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NLFI

Report on de Volksbank for 2023

June 2024

Summary

As requested by the Minister of Finance, NLFI reports every year on the state of affairs 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. Part of the consideration whether de Volksbank is ready for a decision on its future is whether it will manage to implement its strategy successfully and achieve the stable, strong financial position necessary for a successful privatisation.² Furthermore, as NLFI previously explained, a successful strategy will give de Volksbank greater discretion to determine how it will develop its own character "banking with a human touch" in a privatisation scenario. It should be noted that 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 have an influence on privatisation options.

De Volksbank aims to achieve substantial growth in volume, but continues to find this challenging. Among other things, de Volksbank must prioritise the required IT innovations, the adjustments aimed at ensuring compliance with rules related to the gatekeeper function, the introduction of Basel IV, and adjustments aimed at ensuring compliance with European rules on sustainability reports. These require investments and capacity that cannot be used to achieve the strategy's growth priorities. This will increase the bank's costs.

NLFI is critical when it comes to the development of de Volksbank's financial and operational objectives (key performance indicators or KPIs, see chapter 2) for 2025. Given the current state of affairs, NLFI considers it unlikely that de Volksbank will achieve all of its objectives for 2025. Whether this is possible will become clearer in the progress report for 2024. The state of affairs concerning 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. NLFI is continuing its dialogue with de Volksbank and is continuing to challenge de Volksbank. In that respect, NLFI pays particular attention to income (including growth in income), cost control, the gatekeeper function and IT innovation.

De Volksbank will, in the coming period, develop its strategy for the period after 2025. NLFI will discuss this with the bank. The Minister of Finance has announced that he wants to make a 'directional decision' for the purpose of a later decision on the future of de Volksbank.³ No such directional decision has been taken at the time this report was prepared. NLFI did, however, issue a recommendation to the Minister of Finance for a directional decision, which the Minister of Finance passed on to the House of Representatives.⁴ Once the directional decision has been taken, NLFI will enter into consultations with de Volksbank about that and take the directional decision in consideration in the next progress report.

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

² In its 2021 progress report, NLFI paid attention to 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.

³ [Letter to the House of Representatives on the state of affairs regarding the future of de Volksbank | Parliamentary Paper | Rijksoverheid.nl](#) and [Letter to the House of Representatives on an analysis of public interests in the financial sector | Parliamentary Paper | Rijksoverheid.nl](#).

⁴ [Letter accompanying recommendation concerning future options of de Volksbank | Parliamentary Paper | Rijksoverheid.nl](#).

Introduction

1.1. Framework

NLFI's task is to manage the shares in the participations that have been assigned to it.⁵ This means, among other things, that NLFI conducts a dialogue with de Volksbank about its strategy (including its implementation) 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.⁶ 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 angle. 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. Recently, NLFI advised the Minister of Finance on possible privatisation options for the purpose of the directional decision on de Volksbank's future.⁷

De Volksbank has defined 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, de Volksbank is sufficiently successful and stable for privatisation. This does not affect that NLFI assesses the course of affairs at de Volksbank also independent of the possibilities of privatisation, because a future-proof strategy is important for de Volksbank in any scenario.

De Volksbank sets its own commercially strategic course on the market. This has been agreed with the ACM for reasons relating to merger control.⁸

NLFI points out that the implementation of the strategy will not result in privatisation on a one-to-one basis, since there are many factors (both company-related and market-related) that have an influence on privatisation options.

1.2. Developments

Governance

In the autumn of 2023, de Volksbank announced that its then CEO, Martijn Gribnau, would not be available for reappointment. In addition, Jeroen Dijst, the former CRO, was unavailable for reappointment. A new CEO and CRO were recently appointed.

⁵ 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>.

⁶ As described in more detail in the [Trust Office Foundation \(Management of Financial Institutions\) Act \("NLFI Act"\)](#).

⁷ See footnote 4.

⁸ See the position paper referred to in footnote 5 for a more detailed explanation of the agreements with the ACM that the Ministry of Finance and NLFI adhere to.

In addition, de Volksbank has created the position of Chief Financial Economic Crime Officer (CFECO) in the Executive Committee to underscore the importance of implementing the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) and the necessary improvements. (See page 12 of this report for details of the implementation of the Anti-Money Laundering and Anti-Terrorist Financing Act) (Wwft). This position was also recently filled.

Economy

In recent years, various developments have taken place at a global, European and national level that have affected - and still affect - the economy, financial sector and banks in various ways. Russia's invasion of Ukraine in 2022, the sanctions subsequently taken against Russia and the war situation in Gaza in 2023 caused a global shock reaction. Inflation jumped in 2022/2023. In the spring of 2023, US and Swiss supervisory authorities and governments had to take action in order to prevent a new banking crisis. Another relevant factor in 2023 concerned developments in the Chinese and Asian economies and related uncertainty. One notable aspect affecting de Volksbank was the transition of a period of extremely low interest rates, which had put bank income under great pressure. to a situation in which monetary authorities rapidly raised interest rates to combat high inflation. De Volksbank is the only systemically important bank in the Netherlands to focus primarily on the Dutch retail market of payments, savings and mortgages, and it has only a small market share when it comes to insurance, investments and business loans. This makes de Volksbank extremely sensitive to such trends in interest rates. While higher interest rates have led to higher income, rapidly rising interest rates can put pressure on economies. At the time this report was prepared, there was speculation concerning how quickly monetary authorities would lower interest rates while a recession had become less likely. De Volksbank's expectation, as expressed in its 2023 annual report, is that its net interest income will fall in 2024 compared to 2023, mainly due to lower margins on savings.⁹ This expected pressure on income, combined with the upward cost pressure caused by various factors (see below for more information), calls for additional alertness when it comes to achieving de Volksbank's objectives for 2025.

Strategy

De Volksbank has a strategy for the period 2021-2025. This strategy has a number of objectives (referred to as transformations and growth priorities). These objectives are monitored using key performance indicators (KPIs).

⁹ De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), p. 30: "We expect net interest income in 2024 to decline compared to 2023, mainly as a result of lower expected margins on deposits. We anticipate margins on mortgages to be in line with 2023 in a challenging and competitive market. Net interest income will remain highly sensitive to changes in the ECB interest rate policy. Investment income is expected to be higher, while other results on financial instruments are expected to return to a lower level as the financial year 2023 was positively impacted by higher treasury results. Overall, we foresee a reduction in total income in 2024 relative to 2023."

De Volksbank summarises its strategy as follows: “In this plan we have set ourselves two main objectives for 2025: to be the bank with the strongest customer relationship in the Netherlands and to have a substantial and measurable positive impact on society. Simultaneously, we need to make our operations more efficient and robust.”¹⁰ The situation concerning the KPIs used by de Volksbank and the strategy’s objectives (transformations and growth priorities) are explained below in chapter 2.

Directional decision; ready for a decision on its future?

In the autumn of 2023, the Minister of Finance informed the House of Representatives about the completion of an analysis of public interests and formulated an interim conclusion as to whether de Volksbank should have a role in safeguarding any identified public interests that are not yet, or are insufficiently, safeguarded. The Minister concluded that this was not the case.¹¹ The Minister of Finance subsequently performed a second analysis to determine which “future options and/or governance models are not a realistic future scenario for de Volksbank”. The Minister wants to make a decision that “[encompasses] the conclusion as to whether some future options and/or governance models can be ruled out as realistic future scenarios for de Volksbank.”¹²

The Minister of Finance asked NLFI to issue a recommendation on the second analysis to be carried out by him for the directional decision. NLFI issued its recommendation to the Minister. The Minister sent the recommendation to the House of Representatives, noting that “this recommendation from NLFI and the earlier analysis of public interests serve as a basis for further political decision-making.” The next Minister of Finance will look into the directional decision.¹³

In the letter cited above, the Minister of Finance explained that “The guiding principle remains that a final choice can only be made after NLFI has established that the bank is ready for a decision on its future. Once the bank is ready for this decision, NLFI will advise me on the next steps. NLFI will then recommend a final future option, using the government’s directional decision as a starting point and framework.”¹⁴

To conclude whether a participation is ready for privatisation, NLFI, in accordance with what the Minister of Finance agreed with the House of Representatives, assesses whether the usual boundary conditions for privatisation, which it applied in previous years, are met. These relate to the following questions, 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. Furthermore, (iv) the aim is to earn back as much as possible of the capital expenditures.¹⁵

No directional decision has been taken at the time this report was prepared. Once that decision has been taken, NLFI will take it into account in these considerations.

¹⁰De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), page 9.

¹¹ See footnote 3.

¹² <https://www.rijksoverheid.nl/documenten/kamerstukken/2023/05/26/kamerbrief-proces-voor-analyse-publieke-belangen-financiele-sector-en-nadere-analyse-toekomstopties-de-volksbank>.

¹³ See footnote 4.

¹⁴ See footnote 4.

¹⁵ See: [Parliamentary Papers, House of Representatives, session year 2010-2011, 28165, no. 117](#).

2. State of affairs

2.1. Reporting period

At the annual General Meeting of Shareholders of de Volksbank, NLF I discusses with the Volksbank the financial statements and the annual report, including the explanation of the state of affairs at the bank. At least once every quarter, NLF I also discusses the progress made on the strategy implementation, any dilemmas arising at de Volksbank, and the bank's quarterly figures.

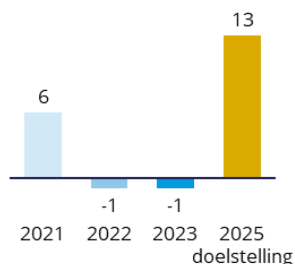
Furthermore, where there is a reason to do so NLF I also consults with the bank on various topics, including the bank's performance and in particular the way in which de Volksbank deals with DNB's instruction regarding compliance with the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft).

2.2. De Volksbank's explanation of state of affairs regarding strategy

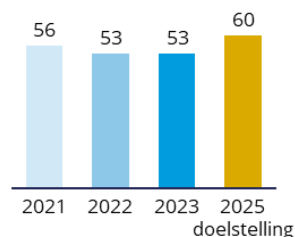
De Volksbank has set several key performance indicators (KPIs) that it pursues, and it uses them to measure whether it is being successful in implementing its strategy. The following table and notes, which are taken from the 2023 annual report, describe the state of affairs at de Volksbank.

Klanten

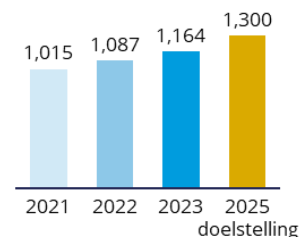
Klantgewogen gemiddelde Net Promoter Score



Klantgewogen gemiddelde Klantrelatiescore

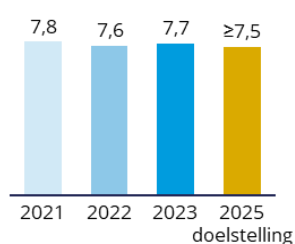


Actieve multiklanten (in duizenden)



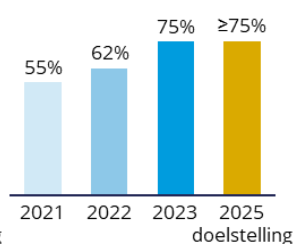
Medewerkers

Oprechte aandacht



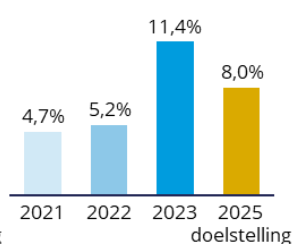
Maatschappij

Klimaatneutrale balans

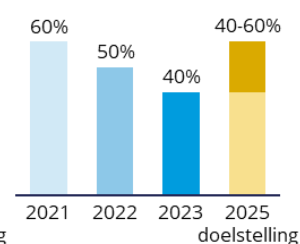


Aandeelhouder

Rendement op eigen vermogen

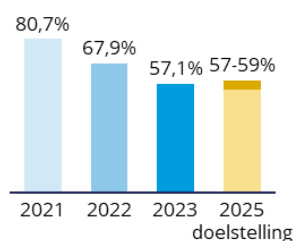


Dividend pay-out ratio

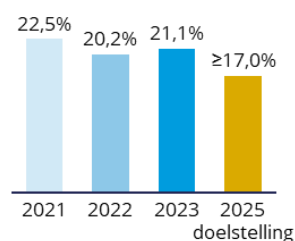


Overige doelstellingen

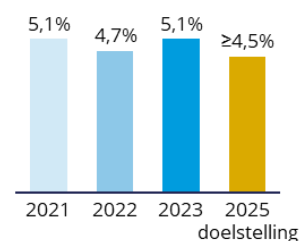
Efficiency ratio



Tier-1 kernkapitaalratio
Basel IV fully loaded



Leverage ratio



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 hypotheek.	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.

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 large, proven social impact. This is explained in further detail, using KPIs, in the paragraphs below. Based on the bank's differentiating principles, growth priorities have been defined for each brand, which are supported by a group of 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 KPIs to measure the customer relationship. These target KPIs are a customer-weighted average Net Promoter Score (NPS) of +13 in 2025, a customer-weighted average Customer Relationship Score (CRS) of 60 in 2025, and 1.3 million active multi-customers in 2025.

In 2023 the customer-weighted NPS was -1, which was unchanged compared to 2022. The CRS 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 perceive the relationship to be stronger. In 2023 the customer-weighted average CRS was 53, which was unchanged compared to 2022. The number of active multi-customers rose to 1,164 thousand in 2023, compared to 1,087 thousand at the end of 2022.

In 2023, ASN Bank, Regio Bank and SNS were named as number 1, 2, and 3 most customer-friendly banks in the Netherlands by research agency Market Response.

Social impact

De Volksbank wants to make a positive contribution to society, minimise its negative impact and make its own operations more sustainable. Each brand has its own specific social theme: sustainability for ASN Bank, good housing for everyone for BLG Wonen, quality of life for RegioBank, and equal growth opportunities for every person for SNS.

De Volksbank measures social impact using two KPIs: climate-neutral balance sheet and housing accessibility. In 2023 progress was made in achieving a climate-neutral balance sheet. The proportion of climate-neutral assets rose from 62% in 2022 to 75% in 2023. As a result, de Volksbank has already achieved its 75% target for 2025. According to our definition, our balance sheet is 'climate neutral' if our loans and investments avoid or eliminate as many CO2 equivalent (CO2e) emissions as they cause. The climate-neutral balance sheet KPI is calculated using the Global GHG accounting and reporting standard developed by PCAF. The increase was mainly attributable to the financing of renewable energy projects and the purchase of green bonds with a focus on renewable energy projects. An adjustment in the methodology also led to lower CO2e emissions from corporate loans.

De Volksbank is committed to an inclusive housing market in which everyone has fair opportunities and access to appropriate financing. In connection with this, in 2023 de Volksbank developed housing accessibility KPIs. These KPIs relate to making housing possible for households with incomes not exceeding twice the modal income, and sustainable recovery from financial problems in the event of major life events. De Volksbank will develop the targets for these KPIs in the coming period.

Genuine attention for employees

De Volksbank uses the KPI Genuine Attention to measure the value created for employees. De Volksbank wants to enable employees to make a meaningful contribution to the bank's mission and strategy. De Volksbank does this by paying 'sincere attention' to employees' autonomy and professional and personal growth. In de Volksbank's 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 7.7 in 2023 (compared with 7.6 in 2022), which is above the bank's target.

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) in 2023 was 8%. In 2023 the bank posted a ROE of 11.4%, compared to 5.2% in 2022. The dividend paid by de Volksbank in 2023 for the year 2022 was 50% of net profit, which is in the middle of the target range (40%-60%). De Volksbank paid a dividend of €164 million for the year 2023, which corresponds to 40% of net profit.

Other targets

In addition to the aforementioned targets, de Volksbank has also set targets related to efficiency and capitalisation.

The efficiency ratio is the ratio of total operating expenses, including regulatory levies, to total revenue. When determining the target of 57%-59%, de Volksbank took into account the fact that in the first years of the strategy execution the efficiency ratio will exceed this range, since the strategic initiatives should start to have an impact on both revenue and operating expenses over the years. The efficiency ratio improved from 67.9% in 2022 to 57.1% in 2023. This improvement is due to higher total revenue and lower regulatory levies.

Based on the balance sheet as at 31 December 2023, the bank estimates that, once the Basel IV rules have been fully phased in, the CET1 capital ratio will be 21.1%, compared with 20.2% at the end of 2022. This is above the bank's own target of 17%. The leverage ratio increased from 4.7% in 2022 to 5.1% in 2023, which was above the minimum target of 4.5%.

Growth priorities by brand

In 2023, de Volksbank's brands once again showed signs of progress with regard to the realisation of their growth priorities for the coming years. The following progress was made:

- The number of active multi-customers at ASN Bank increased by 35,000 to a total of 269,000 in 2023. The release of a new app and the introduction of a chatbot led to an improvement in digital customer service. In collaboration with a.s.r., ASN Bank expanded its range of insurance products to include car insurance.
- The number of active multi-customers at SNS grew by 16,000 to 624,000 in 2023. SNS introduced new products and services, including life insurance policy for tenants, customised mortgage and sustainability advice. SNS focused on the target group of young adults through, among other things, the 'Raad van de Toekomst' (Council of the Future) and the 'Future Money Talks' platform (an online platform that provides young people with useful tips on personal growth and financial knowledge).
- RegioBank saw its number of active multi-customers increase by 26,000 to 270,000, and it remained locally present with more than 420 independent advisors in small towns and villages. RegioBank was involved in the local community by offering financial services and supporting social initiatives, such as social activities and the construction of community centres. In June 2023, RegioBank hosted the third edition of the Nationale Dorpen Top ('National Village Summit'), an event which focuses on the power of the regions and draws attention to matters related to quality of life.
- In 2023, BLG Wonen, together with the other de Volksbank brands, introduced the 'savings mortgage', a new mortgage product with an interest rate discount that applies if energy-saving measures are taken that result in a better energy label. BLG Wonen worked on a power of attorney for intermediaries, which transfers part of the mortgage acceptance process to service providers. De Volksbank retains full control of the final decision when it comes to granting a mortgage loan. The power of attorney allows BLG Wonen to reach a larger portion of the mortgage market and be less dependent on its own processing capabilities during busy times.

Necessary transformations and preconditions

In order to realise the growth priorities for each bank brand, de Volksbank has formulated a number of transformations and preconditions that are designed to strengthen the business and operating model and make the bank future-proof.*

- 1. The 'Digital and omnichannel dialogue' transformation, which aims to bring about an enhanced customer experience and customer value through improved digital services and improved access to products and services. Digital services were improved in 2023 thanks to the introduction of the new mobile banking app for all brands. In addition, de Volksbank worked on improvements to consistent, recognisable services in the 'Mijn omgeving' environment and the app.*
- 2. The 'Relevant product 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. For example, the SME portfolio grew from €1.09 billion at the end of 2022 to €1.24 billion at the end of 2023, partly as a result of the expansion of the target group to include businesses with revenue of up to €10 million (this was previously €5 million) and a financing requirement of up to €2 million (previously €1 million).*
- 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. In 2022 and 2023, the focus was on implementing the IT security foundation. Also in 2023, a start was made on building a new customer administration system aimed at supporting the customer integrity process and phasing out the core bank system (SAS) in the long term. The new design of the customer administration system, for example, better aligns the processes related to 'becoming a customer' and 'being a customer'. In addition, a start was made in 2023 on building a central data platform, including data management and business intelligence tooling. The first steps are being made towards a cloud platform, in which some of the systems from our own data centres will move into the cloud. The aim of this cloud platform is to provide scalability, reliability and flexibility.*

The 'Legislation and regulations' precondition is aimed at meeting the increased requirements set by supervisory authorities, both now and in the future. To this end, de Volksbank is eliminating existing backlogs and is committed to the proper implementation of new legislation and regulations. In 2023 de Volksbank made customer integrity as its top priority, based on the shortcomings identified by De Nederlandsche Bank (DNB). As a result, customer integrity management has been adjusted in order to guarantee risk-based decision-making. To support this, additional resources have been allocated and the 'CFCO' function was also introduced with effect from 1 November 2023. The 'Capabilities' transformation is aimed at enhancing execution power and sustainable adoption when it comes to change, by strengthening employee capabilities with a focus on leadership, customer integrity, data and digital, risk, and the improvement of performance and change management. In order to strengthen those capabilities, de Volksbank set up an internal leadership and culture programme in the first quarter of 2023.

**In 2023, de Volksbank evaluated and refined its strategy. The original 'Customer-oriented' transformation has been completed, and further growth of the maturity of the agile model is being strengthened through the fifth 'Capabilities' transformation. The original 'Efficient and flexible' transformation has become part of ordinary business operations, and has been replaced by the 'Legislation and regulations' precondition.*

2.3. NLF1's conclusions regarding the reporting period

Conclusions regarding the strategy

As mentioned before, de Volksbank summarises its strategy as follows: "In this plan we have set ourselves two main objectives for 2025: to be the bank with the strongest customer relationship in the Netherlands and to have a substantial and measurable positive impact on society. Simultaneously, we need to make our operations more efficient and robust."¹⁶ In other words, the bank focuses on strong customer relationships, a positive impact on society and on efficient and robust business operations.

Customer relationship

De Volksbank aims to develop strong customer relationships. Its aim is to be "the bank with the strongest customer relationships in the Netherlands by 2025" (see section 2.2). The bank has formulated KPIs to measure whether it is succeeding in this. These KPIs relate to the customer-weighted average Net Promoter Score and customer relationship score and to trends in the number of multi-customers. The Net Promoter Score stands out as negative, with a score of -1 compared to the target score of 13 for 2025. This score is unchanged compared to last year. As de Volksbank previously explained to NLF1, this is attributable to changes that the bank is making, such as the introduction of periodic payments for banking services. The bank will evidently have to work hard to improve its Net Promoter Score and achieve its target KPI in 2025. NLF1 is critical of the fact that the Net Promoter Score has not improved compared to last year. The customer relationship score also remained unchanged following this decline. De Volksbank will need to take measures in order to achieve these two KPIs in 2025.

In addition, de Volksbank uses a KPI based on the number of active multi-customers. These are customers who have an active current account and also purchase at least one product from another product group of the bank. The number of active multi-customers has increased. As far as NLF1 is concerned, it is important that de Volksbank shows an increase in customers who also purchase products for which a recurring fee or commission income is payable, in order to reduce its dependence on interest income. The bank will have to work hard to achieve the target KPI for 2025.

Positive impact on society

De Volksbank's annual report explains how de Volksbank's various brands focus on making a positive impact.¹⁷

¹⁶De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), page 9.

¹⁷ See, among other things, de Volksbank's Annual Report 2023 (Annual Reports | De Volksbank), page 17: "De Volksbank is committed to achieve a substantial and measurable positive impact on society. Each brand focuses on a specific social theme: ASN Bank on sustainability, BLG Wonen on decent housing, RegioBank on quality of life in communities and SNS on equal growth opportunities for everyone. We aim to create a positive social impact across the board and to reduce our negative impact by offering socially relevant propositions and by being a driving force for social impact in the financial sector, allowing us to contribute to changes at customer and system level."

NLFI is pleased to note that RegioBank, ASN Bank and SNS have been recognised as the most customer-friendly banks in the Netherlands for the third time in a row.¹⁸ De Volksbank and its brands also score highly on sustainability in the Fair Bank Guide (Eerlijke Bankwijzer).¹⁹

One of the bank's objectives contained in the KPIs is a 'climate-neutral balance sheet'. As de Volksbank explained, "To improve our impact on society, one of the objectives we have set is to achieve a climate-neutral balance sheet of at least 75% by 2025. In 2023, this score, measured using the PCAF methodology, already improved to 75%, up 13 percentage points, as a result of an increase in purchased climate bonds and investments in renewable energy projects, improved data quality and updated emission factors." As mentioned below (under 'Other conclusions'), the new sustainability requirements will lead to adjustments in the supervision of banks. It is expected that this KPI will be adjusted in line with these new sustainability requirements.

Efficient and robust

The KPIs for returns, the payout ratio and the efficiency ratio are relevant when it comes to de Volksbank's efficiency and robustness. The Return on Equity (ROE) KPI shows noticeable increase at first glance above the target for 2025. This is due to the increase in net interest income. The creation of a more diversified income and funding model for de Volksbank remains necessary so that the bank can generate sufficient income in times of high and low interest rates. As part of its strategy, de Volksbank is working to reduce its sensitivity to trends in interest rates. In NLFI's opinion, there has not yet been a structural improvement in the efficiency ratio, which indicates the amount of costs incurred for each euro earned. NLFI continues to be critical in this regard, in part because the opportunities to increase income are not great because of the bank's profile and the bank's focus on payments, savings and mortgages.

As mentioned earlier, the bank expects 'a reduction in total income' for 2024 compared to 2023.²⁰ This will also have consequences for the efficiency ratio, which has improved by the increase in income. The bank needs to ensure that the efficiency ratio does not rise significantly again if income growth levels off while costs continue to grow. The dividend payout ratio KPI fell to 40%. Prudential considerations underlie this. These three KPIs are also important aspects in the context of privatisation.

Other conclusions

It is a fact that the strategy of a commercial enterprise operating in a dynamic, competitive arena will not concern a static datum. There are many circumstances that affect the business operations of a commercial bank. Geopolitical tensions, rapid technological developments and changing economic conditions all have an impact. In addition, matters such as inflation and interest rates have various effects.

¹⁸ This is reflected in the annual ranking of a consumer survey by MarketResponse, see: RegioBank, ASN Bank and SNS recognised as the Netherlands' most customer-friendly banks for third time in a row (devolksbank.nl).

¹⁹ 'Green scores' again for de Volksbank in Fair Bank Guide policy update.

²⁰ See footnote 9.

De Volksbank tries to estimate what current circumstances mean for its income and endeavours to respond to them in its business operations.

Developments at a regulatory level also have a major impact. In the Netherlands (and in Europe), a great deal of attention is paid to how banks fulfil their gatekeeper function.²¹ It has become clear that banks are struggling with the implementation of the relevant regulations. The supervisory authority, De Nederlandsche Bank (DNB), has established that several Dutch banks did not do enough to ensure the correct implementation of the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft). De Volksbank was also issued an instruction related to the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) in 2023. Meeting DNB's requirements is a top priority for de Volksbank. It has now, to put it simply, set aside additional capacity, money and attention to deal with this. In other circumstances, that capacity, money and attention could have been used to help achieve its strategy. NLFi is monitoring progress at the request of the Minister of Finance. DNB also intends to impose an administrative penalty, although it is not yet known when that penalty will be imposed or how high it will be.²²

Moreover, the prudential supervision of banks has been tightened in recent years and continues to be renewed. The Capital Requirements Regulation (CRR) 3 and Capital Requirements Directive (CRD) VI, referred to jointly as Basel IV, are set to come into effect on 1 January 2025. Under this legislation, a great deal of attention will have to be paid to model and data requirements, including for the purpose of calculating the required capital.²³ De Volksbank has an ongoing dialogue with the ECB on this matter.

At a European level, banking supervision has also been expanded to include sustainability requirements. De Volksbank has always strived to have a leading role when it comes to sustainability. Despite this, the bank will also have to make adjustments to comply with these new regulatory requirements.

In the past, banks, including de Volksbank, have made efforts to introduce new IT possibilities. The systems that they introduced were modern at the time, but have been followed by rapid innovations in the IT environment. Consequently the systems have aged relatively quickly, while competitive considerations and new regulatory requirements mean that IT systems now need to be adjusted or renewed. Examples of such regulatory requirements include the way in which banks must set up their business operations in order to adequately fulfil their gatekeeper function. Moreover, there is increasing competition due to new payment systems (also referred to as fintech). De Volksbank must also make efforts to bring about digital innovation, partly in view of DNB's instruction regarding compliance with the Anti-Money Laundering and Anti-Terrorist Financing (Prevention) Act (Wwft), since the aforementioned gatekeeper function demands a lot from a bank's IT. De Volksbank has

²¹See, for example: [Why are banks an important gatekeeper? \(nvb.nl\)](https://www.nvb.nl/en/why-are-banks-an-important-gatekeeper).

²² [Results for the first half of 2023 \(devolksbank.nl\)](https://www.dev Volksbank.nl/en/results-for-the-first-half-of-2023).

²³ De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), page 89: "Internal credit risk models provide a better understanding of the quality of different segments of the loan portfolio compared to the use of the Standardised Approach and enable a better determination of risks and risk-weighted assets. Meeting the standards set by the supervisory authorities for the use of these models requires improvements in de Volksbank's data quality and the IT foundation. To bring about these improvements must remain a priority in the years ahead." See also page 106: "Data management and data quality improvement is an important part of our strategic plan. We have taken an important step by launching a strategic programme to set up a robust data processing infrastructure for our reporting processes. We are also implementing a programme to improve control over critical data elements."

also set itself the goal of improving data management and data quality.²⁴ All of these factors have been proven to require large investments and considerable capacity. Moreover, renewing and strengthening the IT structure takes time and is associated with high costs.²⁵

In the previous progress report, NLF I stated that de Volksbank was lagging behind schedule when it came to making IT improvements. This continues to be a focus area for de Volksbank.

Finally, de Volksbank must ensure that its rising costs are brought under control so that, as explained above, its efficiency ratio is brought into line with the market.

²⁴ De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), p.106: "Data management and data quality improvement is an important part of our strategic plan. We have taken an important step by launching a strategic programme to set up a robust data processing infrastructure for our reporting processes. We are also implementing a programme to improve control over critical data elements."

²⁵ De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), page 24: "The aim of our IT-based customer bank strategy is to achieve a modular, customer-driven, mostly cloud-based, automated IT landscape. In 2023, we worked on the customer bank transition by continuing to design and build a new customer administration system, expanding the bank-wide case management system and, improving the data platform and by integration and delivery through development pipelines. (...) In the second half of 2023, we increased our focus on customer integrity-related improvements. In the period ahead, we will continue to focus on customer integrity and on phasing out older applications." See also page 105/106 for de Volksbank's overview of top risks.

3. In conclusion

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 in order to bring about structural improvements will remain de Volksbank's top priority in the coming years.

Achieving the substantial growth in volume envisaged in its strategy remains a challenge for de Volksbank. De Volksbank needs to pay a great deal of attention to the required IT innovations, the adjustments aimed at ensuring compliance with rules related the gatekeeper function, and adjustments aimed at ensuring compliance with European rules on sustainability reports. De Volksbank is working hard to put its house in order while also looking ahead; in situations where it cannot do both simultaneously it must prioritise putting its house in order. The focus areas described in this report require capacity that cannot be used for the strategy's growth priorities, and they increase the bank's costs. This may be at the expense of the return achieved by the bank. For a bank such as de Volksbank, it is important that its business operations are 'lean and mean'. In NLFI's opinion, de Volksbank is right to have put cost control high on its agenda for 2024.²⁶

NLFI is not reassured about the development related to de Volksbank's objectives for 2025. Given the current situation, NLFI considers it unlikely that de Volksbank will achieve all its financial and operational objectives for 2025. Whether this will prove to be possible after all will become clearer in the progress report for 2024. NLFI is continuing its dialogue with de Volksbank and is continuing to challenge de Volksbank. In addition, NLFI pays particular attention to income (including growth in income), cost control, the gatekeeper function and IT innovation.

During the coming period, de Volksbank will come up with its strategy for the period after 2025. NLFI will enter into discussions about that with the bank.

The Minister of Finance has announced that he wants to make a 'directional decision' to help shape a subsequent decision on de Volksbank's future.²⁷ No directional decision had been taken at the time this report was prepared. NLFI did, however, issue a recommendation to the Minister of Finance for a directional decision, which the Minister of Finance passed on to the House of Representatives.²⁸ As soon as the Minister of Finance has taken a directional decision, NLFI will enter into further consultations with de Volksbank concerning the implications for the bank, its strategy and its future. Once the directional decision has been taken, NLFI will incorporate this in the next progress report. NLFI will, as is customary, submit the 2024 progress report to the Minister of Finance before the summer of 2025.

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²⁶ De Volksbank Annual Report 2023 (Annual Reports | De Volksbank), p. 30: "In 2024, cost control is high on the agenda. Operating expenses, excluding regulatory levies, are projected to be in line with 2023, as we will continue to invest in the IT foundation and projects related to banking regulations and Know Your Customer compliance, supporting our objective to become more robust operationally. On top of this, the impact of (wage) inflation is expected to continue to impact our structural cost base."

²⁷ See footnote 3.

²⁸ See section 1.2, page 5 of this report.