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NLFI

Report on de Volksbank

June 2022

Summary

As requested by the Minister of Finance, since 2017 NLFI has reported every year on the situation at de Volksbank and on how ready de Volksbank is to make a decision about its future.¹ In its report for 2018, NLFI explained that it would issue either a recommendation for privatisation or a new progress report in 2019. A new progress report was issued in 2019 because, to put it briefly, de Volksbank was not yet ready for privatisation, partly as a result of market developments. NLFI took the view that there were possibilities for de Volksbank to create a better starting position.

De Volksbank carried out a strategic reorientation and presented the results to the market in February 2021. NLFI has maintained a dialogue with de Volksbank and has assessed the new strategy from the perspective of the shareholder and with a view to advising the Minister of Finance on potential privatisation. The conclusion drawn in the 2021 progress report was that, regardless of whether the bank is privatised, the new strategy developed by de Volksbank will contribute to the bank's continuity and stability and help to strengthen its financial position, and is therefore essential for the bank. This new strategy also helps to create a better starting position for privatisation. Furthermore, a successful strategy will give the bank greater discretion to determine how it will develop its own character - "banking with the human touch" - in a privatisation scenario. In the 2021 progress report, NLFI explained that the bank must be given space to implement the new strategy and subsequently demonstrate to NLFI that this strategy will bear fruit.

The progress report before us is the first report to be issued since de Volksbank started implementing its new strategy. This progress report explains the current situation. Making the intended changes takes time and effort. The following 'interim progress evaluation' reveals that de Volksbank has made a good start, and is creating a more robust organisation and strengthening its social identity. NLFI understands that further steps must be taken; investments need to be made before benefits can be reaped. De Volksbank has not yet reached the point of achieving a structural improvement in its financial results, but it expects to do so starting from next year.

In the 2021 progress report, NLFI noted that the bank is affected by "dynamic market conditions". During the past 12 months there have been several new developments, which include a sharp rise in inflation, hikes in interest rates and uncertainties due to political and geopolitical developments. Although these developments will not, in themselves, directly lead to changes in strategy, they may affect the bank's financial results.

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

1. Introduction

NLFI has a statutory duty to manage the shares of the participating interests assigned to it and to advise the Minister of Finance on the strategy regarding the sale of shares held by the State. NLFI also has a duty to implement that strategy following a decision by the Minister.²
5 The Minister of Finance will decide on de Volksbank's future at some point and in doing so will take into account all aspects that are considered appropriate. Based on its statutory duty and the objects set out in its articles of association, NLFI supports the Minister of Finance to make a decision.

10 In accordance with its statutory duty and the objects set out in its articles of association, NLFI provides advice on the available privatisation possibilities from a business perspective. NLFI does not rule out any possibilities in advance. In this context, NLFI considers the extent to which the available privatisation options are in the interests of de Volksbank and all its stakeholders. NLFI also considers the extent to which the bank is able to continue executing its strategy. De Volksbank would prefer privatisation to take place in a manner that allows de
15 Volksbank to retain as much as possible of its strategic freedom concerning its defined mission of 'banking with a human touch'.

20 De Volksbank has defined a number of targets to help it achieve its strategy. The situation concerning these targets helps provide a framework for analysing whether, at some point, de Volksbank is sufficiently successful and stable for privatisation. This does not affect NLFI's assessment of the situation at de Volksbank, including in isolation from privatisation, because a future-proof strategy is important for de Volksbank in any scenario. Even if the government were not to opt for privatisation, implementation of the new strategy is desirable for de Volksbank as this will contribute to its continuity and stability and a stronger financial position.

25 De Volksbank sets its own commercially strategic course on the market. This has been agreed with the ACM for reasons relating to merger control. In that context, NLFI maintains a constructive dialogue with de Volksbank about its corporate strategy, since this strategy will have a huge impact on the privatisation possibilities for the bank.

30 The implementation of the new strategy will not result in privatisation on a one-to-one basis. The privatisation options depend on a multitude of factors (both company-related and market-related). NLFI monitors whether privatisation is possible. If a privatisation possibility presents itself, NLFI will apply the usual criteria and will advise the minister at that time.

2021 progress report

35 The 2021 progress report explained de Volksbank's new strategy. The impact of the new strategy on de Volksbank as a company and on the future privatisation options was discussed. The new strategy needs to ensure that de Volksbank migrates to a business model that is future-proof (regardless of the prospect of privatisation), in accordance with de Volksbank's principle of 'banking with a human touch', and ultimately creates a good starting position for privatisation. It was also explained that at that time there was no reason to
40 update the observations concerning privatisation possibilities contained in the 2019 progress report. This is still the case, taking into account "the various possible future options" addressed by the Minister of Finance in the scenario study published in July 2021.³

Developments

Governance

45 The Supervisory Board is operating at full strength under the leadership of a new chair. De Volksbank has also introduced a new structure at the top, with an executive committee consisting of statutory and non-statutory directors. Six of the seven positions on the

² This is described in more detail in the enabling act ([Wet NLFI](#)).

³ <https://www.rijksoverheid.nl/documenten/kamerstukken/2021/07/06/bijlage-verkenning-toekomstopties-de-volksbank>

executive committee have been filled and the bank expects to fill the final vacancy soon, once DNB/ECB have given their approval.

Macroeconomic developments

5 As explained in the previous report, the success of de Volksbank's strategy depends on external factors, among other things, and de Volksbank and NLF1 are aware of the implementation and other risks, including risks relating to pace and complexity of implementation.

10 Various factors have affected the financial sector and de Volksbank since the autumn of 2021. The impact of the government's measures to combat the Covid-19 pandemic during 2019-2021 can still be felt. Since the spring 2022, the financial sector has been affected by uncertain effects resulting from global political and geopolitical tensions. Moreover, inflation has been rising since autumn 2021. Capital market interest rates - and therefore interest rates for mortgages and business loans - have risen. The revenue model of banks that focus largely on savings and mortgages, such as de Volksbank, has been adversely affected by the
15 prolonged period of low interest rates. This was one of the reasons why the bank had to rethink its strategy. Any increases in interest rates will improve margins and therefore result in more interest income for the bank, although it will take some time for this to feed through into the revenue model. Another question that arises is how current economic conditions, such as inflation, high energy prices and rising mortgage rates, will affect households in the
20 Netherlands and whether the economy is heading for a recession. With its focus on payments, savings and mortgages, de Volksbank faces many uncertain factors that could affect it.

Conditions for privatisation

25 When assessing whether a participation is ready for privatisation, NLF1, in line with what the Minister of Finance agreed with the House of Representatives, applies the same conditions for privatisation which it applied in previous years. These concern the questions as to whether: (i) the company in question is ready for privatisation; (ii) the financial sector is stable, and (iii) there is sufficient market interest in the intended transaction. In addition to
30 these preconditions, (iv) the aim is to earn back as much as possible of the capital expenditures.⁴

35 As described in the 2021 progress report, the bank explained to NLF1 that it expects it will take several years before the effects of the implementation of its new strategy will become visible in the form of a structural improvement in the financial results. This means that the conclusion drawn at that time - that the bank is not yet ready for privatisation - still applies today.

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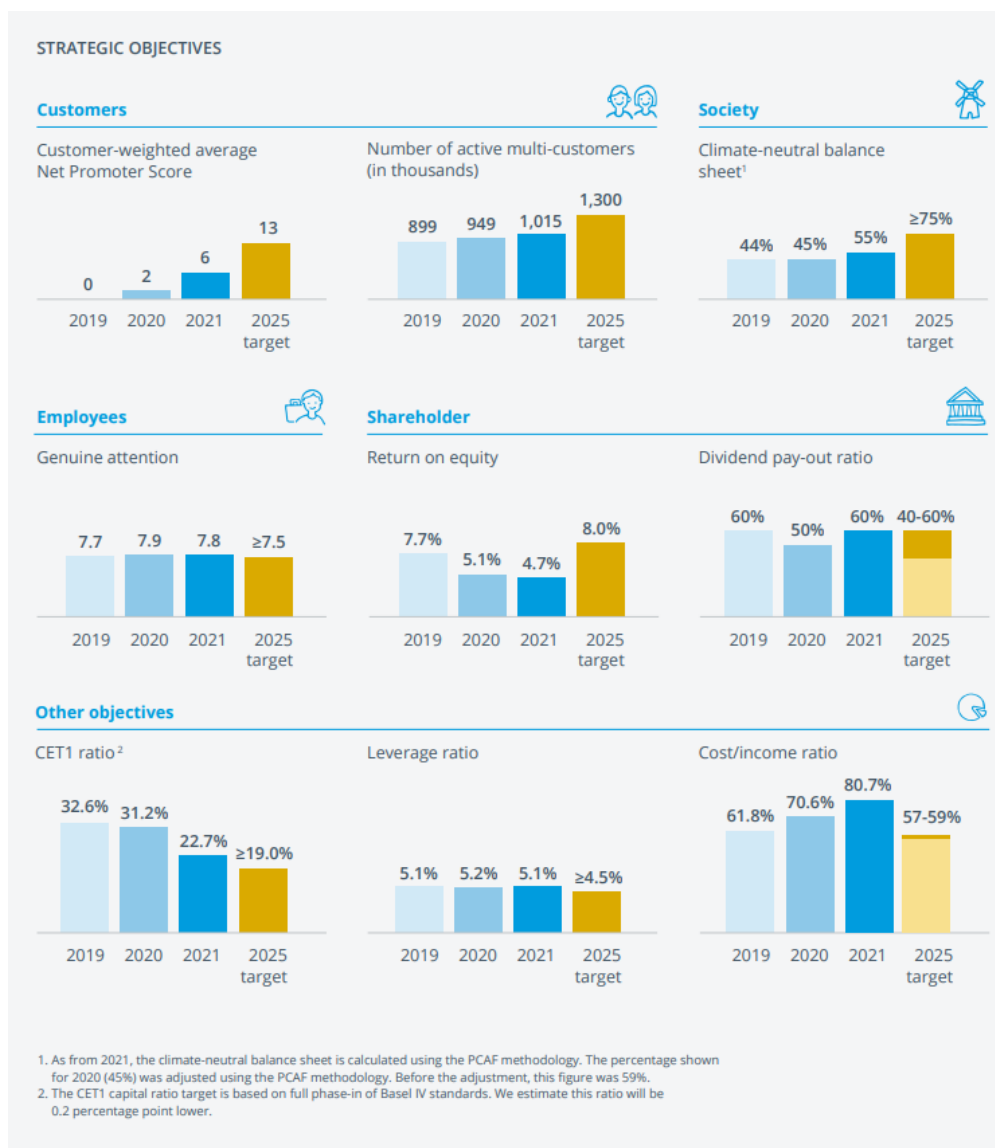
⁴ See: [Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117.](#) .

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2. Situation concerning implementation of strategy

De Volksbank uses a number of key performance indicators. The following table and notes, taken from the 2021 annual report, describe the situation at de Volksbank.

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De Volksbank also provides the following explanation.

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Through its strategy, de Volksbank aims to create optimum total value for customers, society, employees and its shareholder. The bank operates from its distinctive and differentiating principles; in 2025, de Volksbank wants to be the bank with the strongest customer relationships in the Netherlands and to have a great, proven social impact. By extension, it defines growth priorities for each market, which are supported by five

transformations. These transformations are necessary in order for de Volksbank to develop into a future-proof bank.

Strong customer relationships

To measure customer relationships, de Volksbank has defined two specific key performance indicators (KPIs). These KPIs are a customer-weighted Net Promoter Score (NPS) of +13 by 2025, and 1.3 million active multi-customers by 2025.

In 2021, the bank made progress in meeting its targets. The customer-weighted NPS increased to +6, compared with +2 at the end of 2020. The SNS, ASN Bank and BLG Wonen brands continued their positive trend, while RegioBank's NPS remained high. In addition, the RegioBank (1st place), ASN Bank (2nd place) and SNS (5th place) brands all scored highly in the annual Banking Monitor survey conducted by the Dutch consumers' association (Consumentenbond).⁵ The number of active multi-customers rose 7% to 1.015 million in 2021.

Social impact

De Volksbank aims to make a positive contribution to society in relation to four themes: sustainability, financial resilience, quality of life in the region, and good housing for everyone. With respect to the theme of sustainability, the bank's KPI target is a 75% climate-neutral balance sheet by 2025, rising to 100% by 2030. KPIs for the other themes are being developed.

Progress was made towards achieving a climate-neutral balance sheet in 2021, with the share of climate-neutral assets rising from 45% in 2020 to 55%.

Sincere attention to employees

De Volksbank uses the KPI Genuine Attention to measure the value created for employees. In the employee survey, employees indicate the extent to which they feel genuine attention is paid to them, based on five different themes. The target for this KPI is at least 7.5 by 2025. This KPI was 7.8 in 2021, compared with 7.9 in 2020.

Achieving returns for shareholders

De Volksbank aims to be a healthy and stable bank with moderate-risk activities and with appropriate returns for its shareholder. The bank's target for return on equity (ROE) is 8% in 2025. This is expected to be lower in the coming years, however, based on the current outlook. The bank will invest heavily in the coming years in order to achieve its strategy, which will eventually lead to ROE increasing to 8% in 2025.

In line with expectations, ROE fell to 4.7% in 2021, down from 5.1% in 2020. The dividend paid by de Volksbank for 2021 was 60% of net profit, which is at the upper end of the target range.

Other targets

In addition to the aforementioned objectives, de Volksbank has also set targets related to the optimisation of capitalisation and the balance sheet, and efficient operations. These concentrate primarily on business continuity, which is essential for all stakeholders. Translated into measurable targets and KPIs, this means that an ongoing basis there is a target Tier 1 capital ratio of at least 19% based on Basel IV being fully phased-in, a target leverage ratio of at least 4.5% and a target efficiency ratio of between 57% and 59%.

Based on the balance sheet as at 31 December 2021, the bank estimates that, once the Basel IV rules have been fully phased in, the Tier 1 capital ratio will be 22.5%, up from 24.2% at the end of 2020. This is still well above the bank's own target of 19%. The leverage ratio fell slightly to 5.1%, which was also above the minimum target of 4.5%.

The efficiency ratio is the ratio of total operating expenses, including regulatory levies, to total revenue. When setting the target of 57%-59%, de Volksbank took into account the fact that the efficiency ratio will exceed this range in the coming years, since the

⁵ <https://www.consumentenbond.nl/betaalrekening/bankenmonitor>

strategic initiatives should start to have an impact on both revenue and operating expenses. The efficiency ratio rose from 70.6% in 2020 to 80.7% in 2020.

Growth priorities by brand

In 2021, de Volksbank's brands showed initial signs of progress concerning growth priorities for the coming years. Besides the growth in customer numbers shown by all brands, the following progress was made:

- ASN Bank showed solid progress in the areas of commission income and fees from investment funds. ASN Bank also introduced the ASN Biodiversity Fund.
- SNS now also offers sustainable investment funds. In addition, SNS launched its new brand positioning, which is aimed at attracting a younger target market.
- RegioBank developed initiatives relating to quality of life in the region and was voted the 'most customer-friendly bank in the Netherlands' for the third year in a row⁶
- BLG Wonen showed growth in terms of both private new mortgage production and its mortgage portfolio, and it continued to expand its distribution network.

The first half of 2022 also saw progress in the area of new products and services. The Business Investment Account and 'Duurhuur 2.0' (mortgage lending based on rental history) were introduced, Apple Pay went live, three new insurance products were added to the ASN range, and a new valuation platform was rolled out at SNS. De Volksbank has also made it possible for Ukrainian refugees to open a current account.

Necessary transformations

In order to realise the growth priorities for each bank brand, de Volksbank has formulated five transformations that are designed to strengthen the business and operating model and make the bank future-proof. Over the next three years, de Volksbank will continue to invest in these transformations, which can be summarised as follows:⁷

1. The '*digital and omnichannel dialogue*' transformation, which aims to bring about a greatly enhanced customer experience and create customer value through improved digital services and improved access to products and services.
2. The '*relevant product range, new propositions and small business as a new target market*' transformation, which aims to create added value for the customer and the bank by expanding the range of products and services.
3. The '*IT-based customer bank*' transformation, which aims to transform de Volksbank from a product-centric to customer-centric bank by means of a modularly organised IT foundation.
4. The '*customer focused*' transformation, which aims to bring about a more agile and customer-focused organisation, a better, integrated customer experience, higher productivity and a shorter time-to-market.
5. The '*efficient and flexible*' transformation, which increase efficiency by entering into more partnerships and increasing outsourcing (cost flexibilisation), and by using capital and the balance sheet in a more targeted way.

These transformations support the implementation of the strategy. De Volksbank has achieved the following progress in these areas:

- Digital services were improved through the updating and further personalisation of the environments for customers and advisers.
- De Volksbank expanded the product range of its brands by adding insurance products and personal loans, for example. Mortgage-related services were expanded through the acquisition of the Fitrex valuation platform. In addition, the brands managed to grow the SME portfolio by €117 million to €841 million (up 16%).
- The bank has developed a plan to price services differently, which is based on fees rather than interest. Under this plan, the bank charges customers who purchase fixed combinations of products a fixed fee. This new fee structure started to be introduced on 1 July 2022.
- The bank has implemented a robust data infrastructure in its reporting chain.

⁶ <https://marketresponse.nl/klantvriendelijkstebedrijf/editie2022/>

⁷ For more details, see NLF's progress report for: <chrome-extension://efaidnbmninnbpcjpcglclefindmkaj/https://www.nlfi.nl/wp-content/uploads/2021/07/Voortgangsrapportage-de-Volksbank-2021-NLFI.pdf>

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- A uniform agile way of working is now followed at de Volksbank. An Executive Committee has also been set up, with the aim of bringing focus and balance to the management of this changing organisation.
- The bank is working on its sourcing strategy and on achieving the intended efficiency gains.

Based on de Volksbank's explanation and the progress it has presented, NLFII concludes that, despite the challenges faced by the bank, de Volksbank has made a good start in implementing its new strategy.

3. Conclusion

5 In the 2021 progress report, NLF I concluded that "Although it remains to be seen whether the strategy will result in all criteria being fulfilled within the period 2021-2025, it is clear beforehand that this will pose a considerable challenge." (...) Nevertheless, NLF I believes that the strategy is an appropriate choice and that, in pursuing this strategy, the bank will work towards the necessary transformations. The new strategy will help de Volksbank strengthen its financial position. This is why, in NLF I's opinion, it is necessary that the bank implements this new strategy. By improving the bank's financial position, the new strategy contributes to a better starting position for privatisation. A successful strategy will give the bank greater discretion to determine and pursue its own strategy, including banking with a human touch, in a privatisation scenario. Even if the government does not opt for privatisation, the implementation of the new strategy is desirable with a view to de Volksbank's financial position. NLF I is therefore of the opinion that the bank must be given space to implement this new strategy and subsequently demonstrate to NLF I that this strategy will bear fruit.

15 As the bank explained to NLF I, it expects that it will take several years before the effects of the implementation of its new strategy will become visible in the form of a structural improvement in the financial results. After all, investments must be made before benefits can be reaped. De Volksbank has not yet reached the point of achieving a structural improvement in its financial results, but it expects to do so starting from next year. This means that the conclusion drawn by NLF I at that time - that the bank is not yet ready for privatisation - still applies today. NLF I notes that de Volksbank has taken up the challenge of implementing the new strategy with great energy while still maintaining its principle of 'banking on a human scale'. NLF I concludes on the basis of de Volksbank's explanation that it has made a good start.

25 De Volksbank faces the task of implementing its carefully devised strategy while operating in an uncertain market. Trends in factors such as inflation, interest rates and geopolitical tensions and the impact of these factors on the Dutch economy, the financial sector and de Volksbank should become clear in the coming period. It may be necessary to adjust the strategy at some point, if external market conditions require this.

30 In the next progress report, NLF I expects to focus on the progress of the implementation of de Volksbank's strategy, the outcome of this, and the possible impact of economic developments.

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