

This is an unofficial translation. The Dutch version prevails.



NLFI

Report on de Volksbank

June 2023

Summary

As requested by the Minister of Finance, NLFI reports every year on the situation at de Volksbank and the readiness of de Volksbank to make a decision about its future.¹ The Minister of Finance shares this report with the House of Representatives.

In 2019 it was concluded that de Volksbank was not yet ready for privatisation, in part due to market developments at that time.² De Volksbank carried out a strategic reorientation and presented the results to the market in February 2021. It then started implementing this new strategy, which has a horizon up to the end of 2025.

In its 2021 progress report, NLFI focused on the revised strategy. NLFI has explained that, regardless of whether the bank will be privatised, de Volksbank's strategy is necessary for the bank as it contributes to de Volksbank's continuity and stability and helps strengthen its financial position. This 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 continue to develop its own character ("banking with a human touch") in a privatisation scenario.

A year later, in 2022, NLFI issued the first progress report since de Volksbank started implementing the strategy. In 2022, NLFI concluded that de Volksbank had made a good start on its strategy, and was creating a more robust organisation and strengthening its social identity. However, investments and efforts were, and are still, required before results will be seen. As NLFI explained in the 2022 progress report, de Volksbank still needs a few years to roll out its strategy.

This report is the second report on the situation at de Volksbank since the strategy was implemented. As this report shows, following a good start, de Volksbank made progress in implementing its strategy in 2022 and early 2023. Furthermore, it appears that the bank achieved a higher financial return in 2022, helped by market conditions such as interest rate developments. However, NLFI believes that de Volksbank still faces significant challenges that need to be addressed in order to achieve its objectives in the coming years. For more details see section 2.2 of this report, in which NLFI notes, among other things, that de Volksbank is working to reduce its sensitivity to interest rate developments. The further development of a diversified income and funding model is necessary to allow de Volksbank to generate sufficient income in times of high and low interest rates. Interest income has now increased significantly, but this is mainly due to interest rate developments in Europe.

Moreover, de Volksbank is facing challenges achieving objectives in the areas of IT and cost control. Just like other banks, de Volksbank is incurring high costs that are associated with compliance with all applicable laws and regulations, including laws and regulations relating to the 'gatekeeper function' under the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft). NLFI will continue to discuss these matters with the bank.

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

2 2019 progress report: *"As explained earlier in this report, de Volksbank is highly sensitive to interest rate developments in the market due to its business model. It is expected that in the coming years the returns of banks, including those of de Volksbank, will be under pressure. (...) Besides the extensive digitisation and change taking place in the retail market, which is the focus of de Volksbank's model, it is also 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."*

NLFI previously explained that dynamic market conditions affect the banks in both a positive and negative way. Various developments have occurred in the past two years, which include uncertainties resulting from political and geopolitical trends, a sharp rise in inflation that has not yet been brought under control, and a rapid rise in interest rates. In the spring of 2023, US and Swiss supervisory authorities and governments had to take action in order to prevent a new banking crisis. At the time this report was prepared, it was not certain whether a recession will occur or what consequences the aforementioned uncertainties would have for banks in the coming period. Such developments do not, in themselves, result directly in adjustments to de Volksbank's strategy, although they can have an impact on the financial results and on how quickly strategic objectives are achieved.

The Minister of Finance has announced his intention to take a directional decision on the future of de Volksbank and to ask NLFI for a recommendation. This progress report does not relate to that decision or recommendation.

1. Introduction

Framework

NLFI's task is to manage the shares in the participations that have been assigned to it.³ This management includes conducting a dialogue with de Volksbank about the implementation of its strategy and the achievement of the objectives set by de Volksbank.

Furthermore, NLFI's task is to advise the Minister of Finance on a strategy for the sale of the shares by the State, and to implement this strategy following a decision by the Minister.⁴ Based on its statutory duty and the objects set out in its articles of association, NLFI helps the Minister of Finance to make a decision. NLFI provides advice on the available possibilities for privatisation from a business perspective. NLFI does not rule out any possibilities in advance. NLFI takes into consideration to what extent the privatisation options that are actually available are in the interests of de Volksbank and its business, and in that context NLFI also takes into account the interests of de Volksbank's stakeholders. NLFI also takes into consideration the extent to which the bank is able to continue executing its strategy.

De Volksbank has defined a number of targets to help it achieve its strategy. The status of these targets helps serve as a frame of reference for analysing whether, at some point in the future, de Volksbank operates with sufficient success and stability to be privatised. This does not affect that NLFI assesses the state of affairs at de Volksbank, independent of the possibilities to privatise,, 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 strategy is desirable for de Volksbank as this will contribute to its continuity and stability and to a stronger financial position.

De Volksbank sets its own commercially strategic course on the market. This has been agreed with the ACM for reasons relating to merger control.

The implementation of the strategy will not result in privatisation on a one-to-one basis. There are many factors (both company-related and market-related) that impact privatisation options.

Looking back on 2022 progress report

In the 2022 progress report, NLFI included an explanation from de Volksbank about the state of affairs regarding the key performance indicators it uses. De Volksbank explained that its strategy aims to create optimum total value for customers, society, employees and its shareholder. The bank operates on the basis of 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. From here, it defines growth priorities for each brand, which are supported by five transformations. These transformations are necessary in order for de Volksbank to develop into a future-proof bank.' The progress report subsequently explained the growth priorities and the transformations.

3 NLFI previously provided the House of Representatives with a position paper explaining its management task: <https://www.nlfi.nl/wp-content/uploads/2020/11/Position-Paper-NLFI-9-november-2020.pdf>.

4 As described in more detail in the [Trust Office Foundation \(Management of Financial Institutions\) Act](#) ("NLFI Act").

In 2022 NLF1 determined that de Volksbank undertook the strategy implementation process with great energy. Based on de Volksbank's explanation, NLF1 concluded that the bank had made a good start.

Developments

Governance

In 2022, NLF1 explained that the Supervisory Board had been restored to full strength under the leadership of a new chair and that de Volksbank had introduced a new senior management structure, with an Executive Committee consisting of directors under the articles of association and other directors. Following the appointment of a new Chief Financial Officer in June 2022, the Executive Committee is now also at full strength.

The economy

In 2022, NLF1 noted that de Volksbank had set itself the task to implement a carefully designed strategy while operating in an uncertain market. That is still the case today. Various developments have occurred in the past two years, which include a sharp rise in inflation that has not yet been brought under control, an increase in money and capital market interest rates, and uncertainties resulting from political and geopolitical trends. In the spring of 2023, US and Swiss supervisory authorities and governments had to take action in order to prevent a new banking crisis.

De Volksbank is the only systemically important bank in the Netherlands focusing primarily on the Dutch retail market of payments, savings and mortgages, and it has only a small share of the market when it comes to insurance, investments and business loans. This makes de Volksbank sensitive to trends in interest rates. This topic is discussed in chapter 2. De Volksbank is working to reduce its sensitivity to trends in interest rates as part of its strategy. There was a lengthy period of very low interest rates. An adjustment took place in 2022. The ECB raised interest rates by 250 basis points in 2022, from -50 bps to 200 bps in 2023. This trend has continued to this day. The impact of this trend on the economy and businesses, and with that on banks, over the medium term is uncertain.

Proposed directional decision of the Minister of Finance

The Minister of Finance has indicated that she wants to take a directional decision on the future of de Volksbank. She explained this to the House of Representatives in her letter dated 22 February 2023.⁵

⁵ <https://www.rijksoverheid.nl/documenten/kamerstukken/2023/02/22/kamerbrief-over-stand-van-zaken-toekomst-volksbank>

“Until now, de Volksbank’s guiding principle regarding its future was that its strategy, which was revised in 2021, needed to be successfully implemented before a decision could be made on its future. Implementation is, however, expected to take several more years, as NLF I also concluded in its progress reports for 2021 and 2022.

Rather than waiting until implementation has been completed, I wish to provide direction at an earlier stage by means of a decision. In that directional decision, I would like to focus primarily on the possible need for the government to safeguard potential public interests that are related to de Volksbank. Depending on the outcome of that consideration, I will also discuss in my decision which future option(s) and/or governance model(s) from the scenario study of 6 July 2021 would fit in with this. This will provide de Volksbank with clarity and could help it already prepare for the future.

(..)

In the 2022 progress report, NLF I concluded, in summary, that de Volksbank has made a good start on the implementation of the strategy that was revised in 2021, but that further steps still need to be taken. I endorsed this conclusion in my letter to the House dated 7 July 2022. The adopted strategy has a horizon up to 2025. It follows from the NLF I progress report for 2022 that it will probably take several years for de Volksbank to roll out its strategy and be ready for such a decision.”

The Minister of Finance subsequently informed the House of Representatives about the process for arriving at her directional decision in her letter dated 26 May 2023. She intends to inform the House of Representatives in the autumn of 2023 about the completion of an analysis, and of the interim conclusion as to whether de Volksbank can play a role in safeguarding any identified public interests that are not or insufficiently safeguarded. She will then start a more detailed analysis to determine which “future options and/or governance models are not a realistic future scenario for de Volksbank”. The Minister provided the following explanation.⁶

“As I explained in my letter dated 22 February 2023, NLF I will advise me in this process. NLF I will send me its own assessment of the future options and governance models that are not a realistic future scenario for de Volksbank, and it will take the elements set out above into consideration.

I expect to share the more detailed analysis with your House in the spring of 2024. I will then be happy to discuss this matter with your House once more. Following that discussion, I will take a directional decision on the future of de Volksbank. As stated above, this decision includes concluding whether some future options and/or governance models can be ruled out as realistic future scenarios for de Volksbank.

The guiding principle remains that a final choice can only be made after NLF I has established that the bank is ready for a decision on its future. Once the bank is ready for this decision, NLF I will advise me on the next steps. NLF I will then recommend a final future option, using the government’s directional decision as a starting point and framework.”

This progress report does not relate to the directional decision announced by the Minister of Finance; instead, it relates to developments at de Volksbank in 2022 and early 2023.

⁶ <https://www.rijksoverheid.nl/documenten/kamerstukken/2023/05/26/kamerbrief-proces-voor-analyse-publieke-belangen-financiele-sector-en-nadere-analyse-toekomstopties-de-volksbank>

Ready for a decision on its future? Conditions for privatisation

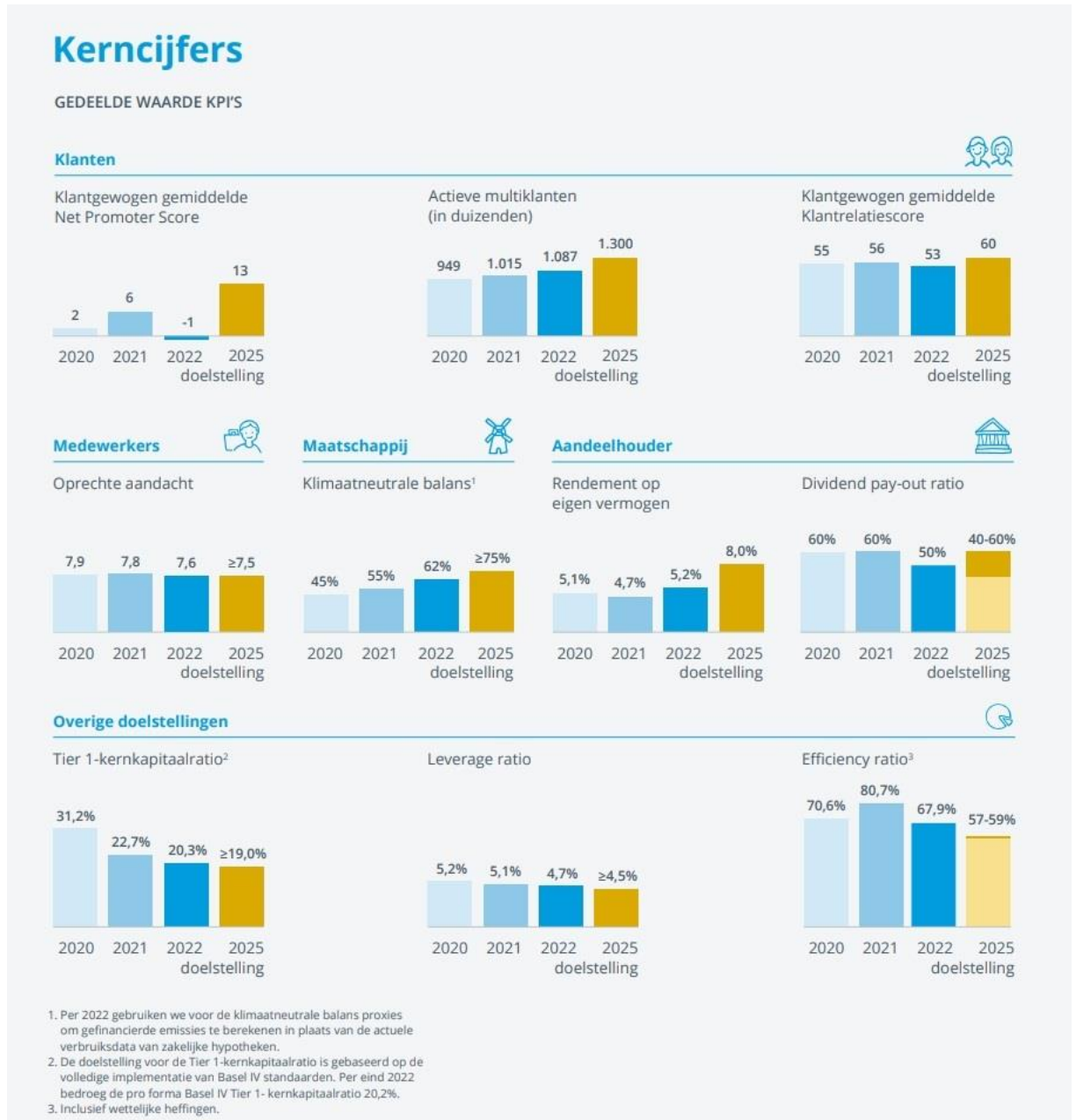
To assess whether a holding is ready for privatisation, NLF, in accordance with what the Minister of Finance agreed with the House of Representatives, applies the same conditions for privatisation which it applied in previous years. These conditions are as follows: (i) the company in question is ready for privatisation; (ii) the financial sector is stable, and (iii) there is sufficient market interest in the intended transaction. Furthermore, (iv) the aim is to earn back as much as possible of the capital expenditures.⁷

⁷ See: [Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117](#).

2. Situation concerning implementation of strategy

2.1 Explanation from de Volksbank

De Volksbank uses a number of key performance indicators. The following table and notes, which are taken from the 2022 annual report, describe the situation at de Volksbank.



Translation Dutch-English

Dutch	English
Kerncijfers	Key figures
GEDEELDE WAARDE KPI'S	SHARED VALUE KPIS

Klanten	Customers
Klantgewogen gemiddelde Net Promoter Score	Customer-weighted average Net Promoter Score
Actieve multiklanten (in duizenden)	Active multi-customers (in thousands)
Klantgewogen gemiddelde Klantrelatiescore	Customer-weighted average Customer Relationship Score
doelstelling	target
Medewerkers	Employees
Maatschappij	Society
Aandeelhouder	Shareholder
Oprechte aandacht	Genuine attention
Klimaatneutrale balans ¹	Climate-neutral balance sheet ¹
Rendement op eigen vermogen	Return on equity
Dividend pay-out ratio	Dividend payout ratio
Overige doelstellingen	Other targets
Tier 1-kernkapitaalratio ²	CET1 capital ratio ²
Leverage ratio	Leverage ratio
Efficiency ratio ³	Efficiency ratio ³
1. Per 2022 gebruiken we voor de klimaatneutrale balans proxies om gefinancierde emissies te berekenen in plaats van de actuele verbruiksdata van zakelijke hypotheke.	1. As from 2022, we will use proxies to calculate financed emissions for the climate-neutral balance sheet, instead of the actual consumption data on business mortgages.
2. De doelstelling voor de Tier 1 -kernkapitaalratio is gebaseerd op de volledige implementatie van Basel IV standaarden. Per eind 2022 bedroeg de pro forma Basel IV Tier 1- kernkapitaalratio 20,2%.	2. The objective for the CET1 ratio is based on the full implementation of Basel IV standards. At the end of 2022, the pro forma Basel IV Common Equity Tier 1 (CET1) capital ratio was 20.2%.
3. Inclusief wettelijke heffingen.	3. Including regulatory levies

De Volksbank's explanation is provided in the box below.

Explanation from de Volksbank

Through its strategy, de Volksbank aims to create optimum total value for customers, society, employees and its shareholder. The bank operates on the basis of 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 big, proven social impact. From here, it defines growth priorities for each brand, 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

De Volksbank has defined three specific key performance indicators (KPIs) to measure customer relationships. These KPIs are a customer-weighted average Net Promoter Score (NPS) of +13 in 2025, 1.3 million active multi-customers in 2025, and a customer-weighted average Customer Relationship Score (CRS) of 60 in 2025.

The customer-weighted NPS decreased to -1 in 2022, compared to +6 at the end of 2021. The Customer Relationship Score (CRS) is a new KPI. De Volksbank developed this score itself, in collaboration with the Behavior Change Group. The score measures the strength of the relationship as perceived by customers based on their satisfaction with, and trust in, their bank. A higher score means that, on average, customers experience the relationship to be stronger. The customer-weighted average for 2022 was 53 (average for 2021: 56). The decline in the NPS and CRS is related to the changing interest rate environment and the introduction of 'Basic Banking', a package combining various daily banking activities such as payments, savings and our personal services. Customers pay a fixed monthly fee for this package. The number of active multi-customers rose to 1,087,000 in 2022, compared to 1,015,000 at the end of 2021.

Social impact

De Volksbank wants to make a positive contribution to society, minimise its negative impact and make its own operations more sustainable. We have defined various themes what we make an impact on. De Volksbank as a whole is the driving force for the themes of financial health and an inclusive society. In addition, each brand has its own specific theme: sustainability for ASN Bank, good housing for everyone for BLG Wonen, quality of life for RegioBank, and equal growth opportunities for all for SNS. De Volksbank's main social KPI with regard to the theme of sustainability is a 75% climate-neutral balance sheet in 2025, increasing to 100% in 2030.

In 2022, progress was made towards achieving a climate-neutral balance sheet, with an increase of 55% in 2021 to 62%. De Volksbank continued to develop the theme of 'good living for all' in 2022, and the bank will work in 2023 on defining KPIs in order to measure the progress made in relation to this theme. The KPIs will relate to making housing possible for households with incomes not exceeding twice the modal income, sustainable recovery from financial problems in the event of major life events, and the creation of new housing units.

Genuine attention for 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 that employees assess this with a mark of at least 7.5 by 2025. This KPI was 7.6 in 2022, compared with 7.8 in 2021.

Achieving returns for shareholders

De Volksbank aims to be a healthy and stable bank with low-risk activities and with appropriate returns for its shareholder. The bank's target for return on equity (ROE) is 8% in 2025.

The ROE increased from 4.7% in 2021 to 5.2% in 2022. The dividend paid by de Volksbank for 2022 was 50% of net profit, which is in the middle of the target range (40%-60%).

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 business operations. These concentrate primarily on business continuity, which is essential for all stakeholders. Translated into measurable targets and KPIs, this means that on an ongoing basis there is a target CET1 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 2022, the bank estimates that, once the Basel IV rules have been fully phased in, the CET1 capital ratio will be 20.2%, compared with 22.5% at the end of 2021. This is still above the bank's own target of 19%. The leverage ratio fell to 4.7%, 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 that the efficiency ratio will exceed this range in the coming years, since the strategic initiatives should start to have an impact on both revenue and operating expenses over the years. The efficiency ratio improved from 80.7% in 2021 to 67.9% in 2022. This was largely attributable to higher total revenue.

Growth priorities by brand

In 2022, de Volksbank's brands once again showed signs of progress with regard to their growth priorities for the coming years. The following progress was made:

- *ASN Bank showed growth in terms of the number of investment accounts, and it increased its portfolio of sustainable loans by 20% to € 861 million.*
- *SNS introduced new products and services for retail customers as well as self-employed people and SME customers. In addition, SNS is repositioning itself and will launch three campaigns in 2022 to appeal to a younger target group.*
- *RegioBank continued to have a local presence with a wide range of propositions and in May 2022 it was once again named the 'most customer-friendly bank' in the Netherlands. It also focused heavily for the first time in 2022 on its new target group by means of advertising campaigns on TV, radio and online.*
- *BLG Wonen continued to develop its distribution network and introduced its Verhuurhypotheek buy-to-let mortgage (based on the national points system that guarantees a reasonable rent) to keep the mid rental segment affordable.*

Necessary transformations

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

1. *The 'Digital and omnichannel dialogue' transformation, which aims to bring about a greatly enhanced customer experience and customer value through improved digital services and improved access to products and services.*

2. *The 'Relevant range, new propositions, small business as a new target group' transformation, which aims to create added value for the customer and the bank by expanding the range of products and services.*
3. *The 'Foundation for a customer-centric bank' transformation, which aims to transform de Volksbank from a product-centric to a customer-centric bank by means of an IT foundation based on a modular system.*
4. *The 'Customer focus' transformation, which aims to bring about a more agile and customer-focused organisation, an improved, integrated customer experience, higher productivity, and a shorter time-to-market.*
5. *The 'Efficient and flexible' transformation, which aims to 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. In order to make customer contact more personal, a chatbot and live chat have been added as contact options in the SNS Banking app and the 'Mijn omgeving' environment.*
- *De Volksbank's brands managed to grow the SME portfolio by €255 million to €1.1 billion (increase of 31%).*
- *The bank has introduced "Basic Banking" to price services differently, i.e. driven less by interest and more by a 'fee'. Under this plan, customers who purchase fixed combinations of products are charged a fixed fee by the bank.*
- *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.*

2.2. NLF's conclusions regarding the reporting period

Based on de Volksbank's explanation and the developments it presented, NLF concludes that de Volksbank has made progress in implementing its strategy following a good start in 2022.

However, de Volksbank still faces significant challenges in achieving its objectives in the coming years, including in the area of IT, where de Volksbank is currently lagging behind schedule when it comes to making improvements. De Volksbank also faces challenges in the area of cost control. Just like other banks, de Volksbank is incurring high costs that are associated with compliance with all applicable laws and regulations, including laws and regulations relating to the 'gatekeeper function' under the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft). De Volksbank is working hard to achieve its objectives by 2025, but it is currently impossible to say whether this will be possible for all objectives.

There are also challenges when it comes to commercial growth. De Volksbank operates in a competitive market, in which it faces the challenges of standing out from other market players and achieving substantial volume growth.

NLF has previously noted that the bank's strategy is highly dependent on income growth from strategic initiatives and very ambitious, structural growth in net interest income (NII). Interest income has now increased significantly. ROE (Return on Equity) improved to 5.2%, compared to 4.7% in

2021. It should be noted that this ROE is relatively low compared to that of the other systemically important banks in the Netherlands. In addition, income is currently improving mainly as a result of trends in interest rates in Europe, but in NLFI's opinion there has still not been a sufficient structural improvement in income. The creation of a diversified income and funding model for de Volksbank is necessary so that the bank can generate sufficient income in times of high and low interest rates. De Volksbank is working to reduce its sensitivity to trends in interest rates as part of its strategy.

Trends in interest rates also led to an improved efficiency ratio of 67.9%, compared to 80.7% in 2021. Compared to other systemically important banks in the Netherlands, de Volksbank is a smaller player. Operating efficiently presents a greater challenge to de Volksbank than to large banks in the Netherlands.

In addition, the capital ratio (CET1) was further optimised in 2022, to 20.2% (with a target of 19% for fully-loaded Basel IV CET1 in 2025). Assets and liabilities are of good quality. De Volksbank remains a very robust bank, based on its available capital.

De Volksbank has formulated several operational objectives as part of its strategy. The operational objectives include challenges, such as the customer-weighted NPS. This fell to -1 from +6 at the end of 2021. The reasons for this fall were explained by de Volksbank above. Given this fall, de Volksbank must make additional efforts to achieve its objective for 2025. Although day-to-day issues demand a great deal of attention, maintaining focus, as well as decisiveness and clear priorities, are important preconditions for achieving the objectives successfully.

Focusing on the swift implementation of its financial and operational objectives, resulting in structural improvements, are important so that de Volksbank can preserve the perspective of a more or less independent future.

NLFI is continuing its constructive dialogue with de Volksbank, and it challenges de Volksbank in a critical way when it comes to the progress it is making in implementing its strategy and achieving its objectives for 2025. In doing so, NLFI pays particular attention to the aforementioned structural income growth, cost control by de Volksbank, and IT.

As noted in the previous progress reports, the bank explained to NLFI 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.

3. In conclusion

In the 2021 progress report, NLFI concluded that de Volksbank had made a good start on implementing its strategy with its unchanged guiding principle 'banking with a human touch'. As the present report shows, following a good start, de Volksbank made progress in implementing its strategy in 2022 and early 2023. Furthermore, de Volksbank's annual figures show that the bank achieved a higher financial return in 2022, mainly as a result of trends in interest rates. However, de Volksbank still faces significant challenges that need to be addressed if it is to achieve its set objectives in the coming years. From the perspective of banks, the world now looks very different compared to the years prior 2022. Monetary easing and protracted low interest rates have been abandoned.

De Volksbank's future success will largely be determined by the effectiveness of the chosen strategy and the extent to which that strategy is achieved. Focusing on the swift implementation of financial and operational objectives, resulting in structural improvements, will remain de Volksbank's top priority in the coming years. NLFI will discuss this matter with de Volksbank on an ongoing basis.

-0-