Unofficial and partial translation – Dutch version prevails

NLFI

Report on de Volksbank

October 2019

1. Introduction

Background

In 2016, NLFI issued its advisory report on de Volksbank's future to the Minister of Finance. The advisory report was prepared following a comprehensive analysis by NLFI and its advisors and after market consultation. On this basis, NLFI explained in its advisory report that there was a widely supported need for the future strategic position of SNS Bank (currently de Volksbank) to be 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 resulting in a competitive dividend yield. In the past few years, de Volksbank has sought to optimise its compound return by way of what de Volksbank calls the 'Shared Value' strategy, which takes the interests of customers, employees, shareholders and society as a whole into account. At the time, de Volksbank explained that it expected growth potential and that this would form a basis for a successful long-term strategy.

In summary, NLFI's advice in 2016 was that de Volksbank would be given two to three years to further develop and implement its strategy. Further value creation would allow de Volksbank to work towards a convincing proposition for privatisation.[1] In that context, a number of targets were agreed that de Volksbank would focus on when pursuing its strategy. The status concerning these targets partly guides the analysis as to whether de Volksbank at some point operates with sufficient success and stability to be privatised.

Since 2016, the bank has made progress on implementing its strategy and achieving the targets pursued. NLFI has monitored this progress and has engaged in a dialogue with the bank based on the frameworks provided for NLFI and de Volksbank. As per the request made by the Minister of Finance for the purpose of informing the House of Representatives, in 2017 and 2018 NLFI issued interim reports to the Minister on the points on which progress had been made and the points that still required further progress, in which respect the preconditions for privatisation were also assessed. In 2018, NLFI explained in its second report that it would issue a recommendation for privatisation or a new progress report in 2019.

Context

NLFI has a statutory mandate to manage the shares of its investees and to advise the Minister of Finance on the strategy regarding the sale of shares held by the State, as well as to subsequently execute this strategy following a decision by the Minister.[2] The Minister of Finance will decide on de Volksbank's future at some point and, in doing so, will consider all aspects he deems desirable. Based on its statutory mandate and the objects included in its articles of association, NLFI – as de Volksbank's shareholder – facilitates the political decision-making process by providing advice.

Choosing a commercial perspective in its advisory reports is in line with NLFI's statutory mandate and the objects in its articles of association. This is a prerequisite for any

[1] In the words of NLFI's progress report of October 2018: a convincing proposition for privatisation encompasses both a solid long-term view of the future and an acceptable value proposition.
[2] As described in more detail in the NLFI Act, available on NLFI's website (and other websites): https://www.nlfi.nl/dynamic/media/43/documents/stb-2011-263-English.pdf.

balanced advice to be given on privatisation. NLFI also considers in this regard whether any possibility of privatisation is in de Volksbank's interests and whether it may continue to execute the strategy it has pursued since 2016. This is because, ideally, privatisation will take place in a manner that allows de Volksbank to retain – to the fullest extent possible – its own strategic freedom concerning the principle of 'banking with a human touch' defined by de Volksbank, which shareholder NLFI endorsed in its 2016 advisory report. Consequently, this was the horizon for 2019 at the time of NLFI's 2016 advisory report, partly in view of the options within de Volksbank itself, as translated into its targets, and the market conditions and market developments in 2016.

Any privatisation should be preceded by considerations of what the optimum form of privatisation would be. NLFI will only recommend that de Volksbank be privatised when the new ownership structure guarantees a stable and sound future for de Volksbank's business. This is addressed in detail in section [3.3] of this report. Since this report does not contain a recommendation to privatise de Volksbank, it includes a basic analysis.

Finally, NLFI notes in this section on prospects that de Volksbank chooses its own commercially strategic course on the commercial market. This has been agreed with the ACM for reasons of merger control.[3] However, in that context NLFI does maintain a constructive dialogue with de Volksbank about its corporate strategy, since this strategy is decisive for a decision about de Volksbank's future.

Report for 2019

Since NLFI announced in its 2018 progress report that it would issue a new report or a recommendation for privatisation in 2019, NLFI has assessed for this report whether de Volksbank is presently ready to be privatised. As a result, the nature and structure of this report differ from the 2017 and 2018 progress reports, in which the progress was monitored. After the October 2018 report, NLFI intensified its talks with de Volksbank and – using advisors – together with de Volksbank completed an analysis process to examine where de Volksbank currently stands and whether it could possibly be ready for a recommendation for privatisation. This also included the usual analysis of the development of de Volksbank's targets and of the current market conditions and developments. Furthermore, in view of the perspective of this report, NLFI has made a first analysis of a few considerations regarding options for de Volksbank's privatisation in the context of its targets and has looked at the market conditions and management's financial projections for the years ahead. This also included the question whether de Volksbank may continue to independently chart out its strategy in these options for privatisation. For the purpose of its analysis, NLFI gave paramount importance to the usual preconditions for privatisation. The preconditions for privatisation are the following: (i) the company in question is ready for privatisation; (ii) the financial sector is stable, and

[3] See https://www.acm.nl/nl/publicaties/publicatie/12605/Besluit-Stichting-Administratiekantoor-Beheer-Financiele-Instellingen-en-SNS-REAAL-concentratiebesluit.

(iii) there is sufficient market interest in the relevant transaction.[4] In addition to these preconditions, the aim is to recoup as much as possible of the capital expenditures.[5]

NLFI notes that it cannot disclose all details concerning a systemically important bank that is to be privatised at some point. NLFI seeks to be transparent in this report, but with due regard to the above.

[4] Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117. This framework was included in the NLFI advisory report of 2016 and was also assessed every year in the reports on de Volksbank's progress. See NLFI's website for the advisory report and the subsequent reports.
[5] Please refer to page 21 of the previous progress report as published on NLFI's website, https://www.nlfi.nl/dynamic/media/43/documents/progress%20report%20de%20Volksbank%202018.pdf.

2. Review and situation regarding de Volksbank in 2019

The previous report assessed the current situation regarding de Volksbank's strategic programme. In this report, the issue of privatisation takes centre stage. NLFI has assessed the progress that de Volksbank has made in the past few years in respect of the targets set for 2020, and in respect of the other performance indicators on which de Volksbank reports. The annual figures for 2014 to 2018 and the figures for the first six months of 2019 have been included in this assessment, since they give an idea of de Volksbank's current position and of the trends and focus areas that can be observed at this time.

2.1. Targets and performance indicators

A number of targets have been formulated in order to monitor whether de Volksbank is effectively pursuing the interests of all stakeholders, which was the subject of reports in 2016, 2017 and 2018. The results of these targets for the past five years and the targets for 2020 are presented in the table below.

Table

[see Dutch version]

A brief explanation of the development of the results so far is provided for each stakeholder category below. A few other performance indicators are also discussed. Please refer to Appendix 1 to this report for a more detailed explanation.

Creating benefits for customers

It is de Volksbank's ambition to be relevant and useful to customers. The bank has translated this ambition into two performance indicators: the Net Promoter Score (NPS) for customer satisfaction and the number of current accounts for customers (see Appendix 1 concerning the market share for mortgages and savings accounts). De Volksbank has shown clear progress on both points. The NPS is especially strong for RegioBank and ASN Bank and has improved for all brands. Recently, the RegioBank and ASN Bank brands were also assigned the highest scores in a customer satisfaction survey conducted by the Dutch Consumers' Association.[6] The bank has generated solid growth in the number of current accounts over the years and, in 2019, achieved its 2020 target for the number of current accounts.

Taking responsibility for society

De Volksbank seeks to make a positive contribution to society by improving sustainability and the financial resilience of its customers. In terms of sustainability, de Volksbank has made significant progress towards a 45% climate-neutral balance sheet by 2020. ASN Bank has even reached 118% climate neutrality.[7] Given the strong dynamics in the past two years, the bank seems on track to achieve its goal.

As regards financial resilience, de Volksbank aims to strengthen the bond of trust with its customers. The bank's target is for more than half of its customers to indicate their belief that the bank is ready to help them when they have financial stress. To achieve this, the bank has implemented initiatives in the areas of financial education, awareness and prevention. In 2017, the Financial Confidence Barometer was developed to monitor improvements. The bank is still making every effort to further develop its measurement method in this area, but seems well on its way to achieving its target for 2020.

Providing meaning for employees

De Volksbank wants to enable its employees to implement the bank's mission and strategy by giving them autonomy as well as personal and professional development. The bank engages in a dialogue with various employee groups to determine how this goal may be reached. The employee Net Promoter Score (eNPS) was initially selected as the indicator (see the table). However, since the bank concluded based on an analysis that the eNPS indicator was insufficiently in line with its ambition,[8] it has now developed an

[6] https://www.consumentenbond.nl/betaalrekening/bankenmonitor

[7] As ASN Bank explained on 20 August 2019, "ASN Bank, part of de Volksbank, is heading for a carbon profit. It was announced today that the sustainable bank, together with the ASN Investment Funds, is 118% climate neutral. This means that all direct and indirect investments together avoid more emissions than they cause." See https://www.asnbank.nl/nieuws-pers/asn-bank-en-beleggingsfondsen-samen-klimaatneutraal.html.

[8] See https://jaarverslag.devolksbank.nl/en/report-of-the-board/progress-on-strategy/genuine-attention-for-our-employees.

alternative indicator for 'genuine attention for its employees'. De Volksbank reported on this for the first time when publishing the 2019 interim figures.[9]

In parallel with this, de Volksbank has defined two targets for measuring employees' commitment and engagement. De Volksbank is seeing a downward trend here and so far has not succeeded in achieving the targets defined.

Achieving returns for shareholders

De Volksbank seeks to offer its shareholders a return that reflects the bank's low risk profile. Specifically, the bank is aiming for a return on equity of 8% and a dividend payout of 40-60% of adjusted profit.

The return target is underpinned by a set of financial targets in the areas of costs, risk, capital and liquidity. De Volksbank is a strongly capitalised bank with a CET1 ratio and a leverage ratio that are well above its own targets and the sector average. The CET1 ratio is expected to exceed the target level even after the full phase-in of Basel IV.

As may be inferred from the table, the return on equity for 2018 was 7.6 per cent and thereby below the 8 per cent target applied by de Volksbank. An 8.6 per cent RoE was achieved for the first half of 2019. However, when presenting the 2019 interim figures, de Volksbank explained that it expected the 2019 net profit to be in line with 2018;[10] therefore, if the capital position remains the same or rises slightly, the RoE for 2019 will not increase or will even slightly decrease compared with 2018. The observed drop in return is currently driven in part by lower income and in part by a cost reduction that falls short of expectations.

For the next few years, the return is expected to come under even greater pressure. This pressure is related to the bank's current business model in the market conditions prevailing at this time. Briefly put, the business model may be characterised as a model that focuses on the payment, savings and mortgage products offered on the Dutch market. Having relatively large savings and mortgage portfolios, de Volksbank is sensitive to interest rate movements in the market. This is discussed in more detail in section [3.1]. Because of the model, which primarily includes savings and mortgages, de Volksbank also experiences relatively high pressure on interest income.

Although, by and large, de Volksbank's return is in line with that of banks in other European countries, it is below the Dutch market average of approximately 10% for universal banks (this market average is calculated by averaging the figures of ABN AMRO, ING and Rabobank). For the retail segment within these banks – the part that is most comparable to de Volksbank – the return is generally higher than the total return.[11]

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[9] See the Interim Financial Report 2019 Press Release "Employees: introduction of a KPI for 'genuine attention' that is more in line with our mission; initial score for June 2019: 7.6 on a scale of 1 to 10." Available at https://www.devolksbank.nl/en/investor-relations/results-presentations.

[10] Available at https://www.devolksbank.nl/assets/files/jaarcijfers/De-Volksbank-1H19-Perspresentatie.pdf.

[11] In this context, it is noted here that most of the listed banks currently have a market value that is below their book value. This implies that the yield requirement that providers of risk capital currently apply for banks exceeds the returns achieved.

In terms of costs, the bank has set a target for the cost/income ratio of 50-52%. However, the cost/income ratio has deteriorated in the past few years and it seems that the bank will not achieve its target for 2020. The cost/income ratio for the first half of 2019 is not indicative of the full-year cost/income ratio, since de Volksbank's costs in the second half of the year are generally higher than in the first half of the year. De Volksbank's cost/income ratio is relatively high compared with the ratios of its larger Dutch competitors and similar European banks. Both lower income and lagging cost savings contribute to the deterioration of the cost/income ratio. Partly given the expected continued pressure on net interest income, the cost savings that the bank has already planned seem insufficient to reach the 2020 target for the cost/income ratio.

It should also be noted in this connection that regulatory costs – levies and costs of compliance – are increasing for all banks. Regulatory costs are expected to exert pressure on de Volksbank's pursuit of cost reduction also going forward.

2.2. Summary of developments observed

In general, the bank may be said to be on track to achieve its 2020 targets for the stakeholders 'customers' and 'society'. The progress made with 'providing meaning for employees' is a focus area for the bank. As regards the stakeholder category 'shareholders', a downward trend in return on equity and a deteriorating cost/income ratio are visible. Because of its business model, the bank is particularly sensitive to interest rate movements. This is discussed in more detail below.

3. Current prospects of privatisation

The State carries de Volksbank's financial risk at this time. When the bank is privatised, private investors take over the risk. With a view to the preconditions for privatisation explained in section 1, NLFI has prepared a forward-looking analysis with due regard to the findings included in Chapter 2. Part of this forward-looking analysis is an analysis of the market conditions and developments. These are discussed in section 3.1. NLFI has also taken note of management's financial projections for the years ahead. This is addressed in section 3.2. NLFI has also considered the usual types of privatisation and how these types relate to the analyses carried out to date. This is addressed in section 3.3. Finally, the fourth condition formulated pertains to the question whether the State's capital expenditures can be recouped (section 3.4).

3.1. Market conditions and developments

As regards the general macroeconomic developments, it may be noted that, following a 3.0 per cent increase in 2017 and a 2.6 per cent increase in 2018, Dutch GDP growth is expected to slow down in the next few years.[12]

Furthermore, certain market conditions that are important to banks have fundamentally changed since NLFI advised on de Volksbank in 2016. It is presently assumed throughout the industry that interest rates will remain low for the time being ('low for longer'). This is a macroeconomic development that is unprecedented in Europe but that might persist for a prolonged period of time. The banking retail market is also changing as a result of digitisation and new entrants (FinTechs and BigTechs). These developments prompt new ways of working and fiercer competition, thereby transforming the traditional concept of a retail bank. This is expected to result in innovation, but it also brings uncertainty for traditional banks.

These developments put pressure on the returns of retail banks. As explained earlier in this report, de Volksbank is highly sensitive to interest rate movements in the market due to its business model. The returns of banks, including de Volksbank, are expected to be under pressure in the next few years. NLFI notes that the current interest rate environment is also expected to have consequences for de Volksbank's net interest income for 2019.[13]

The following is also observed in the context of market conditions. While the returns of retail banks are under pressure, the current average return for eurozone banks in itself is a cause for concern, according to the BIS in its Annual Economic Report of

[12] For more information, see the CPB Netherlands Bureau for Economic Policy Analysis, which explained the following in its August Projections 2020: "Dutch economic growth will decline, due to the ill wind sweeping in from abroad. Unemployment will reach its lowest level in 2019 and will continue to be exceptionally low in 2020. Purchasing power will see a positive development in 2020, due to increases in real wages and, to a lesser extent, policy measures. Although there will still be a government budget surplus, it will not be as large. These are conclusions in CPB's August Projections 2020 (concept Macro Economic Outlook 2020; cMEV), as published today." For more information, see https://www.cpb.nl/en/table-main-economic-indicators-2017-2020#.

[13] See the press presentation with the publication of the 2019 interim figures: "In line with the developments in the first half of 2019, we expect net interest income in 2019 to be lower compared to 2018, mainly due to lower interest income on mortgages", included on page 19: https://www.devolksbank.nl/assets/files/jaarcijfers/De-Volksbank-1H19-Perspresentatie.pdf

June 2019.[14] The BIS's analysis quoted in footnote [16] illustrates that all EU banks face fundamental challenges in the current market conditions. One of the questions that arises here is how banks must make investments to ensure a sound future. Information technology developments in particular follow one another in rapid succession and require adjustments. De Volksbank has grown to become a smart adopter in the past few years (see NLFI's previous report[15]), but this means that the issue is still relevant to de Volksbank in the current market conditions. Another major question is what return targets European banks should set for themselves. Such questions are relevant to both investor appetite and individual banks, including de Volksbank.

Finally, it is noted that the developments outlined above in respect of the economic conditions and in respect of banks in particular lead investors to adopt a reserved attitude. An analysis has shown that the cost of equity in the market is presently relatively high for banks. As a result, the market conditions are not favourable for a privatisation of de Volksbank at this time, if the aim is to realise proceeds that are not significantly lower than the book value.

3.2. Financial projections of de Volksbank's management

NLFI has taken note of the financial projections prepared by de Volksbank's management. They confirm that the trends identified in Chapter 2 (in summary, pressure on returns and the intended cost reduction, which is also connected with the market conditions as explained in the previous section), will continue going forward. Partly viewed in this light, de Volksbank has started making internal analyses to identify any further options of optimisation. Diversification of income and cost reduction are two aspects de Volksbank is looking at.

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[14] Annual Economic Report June 2019 (location: https://www.bis.org/publ/arpdf/ar2019e.htm), p. 20: "However, in order to support the economy, banks also need to be profitable. In general, profits are the main source of capital increases, help raise external funding at lower cost, and represent the first line of defence against losses. (…) Unfortunately, bank profitability has been lacklustre. In fact, as measured, for instance, by return-on-assets, average profitability across banks in a number of advanced economies is substantially lower than in the early 2000s (Graph I.14, left-hand panel). Within this group, US banks have performed considerably better than those in the euro area, the United Kingdom and Japan (centre panel). Looking ahead, depressed market valuations, as reflected for instance in lower price-to-book ratios, suggest lingering concerns about long-term profitability. Furthermore, the increase in capitalisation has occurred to a large degree owing to slower asset growth (right-hand panel). Hence, going forward, weak profitability could potentially constrain credit growth through slower equity accumulation. Both macroeconomic and banking-specific factors have sapped bank profitability. On the macro side, persistently low interest rates and low growth reduce profits. Compressed term premia depress banks' interest rate margins from maturity transformation. Low growth curtails new loans and increases the share of non-performing ones. Therefore, should growth decline and interest rates continue to remain low following the pause in monetary policy normalisation, banks' profitability could come under further pressure. To improve profitability, banks face challenges. Costs remain stubbornly high relative to income. Business models have yet to be restructured on a sustainable basis – in particular, adapting to a lower and flatter yield curve. Banks are also facing increasing competition from non-traditional players, such as big techs, which are taking advantage of digital innovation (Chapter III). Those banks saddled with antiquated legacy IT systems are more vulnerable. Furthermore, overcapacity lingers, as bank exit is much harder than in other sectors."

[15] As published on NLFI's website: https://www.nlfi.nl/dynamic/media/43/documents/progress%20report%20de%20Volksbank%202018.pdf.

3.3. Types of privatisation

As set out in the introduction, NLFI will only recommend that de Volksbank be privatised when the new ownership structure guarantees a stable and sound future for de Volksbank's business. NLFI will consider all options when preparing a recommendation for privatisation. Although the present report is not a recommendation for privatisation, a few observations regarding the options are made below for the purpose of this report.

General options for privatisation

When an NLFI investee is privatised, the first thing that generally springs to mind is a scenario that results in a stand-alone future of the enterprise concerned. Mutualisation (structuring a cooperative) is a type of privatisation that results in an autonomous enterprise. An IPO may also lead to this, which was the case with a.s.r., for example. However, privatisation as an autonomous enterprise is only an option if soundness and going concern may reasonably be expected in that scenario. A company must also be sufficiently attractive to investors. It may in fact be beneficial to the company's going concern and a sound future to look for other forms, such as a partnership with or a takeover by a strategic partner. This option could be useful for safeguarding the company's sustainable continued existence upon privatisation, should a stand-alone scenario prove to be unrealistic. Variations of privatisation are also conceivable, such as transferring some of the shares to one or a few large investors through a private placement.

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The following observations regarding these privatisation options may presently be made in respect of de Volksbank.

- De Volksbank is too large for a full private placement, in terms of the amount of capital ensuing from the regulatory authority's solvency requirements. Consequently, this option can only be implemented partly and must be combined with another type of privatisation. An IPO would be a logical choice. It may also be noted in this connection that even a private-placement investor must be able to sell its stake in due course, which would likely be done in an IPO. Therefore, a private placement cannot be regarded as an independent option for privatisation.
- It cannot be ruled out that de Volksbank could currently be privatised by means of an IPO. However, given the market conditions and the expected pressure on de Volksbank's returns and business model, there is a risk of new shareholders exerting a great deal of pressure to bring about de Volksbank's restructuring after an IPO, which is presently only possible below de Volksbank's book value. A restructuring may include measures aimed at adjustment or expansion of the product range, a review or restructuring of distribution channels, and other measures resulting in an improved cost/income ratio.–The impact this would have on the bank's strategic freedom cannot be assessed in advance.
- Although setting up a cooperative might be in line with the core values of de Volksbank's strategy, it is highly unlikely that de Volksbank's customers and/or employees will be able to contribute the full amount of capital needed. It is also important to bear in mind that this would transfer the risk of de Volksbank's operations to the customers and/or employees, while the analysis above has

revealed that the current business model carries inherent risks. Therefore, transforming the current Volksbank into a cooperative is not a realistic prospect.[16]

- Privatisation could also be brought about through a merger with, or takeover by, a strategic partner. Combination with another financial company could eliminate some of the risks associated with the current business model because of diversification and cost synergies. A strategic partner might also demand a restructuring. It would then depend on the strategic partner to what extent de Volksbank could continue to steer its own strategic course, or to what extent this strategic course would be guaranteed because it overlaps with that of the strategic partner.

In every type of privatisation, creating the strongest possible position for de Volksbank is preferred. Therefore, the question that must subsequently be asked is whether it is possible for de Volksbank to work towards a better proposition to prevent any restructuring after privatisation and retain more control of its strategy. This might also benefit the proceeds of privatisation. Partly in view of the market developments, this gives rise to the question whether de Volksbank could adjust its business model, for example by adding new income and thereby reducing its dependence on interest rate movements, and whether it could permanently cut its costs to counterbalance its lower income. This question is addressed in Chapter [4].

3.4. Capital expenditures

As explained in NLFI's 2018 report, the aim is to recoup as much as possible of the total capital expenditures in de Volksbank, plus the State's financing costs, less the dividend distributions received. In addition, when privatising its investees, NLFI seeks a yield that is at least equal to the equity that the State has made available as shareholder. An analysis on this point cannot be made until NLFI recommends that de Volksbank be privatised. That is not the case now.

[16] Ownership structures of a cooperative nature in which – in addition to customers and employees – other investors also contribute risk capital to the bank may be examined in more detail by NLFI when all ideas regarding an adjustment of the business model have been exchanged with de Volksbank.

4. Benchmark analysis

In response to the findings in Chapters 2 and 3, NLFI has made a benchmark analysis to assess de Volksbank's performance compared with other banks. Would it be possible for de Volksbank to work towards a proposition for privatisation in which the bank retains more control of its strategy? Is it possible to mitigate the risks identified in the business model (pressure on returns and the intended cost reduction, which is also connected with the market conditions)?

Although de Volksbank – with its business model focusing on payments, savings and mortgages – is unique in the Netherlands, NLFI has looked at similar features at other Dutch banks, such as their retail divisions. This is in line with market practice, because potential financiers always make a domestic comparison. As financiers are wont to do, a comparison has also been made with other European banks that focus primarily on the mortgage market (such as Coventry Building Society (UK), Argenta (Belgium) and Clydesdale Bank (UK)).

The main conclusions of the benchmark analysis are that comparable banks:

- make clear choices to compete in the market, either through low costs and simple products (whether or not combined with a high degree of process digitisation) or through specific, customer-focused products that are competitive in terms of service and ease;
- in a general sense, achieve a sound cost/income ratio;
- often have portfolios that are less sensitive to interest rate movements and are better diversified in terms of sources of income.

Obviously, de Volksbank is a unique bank that applies its business model in a Dutch context. These conclusions cannot be applied to de Volksbank one to one. Nevertheless, based on this benchmark analysis NLFI estimates that there are opportunities for de Volksbank to create a more convincing proposition for privatisation. For example, a question that may be examined is whether it is possible for de Volksbank to structure its product range and distribution channels such that the principle of banking with a human touch is further aligned with modern information technology. As explained, de Volksbank has started making internal analyses to identify any further options of optimisation. De Volksbank has informed NLFI that it expects to be able to share its conclusions with NLFI in the first quarter of 2020.

It is noted that, in accordance with the frameworks established for NLFI and de Volksbank, de Volksbank itself should analyse these strategic opportunities and prepare a plan for them; this is because NLFI must refrain from influencing the commercial strategies of its investees in connection with the rules on merger control.

5. Conclusions

The results achieved show that, in the past few years, de Volksbank has endeavoured to reach the targets discussed in 2016 and that its efforts produce concrete results. NLFI would like to compliment de Volksbank on this. De Volksbank has succeeded in broadly positioning itself as a safe retail bank offering simple, transparent and fairly priced financial products. However, the market has changed significantly since NLFI's advisory report of 2016. Far-reaching digitisation and changes in the retail market that de Volksbank targets in its model are just one aspect. Another aspect is that it is assumed throughout the industry that interest rates will remain low for the time being ('low for longer'), which is a macroeconomic development that might persist for a prolonged period of time. This is a challenge for the banking sector as a whole.

The analysis in this report shows that, partly due to market developments, de Volksbank's return and intended cost reduction are under pressure. This risk is inherent in de Volksbank's business model in these market conditions. The macroeconomic situation is not expected to improve in the next few years and it may even deteriorate. This makes it a structural challenge in de Volksbank's business model, which may put even greater pressure on the financial results in the next few years while questions also arise regarding any necessary further investments, such as in the area of IT. Based on the benchmark study, NLFI currently sees opportunities for de Volksbank to develop a better proposition for privatisation. If de Volksbank succeeds in doing so, the result would be that de Volksbank would have more discretion in pursuing its own strategy in a privatisation scenario.

De Volksbank has informed NLFI that it expects to be able to share its internal analyses with NLFI in the first quarter of 2020. Depending on the answer to the question whether a more favourable proposition for privatisation may be achieved, NLFI will reflect on de Volksbank's future and report on this to the Minister.

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Appendix: Commercial and financial results

Appendix

Commercial and financial results

Supplementary to section 2.1 of this report, the main commercial and financial results of de Volksbank are presented here. The following are presented in succession: net profit and return on equity, net interest income and net interest margin, operating expenses and cost/income ratio, loan loss provisions, the market share for mortgages and savings accounts, the capital and leverage ratios, and the number of staff.[17]

[see Dutch version]

[17] As noted in footnote [5], de Volksbank expects the results for the full year 2019 to be in line with the results for 2018.