de volksbank

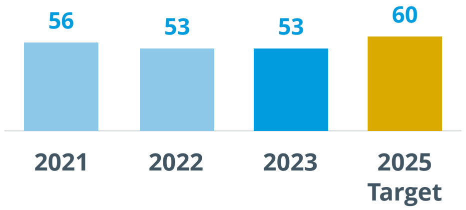
2023

Full-year Financial Report

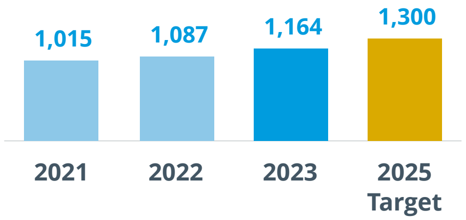
Key figures

Net Promoter Score

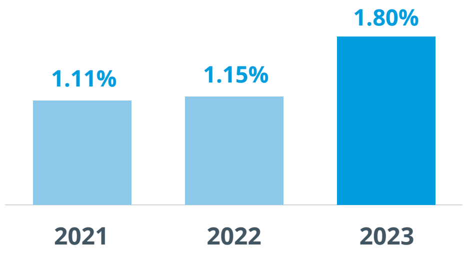
Customer Relationship Score



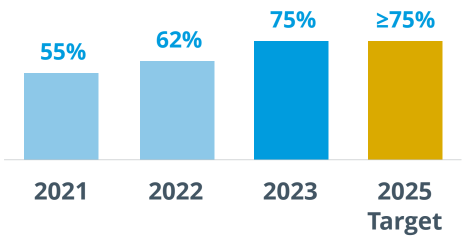
Active multi-customers (in thousands)



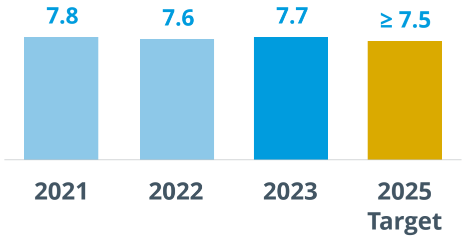
Net interest margin



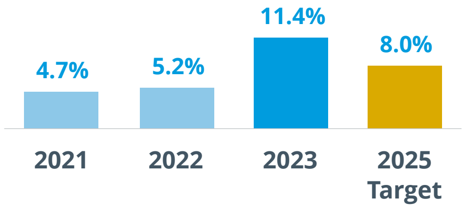
Climate-neutral balance sheet



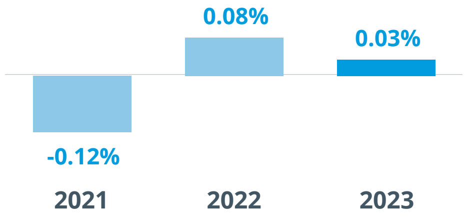
Genuine attention for employees



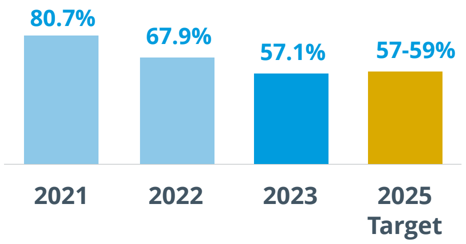
Return on Equity (RoE)



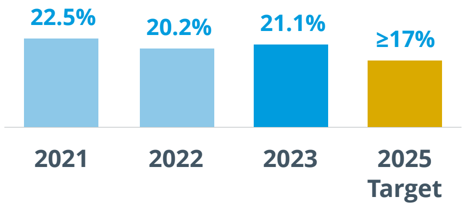
Cost of risk total loans



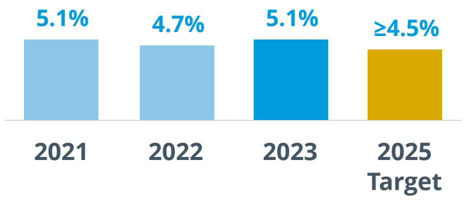
Cost/income ratio



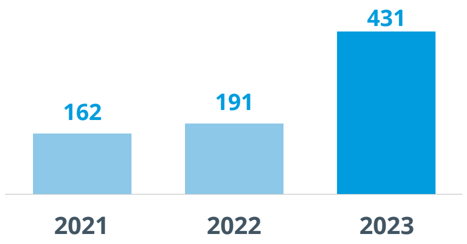
Basel IV fully loaded CET1 ratio



Leverage ratio



Net result (in € millions)



Foreword

Martijn Gribnau, Chair of the Executive Committee of de Volksbank

"The year 2023 was marked by even more geopolitical volatility and uncertainty than 2022. These tensions continued to impact the global economy, most notably GDP growth, energy prices and inflation rates. To control inflation, the European Central Bank maintained its restrictive monetary policy, raising the deposit facility rate to 4%. On the one hand, this contributed to a slowdown in inflation, which had soared in 2022, but on the other hand also acted as a brake on economic growth. In the Netherlands, despite economic growth coming to a virtual standstill, unemployment remained very low and contract wages increased. The housing market downturn continued as the number of transactions declined. As to house prices, a hesitant decline was short-lived and in the course of the year prices started to rise once more, mainly due to the structural housing shortage.

Against this backdrop, 2023 marked the third year of the execution of our strategic plan for the period 2021-2025, entitled ‘Better for each other - from promise to impact’. In this plan we have set ourselves two main objectives for 2025: to be the bank with the strongest customer relationship in the Netherlands and to have a substantial and measurable positive impact on society. Simultaneously, we need to make our operations more efficient and robust.

In the past year, initiatives to improve customer relationships included the roll-out of a new banking app and the successful introduction of the *Bespaarhypotheek* with an automatically decreasing interest rate when more repayments are made or the home is made more sustainable. Our brands also organised and participated in various events to engage with customers and other stakeholders, for example the National Village Summit organised by RegioBank, the Growth Opportunities Debate organised by SNS, and ASN Bank's and BLG Wonen’s participation in the annual mortgage event *HypoVak*.

Our efforts paid off: in line with our ambition, the number of active multi-customers rose by 7% to 1.2 million. And in May 2023, in the ‘most customer-friendly bank’ survey conducted by MarketResponse, our brands ASN Bank, RegioBank and SNS, ranked 1, 2 and 3 for the second year in a row. However, despite these fine rankings, the average Net Promoter Score and the Customer Relationship Score of our brands remained unchanged compared to year-end 2022.

To improve our impact on society, one of the objectives we have set is to achieve a climate-neutral balance sheet of at least 75% by 2025. In 2023, this score, measured using the PCAF methodology, already improved to 75%, up 13 percentage points, as a result of an increase in purchased climate bonds and investments in renewable energy projects, improved data quality and updated emission factors.

I am proud that de Volksbank has recently been included in Sustainalytics’ 2024 list of ESG Top-Rated Companies on the basis of our 2023 ESG Risk Rating. Furthermore, we ranked first in the most recent survey by the Fair Bank Guide, with a score of nine out of ten on seven ESG themes. The above reflects that we attach great importance to our role as a social and sustainable bank.

In our Interim Financial Report 2023, we announced that De Nederlandsche Bank (DNB) has concluded that de Volksbank does not adequately identify and assess its risks related to money laundering, the financing of terrorism and integrity. Therefore DNB imposed an instruction to remediate our Systematic Integrity Risk Analysis (SIRA) by 1 April 2024. DNB also announced its intention to start a procedure to impose an administrative fine. In response to this, we have substantially scaled up our efforts to remedy the identified shortcomings. We expect to have addressed the instruction to remediate our SIRA by 1 April 2024.

Moreover, to reinforce the safeguarding of KYC-related measures within the Executive Committee, we created the position of Chief Financial Crime Officer (CFCO) as from 1 November 2023. The recruitment process for the CFCO position is well underway. Consequently, the position of Chief Transformation Officer (CTO), previously also responsible for the KYC domain, ceased to exist. By mutual agreement, Marjolein de Jongh resigned from her duties as CTO as from November 2023.

Our focus on making our operations more robust and efficient required sometimes far-reaching changes in our organisation. Still, the 2023 ‘genuine attention for employees’ score remained high at 7.7, up slightly compared to the 7.6 in 2022, and above our objective of at least 7.5. In October 2023, de Volksbank signed the Diversity Charter of the Social and Economic Council of the Netherlands. Around the same time, we published a new version of our Diversity, Equity and Inclusion Policy, embracing the principle of equal opportunities throughout the organisation.

We achieved solid business and excellent financial results in 2023, taking into account the geopolitical turbulence and the significantly changed interest rate environment. Higher mortgage rates not only led to a decrease in new mortgage production, but also to lower repayments. On balance, our residential mortgage portfolio grew by € 0.9 billion to € 49.2 billion and our market share in new mortgage production improved slightly to 5.7%. SME loans grew by € 150 million to € 1.2 billion. Retail savings decreased by € 0.9 billion to € 43.6 billion, corresponding to a market share of 9.5%, compared to 10.4% in 2022. Driven by higher stock markets, assets under management increased by € 0.3 billion to € 4.2 billion.

Our net profit rose by € 240 million to € 431 million in 2023, as a sharp increase in total income more than compensated for a strong increase in operating expenses.

Return on equity improved to 11.4%, compared to 5.2% in 2022, which is well above our target of 8% for 2025.

Total income rose by 47% to € 1,414 million. Net interest income was 53% higher at € 1,303 million, primarily due to higher margins on retail deposits as a result of increased external interest rates. In a competitive domestic market environment, margins on mortgages were virtually stable. Net fee and commission income was up 25% to € 64 million, mainly driven by higher fees for basic banking services. Other income decreased by 25% to € 47 million, as higher treasury results were more than offset by realised losses on the investment portfolio and financial instruments, compared to a substantial gain on swaptions in 2022.

Total operating expenses were 23% higher at € 808 million. The increase was mainly driven by wage inflation, an increase in hired staff and substantial investments related to customer integrity, banking regulations and our IT foundation. The basis of comparison was also affected by a release of the ‘agile’ restructuring provision of € 23 million in 2022. Regulatory levies declined by € 27 million to € 42 million, mainly due to a lower contribution to the Deposit Guarantee Scheme. Despite the increase in operating expenses, the cost/income ratio improved to 57.1% (2022: 67.9%), within our 57-59% target range for 2025.

Total impairment charges fell by 71% to € 15 million, with residential mortgages, SME loans and other corporate loans all contributing to the decline. The actual incurred losses of residential mortgages and SME loans remained very low, evidencing the high credit quality of our loan portfolio and the resilience of Dutch house prices.

Our capital position continued to be strong. The CET1 capital ratio remained virtually unchanged at 20.2% compared to 20.3% at year-end 2022, as an increase in core capital was offset by higher risk-weighted assets. The leverage ratio improved from 4.7% to 5.1% due to a higher capital level and a lower balance sheet total. In the first half of 2023, we successfully executed two issuances of green senior non-preferred notes of € 500 million each, which means we now meet the binding MREL subordination requirement as from 1 January 2024. Our liquidity position also remained strong, as reflected in our LCR of 262%, compared to 233% at year-end 2022.

We have revised the objective for our CET1 capital ratio from at least 19% to at least 17%, now applying a lower management buffer given the reduced uncertainty regarding the impact of Basel IV implementation on our capital position.

For 2023, we propose a dividend payment of € 164 million, which corresponds to a pay-out of 40% of the net profit attributable to the shareholder.

In December 2023, we announced two changes to the Executive Committee as Jeroen Dijst, our CRO, and I informed the Supervisory Board that we will not seek a third and second term, respectively, after completion of our current terms at the General Meeting of Shareholders scheduled in April of 2024. The recruitment process for the succession of both positions is progressing well.

Going forward, total income, and in particular our net interest income, will remain highly sensitive to the ECB’s interest rate policy. With interest rates expected to trend down somewhat in the course of the year, we expect net interest income in 2024 to be below the level of 2023. As we will continue to make the necessary investments to improve the quality of our operations, we expect operating expenses, excluding regulatory levies, to be in line with 2023. Regulatory levies are set to decline and we project impairment charges to remain low. All things considered, we expect net profit for 2024 to be lower than for 2023.

In the period ahead, we will continue to give priority to further improving the financial and operational robustness of our bank, with cost control high on the agenda. This should go hand in hand with the realisation of our strategy to be the bank with the strongest customer relationship and a proven social impact. I would like to thank our customers for their trust in our bank and our employees for their commitment and contribution to the results."

Strategic progress

Our strategy

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

This 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 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 is determined to expand by improving its distribution reach and service.

To enhance our distinctive capabilities and realise the brands' growth priorities, our strategy comprises five necessary movements of change, i.e.:

1. digital and omnichannel 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, while complying with laws and regulations and ensuring the continuity of our systems. Simultaneously, we need to make our operations more efficient and robust.

Strategic progress

Our Strategy 2021 – 2025 sets out 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	31-12-2023	30-6-2023	31-12-2022
Customers				
Customer-weighted average Customer Relationship Score (KRS)[1]	60	53	54	53
Customer-weighted average Net Promoter Score (NPS)[1]	+13	-1	0	-1
Active multi-customers (in 1,000)[1]	1,300	1,164	1,126	1,087
Society				
Climate-neutral balance sheet[1]	≥75%	75%	66%	62%
Employees				
Genuine attention[1]	≥ 7.5	7.7	7.7	7.6
Shareholder				
Return on Equity (RoE)[2]	8%	11.4%	13.6%	5.2%
Other objectives				
Common Equity Tier 1 ratio (Basel IV)[3]	≥17%	21.1%	20.9%	20.3%
Leverage ratio (Basel IV)[3]	≥4.5%	5.1%	4.9%	4.7%
Cost/income ratio[2]	57-59%	57.1%	52.9%	67.9%

1 For the measurement methodology of this KPI, reference is made to the Section Definitions of strategic KPIs on page 36 of this report.
2 For the measurement methodology of these KPIs, reference is made to the Section Reconciliation of alternative performance measures on page 34 of this report.
3 For more information, please refer to Section Capital management on page 24 of this report.

Strong customer relationship

One of our main pillars is to build strong customer relationships; whatever we do must add value for our customers. In May 2023, our retail banking brands ASN Bank, RegioBank and SNS were once again recognised by market research company MarketResponse as the most customer-friendly banking brands in the Netherlands, occupying positions 1, 2 and 3 respectively in its annual survey.

Customer Relationship Score

The Customer Relationship Score (*KRS*) measures the strength of the relationship 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 2023, the customer-weighted average *KRS* of our retail banking brands remained stable at 53 (average for 2022: 53). Our target for the end of 2025 has been set at 60.

Net Promoter Score

At -1, the customer-weighted average of all brand-specific NPS scores also remained stable compared to year-end 2022. De Volksbank has set itself an NPS target of +13 by the end of 2025.

Number of active multi-customers

In 2023, the number of active multi-customers rose by 77 thousand to 1.16 million (year-end 2022: 1.09 million). We are well on track to reach our target of 1.3 million active multi-customers by the end of 2025. The number of current account customers grew by 97 thousand to 2 million (year-end 2022: 1.9 million). The total number of customers decreased by 28 thousand to 3.26 million (year-end 2022: 3.29 million), mainly due to the outflow of customers with only a savings account following the introduction of a fixed fee for basic banking services in 2022.

Social impact

We are focussing on making a positive social impact through the banking products and services that we offer our customers. We also continue to optimise our social impact profile by considering feedback from our key stakeholders and by making our own operations more sustainable. In 2023, we scored the highest marks on almost all themes analysed in a study on sustainability policies conducted by the Fair Bank Guide. Recently, based on our 2023 ESG Risk Rating, de Volksbank has been included in Sustainalytics' 2024 list of ESG Top-Rated Companies, based on its 2023 ESG risk rating score.

Climate-neutral balance sheet

At year-end 2023, our climate-neutral balance sheet increased by 13 percentage points to 75%, which means that we have reached our interim target of at least 75% by 2025. This was the result of an increase in financed renewable energy projects and purchased green bonds with a strong focus on renewable energy projects. Avoided emissions also increased due to the improved data quality for notes with a focus on renewable energy within the sustainable financing portfolio. Likewise, an update of the emission factor database resulted in a decrease in emissions resulting from our business loans. The CO_2e emissions financed in 2023 amounted to 1,249 kilotonnes, compared to 1,336 kilotonnes in 2022, and avoided CO_2e emissions amounted to 943 kilotonnes in 2023, compared to 831 kilotonnes in 2022. Our climate-neutral balance sheet is measured using the PCAF methodology. De Volksbank published its Climate Action Plan in 2022, as part of its contribution to the Dutch National Climate Agreement. In this plan, we communicated our ambition to have a net-zero balance sheet by 2050, or sooner if possible. We are trying to integrate our current goal of achieving a climate-neutral balance sheet by 2030 into this ambition.

Housing accessibility

We are working towards an inclusive housing market in which everyone has fair opportunities and access to appropriate mortgage solutions, enabling people to secure decent housing. Considering our business model and current market dynamics, we translated the housing accessibility theme into two KPIs, namely 1) making housing accessible to households earning up to twice the average income, and 2) sustainable recovery from mortgage arrears based on financial care during major life events. The targets for these KPIs will be set in 2024.

Four growth priorities of the brands

SNS

SNS is a social bank that stands for equal growth opportunities for everyone. With over 190 shops, SNS is on track to reposition its brand and increase social impact. SNS’ growth priority is to attract a younger target audience and to strengthen its business model with fee income. In 2023, SNS began to focus on the acquisition of new customers in this younger customer segment. SNS engaged with young adults through the 'Board of the Future' and the content platform Future Money Talks. SNS also extended its partnership with WorldSkills Netherlands, a foundation dedicated to promoting craftsmanship and vocational education among young people. To strengthen its business model through diversification and fee income, SNS launched three brand campaigns, one of which is specifically aimed at the SME market. Apart from rolling out the banking app, SNS also introduced several new products and services, such as a life insurance policy for tenants and advice to help customers make their homes more sustainable.

ASN Bank

ASN Bank is taking steps to further grow as a sustainable digital bank. In 2023, the number of ASN Bank customers grew slightly. It improved its digital customer services by launching a new mobile banking app and introducing a chatbot. In collaboration with a.s.r., ASN Bank expanded its insurance offering by introducing car insurance for retail customers, of which the insurance premiums are invested sustainably. In 2023, de Volksbank was once again rated the 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 drawn up by ASN Bank's sustainability experts.

RegioBank

RegioBank continues to have a strong local presence with more than 420 independent advisers in small towns and villages. It remains committed to the local community, not only by providing financial services to its retail and small-business customers, but also by supporting social initiatives such as the construction of community centres and social activities. In June, RegioBank organised the third National Village Summit (*Nationale DorpenTop)*, an event for everyone involved in regional developments and initiatives. At this summit, an agenda for the future of Dutch regions was developed, which was later presented to the House of Representatives in The Hague as part of an appeal to Dutch politicians to focus more on the regions. RegioBank aims to give small businesses the attention they deserve, helping them to grow and make a positive social impact on their customers and society.

BLG Wonen

BLG Wonen is committed to making the housing market more accessible; to this end, it works with independent financial advisers in order to develop and offer suitable standard and custom mortgage solutions. In 2023, BLG Wonen launched the *Bespaarhypotheek*, a new mortgage product providing an interest rate discount when homeowners implement energy-saving measures to obtain a higher energy-efficiency rating. To further strengthen the relationship with service providers, BLG Wonen worked on a power of attorney, allowing it to partially outsource the underwriting process of mortgage applications to service providers. BLG Wonen also reviewed its strategy and will continue to expand its distribution reach and improve its service.

Five necessary movements of change

1. Digital and omnichannel dialogue

De Volksbank aims to strengthen the relationship with its customers and advisers by providing a human touch in customer interaction and consistent and personalised service through online and offline channels. For all our brands, we successfully rolled out the new retail customer banking app. Furthermore, we improved the delivery of a consistent and recognisable cross-channel experience across the personal online banking environment, the mobile banking apps and the websites. Finally, we added a human touch in our online channels by offering a chat option for all brands and personalised messages for SNS and ASN Bank customers.

2. Relevant range of products, new propositions and small businesses as a new target market

We are strongly committed to small businesses within the SME sector. These entrepreneurs need a local and personal bank. Through our local presence and the expansion of our product range for the business market, we can increasingly meet their needs.

In 2023, we continued to professionalise our distribution channels. Application processes were improved, allowing customers to take out a business loan easier and faster, while complying with laws and regulations. Not only have we expanded our online platform where SME customers can tailor our services to their own needs, by adding BLG Wonen's advisers to our network, we have also expanded our network of financial advisers that our SME customers can turn to. We proactively held dialogues with politicians and industry organisations on services for small-sized enterprises, especially on easy access to loans.

To help more entrepreneurs, we expanded our financing standards. We now welcome small businesses with a maximum annual turnover of € 10 million (previously € 5 million) and a financing requirement of no more than € 2 million (previously € 1 million), and the working capital funding limit has been increased from € 50,000 to € 150,000. Moreover, we introduced the buy-to-let mortgage of a social nature, which offers homeowners attractive conditions, provided that they, in turn, charge a realistic and fair rent based on the Dutch home valuation system *(Woningwaarderingsstelsel; WWS)* to determine the maximum rent. We also optimised the basic package for business payments, investments and insurance products. For example, new sole proprietor business customers taking out a current and savings account can now identify themselves more easily via face recognition. And we can provide entrepreneurs entering into a business property rental agreement with a rental guarantee.

We engaged with customers about the economic challenges they face, and about how embedding sustainability in their daily and future business operations may be beneficial for them. For example, SNS organised local Entrepreneurs' Nights and ran a major national campaign specifically aimed at entrepreneurs. Strengthening local entrepreneurship was also part of RegioBank's brand campaign.

All in all, these activities contributed to an SME portfolio growth to € 1,235 million (2022: € 1,085 million) as well as to increased awareness of de Volksbank's brands as the preferred bank for small businesses. In 2024, our ambition is to position our brands even more firmly as banks for small businesses that are close to entrepreneurs, value personal interaction and offer an appropriate range of products.

Through our insurance partner NN (Nationale Nederlanden) SNS launched various new non-life insurance policies for its retail customers - such as home, liability, car, travel and legal expenses insurance policies - in April 2023, giving customers access to higher-quality and contemporary insurance policies at a fair price, while providing personalised customer service.

Property valuation platform Fitrex managed to maintain its market position. The number of requests remained stable in a declined market compared to 2022. This was achieved through a combination of actions, such as growing the number of active independent financial advisers by 20%, implementing additional features on the platform, i.e. notary services and renovation advice and collaborating with software platforms focussing on these financial advisers.

Over the course of 2023 we experimented with new services in relation to topics such as data security, immovable property valuation (*WOZ*), retirement and sustainable energy. Depending on customer insights and market response, some of those might be added to the product range of SNS, RegioBank and/or ASN Bank in 2024.

3. IT-based customer bank
The aim of our IT-based customer bank strategy is to achieve a modular, customer-driven, mostly cloud-based, automated IT landscape. In 2023, we worked on the customer bank transition by continuing to design and build a new customer administration system, expanding the bank-wide case management system and improving the data platform, and by continuous integration and delivery through development pipelines. The level of maturity of continuous integration and delivery was assessed by all the teams involved in this exercise and they are implementing the required improvements. The new banking app has been rolled out for all our brands' customers, offering possibilities for a wider range of customer-bank interactions. In the second half of 2023, we increased our focus on customer integrity-related improvements. In 2024, we will continue to focus on customer integrity and on phasing out older applications.

4. Customer focused
With the implementation of the new organisational structure, our fourth change movement to become a more agile and customer focused organisation has been completed. However, as the agile way of working still needs to mature, it has become part of our strategic theme 'Capabilities'. For more information on this topic, see the Subsection on Capabilities below.

5. Efficient and flexible
We are continuously looking for opportunities to work more efficiently and flexibly. We do so through agile working and by looking for an ideal mix of partnerships, using in-house resources and outsourcing partners. We also integrated the supplier intake processes into our existing systems, enhancing the efficiency and control of supplier management. Moreover, we want to use our capital and balance sheet in a more targeted way. To this end, de Volksbank executed two issuances of Green Senior Non-Preferred (SNP) notes of € 500 million each in the first half of 2023, as a result of which we met the subordinated MREL requirements applicable as from 2024.

As from 2024, we will no longer report separately on the 'efficient and flexible' change movement. Since the start of the execution of the strategic plan, de Volksbank has improved its balance sheet management and capital management. We incorporated these improvements into our business and consider this part of our daily activities. We will continue to look for opportunities to improve efficiency and flexibility through partnerships and outsourcing.

Capabilities
An essential part of our strategy is our continuous effort to strengthen our organisational, employee and leadership capabilities. To achieve this, we further developed the People & Organisation strategy in the first quarter of 2023. This strategy is built on four pillars: People & Teamwork, Leadership, Culture and Organisation. To implement the People & Organisation strategy we established an internal leadership and culture programme. Apart from this, we introduced an agile maturity model for future growth. To better understand our organisational risk culture, we conducted the second in-company organisational integrity survey in June 2023. The results are used to embed and strengthen our risk culture.

Important preconditions
Compliance with laws and regulations
To create more focus and guidance for the business, we decided to make customer integrity a top priority for 2023 and beyond, also due to additional attention from De Nederlandsche Bank (DNB). As a result, the governance of customer integrity was adjusted to ensure and accelerate timely and risk-based decision-making, clear ownership and execution. To support this, we allocated additional resources and hired external expertise. Furthermore, ESG-related legislation is coming our way, which will have an impact on our reporting and way of working. The same is true for the Artificial Intelligence Act, in which respect we will take a proactive role and anticipate on the potential impact.

Continuity
The responsibility for Continuity shifted from the central IT organisation to the Customer Service departments. To enhance continuity of applications and value streams, we added the oversight role of Continuity Coordinator to the Business, Development and Operations teams in these Customer Service departments. In addition, we developed a disaster recovery scenario and carried out crisis management team tests as well as backup and data recovery tests.

Strategic objectives
We report on our progress related to the strategic objectives for our customers in the Section Strong customer relationship, and related to society in the Section Social impact in this chapter. An update on the progress made towards our other objectives is provided below.

Genuine attention for employees
Our shared value-related KPI for employees is genuine attention. We want to empower employees to make a meaningful contribution to our mission and strategy by giving genuine attention to autonomy, professionalism and personal growth. We monitor this KPI every six months by conducting an employee survey and aim for a score of at least 7.5 (on a scale of 1-10) in 2025. In October 2023 the score was 7.7 (2022: 7.6). We strongly believe that genuine attention for employees results in engaged employees. In October 2023, the score for engagement was 7.5 (2022: 7.4). Our objective is a score of 8.0 by 2025.

Returns for the shareholder

Return on Equity

De Volksbank's Return on Equity (RoE) rose substantially in 2023 to 11.4%, compared to 5.2% in 2022. This increase was mainly supported by the rapid increase in external interest rates as from the second half of 2022, initiated by the ECB, which had a positive impact on our margins on retail deposits. In the first half of 2022, de Volksbank was still facing a general negative interest rate environment created by the ECB, putting pressure on its 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 exposure (NPE) rules. De Volksbank's actual CET1 ratio decreased slightly from 20.3% at year-end 2022 to 20.2% at year-end 2023. The Basel IV fully loaded CET1 ratio is estimated at 21.2% (year-end 2022: 20.2%). The leverage ratio rose to 5.1%, from 4.7% at year-end 2022. Both the CET1 ratio and the leverage ratio remained well above our minimum targets of at least 17.0% and 4.5%, respectively. For more information on the capital and leverage ratios, see the Section on Capital management.

Cost/income ratio

Higher income and lower regulatory levies resulted in a cost/income ratio (C/I ratio) of 57.1%, an improvement compared to 2022 (67.9%). Keeping the C/I ratio within the target 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 expenses levels.

Options for the future

On 22 February 2023, the Dutch Minister of Finance informed the House of Representatives that she intends to take a directional decision about the future of our bank.

On 26 May 2023, the Minister notified the House of Representatives that she would inform the House in two steps ahead of this decision, with the first step consisting of an analysis of whether there are any insufficiently safeguarded public interests in the financial sector.

On 26 October 2023, this analysis was shared with the House, with the conclusion that a state-owned bank is not required to safeguard public interests, and that from this perspective there is no reason to retain de Volksbank as a permanently state-owned participation.

The second step consists of an analysis on which future options and/or governance models would not be realistic for de Volksbank. It is anticipated that this analysis can be shared in the course of 2024. Subsequently, after a discussion with the House, a directional decision can be taken by a future government.

A final decision on the future of de Volksbank can only be made when NLFI has determined that de Volksbank is ready for it. NLFI will subsequently advise the Minister on the next steps.

Outlook

We expect net interest income in 2024 to decline compared to 2023, mainly as a result of lower expected margins on deposits. We anticipate margins on mortgages to be in line with 2023 in a challenging and competitive market. Net interest income will remain highly sensitive to changes in the ECB interest rate policy.

Investment income is expected to be higher, while other results on financial instruments are expected to return to a lower level as the financial year 2023 was positively impacted by higher treasury results.
Overall, we foresee a reduction in total income in 2024 relative to 2023.

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

Regulatory levies are expected to decrease compared to 2023, which marks the end of the build-up phase of the Single Resolution Fund. The ex-ante DGS fund is expected to have been built up in mid-2024. After this, we only expect additions to keep both funds at their target level.

The effect of macroeconomic developments on our customers and their financial resilience is highly uncertain and may, therefore, impact our loan loss provisioning levels. Based on the current economic outlook and sound credit quality of our loan portfolio, we expect the level of impairment charges on loans and advances to be low in 2024.

Taking into account the aforementioned factors, we anticipate net profit for 2024 to be lower compared to 2023.

Economic developments

Dutch economy

After two years of strong growth, the Dutch economy went through a phase of stagnation in 2023. The manufacturing industry in particular came under severe pressure as many companies were heavily exposed to the souring international economic climate and the resulting fall in world trade growth. The business services sector too, which had previously benefited from a post-Covid catch-up in demand, entered a tougher phase due to its relationship with manufacturing sectors. In combination with the earlier winding down of government support measures, this led to an average rise in the number of bankruptcies this year of 52% compared to 2022, according to Statistics Netherlands (*CBS*). Energy prices decreased markedly during 2023, but inflation remained elevated at an average rate of 3.8%, with food prices rising 12.1%, a development that dented consumers' purchasing power, especially that of lower-income groups. As a result, households reined in spending, although things turned for the better towards the end of the year, helped by a tight labour market and rising wages. On balance, the average unemployment rate increased by 0.1 percentage point, but it was still at a – historically - rather low level of 3.6% of the labour force, whereas growth of contractual wages doubled to 6%.

Housing and mortgage market

Due to the ongoing rise in mortgage rates, the cooldown of the housing market, which started in the summer of 2022, continued in the first part of the reporting period. However, a reversal set in during the year as strong wage growth in combination with high job security tipped the balance, while people also seemed to have drawn courage from the stabilisation of mortgage rates. Also, according to the Dutch Association of Estate Agents (NVM), the number of houses for sale remained rather low by historical standards, partly because completions of newly built homes were lagging behind. Over the full year, house prices decreased by 2.8%, data of the Dutch Land Registry and Mapping Agency (*Kadaster*) shows, but with month-on-month rises since June. In the fourth quarter of 2023, prices were 0.6% lower compared to the same period last year, but according to the NVM, which measures prices earlier in the sales process, prices were up by 5.3%. Housing transactions dropped by 5.5%, with rather low levels at the beginning of 2022 in particular.
Mortgage applications, including remortgage applications, declined by 29.3% noted the Dutch Mortgage Data Network (*HDN*). The number of mortgage applications to purchase a home declined by 7.9%, but showed a year-on-year rise in the last quarter. Mortgage renewals decreased by 50.1%, as they were generally no longer financially attractive due to the higher interest rates compared to preceding years. The rise in interest rates also led to a strong rise in the number of transactions where homeowners ported their current mortgage to their new property to take advantage of the applicable low mortgage rate.

Interest rates and government bond yields

Inflation in the eurozone went down in 2023, but the decline was largely attributable to energy price developments. The underlying price pressure remained uncomfortably high and the ECB, whose primary objective is to maintain price stability – defined as a medium-term inflation rate of 2% - continued to increase policy rates. In the first nine months of the year, the deposit rate was raised six times by a total of 200 basis points (bps) to 4.0%. The tightening of the monetary policy strongly influenced the broader fixed-income market sentiment with bond yields showing an upward tendency in the first three quarters. The Dutch ten-year rate peaked at 3.32% in September. In the last part of the year, yields declined steeply on the back of reassuring inflation numbers and investors' perception that central banks would bring down rates speedily in the foreseeable future. Over the full year, the ten-year rate went down by 59 bps, to 2.32%. The decline in two-year rates was limited to 27 bps, to 2.40%. With these changes, the yield curve was inverted most of the year, a rather uncommon phenomenon.

Savings market

Dutch retail savings grew by € 29 billion in 2023 to € 459 billion at year-end. The low level of consumer confidence in combination with higher savings rates offered by financial institutions may have been the most important factor underlying the steady rise.

Financial results

Profit and loss account

in € millions	FY23	FY22	Change	2H23	1H23
Net interest income	1,303	851	53%	641	662
Net fee and commission income	64	51	25%	31	33
Other income	47	63	-25%	7	40
Total income	**1,414**	**965**	**47%**	**679**	**735**
Operating expenses excluding regulatory levies	766	586	31%	401	365
Regulatory levies	42	69	-39%	18	24
Total operating expenses	**808**	**655**	**23%**	**419**	**389**
Impairment charges of financial assets	15	52	-71%	7	8
Total expenses	**823**	**707**	**16%**	**426**	**397**
Result before taxation	**591**	**258**	**129%**	**253**	**338**
Taxation	160	67	139%	70	90
Net result	**431**	**191**	**126%**	**183**	**248**
Release of restructuring provision	--	17		--	--
Total incidental items	--	17		--	--
Adjusted net result	**431**	**174**	**148%**	**183**	**248**
Cost/income ratio[1]	57.1%	67.9%		61.7%	52.9%
Adjusted cost/income ratio[1]	57.1%	70.3%		61.7%	52.9%
Return on Equity (RoE)[1]	11.4%	5.2%		9.3%	13.6%
Adjusted Return on Equity (RoE)[1]	11.4%	4.7%		9.3%	13.6%
Net interest margin[1]	1.80%	1.15%		1.78%	1.82%
Cost/assets ratio as a % of average assets[1]	1.06%	0.79%		1.11%	1.00%
Adjusted cost/assets ratio as a % of average assets[1]	1.06%	0.83%		1.11%	1.00%

1 For the measurement methodology of these KPIs, reference is made to the Section Reconciliation of alternative performance measures on page 34 of this report.

Net result

De Volksbank's net result increased by € 240 million to € 431 million in 2023. The year 2023 did not include any incidental items, whereas 2022 included an incidental item of € 17 million after tax (€ 23 million before tax), consisting of a release of the restructuring provision in relation to the transformation into an agile organisation. Adjusted for incidental items, net result rose by € 257 million.

Total income grew by € 449 million to € 1,414 million. This increase was driven by higher net interest income, mainly due to rising external interest rates. To combat inflation in Europe, the ECB continued to raise its interest rates and the deposit facility rate grew to 4.00% as at 31 December 2023, compared to 2.00% at year-end 2022 and - 0.50% at year-end 2021. The first half of 2022 was still marked by negative interest rates. Net fee and commission income continued to grow in 2023, in line with our ambition to increase non-interest income. Other income decreased due to a lower result on investments and swaptions, partly compensated by higher treasury results, following a shift from treasury-related interest income to other results on financial instruments. The year 2022 included a substantial non-recurring gain on swaptions used to hedge long-term interest income against sharply rising market interest rates.

Total operating expenses increased by € 153 million to € 808 million. Adjusted for the incidental item in 2022 they increased by € 130 million. Besides the impact from (wage) inflation and an increase in the number of staff, the increase 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 decreased, mainly reflecting a lower ex-ante DGS contribution.

Impairment charges of financial assets decreased by € 37 million to € 15 million due to lower impairment charges on residential mortgages, SME loans, corporate loans and on investments and loans to banks.

Total income

Breakdown of income

in € millions	FY23	FY22	Change	2H23	1H23
Net interest income	1,303	851	53%	641	662
Net fee and commission income	64	51	25%	31	33
Other income	47	63	-25%	7	40
Of which investment income	*-54*	*-8*	*-575%*	*-49*	*-5*
Of which other results on financial instruments	*101*	*70*	*44%*	*57*	*44*
Of which other operating income	*--*	*1*	*-100%*	*-1*	*1*
Total income	**1,414**	**965**	**47%**	**679**	**735**
Net interest margin[1]	1.80%	1.15%		1.78%	1.82%

1 For the measurement methodology of these KPIs, reference is made to the Section Reconciliation of alternative performance measures on page 34 of this report.

Net interest income
Net interest income increased by € 452 million to € 1,303 million (+53%), and the net interest margin rose to 1.80% (2022: 1.15%). Both increases were mainly due to the more favourable interest rate environment as from the second half of 2022. As a result, 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 € 2.3 billion to € 54.3 billion as at 31 December 2023. Retail savings, SME savings and current account balances all declined, driven by the changed interest rate environment, which triggered a repricing of deposit rates in the Dutch banking market.

The margin on residential mortgages remained virtually stable in a competitive domestic market. The residential mortgage portfolio, excluding IFRS value adjustments[1], increased to € 49.2 billion (year-end 2022: € 48.3 billion). Compensation received for loss of interest income due to mortgage prepayments declined to € 25 million compared to € 70 million in 2022, as mortgage rates rose significantly and the mortgage refinancing market contracted. Treasury-related interest income decreased due to a shift to other results on financial instruments, an item that is part of other income.

Net fee and commission income
Gross fee and commission income rose by € 17 million to € 171 million (+11%), while total fee and commission expenses increased by € 4 million to € 107 million (+4%). On balance, net fee and commission income rose by € 13 million to € 64 million (+25%), mainly due to higher fees for basic banking services. In addition, gross fee income was up as customer due diligence-related costs were partially passed on to SME customers as from the fourth quarter of 2022. Management fees were slightly below the level of 2022 as a result of lower average assets under management. However, at year-end 2023 assets, under management ended up at € 4.2 billion, an increase of € 0.3 billion year-on-year that was driven by higher stock markets.

Investment income
Investment income amounted to € 54 million negative, compared to € 8 million negative in 2022. In both years, 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. The loss in 2023 was mainly driven by the sale of bonds.

Other results on financial instruments
Other results on financial instruments increased by € 31 million to € 101 million mainly driven by a shift of treasury-related interest income to other results on financial instruments. This reflected activities to benefit from favourable FX swap interest rate differentials. These higher treasury results were largely offset by lower results on interest rate swaptions used for hedging purposes. Results in 2023 included a loss of € 8 million, while 2022 had included a € 46 million gain due to a sharp rise in interest rates combined with high market volatility.

[1] Consisting of fair value adjustments from hedge accounting and amortisations.

Total expenses

Operating expenses

in € millions	FY23	FY22	Change	2H23	1H23
Staff costs	487	383	27%	253	234
Depreciation of (in)tangible assets	23	22	5%	12	11
Other operating expenses	298	250	19%	154	144
Of which regulatory levies	*42*	*69*	*-39%*	*18*	*24*
Total operating expenses	**808**	**655**	**23%**	**419**	**389**
Release of restructuring provision - staff costs	--	**-23**		--	--
Adjusted operating expenses	**808**	**678**	**19%**	**419**	**389**
Cost/assets ratio as a % of average assets[1]	1.06%	0.79%		1.11%	1.00%
Adjusted cost/assets ratio as a % of average assets[1]	1.06%	0.83%		1.11%	1.00%
FTEs					
Number of internal FTEs	3,449	3,123	10%	3,449	3,262
Number of external FTEs	958	764	25%	958	904
Total number of FTEs	**4,407**	**3,887**	**13%**	**4,407**	**4,166**

1 For the measurement methodology of these KPIs, reference is made to the Section Reconciliation of alternative performance measures on page 34 of this report.

Total operating expenses rose by € 153 million to € 808 million (+23%). In 2022, operating expenses were positively impacted by an incidental item, consisting of a € 23 million release of the restructuring provision related to the transformation into an agile organisation.

Excluding incidental items, total operating expenses increased by € 130 million (+19%), despite a € 27 million decrease in regulatory levies. Regulatory levies amounted to € 42 million (2022: € 69 million), of which € 10 million was linked to the resolution fund contribution (2022: € 14 million), and € 32 million to the ex-ante DGS contribution (2022: € 55 million). The lower DGS contribution was mainly driven by a refinement of the calculation basis and a partial reversal of last year's contribution.

Excluding incidental items and regulatory levies, total operating expenses increased by € 157 million (+26%), of which € 81 million consisted of higher staff costs and € 76 million of higher other operating expenses and depreciation. Staff costs went up as a result of an increase in total FTEs and wage inflation. Compared to year-end 2022, the total number of FTEs grew by 520 to 4,407, mainly reflecting initiatives in the domains of IT, compliance and risk. The number of internal FTEs increased by 326 to 3,449 and that of external FTEs by 194 to 958.

The € 76 million increase in other operating expenses and depreciation, excluding regulatory levies, was mainly driven by higher IT and consultancy costs, reflecting investments in customer integrity, banking regulations and the IT foundation. In addition, other operating expenses included a provision of € 2 million related to the improvement of our Systematic Integrity Risk Analysis (SIRA).
Driven by higher (adjusted) expenses, the adjusted cost/assets ratio increased to 106 bps, compared to 83 bps in 2022.

Impairment charges (reversals) of financial assets

in € millions	FY23	FY22	Change	2H23	1H23
Investments	--	8		1	-1
Loans and advances to banks	-2	5		1	-3
Loans and advances to customers	16	39		4	12
Of which residential mortgages	*9*	*17*		*--*	*9*
Of which consumer loans	*-2*	*-3*		*-1*	*-1*
Of which SME loans	*-1*	*2*		*1*	*-2*
Of which other corporate and government loans	*10*	*23*		*4*	*6*
Other	1	--		1	--
Total impairment charges of financial assets	**15**	**52**	**-71%**	**7**	**8**
Cost of risk of total loans[1]	0.03%	0.08%		0.02%	0.05%
Cost of risk of residential mortgages[1]	0.02%	0.04%		0.00%	0.04%
Cost of risk of SME loans[1]	-0.09%	0.21%		0.11%	-0.41%

1 For the measurement methodology of these KPIs, reference is made to the Section Reconciliation of alternative performance measures on page 35 of this report.

Total impairment charges of financial assets amounted to € 15 million, compared to € 52 million in 2022. For a more detailed description of loan loss provisioning, see the Section on Credit risk.

Residential mortgages
Impairment charges on residential mortgages decreased to € 9 million, compared to € 17 million in 2022. In both years, the modelled provision increased but the increase in 2022 was substantially higher due a deteriorated macroeconomic outlook at that time. In addition, 2022 impairment charges included a charge related to model improvements and a scope extension for high-risk interest-only mortgages. In 2023, there was a (smaller) increase in the modelled provision, which also includes an effect of EUR 11 million related to prior year. In addition, the provision increased as a result of lower house prices, which led to a shift of mortgages to higher LtV buckets.

The lower increase in the 2023 modelled provision was partly offset by a swing in the management overlay; there was a small increase in the management overlay as a result of the inclusion of a newly introduced overlay for the de-risking of the interest-only mortgage portfolio, partly offset by a partial release of the overlay to account for the risk of high inflation affecting our customers' ability to repay their loans. In 2022, the management overlay decreased as a result of the release of a Covid-19-related overlay and the release of a general overlay that was introduced to absorb a decrease in house prices.

Incurred credit losses on residential mortgages were negligible (zero bps) in both years, evidencing the strong underlying credit quality of our portfolio.

Consumer loans
Impairment charges on consumer loans consisted of a reversal of € 2 million, compared to a reversal of € 3 million in 2022.

SME loans
Impairment charges on SME loans consisted of a reversal of € 1 million, compared to a charge of € 2 million in 2022. The credit quality of the SME loan portfolio remained sound and incurred credit losses were at a very low level.

Other corporate and government loans
Impairments charges on other corporate and government loans declined by € 13 million to € 10 million, in both years consisting of impairments on a few individual corporate loans as a result of increased credit risk.

Loans to banks
Impairment charges on loans to banks consisted of a reversal of € 2 million (2022: € 5 million charge). In 2023, credit spreads decreased, while the year 2022 saw an increase.

Investments
Impairment charges on investments were nil. In 2022, increased credit spreads on our fixed-income portfolio had resulted in a charge of € 8 million.

Taxation
De Volksbank recognised € 160 million in corporate income tax, corresponding to an effective tax rate of 27.1% (2022: 26.0%), above the statutory rate of 25.8%. This was the result of the interest deduction limitation on borrowed capital (thin cap rule) and a small prior year's tax adjustment, largely offset by the tax impact from interest expenses related to AT1 capital securities, which are recognised directly in shareholders' equity.

Results of the second half of 2023 compared to the first half of 2023
Net result in the second half of 2023 amounted to € 183 million, a decrease of € 65 million compared to € 248 million in the first half.

Total income decreased by € 56 million and total operating expenses increased by € 30 million. Impairment charges of financial assets were virtually stable.

Net interest income decreased by € 21 million to € 641 million (-3%), driven by a lower margin on deposits.

Net fee and commission income declined by € 2 million to € 31 million, mainly due to higher paid franchise fees, partly compensated by higher fees for basic banking services.

Investment income was € 49 million negative, compared to € 5 million negative in the first half, in both periods consisting of realised results on fixed-income investments. The loss in the second half of 2023 was driven by the sale of investments as part of optimising risk-returns within our investment portfolio.

Other results on financial instruments increased by € 13 million to € 57 million, mainly driven by higher treasury results.

Total operating expenses rose by € 30 million to € 419 million, despite a € 6 million reduction in regulatory levies as the annual resolution fund contribution of € 10 million was recognised in the first half. Excluding regulatory levies, total operating expenses rose by € 36 million. This was mainly driven by additional investments in customer integrity-related projects, banking regulations and the IT foundation, resulting in higher staff, IT and consultancy costs. Marketing costs were also up compared to the first half of 2023.

Impairment charges of financial assets decreased slightly by € 1 million to € 7 million. Impairment charges on residential mortgages decreased from € 9 million in the first half to nil, mainly reflecting a lower modelled provision as the macroeconomic outlook improved. In addition, the management overlay to account for the risk of high inflation decreased. The impact from these factors was partly offset by the inclusion of a management overlay to cover the increased credit risk of interest-only mortgages.

Impairment charges on SME loans increased by € 3 million, from a reversal of € 2 million in the first half of 2023 to a charge of € 1 million. Impairment charges on loans to banks also showed a swing of € 4 million as the first half of 2023 saw a reversal of € 3 million resulting from decreasing credit spreads, while the second half included a small charge of € 1 million.

Risk management

Credit risk

Key figures

in € millions	31-12-2023 Gross carrying amount	31-12-2023 Provision for credit losses	31-12-2023 Book value	31-12-2022 Gross carrying amount	31-12-2022 Provision for credit losses	31-12-2022 Book value
Investments[1]	**6,740**	**-7**	**6,733**	**5,598**	**-7**	**5,591**
Loans and advances to banks[1]	**4,675**	**-4**	**4,671**	**6,889**	**-5**	**6,884**
Residential mortgages	49,201	-118	49,083	48,272	-98	48,174
Consumer loans	59	-8	51	54	-9	45
SME loans	1,235	-22	1,213	1,085	-24	1061
Other corporate and government loans	1,850	-34	1,816	1,749	-23	1,726
IFRS value adjustments[2]	-1,316	--	-1,316	-2,040	--	-2,040
Loans and advances to customers	**51,029**	**-182**	**50,847**	**49,120**	**-154**	**48,966**
Off-balance sheet items	2,862	-11	2,851	2,998	-14	2,984
Total on and off-balance sheet items for loans and advances to customers	**53,891**	**-193**	**53,698**	**52,118**	**-168**	**51,950**
Total	**65,306**	**-204**	**65,102**	**64,605**	**-180**	**64,425**

Credit risk indicators	31-12-2023	31-12-2022
Loans and advances to customers		
Loans and advances in stage 3	558	549
Stage 3 ratio[3]	1.1%	1.1%
Stage 3 coverage ratio[4]	15.8%	12.8%
Total loans and advances in arrears[5]	0.8%	0.7%
Residential mortgages		
Residential mortgages in stage 3	473	453
Stage 3 ratio[3]	1.0%	0.9%
Stage 3 coverage ratio[4]	8.9%	6.4%
Incurred loss ratio (in bps)[6]	0	0
Residential mortgages in arrears[5]	0.8%	0.7%
Weighted average indexed LtV	54%	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 Loans in arrears as a percentage of total loans.
6 Annualised write-offs for the period divided by the average portfolio.

Loans and advances to customers
In 2023, gross loans and advances to customers rose by € 1.9 billion to € 51.0 billion. Fair value adjustments from hedge accounting increased by € 0.7 billion due to the decrease in interest rates. Excluding the fair value adjustments and amortisations, gross growth amounted to € 1.2 billion. Gross residential mortgage loans grew by € 0.9 billion.

In addition, the total outstanding amount of SME loans went up by € 150 million and other corporate and government loans by € 101 million, while consumer loans decreased by € 5 million.

The credit quality of the total loans and advances to customers remained virtually unchanged. Loans and advances in arrears as a percentage of total loans was 0.8%, slightly higher compared to year-end 2022 and the stage 3 ratio remained unchanged at 1.1%. The stage 2 ratio for residential mortgages did go up, mainly attributable to an increase in stage 2 interest-only mortgages and increased Loan to Values (LtVs). The amounts of incurred losses due to write-offs remained low in all portfolios.

The provision for credit losses increased to € 193 million (year-end 2022: € 168 million), mostly due to an increase in the management overlay for interest-only mortgages in particular, and an additional provision for a few individual corporate customers in stage 3.

Management overlay
When credit-related dynamics in the macroeconomic environment are not part of our credit risk models, we apply a management overlay. This overlay increased to € 54 million (year-end 2022: € 51 million).

The management overlay concerning residential mortgages increased to € 51 million (year-end 2022: € 47 million). This rise was mainly driven by the increased risk of the interest-only mortgage portfolio, resulting in an increase from € 8 million to € 34 million. Furthermore, we added a € 1 million management overlay to cover the risk of higher interest rates.

The additions to the management overlay were offset by the complete release of the management overlay to mitigate the risk of lower house prices due to the upward revision of the house price index (HPI) in our macroeconomic forecasts (€ 4 million at year-end 2022). Furthermore, the management overlay to account for the risk of high inflation decreased to € 9 million (year-end 2022: € 24 million). We refined this overlay, which now better reflects the risks related to vulnerable customers. Despite having more customers in scope, the overlay decreased due to lower estimated losses in case of these specific customer groups running into financial difficulties. Finally, the overlay for other model limitations decreased from € 11 million to € 7 million.

For 2023 we maintained a general management overlay of € 3 million for SME customers who might be affected by high inflation (year-end 2022: € 4 million).

There is no management overlay in place for consumer loans nor for other corporate and government loans.

We review the elements of the management overlay at least every quarter.

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

	2023			2022		
in € millions	Modelled provision for credit losses	Management overlay[2]	Total provision for credit losses	Modelled provision for credit losses	Management overlay[2]	Total provision for credit losses
Residential mortgages	73	51	124	59	47	106
Consumer loans	11	--	11	13	--	13
SME loans	20	3	23	21	4	25
Other corporate and government loans	35	--	35	24	--	24
Total	**139**	**54**	**193**	**117**	**51**	**168**

1 Including the provision for credit losses for off-balance sheet items.
2 Post-model adjustments

Forward-looking information

Macroeconomic scenarios used in credit risk models

The macroeconomic scenarios centre on the ECB's interest rate policy and the resulting monetary and financing conditions, leaving economic growth subpar in the coming quarters and picking up only slightly later in 2024. Trend growth will be reached no earlier than in 2025. In view of the better-than-expected inflation figures and the unanimous ECB decision in October 2023 to keep rates stable, the risk of the ECB raising rates too far - and causing a rather severe recession (the downward scenario) - has decreased. For that reason, the weight of the downward scenario was lowered by 5 percentage points to 35% in favour of the base scenario (55%). The upward scenario is based on the assumption that Europe's energy markets will become calmer as negotiations between Russia and Ukraine lead to the concrete prospect of a prolonged truce between the countries. Energy prices will fall gradually and the resulting acceleration of GDP growth will lead to economic overheating, fuelling underlying inflation. In the baseline scenario the unemployment rate will rise only moderately in 2024 due to the tight labour market, despite the Dutch economy's poor GDP performance. House prices are set to stage a recovery as mortgage rates are not expected to rise any further, underpinning confidence among home buyers, whereas stronger wage growth will improve 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 at year-end 2023 and 2022 to the upward, baseline and downward scenario weights, keeping the management overlay parameters unchanged. Looking at the different scenarios as at 31 December 2023, assuming a 100% weighting, we see that the provision for residential mortgages would increase by € 33 million in a downward scenario, decrease by € 29 million in an upward scenario and decrease by € 16 million in a baseline scenario. The large decrease in the upward scenario, as well as the increase in the downward scenario - compared to actual provisioning levels - can be explained by the gap in the HPI between the upward and downward scenario and by the weights used. The baseline scenario is weighted for 55% and the downward scenario for 35%, 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 € 2 million in a downward scenario, decrease by € 1 million in an upward scenario and remain virtually unchanged 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 31 December 2023[1]

	Macroeconomic parameter	2023	2024	2025	2026	2027	Weight	Unweighted ECL	Reported ECL
Residential mortgages									
Up	Relative change in house price index	0.1%	4.3%	4.0%	3.6%	3.6%	10%	€ 95 million	€ 124 million[2]
	Unemployment rate	3.7%	3.9%	3.6%	3.7%	3.7%			
Base	Relative change in house price index	0.1%	1.4%	2.6%	3.6%	3.6%	55%	€ 108 million	
	Unemployment rate	3.7%	4.2%	4.5%	4.5%	4.5%			
Down	Relative change in house price index	-1.2%	-3.9%	-1.0%	3.6%	3.6%	35%	€ 157 million	
	Unemployment rate	4.2%	5.5%	5.6%	5.4%	5.3%			
SME loans									
Up	Unemployment rate	3.7%	3.9%	3.6%	3.7%	3.7%	10%	€ 22 million	€ 23 million[2]
	Number of bankruptcies (monthly)	304	358	359	358	355			
Base	Unemployment rate	3.7%	4.2%	4.5%	4.5%	4.5%	55%	€ 23 million	
	Number of bankruptcies (monthly)	316	443	486	486	482			
Down	Unemployment rate	4.2%	5.5%	5.6%	5.4%	5.3%	35%	€ 25 million	
	Number of bankruptcies (monthly)	325	514	640	649	644			

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

	Macroeconomic parameter	2022	2023	2024	2025	2026	Weight	Unweighted ECL	Reported ECL
Residential mortgages									
Up	Relative change in house price index	7.0%	0.9%	4.0%	3.8%	3.8%	15%	€ 71 million	€ 106 million[2]
	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	
	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	3.7%	3.9%	3.9%	3.9%	3.9%	15%	€ 23 million	€ 25 million[2]
	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	
	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 mortgages

De Volksbank's residential mortgage portfolio, excluding IFRS value adjustments, grew to € 49.2 billion (year-end 2022: € 48.3 billion) as new production exceeded redemptions. Whereas mortgage rates increased sharply in 2022, at year-end 2023 they were lower year-on-year. Although average mortgage rates stabilised in the first half of 2023, they declined in the fourth quarter. However, current mortgage rate levels are still not attractive enough for most homeowners to refinance their mortgage. The shift towards 10-year fixed mortgage rates continued. In 2023, 70% of new mortgage production consisted of mortgages with a 10-year fixed mortgage rate (2022: 36%). As a result of the cooling down of the mortgage market, de Volksbank's new mortgage production declined to € 5.1 billion (2022: € 7.4 billion).

The market share of new mortgages stood at 5.7%, slightly up compared to 2022 (5.4%). Repayments amounted to € 4.3 billion, compared to € 6.3 billion in 2022, mainly as a result of the decreased mortgage refinancing volumes. Interest rate renewals amounted to € 0.9 billion, down compared to 2022 (€ 1.9 billion), largely because of a reduction in early renewals.

The percentage of customers taking out NHG-guaranteed loans has been virtually flat over the past years. The weighted average indexed LtV of the residential mortgage portfolio went up to 54%, 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.

In 2023, the credit loss provision for residential mortgages rose to € 118 million, from € 98 million at year-end 2022. The modelled provision increased by € 14 million to € 73 million and the management overlay by € 4 million to € 51 million, both because of higher provisions for interest-only mortgages. This was partly offset by a partial release of the management overlay to account for the risk of high inflation affecting our customers' ability to repay their loans. The percentage of residential mortgages in arrears rose only slightly to 0.8%, but exposures in arrears itself increased by almost 20%.

Stage 2 exposure increased from € 2,320 million to € 2,590 million as a result of deteriorated LtVs, which resulted in an inflow of high-risk interest-only mortgages and a change in the credit risk of residential mortgages due to significant increase in credit risk (SICR). The stage 2 provision increased mainly due to inflows of loans triggered by a SICR assessment, more loans in arrears and a higher stage 2 management overlay for high-risk interest-only mortgages.

Stage 3 exposure also rose slightly, from € 453 million in 2022 to € 473 million, as did the stage 3 coverage ratio: from 6.4% to 8.9%. Stage 3 provisions increased mainly as a result of the gross inflow and change in credit risk largely caused by the duration in default and deteriorating LtVs in the first half of 2023.

Consumer loans

The consumer loan portfolio remained stable and comprises three products: personal loans, revolving credit and overdraft facilities. The increasing inflow of new personal loans mitigated the portfolio's downward trend resulting from the winding down of the revolving credit portfolio and the slightly lower number of overdraft facilities.

In 2023, the credit quality of the consumer loan portfolio did not change significantly. The total provision for credit losses decreased from € 9 million in 2022 to € 8 million, mainly due to write-offs. Coverage ratios over the stages remained relatively stable. The provision for off-balance sheet items decreased by € 1 million to € 3 million.

SME loans

As part of our focus on the financeability of SME companies in the Netherlands, we have further simplified our origination process and expanded our distribution channels offering customers a mix of personal contact and digital comfort. This resulted in new loan originations totalling € 260 million, and our portfolio grew from € 1,085 million to € 1,235 million in 2023.

After the Covid-19 pandemic, society was confronted with new geopolitical and macroeconomic factors, such as the war in Ukraine and higher energy and raw material prices. But although there was an increase in entrepreneurs who closed their businesses and a rise in bankruptcies, we saw no effect of this on our portfolio. We closely monitor the impact of inflation and the repayment of the delayed tax payments following the Covid-19 pandemic on our customers.

The credit loss provision for SME loans declined from € 24 million in 2022 to € 22 million, mainly thanks to recoveries from stage 3 or transfers within stage 3 to probation. Although the credit quality of the portfolio remained reasonable and incurred credit losses on SME loans were minimal, stage 2 exposure rose due to an increase in exposures in arrears.

Other corporate and government loans

Other corporate and government loans consist mainly of the loan portfolio of ASN Bank, of which 77% consists of loans in the sustainable industry, such as solar and wind energy companies. The remaining part relates to private placement loans to local authorities and guaranteed loans to housing associations and hospitals.

In 2023, the total credit loss provision for other corporate and government loans rose to € 34 million (2022: € 23 million), mainly due to the increase in the stage 3 provision for a few individual corporate customers.

Loans and advances to customers by stage

in € millions	2023 Gross carrying amount	2023 Provision for credit losses	2023 **Book value**	2023 Stage ratio	2023 Coverage ratio	2022 Gross carrying amount	2022 Provision for credit losses	2022 **Book value**	2022 Stage ratio	2022 Coverage ratio
Stage 1										
Residential mortgages	46,138	-37	46,101	93.8%	0.1%	45,499	-38	45,461	94.3%	0.1%
Consumer loans	18	--	18	30.5%	0.0%	22	--	22	40.7%	0.0%
SME loans	1,069	-5	1,064	86.6%	0.5%	933	-6	927	86.0%	0.6%
Other corporate and government loans	1,746	-2	1,744	94.4%	0.1%	1,665	-1	1,664	95.2%	0.1%
Total loans and advances to customers stage 1	**48,971**	**-44**	**48,927**	**93.6%**	**0.1%**	**48,119**	**-45**	**48,074**	**94.1%**	**0.1%**
Stage 2										
Residential mortgages	2,590	-39	2,551	5.3%	1.5%	2,320	-31	2,289	4.8%	1.3%
Consumer loans	33	-1	32	55.9%	3.0%	23	-1	22	42.6%	4.3%
SME loans	127	-9	118	10.3%	7.1%	106	-7	99	9.8%	6.6%
Other corporate and government loans	66	-1	65	3.6%	1.5%	43	--	43	2.5%	0.0%
Total loans and advances to customers stage 2	**2,816**	**-50**	**2,766**	**5.4%**	**1.8%**	**2,492**	**-39**	**2,453**	**4.9%**	**1.6%**
Stage 3										
Residential mortgages	473	-42	431	1.0%	8.9%	453	-29	424	0.9%	6.4%
Consumer loans	8	-7	1	13.6%	87.5%	9	-8	1	16.7%	88.9%
SME loans	39	-8	31	3.2%	20.5%	46	-11	35	4.2%	23.9%
Other corporate and government loans	38	-31	7	2.1%	81.6%	41	-22	19	2.3%	53.7%
Total loans and advances to customers stage 3	**558**	**-88**	**470**	**1.1%**	**15.8%**	**549**	**-70**	**479**	**1.1%**	**12.8%**
Total stage 1, 2 and 3										
Residential mortgages	49,201	-118	49,083		0.2%	48,272	-98	48,174		0.2%
Consumer loans	59	-8	51		13.6%	54	-9	45		16.7%
SME loans[1]	1,235	-22	1,213		1.8%	1,085	-24	1,061		2.2%
Other corporate and government loans	1,850	-34	1,816		1.8%	1,749	-23	1,726		1.3%
Total loans and advances to customers excluding IFRS value adjustments	**52,345**	**-182**	**52,163**		**0.3%**	**51,160**	**-154**	**51,006**		**0.3%**
IFRS value adjustments[2]	-1,316		-1,316			-2,040		-2,040		
Total loans and advances to customers	**51,029**	**-182**	**50,847**		**0.4%**	**49,120**	**-154**	**48,966**		**0.3%**
Off-balance sheet items stage 1	2,772	-3	2,769		0.1%	2,938	-8	2,930		0.3%
Off-balance sheet items stage 2	76	-3	73		3.9%	47	-2	45		4.3%
Off-balance sheet items stage 3	14	-5	9		35.7%	13	-4	9		30.8%
Total off-balance sheet items[3]	**2,862**	**-11**	**2,851**		**0.4%**	**2,998**	**-14**	**2,984**		**0.5%**
Total on and off-balance sheet items for loans and advances to customers	**53,891**	**-193**	**53,698**		**0.4%**	**52,118**	**-168**	**51,950**		**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 1,201 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 € 367 million conditionally revocable; 31-12-2022: € 395 million), guarantees and repurchase commitments.

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

	Residential mortgages[1]		Consumer loans		SME loans		Other corporate and government loans		**Total loans**	
in € millions	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Opening balance	**46,232**	**48,018**	**54**	**52**	**1,085**	**830**	**1,749**	**1,777**	**49,120**	**50,677**
Originated or purchased[2]	5,090	7,417	15	12	260	321	5,976	4,868	11,341	12,618
Change in current accounts	--	--	-4	-5	13	-27	13	8	22	-24
Matured or sold[2]	-4,274	-6,364	-4	-3	-123	-39	-5,910	-4,923	-10,311	-11,329
Write-offs	--	-1	-2	-1	-1	-1	--	--	-3	-3
Change in fair value as a result of hedge accounting	690	-2,863	--	--	--	--	--	-1	690	-2,864
Amortisations	33	13	--	--	--	--	--	--	33	13
Exchange rate differences	--	--	--	--	--	--	20	21	20	21
Other movements[3]	114	12	--	-1	1	1	2	-1	117	11
Closing balance	**47,885**	**46,232**	**59**	**54**	**1,235**	**1,085**	**1,850**	**1,749**	**51,029**	**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.
3 Other movements 2023 include for residential mortgages the repurchase of DBV mortgages from SRLEV for an amount of € 78 million.

Changes in the provision for credit losses for loans and advances to customers

in € millions	Residential mortgages		Consumer loans		SME loans		Other corporate and government loans		**Total loans**		**Off-balance sheet items[1]**	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Opening balance	**98**	**73**	**9**	**10**	**24**	**23**	**23**	**1**	**154**	**107**	**14**	**13**
Transfer to stage 1	-6	-3	--	--	-3	-3	-1	--	-10	-6	--	--
Transfer to stage 2	6	4	--	-1	2	2	1	--	9	5	1	-1
Transfer to stage 3	15	4	1	1	1	2	9	22	26	29	--	1
Change in credit risk	4	-2	--	--	-1	1	--	--	3	-1	-4	-1
Originated or purchased	4	11	--	1	2	3	2	--	8	15	3	3
Matured or sold	-9	-1	--	-1	-1	-2	--	--	-10	-4	-1	-1
Change in models	--	28	--	--	--	--	--	--	--	28	--	1
Change in management overlay	6	-15	--	--	-1	-1	--	--	5	-16	-2	-1
Impairment charges (releases)	**20**	**26**	**1**	**--**	**-1**	**2**	**11**	**22**	**31**	**50**	**-3**	**1**
Write-offs	--	-1	-2	-1	-1	-1	--	--	-3	-3	--	--
Closing balance	**118**	**98**	**8**	**9**	**22**	**24**	**34**	**23**	**182**	**154**	**11**	**14**
Of which: management overlay	*48*	*42*	--	--	*3*	*4*	--	--	*51*	*46*	*3*	*5*
Impairment charges (releases)	20	26	1	--	-1	2	11	22	31	50	-3	1
Recoveries and other charges through P&L	-9	-10	-2	-2	--	--	--	--	-11	-12	--	--
Total impairment charges (releases)[2]	**11**	**16**	**-1**	**-2**	**-1**	**2**	**11**	**22**	**20**	**38**	**-3**	**1**

1 Off-balance sheet: liabilities from irrevocable facilities, guarantees and repurchase commitments. The provision for credit losses of off-balance sheet items is reported in Provisions.

2 The total impairment charges (releases) for the period excludes charges (releases) for loans and advances to banks, investments and others, these amount to a release of € 1 million (2022: € 13 million charge).

Loans and advances to customers in arrears

in € millions	Gross carrying amount 2023	2022	No arrears 2023	2022	≤ 30 days in arrears 2023	2022	> 30 days ≤ 90 days in arrears 2023	2022	> 90 days in arrears 2023	2022	% in arrears 2023	2022
Residential mortgages												
Stage 1	46,138	45,499	46,109	45,473	16	11	3	5	10	10	0.1%	0.1%
Stage 2	2,590	2,320	2,390	2,163	40	33	86	63	74	61	7.7%	6.8%
Stage 3	473	453	324	321	12	7	27	31	110	94	31.5%	29.1%
Total residential mortgages	**49,201**	**48,272**	**48,823**	**47,957**	**68**	**51**	**116**	**99**	**194**	**165**	**0.8%**	**0.7%**
Consumer loans												
Stage 1	18	22	18	22	--	--	--	--	--	--	0.0%	0.0%
Stage 2	33	23	29	19	1	1	1	1	2	2	12.1%	17.4%
Stage 3	8	9	1	1	--	--	--	--	7	8	87.5%	88.9%
Total consumer loans	**59**	**54**	**48**	**42**	**1**	**1**	**1**	**1**	**9**	**10**	**18.6%**	**22.2%**
SME loans												
Stage 1	1,069	933	1,068	931	1	2	--	--	--	--	0.1%	0.2%
Stage 2	127	106	96	86	16	6	5	5	10	9	24.4%	18.9%
Stage 3	39	46	22	33	2	5	3	2	12	6	43.6%	28.3%
Total SME loans	**1,235**	**1,085**	**1,186**	**1,050**	**19**	**13**	**8**	**7**	**22**	**15**	**4.0%**	**3.2%**
Other corporate and government loans												
Stage 1	1,746	1,665	1,746	1,665	--	--	--	--	--	--	0.0%	0.0%
Stage 2	66	43	66	43	--	--	--	--	--	--	0.0%	0.0%
Stage 3	38	41	38	41	--	--	--	--	--	--	0.0%	0.0%
Total other corporate and government loans	**1,850**	**1,749**	**1,850**	**1,749**	**--**	**--**	**--**	**--**	**--**	**--**	**0.0%**	**0.0%**
Total loans and advances to customers excluding IFRS value adjustments	**52,345**	**51,160**	**51,907**	**50,798**	**88**	**65**	**125**	**107**	**225**	**190**	**0.8%**	**0.7%**
IFRS value adjustments[1]	-1,316	-2,040	--	--	--	--	--	--	--	--		
Total loans and advances to customers	**51,029**	**49,120**	**51,907**	**50,798**	**88**	**65**	**125**	**107**	**225**	**190**		

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

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 weaker financial position and/or in reputational damage. Operational risks have become an increasingly material factor in our risk profile. Therefore, we continually measure the results of process and system controls to further improve them. De Volksbank also conducted an ESG Risk Assessment in 2023. The Executive Committee (ExCo) dedicates a great deal of attention to managing and controlling operational risks. De Volksbank has a Risk Control Framework in place to identify risks and to closely monitor events, and incidents for status and solution. Overall, the operational risk score was outside our risk appetite during 2023. To meet the risk appetite requirements for relevant operational risk subtypes we set up dedicated 'path to green' programmes, which are currently being executed.

Customer integrity risk

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 counter the financing of terrorism (CFT) and to ensure compliance with sanctions and tax regulations. We consider the gatekeeper function to be an integral part of our business operations. In 2023, de Volksbank continued to increase investments in this domain.

De Volksbank is determined to take all necessary steps to fulfil its gatekeeper responsibilities to which end we closely follow updated legislation. Legislation is the basis for de Volksbank's Customer Integrity Policy Framework, which is kept up to date and is continuously monitored by the Compliance function.

In 2022, DNB conducted a supervisory review on customer integrity at de Volksbank and identified several shortcomings. DNB concluded among other things that de Volksbank did not sufficiently identify and assess its ALM/CFT risks. Also, the results of the identification and assessment of its integrity risks were not up to date according to DNB. 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 violates the Dutch Anti-money laundering and anti-terrorist financing Act (*Wwft*), and thus imposed an instruction to remediate the Systematic Integrity Risk Analysis (SIRA) by 1 April 2024. DNB also announced its intention to start an internal procedure to impose an administrative fine.

To address these findings, as well as the instruction imposed by and the expectations of DNB, de Volksbank needs an organisation-wide comprehensive remediation plan to remediate and implement a future-proof and robust customer integrity framework. Remediation of the SIRA is part of this plan. The focus is on building a fit-for-purpose and robust SIRA framework that serves to methodically identify and assess de Volksbank's customer integrity risks and to enable the implementation of targeted controls to help mitigate any such risks. In view of the above, de Volksbank has formed a provision of € 2 million for incremental costs to be incurred for the remediation activities related to SIRA. De Volksbank expects to have addressed the instruction imposed by DNB to remediate the SIRA by 1 April 2024.

DNB expects that all identified shortcomings will be permanently and structurally remediated and captured in a comprehensive remediation plan. Consequently, in the period ahead, de Volksbank will make additional investments in this domain, in relation to both staff - significant efforts are being made to improve and expand customer integrity staffing - and systems. A Chief Financial Crime Officer (CFCO) will join our Executive Committee.

In January 2024, the first remedial actions were elaborated on and shared with DNB. A number of actions have already been addressed. Some of the remediation activities will be carried out with the help of external parties. In the coming period, de Volksbank will further concretise the comprehensive remediation plan. As from 31 December 2023, a legal obligation exists to remediate *Wwft* non-compliance together with the SIRA. However, no reliable estimate of the related additional investments could be made and, hence, no provision was recognised in this respect.

DNB is closely monitoring the progress in the aforementioned areas and, depending on the progress of the remediation, may decide to proceed with additional measures, which may have a financial impact.

In addition to the above measures, de Volksbank will continue to execute the remediation project relating to the customer screening and transaction screening systems, which will remediate findings from the regulatory testing of our screening systems conducted by DNB in the second half of 2022. This includes closely monitoring the various EU packages of sanctions measures, as a consequence of which we severely restricted transactions with Russia and Belarus and with the occupied territories of Ukraine.

Capital management

Capitalisation

Capitalisation

in € millions	31-12-2023	30-6-2023	31-12-2022
Total equity	4,091	3,864	3,708
Non-eligible interim profits	-332	-248	-153
Additional Tier 1 capital	-298	-298	-298
Total equity for CRD purposes	**3,461**	**3,318**	**3,257**
Cashflow hedge reserve	-15	-16	-17
Other prudential adjustments	-5	-5	-5
Total prudential filters	**-20**	**-21**	**-22**
Intangible assets	-5	-6	-6
IRB shortfall[1]	-101	-109	-57
Additional deductions of CET1 capital due to Article 3 CRR	-17	-15	-71
Total capital deductions	**-123**	**-130**	**-134**
Total regulatory adjustments to total equity	**-143**	**-151**	**-156**
CRD CET1 capital	**3,318**	**3,167**	**3,101**
Additional Tier 1 capital	298	298	298
Tier 1 capital	**3,616**	**3,465**	**3,399**
Eligible Tier 2	500	500	500
IRB Excess[1]	--	--	--
Tier 2 capital	**500**	**500**	**500**
Total capital	**4,116**	**3,965**	**3,899**
Risk-weighted assets	**16,470**	**15,558**	**15,306**
Risk exposure as defined by the CRR	70,375	71,727	71,716
CET1 ratio	**20.2%**	**20.4%**	**20.3%**
Tier 1 ratio	22.0%	22.3%	22.2%
Total capital ratio	25.0%	25.5%	25.5%
Leverage ratio	5.1%	4.8%	4.7%

1 The IRB shortfall/excess is the difference between the expected loss under the CRR/CRD directives and the IFRS provision for the residential mortgage portfolio.

De Volksbank's CET1 ratio remained virtually unchanged at 20.2% (year-end 2022: 20.3%), well above our revised target of at least 17%.

We have revised our CET1 ratio target to a level of at least 17%, relative to the previous target of at least 19%. The revision is explained by a adjusted management buffer given reduced uncertainty regarding the impact of the Basel IV implementation in EU rules on the bank's capital planning. The new CET1 ratio target of at least 17% still includes an ample management buffer above the current 10.7% CET1 overall capital requirement, to withstand severe stress scenarios and to provide flexibility to absorb potentially higher capital requirements.

In 2023, total equity rose by € 383 million to € 4,091 million. Available distributable items[1] amounted to € 3,478 million (2022: € 3,158 million). On the one hand, total equity declined as a result of the 2022 dividend payment in the amount of € 90 million on the other hand, it rose mainly as a result of the € 431 million net profit for 2023 and a € 63 million increase in the revaluation reserve.

To determine total equity for CRD 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 CET1 capital from the non-eligible (interim) profits as at year-end 2022 of € 153 million, after the deduction of € 90 million for the dividend payment.

Profit not yet eligible as equity for CRD purposes for 2023, namely € 332 million, is made up of part of the net profit for the first half of 2023 (€ 149 million) and the full net profit for the second half of 2023 (€ 183 million).

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

To determine CET1 capital, total equity for CRD purposes is subjected to several regulatory adjustments. At year-end 2023 these regulatory adjustments amounted to € 143 million negative (2022: € 156 million negative), consisting mainly of a deduction of € 101 million related to the IRB shortfall and a deduction of € 17 million due to the Article 3 CRR deduction following the ECB's guidelines on non-performing exposures (NPEs).

The € 101 million IRB shortfall is the result of our Advanced Internal Ratings Based (AIRB) model calculations. De Volksbank avails itself of an AIRB model entitled Particuliere Hypotheken Interne Rating Model (PHIRM) to determine the credit risk in its residential mortgage portfolio. This model is continuously being redeveloped to comply with new rules and regulations.

Within CET1 capital, € 51 million of the Article 3 CRR deduction as at year-end 2022 has been translated into additional AIRB model conservatism in the determination of

[1] Equalling the sum of share premium, retained earnings and other reserves.

the IRB shortfall as at year-end 2023. This part of the Article 3 CRR deduction as at year-end 2022 was related to the use of our new data warehouse, which still requires supervisory review before actual use in expected loss and AIRB RWA calculations.

Our CRD CET1 capital rose by € 217 million to € 3,318 million.

Risk-weighted assets (RWA)

in € millions	31-12-2023	30-6-2023	31-12-2022
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based (AIRB)	10,079	10,147	8,435
Credit risk - standardised approach (SA)	4,430	3,771	4,442
Securitisations	13	10	13
Operational risk	1,695	1,428	1,428
Market risk	193	150	236
Credit Valuation Adjustment (CVA)	60	52	50
Additional risk exposure amounts due to Article 3 CRR	--	--	702
Total RWA	**16,470**	**15,558**	**15,306**

In 2023, total RWA increased by € 1.2 billion to € 16.5 billion. This increase was mainly due to a € 0.9 billion increase in RWA related to residential mortgages. Within RWA, the Article 3 CRR add-on as at year-end 2022 has been translated into additional conservatism on top of the calculated model-based AIRB RWA. AIRB RWA also increased due to the impact of a slight deterioration of our customers' average credit quality given the worsened macroeconomic conditions, mainly in the first half of 2023. Furthermore, we applied an add-on of € 83 million RWA with respect to our interest-only mortgages. These items explain the increase of the average risk weighting of residential mortgages to 19.7% from 18.2% at year-end 2022[2].

RWA for credit risk calculated according to the Standardised Approach (SA) remained virtually unchanged at € 4.4 billion. Within the SA, the RWA for SME loans went up by € 171 million, mainly caused by not longer applying loan splitting[3] for a substantial part of the portfolio. This RWA increase is largely offset by the reduction of RWA for Central governments and central banks by € 122 million.

The RWA for operational risk increased by € 267 million to € 1.7 billion, mainly due to increased revenues in 2023. The RWA for market risk decreased by € 43 million. The RWA for the Credit Valuation Adjustment and securitisation notes was up slightly to a total of € 73 million.

Leverage ratio

The leverage ratio increased to 5.1%, from 4.7% at year-end 2022, due to the € 217 million increase in CET1 capital as well as a decrease in the leverage ratio exposure (LRE) by € 1.3 million to € 70.4 billion.

The 5.1% leverage ratio is well above the regulatory requirement of 3.0% and above our target of at least 4.5%.

Developments in capital requirements

Countercyclical capital buffer in the Netherlands

In Europe, the countercyclical capital buffer (CCyB) aims to ensure that banking sector capital requirements take account of the macro-financial environment, i.e. to increase banks' resilience as cyclical risks build up, and to release the buffer as soon as these risks materialise. On 29 March 2023, DNB confirmed the previously announced increase in the CCyB in the Netherlands from 0% to 1%, applicable as from 25 May 2023. After this, DNB announced on 31 May 2023 that the current risk picture gives reason to further increase the CCyB to 2% starting from 31 May 2024[4].

O-SII buffer

On 31 May 2023, DNB announced a reduction of de Volksbank's O-SII buffer from 1.0% to 0.25% with effect from 31 May 2024. The O-SII buffers of other systemically important banks were also reduced as from the same date. Lower O-SII buffers better reflect that large banks pose less systemic risk to national economies compared to 2016, the year in which the O-SII buffers were implemented. This is explained by the reduced size of the Dutch banking sector relative to the economy, and by progress made on European regulation and integration, such as the development of the banking union, 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 2023 and includes the raised CCyB as from 25 May 2023.

2 Including an Article 3 CRR add-on at year-end 2022.
3 Depending on the exposure class a lower risk weight is allowed when meeting specific requirements including sufficient monitoring of collateral values.
4 Confirmed by DNB on 21 December 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. On 8 December 2023, the Council of the European Union published the texts of the political agreement reached on CRR III and CRD VI, in which Basel IV will be legally implemented. De Volksbank closely monitors these developments, paying particular attention to new rules for residential mortgages.

As at year-end 2023, we estimate that our total risk-weighted assets (RWA) according to the fully phased-in Basel IV standards would be below our total RWA under current regulations, mainly due to the removal of a 1.06 scaling factor to determine residential mortgage-related RWA under the revised IRB approach.

The Basel IV fully loaded CET1 ratio at year-end 2023 is estimated to equal 21.1% (2022: 20.2%), mainly driven by an increase in CET1 capital. This estimate of our CET1 ratio under full phase-in of Basel IV[1] comfortably exceeds our target of at least 17%.

MREL

On 5 April 2023 the National Resolution Authority (NRA) set the MREL requirement for de Volksbank at 7.78% of the leverage ratio exposure (LRE) as from 1 January 2022. The MREL requirement based on RWA amounts to 20.41% and is set at 21.81% with effect from 1 January 2024. Both MREL requirements exclude the Combined Buffer Requirement. As from 1 January 2024, the LRE and RWA MREL requirements are to be fully met 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 MREL requirement based on the LRE to be met with subordinated instruments is expected to be updated to 8.05% as from 1 January 2024. 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 requirements 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;
- € 0.5 billion in green SNP debt with a 4½-year maturity.

Including these two SNP issuances on top of the € 1.5 billion SNP debt instruments already issued, de Volksbank meets the binding MREL subordination requirements as from January 2024.

MREL

in € millions	31-12-2023	30-6-2023	31-12-2022
CET1 capital	3,318	3,167	3,101
Additional Tier 1 capital	298	298	298
Tier 2 capital	500	500	500
Total capital	**4,116**	**3,965**	**3,899**
Senior non-preferred (SNP) liabilities with remaining maturity >1 year	2,500	2,500	1,500
Eligible senior preferred liabilities with remaining maturity > 1 year	168	869	919
Total capital including other eligible liabilities	**6,784**	**7,334**	**6,318**
MREL BRRD2 exposure measures			
Leverage ratio exposure measure (LRE)	70,375	71,727	71,716
Risk-weighted assets	16,470	15,558	15,306
MREL LRE			
MREL (Total capital and eligible SNP liabilities) (LRE)	9.4%	9.0%	7.5%
MREL (Total capital including other eligible liabilities) (LRE)	9.6%	10.2%	8.8%
MREL RWA			
MREL (Total capital and eligible SNP liabilities) (RWA)	40.2%	41.6%	35.3%
MREL (Total capital including other eligible liabilities) (RWA)	41.2%	47.1%	41.3%

The table above presents an overview of de Volksbank's risk-weighted and non-risk-weighted MREL ratios.

Total capital and eligible liabilities rose by € 0.5 billion to € 6.8 billion. This was mainly the result of the issuance of € 1.0 billion in green SNP debt and a € 217 million increase in CET1 capital. This was partly offset by € 751 million in senior unsecured debt becoming non-eligible.

At year-end 2023, the non-risk-weighted MREL ratio based on the LRE was 9.6% (2022: 8.8%), including total capital and all other unsecured liabilities eligible for MREL.

[1] Based on our balance sheet position as at 31 December 2023 and the political agreement reached on CRR III and CRD VI.

Including only total capital and eligible SNP liabilities, the non-risk-weighted MREL ratio based on the leverage ratio exposure equalled 9.4% (2022: 7.5%).

The risk-weighted MREL ratio, based on total capital and eligible SNP liabilities, € 6,6 billion in total, stood at 40.2% (2022: 35.3%).

Dividend
De Volksbank has set a target range of 40% - 60% of net profit for the regular dividend distribution. In line with this policy, de Volksbank decided in its General Meeting of Shareholders (GMS) in April 2023 to distribute a dividend of € 90 million for 2022. This corresponds to a pay-out ratio of 50%.

For the financial year 2023, we propose a dividend amount of € 164 million, which corresponds to a pay-out ratio of 40% of the net profit attributable to the shareholder.

Liquidity and funding

Liquidity
In 2023, the liquidity position remained substantially above de Volksbank's own minimum target and regulatory minimum requirements. We consider the size and composition of our liquidity position sufficiently robust. At the same time, in 2023 de Volksbank took the opportunity to increase the Loan-to-Deposit ratio, i.e. the ratio between the loans outstanding and deposits attracted.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the regulatory minimum of 100%. At year-end 2023, the LCR stood at 262% (2022: 233%) and the NSFR at 166% (2022: 174%).

Key liquidity indicators

	31-12-2023	30-6-2023	31-12-2022
LCR	262%	297%	233%
NSFR	166%	179%	174%
Loan-to-Deposit ratio[1]	95%	91%	90%
Liquidity position (in € millions)	15,600	21,630	17,208

1 For the measurement methodology of this KPI, reference is made to the section Reconciliation of alternative performance measures on page 35 of this report.

The liquidity position amounted to € 15.6 billion at year-end 2023 (2022: € 17.2 billion).

The Loan-to-Deposit ratio increased to 95% at year-end 2023, from 90% at year-end 2022. This increase was driven by € 1.2 billion loan growth accompanied by a € 2.3 billion reduction in deposits.

Liquidity position

in € millions	31-12-2023	30-6-2023	31-12-2022
Central bank reserves	6,334	10,730	8,309
Sovereigns	473	724	324
Regional/local governments and Supranationals	1,758	1,727	1,641
Eligible retained RMBS	5,545	7,231	5,719
Other liquid assets	1,490	1,219	1,215
Liquidity position	**15,600**	**21,631**	**17,208**

Apart from changes in loans and deposits, cashflows in 2023 mainly came from capital market funding developments and a € 0.8 billion increase in the net cash collateral position related to derivative positions driven by a decrease in the interest rate curve for longer tenors. In 2023, cash outflows exceeded cash inflows and central bank reserves decreased from € 8.3 billion at year-end 2022 to € 6.3 billion. The reduction was partly offset by investing less available liquidity in the money market. At year-end 2023, € 4.9 billion in assets had been invested for cash management purposes (2022: € 6.3 billion) and was, therefore, not included in the central bank reserves.

The liquidity value of bonds in the DNB collateral pool amounted to € 9.3 billion at year-end 2023 (2022: € 8.9 billion), of which:

- the liquidity value of eligible retained RMBS declined to € 5.5 billion (year-end 2022: € 5.7 billion). During 2023, the Lowland 5 and 6 transactions were replaced by one Lowland 7 transaction;
- the value of other liquidity portfolio bonds in the liquidity position increased by € 0.5 billion due to a rise in the liquidity value and the fact that a higher amount of sovereign bonds was registered in the DNB collateral pool at year-end 2023. These sovereign bonds were not ring-fenced for other purposes, such as potential repo transactions.

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 2023, customer deposits declined to € 54.3 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.

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

The table below provides an overview of the book value-based composition of equity and total liabilities at year-end 2023 and 2022.

Equity and liability mix

	2023: € 71.1 billion	2022: € 73.2 billion
Savings and other amounts due to customers	77%	78%
Debt instruments (incl. subordinated)	12%	11%
Equity (incl. AT1 capital securities)	6%	5%
Amounts due to banks	3%	4%
Other	2%	2%

Capital market funding mix (nominal)

in € millions	**2023**	**% of total**	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	1,013	11%	1,631	19%
Of which green bonds	*500*		*500*	
Covered bonds	4,553	50%	4,553	52%
RMBS	229	3%	278	3%
Total capital market funding	**9,095**		**8,762**	
Of which green bonds	*3,800*		*2,800*	

In 2023, de Volksbank successfully executed two 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.

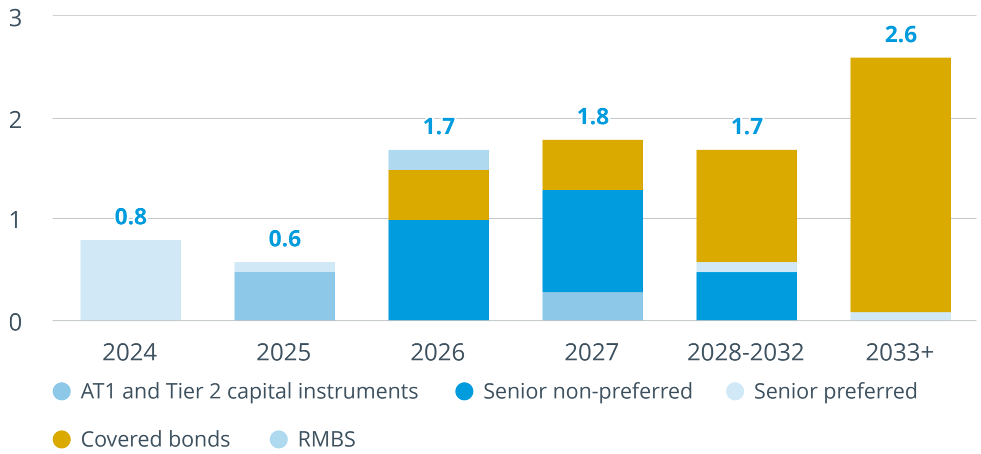
As capital market funding redemptions in 2023 were limited to € 0.7 billion, capital market funding increased from € 8.8 billion to € 9.1 billion.

For an explanation of the bank's green bond framework, see Green Bonds/De Volksbank website.

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 chart, we apply the assumption that this funding will be redeemed at the first call dates.

Capital market funding maturities

(In € billions)



Financial statements

Consolidated statement of financial position

Before result appropriation and in € millions	31-12-2023	31-12-2022
Assets		
Cash and balances at central banks	5,891	8,011
Derivatives	2,544	3,302
Investments	6,733	5,591
Loans and advances to banks	4,671	6,884
Loans and advances to customers	50,847	48,966
Tangible and intangible assets	77	85
Tax assets	14	80
Other assets	283	249
Total assets	**71,060**	**73,168**
Liabilities		
Derivatives	1,121	924
Amounts due to banks	1,947	2,805
Savings	43,623	44,501
Other amounts due to customers	11,287	12,649
Debt certificates	7,935	7,544
Subordinated debts	500	500
Provisions	44	66
Tax liabilities	82	19
Other liabilities	430	452
Total liabilities	**66,969**	**69,460**
Equity		
Share capital	381	381
Other reserves	2,981	2,838
Net profit for the period	431	191
AT1 capital securities	298	298
Total equity	**4,091**	**3,708**
Total equity and liabilities	**71,060**	**73,168**

Consolidated income statement

in € millions	2023	2022
Income		
Interest income	2,037	1,128
Interest expense	734	277
Net interest income	**1,303**	**851**
Fee and commission income	171	154
Fee and commission expenses	107	103
Net fee and commission income	**64**	**51**
Investment income	-54	-8
Other result on financial instruments	101	70
Other operating income	-	1
Total income	**1,414**	**965**
Expenses		
Staff costs	487	383
Depreciation and amortisation of tangible and intangible assets	23	22
Other operating expenses	298	250
Total operating expenses	**808**	**655**
Impairment charges of financial assets	15	52
Total expenses	**823**	**707**
Result before taxation	**591**	**258**
Taxation	160	67
Net result for the period	**431**	**191**

Consolidated other comprehensive income

in € millions	2023	2022
Items that are reclassified to profit or loss		
Change in cashflow hedge reserve	-2	-2
Change in fair value reserve	65	-157
Total items that are reclassified to profit or loss	**63**	**-159**
Other comprehensive income (after tax)	**63**	**-159**

Consolidated total comprehensive income

in € millions	2023	2022
Net result	431	191
Other comprehensive income (after tax)	63	-159
Total comprehensive income for the period	**494**	**32**
Attributable to:		
Owners of the parent company	494	32

Consolidated statement of changes in equity

Consolidated statement of changes in equity 2023

in € millions	Issued share capital	Share premium reserve	Cashflow hedge reserve	Fair value reserve	Other reserves including retained earnings	Net result for the period	AT1 capital securities	Total equity
Balance as at 1 January 2023	**381**	**3,537**	**17**	**-146**	**-570**	**191**	**298**	**3,708**
Transfer of net result					**101**	**-101**		**-**
Unrealised revaluations				53				53
Realised revaluations through P&L			-2	12				10
Other comprehensive income			**-2**	**65**				**63**
Net result						431		431
Total result 2023			**-2**	**65**		**431**		**494**
Increase in capital								--
Paid interest on AT1 capital securities					-21			-21
Dividend						-90		-90
Transactions with owners of the company					**-21**	**-90**		**-111**
Total changes in equity			**-2**	**65**	**80**	**240**		**383**
Balance as at 31 December 2023	**381**	**3,537**	**15**	**-81**	**-490**	**431**	**298**	**4,091**

Consolidated statement of changes in equity 2022

in € millions	Issued share capital	Share premium reserve	Cashflow hedge reserve	Fair value reserve	Other reserves including retained earnings	Net result for the period	AT1 capital securities	Total equity
Balance as at 1 January 2022	**381**	**3,537**	**19**	**11**	**-624**	**162**	**--**	**3,486**
Transfer of net result					**65**	**-65**		**-**
Unrealised revaluations				-167				-167
Realised revaluations through P&L			-2	10				8
Other comprehensive income			**-2**	**-157**				**-159**
Net result						191		191
Total result 2022			**-2**	**-157**		**191**		**32**
Increase in capital							298	298
Paid interest on AT1 capital securities					-11			-11
Dividend						-97		-97
Transactions with owners of the company					**-11**	**-97**	**298**	**190**
Total changes in equity			**-2**	**-157**	**54**	**29**	**298**	**222**
Balance as at 31 December 2022	**381**	**3,537**	**17**	**-146**	**-570**	**191**	**298**	**3,708**

General information

Other information

De Volksbank N.V. (hereafter 'de Volksbank') is a public limited liability company, 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 NL financial investments (NLFI).

The financial information included in this report has been prepared in accordance with International Financial Reporting Standards as accepted within the European Union (IFRS-EU). In preparing the financial information in this year-end report, unless stated otherwise, the same accounting policies have been applied as in the 2022 consolidated financial statements of de Volksbank, taking into account the IFRS-EU changes as from 1 January 2023.

The presentation of the consolidated statement of financial position has been changed to provide additional and more relevant information or, in the case of changes in comparative information, to better align with the current period presentation.

The preparation of the financial statements for 2023 is in progress. Figures in this press release have not been audited.

Changes in published Standards and Interpretations effective in 2023

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, must be recognised. As of financial years starting on (or after) 1 January 2023. Thus, the amendment will result in the recognition of deferred tax assets and liabilities related to leases, 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 leases of around € 12 million are included in the balance sheet (2022: € 13 million).

Change in accounting estimates

Expected cash flows for prepayment penalties

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 € 9 million.

IFRS 9 management overlay for interest-only mortgages

In 2023, a management overlay of € 24 million was recognised related to the revised risk segmentation matrix for interest-only mortgages, which also resulted in a refinement of stage triggers used to determine the IFRS 9 expected credit losses. The refinements focus on the repayment risk at maturity for interest-only mortgages, which is captured at an earlier stage during the life of the loan. The increase in the provision for credit risk is identified as a change in estimate.

Reconciliation of alternative performance measures

Our financial results are prepared and reported in accordance with EU-IFRS, as detailed above in the Section Other information. 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, which are not directly related to our regular banking activities and have an incidental nature, thus limiting insight into the underlying developments.

In 2023, net profit did not include any incidental items. In 2022, net profit included positive incidental items of € 17 million, entirely consisting of a release of the restructuring provision of € 23 million before tax.

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

Reconciliation of reported to adjusted net result

	2023			2022		
in € millions	Reported	Adjust-ments	Adjusted	Reported	Adjust-ments	Adjusted
Net interest income	1,303		1,303	851		851
Net fee and commission income	64		64	51		51
Investment income	-54		-54	-8		-8
Other result on financial instruments	101		101	70		70
Other income	--		--	1		1
Total income	**1,414**		**1,414**	**965**		**965**
Staff costs	487		487	383	23	406
Depreciation and amortisation of tangible and intangible assets	23		23	22		22
Other operating expenses	298		298	250		250
Of which: regulatory levies	*42*		*42*	*69*		*69*
Total operating expenses	**808**	**--**	**808**	**655**	**23**	**678**
Of which: operating expenses excluding regulatory levies	***766***	***--***	***766***	***586***	*23*	***609***
Other expenses	--		--	--		--
Impairment charges of financial assets	15		15	52		52
Of which: investments	*--*		*--*	*8*		*8*
Of which: loans and advances to banks	*-2*		*-2*	*5*		*5*
Of which: residential mortgages	*9*		*9*	*17*		*17*
Of which: consumer loans	*-2*		*-2*	*-3*		*-3*
Of which: SME loans	*-1*		*-1*	*2*		*2*
Of which: other corporate and government loans	*10*		*10*	*23*		*23*
Of which: other	*1*		*1*	*--*		*--*
Total expenses	**823**	**--**	**823**	**707**	**23**	**730**
Result before taxation	**591**	**--**	**591**	**258**	**-23**	**235**
Taxation	160		160	67	-6	61
Net result for the period	**431**	**--**	**431**	**191**	**-17**	**174**

Non-IFRS financial measures

KPIs and adjusted KPIs

KPI Definition	in € millions	2023 Reported	2023 Adjust-ments	2023 Adjusted	2022 Reported	2022 Adjust-ments	2022 Adjusted
Cost/income ratio							
Total operating expenses (including regulatory levies) as a percentage of total income	Total operating expenses	808	-	808	655	23	678
	Total income	1,414		1,414	965		965
	Cost/income ratio	**57.1%**		**57.1%**	**67.9%**		**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	431	-	431	191	-17	174
	Interest expenses related to AT1 capital securities	-21		-21	-12		-12
	Average month-end total equity	3,592		3,592	3,424		3,424
	Return on Equity (RoE)	**11.4%**		**11.4%**	**5.2%**		**4.7%**
Net interest margin (bps)							
Annualised net interest income as percentage of average month-end total assets for the reporting period	Net interest income	1,303		1,303	851		851
	Average month-end total assets	72,461		72,461	73,763		73,763
	Net interest margin (bps)	**1.80%**		**1.80%**	**1.15%**		**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	766	-	766	586	23	609
	Average month-end total assets	72,461		72,461	73,763		73,763
	Cost/assets ratio	**1.06%**		**1.06%**	**0.79%**		**0.83%**

Cost of risk

Definition	in € millions	2023	2022
Cost of risk			
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	16	39
	Average month-end portfolio exposure - total loans	51,668	50,705
	Cost of risk total loans and advances to customers	**0.03%**	**0.08%**
	Residential mortgages		
	Impairment charges of financial assets - residential mortgages	9	17
	Average month-end portfolio exposure - residential mortgages	48,569	47,892
	Cost of risk residential mortgages	**0.02%**	**0.04%**
	SME loans		
	Impairment charges of financial assets - SME loans	-1	2
	Average month-end portfolio exposure - SME loans	1,162	968
	Cost of risk SME loans	**-0.09%**	**0.21%**

Loan-to-Deposit ratio (LtD)

Definition	in € millions	2023	2022
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	50,847	48,966
	IFRS value adjustments	-1,316	-2,040
	Loans and advances to other corporates and governments	285	315
	Loans and advances to retail customers	**51,878**	**50,691**
	Total amounts due to customers	54,910	57,150
	Amounts due to non-retail customers	586	527
	Amounts due to retail customers	**54,324**	**56,623**
	Loan-to-Deposit ratio	**95%**	**90%**

Definitions of strategic KPIs

The table below provides more details about the definitions of our strategic KPIs.

Strategic KPI	Definition
Customer-weighted average Customer Relationship Score (KRS)[1]	The customer-weighted average Customer Relationship Score (KRS) relates to the retail customers of de Volkbank's retail brands SNS, ASN Bank and RegioBank. The customers of BLG Wonen are not included in de Volksbank's KRS as its customers are in fact customers of mortgage intermediaries. 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. The higher the score, the stronger the perceived relationship is.
Customer-weighted average Net Promoter Score (NPS)[1]	The customer-weighted average Net Promoter Score (NPS)) is measured for all brands (SNS, ASN Bank, RegioBank, BLG Wonen). It involves the retail customers expressing a satisfaction rating (in terms of probability of recommendation). 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 0 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%. The higher the score, the more satisfied the customer is.
Active multi-customers[1]	An active multi-customer is a customer with a current account and at least one product from another product group, who has made more than ten customer-initiated transactions per month on his or her current account for three months in a row. Both retail and corporate customers can be considered to be an active multi-customer.
Genuine attention[1]	The extent to which employees experience genuine attention.
Climate-neutral balance sheet[1]	The climate-neutral balance sheet includes all relevant balance sheet items of de Volksbank and is climate neutral when we avoid or remove as much CO_2e emissions as we emit. Our climate-neutral balance sheet is measured using the PCAF methodology.
Return on Equity (RoE)[2]	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.

1 For the measurement methodology of this KPI, reference is made to page 312 of the 2022 Integrated Annual Report.

2 For the measurement methodology of this KPI, reference is made to the Section Reconciliation of alternative performance measures on page 35 of this report

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 € 71 billion and 3.449 internal employees (FTEs), making it a major player in the Dutch retail banking market. De Volksbank is headquartered 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 aspects as well as towards 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: to be the bank with the strongest customer relationship and to have 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 and values. 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 first. Then 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 190 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 does bring happiness. For more information, please see our website: www.asnbank.nl

RegioBank
Quality of life in communities

Pop into a branch office for a question or good advice. That is precisely what you can do with over 420 branches 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. As the bank is a partner of the Oranje Fonds, it supports social initiatives in that capacity. 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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