Total expenses	**285**	**279**
Result before taxation	**195**	**250**
Taxation	46	63
Net profit attributable to shareholder	**149**	**187**

Consolidated statement of other comprehensive income (OCI)

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)
ITEMS THAT ARE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedgereserve	-4	-4
Change in fair value reserve	1	-36
Total items that are subsequently reclassified to profit or loss	**-3**	**-40**
Other comprehensive income (after tax)	**-3**	**-40**

Total comprehensive income for the period attributable to shareholder

in € millions	1st half 2018 (IFRS 9)	1st half 2017 (IAS 39)
Net profit	149	187
Other comprehensive income (after tax)	-3	-40
Total comprehensive income for the period	**146**	**147**

Condensed consolidated statement of changes in equity

Condensed consolidated statement of changes in equity

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 2017	381	3,787	4	44	132	-1,136	349	3,561
Transfer of 2016 net result	-	-	-	-	-	214	-214[3]	-
Other comprehensive income	-	-	-	-4	-36	-	-	-40
Net result for the period	-	-	-	-	-	-	181	181
Total result for the period	**-**	**-**	**-**	**-4**	**-36**	**214**	**-33**	**141**
Transactions with shareholder	-	-	-	-	-	-	-135[4]	-135
Total changes for the period	**-**	**-**	**-**	**-4**	**-36**	**214**	**-168**	**6**
Balance as at 30 June 2017 (IAS 39)	**381**	**3,787**	**4**	**40**	**96**	**-922**	**181**	**3,567**
Other comprehensive income	-	-	2	-4	2	-1	-	-1
Net result for the period	-	-	-	-	-	-	148	148
Total result for the period	**-**	**-**	**2**	**-4**	**2**	**-1**	**148**	**147**
Transactions with shareholder	-	-	-	-	-	-	-	-
Total changes for the period	**-**	**-**	**2**	**-4**	**2**	**-1**	**148**	**147**
Balance as at 31 December 2017 (IAS 39)	**381**	**3,787**	**6**	**36**	**98**	**-923**	**329**	**3,714**
Change in accounting policies	-	-	-	-	-80	-134	-	-214
Balance as at 1 January 2018 (IFRS 9)	**381**	**3,787**	**6**	**36**	**18**	**-1,057**	**329**	**3,500**
Transfer of 2017 net result	-	-	-	-	-	139	-139[3]	-
Other comprehensive income	-	-	-	-4	-	1	-	-3
Net result for the period	-	-	-	-	-	-	149	149
Total result for the period	**-**	**-**	**-**	**-4**	**-**	**140**	**10**	**146**
Transactions with shareholder	-	-	-	-	-	-	-190[4]	-190
Total changes for the period	**-**	**-**	**-**	**-4**	**-**	**140**	**-180**	**-44**
Balance as at 30 June 2018 (IFRS 9)	**381**	**3,787**	**6**	**32**	**18**	**-917**	**149**	**3,456**

1 The issued share capital is fully paid-up and comprises of 840,008 ordinary shares with a nominal value of € 453.79 per share
2 The revaluation reserve consists of revaluations of property in own use
3 This is the result after dividend payment deduction
4 Dividend paid out to de Volksholding

Condensed consolidated cashflow statement

in € millions	1st half year 2018 (IFRS 9)	1st half year 2017 (IAS 39)
CASHFLOW FROM CONTINUED OPERATIONS		
Cash and cash equivalents as at 1 January	2,180	2,297
Net cashflow from operating activities	899	-1,342
Net cashflow from investment activities	-319	534
Net cashflow from financing activities	354	1,643
Cash and cash equivalents as at 30 June	**3,114**	**3,132**

Notes to the condensed consolidated interim financial statements

Accounting principles

General information

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

The condensed consolidated interim financial statements of de Volksbank comprise financial information of all entities controlled by de Volksbank including its interests in associates. The condensed consolidated interim financial statements were prepared by the Board of Directors and approved by the Supervisory Board on 22 August 2018.

Basis of preparation

STATEMENT OF IFRS COMPLIANCE

De Volksbank prepares the condensed consolidated interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union (EU).

MAIN ACCOUNTING PRINCIPLES FOR FINANCIAL REPORTING

The accounting principles applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting principles applied in the preparation of de Volksbank's financial statements for the year ended 31 December 2017. Changes in standards and interpretations affecting the 2018 accounting principles are described in the following section.

CHANGES IN PUBLISHED STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2018

IFRS 15 is effective as of 1 January 2018. IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. However, the requirements of IFRS 15 shall not apply to contracts that fall within the scope of the lease standard or financial instruments standard.

De Volksbank has applied IFRS 9 since 1 January 2018. A further explanation of the impact of IFRS 9 on de Volksbank's accounting principles is included in the section 'IFRS 9'. Comparative figures have not been adjusted in response to the application of IFRS 9.

The IFRS 15 standard is effective as from 1 January 2018. IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. However, the requirements of IFRS 15 do not apply to contracts that fall within the scope of the lease standard or financial instruments standard.

In addition, in 2018 the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), respectively, became mandatory. They were adopted by the European Union and are applicable in the current financial year:

- Annual improvements to IFRS standards 2014-2016 cycle
- Amendments to IFRS 2
- Amendments to IAS 40
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

With the exception of IFRS 9, none of the above amendments affect the condensed consolidated interim financial statements.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE IN 2018

The main change in standards and interpretations that may have a material impact on these condensed consolidated interim financial statements is discussed below. This new Standard has been issued by the IASB, but is not yet effective for these condensed consolidated interim financial statements.

IFRS 16 Leases

IFRS 16, the new standard for leases will become effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between "operational" and "financial lease" for lessees. It requires lessees to recognise nearly all leases on the balance sheet, which will reflect their right to use an asset for a period of time and the associated liability for future payments. The impact of IFRS 16 on the financial statements is expected to be limited.

Changes in accounting policies, estimates and presentation

CHANGE IN PRESENTATION

The interest accrued on assets and liabilities was previously reported under the item Other assets or Other liabilities. These have been reclassified to the corresponding asset or liability with effect from 2018.
With effect from 2018, ‘deferred tax assets’ or as the case may be 'deferred tax liabilities' and 'corporation tax' have been merged in the item 'tax assets' or as the case may be 'tax liabilities'.
With effect from 2018, ‘property and equipment’ and ‘intangible assets’ have been merged in the item ‘tangible and intangible assets’.
For all of the above changes in presentation, the comparative figures have been adjusted accordingly.

IFRS 9

This section describes the changes related to the application of IFRS 9 as of 1 January 2018.

CLASSIFICATION AND MEASUREMENT

For financial assets, IFRS 9 distinguishes the accounting policies amortised cost, fair value through equity and fair value through profit or loss. The accounting policy depends on the business model that incorporates the financial asset and the cashflow characteristics. IFRS 9 distinguishes three different objectives that a business model may have:

1. Hold to Collect (‘HTC’): the underlying objective is achieved by collecting contractual cashflows from corresponding financial assets until maturity, unless specific circumstances arise;
2. Hold to Collect and Sell (‘HTCS’): both contractual cashflows are collected and assets are sold in the interim to achieve the underlying objective;
3. Other: this includes trading portfolios that are mainly managed based on buy and sell transactions.

In addition to the above business model analysis, the classification and measurement of financial assets are determined on the basis of the cashflow characteristics of individual instruments. In this respect, a distinction is made between standard loan agreements and other instruments. The cashflows from a standard loan agreement solely consist of interest payments and principal repayments (‘Solely Payments of Principal and Interest’, or SPPI). Interest payments must be pure compensation for the time value of money, credit risk and other customary basis risks, such as liquidity risk surcharges and costs.
Derivative contracts are measured at fair value, irrespective of their underlying business model.

A financial asset is measured at amortised cost if it is held as part of the HTC business model and the SPPI criteria are met. Amortised cost is determined using the effective interest method less any impairment losses.

Financial assets held as part of the HTCS business model that meet the SPPI criteria are measured at fair value through equity. Financial assets in this category are subsequently measured at fair value less any impairment losses. Unrealised gains and losses resulting from fair value adjustments are recognised in total comprehensive income.

Financial assets held as part of the Other business model and financial assets that do not meet the SPPI criteria are measured at fair value through profit or loss. Realised and unrealised gains and losses are recognised directly in the income statement.

IFRS 9 transition accounting allows de Volksbank to reconsider the treatment of a part of the mortgage portfolio, the DBV mortgages, historically elected to be accounted for at fair value. As a result, de Volksbank has decided to change the measurement basis to amortised cost, resulting in a step down from fair value to amortised cost on 1 January 2018. De Volksbank also changed the measurement basis for part of its liquidity portfolio, as a result of which the measurement basis under IFRS 9 for part of its liquidity portfolio is amortised cost.

The impact of IFRS 9 on the classification and measurement of financial liabilities is limited.

IMPAIRMENTS

IFRS 9 replaces the incurred loss models under IAS 39, broadening the scope of the impairment requirements. Under IFRS 9 de Volksbank records expected credit loss provisions for credit exposures measured at amortised cost and fair value through OCI, including expected credit losses on loan commitments and financial guarantee contracts (off-balance sheet positions). This is done using Expected Credit Loss (ECL) models.

A three-stage model is used under IFRS 9. In stage 1, credit exposures are recognised that have shown no significant deterioration of credit risk since initial recognition and a 12-month expected loss is determined. Credit exposures that show a significant deterioration of credit risk relative to initial recognition but that are not credit impaired are recognised in stage 2. A lifetime expected loss is determined for credit exposures in stage 2. Credit exposures that are credit impaired are recognised in stage 3; a lifetime expected loss is determined for these credit exposures as well.

De Volksbank distinguishes the following specific portfolios for which loan loss provisions are determined under IFRS 9:

- Retail mortgage loans
- Financial markets exposures

- Private and sustainable loans of the ASN Bank brand ('ASN portfolio')
- SME loans
- Other retail loans

Various techniques were used for the individual portfolios to arrive at the ECL models.

HEDGE ACCOUNTING

The IFRS 9 standard provides users with the option of starting to apply the IFRS 9 hedge accounting rules or to continue to apply the IAS 39 hedge accounting rules. De Volksbank has decided to continue to apply the IAS 39 hedge accounting requirements as from 1 January 2018.

QUANTITATIVE IMPACT

Reclassification of financial assets (1)

	Measurement category		Carrying amount		
in € millions	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
FINANCIAL ASSETS					
Cash and cash equivalents	Loans and receivables	Amortised cost	2,180	2,180	-
Loans and advances to banks	Loans and receivables	Amortised cost	2,643	2,643	-
Loans and advances to customers - Former DBV mortgages[1]	Fair value through P&L	Amortised cost	1,688	1,527	-161
Loans and advances to customers - Other	Loans and receivables	Amortised cost	47,634	47,626	-8
Derivatives - Trading	Fair value through P&L	Fair value through P&L	264	264	-
Derivatives - Hedging	Fair value through P&L	Fair value through P&L	690	690	-
Derivatives - Asset and liability management	Fair value through P&L	Fair value through P&L	121	121	-
Investments - Available for sale - HTCS business model	Available for sale	Fair value through OCI	4,932	2,172	-2,760
Investments - Available for sale - HTC business model[1]	Available for sale	Amortised cost	-	2,651	2,651
Investments - Held for trading	Fair value through P&L (held for trading)	Fair value through P&L	162	162	-

1 De Volksbank opted for reclassification.

Reclassification of financial assets (2)

in € millions	Carrying amount IAS 39 as at 31-12-2017	Remeasurement: IAS 39 carrying amount[1]	Remeasurement: Increase in provisions	Carrying amount IFRS 9 as at 1-1-2018	Impact on retained earnings
FINANCIAL ASSETS					
Cash and cash equivalents	2,180	-	-	2,180	-
Loans and advances to banks	2,643	-	-	2,643	-
Loans and advances to customers - Former DBV mortgages[2]	1,688	-160	-1	1,527	-120
Loans and advances to customers - Other	47,634	-	-8	47,626	-7
Derivatives - Trading	264	-	-	264	-
Derivatives - Hedging	690	-	-	690	-
Derivatives - Asset and Liability management	121	-	-	121	-
Investments - Available for sale - HTCS business model	4,932	-2,759	-1	2,172	-80
Investments - Available for sale - HTC business model[3]	-	2,652	-1	2,651	-1
Investments - Held for trading	162	-	-	162	-
Off-balance sheet commitments			-8		-6

1 In addition to the IFRS 9 classification and measurement adjustments, de Volksbank reclassified its accrued interest for financial assets from other assets to the balance sheet item to which the accrued interest relates as from 1 January 2018. This adjustment is not included in above table.

2 The effective interest rate of the reclassified former DBV mortgages determined on 1 January 2018 is 4.65%. The interest revenue in the first half year of 2018 is € 4.4 million. The fair value of the reclassified DBV mortgages as per 30 June 2018 is € 1,566 million. The fair value loss that would have been recognised in profit or loss during the reporting period, if the DBV mortgages would not had been reclassified, is € 12.8 million after tax.

3 The fair value of the reclassified liquidity portfolio as per 30 June 2018 is € 2,691 million. The fair value loss that would have been recognised in other comprehensive income during the reporting period, if the liquidity portfolio would not had been reclassified, is € 6.3 million after tax.

The reclassification of DBV mortgages from fair value to amortised cost had a negative impact on IFRS equity and CET1 capital of € 119 million (after tax) as at 1 January 2018. As a result of the reclassification, the volatility in the income statement related to the DBV mortgage portfolio is fully eliminated.

The change in measurement basis of part of the liquidity portfolio had a negative impact on IFRS equity and CET1 capital of € 80 million (after tax) as at 1 January 2018.

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

Impact first adoption of IFRS 9 on equity

in € millions	Carrying amount IAS 39 as at 31-12-2017	Remeasurement	Increase in loan loss provisions	Carrying amount IFRS 9 as at 1-1-2018
Issued share capital	381	-	-	381
Share premium reserve	3,787	-	-	3,787
Revaluation reserve	6	-	-	6
Cashflow hedge reserve	36	-	-	36
Fair value reserve	98	-80	-	18
Other reserves	-923	-120	-14	-1,057
Retained earnings	329	-	-	329
Total equity	**3,714**	**-200**	**-14**	**3,500**

As of 1 January 2018 the reclassification of the DBV mortgages from fair value to amortised cost has a negative impact on IFRS equity and CET1 capital of € 119 million (after tax). As a result of the reclassification, the current volatility for value adjustments in the income statement related to the DBV mortgage portfolio will be eliminated.

The change in measurement for part of the liquidity portfolio has a negative impact on IFRS equity and CET1 capital of € 80 million (after tax).

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

Impact first adoption of IFRS 9 on provisions

in € millions	Balance IAS 39 as at 31-12-2017	Change due to reclassification	Increase in provisions	Balance IFRS 9 as at 1-1-2018
Loans and advances at amortised cost	148	1	9	158
Debt instruments at fair value through other comprehensive income	-	-	1	1
Loan commitments and financial guarantee contracts	-	-	8	8
Total	**148**	**1**	**18**	**167**

First time adoption of IFRS 9 does not impact the IAS 37 provisions.

Staging provisions for loans and advances

in € millions	Opening balance IFRS 9 as at 1-1-2018
Stage 1	6
Stage 2	33
Stage 3	121
Off-balance sheet posten	8
IFRS 9 provisions as at 1 January 2018	**168**

Notes to consolidated statement of financial position and consolidated income statement

Debt certificates

On 23 May 2018, de Volksbank issued a new securitisation named Lowland 5 in the amount of € 5,027 million.

On 25 June 2018, de Volksbank issued senior unsecured debt certificates in the amount of € 500 million.

Covered bond programme

On 8 March 2018, new bonds were issued in the amount of € 500 million under the covered bond programme.

Impairment charges

Under Financial results, an explanation is given of the impairment charges (see table Breakdown impairment charges) and for more information about provisions of loans and advances to customers see Credit risk (see reviewed tables).

Related parties

As part of its business operations, de Volksbank frequently enters into transactions with related parties. Parties related to de Volksbank include de Volksholding, SNS REAAL pension fund, associates, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State, the Board of Directors, the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities. Loans and advances to the Board of Directors, the Supervisory Board and close family members, where applicable, consist mainly of residential mortgages granted under standard personnel conditions. For further information see note 21 of the Annual financial statements 2017.

Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships. Normal banking transactions relate to loans and deposits, financial assets held for trading, financial investments – available for sale, and are entered into under the same commercial and market terms that apply to non-related parties.

On 30 June 2018 the subsidiary Holland Woningfinanciering N.V. legally merged with de Volksbank N.V. The merger has no impact on equity or result.

During the first half year of 2018 a final dividend of € 190 million was paid to de Volksholding (first half year 2017: € 135 million).

Update legal proceedings

INQUIRY PROCEEDINGS

In the inquiry proceedings of the *Vereniging van Effectenbezitters* (Dutch Investors' Association), a hearing of the parties regarding the petition for an inquiry took place on 8 June 2017 before the Enterprise Chamber. The Enterprise Chamber rendered judgment on 26 July 2018. The Enterprise Chamber has ordered an inquiry at SRH (formerly SNS REAAL) and at de Volksbank (formerly SNS Bank) for the period from 1 July 2006 to 1 February 2013.

INTEREST DERIVATIVES

Before the end of 2017, de Volksbank sent all SME customers who have an interest rate derivative and are covered by the Uniform Recovery Framework (URF) a letter. Of these 212 customers, 76 received an offer of compensation. The remaining 136 customers have been informed that they are not eligible for compensation and/or recovery. The administrative processing and payment of compensation was largely completed in the first half of 2018. There are also new insights into the further settlement of the URF. As a result, the provision in the first half of 2018 decreased to € 3 million as at 30 June 2018.

Update EC commitments

In 2013, the European Commission imposed a number of conditions and restrictions on de Volksbank within the scope of the nationalisation of SNS REAAL (currently SRH N.V.). These conditions and restrictions were laid down in the so-called Restructuring Plan and applied until the end of the restructuring period on 31 December 2017. The European Commission has now announced that it is satisfied with the manner in which the Volksbank has implemented the Restructuring Plan and has accordingly also confirmed the end of the restructuring period.

Post balance sheet events

In April 2018 de Volksbank signed a contract with ICS to issue and manage new credit cards for our brands SNS, ASN Bank and RegioBank. To transfer the existing contracts of SNS customers (approximately € 3 million on balance and € 80 million off balance), the contract will be signed in July 2018. The migration of the SNS portfolio will take place in the second half of this year.

On 18 July 2018, de Volksbank redeemed the debt certificates issued under Lowland 2 securitisation programme.

De Volksbank reached an agreement with Quadia S.A. and the current management of ASN Vermogensbeheer on the sale of ASN Vermogensbeheer. The transaction has no material impact on the equity and results of de Volksbank.

Fair value of financial instruments

Fair value accounting of financial assets and liabilities

The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. The total of the fair value presented below does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the allocation in the fair value hierarchy, which is discussed in the 'Hierarchy in determining the fair value of financial instruments' section. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below. De Volksbank determines the fair value hierarchy for all financial instruments at any reporting moment.

For financial assets and liabilities measured at amortised cost, the fair value is provided including accrued interest.

Hierarchy financial instruments as at 30 June 2018

IFRS 9 in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments- fair value through P&L	41	41	-	-	41
Investments - fair value through OCI[1]	2,098	2,092	-	6	2,098
Derivatives	898	-	825	73	898
Loans and advances to customers[2]	-	-	-	-	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised costs[1]	3,192	2,817	449	-	3,266
Loans and advances to customers	50,197	-	-	52,760	52,760
Loans and advances to banks	2,373	-	-	-	2,373
Other assets	331	-	-	-	331
Cash and cash equivalents	3,114	-	-	-	3,114
Total financial assets	**62,244**	**4,951**	**1,274**	**52,840**	**64,882**
Financial liabilities measured at fair value					
Derivatives	1,091	-	1,015	76	1,091
Debt certificates[2]	-	-	-	-	-
Financial liabilities not measured at fair value					
Subordinated debts	511	-	530	-	530
Debt certificates	5,378	-	-	5,504	5,504
Savings	37,674	-	34,770	3,401	38,172
Other amounts due to customers	10,835	-	10,985	-	10,985
Amounts due to banks	2,859	-	2,863	-	2,863
Other liabilities	598	-	-	-	598
Total financial liabilities	**58,947**	**-**	**50,163**	**8,981**	**59,742**

1 Since the introduction of IFRS 9, a part of the Investments which were measured at available for sale under IAS 39, are remeasured at amortised cost.

2 Since the introduction of IFRS 9, the part of the Loans and advances to customers and of the Debt certificates which were measured at fair value under IAS 39, are remeasured at amortised cost.

Hierarchy financial instruments as at 31 December 2017

IAS 39 in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through P&L: held for trading	162	162	-	-	162
Investments - available for sale	4,932	4,761	154	17	4,932
Derivatives	1,075	-	992	83	1,075
Loans and advances to customers[1]	1,688	-	-	1,688	1,688
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Loans and advances to customers[1]	47,771	-	-	50,231	50,231
Loans and advances to banks	2,643	-	-	-	2,643
Other assets	228	-	-	-	228
Cash and cash equivalents	2,180	-	-	-	2,180
Total financial assets	**60,679**	**4,923**	**1,146**	**52,019**	**63,139**
Financial liabilities measured at fair value					
Derivatives	1,252	-	1,083	169	1,252
Debt certificates[1]	443	-	-	443	443
Financial liabilities not measured at fair value					
Subordinated debts	501	-	534	-	534
Debt certificates[1]	4,477	-	-	4,442	4,442
Savings	36,756	-	34,002	3,250	37,252
Other amounts due to customers	10,306	-	10,306	-	10,387
Amounts due to banks	2,683	-	2,683	-	2,681
Other liabilities	590	-	-	-	590
Total financial liabilities	**57,008**	**-**	**48,608**	**8,304**	**57,581**

1 Part of the Loans and advances to customers and Debt certificates is measured at fair value and the remaining part at amortised cost.

Notes to the valuation of financial assets and liabilities

The following techniques and assumptions have been used to determine the fair value of financial instruments.

INVESTMENTS

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, credit quality and maturity of the relevant investment.

LOANS AND ADVANCES TO CUSTOMERS

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, Loan-to-Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

DERIVATIVES

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model to determine their fair value. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

LOANS AND ADVANCES TO BANKS

Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

OTHER ASSETS

Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

CASH AND CASH EQUIVALENTS
The book value of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

SUBORDINATED DEBT
The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by de Volksbank or the entity within the Volksbank Group whose contractual obligation it is, differentiated to maturity and type of instrument.

DEBT CERTIFICATES
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank.

AMOUNTS DUE TO CUSTOMERS
The fair value of readily available savings and term deposits differs from the nominal value because the interest is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. De Volksbank's Internal Funds Price-curve (IFTP) was used for savings not covered by the DGS.

AMOUNTS DUE TO BANKS
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

OTHER LIABILITIES
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

HIERARCHY IN DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

MORE DETAILED EXPLANATION OF THE LEVEL CLASSIFICATION
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

LEVEL 1 – FAIR VALUE BASED ON PUBLISHED STOCK PRICES IN AN ACTIVE MARKET
For all financial instruments in this valuation category, stock prices are observable and publically available from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds.

LEVEL 2 – FAIR VALUE BASED ON OBSERVABLE MARKET DATA
The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have been issued by brokers, but which are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

LEVEL 3 – FAIR VALUE NOT BASED ON OBSERVABLE MARKET DATA
A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

Te financial instrument is placed or moved in a certain level on the basis of the aforementioned definitions.

Changes hierarchy financial assets and liabilities

Change in level 3 financial instruments measured at fair value for the 1st half 2018

IFRS 9 in € millions	Fair value through OCI	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	17	1,688	83	169	443
Change in accounting policy	-	-1,688	-	-	-443
Unrealised gains or losses recognised in P&L[1]	-	-	-10	-88	-
Unrealised gains or losses recognised in OCI[2]	-10	-	-	-	-
Change in accrued interest	-	-	-	-5	-
Sale/settlements	-1	-	-	-	-
Closing balance	**6**	**-**	**73**	**76**	**-**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 1st half 2017

IAS 39 in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	22	1,850	141	247	526
Unrealised gains or losses recognised in P&L[1]	-	-21	-28	-39	3
Unrealised gains or losses recognised in OCI[2]	2	-	-	-	-
Change in accrued interest	-	-	-	-1	-
Sale/settlements	-1	-65	-	-	-46
Other	-1	-	-	-	-
Closing balance	**22**	**1,764**	**113**	**207**	**483**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 2nd half 2017

IAS 39 in € millions	Available for sale	Loans and advances to customers	Derivatives assets	Derivatives liabilities	Debt certificates
Opening balance	22	1,764	113	207	483
Unrealised gains or losses recognised in P&L[1]	-	9	-28	-37	-1
Unrealised gains or losses recognised in OCI[2]	-	-	-	-	-
Change in accrued interest	-	-	-2	-1	-
Sale/settlements	-6	-85	-	-	-39
Other	1	-	-	-	-
Closing balance	**17**	**1,688**	**83**	**169**	**443**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Sensitivity of level 3 valuations of financial instruments

Level 3 financial instruments are largely valued using a net discounted cashflow method in which expectations and projections of future cashflows are discounted to a present value on the basis of market data. The models use market observable information, such as yield curves, or information that is not observable in the market, such as assumptions about certain credit risk surcharges or assumptions about customer behaviour. The valuation of a level 3 instrument may change significantly as a result of changes in these assumptions.

Sensitivity non-observable parameters financial instruments level 3 as at 30 June 2018

IFRS 9 in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
Assets					
Loans and advances to customers	Discounted cashflows	Discount curve	-	-	-
		Pre-payment rate	-	-	-
Derivatives	Discounted cashflows	Discount curve	73	6	6
		Pre-payment rate	73	2	-
LIABILITIES					
Debt certificates	Discounted cashflows	Discount curve	-	-	-
		Pre-payment rate	-	-	-
Derivatives	Discounted cashflows	Discount curve	76	4	4
		Pre-payment rate	76	4	4

As a result of the introduction of IFRS 9 on 1 January 2018, loans and advances to customers are no longer reported at fair value as of this date.

A change in the prepayment assumption of -1% has a positive impact on the value of the derivates of € 2 million. With a 1% higher prepayment assumption the negative impact is nil. In addition, a lower discount assumption of 0.5% has a positive impact of € 6 million and a higher discount assumption of 0.5% has a negative impact of € 6 million on the value of the derivates.

Sensitivity non-observable parameters financial instruments level 3 as at 31 December 2017

IAS 39 in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
Assets					
Loans and advances to customers	Discounted cashflows	Discount curve	1,688	33	31
		Pre-payment rate	1,688	7	7
Derivatives	Discounted cashflows	Discount curve	83	8	8
		Pre-payment rate	83	3	3
LIABILITIES					
Debt certificates	Discounted cashflows	Discount curve	443	-	-
		Pre-payment rate	443	-	-
Derivatives	Discounted cashflows	Discount curve	169	5	5
		Pre-payment rate	169	5	5

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to pre-payment rate adjustments.

The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of the discount curve.

The level 3 derivatives relate to securitisation transactions. There is a relationship between the fair values. This is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programmes Hermes, Pearl and Lowland, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-to-back by de Volksbank.

Transfers between categories

No movements occured during 2017, nor during the first half year of 2018.

Independent auditor's review report

To: the board of directors and supervisory board of de Volksbank N.V.

INTRODUCTION

We have reviewed the accompanying condensed consolidated interim financial statements of de Volksbank N.V., Utrecht, set out on pages 35 to 48, which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement, the consolidated statement of other comprehensive income (OCI), the total comprehensive income for the period attributable to the shareholder, the condensed consolidated statement of changes in equity, and the condensed consolidated cashflow statement for the six-month period then ended, and the related notes, comprising a summary of the significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 22 August 2018

Ernst & Young Accountants LLP

signed by A.B. Roeders

General information

About de Volksbank

GENERAL

De Volksbank is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 62.5 billion and 3,155 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. www.asnbank.nl

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

BLG WONEN

BLG Wonen is a financial services 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 advisers. www.blg.nl

Products: mortgages, savings, insurance and investments.

REGIOBANK

RegioBank is de Volksbank's regional bank format to which some 530 independent advisers 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. www.regiobank.nl

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

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 adviser at home or at one of our almost 200 SNS Shops, or via the mobile channel. www.snsbank.nl

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

Disclaimer

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