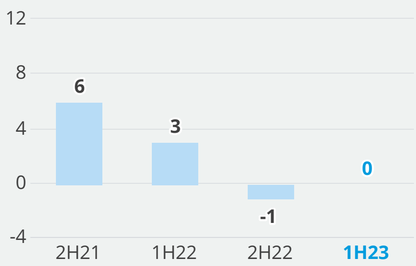
2023

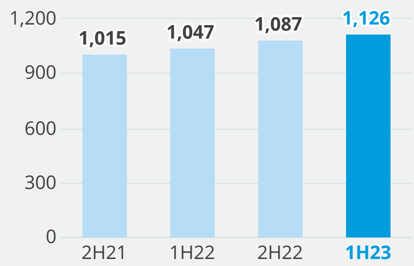
Interim financial report

Key figures

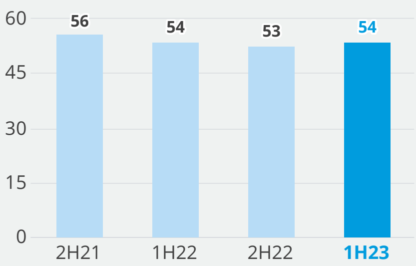
Net Promoter Score[1]



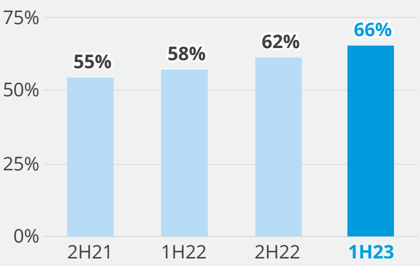
Active multi-customers



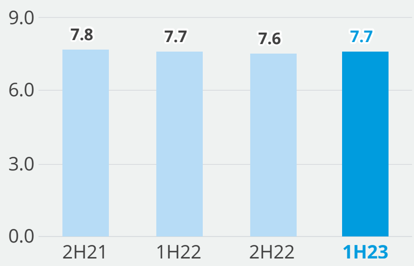
Customer Relationship Score



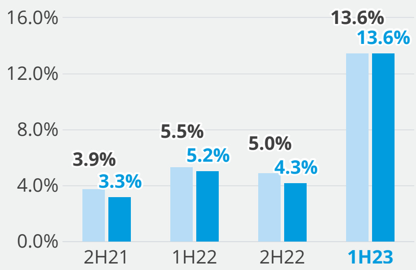
Climate-neutral balance sheet



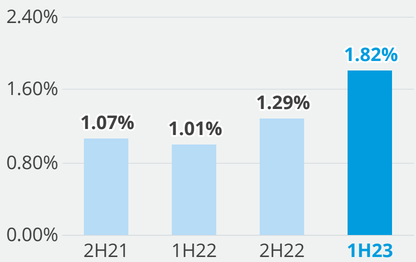
Genuine attention for employees



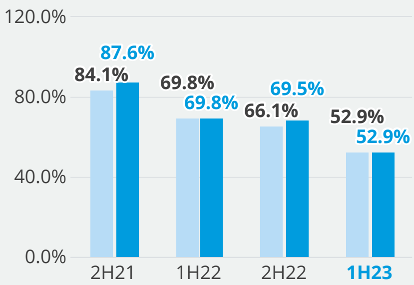
RoE/Adjusted RoE



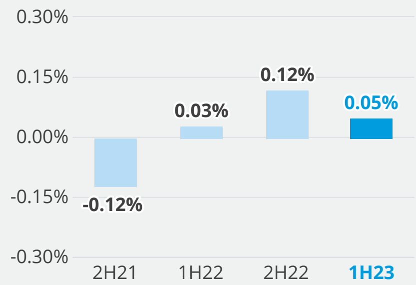
Net interest margin



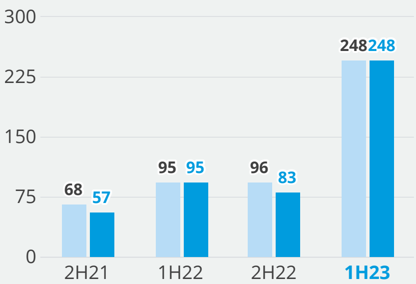
C/I ratio & adjusted C/I ratio



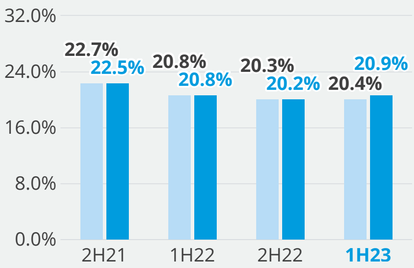
Cost of risk total loans



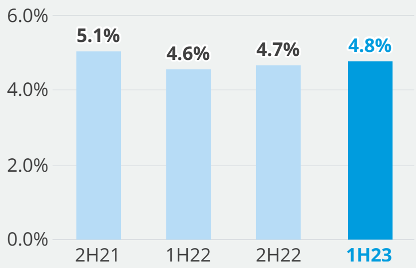
Net result/Adjusted net result



CET1 ratio Basel III / IV[2]



Leverage ratio



1 The customer-weighted average NPS of all brands is calculated by subtracting the percentage of detractors from the percentage of promoters, leading to a NPS of 0 in the first half of 2023. Source: market research company Miles Research.

2 CET1 ratio based on Basel IV is an estimate.

Foreword

Martijn Gribnau, Chair of the Executive Committee of de Volksbank

“In the first half of 2023, economic growth in the Netherlands stalled, house prices decreased and inflation remained high, although the first shock of higher energy prices wore off somewhat. To combat inflation, the European Central Bank continued to increase its key interest rates. ECB’s deposit facility rate in particular increased from -0.5% per year-end 2021 to +3.5% per the end of June 2023. This rapidly changing interest rate environment led banks to adjust asset and liability prices. As a result, the material change in the ECB’s interest rates positively impacted the financial results of European banks, including de Volksbank. In the first half of 2023 we experienced a large and positive swing in interest income, while the first half of 2022 was still impacted by negative interest rates. The flip side of the coin is that higher inflation also led to higher operating expenses, as both wage and non-wage cost increases accelerated.

Against the background of these major changes in the macroeconomic and interest rate environment, we continued to implement our strategy for the period 2021-2025, entitled ‘Better for each other – from promise to impact’. As previously communicated, we have set ourselves two strategic goals: firstly, in 2025 we want to be the bank with the strongest customer relationship in the Netherlands, and secondly, we want to have a substantial and measurable positive impact on society.

Now that we are halfway the strategic period, I am pleased to note that we are making progress in strengthening our customer relationship. In May of 2023, in a survey by MarketResponse, our consumer brands ranked 1, 2 and 3 for the second year in a row: ASN Bank was voted ‘most customer-friendly bank’ in the Netherlands, with RegioBank and SNS in second and third place. BLG Wonen continued to focus on expanding its distribution reach and its services to independent financial advisors. In the first half, the number of active multi-customers increased by 4% to 1.1 million. And lastly, following declines in 2022, the average Net Promoter Score and Customer Relationship Score of our brands were slightly higher.

We continue to strengthen the relationship with our customers by actively engaging with them through our digital bank channels and, in the case of SNS and RegioBank, through their network of shops and branches. In the first half, all our brands made progress in improving their customer service.

In the most recent survey by the Fair Bank Guide, held in May 2023, de Volksbank ranked first, with a score of nine out of ten on seven ESG themes. As a frontrunner in creating impact on society, we aim to improve our ecological footprint. Our climate- neutral balance sheet increased by 4 percentage points to 66%. At the end of the 2022, we published our first Climate Action Plan, in which we outline our goal to achieve a net zero balance sheet by 2050, or sooner if possible. Net zero means cutting greenhouse gas emissions as close to zero as possible and re-absorbing the remaining emissions. We are planning to transform our climate-neutral balance sheet objectives into this net zero ambition.

To achieve our strategic goals and make our operations more robust and efficient, we are carrying out several internal transformations and making investments. It is encouraging to note that, for all these changes, the ‘Genuine attention for employees’ score, measured in April 2023, rose to 7.7, slightly above the score of 7.6 of the survey in November 2022.

In a shrinking lending market, our new mortgage production showed a sharp decline. However, on balance, our residential mortgage portfolio grew by € 0.2 billion to € 48.5 billion. Our SME loan portfolio rose by € 78 million to € 1.2 billion. Retail savings remained stable at € 44.5 billion, reflecting our steady and diversified customer base. Assets under management increased by € 0.3 billion to € 4.2 billion, mainly supported by a rebound of stock market prices.

In the first half of 2023, net profit more than doubled to € 248 million, compared to € 95 million in the first half of 2022, as a sharp rise in total income outpaced an increase in operating expenses. Return on equity improved to 13.6%, compared to 5.5% in the first half of 2022, well above our 2025 objective of 8%. Total income increased by 59% to € 735 million. Net interest income was 78% higher at € 662 million, mainly due to the more favourable interest rate environment. As a result, net interest income was supported by a strong increase in margins on retail deposits, comprising savings and current account balances. Net interest income on residential mortgages decreased as margins narrowed. Net fee and commission income went up 38% to € 33 million, mainly driven by fees for payments and basic banking services.

Total operating expenses were up 20% at € 389 million, corresponding with a cost/income ratio of 52.9% (first half of 2022: 69.8%). The increase was mainly driven by additional investments in customer integrity, banking regulations and our IT foundation, supporting our objective to become a more robust and resilient organisation. Regulatory levies were lower.

Total impairment charges were € 8 million, compared to € 11 million in the first half of 2022. Impairments of residential mortgages went up, driven by higher modelled provisions, most notably due to lower expected house prices. Incurred credit losses on residential mortgages remained negligible, evidencing the sound quality of our loan portfolio. Impairments on corporate loans, driven by a few individual loans, decreased.

Our capital position remained solid. The CET1 capital ratio showed a slight improvement to 20.4%, from 20.3% at year-end 2022. An increase in capital was almost offset by the impact of a higher risk-weighting of residential mortgages. The leverage ratio improved to 4.8%, from 4.7% at year-end 2022. To strengthen and diversify our capital position, we successfully executed two issuances of green senior non-preferred (SNP) notes of € 500 million each in the first half of 2023. Following these transactions we expect to meet the binding MREL subordination requirement as from January 2024.

On 7 July 2023, our shareholder NLFI published its annual progress report on de Volksbank. In the report, NLFI notes that in 2022 and the beginning of 2023, we made progress in the implementation of the strategy 2021-2025. NLFI also notes we still have some challenges to face to reach our objectives. One of these challenges is the further development of a diversified earnings and funding model. Another is the improvement in the IT domain and meeting the legal and regulatory requirements, in particular in the field of anti-money laundering, while maintaining an acceptable level of cost control. We wholly agree with these observations and appreciate the constructive dialogue with NLFI on these issues. As set out earlier, we will continue on the path to further clarify our future options.

De Volksbank gives the highest priority to its gatekeeper responsibilities with respect to customer integrity, for which purpose we closely follow updated legislation. However, despite additional investments, we experienced delays in executing an improvement plan that commenced in 2020. Based on a new supervisory review conducted by De Nederlandsche Bank (DNB) in 2022, the latter concluded that de Volksbank did not adequately identify and assess its risks of money laundering and financing of terrorism. The results of identifying and assessing integrity risks are also not up-to-date. DNB assessed that de Volksbank does not take sufficient account of the risk factors related to the type of customer, product, service, transaction and delivery channel and to countries or geographic areas.

Therefore, DNB concluded that de Volksbank is in violation of the Anti-Money Laundering and Anti-terrorism Financing Act (Wwft) and imposed an instruction to improve our Systematic Integrity Risk Analysis by 1 April 2024. DNB also announced its intention to start a procedure to impose an administrative fine. DNB expects that all identified shortcomings will be permanently and structurally remediated and captured in a comprehensive remediation plan. It will closely monitor the progress in this field and, depending on the progress of the remediation, may decide to proceed with additional measures. Naturally, we regret the current situation and are fully committed to remedy the shortcomings within the timeframe imposed.

Looking ahead to the second half of 2023, we expect net interest income to continue to benefit from the currently favourable interest rate environment, although this largely depends on ECB's interest rate policy. We expect margins on deposits to decline and margins on mortgages to be in line with the first half of 2023. In all, we expect total income in the second half to be lower compared to the first half of 2023. Operating expenses are expected to be in line with the first half of 2023. Based on the current economic outlook and due to the sound quality of our loan portfolio, we expect the level of impairment charges to remain low. Taking into account the aforementioned factors, we expect net profit for the second half to be below that of the first half, but for the full year 2023 to be substantially above that of 2022.

In the first two and a half years of the strategic period 2021-2025 we focused on making our operations more robust and efficient, a condition to increase the positive impact on our customers and society. For the second half of the strategic period, the challenge is to progressively move from 'promise' to 'impact', while at the same time making additional investments to further improve the operational and financial robustness of our business operations. I am confident that we will succeed in the execution of our strategy, aimed at adding value for all our stakeholders.''

Strategic progress

Our strategy

In the first half of 2023, we continued to accelerate and execute our strategic programme 2021 – 2025: Better for each other – from promise to !mpact. This strategy has two main pillars through which we aim to strengthen our distinctive capability: we want to be the bank with the strongest customer relationship in the Netherlands and to have a substantial and measurable positive impact on society.

This distinctive capability is reflected in our four brands, each with its own growth priority:
- SNS will broaden its target audience to include younger customers and strengthen its business model with more fee income;
- ASN Bank aims to accelerate growth as a digital, sustainable bank;
- RegioBank is set to strengthen its local presence with a broader range of propositions;
- BLG Wonen intends to expand by improving its distribution reach and service.

To enhance our distinctive capability and realise the brands' growth priorities, our strategy comprises five necessary movements of change, i.e.:
1. digital and omni-channel dialogue;
2. relevant range of products, new propositions and small businesses as a new target market;
3. IT-based customer bank;
4. customer focused;
5. efficient and flexible.

To this end, we continuously work on strengthening our organisational, employee and leadership capabilities, complying with laws and regulations and ensuring the continuity of our systems and operations.

Strategic progress

Based on our 2021 – 2025 strategy and the outlook for the economic developments and financial markets, we have set measurable objectives for each of our stakeholder groups. These objectives are presented in the following table and discussed in more detail below the table:

Strategic objectives	Target 2025	30-6-2023	31-12-2022
CUSTOMERS			
Customer-weighted average Customer Relationship Score (KRS)[1]	60	54	53
Customer-weighted average Net Promoter Score (NPS)[1]	+13	0	-1
Active multi-customers (in 1,000)[1]	1,300	1,126	1,087
SOCIETY			
Climate-neutral balance sheet[2]	≥75%	66%	62%
EMPLOYEES			
Genuine attention[1]	≥ 7.5	7.7	7.6
SHAREHOLDER			
Return on Equity (RoE)[3]	8.0%	13.6%	5.2%
OTHER OBJECTIVES			
Common Equity Tier 1 ratio (Basel IV)[4]	≥19%	20.9%	20.2%
Leverage ratio (Basel IV)[4]	≥4.5%	4.8%	4.7%
Cost/income ratio[3]	57-59%	52.9%	67.9%

1 For the measurement methodology of this KPI reference is made to the Integrated Annual Report 2022.
2 For the measurement methodology of this KPI reference is made to the Integrated Annual Report 2022. As the calculation process was enhanced this year, the review by Guidehouse is no longer required.
3 For the measurement methodology of this KPI reference is made to the Section Reconciliation of alternative performance measures on page 50 of this report.
4 For more information, please refer to the Section Capital management.

Strong customer relationships

We distinguish ourselves through strong customer relationships. In May 2023, our retail banking brands ASN Bank, RegioBank and SNS were once again recognised by the Dutch Consumers' Association as the most customer-friendly banks in the Netherlands, occupying positions 1, 2 and 3 respectively in the annual survey.

Customer Relationship Score

The customer-weighted average Customer Relationship Score *(KRS)* measures how strong the relationship is that customers experience based on their satisfaction with, trust in and love for the brand. The higher the score, the stronger the relationship is perceived to be. Over the first half of 2023, the customer-weighted average of our retail banking brands was 54 (average 2022: 53). Our year-end 2025 target is a customer-weighted average KRS of 60.[1]

Net Promoter Score

The customer-weighted average of all brand-specific NPS[2] scores increased slightly to 0 in the first half of 2023, compared to -1 at year-end 2022. De Volksbank has set itself an NPS target of +13 by the end of 2025.

Number of active multi-customers

In the first half of 2023, the number of active multi-customers[3] rose by 39,000 to 1,126,000. We are well on track to reach our target of 1.3 million active multi-customers by the end of 2025. The total number of current account customers grew by 53,000 to 1,960,000. The total number of customers decreased by 11,000 to 3,274,000, mainly due to the outflow of customers with only a savings account following the introduction of a fixed fee for the basic banking package in 2022 and our continued focus on attracting more active multi-customers.

Social impact

We are focussing on making positive social impact through the banking products and services that we offer to our customers. Furthermore, we continue to optimise our social impact profile by considering feedback from our key stakeholders and by making our own operations more sustainable. In the first half of 2023, de Volksbank scored the highest marks on all themes analysed in a study on sustainability policies conducted by the Fair Bank Guide.

Climate-neutral balance sheet

Halfway into 2023, our climate-neutral balance sheet increased by 4 percentage points to 66% (year-end 2022: 62%), on track to reach our objective of at least 75% by 2025. Over the last six months, we have financed new renewable energy projects and purchased additional green bonds with a strong focus on green projects, supporting an increase of our avoided CO_2 emissions. At the end of June 2023, our climate-neutral balance sheet included 1,332 kilotons of CO_2 emissions (year-end 2022: 1,336 kilotons) and 882 kilotons of avoided CO_2 emissions (year-end 2022: 831 kilotons).[4]

De Volksbank published its Climate Action Plan, as part of our contribution to the Dutch National Climate Agreement in 2022. In this plan, we communicated our ambition for a net zero balance sheet by 2050, or sooner if possible. Considering current market dynamics and anticipating future market trends, we are trying to integrate our current goal of achieving a climate-neutral balance sheet by 2030 into this ambition.

Decent housing

We are working towards an inclusive housing market, in which everyone has fair opportunities and access to appropriate mortgage solutions, enabling them to secure decent housing. We measure our progress through three KPIs, namely 1) making housing accessible to households earning up to twice the average income, 2) sustainable recovery from mortgage arrears based on

1 The Customer Relationship Score (KRS) of de Volksbank is the customer-weighted average of all retail banking brands (SNS, ASN Bank and RegioBank). By means of an extended matrix the strength of the relationship is calculated based on the scores for satisfaction with, trust in and love for the brand. The scale ranges from 0 to 100.

2 A positive NPS requires the percentage of promoters to be higher than the percentage of detractors. Whether a customer is a 'promoter' (9-10), 'passively satisfied' (7-8) or a 'detractor' (0-6) is measured on a 1 to 10 scale. The NPS is calculated by subtracting the percentage of detractors from the percentage of promoters. The score can range from -100% to +100%.

3 An active multi-customer is a customer with a current account and at least one product from another product group, who has made at least ten customer-initiated transactions per month on his or her current account for three months in a row.

4 The climate-neutral balance sheet includes all relevant balance sheet items of de Volksbank and is climate neutral when we avoid, reduce or eliminate as much CO2 emissions as we emit.

financial care during major life events, and 3) financing of new residential units. We are taking this year to further monitor the KPI’s internally, to establish the governance and to set matching targets.

Four growth priorities of the brands

SNS
With 196 shops, SNS is on track to reposition the brand to attract a younger customer audience. It launched new brand campaigns, introduced a new app banking app as well as new products and services, such as advice to help customers make their homes more sustainable, tailored mortgage advice and a life insurance for tenants. SNS is thus strengthening its business model with more fee income. Being a social bank that stands for equal growth opportunities for everyone, SNS extended its partnership with WorldSkills Netherlands, a foundation that inspires young people for vocational education and craftsmanship, and engaged with young adults through a Youth Council.

ASN Bank
ASN Bank is taking steps to further grow into a digital sustainable bank. In the first half, the number of customers grew slightly. It improved its digital customer services by introducing a chatbot and launching a new mobile banking app. Moreover, de Volksbank was rated most sustainable bank in the Fair Bank Guide, based on a study of Dutch banks' sustainable investment policies and practices. The sustainability policy for de Volksbank is designed by ASN Bank's sustainability experts. Being a frontrunner in sustainability remains important for further growth.

RegioBank
RegioBank continued to have a strong local presence with more than 440 independent advisers in small towns and villages. It remains committed to the local community not only by providing financial services to its private and small business customers, but also by providing support for social initiatives such as building community centres, playgrounds and social activities in the Netherlands. In June, RegioBank organised the National Village Summit, an event for everyone involved in regional developments and initiatives. Furthermore, RegioBank focuses on giving small businesses the attention they deserve, helping them to drive their business growth and make a positive social impact on their customers and society.

BLG Wonen
BLG Wonen focuses on expanding its distribution reach and service and remains committed to making the housing market more accessible by working with independent financial advisers to develop and offer suitable standard and custom mortgage solutions. It actively helps grow target audiences in society, such as single-person households, self-employed persons and senior citizens.

Five necessary movements of change

1. Digital and omnichannel dialogue
De Volksbank aims to strengthen its relationship with its customers and advisers by providing a human touch in customer contact and by providing consistent and personalised service through online and offline channels. In the first half of 2023, we started with the roll out of the new retail customer banking app for all brands, and by using the Design System of de Volksbank we offer a consistent and recognisable cross-channel experience. Furthermore, a chatbot was added as contact option in the ASN Bank app and a live chat has been added to both BLG Wonen and ASN Bank apps. Finally, we started introducing more personalised messages in three customer channels for SNS and ASN Bank, i.e. in My environment, the mobile banking apps and on the websites.

2. Relevant range of products, new propositions and small businesses as a new target market
We deliver more value for our customers by expanding our brands’ current product range with existing and new propositions and addressing the target market for small businesses.

In the first half of 2023, we broadened our product range by raising the working capital financing limit for small and medium-sized enterprises (SMEs) on their current account from €50.000 to €100.000, and by introducing the buy-to-let mortgage with a social character for customers who want to buy a residential property to rent out. The latter product characterises de Volksbank core values. The terms and conditions protect tenants from excessive rent and in return we offer favourable conditions to our customers. The launch of the product resulted in a nomination for the 'Golden Lotus Award' in the category Innovation ‘Mortgage Product'.

We continued to grow the number of independent financial advisers that use the services of the valuation platform Fitrex, mainly by leveraging the BLG Wonen, RegioBank and SNS networks. In parallel, we plan to further enhance the platform with additional services, such as access to a notarial network. As far as the insurance side is concerned, we optimised our SME offering and, together with NN, migrated the full portfolio of consumer non-life policies to a new IT platform. In the first half of 2023, our SNS and ASN Bank insurance products were rated 'best in class' and 'Green choice', respectively, by the Dutch Consumers' Association.

3. IT-based customer bank
Our aim is to achieve a modular, customer-driven, mostly cloud-based IT infrastructure with more automated IT processes. In the first half of 2023, we worked on the customer bank transition by further designing and building a new customer administration, extending the workflow management system, improving the data platform and working on continuous integration and delivery through development pipelines. Furthermore, we launched an initiative for a new financial ledger. We will continue to work on these developments in the second half of 2023 and onwards.

4. Customer focused
At the end of 2022, we had taken a major step in our transition towards a more customer-oriented and agile organisation. The new organisational design and way of working have now been implemented. Still, it will take another 1 to 2 years to fully implement the agile transformation. Further embedding the transformation has become an inseparable part of the overall People & Organisation strategy. Therefore, the change movement 'Customer focused' will no longer be reported on as a separate movement of change but will be included in 'Capabilities'.

5. Efficient and flexible
We are continuously looking for opportunities to work more efficiently and flexible. We do so through the agile way of working and by looking for an ideal between of partnerships, outsourcing and doing work ourselves. We also incorporated the intake processes for suppliers, enhancing efficiency and control in managing our suppliers. Moreover, we want to use our capital and balance sheet in a more targeted way. To that end, de Volksbank executed two issuances of green Senior Non-Preferred (SNP) Notes of € 500 million each in the first half of 2023, which means we already meet the subordinated MREL requirements applicable as from 2024.

Capabilities
In order to realise our strategy, we continuously work to strengthen our organisational, employee and leadership capabilities. In the first half of 2023, we detailed the strategy 'Capabilities' by formulating a People & Organisation strategy, which contains goals related to the pillars People & Teamwork, Leadership, Culture, and Organisation. One of the first steps in implementing the People & Organisation strategy was to establish a leadership and culture programme. Teams are now using a Skills Scan to map what skills they need to achieve their goals and identify key development objectives. In June 2023, the second in-company Organisational integrity survey was conducted. The results will be used to embed and strengthen our risk culture. In the first half, we also rolled out a model for future growth in agile maturity.

Important preconditions

Compliance with laws and regulations
Compliance with laws and regulations has been a key priority for de Volksbank for years. To create and maintain focus and guidance for the business, we decided to make customer integrity a top priority for 2023. As a result, the governance of customer integrity has been adjusted to ensure and accelerate timely and risk-based decision making, clear ownership and execution. In addition, resources have been allocated and external expertise has been hired to ensure progress and quality. For more information, see the Section on Operational risks.

Continuity
The responsibility for ‘Continuity’ shifted from the central IT organisation to the Customer Service departments. To enhance the continuity of applications and value streams, we have added the role of Continuity Coordinator to the Business, Development and Operations teams in these departments.

Strategic objectives

The strategic objectives for our customers are explained in the Section Strong customer relationships and for society in the Section Social impact. As to the progress towards our other objectives, we provide an update below.

Genuine attention for employees

We want to empower employees to make a meaningful contribution to our mission and strategy by giving attention to autonomy, professional skills and personal growth. We expect this will result in improved employee engagement. Twice a year, we conduct an employee survey to monitor the key performance indicators (KPIs) of creating shared value for our employees: genuine attention and commitment and engagement. A new conceptual framework introduced in 2023 led to the integration of the KPI commitment into the existing KPI engagement. In April 2023, 74% of all employees participated in the employee survey. Almost all questions scored slightly higher than in the previous survey held in November 2022. The score for genuine attention increased from 7.6 to 7.7, the score for engagement increased from 7.4 to 7.5. For the KPIs genuine attention and engagement, we aim for a score of at least 7.5 and 8.0 (on a 1-10 scale) respectively by 2025.

Returns for the shareholder

Return on Equity

In the first half of 2023, de Volksbank's Return on Equity (RoE) substantially increased to 13.6%, up compared to 5.5% for the first half of 2022 and 5.2% for the full year 2022. This increase was mainly supported by the rapid increase in external interest rates over the last 12 months, initiated by the ECB, which had positive impact on our margins on liabilities. In the first half of 2022, the bank was still embedded in a general negative interest rate environment historically created by the ECB, putting pressure on our profitability in the previous periods.

Other objectives

Capital and leverage ratio

The target levels of the Common Equity Tier 1 (CET1) ratio and the leverage ratio apply for the ratios based on the expected impact of fully phased-in Basel IV standards and the end-state of the CRR Non-performing Exposures (NPE) rules. De Volksbank's actual CET1 ratio rose slightly to 20.4%, from 20.3% at year-end 2022. The Basel IV fully loaded CET1 capital ratio is estimated at 20.9% (year-end 2022: 20.2%). The leverage ratio rose to 4.8%, from 4.7% at the end of 2022. Both the CET1 and leverage ratio remained well above our minimum targets of at least 19.0% for the CET1 ratio and 4.5% for the leverage ratio. For more information on the capital and leverage ratio, see the Section on Capital management.

Cost/income ratio

In the first half of 2023, higher total income and lower regulatory levies resulted in a cost/income ratio (C/I ratio) of 52.9%, an improvement compared to the first half of 2022 (69.8%). Maintaining the C/I ratio within the target range of 57-59% for 2025 will require continued investments in our strategic initiatives to make an impact over the years, both at the revenue and operational expense levels.

Outlook

In the second half of 2023, we expect net interest income to continue to benefit from the current favourable interest rate environment, although it is highly dependent on the ECB interest rate policy. We expect margins on deposits to be lower and margins on mortgages to be in line with the first half of 2023. In all, we expect total income in the second half to be lower compared to the first half of 2023. For 2023 as whole, we expect total income to be considerably up compared with the 2022 level.

Operating expenses in the second half of 2023 are expected to be in line with the first half of 2023 as we will continue to invest in our IT foundation and projects related to banking regulations and customer integrity, supporting our objective to become a more robust and resilient organisation. Correspondingly, for 2023 as a whole, operating expenses are projected to be higher compared with 2022, despite lower expected regulatory levies.

The impact of macroeconomic forecasts on our customers and their financial resilience is highly uncertain. Consequently, this may impact our loan loss provisioning levels. Based on the current economic outlook and due to the sound credit quality of our loan portfolio, we expect the level of additional impairment charges on loans and advances to be low in the second half of 2023. For 2023 as a whole, we expect impairment charges to be lower compared with 2022.

Taking into account the factors described above, we expect net profit for 2023 to be substantially above that of 2022.

Economic developments

Dutch economy
Economic developments in the Dutch economy in the first half of 2023 varied quite strongly between the sectors. The industrial sector went into recession after a period of growth as a result of a strong - pandemic-related - increase in the production and consumption of consumer goods. The services sector, however, profited from the revival of consumer spending after the Covid-19 lockdown measures were lifted. Still, the Dutch economy contracted by -0.3% in the first quarter. The contraction was mainly attributable to a winding down of inventories, which was only partly compensated by a rise in investment expenditures. Despite the lacklustre development of the economy, the labour market remained robust with ongoing employment growth, albeit at a much slower rate than in 2022. The unemployment rate remained fairly stable around the very low level of 3.5%. With more job vacancies than unemployed people, the labour market was very tight. This led to an acceleration of wage rises to 5.7% in June 2023. Inflation decelerated from a peak of 14.5% in September 2022 to 5.7% in June, mainly due to a sharp drop in energy prices. The underlying (core) inflation, however, remained high, falling from an 8.1% peak in March to 7.2% in June.

Housing and mortgage market
The sharp rise in mortgage rates, on the back of the aggressive rate hikes by the European Central Bank (ECB) as from July 2022, sharply cooled down the housing market. In August 2022, house prices started to fall on a monthly basis and in February 2023 they fell for the first time on a year-on-year basis. In June, prices were 5.5% lower than in 2022 and according to the NVM, the Dutch Association of Estate agents, which measures prices earlier in the sales process, the contraction in prices was even greater: -8.9% at the of end the second quarter of 2023. However, at the end of the reporting period the housing market showed some signs of stabilisation. The month-on-month fall in house prices seemed to decelerate and the number of transactions of existing homes began to rise. In the second quarter, the NVM also registered a slight quarter-on-quarter increase in house prices. After the sharp rise in mortgage rates in 2022, rates more or less stabilised in 2023 and with a robust labour market and sharply rising wages, consumers became less hesitant to buy. Although the supply of homes for sale rose strongly, the housing market still remained fairly tight. According to the Dutch Mortgage Data Network (HDN), which facilitates the application, underwriting and management process of mortgage products, the number of mortgage applications fell by 44.7% compared to the first half of 2022, with the number of mortgage applications to purchase a home declining by 19.0%. Mortgage renewals dropped by 63.9%. Another notable development is the sharp rise in the number of transactions in which consumers transferred their current mortgage to their new property, taking advantage of the accompanying low mortgage rate.

Interest rates and government bond yields
Inflation in the eurozone peaked at 10.6% in October 2022 and then began to decline to 5.5% in June 2023. However, this decline was largely attributable to the fell in energy prices. Underlying inflation remained high with inflation in services showing no signs of abating, hovering at around 5.4% in June. This left the ECB no other choice than to increase its key interest rates, although in May the central bank slowed down the pace of rate hikes in the first half of 2023 from 50 basis points (bps) per meeting to 25 bps. Starting the year with a deposit rate of 2.0%, the ECB raised this rate to 3.5% in June. As many of these hikes had been anticipated, the Dutch ten-year yield did not increase, starting the reporting period at 2.91% and closing at 2.74%, although it did fluctuate quite sharply in this period. The shorter end of the yield curve was more responsive to the change in policy rates, with the Dutch two-year rates starting at 2.68% and closing at 3.18% in the same period. With these yield changes, the Dutch yield curve is now at the steepest inversion since the early 1990s.

Savings market
Despite the sharp price increases, affecting individual household budgets, the Dutch retail savings market grew to € 448 billion, from € 431 billion at year-end 2022. The rising savings rates and the uncertain economic outlook may explain the steady increase in savings.

Financial results

The chapters on Financial results and Risk management contain information required by IAS 34. This information has been labelled as 'Reviewed'.

Profit and loss account

in € millions	1H23	1H22	Change	2H22
Net interest income	662	372	78%	479
Net fee and commission income	33	24	38%	27
Other income	40	67	-40%	-4
Total income	**735**	**463**	**59%**	**502**
Operating expenses excluding regulatory levies	365	282	29%	304
Regulatory levies	24	41	-41%	28
Total operating expenses	**389**	**323**	**20%**	**332**
Impairment charges of financial assets	8	11	--	41
Total expenses	**397**	**334**	**19%**	**373**
Result before taxation	**338**	**129**	**162%**	**129**
Taxation	90	34	165%	33
Net result	**248**	**95**	**161%**	**96**
Additional to (release of) restructuring provision	--	4		13
Total incidental items[1]	**--**	**4**		**13**
Adjusted net result	**248**	**91**	**173%**	**83**
Cost/income ratio (including regulatory levies)[2]	52.9%	69.8%		66.1%
Adjusted cost/income ratio (including regulatory levies)[2]	52.9%	71.1%		69.5%
Return on Equity (RoE)[2]	13.6%	5.5%		5.0%
Adjusted Return on Equity (RoE)[2]	13.6%	5.2%		4.3%
Net interest margin[2]	1.82%	1.01%		1.29%
Cost/assets ratio[2]	1.00%	0.77%		0.82%
Adjusted cost/assets ratio[2]	1.00%	0.78%		0.87%

1 To derive the adjusted performance, we adjust for certain incidental items. For more information, reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.

2 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.

Net result

De Volksbank's net profit increased by € 153 million compared to the first half of the previous year to € 248 million as at 30 June 2023. Adjusted for incidental items, net profit rose by € 157 million. The first half of 2023 did not include any incidental items, whereas the first half of 2022 included an incidental item of € 4 million after tax (second half of 2022: € 13 million), consisting of a release of the restructuring provision in relation to the 'agile way of working'.

Total income grew substantially by € 272 million to € 735 million in the first half of 2023. This increase was mainly driven by higher net interest income due to rising external interest rates. To combat inflation in Europe, the ECB continued to raise its interest rates e.g. the deposit facility rate grew further to 3.50% as at 30 June 2023 compared with 2.00% at year-end 2022 and -0.50% at year-end 2021. While the first half of 2022 was still marked by negative interest rates and their impact on our business model, the first half of 2023 already benefited from the drastic increase in external interest rates over the past 12 months. Net fee and commission income also continued to grow, reflecting our ambition to further increase non-interest income. Other income declined as the first half of 2022 included a substantial non-recurring gain on swaptions, used to hedge long-term interest income against sharply rising market interest rates.

The increase in total income more than compensated for € 60 million higher total operating expenses, adjusted for incidental items. The increase in operating expenses was mainly driven by additional investments in projects related to customer integrity, banking regulations and the IT foundation, supporting our objective to become a more robust and resilient organisation. Regulatory levies were lower. Impairment charges of financial assets decreased slightly as the credit quality of our loan portfolio remained sound.

Compared to the second half of 2022, net profit increased by € 152 million. Adjusted for incidental items net profit was up by € 165 million. This increase was mainly attributable to € 233 million higher total income. In addition, impairment charges of financial assets decreased by € 33 million, partly offset by € 40 million higher total operating expenses, adjusted for incidental items.

Total income

Breakdown of income

in € millions	1H23	1H22	Change	2H22
Net interest income	662	372	78%	479
Net fee and commission income	33	24	38%	27
Other income	40	67	-40%	-4
Of which investment income	*-5*	*-2*	*-150%*	*-6*
Of which other results on financial instruments	*44*	*69*	*-36%*	*1*
Of which other operating income	*1*	*--*	*--*	*1*
Total income	**735**	**463**	**59%**	**502**
Net interest margin[1]	1.82%	1.01%		1.29%

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.

Net interest income

Net interest income increased by € 290 million to € 662 million (+78%) in the first half of 2023 and the net interest margin rose to 1.82% (first half of 2022: 1.01%). Both increases were mainly due to the more favourable interest rate environment as from the second half of 2022. As a result of sharply rising market interest rates, net interest income was supported by a strong increase in margins on retail deposits, comprising savings and current account balances. Total retail deposits decreased by € 0.5 billion to € 56.1 billion as at 30 June 2023, with the decline mainly attributable to SME savings and current account balances. This decline was driven by the changed interest rate environment, which triggered a repricing of deposits in the Dutch banking market.

Net interest income on residential mortgages decreased as margins narrowed. In addition, compensation received for loss of interest income due to mortgage prepayments declined sharply as mortgage rates rose significantly and the mortgage refinancing market contracted. This compensation amounted to € 17 million, compared to € 49 million in the first half of 2022. In addition, this compensation amount included a gain of € 8 million related to the further refinement of expected cashflows from prepayment penalties in the light of interest rate averaging contracts. For more details on this further refinement, please refer to the Change in accounting estimates in the Section Accounting principles. The residential mortgage portfolio, excluding IFRS value adjustments[5], showed a marginal increase to € 48.5 billion (year-end 2022: € 48.3 billion).

Treasury-related interest income decreased due to a shift to other results on financial instruments, which is part of other income.

Compared to the second half of 2022, net interest income rose by € 183 million. This favourable increase was mainly supported by the rapid increase in external interest rates over the past 12 months as initiated by the ECB, which had positive impact on our deposit margins.

Net fee and commission income

Gross fee and commission income rose by € 9 million to € 84 million (+12%), while total fee and commission expenses remained stable at € 51 million. On balance, net fee and commission income rose by € 9 million to € 33 million (+38%), mainly due to higher payment fees and the introduction of a monthly rate for the basic banking package in 2022. Management fees were broadly in line with the first half of 2022. Compared to year end 2022, assets under management increased by € 0.3 billion to € 4.2 billion at the end of June 2023, mainly supported by a rebound of stock market prices.

Compared to the second half of 2022, net fee and commission income rose by € 6 million. This increase was also mainly attributable to higher payment fees.

5 Consisting of fair value adjustment from hedge accounting and amortisations.

Investment income

Investment income amounted to € 5 million negative, compared to € 2 million negative in the first half of 2022 and € 6 million negative in the second half of 2022. In all periods, investment income consisted entirely of realised results on fixed-income investments, sold as part of Asset & Liability Management and optimisation of the bank's investment portfolio.

Other results on financial instruments

Other results on financial instruments declined by € 25 million to € 44 million, a decrease that mainly ensued from lower results on interest rate swaptions used for hedging purposes. The first half of 2023 included a loss of € 8 million, while in the first half of 2022 a sharp rise in interest rates combined with high market volatility resulted in a € 51 million gain. In addition, results on hedge accounting ineffectiveness of mortgages decreased. The lower results on swaptions and ineffectiveness were partly compensated by higher Treasury results, reflecting activities to benefit from prevailing favourable FX swap interest rate differentials.

Compared to the second half of 2022, other results on financial instruments increased by € 43 million, mainly as a result of higher Treasury results. In addition, the negative result on hedge accounting ineffectiveness of mortgages declined.

Total expenses

Operating expenses and FTEs

in € millions	1H23	1H22	Change	2H22
Staff costs	234	195	20%	188
Depreciation of (in)tangible assets	11	10	10%	12
Other operating expenses	144	118	22%	132
of which regulatory levies	*24*	*41*	*-41%*	*28*
Total operating expenses	**389**	**323**	**20%**	**332**
Addition to (release of) restructuring provision - staff costs	--	-6	-100%	-17
Adjusted operating expenses[1]	**389**	**329**	**18%**	**349**
Cost/assets ratio[2]	1.00%	0.77%		0.82%
Adjusted cost/assets ratio[2]	1.00%	0.78%		0.87%
FTES				
Number of internal FTEs	3,262	3,162	3%	3,123
Number of external FTEs	904	761	19%	764
Total number of FTEs	**4,166**	**3,923**	**6%**	**3,887**

1 To derive the adjusted performance, we adjust for certain incidental items. For more information, reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.
2 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.

Total operating expenses rose by € 66 million to € 389 million (+20%). In 2022, operating expenses were positively impacted by an incidental item, consisting of a release of the restructuring provision in relation to the agile way of working of which € 6 million in the first half of 2022 and € 17 million in the second. In the first half of 2023 there were no incidental items.

Excluding incidental items, total operating expenses increased by € 60 million (+18%). Regulatory levies amounted to € 24 million (first half of 2022: € 41 million), of which € 10 million was linked to the resolution fund contribution (first half of 2022: € 14 million), and € 14 million to the ex-ante DGS contribution (first half of 2022: € 27 million). The lower DGS contribution was mainly driven by a lower growth rate of covered deposits year-on-year, a refinement of the calculation basis and a partial reversal of last year's contribution.

Staff costs excluding incidental items went up by € 33 million due to an increase in total FTEs and wage inflation. Compared to year-end 2022, the total number of FTEs grew by 279 to 4,166, consisting of an increase of 139 internal FTEs to 3,262 and of 140 external FTEs to 904. The increase in the total number of FTEs mainly reflected initiatives in the domains of IT, customer compliance and risk.

Other operating expenses and depreciation, excluding regulatory levies, increased by € 44 million mainly due to higher IT and consultancy costs, reflecting investments in customer integrity, banking regulations and the IT foundation.

Driven by higher (adjusted) expenses the adjusted cost/assets ratio increased to 100 basis points (bps), compared to 78 bps in the first half of 2022.

Compared to the second half of 2022, total operating expenses increased by € 57 million. Adjusted for incidental items, they went up by € 40 million (+11%), mainly due to higher staff and consultancy costs.

Impairment charges of financial assets Reviewed

in € millions	1H23	1H22	Change	2H22
Investments	-1	3		5
Loans and advances to banks	-3	--		5
Loans and advances to customers	12	8		31
Of which residential mortgages	*9*	*-2*		*19*
Of which consumer loans	*-1*	*-2*		*-1*
Of which SME loans	*-2*	*-2*		*4*
Of which other corporate and government loans	*6*	*14*		*9*
Total impairment charges of financial assets	**8**	**11**	**-27%**	**41**
Cost of risk of total loans[1]	0.05%	0.03%		0.12%
Cost of risk of residential mortgages[1]	0.04%	-0.01%		0.08%
Cost of risk of SME loans[1]	-0.41%	-0.32%		0.77%

1 For the measurement methodology of these KPIs reference is made to the section Reconciliation of alternative performance measures on page 49 of this report.

Total impairment charges of financial assets amounted to € 8 million compared to € 11 million in the first half of 2022. For a more detailed description of credit loss provisioning, see the Section Credit risk.

Residential mortgages

Impairment charges on residential mortgages showed a swing to a charge of € 9 million, from a € 2 million reversal in the first half of 2022.

The overall loan loss provision includes a management overlay that decreased in the first half of 2023. This was mainly the result of a partial release of the management overlay to account for the risk of high inflation potentially affecting our customers' ability to repay their loan(s). The decrease in the management overlay was more than offset by an increase in modelled provisions, driven by a less positive macroeconomic outlook, most notably lower (expected) house prices. Incurred credit losses on residential retail mortgages were negligible.

Impairments on residential mortgages in the second half of 2022 were a charge of € 19 million, reflecting the bleaker macroeconomic outlook at that point in time, most notably lower house prices and increased inflation risk.

Consumer loans

Impairment charges on consumer loans consisted of a small reversal of € 1 million, compared to a reversal of € 2 million in the first half of 2022.

SME loans

Impairment charges on SME loans consisted of a reversal of € 2 million, equal to the first half of 2022. The reversal in the first half of 2023 was driven by a decrease in stage 3 loans as a result of the recovery from stage 3 or transfer within the stage to probation. The credit quality of the SME loan portfolio remained sound and incurred credit losses were very low.

The second half of 2022 saw an impairment charge on SME loans of € 4 million, mainly attributable to a higher management overlay related to inflation risk.

Other corporate and government loans
Impairment charges on other corporate and government loans declined by € 8 million to € 6 million, in both periods consisting of impairments on a few individual corporate loans as a result of increased credit risk.

Loans and advances to banks
Impairment charges on loans to banks consisted of a reversal of € 3 million (first half of 2022: nil), driven by decreased credit spreads in combination with a lower exposure.

In the second half of 2022, impairment charges on loans to banks amounted to € 5 million, driven by increased credit spreads.

Investments
Impairment charges on investments consisted of a reversal of € 1 million, compared to a charge of € 3 million in the first half of 2022 and a charge of € 5 million in the second half of 2022, in both periods resulting from increased credit spreads on our fixed-income portfolio.

Taxation
De Volksbank recognised € 90 million in corporate income tax, corresponding to an effective tax rate of 26.5%, slightly above the statutory rate of 25.8%. This is the result of the interest deduction limitation on borrowed capital (thin cap rule) and a small prior year tax adjustment, largely offset by the tax impact from interest expenses related to AT1 capital securities that are directly recognised in shareholders' equity.

Risk management

Credit risk

Key figures

in € millions	30 June 2023 Gross carrying amount	Provision for credit losses	Book value	31 December 2022 Gross carrying amount	Provision for credit losses	Book value
Investments[1]	**5,922**	**-6**	**5,916**	**5,598**	**-7**	**5,591**
Loans and advances to banks[1]	**3,874**	**-2**	**3,872**	**6,889**	**-5**	**6,884**
Residential mortgages	48,467	-114	48,353	48,272	-98	48,174
Consumer loans	57	-8	49	54	-9	45
SME loans	1,163	-22	1141	1,085	-24	1061
Other corporate and government loans	1,790	-30	1,760	1,749	-23	1,726
IFRS value adjustments[2]	-1,884	--	-1,884	-2,040	--	-2,040
Loans and advances to customers	**49,593**	**-174**	**49,419**	**49,120**	**-154**	**48,966**
Off-balance sheet items	2,837	-11	2,826	2,998	-14	2,984
Total on and off-balance sheet items for loans and advances to customers	**52,430**	**-185**	**52,245**	**52,118**	**-168**	**51,950**
Total	**62,226**	**-193**	**62,033**	**64,605**	**-180**	**64,425**

Credit risk indicators	**30 June 2023**	**31 December 2022**
Total loans and advances to customers		
Loans and advances in stage 3	557	549
Stage 3 ratio[3]	1.1%	1.1%
Stage 3 coverage ratio[4]	15.6%	12.8%
Total loans and advances in arrears[5]	0.7%	0.7%
Residential mortgages		
Residential mortgages in stage 3	469	453
Stage 3 ratio[3]	1.0%	0.9%
Stage 3 coverage ratio[4]	9.0%	6.4%
Incurred loss ratio (in bps)[6]	0	0
Residential mortgages in arrears[5]	0.6%	0.7%
Weighted average indexed LtV	55%	51%

1 For more information, please refer to the Section Financial results - Impairment charges of financial assets.
2 Consist of fair value adjustments from hedge accounting and amortisations.
3 Stage 3 loans as a percentage of total loans.
4 Provision for stage 3 loans as a percentage of total stage 3 loans.
5 Total loans in arrears as a percentage of total loans.
6 Annualised write-offs for the period divided by the average portfolio.

Representing 68% of the total, the loans and advances to customers category is the largest on the balance sheet. Therefore, the remainder of this section mainly relates to this category.

Loans and advances to customers

In the first half of 2023, gross loans and advances to customers rose by € 0.5 billion to € 49.6 billion. The fair value adjustments from hedge accounting increased by € 0.2 billion due to the increase in interest rates. Excluding the fair value adjustments and amortisations, gross growth amounted to € 0.3 billion. Gross residential mortgage loans grew by € 0.2 billion. In addition, the total outstanding amount of the SME loans went up by € 78 million and other corporate and government loans by € 41 million, while consumer loans remained stable.

The credit quality of the total loans and advances to customers remained virtually unchanged. The percentage of loans and advances in arrears was 0.7%, the same as at year-end 2022 and the stage 3 ratio remained unchanged at 1.1%. However, the stage 2 ratio for residential mortgages did go up, mainly due to increased LtV's. The amounts of incurred losses due to write-offs remained low in all portfolios.

The provision for credit losses increased to € 185 million as at 30 June 2023 (year-end 2022: € 168 million), mostly due to decreasing house prices which impacts the LtV and due to an additional provision for an individual corporate customer in stage 3.

General management overlay Reviewed

When the current credit-related dynamics in the macroeconomic environment are not part of our credit risk models, management judgement is applied through a management overlay. The total management overlay declined to € 47 million (year-end 2022: € 51 million).

This decline was mainly driven by a partial release of the management overlay to account for the risk of high inflation. Inflation may affect our customers' ability to repay their loan(s), especially customers who recently originated a loan with a high Loan-to-Income (LtI) ratio. To cover the risk of inflation for households, we maintain a management overlay in the amount of € 19 million, down compared to year-end 2022 (€ 24 million), because less customers were in scope as a result of fewer originations in the past 12 months compared to year-end 2022.

The releases in the management overlay were offset by the stage triggers for interest-only mortgages and other model limitations. The stage triggers for interest-only mortgages, which were revised by extending the scope of potentially high-risk interest-only mortgages at year-end 2022, increased from € 8 million at year-end 2022, to € 11 million as at 30 June 2023, while the overlay for other model limitations decreased from € 11 million to € 9 million.

The management overlay to mitigate the risk of lower house prices for interest-only mortgages in particular, based on the house price index (HPI) change in our macroeconomic forecasts, remained virtually unchanged at € 4 million (year-end 2022: € 4 million).

We maintain a general management overlay of € 4 million (year-end 2022: € 4 million) for SME customers who might be affected by high inflation.

Modelled and post-modelled provision for credit losses[1] Reviewed

in € millions	30-6-2023 Modelled provision for credit losses	General management overlay[2]	Total provision for credit losses	31-12-2022 Modelled provision for credit losses	General management overlay[2]	Total provision for credit losses
Residential mortgages	77	43	120	59	47	106
Consumer loans	12	--	12	13	--	13
SME loans	19	4	23	21	4	25
Other corporate and government loans	30	--	30	24	--	24
Total	**138**	**47**	**185**	**117**	**51**	**168**

1 Including the provision for credit losses for off-balance sheet items.

2 Post-model adjustments

Forward-looking information Reviewed

Macroeconomic scenarios used in credit risk models

The macroeconomic scenario's focus on ECB's rate policy and the resulting monetary and financing conditions, leaving economic growth subpar in coming quarters and picking up only slightly in the second half of 2024. The risk of the ECB raising rates too far and causing a rather severe recession (the downward scenario) has increased. This is why the weight of the downward scenario is increased by 5 percentage points to 40% at the expense of the upward scenario (10%). In the upward scenario, the conflict in Ukraine is projected to end soon with energy prices and economic circumstances returning to normal and accelerating economic growth. In the baseline scenario in 2023 and 2024 the unemployment rate will rise only moderately due to the tight labour market, despite the Dutch economy's poor performance in terms of GDP. The housing market is projected to cool off considerably since the earlier rise in mortgage rates lowered housing affordability.

Analysis of sensitivity to scenario weights

The sensitivity analyses in the tables below show de Volksbank's macroeconomic projections for the next four years. They also show the sensitivity of provisioning levels to the upward, base and downward scenario weights, keeping the management overlay parameters constant. Looking at the different scenarios as at 30 June 2023, assuming a 100% weighting, we see that the provision for residential mortgages would increase by € 20 million in a downward scenario, decrease by € 40 million in an upward scenario and decrease by € 7 million in a baseline scenario. The large decrease in the upward scenario, compared to actual provisioning levels, can be explained by the weights used. The baseline scenario is weighted for 50%, the downward scenario for 40%, leaving the upward scenario with a weight of 10%.

The sensitivity to macroeconomic projections on the loan loss provisions for SME loans is less significant. The provision for SME loans would increase by € 1 million in a downward scenario, decrease by € 2 million in an upward scenario and decrease by € 1 million in a baseline scenario, again assuming a 100% weighting of the respective scenarios.

For consumer loans and other corporate and government loans, the sensitivity to the scenario weights is limited since the provisions in stage 1 and 2 for consumer loans are relatively low and other corporate and government loans generally have a low credit risk profile.

Sensitivity to the scenario weights as at 30 June 2023[1] Reviewed

	Macroeconomic parameter	2023	2024	2025	2026	2027	Weight	Unweighted ECL	Reported ECL (weighted)
RESIDENTIAL MORTGAGES									
Up	Relative change in house price index	-1.2%	2.8%	4.1%	3.8%	3.8%	10%	€ 80 million	
	Unemployment rate	3.3%	3.1%	2.8%	2.8%	2.9%			
Base	Relative change in house price index	-3.7%	-3.8%	0.3%	3.8%	3.8%	50%	€ 113 million	€ 120 million[2]
	Unemployment rate	3.6%	4.0%	4.3%	4.4%	4.4%			
Down	Relative change in house price index	-6.2%	-7.0%	-1.0%	3.8%	3.8%	40%	€ 140 million	
	Unemployment rate	3.9%	5.1%	5.2%	5.0%	4.7%			
SME LOANS									
Up	Unemployment rate	3.3%	3.1%	2.8%	2.8%	2.9%	10%	€ 21 million	
	Number of bankruptcies (monthly)	247	310	326	336	334			
Base	Unemployment rate	3.6%	4.0%	4.3%	4.4%	4.4%	50%	€ 22 million	€ 23 million[2]
	Number of bankruptcies (monthly)	261	406	459	469	465			
Down	Unemployment rate	3.9%	5.1%	5.2%	5.0%	4.7%	40%	€ 24 million	
	Number of bankruptcies (monthly)	266	477	614	641	635			

Sensitivity to the scenario weights as at 31 December 2022[1] Reviewed

	Macroeconomic parameter	2022	2023	2024	2025	2026	Weight	Unweighted ECL	Reported ECL (weighted)
RESIDENTIAL MORTGAGES									
Up	Relative change in house price index	7.0%	0.9%	4.0%	3.8%	3.8%	15%	€ 71 million	
	Unemployment rate	3.7%	3.9%	3.9%	3.9%	3.9%			
Base	Relative change in house price index	4.5%	-5.6%	4.1%	3.8%	3.8%	50%	€ 96 million	€ 106 million[2]
	Unemployment rate	4.0%	4.6%	4.2%	4.2%	4.2%			
Down	Relative change in house price index	3.2%	-9.9%	1.8%	3.8%	3.8%	35%	€ 135 million	
	Unemployment rate	4.2%	6.3%	6.5%	5.4%	4.5%			
SME LOANS									
Up	Unemployment rate	3.0%	3.9%	3.9%	3.9%	3.9%	15%	€ 23 million	
	Number of bankruptcies (monthly)	189	267	310	328	326			
Base	Unemployment rate	4.0%	4.6%	4.2%	4.2%	4.2%	50%	€ 24 million	€ 25 million[2]
	Number of bankruptcies (monthly)	195	396	459	469	466			
Down	Unemployment rate	4.2%	6.3%	6.5%	5.4%	4.5%	35%	€ 27 million	
	Number of bankruptcies (monthly)	196	471	614	643	638			

1 The macroeconomic parameters look ahead with an interval of 12 months as of the reporting period.

2 Including the provision for credit losses for off-balance sheet items.

Key developments per portfolio

Residential mortgage portfolio

Developments in the residential mortgage portfolio
De Volksbank's residential mortgage portfolio, excluding IFRS value adjustments, grew to € 48.5 billion (year-end 2022: € 48.3 billion) as new production exceeded redemptions. As mortgage rates continued to rise in the first half of 2023, mortgage refinancing was no longer attractive for homeowners. The shift towards 10-year fixed mortgages rates continued, also driven by rising mortgage rates. As a result of the cooling-down of the mortgage market, de Volksbank's new mortgage production declined to € 2.2 billion (first half of 2022: € 4.3 billion).

The market share of new mortgages stood at 5.1%, down compared with the first half of 2022 (5.6%). Repayments amounted to € 2.0 billion, compared with € 3.5 billion in the first half of 2022, mainly as a result of the decreased mortgage refinancing volumes. Interest rate renewals amounted to € 0.4 billion, down compared to the first half of 2022 (€ 1.4 billion), largely due to lower early renewals.

The percentage of customers who are taking out NHG-guaranteed loans is declining very gradually over the years. The weighted average indexed LtV of the residential mortgage portfolio went up to 55%, from 51% at year-end 2022. To determine the LtV, we index collateral values every month on the basis of house price developments. Declining house prices have led to a shift of mortgages to higher LtV buckets.

The deteriorated macroeconomic variables, in particular those for the HPI, caused a rise in stage 2 exposure. Stage 3 exposure also rose, from € 453 million to € 469 million, as did the stage 3 coverage ratio: from 6.4% to 9.0%. At the same time, the percentage of loans and advances to customers in arrears decreased to 0.6%.

Provision for credit losses for the residential mortgage portfolio
In first half of 2023, the credit loss provision for residential mortgages rose to € 114 million, from € 98 million at year-end 2022. This was mainly caused by an increase in modelled provisions, the result of a less positive macroeconomic climate, most notably lower house prices. The overall loan loss provision includes a management overlay that decreased in the first half of 2023, mainly due to a partial release of the management overlay to account for the risk of high inflation affecting our customers' ability to repay their loan(s) and the refinement of the management overlay for a model limitation. Incurred credit losses on residential retail mortgages were negligible.

The stage 1 provision decreased from € 38 million to € 33 million due to a lower management overlay. The stage 2 and 3 provisions, however, increased from € 31 million to € 39 million, and from € 29 million to € 42 million, respectively. Although the stage 2 exposure increased significantly due to inflow of interest-only mortgages as a result of deteriorating LtV's, the stage 2 provision mainly increased due to inflows of loans triggered by SICR, change in credit risk of loans remaining in stage 2 and a higher stage 2 management overlay for potentially high-risk interest-only mortgages. Stage 3 provisions mainly increased as a result of the gross inflow and change in credit risk largely caused by the duration in default and deteriorating LtVs.

Consumer loan portfolio
The volume of the consumer loan portfolio remained stable. The increasing inflow of new personal loans mitigated the downward trend of the portfolio in recent years, as a result of the winding down of the revolving credit portfolio.

In the first half of the 2023, the credit quality of consumer loan portfolio did not change significantly. The total loan loss provision for consumer loans remained relatively stable at € 8 million, as did the coverage ratios.

SME loan portfolio
In the first half of the 2023, the SME loan portfolio grew from € 1,085 million to € 1,163 million.

In the first half of 2023, the credit loss provision for SME loans declined from € 24 million to € 22 million, thanks to recovery from stage 3 or by transfer within stage 3 to probation. The credit quality of the portfolio remained sound and incurred credit losses on SME loans were minimal.

Other corporate and government loan portfolio

The total credit loss provision for other corporate and government loans rose from € 23 million to € 30 million, mainly due to the increase in the stage 3 provision for an individual corporate customer.

Overviews Loans and advances to customers

Loans and advances to customers by stage Reviewed

in € millions	30-6-2023 Gross carrying amount	Provision for credit losses	Stage ratio	Coverage ratio	31-12-2022 Gross carrying amount	Provision for credit losses	Stage ratio	Coverage ratio
STAGE 1								
Residential mortgages	45,213	-33	93.3%	0.1%	45,499	-38	94.3%	0.1%
Consumer loans	20	--	35.1%	0.0%	22	--	40.7%	0.0%
SME loans	1,017	-6	87.4%	0.6%	933	-6	86.0%	0.6%
Other corporate and government loans	1,729	-2	96.6%	0.1%	1,665	-1	95.2%	0.1%
Total loans and advances to customers stage 1	**47,979**	**-41**	**93.2%**	**0.1%**	**48,119**	**-45**	**94.1%**	**0.1%**
STAGE 2								
Residential mortgages	2,785	-39	5.7%	1.4%	2,320	-31	4.8%	1.3%
Consumer loans	28	--	49.1%	0.0%	23	-1	42.6%	4.3%
SME loans	105	-7	9.0%	6.7%	106	-7	9.8%	6.6%
Other corporate and government loans	23	--	1.3%	0.0%	43	--	2.5%	0.0%
Total loans and advances to customers stage 2	**2,941**	**-46**	**5.7%**	**1.6%**	**2,492**	**-39**	**4.9%**	**1.6%**
STAGE 3								
Residential mortgages	469	-42	1.0%	9.0%	453	-29	0.9%	6.4%
Consumer loans	9	-8	15.8%	88.9%	9	-8	16.7%	88.9%
SME loans	41	-9	3.5%	22.0%	46	-11	4.2%	23.9%
Other corporate and government loans	38	-28	2.1%	73.7%	41	-22	2.3%	--
Total loans and advances to customers stage 3	**557**	**-87**	**1.1%**	**15.6%**	**549**	**-70**	**1.1%**	**12.8%**
TOTAL STAGE 1, 2 AND 3								
Residential mortgages	48,467	-114		0.2%	48,272	-98		0.2%
Consumer loans	57	-8		14.0%	54	-9		16.7%
SME loans[1]	1,163	-22		1.9%	1,085	-24		2.2%
Other corporate and government loans	1,790	-30		1.7%	1,749	-23		1.3%
Total loans and advances to customers excluding IFRS value adjustments	**51,477**	**-174**		**0.3%**	**51,160**	**-154**		**0.3%**
IFRS value adjustments[2]	-1,884				-2,040			
Total loans and advances to customers	**49,593**	**-174**		**0.4%**	**49,120**	**-154**		**0.3%**
Off-balance sheet items stage 1	2,757	-5		0.2%	2,938	-8		0.3%
Off-balance sheet items stage 2	67	-2		3.0%	47	-2		4.3%
Off-balance sheet items stage 3	13	-4		30.8%	13	-4		30.8%
Total off-balance sheet items[3]	**2,837**	**-11**		**0.4%**	**2,998**	**-14**		**0.5%**
Total on and off-balance sheet items for loans and advances to customers	**52,430**	**-185**		**0.4%**	**52,118**	**-168**		**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 1,130 million (31-12-2022: € 1,051 million).

2 Consist of fair value adjustments from hedge accounting and amortisations.

3 Consist of off-balance sheet facilities (of which € 385 million conditionally revocable; 31-12-2022: € 395 million), guarantees and repurchase commitments.

Changes in loans and advances to customers (gross carrying amount) Reviewed

	Residential mortgages[1]		Consumer loans		SME loans		Other corporate and government loans		Total loans	
in € millions	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**
Opening balance	**46,232**	**48,018**	**54**	**52**	**1,085**	**830**	**1,749**	**1,777**	**49,120**	**50,677**
Originated or purchased[2]	2,182	7,417	8	12	105	321	3,716	4,868	6,011	12,618
Change in current accounts	--	--	-1	-5	9	-27	9	8	17	-24
Matured or sold[2]	-1,995	-6,364	-3	-3	-36	-39	-3,683	-4,923	-5,717	-11,329
Write-offs	--	-1	-1	-1	--	-1	--	--	-1	-3
Change in fair value as a result of hedge accounting	136	-2,863	--	--	--	--	--	-1	136	-2,864
Amortisations	20	13	--	--	--	--	--	--	20	13
Exchange rate differences	--	--	--	--	--	--	-2	21	-2	21
Other movements	8	12	--	-1	--	1	1	-1	9	11
Closing balance	**46,583**	**46,232**	**57**	**54**	**1,163**	**1,085**	**1,790**	**1,749**	**49,593**	**49,120**

1 Including IFRS value adjustments and amortisations.
2 At Other corporate and government loans, there are short-term deposits with governments and pension funds in particular, with the advances and repayments being administered on a daily basis.

Changes in the provisions for credit losses for loans and advances to customers Reviewed

	Residential mortgages		Consumer loans		SME loans		Other corporate and government loans		Total loans		Off-balance[1]	
in € millions	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**	**1H23**	**2022**
Opening balance	**98**	**73**	**9**	**10**	**24**	**23**	**23**	**1**	**154**	**107**	**14**	**13**
Transfer to stage 1	-4	-3	--	--	-3	-3	1	--	-6	-6	--	--
Transfer to stage 2	5	4	--	-1	1	2	--	--	6	5	1	-1
Transfer to stage 3	11	4	1	1	1	2	--	22	13	29	--	1
Change in credit risk	9	-2	-1	--	-2	1	6	--	12	-1	-2	-1
Originated or purchased	2	11	--	1	1	3	--	--	3	15	--	3
Matured or sold	-5	-1	--	-1	--	-2	--	--	-5	-4	--	-1
Change in models	--	28	--	--	--	--	--	--	--	28	--	1
Change in management overlay	-2	-15	--	--	--	-1	--	--	-2	-16	-2	-1
Impairment charges (releases)	**16**	**26**	**--**	**--**	**-2**	**2**	**7**	**22**	**21**	**50**	**-3**	**1**
Write-offs	--	-1	-1	-1	--	-1	--	--	-1	-3	--	--
Closing balance	**114**	**98**	**8**	**9**	**22**	**24**	**30**	**23**	**174**	**154**	**11**	**14**
Of which: management overlay	*40*	*42*	--	--	*4*	*4*	--	--	*44*	*46*	*3*	*5*
Impairment charges (releases)	16	26	--	--	-2	2	7	22	21	50	-3	1
Recoveries and other charges through P&L	-5	-10	-1	-2	--	--	--	--	-6	-12	--	--
Total impairment charges (releases)[2]	**11**	**16**	**-1**	**-2**	**-2**	**2**	**7**	**22**	**15**	**38**	**-3**	**1**

1 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments.
2 The total impairment charges (releases) for the period excludes charges for loans and advances to banks and investments for an amount of € 4 million release (2022: 13 million charge).

Loans and advances to customers in arrears Reviewed

in € millions	Gross carrying amount 1H23	Gross carrying amount 2022	No arrears 1H23	No arrears 2022	≤ 30 days in arrears 1H23	≤ 30 days in arrears 2022	> 30 days ≤ 90 days in arrears 1H23	> 30 days ≤ 90 days in arrears 2022	> 90 days in arrears 1H23	> 90 days in arrears 2022	% in arrears 1H23	% in arrears 2022
RESIDENTIAL MORTGAGES												
Stage 1	45,213	45,499	45,195	45,473	7	11	1	5	10	10	0.0%	0.1%
Stage 2	2,785	2,320	2,629	2,163	41	33	55	63	60	61	5.6%	6.8%
Stage 3	469	453	337	321	10	7	25	31	97	94	28.1%	29.1%
Total residential mortgages	**48,467**	**48,272**	**48,161**	**47,957**	**58**	**51**	**81**	**99**	**167**	**165**	**0.6%**	**0.7%**
CONSUMER LOANS												
Stage 1	20	22	20	22	--	--	--	--	--	--	0.0%	0.0%
Stage 2	28	23	25	19	1	1	1	1	2	2	14.3%	17.4%
Stage 3	9	9	1	1	--	--	--	--	7	8	77.8%	88.9%
Total consumer loans	**57**	**54**	**46**	**42**	**1**	**1**	**1**	**1**	**9**	**10**	**19.3%**	**22.2%**
SME LOANS												
Stage 1	1,017	933	1,015	931	2	2	--	--	--	--	0.2%	0.2%
Stage 2	105	106	81	86	12	6	7	5	5	9	22.9%	18.9%
Stage 3	41	46	24	33	6	5	4	2	7	6	41.5%	28.3%
Total SME loans	**1,163**	**1,085**	**1,120**	**1,050**	**20**	**13**	**11**	**7**	**12**	**15**	**3.7%**	**3.2%**
OTHER CORPORATE AND GOVERNMENT LOANS												
Stage 1	1,729	1,665	1,729	1,665	--	--	--	--	--	--	0.0%	0.0%
Stage 2	23	43	23	43	--	--	--	--	--	--	0.0%	0.0%
Stage 3	38	41	38	41	--	--	--	--	--	--	0.0%	0.0%
Total other corporate and government loans	**1,790**	**1,749**	**1,790**	**1,749**	**--**	**--**	**--**	**--**	**--**	**--**	**0.0%**	**0.0%**
Total loans and advances to customers excluding IFRS value adjustments	**51,477**	**51,160**	**51,117**	**50,798**	**79**	**65**	**93**	**107**	**188**	**190**	**0.7%**	**0.7%**
IFRS value adjustments[1]	-1,884	-2,040	--	--	--	--	--	--	--	--		
Total loans and advances to customers	**49,593**	**49,120**	**51,117**	**50,798**	**79**	**65**	**93**	**107**	**188**	**190**		

1 Consist of fair value adjustments from hedge accounting and amortisations.

Strategic risks

Strategic risks are closely related to the bank's strategy and business model and may have an impact on the desired and expected value creation.

Listed below are the most important strategic risk-related topics at present.

Business risk

In the first half of 2023, in consultation with the ECB, we explored further additional de-risking measures for interest-only mortgages in the Netherlands. These measures may result in further scrutiny of the future loan volume development, impairment charges and capital. The exploration of additional de-risking measures involves several legal and compliance aspects, which are taken care of by the relevant departments.

Sustainability risk

In the first quarter of 2023 de Volksbank performed an Environmental, Social and Governance (ESG) risk assessment. To that end, we set up a shortlist of ESG risk drivers that we assessed as potentially impactful for de Volksbank.

Following from these ESG risk drivers, we identified material risks for all business areas for the short (<1 year), medium (1-5 years) and long (> 5 years) term in relation to the risk types of our risk taxonomy. We assessed gross risk as low, medium, high or critical by using a risk heatmap, taking into account the impact and chance of a ESG risk occurring. To assess the change, we extended the time horizon of the heatmap, as risks stemming from ESG risk drivers often materialise over a long time span. When the gross risk is rated medium or higher, it is considered a material risk. For this assessment, we applied quantification methodologies where possible. For example, for credit risk we assessed the impact and chance of flooding on our mortgage portfolio as material by using external data of the '*Klimaateffectatlas*' (Climate Impact Atlas). We also made assumptions about the amount of damage to the collateral caused by flooding. We mapped the existing mitigating measures to control the identified material risks and formulated new measures, if necessary. The results of the assessment revealed that the net exposure to all identified material risks is within our risk appetite, and also provided focus to further integrate ESG in risk management processes.

Operational risks

Operational risk is the risk of direct or indirect losses from inadequate or failed internal processes and (IT) systems, human failures and errors, or external events, which may result in a weakened financial position and/or reputational damage.

The Executive Committee (ExCo) dedicates a great deal of attention to managing and controlling operational risks. A Risk Control Framework is in place and events and incidents are closely monitored for status and solution. Furthermore, dedicated remedial programmes have been set up and currently being executed to meet the risk appetite requirements for specific operational risk sub-categories.

At de Volksbank, we divide the operational risks into the following sub-categories: people risk, process risk, IT systems risk, data management risk, legal risk, reporting risk, crime risk, change risk, outsourcing risk, compliance risk and model risk.

Listed below are the most important sub-categories at present.

Process risk

In 2023, de Volksbank is executing the remedial programme to address the issues as reported last year. In the first half we made good progress with regard to updating process descriptions, solving overdue issues, and making key controls effective. In the second half of this year we will further enhance our efforts to meet the risk appetite requirements for process risk.

People risk

De Volksbank is strengthening its position as an attractive employer and enhances employee retention to ensure adequate quality and quantity of staff. The employee turnover rate showed a downward trend in the first months of 2023. At the same time, it remains necessary to keep our focus on retaining talent. Vacancies for specialist functions remain difficult to fulfil in 2023. For those target groups we have drawn up strategic sourcing and recruitment plans.

Although absenteeism declined in the first half of 2023, the sickness absence rate remains challenging with a high but stabilising 5.2%. For those domains with high absence rates we examine the causes and put more effort and focus on prevention and vitality.

IT systems risk
With ever-increasing cyber (crime) threats, we continued to strengthen the bank's resilience, (cyber) security and the coverage of the IT key controls. Based on an IT architecture roadmap and a roadmap called ‘IT within Risk Appetite’, steps are taken to further modernise our IT landscape. For the second half of 2023, we have planned several disaster recovery tests, crisis management team tests and back-up and data recovery tests.

Legal risk
The number of legal claims remained stable. For an update on material legal proceedings involving de Volksbank, see Note Contingent liabilities and commitments to the condensed consolidated interim financial statements.

Developments related to consumer credit files are adequately responded to. The various compensation schemes are explained on the websites of de Volksbank’s brands, including customer compensation instructions.

No material new litigation was started against de Volksbank in the first half of 2023.

Outsourcing risk
One of the pillars of de Volksbank's strategy 2021-2025 ’better for each other - from promise to !mpact’ is to become a more efficient and flexible organisation. De Volksbank aims to enhance its efficiency through partnerships and outsourcing and by using its capital more effectively. In the first half of 2023, de Volksbank implemented the policies and governance as approved by the ExCo at the end of 2022. The process of critical outsourcing is prescribed and the installation of the new risk committee, the Outsourcing Board, secures diligent monitoring from idea to contract signing and throughout the contract period. A Risk Control Self Assessment (RCSA) has been conducted by the Outsourcing Board as part of the Outsourcing Risk Model, resulting in clearly defined outsourcings risks. The status per risk is closely monitored and reported on. An important source for reporting is the actual Outsourcing Register, which is submitted to the ECB on a annual basis. Remediation of all critical contracts will have been completed the end of this year. Implementation of the outsourcing processes in most of the business domains will be completed in 2023 and continue in 2024.

Reporting risk
In the first half year of 2023, we continued to execute our multiyear programme to improve our finance and risk data infrastructure, automate our reporting processes and increase the quality and availability of data. To this we further optimised the organisation providing for more autonomous change teams as well as a focused data management team for our governed reporting lane. We have updated the financial key controls and the number of controls in our business-as-usual processes and the coming period will require continuous attention to improve the reports in scope. In 2022, at the request of the ECB, we performed an analysis of our compliance with BCBS 239 (the Principles for Effective Risk Data Aggregation). This resulted in our PERDARR improvement plan, which we rolled out in the first half of 2023.

On our reassessment of the capital treatment policy for exposures to Swiss Cantons and the Swiss cantonal banks guaranteed by Swiss Cantons as at 31 December 2021, the ECB responded on 14 March this year and we took a provision as a result. For more information on this topic, see Note Provisions.

Compliance risk
AML, CFT, Tax integrity and Sanctions
As a gatekeeper, de Volksbank helps detect and prevent financial crime, taking a holistic approach to customer integrity in relation to anti-money laundering, to countering the financing of terrorism and to compliance with sanctions and tax regulations. We consider the gatekeeper function to be an integral part of our business operations. In the first half of 2023, de Volksbank continued to increase investments in this domain. The Compliance Function continuously monitors de Volksbank’s customer integrity framework.

De Volksbank is determined to take all necessary steps to fulfil its gatekeeper responsibilities for which we closely follow updated legislation. Despite additional investments, de Volksbank experienced delays in executing the improvement plan, which commenced in 2020 and should have addressed the shortcomings that were concluded by DNB in that same year. In 2022, DNB conducted a new supervisory review on customer integrity at de Volksbank. Based on this review several shortcomings were identified. DNB concluded among other things that de Volksbank did not sufficiently identify and assess its risks of money laundering and financing of terrorism. Furthermore, the results of identifying and assessing its integrity risks are not up-to-date. In addition, de Volksbank takes insufficient account of the risk factors related to the type of client, product, service, transaction and delivery channel and to countries or geographic areas. Therefore, DNB concluded that de Volksbank is in violation of the Wwft. In view of this, DNB imposed an instruction to improve the Systematic Integrity Risk Analysis (SIRA) by 1 April 2024 and DNB announced its intention to start an internal procedure to impose an administrative fine.

To address these new findings as well as the imposed instruction by and expectations of DNB, de Volksbank needs an organisation-wide comprehensive remediation plan to remediate and implement a future-proof and robust customer integrity framework. Reviewing and improving the SIRA will be part of this plan. De Volksbank expects to have addressed DNB's imposed instruction to improve the SIRA by 1 April 2024. Consequently, in the period ahead, de Volksbank will make additional investments in this domain, both in relation to staff and systems. DNB expects that all identified shortcomings will be permanently and structurally remediated and captured in a comprehensive remediation plan. DNB will closely monitor the progress in this area, and may decide to proceed with additional measures (with potential financial impact) depending on the progress of the remediation.

De Volksbank continues to closely follow and implement EU sanction packages. In response to these sanctions, we have severely restricted transactions with Russia, Belarus and the occupied territories of Ukraine. Furthermore, de Volksbank has initiated a comprehensive remediation project to enhance the customer screening and transaction screening systems. This project will remediate findings from regulatory testing of our screening systems conducted by DNB in the second half of 2022, and is expected to be finalised in the first half of 2024.

For a more information, please see the Notes 6 Provisions and Note 8 Contingent liabilities and commitments.

General Data Protection Regulation (GDPR)
To protect the privacy of its customers and employees, de Volksbank continues to enhance compliance with the GDPR. Thus, we continued to develop privacy governance. The Privacy Office set up and coordinated the Privacy Guild, a team of first-line privacy officers. The Privacy Office is now positioned in the second line, but will be positioned in the first-line in the second half of this year. The privacy tooling has been further developed to incorporate the Register of Processing activities and the Data Protection Impact Assessments.

Following the decision by the Court of Justice of the European Union (CJEU) regarding data transfers, all contracts with (sub)processors were examined for the risks resulting from data processing in countries outside the European Economic Area (EEA), including the performance of Transfer Impact Assessments, and contain new Standard Contractual Clauses (SCC) where applicable. For a limited number of contracts, this is still ongoing but this has the full attention of our Procurement Department. A Cleaning Policy has been drafted and gives more direction to the data minimisation principle within de Volksbank. The data subjects' rights process has been improved and the Data Protection Officer of de Volksbank will monitor the improvements. Privacy compliance within the old data warehouse also still has our full attention.

Interest rate risk in the banking book (IRRBB)
The management of the interest rate risk in the banking book (IRRBB) remains an ongoing key priority. After finalising the implementation of our new IRRBB IT system and set of new interest rate risk models in previous years, we operationalised and centralised our data stream through our new data warehouse to cover the complete banking book in the first half of 2023. With this new data environment, the programme to become compliant with the EBA Guidelines on IRRBB 2018 was completed.

We continue to improve our IRRBB framework and work on the increasing Supervisory expectations following the revised EBA Guidelines on IRRBB & CSRBB (credit spread risk arising from non-trading book activities) and the Draft Regulatory Technical Standards on Supervisory Outlier Tests.

Model risk

Model maintenance is an ongoing process involving many discussions and iterations with supervisory authorities. We paid a great deal of attention to ensuring compliance with regulatory capital and provisions-related regulations, especially with respect to the residential mortgage portfolio. The active model versions for regulatory capital and the IFRS 9 provisioning for our residential mortgages are part of our internal ongoing validation cycle in accordance with regulatory requirements. To sufficiently mitigate model risk, we implemented additional model refinements, so-called Self-Imposed Add-ons (SIA), for regulatory capital in the first half of 2023.

Capital management

Capitalisation

Capitalisation

in € millions	30-6-2023	31-12-2022	30-6-2022
Total equity	3,864	3,708	3,675
Non-eligible interim profits	-248	-153	-95
Additional Tier 1 capital	-298	-298	-298
Total equity for CRD IV purposes	**3,318**	**3,257**	**3,282**
Cashflow hedge reserve	-16	-17	-18
Other prudential adjustments	-5	-5	-4
Total prudential filters	**-21**	**-22**	**-22**
Intangible assets	-6	-6	-6
IRB shortfall[1]	-109	-57	-52
Additional deductions of CET1 capital due to Article 3 CRR	-15	-71	-100
Total capital deductions	**-130**	**-134**	**-158**
Total regulatory adjustments to total equity	**-151**	**-156**	**-180**
CRD IV CET1 capital	**3,167**	**3,101**	**3,102**
Additional Tier 1 capital	298	298	298
Tier 1 capital	**3,465**	**3,399**	**3,400**
Eligible Tier 2	500	500	500
IRB excess[1]	--	--	--
Tier 2 capital	**500**	**500**	**500**
Total capital	**3,965**	**3,899**	**3,900**
Risk-weighted assets	**15,558**	**15,306**	**14,924**
Risk exposure as defined by the CRR	71,727	71,716	73,418
CET1 ratio[2]	**20.4%**	**20.3%**	**20.8%**
Tier 1 ratio	22.3%	22.2%	22.8%
Total capital ratio	25.5%	25.5%	26.1%
Leverage ratio[3]	4.8%	4.7%	4.6%

1 The IRB shortfall/excess is the difference between the expected loss under the CRR/CRD IV directives and the IFRS provision for the retail mortgage portfolio.
2 CRD IV CET1 Capital / Risk-weighted assets.
3 CRD IV CET1 Capital / Risk exposure as defined by the CRR.

De Volksbank's CET1 capital ratio rose to 20.4%, from 20.3% at year-end 2022 as a result of an increase in CET1 capital, partly offset by an increase in risk weighted assets (RWA). The CET1 capital ratio remained well above our minimum target of at least 19.0%.

In the first half of 2023, total equity increased by € 156 million to € 3,864 million. Available distributable items amounted to € 3,305 million (2022: € 3,158 million). On the one hand, total equity decreased as a result of the 2022 dividend declaration of € 90 million. On the other hand, it rose mainly as a result of the € 248 million net profit for the first half of 2023 and an increase in the revaluation reserve of € 9 million due to interest rate developments in the first half of 2023.

To determine total equity for CRD IV purposes, non-eligible interim profits are deducted from total equity. After profit appropriation by the General Meeting of Shareholders (GMS) in April 2023, € 63 million was added to the CET1 capital, resulting from the addition of the non-eligible (interim) profits as at year-end 2022 in the amount of € 153 million, adjusted for the actual dividend payment of € 90 million. The interim profit not yet eligible as CRD IV equity as at the end june 2023, i.e. € 248 million, concerns the full net profit for the first half of 2023.

To calculate total equity for CRD IV purposes, the amount of AT1 capital securities of € 298 million was also deducted.

To determine CET1 capital, total equity for CRD IV purposes is subjected to a number of regulatory adjustments. These regulatory adjustments amounted to € 151 million negative (year-end 2022: € 156 million negative), consisting mainly of a deduction of € 109 million related to the IRB shortfall and a deduction of € 15 million due to a temporary and voluntary Article 3 CRR deduction.

The IRB shortfall of € 109 million mainly results from our AIRB model calculations. To determine the credit risk in its residential mortgage portfolio, de Volksbank avails itself of an AIRB model entitled *Particuliere Hypotheken Interne Rating Model* (PHIRM), which is continuously redeveloped to comply with new rules and regulations.

Within CET1 capital, € 51 million of the Article 3 CRR deduction per year-end 2022 was translated into additional conservatism in the determination of the IRB shortfall as at 30 June 2023. This part of the Article 3 CRR deduction per year-end 2022 was related to the use of our new data warehouse, which requires supervisory review before actual use in expected loss and IRB RWA calculations.

The € 15 million capital deduction, reported as allowed under Article 3 of the CRR is a prudential backstop following the ECB's guidelines on non-performing exposures (NPEs).

On balance, in the first half of 2023, CRD IV CET1 capital increased by € 66 million.

Risk-weighted assets (RWA)

in € millions	30-6-2023	31-12-2022	30-6-2022
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based (IRB approach)	10,147	8,435	5,947
Credit risk - standardised approach (SA approach)	3,771	4,442	4,338
Securitisations	10	13	12
Operational risk	1,428	1,428	1,392
Market risk	150	236	--
Credit Valuation Adjustment (CVA)	52	50	56
Additional risk exposure amounts due to Article 3 CRR	--	702	3,179
Total RWA	**15,558**	**15,306**	**14,924**

In the first half of 2023, total RWA increased by € 251 million to € 15.6 billion driven by a € 1.0 billion increase in RWA related to residential mortgages, partly offset by a € 0.7 billion decrease in RWA for other financial institutions.

The € 1.7 billion increase in RWA for Credit risk - Internal ratings based (IRB approach) was mainly due to additional conservatism in the calculation of model-based IRB RWA instead of including additional conservatism through an Article 3 CRR add-on. The Article 3 CRR add-on per year-end 2022 of € 0.7 billion was related to the use of our new data warehouse, which requires supervisory review before actual use in IRB RWA calculations. In the first half of 2023, after an exchange of views with our supervisor, this Article 3 CRR add-on has been translated into a multiplier that brings additional conservatism in the calculation of model-based IRB RWA. In addition to that, the RWA increase compared to year-end 2022 was also impacted by a deterioration of our customers' average credit quality given the worsened macroeconomic circumstances. Overall, the average risk-weighting of our residential mortgages increased to 20.2% from 18.2% at year-end 2022.[6]

RWA for credit risk calculated according to the Standardised Approach (SA) decreased by € 0.7 billion, largely related to decreased risk-weighted short-term exposures to other financial institutions.

The RWA for market risk decreased by € 0.1 billion. The RWA for operational risk, the Credit Valuation Adjustment and revised securitisation framework remained unchanged at a total of € 1.5 billion.

Leverage ratio

The leverage ratio rose to 4.8%, from 4.7% at year-end 2022, due to the € 66 million increase in CET1 capital while the leverage ratio exposure (LRE) remained unchanged at € 71.7 billion.

The 4.8% leverage ratio is well above the regulatory requirement of 3.0% and our minimum target of at least 4.5%.

6 16.8% excluding and 18.2% including the Article 3 CRR add-on at year-end 2022, respectively.

Developments in capital requirements

Countercyclical capital buffer in the Netherlands
On 29 March 2023, the DNB confirmed the earlier announced increase in the countercyclical capital buffer (CCyB) in the Netherlands from 0% to 1%, applicable as from 25 May 2023. Following this announcement, the DNB announced that the current risk picture gives them reason to raise the CCyB further in the Netherlands to 2% as from 31 May 2024. The purpose of the CCyB is to increase banks' resilience when cyclical risks build up, and to release the buffer as soon as these risks materialise.

O-SII buffer
On 31 May 2023, the DNB announced a reduction of de Volksbank's O-SII buffer from 1.0% to 0.25% as from 31 May 2024. The O-SII buffers of other systemically important banks were also reduced as from 31 May 2024. The lower O-SII buffers better reflect that large banks pose less systemic risks for the national economy compared with 2016 when the O-SII buffers were implemented. This is explained both by a reduced size of the Dutch banking sector relative to the economy, and progress made on European regulation and integration, such as the development of the banking union of the EU, which allows problems in the banking sector to be addressed more effectively.

SREP
De Volksbank is currently required to meet a minimum total Overall Capital Requirement (OCR) of 15.5%, of which at least 10.7% is to be composed of CET1 capital, including the raised CCyB. This obligation stems from the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2022 and includes the increased CCyB as from 25 May 2023.

Basel IV
In late 2017, the Basel Committee on Banking Supervision (BCBS) presented the agreement on the completion of the Basel III capital framework, also known as Basel IV. The next step is the translation of Basel IV into European laws and regulations, which may have an effect on required capital levels. We will adjust our capital planning if necessary.

As at the end of June 2023, we estimate that our RWA according to the fully phased-in Basel IV standard would be somewhat below our total RWA under current regulations, mainly due to the removal of a 1.06 multiplier factor in the determination of RWA related to residential mortgages under the revised IRB approach. The Basel IV fully loaded CET1 capital ratio is estimated to equal 20.9%.

Minimum floor on risk weighting of mortgage loan portfolios
In anticipation of the implementation of Basel IV, DNB announced in October 2019 that it would increase the minimum floor on the risk weighting of the mortgage loan portfolios of Dutch banks using internal risk models, with the exception of mortgages with (partial) National Mortgage Guarantee (NHG) coverage. In October 2021, DNB announced that the regulation would enter into force as of 1 January 2022. On 8 July 2022, DNB decided to extend the measure until 1 December 2024. However, given the increase of RWA for residential mortgages, this measure has no impact on de Volksbank as at the end of June 2023.

MREL
On 5 April 2023, the Dutch National Resolution Authority (NRA) set the MREL requirement for de Volksbank at 7.78% of the leverage ratio exposure as from 1 January 2022. The MREL requirement based on RWA amounts to 20.41% and is set at 21.81% as of 1 January 2024, both excluding the Combined Buffer Requirement. As from 1 January 2024, the MREL requirements based on the LRE and on RWA are to be met fully with subordinated instruments, i.e. Tier 1 capital, Tier 2 capital and senior non-preferred (SNP) notes with a residual contractual maturity of at least 1 year. As a binding intermediate subordination target, at least 6.55% of the LRE has to be met with subordinated instruments as from 1 January 2022. The non-risk-weighted MREL requirements are more restrictive for de Volksbank than the risk-weighted MREL requirements.

De Volksbank's capital planning is based on meeting the binding MREL subordination requirement as from January 2024, as well as the binding intermediate MREL subordination target as from 1 January 2022.

In the first half of 2023, de Volksbank successfully executed two capital market funding transactions to strengthen its MREL position:
- € 0.5 billion in green SNP debt with a 7 year maturity; and
- € 0.5 billion in green SNP debt with a 4 ½ year maturity.

With these two SNP issuances on top of € 1.5 billion SNP debt instruments already issued, de Volksbank expects to meet the binding MREL subordination requirement as from January 2024.

The table below presents the risk-weighted and non-risk-weighted MREL ratios of de Volksbank N.V. as a resolution entity.

Total capital and eligible liabilities rose by € 1.0 billion to € 7.3 billion. This is mainly the result of de Volksbank successfully issuing € 1.0 billion in green SNP debt and the € 66 million increase in CET1 capital.

This increase was partly offset by € 50 million of senior unsecured debt becoming non-eligible.

MREL

in € millions	30-6-2023	31-12-2022	30-6-2022
CET1 capital	3,167	3,101	3,102
Additional Tier 1 capital	298	298	298
Tier 2 capital	500	500	500
Total capital	**3,965**	**3,899**	**3,900**
Senior non-preferred (SNP) liabilities with remaining maturity >1 year	2,500	1,500	1,500
Eligible senior preferred liabilities with remaining maturity > 1 year	869	919	769
Total capital including other eligible liabilities	**7,334**	**6,318**	**6,169**
MREL BRRD2 EXPOSURE MEASURES			
Leverage ratio exposure (LRE)	71,727	71,716	73,418
Risk-weighted assets	15,558	15,306	14,924
MREL LRE			
MREL (Total capital and eligible SNP liabilities) (LRE)	9.0%	7.5%	7.4%
MREL (Total capital including other eligible liabilities) (LRE)	10.2%	8.8%	8.4%
MREL RWA			
MREL (Total capital and eligible SNP liabilities) (RWA)	41.6%	35.3%	36.2%
MREL (Total capital including other eligible liabilities) (RWA)	47.1%	41.3%	41.3%

At the end of June 2023, the non-risk-weighted MREL ratio based on the LRE was equal to 10.2% (year-end 2022: 8.8%), including total capital and all other unsecured liabilities eligible for MREL. Including only total capital and eligible SNP liabilities, the non-risk-weighted MREL ratio based on the LRE equalled 9.0% (year-end 2022: 7.5%).

The risk-weighted MREL ratio, based on Total capital and SNP eligible liabilities (€ 6.465 million in total), stood at 41.6% (year-end 2022: 35.3%).

Dividend

De Volksbank has set a target range of 40% - 60% of net profit[7] for the regular dividend distribution. In line with this internal policy, in the Annual General Meeting of Shareholders (AGM) which took place in April 2023, it was decided to distribute a dividend amount of € 90 million for the year 2022, corresponding to a pay-out ratio of 50%.

7 Excluding AT1 coupon reservation.

Liquidity and funding

Liquidity

In the first half of 2023, the liquidity position remained substantially above de Volksbank's minimum target and regulatory minimum requirements. De Volksbank aims to reduce the undesirable impact of excess liquidity on the bank's balance sheet by considering external market circumstances and anticipating future trends.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the regulatory minimum of 100%. As at 30 June 2023, the LCR stood at 297% (year-end 2022: 233%) and the NSFR at 179% (year-end 2022: 174%).

The Loan-to-Deposit (LtD) ratio - i.e. the ratio between loans outstanding and deposits attracted - increased to 91% as at 30 June 2023, from 90% at year-end 2022. This increase was driven by € 0.4 billion loan growth accompanied by a € 0.5 billion reduction in deposits. The latter is mainly due to a reduction in current account balances and SME savings. Within retail savings, a gross outflow occurred of customers with only a savings account with balances > € 50.000 following the introduction of the basic banking package in 2022 and our pricing policy. Overall, including an increase of active multi-customers, our retail savings portfolio remained stable at € 44.5 billion while the overall Dutch savings market grew in the first half of 2023. Effectively, our market share for retail savings decreased to 10.0%, from 10.4% at year-end 2022.

Key liquidity indicators

	30-6-2023	31-12-2022	30-06-2022
LCR	297%	233%	359%
NSFR	179%	174%	179%
Loan-to-Deposit ratio	91%	90%	86%
Liquidity position (in € millions)	21,630	17,208	18,511

The liquidity position amounted to € 21.6 billion as at 30 June 2023 (year-end 2022: € 17.2 billion).

Liquidity position

in € millions	30-6-2023	31-12-2022	30-6-2022
Central bank reserves	10,730	8,309	9,502
Sovereigns	724	324	671
Regional/local governments and Supranationals	1,727	1,641	1,631
Other liquid assets	1,219	1,215	850
Eligible retained RMBS	7,231	5,719	5,857
Liquidity position	**21,630**	**17,208**	**18,511**

Apart from the change in loans and deposits, cashflows in the first half of 2023 mainly came from capital market funding developments. Although cash outflows were somewhat higher than cash inflows in the first half, central bank reserves rose from € 8.3 billion to € 10.7 billion, as we invested less available liquidity in the money market. As at 30 June 2023, € 3.2 billion in assets had been invested for cash management purposes (year-end 2022: € 6.3 billion), of which € 1.1 billion was held at Swiss banks (year-end 2022: € 3.1 billion) and therefore was not included in the central bank reserves.

The liquidity value of bonds in the DNB collateral pool amounted to € 10.9 billion as at 30 June 2023 (year-end 2022: € 8.9 billion), of which:

- The liquidity value of eligible retained RMBS increased to € 7.2 billion (year-end 2022: € 5.7 billion) as the Lowland 5 transaction was replaced by the significantly larger Lowland 7 transaction size.
- The value of other liquid assets in the liquidity position increased by € 0.5 billion. As a higher amount of sovereign bonds was registered in the DNB collateral pool as at 30 June 2023 compared to year-end 2022. These sovereign bonds were not ring-fenced for other purposes, such as possible repo transactions. In addition both the nominal and liquidity value of sovereign bonds rose in the first half of 2023.

Funding

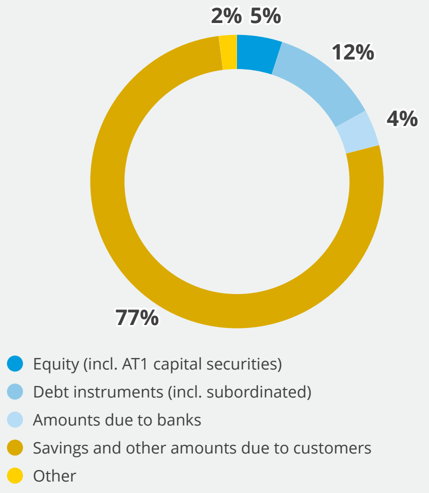
Retail savings are de Volksbank's main source of funding. Through our brands, we attract term deposits, demand deposits and current account balances from retail customers. We also attract savings deposits and current account balances from SME customers. In the first half of 2023, customer deposits declined to € 56.1 billion, from € 56.6 billion at year-end 2022.

The objective of our funding strategy is to optimise the bank's liquidity and funding profile and to ensure access to diversified funding sources to maintain the bank's long-term funding position.

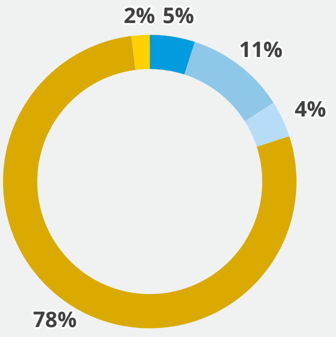
Therefore, in addition to savings deposits and current account balances, we also attract funding from capital markets. For the purposes of regulatory and funding diversification, this funding is attracted through various funding instruments, with different terms and investor types spread over regions.

The diagrams below provide an overview of the book value-based composition of equity and total liabilities as at 30 June 2023 and year-end 2022. The percentage of our funding that is made up of savings and other amounts due to customers decreased to 77% (year-end 2022: 78%), mainly due to an increase in capital market funding.

Equity and liability mix as at 30 June 2023 € 73.0 billion



Equity and liability mix as at 31 December 2022: € 73.2 billion



In the first half, de Volksbank successfully executed a number of capital market funding transactions to strengthen its MREL position i.e.:

- € 0.5 billion in green senior non-preferred debt with a 7 year maturity;
- € 0.5 billion in green senior non-preferred debt with a 4 ½ year maturity.

As capital market funding redemptions in the first half of 2023 were limited at € 0.6 billion, the capital market funding increased from € 8.8 billion to € 9.2 billion.

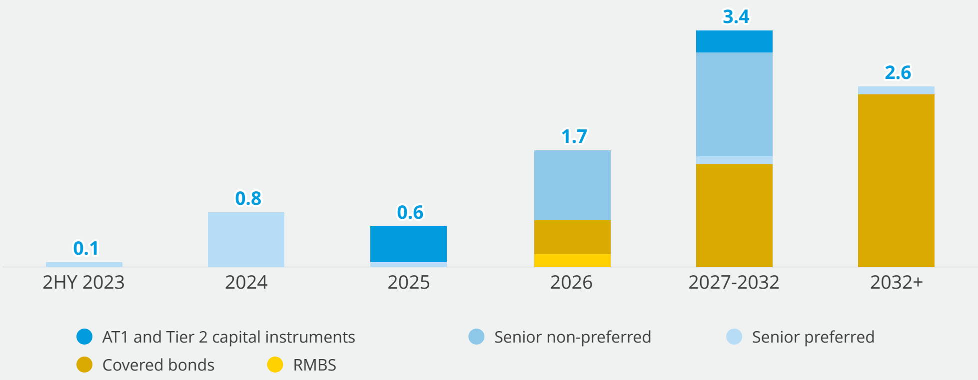
Capital market funding mix (nominal)

in € millions	30-6-2023	% of total	31-12-2022	% of total
AT1 and Tier 2 capital instruments	800	9%	800	9%
- of which green bonds	*800*		*800*	
Senior non-preferred	2,500	27%	1,500	17%
- of which green bonds	*2,500*		*1,500*	
Senior preferred	1,063	11%	1,631	19%
- of which green bonds	*500*		*500*	
Covered bonds	4,553	51%	4,553	52%
RMBS	245	3%	278	3%
Total capital market funding	**9,161**		**8,762**	
- of which green bonds	*3,800*		*2,800*	

The chart below presents an overview of the maturity calendar of the capital market funding outstanding with an original maturity of more than one year. In this graph we apply the assumption that this funding will be redeemed at the first call dates.

Capital market funding maturities

in € billions



Responsibility statement

Pursuant to section 5:25d, paragraph 2(c), of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, *Wft*), the members of the Board of Directors state that to the best of their knowledge:

- The condensed consolidated interim financial statements, for the six-month period ending on 30 June 2023, give a true and fair view of the assets, liabilities, size and composition of equity, financial position and profit or loss of de Volksbank N.V. and the companies included in the consolidation; and
- The Interim Financial Report, for the six-month period ending on 30 June 2023, gives a true and fair view of the information that is required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of de Volksbank N.V. and of the companies included in the consolidation.

Utrecht, 10 August 2023

Executive Board

Martijn Gribnau (Chief Executive Officer and Chairman)

André Haag (Chief Financial Officer)

Jeroen Dijst (Chief Risk Officer)

Marinka van der Meer (Chief Customer Officer)

Condensed consolidated interim financial statements

Consolidated statement of financial position

Before result appropriation and in € millions	Notes	30-6-2023	31-12-2022
ASSETS			
Cash and cash equivalents		10,291	8,011
Derivatives	1	3,118	3,302
Investments	2	5,916	5,591
Loans and advances to banks	3	3,872	6,884
Loans and advances to customers	4	49,419	48,966
Tangible and intangible assets		85	85
Tax assets		63	80
Other assets		264	249
Total assets		**73,028**	**73,168**
EQUITY AND LIABILITIES			
Derivatives	1	951	924
Amounts due to banks		2,669	2,805
Savings		44,507	44,501
Other amounts due to customers		12,083	12,649
Debt certificates	5	8,019	7,544
Subordinated debts		504	500
Provisions	6	56	66
Tax liabilities		41	19
Other liabilities		334	452
Total liabilities		**69,164**	**69,460**
Share capital		381	381
Other reserves		2,937	2,838
Net profit for the period		248	191
AT1 capital securities		298	298
Total equity	7	**3,864**	**3,708**
Total equity and liabilities		**73,028**	**73,168**

Consolidated income statement

in € millions	Notes	1H23	1H22
INCOME			
Interest income		924	509
Interest expense		262	137
Net interest income	11	**662**	**372**
Fee and commission income		84	75
Fee and commission expenses		51	51
Net fee and commission income		**33**	**24**
Investment income	2	-5	-2
Other result on financial instruments		44	69
Other operating income		1	--
Total income		**735**	**463**
EXPENSES			
Staff costs		234	195
Depreciation and amortisation of tangible and intangible assets		11	10
Other operating expenses		144	118
Total operating expenses		**389**	**323**
Impairment charges financial assets		8	11
Total expenses		**397**	**334**
Result before taxation		**338**	**129**
Taxation		90	34
Net result for the period		**248**	**95**
ATTRIBUTABLE TO:			
Owners of the parent company		248	95

Consolidated comprehensive income

Other comprehensive income

in € millions	1H23	1H22
ITEMS NOT SUBSEQUENTLY BE RECLASSIFIED TO THE INCOME STATEMENT		
Other changes in comprehensive income	--	--
Total items never reclassified to the income statement	**--**	**--**
ITEMS SUBSEQUENTLY RECLASSIFIED TO THE INCOME STATEMENT		
Change in cashflow hedge reserve	-1	-2
Change in fair value reserve	10	-105
Total items subsequently reclassified to the income statement	**9**	**-107**
Other comprehensive income (after taxation)	**9**	**-107**

Total comprehensive income

in € millions	1H23	1H22
Net result	248	95
Other comprehensive income (after taxation)	9	-107
Total comprehensive income	**257**	**-12**
ATTRIBUTABLE TO:		
Owners of the parent company	257	-12

Condensed consolidated statement of changes in total equity

in € millions	Issued share capital[1]	Share premium reserve	Cashflow hedge reserve	Fair value reserve	Other reserves	Net result for the period	AT1 capital securities	Total equity
Balance as at 31 December 2021	**381**	**3,537**	**19**	**11**	**-624**	**162**	**--**	**3,486**
Transfer of 2021 net result	**--**	**--**	**--**	**--**	**65**	**-65**	**--**	**--**
Other comprehensive income	--	--	-2	-105	--	--	--	-107
Net result for the period	--	--	--	--	--	95	--	95
Total result for the period	**--**	**--**	**-2**	**-105**	**--**	**95**	**--**	**-12**
Increase of capital	--	--	--	--	--		298	298
Transactions with shareholder	--	--	--	--	--	-97	--	-97
Total changes for the period	**--**	**--**	**-2**	**-105**	**65**	**-67**	**298**	**189**
Balance as at 30 June 2022	**381**	**3,537**	**17**	**-94**	**-559**	**95**	**298**	**3,675**
Other comprehensive income	--	--	--	-52	--	--	--	-52
Net result for the period	--	--	--	--	--	96	--	96
Total result for the period	**--**	**--**	**--**	**-52**	**--**	**96**	**--**	**44**
Paid interest on AT1 capital securities	--	--	--	--	-11	--	--	-11
Total changes for the period	**--**	**--**	**--**	**-52**	**-11**	**96**	**--**	**33**
Balance as at 31 December 2022	**381**	**3,537**	**17**	**-146**	**-570**	**191**	**298**	**3,708**
Transfer of 2022 net result	**--**	**--**	**--**	**--**	**101**	**-101**	**--**	**--**
Other comprehensive income	--	--	-1	10	--	--	--	9
Net result for the period	--	--	--	--	--	248	--	248
Total result for the period	**--**	**--**	**-1**	**10**	**--**	**248**	**--**	**257**
Paid interest on AT1 capital securities	--	--	--	--	-11	--	--	-11
Transactions with shareholder	--	--	--	--	--	-90	--	-90
Total changes for the period	**--**	**--**	**-1**	**10**	**90**	**57**	**--**	**156**
Balance as at 30 June 2023	**381**	**3,537**	**16**	**-136**	**-480**	**248**	**298**	**3,864**

1 The issued share capital is fully paid up and comprises 840,008 ordinary shares with a nominal value of € 453.79 per share.

Condensed consolidated cashflow statement

in € millions	1H23	1H22
CASHFLOW FROM OPERATING ACTIVITIES		
Result before taxation	338	129
ADJUSTMENTS FOR		
Depreciation and amortisation of tangible and intangible assets	11	10
Impairment charges and reversals	8	11
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Change in advances to customers	-453	1,207
Change in liabilities to customers	-566	496
Change in derivatives assets	184	-2,248
Change in derivatives liabilities	27	24
Change in advances to banks	3,012	-2,917
Change in liabilities to banks	-136	1,652
Change in savings	6	98
Change in trading portfolio	--	--
Changes in other operating activities	-230	144
Net cashflow from operating activities	**2,201**	**-1,394**
Net cashflow from investment activities	**-287**	**-208**
Net cashflow from financing activities	**366**	**408**
- of which proceeds from AT1 capital securities	*--*	*298*
Net decrease of cash and cash equivalents	**2,280**	**-1,194**
Cash and cash equivalents as at 1 January	8,011	10,305
Change in cash and cash equivalents	2,280	-1,194
Cash and cash equivalents as at 30 June	**10,291**	**9,111**

Notes to the condensed consolidated interim financial statements

Accounting principles

General information
De Volksbank N.V. (hereafter 'de Volksbank'), a public limited liability company, is incorporated under Dutch law and domiciled in the Netherlands. De Volksbank's registered office is located at Croeselaan 1, 3521 BJ Utrecht. All shares of de Volksbank are held by *Stichting administratiekantoor beheer financiële instellingen* (NLFI).

The condensed consolidated interim financial statements of de Volksbank comprise financial information of all entities controlled by de Volksbank, including its interests in associates. These condensed consolidated interim financial statements were prepared by the Executive Board and approved by the Supervisory Board on 10 August 2023.

Basis of preparation

Statement of IFRS compliance
De Volksbank prepares the condensed consolidated interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union (EU).

Main accounting principles for financial reporting
The accounting principles applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting principles applied in the preparation of de Volksbank's financial statements for the year ending on 31 December 2022. Changes in standards and interpretations affecting the 2023 accounting principles are described in the following sections.

Changes in published Standards and Interpretations effective in 2023
In 2023 the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), respectively, became mandatory. These were adopted by the EU and are applicable in the current financial year:

- Amendments to IFRS 17 Insurance Contracts; including Amendments to IFRS 17;
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies; and
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

Except for the IAS 12 amendment, none of the above-mentioned amendments have an effect on the condensed consolidated interim financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
In August 2022, the European Commission adopted an amendment to IAS 12 Income taxes. Deferred taxes related to assets and liabilities arising from a single transaction, such as a lease contract, must be recognised. As of financial years starting on (or after) 1 January 2023, this amendment must be applied by each company that adopted IFRS. Thus, the amendment will result in the recognition of deferred tax assets and liabilities related to lease contracts, thereby extending the balance sheet. The amendment must be applied retrospectively as of the beginning of the earliest comparative period presented. Accordingly, a deferred tax asset (DTA) and deferred tax liability (DTL) related to lease contracts of around € 12 million are included in the balance sheet (2022: € 13 million).

Change in accounting estimates
De Volksbank has further refined the expected cash flows used in accounting for prepayment penalties related to interest averaging contracts. The timing of these cash flows cannot be fully derived from the contractual terms and conditions, because some of our mortgage customers will repay their mortgage before the end of the mortgage term due to moving home, etc. To take into account these behavioural aspects of customers, de Volksbank uses a prepayment model. The further refinement of the expected cash flows resulted in additional income amounting to € 8 million.

Segmented information
The operational plan and the main internal financial management reports of de Volksbank are discussed and decided upon by the Executive Committee of de Volksbank. Therefore, the 'Chief Operating Decision Maker' (CODM) as described in IFRS 8 Operating Segments is the Executive Committee of de Volksbank. When deciding on the deployment of resources and performance measurement, the CODM of de Volksbank does not distinguish between

the different brands or products. Based on the analysis of the requirements of IFRS 8 the bank operates and reports a single segment.

Notes to the consolidated statement of financial position and consolidated income statement

1 Derivatives

As a result of the global transition of existing and widely used interest rate benchmarks (also known as Interbank Offered Rates, IBORs), most reference rates for variable-rate financial instruments (for example IBORs such as EURIBOR, LIBOR and EONIA) have been reformed or replaced by alternative reference rates (for example €STR, SONIA and SOFR).

- EONIA ceased to be published as from 3 January 2022, and converted into the euro short-term rate (€STR);
- EURIBOR (and its calculation method) was reformed in 2019 and is not scheduled to be discontinued soon;
- GBP Libor ceased to be published after 31 December 2021 and transitioned to the Sterling Overnight Index Average (SONIA);
- USD Libor continued to be published until 30 June 2023. In the first half of 2023, the bank's remaining USD Libor-based exposures were remediated and replaced by the Secured Overnight Financing Rate (SOFR).

As at 30 June 2023, the bank is no longer exposed to any Libor-based exposures.

2 Investments and investment income

Investment income amounted to € 5 million negative, compared to € 2 million negative in the first half of 2022. In both periods investment income consisted entirely of realised results on fixed-income investments, sold as part of asset and liability management, and optimisation of the investment portfolio.

The result of € 5 million negative consisted of € a 6 million negative result of the HTCS portfolio (first half of 2022: € 6 million negative). The results of the HTC portfolio were nil (first half of 2022: € 4 million positive). Furthermore, other results on investments amounted to € 1 million positive.
In the first half of 2022, in view of the increased credit risk of governmental bonds, part of the HTC portfolio was sold and the accompanied hedges were unwound.

3 Loans and advances to banks

The loans and advances to banks decreased in the first half of 2023 due to a shift to cash and cash equivalents. All loans and advances to banks are classified in stage 1. The provision for credit losses decreased to € 2 million, from € 5 million at year-end 2022, mainly because of the lower volume.

4 Loans and advances to customers and impairment charges of financial assets

We provide disclosures on loans and advances to customers, impairment charges of financial assets and credit loss provisions under Financial results (see table Impairment charges of financial assets with the label 'Reviewed') and Credit risk (see text and overviews with the label 'Reviewed').

5 Debt certificates

Senior non-preferred debts (SNP)

In the first half of 2023, de Volksbank issued:
- € 0.5 billion in green senior non-preferred debt with a maturity of seven years;
- € 0.5 billion in green senior non-preferred debt with a maturity of four and a half years.

In the first half of 2022, de Volksbank issued € 0.5 billion in green senior non-preferred and € 0.2 billion in covered bonds. In the second half of 2022, de Volksbank issued € 0.2 billion in senior preferred debt.

Redemptions and repurchases of debt certificates

In the first half of 2023, de Volksbank redeemed € 0.5 billion of bonds with original maturities of more than one year (first half of 2022: € 0.3 billion; second half of 2022: € 0.3 billion).

6 Provisions

Provisions

in € millions	30 June 2023	31 December 2022
Employee commitments	11	12
Restructuring provision	11	13
Other provisions	23	27
Provision for credit losses off-balance sheet items	11	14
Total	**56**	**66**

Employee commitments includes various forms of employee benefit plans and the restructuring provision relates to the agile way of working. In the first half of 2023, both provisions decreased slightly, mainly due to payments to employees.

Other provisions consists of several smaller items, the most important of which are explained below:

Customers with variable interest rates loans
In 2021, there were various rulings on the interpretations and use of variable interest clauses in revolving credits for consumer loans at other Dutch banks. The conclusion of these rulings is that customers may expect the interest rate on their revolving loans to remain in line with the relevant market interest rate during the term of a loan. As for de Volksbank, this involved revolving consumer credits, overdraft facilities and credit cards. For the revolving consumer credits and overdraft facilities, de Volksbank formed a provision in previous years. In the first half of 2023, this provision decreased from € 20 million to € 16 million, mostly because of pay-outs to customers. As far as credit cards are concerned, customers who made use of the instalment facility until 2018 will be compensated. The financial impact of this is immaterial and therefore no provision is formed.

Swiss cantonal banks
In 2021, de Volksbank reassessed its capital treatment policy for exposures to Swiss Cantons and the Swiss cantonal banks guaranteed by Swiss Cantons. As a result of this reassessment, the risk weight of these assets was adjusted from 0% to 20% as at 31 December 2021. On 14 March 2023, the ECB communicated a statement of objections concerning a suspected breach of capital requirements, being the previously applied risk weight of 0%. A provision of € 4.5 million was recognised, this amount is not tax deductible. On 20 July 2023, the ECB, by decision, imposed an administrative penalty on de Volksbank. This decision and the imposed administrative penalty are in line with the previous received statement of objections.

Customer integrity
As a gatekeeper, de Volksbank helps detect and prevent financial crime, taking a holistic approach to customer integrity in relation to anti-money laundering, to countering the financing of terrorism and to compliance with sanctions and tax regulations. De Volksbank is determined to take all necessary steps to fulfil its gatekeeper responsibilities for which we closely follow updated legislation. Despite additional investments, de Volksbank experienced delays in executing the improvement plan, which commenced in 2020 and should have addressed the shortcomings that were concluded by DNB in that same year. In 2022, DNB conducted a new supervisory review on customer integrity at de Volksbank. Based on this review, DNB concluded that de Volksbank is in violation of the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (*Wet ter voorkoming van witwassen en financieren van terrorisme Wwft*) (also refer to the Contingent liability KYC disclosure below). In view of this, DNB imposed an instruction to improve the Systematic Integrity Risk Analysis (SIRA) by 1 April 2024. In this regard, de Volksbank has formed a provision of € 1 million as at 30 June 2023 for the anticipated remediation activities related to SIRA.

Other
Other provisions decreased by € 5 million, mainly because of compensation to customers for interest losses due to early repayment on mortgages.

7 Total equity
Total equity increased by € 156 million due to the first half net profit (€ 248 million) and a € 9 million increase in the fair value reserve, partly offset by the dividend payment 2022 of € 90 million and the semi-annual payment of AT1 coupons of € 11 million.

8 Contingent liabilities and commitments
Customer integrity

In 2022, DNB conducted a new supervisory review on customer integrity at de Volksbank. Based on this review, DNB concluded among other things that de Volksbank did not sufficiently identify and assess its risks of money laundering and financing of terrorism. Also, the results of identifying and assessing its integrity risks are not up-to-date. In addition, de Volksbank takes insufficient account of the risk factors related to the type of customer, product, service, transaction and delivery channel and to countries or geographic areas. Therefore, DNB concluded that de Volksbank is in violation of the Wwft and imposed an instruction to improve the Systematic Integrity Analysis (SIRA).

Furthermore, DNB announced its intention to start an internal procedure to impose an administrative fine.
DNB expects that all identified shortcomings will be permanently and structurally remediated and captured in a comprehensive remediation plan. DNB will closely monitor the progress in this area, and may decide to proceed with additional measures (with potential financial impact) depending on the progress of the remediation. At this stage, apart from the above mentioned provision, de Volksbank does not have a present obligation.

Update on legal proceedings
De Volksbank and its subsidiaries are, and may from time to time become, involved in legal, regulatory and/or arbitration proceedings that relate to claims by and against the bank ensuing from its normal business operations.

In presenting the condensed consolidated interim financial statements, management estimates the outcome of these proceedings and forms provisions when it is considered that there is a present obligation, it is probable that a cash outflow is required, and the amount can be estimated with sufficient reliability. The most important proceedings are described below. For the legal proceedings described below, it is not considered probable that there will be a cash outflow and, these matters are, therefore regarded as contingencies.

In November 2014, the Dutch Investors' Association (*Vereniging van Effectenbezitters; 'VEB'*) and other investors filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (the Enterprise Chamber) for an inquiry into the management of SNS REAAL, currently SRH, SNS Bank, currently de Volksbank, and former SNS Property Finance, currently Propertize. In the inquiry ordered by the Enterprise Chamber into the management and course of events at SRH and de Volksbank for the period from 1 July 2006 to 1 February 2013, the investigators' final report was published on 27 July 2021. On 27 September 2021, the VEB started proceedings before the Enterprise Chamber to establish mismanagement ('*wanbeleid*') with regard to SRH and de Volksbank. On 30 November 2022 the Enterprise Chamber ruled that there was no '*wanbeleid*' with regard to SRH and de Volksbank, see also http://deeplink.rechtspraak.nl/uitspraak?id=ECLI:NL:GHAMS:2022:3392. The VEB's claims have all been rejected. None of the parties lodged an appeal in cassation, so the decision of the Enterprise Chamber has force of judgement.
On 14 March 2023, the VEB announced to start a mass claim proceeding against, i.a., de Volksbank and SRH by inviting them to a meeting in accordance with the precondition to start a mass claim procedure. The VEB's reproach against SRH and de Volksbank is that the financial reporting in the period 2006-2013 repeatedly failed to meet the requirements (misleading) and that market communication was incorrect. SRH and de Volksbank accepted the VEB's invitation and the meeting subsequently took place on 21 June 2023. A further update is expected in second half of 2023. At this stage, de Volksbank does not have a present obligation.

As far as other ongoing legal proceedings are concerned, there are no noteworthy developments.

9 Related parties

As part of its ordinary business operations, de Volksbank maintains various forms of ordinary business relationships with related parties. Related parties of de Volksbank could be associated companies, joint ventures, SNS REAAL Pension Fund, *Stichting administratiekantoor beheer financiële instellingen* (NLFI), the Dutch State, and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administrative acivities.

Transactions with related parties were conducted under normal market terms and conditions, except where stated otherwise.

10 Post balance sheet events

On 20 July 2023, the ECB, by decision, imposed an administrative penalty on de Volksbank concerning a breach of capital requirements. This decision does not qualify as an adjusting event under IAS 10 'Events after the Reporting Period'. The recognised provision of € 4.5 million remains unchanged. For more information, reference is made to Note 6 Provisions and more specifically to the paragraph on Swiss cantonal banks.

There were no other material post balance sheet events that could require disclosures or adjustments to the Interim Financial Report 2023.

11 Net interest income

Net interest income increased by € 290 million to € 662 million (+78%) in the first half of 2023 and the net interest margin rose to 1.82% (first half of 2022: 1.01%). Both increases were mainly due to the more favourable interest rate environment as from the second half of 2022. As a result of sharply rising market interest rates, net interest income was supported by a strong increase in margins on retail deposits, comprising savings and current account balances.

Net interest income on residential mortgages decreased as margins narrowed. In addition, compensation received for loss of interest income due to mortgage prepayments declined sharply as mortgage rates rose significantly and the mortgage refinancing market contracted.

Fair value of financial instruments

Fair value accounting of financial assets and liabilities

The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. This table only includes financial assets and liabilities. Balance sheet items that do not meet the definition of a financial asset or liability are not included. The total of the fair value presented below does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is determined on the basis of quoted prices where available. Such quoted prices are primarily derived from transactions prices for listed instruments. If quoted prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the allocation in the fair value hierarchy, which is discussed in the ‘Hierarchy in determining the fair value of financial instruments’ section. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below. De Volksbank determines the fair value hierarchy for all financial instruments at any reporting moment.

Hierarchy in financial instruments as at 30 June 2023

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Derivatives	3,118	--	3,109	9	3,118
Investments - fair value through OCI	3,245	3,242	--	3	3,245
Investments - fair value through P&L	39	29	--	10	39
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Cash and cash equivalents	10,291	--	--	--	10,291
Investments - amortised cost	2,632	2,324	241	21	2,586
Loans and advances to banks	3,872	--	--	--	3,872
Loans and advances to customers	49,419	--	--	44,838	44,838
Other assets	264	--	--	--	264
Total financial assets	**72,880**	**5,595**	**3,350**	**44,881**	**68,253**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	951	--	942	9	951
Amounts due to banks	--	--	--	--	--
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Savings	44,507	--	40,684	3,855	44,539
Other amounts due to customers	12,083	--	10,730	1,344	12,074
Amounts due to banks	2,669	--	2,669	--	2,669
Debt certificates	8,019	--	--	6,829	6,829
Other liabilities	334	--	--	--	334
Subordinated debts	504	459	--	--	459
Total financial liabilities	**69,067**	**459**	**55,026**	**12,037**	**67,855**

Hierarchy in financial instruments as at 31 December 2022

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Derivatives	3,302	--	3,293	9	3,302
Investments - fair value through OCI	2,806	2,803	--	3	2,806
Investments - fair value through P&L	34	25	--	9	34
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Cash and cash equivalents	8,011	--	--	--	8,011
Investments - amortised cost	2,751	2,495	201	8	2,704
Loans and advances to banks	6,884	--	--	--	6,884
Loans and advances to customers	48,966	--	--	44,386	44,386
Other assets	249	--	--	--	249
Total financial assets	**73,003**	**5,323**	**3,494**	**44,415**	**68,376**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	924	--	915	9	924
Amounts due to banks	232	--	232	--	232
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Savings	44,501	--	42,054	2,277	44,331
Other amounts due to customers	12,649	--	11,266	1,308	12,574
Amounts due to banks	2,573	--	2,573	--	2,573
Debt certificates	7,544	--	--	6,305	6,305
Other liabilities	452	--	--	--	452
Subordinated debts	500	453	--	--	453
Total financial liabilities	**69,375**	**453**	**57,040**	**9,899**	**67,844**

Notes to the valuation of financial assets and liabilities
The following techniques and assumptions have been used to determine the fair value of financial instruments.

Investments
The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or, when actively quoted market prices are not available, on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, creditworthiness and maturity of the relevant investment.

Loans and advances to customers
The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, Loan to Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.
The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

Derivatives
The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. To determine the fair value of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

Loans and advances to banks
Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

Other assets
Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents
The book value of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Subordinated debt
The fair value of subordinated debt are based on quoted prices in active markets or other available market data.

Debt certificates
The fair value of debt certificates are based on quoted prices in active markets or other available market data. When actively quoted market prices are not available , the fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, determined by maturity and type of instrument.

Amounts due to customers
The fair value of readily available savings and term deposits differs from the nominal value because the interest rate is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. De Volksbank's Funds Price-curve (FTP) was used for savings not covered by the DGS. The calculated fair value of amounts due to customers with a demand feature cannot be less than the amount payable on demand.

Amounts due to banks
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other liabilities
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

Hierarchy in determining the fair value of financial instruments
A part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

More detailed explanation of the level classification
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair value based on published stock prices in an active market
For all financial instruments in this valuation category, stock prices are observable and publicly available from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds.

Level 2 – Fair value based on observable market data
The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have been issued by brokers, but which are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

Level 3 – Fair value not based on observable market data
A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

The financial instrument is placed in or moved to a certain level on the basis of the aforementioned definitions.

Change in level 3 financial instruments

Change in level 3 financial instruments measured at fair value for the 1st half of 2023

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	9	3	9	9
Unrealised gains or losses recognised in P&L[1]	1	--	--	--
Change in accrued interest	--	--	--	--
Other Movements	--	--	--	--
Impairments	--	--	--	--
Closing balance	**10**	**3**	**9**	**9**

1 Included in the line item Other result on financial instruments.

Change in level 3 financial instruments measured at fair value for the 1st half of 2022

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	8	5	24	24
Unrealised gains or losses recognised in P&L[1]	--	--	-19	-19
Change in accrued interest	--	--	--	--
Other Movements	--	--	--	--
Impairments	--	--	--	--
Closing balance	**8**	**5**	**5**	**5**

1 Included in the line item Other result on financial instruments.

Change in level 3 financial instruments measured at fair value for the 2nd half of 2022

in € millions	Fair value through P&L	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	8	5	5	5
Unrealised gains or losses recognised in P&L[1]	1	--	-15	-15
Change accrued interest	--	--	-1	-1
Other movements	--	--	20	20
Impairment	--	-2	--	--
Closing balance	**9**	**3**	**9**	**9**

1 Included in the line item Other result on financial instruments.

Sensitivity of level 3 valuations of financial instruments

Level 3 financial instruments are largely valued using a net discounted cashflow method in which expectations and projections of future cashflows are discounted to a present value on the basis of market data. The models use market-observable information, such as yield curves, or information that is not observable in the market, such as assumptions about certain credit risk surcharges or assumptions about customer behaviour. The valuation of a level 3 instrument may change significantly as a result of changes in these assumptions.

Sensitivity to non-observable parameters of level 3 financial instruments as at 30 June 2023

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflows	Discount curve	9	-0.5% of +0.5%	1	1
		Prepayment rate	9	-1% of +1%	--	--
LIABILITIES						
Derivatives	Discounted cashflows	Discount curve	9	-0.5% of +0.5%	1	1
		Prepayment rate	9	-1% of +1%	1	1

Sensitivity to non-observable parameters of level 3 financial instruments as at 31 December 2022

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflows	Discount curve	9	-0.5% of +0.5%	1	1
		Prepayment rate	9	-1% of +1%	--	--
LIABILITIES						
Derivatives	Discounted cashflows	Discount curve	9	-0.5% of +0.5%	1	1
		Prepayment rate	9	-1% of +1%	1	1

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed prepayment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to prepayment rate adjustments. The main non-market observable parameter for determining the fair value of level 3 instruments is the applied estimate of the discount curve.
The level 3 derivatives relate to securitisation transactions. There is a relationship between the fair values. This is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programme Pearl, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite.

Transfers between categories

In 2022 and in the first half of 2023, no significant movements occurred.

Reconciliation of alternative performance measures

Our financial results are prepared and reported in accordance with IFRS-EU, as detailed above.
We also present alternative performance measures, i.e. non-IFRS financial measures. These include the adjusted performance that we use to align internal and external reporting, identify and quantify items that management believes to be significant, and provide insight into how management assesses the bank's period-on-period performance.

To derive the adjusted performance, we adjust for certain incidental items, i.e. items that have an impact on the net result in excess of € 15 million and have an incidental nature, thus limiting insight into the underlying developments.

- In the first half of 2023, net profit did not include any incidental items.
- In 2022, net profit included positive incidental items of € 17 million (of which € 4 million in the first half of 2022), entirely consisting of a release of the restructuring provision of € 23 million before tax (of which € 6 million in the first half of 2022).

Definitions of additional ratios presented in this interim financial report are presented in the tables Non-IFRS financial measures on the next pages.

Reconciliation of reported to adjusted net result

	Reported			Adjustment			Adjusted		
in € millions	**1H23**	**1H22**	**FY22**	**1H23**	**1H22**	**FY22**	**1H23**	**1H22**	**FY22**
Net interest income	662	372	851				662	372	851
Net fee and commission income	33	24	51				33	24	51
Investment income	-5	-2	-8				-5	-2	-8
Other result on financial instruments	44	69	70				44	69	70
Other income	1	--	1				1	--	1
Total income	**735**	**463**	**965**	**--**	**--**	**--**	**735**	**463**	**965**
Staff costs	234	195	383		6	23	240	201	406
Depreciation and amortisation of tangible and intangible assets	11	10	22				11	10	22
Other operating expenses	144	118	250				144	118	250
Of which: regulatory levies	24	41	*69*				*24*	*41*	*69*
Total operating expenses	**389**	**323**	**655**	**--**	**6**	**23**	**395**	**329**	**678**
Of which: operating expenses excluding regulatory levies	***365***	***282***	***586***	***--***	***6***	***23***	***371***	***288***	***609***
Impairment charges of financial assets	8	11	52				8	11	52
Of which: investments	*-1*	*3*	*8*				-1	*3*	*8*
Of which: loans and advances to banks	--	--	*5*				--	--	*5*
Of which: residential mortgages	*9*	*-2*	*17*				9	*-2*	*17*
Of which: consumer loans	*-1*	*-2*	*-3*				-1	*-2*	*-3*
Of which: SME loans	*-2*	*-2*	*2*				-2	*-2*	*2*
Of which: other corporate and government loans	*6*	*14*	*23*				6	*14*	*23*
Total expenses	**397**	**334**	**707**	**--**	**6**	**23**	**403**	**340**	**730**
Result before taxation	**338**	**129**	**258**	**--**	**-6**	**-23**	**332**	**123**	**235**
Taxation	90	34	67	--	-2	-6	88	32	61
Net result for the period	**248**	**95**	**191**	**--**	**-4**	**-17**	**244**	**91**	**174**

NON-IFRS FINANCIAL MEASURES

KPIs and adjusted KPIs

	Reported			Adjustments			Adjusted		
in € millions	**1H23**	**1H22**	**FY22**	**1H23**	**1H22**	**FY22**	**1H23**	**1H22**	**FY22**
Cost/income ratio	Total operating expenses (including regulatory levies) as a percentage of total income.								
Total operating expenses	389	323	655		6	23	389	329	678
Total income	735	463	965				735	463	965
Cost/income ratio	**52.9%**	**69.8%**	**67.9%**				**52.9%**	**71.1%**	**70.3%**
Return on Equity (RoE)	Annualised net result for the period, excluding interest expenses related to AT1 capital securities, as percentage of average month-end total equity, excluding AT1 capital securities, for the reporting period.								
Net result	248	95	191		-4	-17	248	91	174
Interest expenses related to AT1 capital securities	-11	-	-12				-11	-	-12
Average month-end total equity	3,494	3,457	3,424				3,494	3,457	3,424
Return on Equity (RoE)	**13.6%**	**5.5%**	**5.2%**				**13.6%**	**5.2%**	**4.7%**
Net interest margin	Annualised net interest income as a percentage of average month-end total assets for the reporting period.								
Net interest income	662	372	851				662	372	851
Average month-end total assets	72,926	73,663	73,763				72,926	73,663	73,763
Net interest margin	**1.82%**	**1.01%**	**1.15%**				**1.82%**	**1.01%**	**1.15%**
Cost/assets ratio	Annualised total operating expenses excluding regulatory levies as a percentage of average month-end total assets for the reporting period.								
Operating expenses excluding regulatory levies	365	282	586		6	23	365	288	609
Average month-end total assets	72,926	73,663	73,763				72,926	73,663	73,763
Cost/assets ratio	**1.00%**	**0.77%**	**0.79%**				**1.00%**	**0.78%**	**0.83%**

Cost of risk

in € millions	**1H23**	**1H22**	**FY22**
Cost of risk	Annualised impairment charges of financial assets as a percentage of average month-end loan portfolio exposure for the reporting period.		
TOTAL LOANS AND ADVANCES TO CUSTOMERS			
Impairment charges of financial assets - total loans	12	8	39
Average month-end portfolio exposure - total loans	51,363	50,319	50,705
Cost of risk total loans and advances to customers	**0.05%**	**0.03%**	**0.08%**
RESIDENTIAL MORTGAGES			
Impairment charges of financial assets - residential mortgages	9	-2	17
Average month-end portfolio exposure - residential mortgages	48,356	47,990	47,892
Cost of risk residential mortgages	**0.04%**	**-0.01%**	**0.04%**
SME LOANS			
Impairment charges of financial assets - SME loans	-2	-2	2
Average month-end portfolio exposure - SME loans	1,126	906	968
Cost of risk SME loans	**-0.41%**	**-0.32%**	**0.21%**

Loan-to-Deposit ratio (LtD)

in € millions		1H23	1H22	FY22
Loan-to-Deposit ratio	Loans and advances to retail customers as a percentage of amounts due to retail customers			
Total loans and advances to customers		49,419	49,363	48,966
IFRS value adjustments		-1,884	-1,353	-2,040
Loans and advances to other corporates and governments		262	482	315
Loans and advances to retail customers		**51,042**	**50,234**	**50,691**
Savings		44,507	45,744	44,501
Other amounts due to customers		12,083	12,978	12,649
Amounts due to non-retail customers		461	559	527
Amounts due to retail customers		**56,129**	**58,163**	**56,623**
Loan-to-Deposit ratio		**91%**	**86%**	**90%**

Independent auditor's review report

To: the shareholder and the supervisory board of de Volksbank N.V.

Our conclusion

We have reviewed the condensed consolidated interim financial statements included in the accompanying interim financial report of de Volksbank N.V. based in Utrecht for the period from 1 January 2023 to 30 June 2023.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of de Volksbank N.V. for the period from 1 January 2023 to 30 June 2023, are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

The condensed consolidated interim financial statements comprise:

- The consolidated statement of financial position as at 30 June 2023
- The following statements for the period from 1 January 2023 to 30 June 2023: the consolidated income statement, the consolidated comprehensive income, the condensed consolidated statement of changes in total equity and the condensed consolidated cashflow statement
- The notes comprising material accounting policy information and selected explanatory information

Basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 2410, Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit (Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the Our responsibilities for the review of the condensed consolidated interim financial statements section of our report.

We are independent of de Volksbank N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the executive board and the supervisory board for the condensed consolidated interim financial statements

The executive board is responsible for the preparation and presentation of the condensed consolidated interim financial statements in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Furthermore, the executive board is responsible for such internal control as it determines is necessary to enable the preparation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing de Volksbank N.V.'s financial reporting process.

Our responsibilities for the review of the condensed consolidated interim financial statements

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a review engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with Dutch Standard 2410.
Our review included among others:

- Updating our understanding of de Volksbank N.V. and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the condensed consolidated interim financial statements where material misstatements are likely to arise due to fraud or error, designing and performing analytical and other review procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion
- Obtaining an understanding of internal control as it relates to the preparation of condensed consolidated interim financial statements
- Making inquiries of the executive board and others within de Volksbank N.V.
- Applying analytical procedures with respect to information included in the condensed consolidated interim financial statements
- Obtaining assurance evidence that the condensed consolidated interim financial statements agree with, or reconcile to, de Volksbank N.V.'s underlying accounting records
- Evaluating the assurance evidence obtained
- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle
- Considering whether the executive board has identified all events that may require adjustment to or disclosure in the condensed consolidated interim financial statements
- Considering whether the condensed consolidated interim financial statements have been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement

Amsterdam, 10 August 2023

Ernst & Young Accountants LLP

Signed by P.J.A.J. Nijssen

General information

About de Volksbank

General
De Volksbank is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of five core product groups: payments, mortgages, savings, SME loans and sustainable investment funds. De Volksbank has a balance sheet total of € 73 billion and 3.262 internal employees (FTEs), making it a major player in the Dutch retail banking market. The head office of de Volksbank is located in Utrecht.

Mission and ambition
The mission of de Volksbank is 'Banking with a human touch'. To live up to our mission we formulated an ambition based on the principle of shared value. Shared value is directed towards social and economic as well as financial and non-financial aspects. Our ambition is to optimise this shared value by delivering benefits for customers, taking responsibility for society, giving genuine attention to employees and achieving returns for the shareholder. Our strategy has two main objectives with which we aim to strengthen our distinctive capability: the strongest customer relationship and a substantial and measurable positive social impact.

Our brands
There is no such thing as an 'average customer'. Everyone has different wishes, needs and preferences. We want to serve our customers in the way that best fits their needs. That is why, instead of one brand for all customers, we have opted for different brands that each serve their customers in the way that suits them best. Each brand has its own way of working, image, mentality and products, from savings and investments to insurance products.

SNS
Equal growth opportunities for everyone
SNS is dedicated to ensure that people get a fair chance to grow to their full potential. With genuine attention to customers' needs, and what stands in their way. SNS actively works towards solutions. Hence its motto: people come before money. For SNS believes that if everyone is able to grow in their own way, the Netherlands will become a stronger country. SNS has been serving its customers for 200 years, currently with over 200 shops across the country. For more information, please see our website: www.snsbank.nl

ASN Bank
Sustainability
ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for over 60 years. ASN Bank invests the money customers entrust to the bank in such a way that it contributes to sustainable progress and a liveable world, now and in the future. The three pillars of ASN Bank's sustainability policy and strategy are climate, human rights and biodiversity. With its variety of products and services ASN Bank demonstrates that money can create happiness. For more information, please see our website: www.asnbank.nl

RegioBank
Quality of life in communities
Just dropping by for a question or good advice. This is precisely what you can do at approximately 440 branch offices of independent advisers in villages and small towns all over the country.
In addition to taking care of money matters close to home, RegioBank is also committed to improving the quality of life in communities. It promotes local cohesion because it believes that having a social network close by makes people happy. The bank is a partner of the *Oranje Fonds* and in that capacity supports social initiatives. After all, RegioBank is not just a bank, but part of the local community: a liaison that wants to strengthen social vitality and regional entrepreneurship. For more information, please see our website: www.regiobank.nl

BLG Wonen
Decent housing for everyone
BLG Wonen is committed to a fairer and more accessible housing market. Founded in 1954 to give Limburg miners the chance to buy a house, it now supports new groups in society that have problems buying a house. BLG Wonen does not see files or numbers, but sees people with dreams and wishes. Only then will it look at the numbers. Together with its large network of independent advisers, it helps people to find a suitable mortgage. After all, owning your own home is important: it gives people a feeling of security and happiness. For more information, please see our website: www.blg.nl

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