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Progress report on strategy adopted by de Volksbank

NL Financial Investments

September 2017

NL financial investments

Contents

Summary and conclusions

In its ‘Advisory report on the future direction of SNS Bank’ published in June 2016, NLFI concluded that there is a widespread interest in the future strategic position of de Volksbank being that of a safe retail bank offering simple, transparent and fairly priced financial products, operating on the basis of an operationally excellent business model and delivering a competitive dividend yield. To achieve this, the bank has to undergo a transition, which has been incorporated into the ‘Spot On’ strategic plan. You have accepted this advisory report. In your letter to the House of Representatives dated 1 July 2016[1] (‘Toekomst SNS Bank’ - ‘Future of SNS Bank’), you asked NLFI to report once a year on the progress of the strategic plan adopted by de Volksbank and on how ready de Volksbank is for an exit so that a decision about its future can be taken. By submitting this letter, NLFI complies with that request.

Last year, it was decided that the bank would be given two to three years in which to bring about the aforementioned transition. The transition will include the following elements as a minimum:

- Optimising the interests of stakeholders (‘Shared Value’ strategy);
- Strengthening de Volksbank’s identity as a ‘social bank’;
- Lowering the cost structure;
- Improving risk management;
- Making further adjustments to the range of products and standardising production processes;
- Possible adjustment and streamlining of the bank’s capital structure on the basis of future regulations (Basel IV, IFRS 9 and MREL); and
- Becoming a ‘smart adopter’ of innovation.

During the past year, de Volksbank worked on executing this strategy. The bank’s identity was strengthened further (pillar 1 of the strategic programme). In addition, the first steps towards making the organisation simpler and more efficient were taken (pillar 2). The bank formed provisions and made investments to enable sustainable cost reductions in future. De Volksbank also made the innovation organisation simpler and more efficient (pillar 3), so that it can operate more effectively as a ‘smart adopter’. Specific efforts are being made to develop a number of propositions. Efforts have also been made to improve risk management, although further implementation is required.

The bank’s mission in the area of strengthening its identity, lowering the cost level permanently, improving risk management and standardising production processes has been translated into a number of long-term targets. Thanks to the efforts made by de Volksbank during the past year, the variables are generally in line with the projections in Spot On, and/or are moving in the right direction towards the long-term target. At the same time, achieving the medium-term targets, which are ambitious on the whole, will still require a relatively major effort on the part of management.

With regard to pillar 2 of the strategy (simplicity and efficiency), de Volksbank is working to reduce costs and simplify production processes. These measures and various planned measures will lead to further, sustainable cost reductions in the next few years.

[1] Parliamentary Papers, House of Representatives, session year 2015-2016, 33532, no. 61.

To bring about simplicity and efficiency, de Volksbank's risk management needs to be improved in the area of non-financial risks. The bank has already taken a number of measures in the area of risk management that will result in improvements to the general risk profile. That said, NLFI cannot yet give an opinion on the extent to which these improvements will continue to be made in the next few years.

NLFI is of the opinion that de Volksbank is not yet ready for an exit. The further implementation of Spot On and the adjustment of the bank's capital structure based on the new capital requirements known in the market as 'Basel IV' and the MREL obligations[2] are crucial for optimum long-term value creation. The implementation of the strategy comes on top of measures aimed at reducing non-financial risks, such as improving internal control, transaction monitoring and data management. These risks must be managed properly to ensure the implementation of the strategic plan is successful. Addressing these combined challenges will take some time and demand much attention from management. The bank has made a good start on this, but it will certainly need the remainder of the original two to three-year period to bring about optimum long-term value creation before any decision can be made on a possible privatisation.

[2] The MREL (minimum own funds and eligible liabilities) obligations relate to improving the resolvability of banks in the event of a bank rescue. In connection with this, a predetermined portion of the liabilities side of the balance sheet of a systemically important bank must consist of equity and financial instruments of sufficient loss-absorbing capacity to allow for the required recapitalisation of the bank in a resolution scenario.

1. Introduction

This letter constitutes the report of Stichting administratiekantoor beheer financial instellingen (NLFI) to the Minister of Finance on the progress made with the strategic plan adopted by de Volksbank[3], as requested in your letter of 1 July 2016 to the House of Representatives[4] ('Toekomst SNS Bank' - 'Future of SNS Bank').

When drafting this letter, NLFI used the objects clause in NLFI's articles of association as guidance. In exercising its statutory mandate and the rights attached to the shares it holds, NLFI is guided primarily by the financial and economic interests of the State, taking into account the interests of the company, the entities affiliated with it and the employees concerned.

In accordance with NLFI's statutory objective, as laid down in the enabling act (*Wet stichting administratiekantoor beheer financial instellingen*, or NLFI Act), NLFI has advised you about de Volksbank's strategy and its future options. In its 'Advisory report on the future of SNS Bank' published in June 2016, NLFI stated that there is a widespread interest in the future strategic position of de Volksbank being that of a safe retail bank offering simple, transparent and fairly priced financial products, operating on the basis of an operationally excellent business model and delivering a competitive dividend yield.

In its advisory report, NLFI concluded that de Volksbank needed more time to gain a strong position in the Dutch banking landscape and was not yet ready for an exit. This was related to uncertainty about the extent to which the capital structure needs to be adjusted to reflect the bank's future capital requirements, while at the same efforts to improve operational efficiency needed to be started. NLFI believed that if de Volksbank's strategic plan – known as Spot On – were executed successfully, the bank could, in time, position itself strategically as a simple retail bank with a low risk profile and is (or seeks to be) efficient. NLFI believes that Spot On will have to be executed over a period of two to three years (starting from mid-2016) in order to bring about optimum long-term value creation. In any event, during this period the bank has to build up a good track record in the area of cost reductions and generate an adequate dividend yield, based on a balance sheet comprising safe assets and a solid liquidity and capital structure.

In your letter 'Toekomst SNS Bank' ('Future of SNS Bank') dated 1 July 2016, you asked NLFI to report once a year on the progress of the implementation of the improvements under the strategic plan and on how ready de Volksbank is for an exit, so that a decision can be taken about its future and the House of Representatives can be informed. By submitting this letter, NLFI complies with this request. Moreover, this letter describes NLFI's current perspective on whether de Volksbank has met the four preconditions for an exit that were formulated by your predecessor.[5] In doing so, it satisfies the European Commission's requirement for an annual assessment of market conditions to determine

[3] On 1 January 2017, SNS Bank N.V. changed its name as given in the articles of association to De Volksbank N.V. In this report, the name 'SNS Bank' is used in references to advisory opinions, letters to Parliament and so on from the period prior to 2017, otherwise the name 'de Volksbank' is used.
[4] Parliamentary Papers, House of Representatives, session year 2015-2016, 33532, no. 61.
[5] Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117.

whether de Volksbank could be privatised. This requirement stems from the restructuring plan in the context of the nationalisation of SNS REAAL.[6]

In its 'Advisory report on the future direction of SNS Bank', NLFI concluded that the implementation of de Volksbank's strategy is in line with the Van Hijum/Nijboer motion on safeguarding the utility character of de Volksbank as passed by the House of Representatives[7]. In addition, NLFI stated that the execution of the desired improvement plan does not result in irreversible measures being taken or options being precluded in respect of future ownership structures. Accordingly, this letter does not deal in detail with the Merkies/Nijboer motion on conducting an investigation into having de Volksbank remain in State hands[8].

[6] European Commission - The Netherlands – Restructuring Plan SNS REAAL 2013, C(2013) 9592, 19 February 2013, available online: http://ec.europa.eu/competition/state_aid/cases/249726/249726_1544400_217_2.pdf
[7] Parliamentary Papers, House of Representatives, session year 2015-2016, 34346.
[8] Parliamentary Papers, House of Representatives, session year 2015-2016, 34346.

2. Current situation regarding strategy adopted by de Volksbank and results for 2016 and H1 2017

2.1 Introduction

NLFI stated last year that de Volksbank was faced with a number of operational and structural challenges. The primary reasons for the existence of these challenges are upward pressure on the costs incurred by de Volksbank – partly due to higher regulatory costs and the split-off from the SNS REAAL group), the currently extremely low interest rates, which result in pressure on the margins and volumes, and uncertainty about the capital structure due to the uncertain effects of, among other things, the new regulations resulting from the completion of the Basel III agenda, known in the market as 'Basel IV'.[9] Addressing these challenges is crucial if de Volksbank is to have a lasting future. De Volksbank's 'Spot On' strategic programme is tailored to this situation. NLFI has assessed de Volksbank's strategic plan and determined that the bank, by successfully implementing it, will meet the principles of low risk profile and high efficiency.

During the past year, the bank continued to work on implementing the strategy. This chapter describes the initial results and several measures taken by management in the interim.

2.2 Execution of strategic programme and other measures

De Volksbank seeks to optimise its compound return while taking the interests of the four groups of stakeholders (customers, employees, the shareholder and society as a whole) into account. The bank's strategic plan has been structured in such a way that it improves upon the principle of 'Shared Value'.

During the past year, de Volksbank continued to put the Spot On strategic programme into effect. The strategic programme has three pillars. 1) strengthening the identity of de Volksbank, 2) simplifying and enhancing efficiency, and 3) developing an innovation profile as a 'smart adopter' of technology.

The bank's identity has been strengthened by changing the company's name so that it is more in keeping with the desired profile of the bank as a whole. The brands of de Volksbank (SNS, ASN Bank, RegioBank and BLG Wonen) focus on different target groups. The profiles of these brands are being more clearly differentiated, and at the same time the social objectives are being increased across the board. In addition, new social customer propositions are being developed through the brands developed in response to customer needs[10].

During the past year, de Volksbank continued to put the 'simplicity and efficiency' element of its strategic plan into practice by performing a bottom-up analysis of cost savings measures. In addition, a value chain analysis was performed in order to identify customer needs, possibilities for specific cost savings and the most efficient way to meet customer needs. The analysis led to the validation of the results of the cost savings measures already been planned for the coming years in the Spot On

[9] The term 'Basel IV' is used in this report.
[10] Examples of this were referred to in the "Interim financial report - press release" of de Volksbank published on 24 August 2017

programme. De Volksbank has already announced a number of concrete initiatives for improving and monitoring efficiency, including initiatives relating to straight through processing, digitalisation, support functions, IT processes and moderation of the remuneration policy. Based on management's current understanding of the trend in income, the plans could lead to the workforce being reduced by some 900 FTEs, with reductions being divided roughly equally between the bank's own employees and temporary staff, and the number of senior managers would also be affected[11]. De Volksbank has stated, however, that this is not a firm objective imposed from above; the required reduction in the workforce is evaluated every year.

The efforts to increasing efficiency included in de Volksbank's strategic plan received a boost last year in the form of the legal merger between SNS Bank N.V., ASN Bank N.V. and RegioBank N.V. on 31 December 2016, as part of which the name of the surviving company was changed to de Volksbank N.V. This merger was prompted by an amendment to the Dutch Civil Code concerning the disclosure requirements of company financial statements, which would have had undesirable consequences for the bank's organisation. In addition, the merger is in keeping with the aim of regulators and supervisory authorities to centralise relationships within financial institutions, thus making them less complex. The separate banking licences held by ASN Bank and RegioBank were terminated as a result of the legal merger; these banks now operate under de Volksbank's banking licence. The SNS and BLG Wonen brands were already covered by the banking licence of SNS Bank N.V. As a consequence, as of 31 December 2016 the four brands (BLG Wonen, ASN Bank, RegioBank and SNS) have operated under the joint banking licence. The legal merger also means that all the assets and liabilities of ASN Bank and RegioBank were recognised in de Volksbank's company financial statements as at 31 December 2016. In the new situation, ASN Bank and RegioBank are managed as business units, just as SNS and BLG Wonen are. The merger therefore avoided a permanent increase in costs relating to risk management and external reporting by the individual companies.

During the past year, De Volksbank worked on developing its innovation profile as a 'smart adopter' of technology in line with the third pillar of Spot On. The main focus during the past year was on improving the internal organisation surrounding innovation by centralising all knowledge and expertise. Furthermore, there are processes under way for the adoption of new developments in the area of fintech, which may result in structural improvements in the treatment of customers, in the product innovation process and in services (e.g. the development of a PSD2 proposition, the implementation of a data platform for customers, and cognitive computing aimed at further improving mortgage processes).

De Volksbank has translated its strategic programme into a number of long-term objectives. First, the targets were converted into objectives within the framework of the 'Shared Value' concept.

- To measure benefits for customers, the bank chiefly uses the Net Promoter Score (NPS). Its target for 2020 is a customer-weighted NPS of +10. [12] Furthermore, the increase in current

[11] In the first half of 2017, de Volksbank decided to simplify its management structure. As a consequence of this, the number of senior management positions will be reduced to approximately 30 by 2020. The members of the management team have been informed about the new structure.

[12] The Net Promoter Score is a general measure of customer satisfaction. To determine this score, customers are asked how likely they are to recommend de Volksbank's services to others. The score is calculated by subtracting the percentage of customers giving a low score (detractors) from the percentage giving a high score (promoters). A negative score means that more customers would strongly

accounts is a key indicator for the bank, which has a target of 1.5 million current account customers in 2020.

- With respect to providing meaning for employees, de Volksbank measures the employee Net Promoter Score. Its aim is to improve this score to a level of +40.[13]
- As a bank with a social profile, de Volksbank also wants to devote attention to the interests of society as a whole in the context of 'Shared Value'. De Volksbank has set itself the goal of having an entirely climate neutral balance sheet in the future (2030).[14] It aims for a 45% climate neutral balance sheet in 2020. The bank is also working on a target for improving the financial resilience of customers.
- The target return on equity (i.e. return for the shareholder) has been fixed at 8%. This target ROE is underpinned by a set of financial targets in the areas of costs, risk, capital and liquidity. These include a minimum Common Equity Tier 1 ratio (CET1 ratio) of 15%, a minimum leverage ratio of 4.25%, and a cost/income ratio of 50% - 52%. The existing target ROE takes account of expectations regarding the future net profit and was determined on the basis of the current rules.[15]

The targets were formulated by de Volksbank and examined by NLFI to ensure compatibility with de Volksbank's ambition. These targets were subsequently approved by you. NLFI believes that the set of targets is still in line with de Volksbank's strategic ambition and is also ambitious enough to allow the right steps to be taken in the coming years in terms of management track record and growth.

In its 'Advisory report on the future direction of SNS Bank', NLFI stated that a competitive return must be realised. This is assessed by the European Commission on the basis of the market economy investor principle. Under this principle, a Member State must treat the company in the same way as a private investor would have done in similar circumstances. A dividend yield structure could be applied in order to comply with the basic principle of ensuring a competitive return for the State. Taking the average dividend yield of similar banks in the Netherlands and Europe as a calculation basis and adjusting this figure for de Volksbank's low risk profile, it was determined last year that a minimum annual dividend yield of 5% on the State's capital investment in de Volksbank at a 2015 selling price of EUR 2.7 billion was adequate. In addition, NLFI stated that in future the nominal dividend should grow progressively in line with indicators such as growth in Dutch GDP. It goes without saying that, where appropriate, the aforementioned dividend distributions are subject to compliance with applicable solvency requirements and permission being granted by DNB / the ECB. The above principles have been incorporated in de Volksbank's dividend policy. The principle of a dividend yield of at least 5% on an investment of EUR 2.7 billion has been translated into a target

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discourage others from using de Volksbank's services than would strongly recommend they do so. The NPS score is measured at brand level. The target for de Volksbank is the weighted average of the NPS scores for the individual brands.

[13] The employee Net Promoter Score is a general measure of employee satisfaction. To determine this score, employees are asked how likely they are to recommend de Volksbank as a place to work. The score is calculated by subtracting the percentage of customers giving a low score (detractors) from the percentage giving a high score (promoters). A positive score means that more employees would strongly recommend working for the employer than would strongly discourage others from doing so.

[14] The principle of the climate neutral balance sheet is based on a methodology developed by ASN Bank, and works along the lines of a balance scale. On one side are the carbon profits, i.e. investments made to avoid emissions (windmills, solar parks, etc.). On the other side are the carbon losses, i.e. investments that cause emissions (mortgages, government bonds, investments in businesses, etc.). These profits and losses need to be in balance in 2030. In order to achieve this target, de Volksbank is investing in renewable energy project and energy savings, and is helping homeowners to make their homes more sustainable.

[15] No account was therefore taken of the actual potential effects of Basel IV, IFRS 9 and the determination of MREL obligations at the time the target ROE was fixed.

bandwidth for the pay-out ratio of 40% - 60% of the adjusted net profit[16]. De Volksbank's new dividend policy was approved and adopted by NLFI and de Volksholding in 2017.

2.3 Commercial and financial results in 2016 and first half of 2017

De Volksbank reported a net profit of EUR 329 million, down 5% compared with the previous year. After adjustment for one-off items (an addition to the restructuring provision in 2016, a book loss on the sale of SNS Securities in 2015, and changes in the value of a specific mortgage portfolio in both years), net profit rose 6% to EUR 354 million. The rise was chiefly due to a release of loan provisions and an increase in investment income, which was limited owing to lower interest income and higher regulatory levies. The net profit for the first half of 2017, adjusted for one-off items, was down 8% compared with the first six months of 2016, at EUR 178 million. This decline is chiefly attributable to a sharp reduction in the release of loan provisions and lower interest income, and was partially offset by lower operating expenses and a higher result on financial instruments.

In 2016 and the first half of 2017, the trend in de Volksbank's commercial results was positive on the whole. In a growing market, the bank's market share of new mortgages continued to increase (to 5.7% for the whole of 2016 and to 6.8% for the first half of 2017). De Volksbank's share of the savings market was relatively stable at 10.7%, while its market share of new current accounts was slightly down at 20% at the end of June 2017. During 2016 the number of customers grew 2% to 3.1 million (rounded off), of whom 1.3 million were current account customers. The total number of current account customers rose to 1.37 million by the end of June 2017.

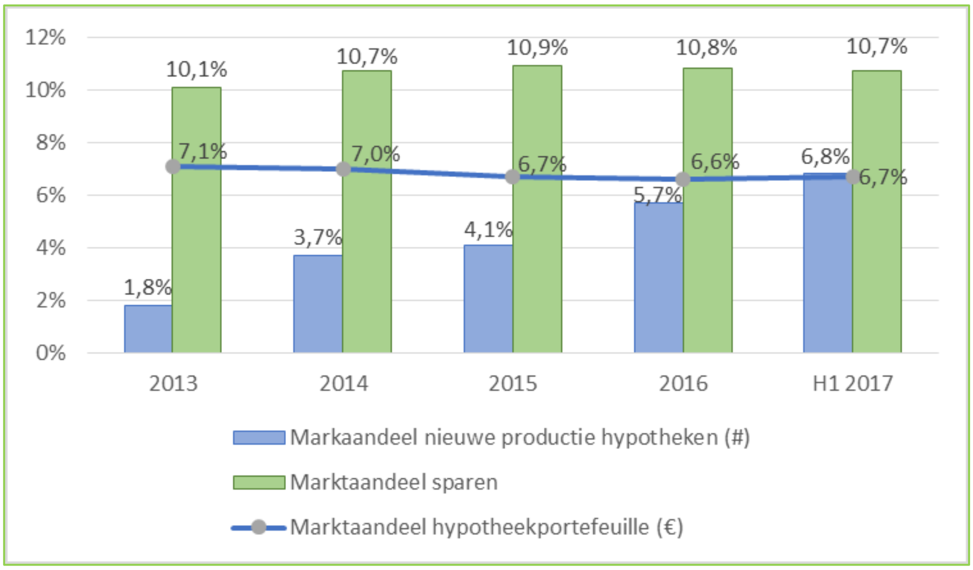

Figure 1: Market shares of de Volksbank (for translation of the terms in this and other figures, see at the bottom of this document)

The bank's efforts to stop the decline in the mortgage portfolio were accompanied by a fall in net interest income. This was partly the result of lower net interest income due to factors such as early renewals, including interest rate averaging on mortgages at more competitive prices, and the

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

issuance of Tier 2 bonds. In 2016, net interest income fell more than 8% to EUR 911 million. Although this sharp drop was reversed to a certain extent in the first half of 2017, thanks in part to savings rate reductions and the redemption of relatively expensive wholesale funding, income remains under pressure. Net interest income as a percentage of average total assets fell from 152 basis points in 2015 to 144 basis points in 2016. The net interest margin stood at 150 basis points in the first half of 2017. The repricing of mortgages contributed significantly to the overall decline in the net interest margin in the past years. De Volksbank extended a relatively large number of mortgages in the period 2005-2006, which have since qualified for new fixed-rate periods at lower rates of interest. The early repayment of mortgages that will reach the end of their time within the foreseeable future, including penalties paid through interest rate averaging or otherwise, also has an impact. Furthermore, the pricing of mortgages is still affected by competition from insurers and pension funds in the long-term segment. Against this, sales of new mortgages rose sharply and exceeded total mortgage repayments for the first time in years. As a consequence, the size of the mortgage portfolio was stabilised at some EUR 45 billion.

Total operating expenses stood at EUR 642 million in 2016, up 9% compared with 2015. This increase is entirely attributable to regulatory levies and an addition to the restructuring provision. After adjusting for this, total operating expenses amounted to EUR 564 million, down 2% compared with 2015. The total number of internal FTEs at year-end 2016 was 3,354, which was virtually unchanged compared with year-end 2015, as the higher headcount at the mortgage operations to cope with the increased mortgage activities was offset by a decrease in the number of FTEs due to the sale of SNS Securities. Operating expenses excluding regulatory levies continued to decline in the first six months of 2017 (down 5% compared with the first half of 2016). During this period, the total number of internal FTEs was reduced to 3,288.

For 2016, de Volksbank reported a net release of EUR 68 million from loan provisions (and a net release of EUR 20 million for the first half of 2017). This was due to a sharp decline in mortgages for which a provision has been formed (impaired default loans) and a low inflow of new default loans. Moreover, the losses sustained on foreclosures were often much lower than expected. This is partly attributable to the improvement in economic circumstances and the housing market. In addition, arrears management improved at the mortgage operations.

De Volksbank’s capital position was strengthened further by the retained earnings and by the fall in the risk-weighted assets. At year-end 2016, this translated into a CET1 ratio of 29.2% (year-end 2015: 25.3%) and a leverage ratio of 5.2% (year-end 2015: 4.7%). The first half of 2017 saw a further improvement in both ratios: at 30 June 2017, the CET1 ratio was 32.6% and the leverage ratio 5.5%.

Given the commercial and financial results achieved by de Volksbank and the bank’s strong capital position, among other things, in June 2017 S&P decided to raise de Volksbank’s long-term credit rating from BBB+ to A-. According to S&P, de Volksbank’s results will show a stable trend in the coming years, in which the existing margins and a low cost of risk are maintained. For de Volksbank, the improved rating is a significant milestone - and achievement.

3. Assessment of progress made on strategic programme

3.1 Introduction

In its 2016 advisory report, NLFI stated that de Volksbank was confronted with a number of operational and structural challenges. The primary reasons for this were the upward pressure on the costs of de Volksbank due to higher regulatory costs and the split-off from the former parent company, the currently extremely low interest rates, and uncertainty about the capital structure due to the uncertain effects of new Basel IV and MREL rules, among other things. Moreover, de Volksbank's business model translates into a significant contractual term mismatch between assets (which are long term) and liabilities (mostly savings that can be withdrawn immediately), resulting in liquidity risk in the business operations. Addressing these challenges is crucial if the bank is to have a lasting future. NLFI has also identified the following focus areas:

- Optimising the interests of stakeholders ('Shared Value' strategy);
- Strengthening de Volksbank's identity as a 'social bank';
- Lowering the cost structure;
- Improving risk management;
- Making further adjustments to the range of products and standardising production processes;
- Possible adjustment and streamlining of the bank's capital structure on the basis of future regulations (Basel IV, IFRS 9 and MREL); and
- Becoming a 'smart adopter' of innovation.

Among other things, De Volksbank has incorporated the required transition into the Spot On strategic plan. NLFI's task is to monitor the progress made in relation to the above points. When monitoring progress, NLFI uses the targets formulated by de Volksbank as a starting point and also assesses the extent to which de Volksbank performs adequately in the aforementioned qualitative focus areas.

3.2 Progress made with targets - 'strengthening identity' ('Shared Value')

Table 1 shows de Volksbank's results for 2016 and the first half of 2017, and compares them with the Spot On projections for 2016 and the bank's long-term targets. The targets have been subdivided into 'Shared Value' targets and other Spot On targets (in the area of costs, capital and returns). The actual figures are explained below.

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Table 1: de Volksbank - public targets

	2015 R	2016 R	SO 2016	H1 2017 R	Target 2020
Gedeelde Waarde					
Nut voor de klant					
NPS klanten	-12	-8	nb	-4	10
Aantal betaalrekeningklanten (x 1000)	1.240	1.328	1.300	1.370	1.500
Zingeving voor de medewerker					
eNPS werknemers	34	30	nb	nb	40
Verantwoordelijkheid voor de maatschappij					
Klimaatneutrale balans (%)	20%	22%	nb	25%	45%
Rendement voor de aandeelhouder					
ROE (%)	10,9%	9,6%	8,0%	10,0%	8%
ROE gecorrigeerd (%)*	10,5%	10,3%	8,0%	10,0%	8%
Kapitaal, rendement en efficiency					
Kosten					
Cost:income ratio**	51,2%	59,2%	56,0%	52,7%	50-52%
Gecorrigeerde cost:income ratio***	53,4%	56,0%	56,0%	52,5%	nb
Kapitaal					
CET1 ratio - CRD IV volledig ingefaseerd (%)	25,8%	29,6%	25,7%	32,8%	15%
Leverage ratio - CRD IV volledig ingefaseerd (%)	4,8%	5,3%	5,2%	5,5%	4,25%
Rendement					
Dividend payout (%)	29,9%	41,0%	40,1%	nb	40-60%

* Adjusted for one-off items
** Excluding regulatory levies
*** Excluding regulatory levies and one-off items
A = Actual, SO = Spot On projections, n/a = not available
Data concerning the ROE for 2015 and climate neutral balance sheet for 2016 contain adjustments compared to previous publications by de Volksbank.

Creating benefits for customers

The customer-weighted NPS improved from -12 in 2015 to -8 at year-end 2016 and -4 as of 30 June 2017. The most improved brands were SNS (from -26 at year-end 2015 to -18 at year-end 2016 and -14 as of 30 June 2017) and BLG Wonen (from -42 at year-end 2015 to -29 at year-end 2016 and -27 as of 30 June 2017). ASN Bank and RegioBank both maintained a positive NPS during this period. As of 30 June 2017, these were 16 and 6, respectively. Although the customer-weighted NPS is still negative, it is slowly improving and moving towards the long-term target van +10. The number of current account customers is increasing in line with the Spot On projections, and is heading in the direction of the long-term target van 1.5 million.

Providing meaning for employees

The eNPS of 30.1 in 2016 was lower than the score at the end of 2015 (34.4) because the group of promoters (employees who gave a score of 9 or 10) fell slightly while the group of detractors (employees who gave a score of 6 or less) increased. According to the management of de Volksbank, a possible explanation for the slight decrease is the structural decline in the number of jobs in the financial sector. This makes it less likely that an employee will recommend working for a bank. There will be a reduction in the workforce at de Volksbank, too, in the next few years. Achieving an eNPS of 40 in 2020 will therefore remain a major challenge. In this context, de Volksbank is working on various programmes to maintain the level of employee satisfaction.

Achieving returns for shareholder

The ROE in 2016 was 9.6%, which was better than predicted in the Spot On projections for 2016. The return was attributable to an increase in the unadjusted -cost/income ratio compared with 2015 and a release of loan provisions. The capital targets for 2016 were comfortably met. The decline in the ROE compared to 2015 (ROE of 10.9%) was chiefly due to an increase in shareholders' equity. In the first half of 2017, the ROE stood at 10%. Management expects to see a fall in the net result for 2017 compared with 2016, mainly due to pressure on net interest income and to costs connected with implementing the strategy and transaction monitoring. Furthermore, an additional release of loan provisions is expected in the second half of 2017, although this will not be as high as the release in the first half of the year. The ROE therefore continues to be under pressure this year, but it is above the target level. Moreover, de Volksbank's operational management still allows sufficient scope to maintain the ROE.

Taking responsibility for society

De Volksbank's aim is for all of the assets on its balance sheet to be entirely climate neutral in 2030. In 2016, the bank's efforts resulted in further improvements in this regard. The progress made was chiefly attributable to a rise in avoided emissions relating to green bonds, renewable energy and energy-saving projects. In addition, the average energy label of the mortgage portfolio improved slightly compared with 2015. As of 30 June 2017, the balance sheet was 25% climate neutral (2015: 20%). Additional efforts will have to be made, however, if the target of 45% in 2020 is to be achieved.

3.3 Progress on achieving targets and other elements of monitoring

This section discusses the progress made with the other elements identified in NLFI's 'Advisory report on the future direction of SNS Bank' as needing to be realised in the two to three year period defined in that report.

Cost reductions

It is essential that de Volksbank ensures its costs reflect the pressure on interest income (that de Volksbank and others had expected) so that it can continue to realise competitive returns. De Volksbank's cost/income ratio in 2016 was 59.2%, or 56% after adjustment for one-off items 56%. In the first half of 2017, the cost/income ratio stood at 52.7%, and the adjusted cost/income ratio at 52.5%. Although not entirely comparable, the cost/income ratio of de Volksbank was within the same bandwidth as the cost/income ratios of the large Dutch banks.[17] These banks have stated that they will continue to reduce their costs. De Volksbank therefore has to bring about a structural reduction in the cost of production in order to compete with the large Dutch banks.

De Volksbank's target cost/income ratio (excluding regulatory levies) for 2020 is 50% - 52%. Owing to the pressure on de Volksbank's income and the alternative distribution model used by the bank, however, the cost/income ratio is not fully suited to serve as the sole gauge for measuring the cost

[17] In 2016, ABN AMRO had a cost/income ratio of 56%, ING Bank Retail Nederland 54%, and Rabobank 61%. During the first half of 2017, ABN AMRO Retail had a cost/income ratio of 54%, ING Bank Retail Nederland 48% (second quarter) and Rabobank 63%.

reductions to be achieved by de Volksbank. The starting point in Spot On is that in 2020 the operating expenses excluding regulatory levies must be reduced to EUR 465 million on a structural basis, which represents a reduction of more than EUR 100 million compared with the level of EUR 575 million reported in 2015.

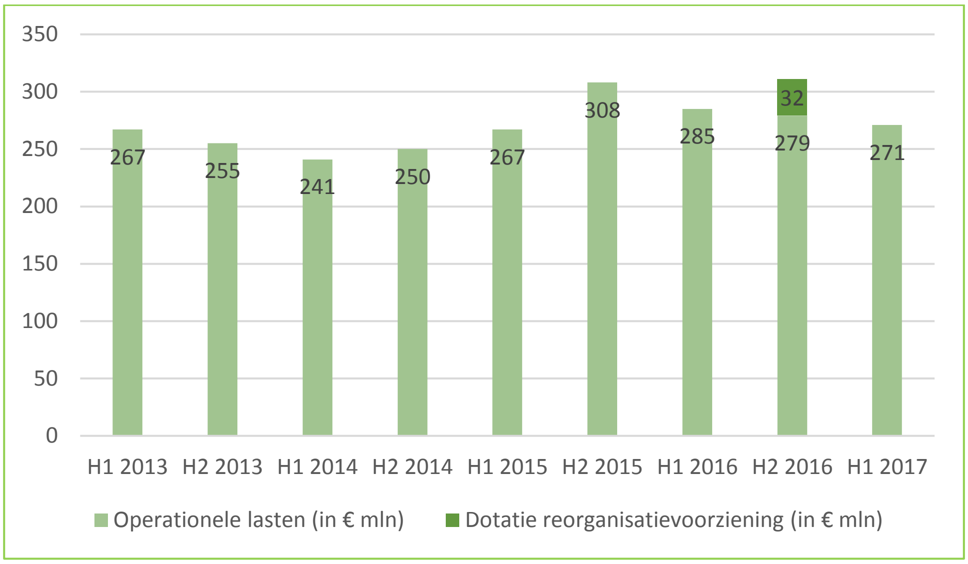

Figure 2: De Volksbank's operating expenses (excluding regulatory levies)

The first measures aimed at achieving cost savings were introduced in 2016. De Volksbank invests in information technology. In 2016, the bank also formed a restructuring provision for EUR 32 million (this was earlier than expected in the Spot On projections). Some of these measures initially increase costs but lead to savings in the long term. Despite these investments, the costs have already fallen in line with the Spot On projections. Existing and planned measures will lead to further cost reductions in the next few years. NLFI is currently unable to express an opinion on the degree to which costs, in both absolute terms and relative to average assets, will be permanently reduced in line with the Spot On projections.

Improving risk management

There has been a marked decrease in de Volksbank's loan loss provisions in the past few years. This is attributable to the improvement in the Dutch economy, and the mortgage market in particular, and to investments made by de Volksbank in improving processes in order to prevent or limit mortgage arrears. There was even a net release of provisions in 2016 and the first six months of 2017. Impairment charges on mortgage loans as a percentage of the total mortgage portfolio amounted to -0.14% in 2016, which was well below the Spot On projections. A normalised level of provisions is expected for the coming years. This requires that de Volksbank invests permanently constantly in credit management and in improving risk management. The bank still needs to build up a track record in this area.

To bring about simplicity and efficiency, de Volksbank's risk management also needs to be improved in the area of non-financial risks. In particular, the management risks such as model risk and compliance risk requires improvement. The bank has set up a number of strategic programmes, such as the Integrated Control Framework, Value Stream Management and Data Management (jointly referred to as ‘House in Order’). These programmes are intended to lead to simple, efficient processes and an improvement in internal reports and the underlying data.

In 2016, DNB conducted a thematic examination at de Volksbank that focused on the measures taken by the bank to prevent money laundering and terrorist financing. Based on this examination, DNB concluded that de Volksbank needs to take additional measures with regard to monitoring transactions and reporting unusual transactions, in respect of which it formulated an instruction and imposed a penalty[18]. DNB’s examination was one of the factors that led de Volksbank to launch several initiatives in 2016 to tighten up processes and measures that ensure customers and transactions are constantly monitored. The aim of these additional measures are designed is to increase the effectiveness of procedures and systems so that the integrity risks to which de Volksbank is exposed in this area are adequately and permanently mitigated.

NLFI believes that the measures taken by de Volksbank will, in due course, lead to improvements in the bank’s overall risk profile. Although various measures have already been implemented in the area of non-financial risks, it is still too early for NLFI to talk of a lasting improvement in the management of such risks.

Mortgage standardisation

Last year, NLFI stated that standardisation of the mortgage products on offer may result in operational efficiency gains and make securitising mortgages easier. Standardisation of the mortgage products on offer is also in keeping with de Volksbank’s envisaged low risk profile. In your reply to the House of Representatives with regard to your letter ‘Toekomst SNS Bank’ (‘Future of SNS Bank’), you also emphasised the need to standardise the provision of data with respect to mortgages.[19] Standardisation of production processes leaves sufficient scope for de Volksbank to provide customised products in the mortgage market, provided this is done on the basis of cautious credit management. Such standardisation is also designed to leave a larger portion of the mortgage portfolio available as assets that may be securitised at any time and may possibly be used as collateral – with a small haircut – for ECB funding, for instance. De Volksbank has a low risk appetite for liquidity risk. In recent times, its strong liquidity position met all internal and external objectives. De Volksbank now also emphasises the additional liquidity that can be obtained from the ECB when under stress by providing collateral. With respect to that area, too, de Volksbank is in a comfortable position and meets its internal objectives. This position can still be optimised by further improving the provision of data.

Adjustment of capital structure

De Volksbank aims for a minimum CET1 ratio of 15%. This was comfortably exceeded by the CET1 ratio (transitional) of 29.2% at year-end 2016 and 32.6% at 30 June 2017. The leverage ratio of 5.5% as at 30 June 2017 was also well above the target ratio of 4.25%. Despite this, the bank’s capital structure will still have to be adjusted in future in response to new rules in areas including future risk weightings for mortgage loans (Basel IV), IFRS 9 and fleshing out the definition of MREL obligations. Since there is still some uncertainty regarding these new regulations, the bank is not yet able to make a start on adjusting the capital structure.

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[18] See also the "Interim financial report - press release” of de Volksbank published on 24 August 2017

[19] Parliamentary Papers, House of Representatives, session year 2016-2017, 33532, no. 64.

Dividend yield

NLFI believes that the measures included in Spot On in the period prior to privatisation need to be reflected in the returns for the State. The norm used by NLFI is an annual dividend yield of 5% on the State's EUR 2.7 billion capital investment in de Volksbank. This should result in an average annual dividend yield of at least EUR 135 million on the investment in de Volksbank during the next few years. As stated in chapter 2, de Volksbank has incorporated this principle into its dividend policy. De Volksbank distributed a dividend of EUR 135 million for 2016, which corresponds to 41% of the adjusted net profit. In the coming years, NLFI expects dividends to gradually rise in line with GDP growth in the Netherlands, to the extent that the capital position permits this. Dividends are also expected to remain within the bandwidth set by de Volksbank, i.e. pay-out ratio of 40% -60% of the adjusted net profit, for the next few years.

4. Exit preconditions

4.1 Introduction

Last year, NLFI stated that since the split-off from SNS REAAL it had carefully monitored whether the sale of de Volksbank could be considered, keeping in mind the preconditions for an exit that were indicated by your predecessor:[20]

i. The company in question is ready for privatisation;
ii. The financial sector is stable; and
iii. There is sufficient market interest in the relevant transaction.

In addition to these preconditions, the aim is to recoup as much as possible of the total investment made in the company to be privatised, plus the State's capital costs.

In the context of this progress report and the European Commission's requirement for an annual assessment of market conditions to determine whether de Volksbank could be privatised, NLFI reassessed the extent to which the bank is ready for an exit on the basis of these preconditions. NLFI's current perspective on the extent to which these preconditions are fulfilled with respect to de Volksbank is explained below.

4.2 Is de Volksbank ready for sale?

Last year, NLFI stated in its 'Advisory report on the future direction of SNS Bank' that de Volksbank was not yet ready for sale. This conclusion was based on NLFI's opinion that the bank was facing a number of operational and structural challenges. NLFI believed it was imperative that in the coming period de Volksbank implemented its strategy and defined itself more clearly as a simple retail bank, i.e. a bank featuring competitive pricing, low costs of production and a low risk profile. Work is still being done on adjustments to the cost structure and capital structure and improvements to risk management, which are needed to ensure the bank is ready for an exit.

De Volksbank used the past year to take the first measures designed to carrying out the strategy. Among other things, investments were made in improving operational effectiveness, which will lead to cost savings. To ensure its long-term viability, it is crucial that bank brings its cost level more closely into line with its falling income. As de Volksbank was part of SNS REAAL until recently, the bank's management still needs to build up a track record in this area.

It is impossible to define an optimum capital structure for de Volksbank at this time owing to the uncertainty regarding future regulations aimed at stepping up capital requirements for banks. Proposals by the Basel Committee on Banking Supervision concerning the harmonisation of risk-weighted assets, the minimum amount of capital to be held in relation to standardised models (output floor), and a more detailed definition of minimum requirements for own funds and eligible liabilities (MREL) are not yet final. The Basel Committee deferred its final decision on the standardised approach to risk-weighted assets for credit risks, which was originally scheduled for January 2017. The negotiations are still ongoing, and it is unclear when a final decision will be taken.

[20] Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117.

De Volksbank cannot adjust its capital management to the stricter capital requirements once a final decision has been taken and its effect is known[21]. The introduction of IFRS 9, which will lead to a change in the valuation of certain financial assets and the calculation of loan loss provisions, is already being taken into account in the capital management of the bank. It is likely that the introduction of this standard will negatively affect the shareholders' equity of the bank.[22]

The management of non-financial risks still needs to be improved in order to bring about the desired low risk profile. As stated in the preceding chapter, improvements are chiefly required in the area of managing model risks and compliance risks. The bank has set up a number of strategic programmes, such as the Integrated Control Framework, Value Stream Management and Data Management (jointly referred to as 'House in Order'). These programmes are intended to lead to simple, efficient processes and an improvement in internal reports and the underlying data. Moreover, de Volksbank has critically reviewed and revised its policy on customer integrity and compliance with the sanction regulations. This should eventually lead to the gap between the bank's risk appetite and its existing risk profile being closed owing to the further strengthening of risk management.

<u>Conclusion</u>
Implementing the strategy places heavy demands on de Volksbank's capacity for change. Change will have to be effected throughout the organisation. The strategy's implementation comes on top of the activities that had already been started, including the improvement of internal control and data management, and this has led to an accumulation of activities. The successful execution of the improvement programmes aimed at managing non-financial risks are essential for the successful implementation of the strategic plan. Addressing these combined challenges will take some time and demand much attention from management. For the time being, these challenges stand in the way of a clear equity story. NLFI is of the opinion that de Volksbank is not yet ready for sale by means of an IPO, and no other sale options can currently be taken advantage of at this time. NLFI currently estimates that an integrated approach to business risks, compliance risks and model risks and the further implementation of the strategic plan could mean that at least two more years are required in order to bring about optimum long-term value creation before any decision can be made on a possible privatisation. This means that management will most probably need the entire two-to three-year period that NLFI estimated would be required last year.

4.3 Is the financial sector stable, in particular for mortgage and savings banks?

In recent years macro-economic conditions have improved in many parts of the world, despite the existence of political uncertainty. Growth had slowed down in a number of important emerging economies, leading to renewed volatility on the financial markets at the start of 2016, but the rate of growth has since picked up. There has been a strong economic recovery In the Netherlands. In 2016, the economy grew by 2.1%, which was the first time in many years that growth surpassed the 2%

[21] Rules made by the Basel Committee can be considered a 'gateway' to European regulations. It is uncertain when, and to what the extent, the Basel Committee's proposals will be adopted as regulations, and this may be some time in the future.
[22] This is due to the shift from a one-year expected loss approach to a lifetime expected loss approach for calculating loan loss provisions. Furthermore, any change in the valuation of one of de Volksbank's mortgage portfolios (specifically the DBV portfolio) has an impact on shareholder's equity. The introduction of IFRS 9 offers de Volksbank the opportunity to change the measurement of the DBV portfolio from fair value to amortised cost. This will bring the treatment of this portfolio into line with that of the other mortgages recognised in the balance sheet. Since the fair value of the DBV mortgages is currently higher than their amortised cost, de Volksbank expects a haircut that will have a negative effect on shareholders' equity as at the transition date. The ultimate impact is, however, dependent on interest rate developments in 2017.

mark. Moreover, the Dutch economy is seeing growth across the board, with a strong improvement in domestic demand in terms of both consumption and investing. Household consumption was driven by a further increase in real disposable household income. The IMF's projections indicate there will be a prolonged period of economic growth.[23] In their projections for the coming years, CPB Netherlands Bureau for Economic Policy Analysis (CPB) and DNB assume continued economic growth, based on growth in the relevant global trade and a pick-up in household consumption and investments.[24]

The recovery of the housing market was a crucial factor in the growth of the Dutch economy during the past years. House prices have risen since 2013, especially in the major cities. The total value of new mortgages in the Netherlands also increased steadily during this period. In 2016, the total value of new mortgages amounted to EUR 81 billion, up 25% compared with 2015. There was a sharp increase in both the number of sales of new mortgages and the average mortgage amount. DNB has stated that there currently does not appear to be any indication of a credit-driven bubble.[25] Growth in mortgage lending has slowed down, and relatively large amounts of private assets are used to make down payments. The soaring house prices seen in the major cities therefore seem to be mostly attributable to scarcity pricing. DNB expects that house prices will continue to increase, albeit at a slower pace than in recent years, partly as a consequence of slight increases in interest rates.[26]

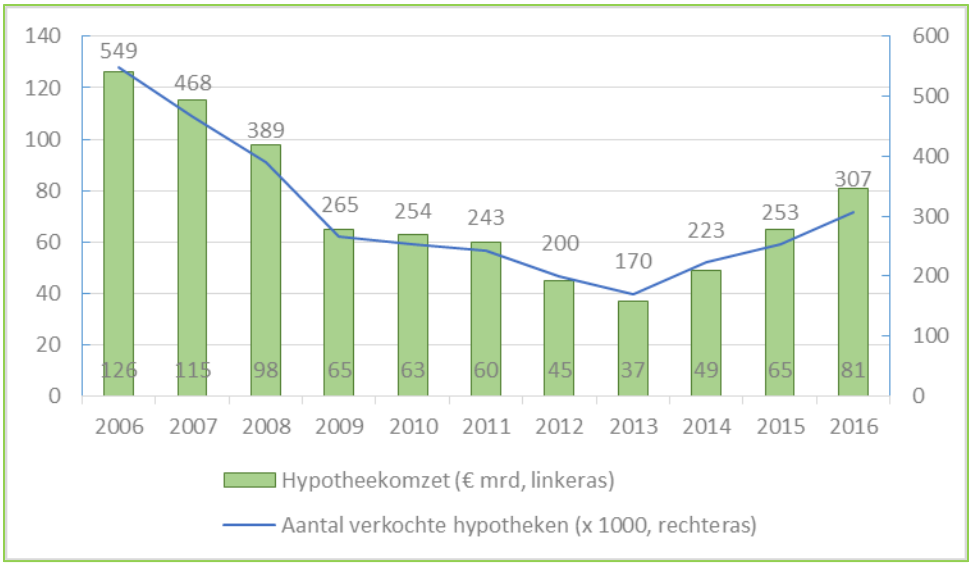

Figure 3: Value of new mortgages and number of sales of new mortgages in the Netherlands. Source: IG&H, Mortgage Update, Q4 2014, Q4 2015 and Q4 2016

The slight increase in interest rates on the mortgage market during the past months took place in the context of a small general increase in interest rates in the capital market. At the same time, interest

[23] In its April 2017 World Economic Outlook, the IMF predicted the Dutch economy would grow by 2.1% in 2017 and 1.8% in 2018.
[24] In 'Juniraming 2017', CPB Netherlands Bureau for Economic Policy Analysis (CPB) estimated that the economy would grow at a rate of 2.4% in 2017 and 2% in 2018. In its June 2017 Economic Developments and Outlook, DNB expected economic growth of 2.5% in 2017 and 2.1% in 2018.
[25] DNB, Overview of Financial Stability, spring 2017.
[26] DNB, 2016 Annual Report, 29 March 2017, p. 19.

rates on the money markets have been negative due to the ECB's expansive monetary policy. The ECB's base rate has stood at 0% since 2015, while the ECB's deposit facility rate has been at a level of -0.4% since March 2016. In December 2016, the ECB decided to extend its asset purchase programme in the context of its policy of quantitative easing, although it did reduce the amount of monthly purchases between March and December 2017. Despite the recent slight rise in interest rates in the long-term segment, the yield curve is relatively flat, owing in part to the measures taken by the ECB.

This low interest rate environment has a negative impact on the net interest margins of banks. Dutch banks have been affected mostly because of their dependence on net interest income, due to the Netherlands having a relatively high amount of mortgage loans to private individuals, financed by savings deposits and capital market instruments. DNB notes that there has been a steep decline in the capacity of banks to take measures, including shifting lending operations to areas where higher margins can be achieved and making further cuts in interest rates in the savings market.[27] At the same time, the net interest margins of Dutch banks could come under pressure as relatively high margins on old mortgage portfolios are replaced by lower margins on new mortgages.[28] These two effects combined may have a negative effect on bank's earnings over the coming years.

Despite these market developments, the financing opportunities available to banks have improved sharply, thanks in part to the strengthening of bank capital. The establishment of institutions for the orderly restructuring and/or recapitalisation of banks in trouble has reduced the risk of such trouble spreading to other countries. Against the background of a decline in volatility on the capital markets, a number of European governments have managed to reduce their stakes in banks and insurers (the most recent examples of which are Lloyds Banking Group and ASR) or are currently in the process of reducing their stakes (e.g. in ABN AMRO and RBS). In addition, governments are taking steps to sell off their entire stakes in due course (e.g. Belfius).

Conclusion

During recent years, macro-economic circumstances in the Netherlands have improved while at the same time the financial markets have become less volatile. The financial sector as a whole is stable. Market conditions are such that an IPO or the sale of a medium-sized bank is possible.
That said, the low interest rate environment is bringing downward pressure to bear on the margins of savings banks and mortgage banks in particular, and as a consequence the profits of such banks will remain under pressure in the next few years. In addition, uncertainty about future capital requirements impedes efforts to determine the optimum capital structure of retail banks. The low interest rate environment and uncertainty about future capital requirements are currently not conducive to the speedy return of de Volksbank to the private sector on conditions that are acceptable to the State.

4.4 Is there sufficient market interest in a sale of de Volksbank?

To date, NLFI has not proactively contacted parties in order to ascertain their potential interest in acquiring de Volksbank. Moreover, NLFI was not contacted by interested parties (from either within

[27] DNBulletin: 'Banks face declining resilience to persistently low interest rates', 15 May 2017, available online: https://www.dnb.nl/en/news/news-and-archive/dnbulletin-2017/dnb359057.jsp.
[28] This effect is not as strong at de Volksbank.

or outside the Netherlands) about a possible acquisition of de Volksbank. In view of the uncertainty about regulations (especially Basel IV) and the challenges de Volksbank faces in the areas of reducing costs and improving the management of non-financial risks, potential buyers currently have little to no interest in acquiring de Volksbank on conditions that are acceptable to the State. The lack of sufficient investor interest applies to both a private sale of the bank and (especially when it comes to obtaining an acceptable price) an IPO scenario.

Conclusion

Partly in view of the reasons underlying its opinion that de Volksbank is not yet ready for exit, NLFI finds that at present there is insufficient market interest in a sale on conditions acceptable to the State. NLFI expects interest based on conditions acceptable to the State may emerge once the bank makes further improvements to its risk management processes and manages to build up a track record when implementing the strategy. NLFI therefore believes that proactively setting up a process for gauging market interest in a sale and/or IPO of de Volksbank would not be expedient at this time.

4.5 Will capital expenditures be recouped?

State capital expenditures to SNS REAAL, including de Volksbank, are calculated to amount to EUR 4.458 billion. State capital expenditures to de Volksbank are calculated to amount to EUR 2.7 billion. This is in accordance with the price that was used when SNS REAAL sold de Volksbank to the State, which was established on the basis of an independent valuation by Macquarie Capital. This is shown in table 2. The amounts do not include the State's capital costs (including interest charges).

Table 2: Overview of capital movements and dividends received

Overzicht van kapitaalmutaties	**Datum**	**ABN AMRO**	**a.s.r.**	**RFS**	**SRH**	**Volksholding**	**Propertize**	**Totaal**
Nationalisatie Fortis Nederland	okt-2008	€ 12.800 mln	€ 4.000 mln					€ 16.800 mln
Verstrekking kernkapitaal SNS REAAL	nov-2008				€ 750 mln			€ 750 mln
Herkapitalisatie ABN AMRO	dec-2008	€ 4.320 mln		€ 2.220 mln				€ 6.540 mln
Verkoop Fortis Corporate Insurance	jul-2009		€ (350) mln					€ (350) mln
Mandatory Convertible Note (MCN) I	jul-2009	€ 800 mln						€ 800 mln
Terugbetaling deel kernkapitaal	nov-2009				€ (185) mln			€ (185) mln
MCN II en omzetting leningen in EV	dec-2009	€ 3.150 mln						€ 3.150 mln
Verrekening en kapitalisatie RFS	mrt-2010			€ 438 mln				€ 438 mln
Niet ontvangen couponbetaling MCN	apr-2010	€ 103 mln						€ 103 mln
Resterende herkapitalisatie ABN AMRO	jun-2010	€ 490 mln						€ 490 mln
Repatriatie deel RFS kapitaal	dec-2011			€ (16) mln				€ (16) mln
Onteigening SNS REAAL	mrt-2013				€ 2.200 mln			€ 2.200 mln
Verstrekking overbruggingskrediet	mrt-2013				€ 1.100 mln			€ 1.100 mln
Kapitalisatie Propertize	dec-2013						€ 500 mln	€ 500 mln
Resolutieheffing SNS REAAL	mrt-jul 2014				€ (1.005) mln			€ (1.005) mln
Verkoop Vivat	jul-2015				€ (0) mln			€ (0) mln
Verhanging SNS Bank	sep-2015				€ (1.102) mln	€ 2.700 mln		€ 1.598 mln
IPO ABN AMRO	nov-2015	€ (3.838) mln						€ (3.838) mln
IPO ASR	jun-2016		€ (1.065) mln					€ (1.065) mln
Verkoop Propertize	sep-2016						€ (895) mln	€ (895) mln
Plaatsing aandelen ABN AMRO	nov-2016	€ (1.326) mln						€ (1.326) mln
Plaatsing aandelen ASR	jan-2017		€ (452) mln					€ (452) mln
Plaatsing aandelen ASR	apr-2017		€ (515) mln					€ (515) mln
Plaatsing aandelen ASR	jun-2017		€ (725) mln					€ (725) mln
Plaatsing aandelen ABN AMRO	jun-2017	€ (1.479) mln						€ (1.479) mln
Plaatsing aandelen ASR	sep-2017		€ (1.018) mln					€ (1.018) mln
Saldo		**€ 15.020 mln**	**€ (125)mln**	**€ 2.642 mln**	**€ 1.758 mln**	**€ 2.700 mln**	**€ (395)mln**	**€ 21.600 mln**
Ontvangen dividenden t/m 2016		€ 2.208 mln	€ 567 mln	€ 6 mln	€ 0 mln	€ 100 mln	€ 46 mln	€ 2.927 mln
Slotdividenden 2016 ontvangen in 2017		€ 290 mln	€ 70 mln	€ 0 mln	€ 0 mln	€ 135 mln	€ 0 mln	€ 495 mln
Saldo incl. ontvangen dividenden		**€ 12.523 mln**	**€ (762)mln**	**€ 2.636 mln**	**€ 1.758 mln**	**€ 2.465 mln**	**€ (441)mln**	**€ 18.179 mln**

Conclusion

At this moment, it is uncertain whether the capital expenditures incurred for the benefit of de Volksbank can be recouped in full by way of the sale of the bank. The effect that the improvement processes that the bank wants to implement in the coming period may have a positive impact on the return and value offered by the bank.

Figure 1: Market shares of de Volksbank

Market share of sales of new mortgages (no.)

Savings market share

Market share of mortgage portfolio (EUR)

Table 1: De Volksbank - public targets

	2015 A	2016 A	SO 2016	H1 2017 A	Target for 2020
Shared value					
Creating benefits for customers					
NPS from customers	-12	-8	n/a	-4	10
Number of current account customers (x 1,000)	1,240	1,328	1,300	1,370	1,500
Providing meaning for employees					
eNPS from employees	34	30	n/a	n/a	40
Taking responsibility for society					
Climate-neutral balance sheet (%)	20%	22%	n/a	25%	45%
Achieving returns for shareholder					
ROE (%)	10.9%	9.6%	8.0%	10.0%	8%
Adjusted ROE (%)	10.5%	10.3%	8.0%	10.0%	8%
Capital, return and efficiency					
Costs					
Cost/income ratio **	51.2%	59.2%	56.0%	52.7%	50% - 52%
Adjusted cost/income ratio ***	53.4%	56.0%	56.0%	52.5%	n/a

Capital					
CET1 ratio - CRD IV fully phased-in (%)	25.8%	29.6%	25.7%	32.8%	15%
Leverage ratio - CRD IV fully phased-in (%)	4.8%	5.3%	5.2%	5.5%	4.25%
Return					
Dividend pay-out ratio (%)	29.9%	41.0%	40.1%	n/a	40% - 60%

Figure 2: De Volksbank's operating expenses (excluding regulatory levies)

Operating expenses (in EUR millions)

Addition to restructuring provision (in EUR millions)

Figure 3: Value of new mortgages and number of sales of new mortgages in the Netherlands

Value of new mortgages (in EUR billions, left axis)

Number of sales of new mortgages (in thousands, right axis)

Table 2: Overview of capital movements and dividends received

Overview of capital movements	**Date**	**ABN AMRO**	**a.s.r.**	**RFS**	**SRH**	**Volksholding**	**Propertize**	**Total**
Nationalisation of Fortis	Oct-2008	EUR 12,800m	EUR 4,000m					EUR 16,800m

Overview of capital movements	Date	ABN AMRO	a.s.r.	RFS	SRH	Volksholding	Propertize	Total
Nederland								
Provision of core capital to SNS REAAL	Nov-2008				EUR 750m			EUR 750m
Recapitalisation of ABN AMRO	Dec-2008	EUR 4,320m		EUR 2,200m				EUR 6,540m
Sale of Fortis Corporate Insurance	Jul-2009		(EUR 350m)					(EUR 350m)
Mandatory Convertible Note (MCN) I	Jul-2009	EUR 800m						EUR 800m
Repayment of portion of core capital	Nov-2009				(EUR 185m)			(EUR 185m)
MCN II and conversion of loans into equity	Dec-2009	EUR 3,150m						EUR 3,150m
RFS settlement and capitalisation	Mar-2010			EUR 438m				EUR 438m
MCN coupon payment not received	Apr-2010	EUR 103m						EUR 103m
Remaining recapitalisation of ABN AMRO	Jun-2010	EUR 490m						EUR 490m
Repatriation of portion of capital of RFS	Dec-2011			(EUR 16m)				(EUR 16m)
Compulsory purchase of SNS REAAL	Mar-2013				EUR 2,200m			EUR 2,200m
Provision of bridging loan	Mar-2013				EUR 1,100m			EUR 1,100m
Capitalisation of Propertize	Dec-2013						EUR 500m	EUR 500m
Resolution levy for SNS Bank	Sep-2015				(EUR 1,005m)			(EUR 1,005m)
Sale of VIVAT	Jul-2015				(EUR 0m)			(EUR 0m)
Transfer of SNS Bank	Sep-2015				(EUR 1,102m)	EUR 2,700m		EUR 1,598m
ABN AMRO IPO	Nov-2015	(EUR 3,838m)						(EUR 3,838m)
ASR IPO	Jul-2016		(EUR 1,065m)					(EUR 1,065m)
Sale of Propertize	Sep-2016						(EUR 895m)	(EUR 895m)
Placement of ABN AMRO	Nov-2016	(EUR 1,326m)						(EUR 1,326m)

Overview of capital movements	**Date**	**ABN AMRO**	**a.s.r.**	**RFS**	**SRH**	**Volksholding**	**Propertize**	**Total**
shares								
Placement of ASR shares	Jan-2017		(EUR 452m)					(EUR 452m)
Placement of ASR shares	Apr-2017		(EUR 515m)					(EUR 515m)
Placement of ASR shares	Jun-2017		(EUR 725m)					(EUR 725m)
Placement of ABN AMRO shares	Jun-2017	(EUR 1,479m)						(EUR 1,479m)
Placement of ASR shares	Sep-2017		(EUR 1,018m)					(EUR 1,108m)
Balance		**EUR 15,020m**	**(EUR 125m)**	**EUR 2,642m**	**EUR 1,758m**	**EUR 2,700m**	**(EUR 395m)**	**EUR 21,600m**
Dividends received up to and including 2017		EUR 2,208m	EUR 567m	EUR 6m	EUR 0m	EUR 100m	EUR 46m	EUR 2,927m
Final dividends for 2016 received in 2017		EUR 290m	EUR 70m	EUR 0m	EUR 0m	EUR 135m	EUR 0m	EUR 495m
Balance including dividends received		**EUR 12,523m**	**(EUR 762m)**	**EUR 2,636m**	**EUR 1,758m**	**EUR 2,465m**	**(EUR 441m)**	**EUR 18,179m**