de volksbank

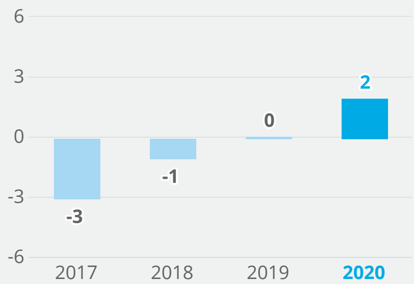
2020

Full year financial report

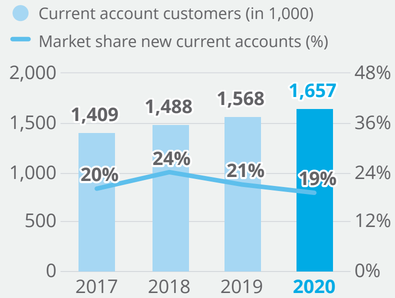
The original full year financial report was drafted in Dutch. This document is an English translation of the original. In case of any discrepancies between the English and the Dutch text, the latter will prevail.

Key figures

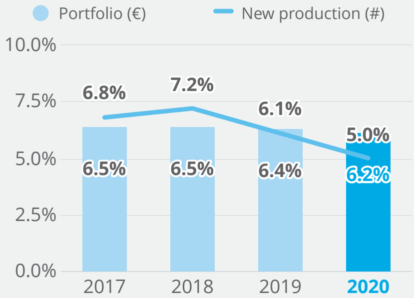
Net Promoter Score[1]



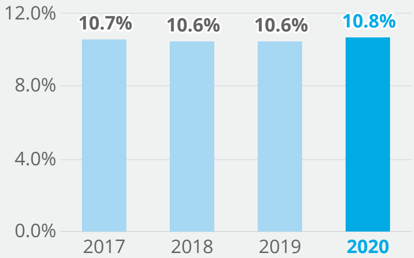
Current account customers[2]



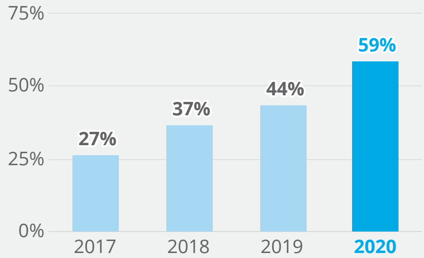
Market share of retail mortgages[3]



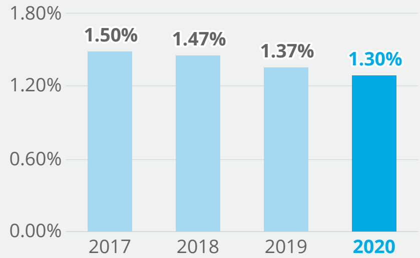
Market share of retail savings[4]



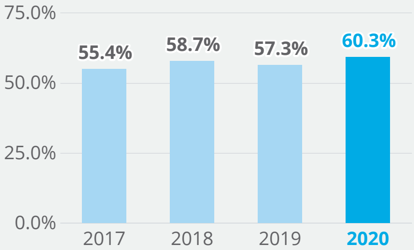
Climate-neutral balance sheet[5]



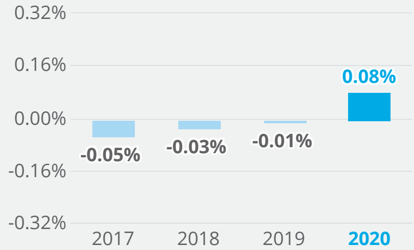
Net interest margin



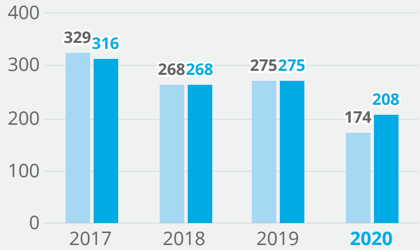
Adjusted cost/income ratio



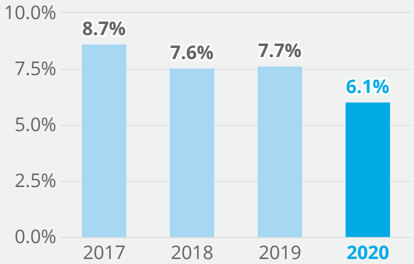
Cost of risk total loans



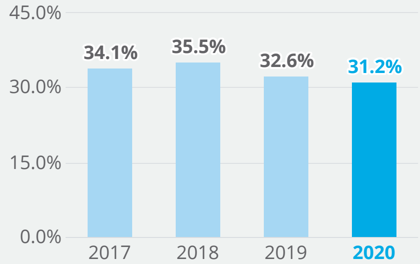
Net result/Adjusted net result[6]



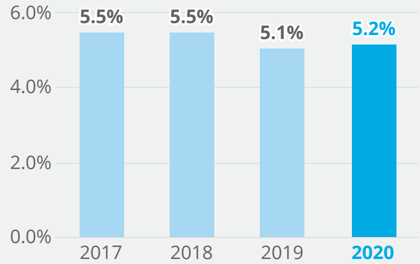
Adjusted return on equity[6]



Common Equity Tier 1 ratio



Leverage ratio



1 Customer-weighted average NPS of all brands. Source: market research company Miles Research.
2 Source: market share of new current accounts: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period looking back over the last 12 months.
3 Market share of the portfolio concerns the third quarter of 2020 because total market size figures were not yet available. Market shares 2019 have been adjusted due to adjustments of market size figures by CBS.
4 Market shares as of 2019 have been adjusted due to the inclusion of bank savings.
5 In 2021 and beyond, the climate-neutral balance will be adversely affected by further elaboration of the PCAF method.
6 Adjusted for incidental items in 2017 and 2020, in 2018 and 2019 there were no such items.

Foreword

Martijn Gribnau, Chairman of the Board of Directors of de Volksbank

"For everyone, the year 2020 was dominated by Covid-19. In 2020, the pandemic and the associated measures had far-reaching consequences for society, for the economic environment in which we operate, for our customers, and for our employees, who were forced to work largely from home from March onwards.

Despite all these developments, SNS, ASN Bank, RegioBank and BLG Wonen successfully continued providing their services to customers, with measures that differed from time to time in order to secure both customer and employee safety.

Seeking to help mortgage customers who encountered financial problems as a result of the Covid-19 pandemic, from March onwards they were given the opportunity to take a payment holiday of up to six months. At the end of 2020, 1,591 retail customers made use of this scheme, which is slightly less than 1% of our retail customers. More than three quarters of these customers have now resumed their payments.

We also set up similar schemes for SME customers with loans. Of the 342 entrepreneurs who used such a scheme at the end of 2020 (almost 10% of the SME customers), again approximately three quarters have now resumed making payments.

In 2020, we also endeavoured to counter the increased threat of cybercrime, amongst others by means of information campaigns launched by our brands to help customers recognise the signs of a suspicious situation. In July, we decided with four other Dutch banks to establish Transaction Monitoring Netherlands (TMNL) in the collective fight against money laundering and terrorist financing. TMNL is an important addition to our own transaction monitoring activities.

Customers appreciate our efforts: the Net Promoter Scores improved at SNS and BLG Wonen; they remained at a high level at ASN Bank and RegioBank. At the end of 2020 the customer-weighted average NPS was +2, as against 0 at the end of 2019.

The number of current account customers and savings deposits entrusted to us continued to grow in the past year. High prepayments exceeded new mortgage production and the mortgage portfolio showed a decline.

It is of paramount importance to us that we act on our responsibility for the joint interest of society, customers, employees and our shareholder. We again took a number of nice steps in the past year to live up to our mission and our promise of being 'better for each other':

- The climate neutrality of our balance sheet improved to 59% compared with 44% at the end of 2019. This means that we exceeded our target of 45% for the end of 2020.
- In July, we were the first bank in Europe to issue a € 500 million subordinated green Tier 2 bond. This was an appropriate next step after the first issue of a green bond that was recognised internationally as ‘Green Bond of the Year’.
- With a score of 51, we reached our target of a score of at least 50 on the Financial Confidence Barometer and continued the upward trend from the baseline measurement in 2018. Especially in this day and age we are glad that people contact the bank and experience that we are ready to help them whenever they have financial concerns.
- To stress our ambitions in the area of biodiversity preservation, we signed the widely supported ‘Finance for Biodiversity Pledge’ in 2020. We also joined the Platform for Biodiversity Accounting Financials and de Volksbank adopted ASN Bank’s objective of having a net positive impact on biodiversity by 2030.
- In April 2020, our employees gave higher scores for nearly all questions in our genuine attention survey than they did the previous year. We held on to these scores in October. Employees experience great trust and the freedom to make a meaningful contribution, which is essential in a situation where most of them work fully from home.
- We were the only bank to obtain a green score and therefore a satisfactory score in a survey of gender equality conducted by the Fair Bank Guide.

The Dutch economy experienced an unprecedented slowdown in 2020. The economic contraction and the accommodating monetary policy resulted in further declining interest rates in 2020. House prices rose even more and the mortgage refinancing market in particular showed strong growth.

Against this macroeconomic background, de Volksbank posted an acceptable financial profit. The dropping market rates translated into further pressure on our net interest margins. This pressure was largely alleviated by higher compensation received for early repayments of mortgages, higher treasury results and higher realised results on bonds. On balance, total income remained virtually flat on 2019.

Operating expenses including regulatory levies were up 14%. Six percentage points of the increase were driven by a higher contribution to the Deposit Guarantee Scheme and higher staff and consultancy costs. The other eight percentage points of the increase ensued from a restructuring provision related to the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation, which is expected to reduce the number of jobs by 400-500 in the period 2021-2023. A provision totalling € 45 million has been formed for this purpose. In parallel with this process, new employees having the knowledge and skills needed for the strategy will be hired in the next few years. The details of the selection process will partly depend on the growth rate.

The deterioration of macroeconomic prospects resulting from Covid-19 prompted a considerable addition to the credit loss provision. Impairment charges amounted to € 38 million in 2020, as against a reversal of € 7 million in 2019.

On balance, net profit dropped by € 101 million to € 174 million, which corresponds to a return on equity of 5.1%. Adjusted for the restructuring provision, net profit totalled € 208 million and a return on equity was 6.1%. This means that we did not reach our target of 8%.

Our capital position remained consistently strong: the CET1 capital ratio stood at 31.2% and the leverage ratio showed a limited increase to 5.2%. This means that de Volksbank's starting position is very strong, even considering the substantial challenges that lie ahead.

Maurice Oostendorp, Chairman of the Board of Directors since 2015, left de Volksbank in August 2020. In 2015, de Volksbank defined objectives for all four groups of stakeholders for the period 2016-2020. Looking back over this five-year period, we conclude that much has been accomplished. Under Maurice's direction, de Volksbank was able to shape its social role, both the number of customers and customer appreciation rose sharply, and solid financial results were achieved. As a result, we are indebted to Maurice. Personally I am grateful for the way in which Maurice transferred his chairmanship to me.

I would like to take this opportunity to thank our customers for the trust they have given us the past year. I would also like to thank all employees of de Volksbank, who – often under difficult conditions – have made every effort to ensure optimum quality and continuity of the services provided to our customers.

In 2020, de Volksbank's Board of Directors experienced differences of opinion that resulted in the departure of the CFO and COO for a variety of reasons. In response, an independent examination was commenced into the Board dynamics at the bank. The findings are expected in the first half of 2021.

Our strategy for the period 2021-2025 will be presented in a separate press release issued today. The strategy is intended as a response to developments such as the increasing demand for digitisation in our services, intensification of the customer relationship, and the need for cost control and diversification of income in order to alleviate the pressure that the sustained low interest rate environment exerts on our returns.

As a bank, we want to continue to stand out with our social impact. We will also continue to work on a strong customer relationship and at the same time on solid financial results with attention for our employees. We refined our strategy to allow for this. Our mission 'banking with a human touch' and our promise 'better for each other' remain unchanged."

Developments in shared value ambition

Progress on objectives

We measure the progress in achieving our mission and the realisation of our shared value ambition by means of specific objectives for our four stakeholder groups as defined by us in 2016:

Objectives	31-12-2020	30-6-2020	31-12-2019	Target 2020
BENEFITS FOR CUSTOMERS				
Customer-weighted average Net Promoter Score (NPS)[1]	+2	+5	0	+10
SNS	-9	-5	-11	
ASN Bank	+16	+18	+17	
RegioBank	+14	+18	+14	
BLG Wonen	-5	-9	-17	
Current account customers (in 1,000)	1,657	1,606	1,568	1,500
RESPONSIBILITY FOR SOCIETY				
Climate-neutral balance sheet[1]	59%	48%	44%	45%
Financial Confidence Barometer[2]	51	51	48	>50
GENUINE ATTENTION FOR OUR EMPLOYEES				
Genuine attention	7.9	7.9	7.7	≥ 7.5
RETURNS FOR THE SHAREHOLDER				
Return on Equity (RoE)[3]	6.1%	6.2%	7.7%	8.0%
OTHER OBJECTIVES				
Cost/income ratio[3]	60.3%	55.8%	57.3%	50-52%
Common Equity Tier 1 ratio[4]	31.2%	33.8%	32.6%	≥ 19.0%
Leverage ratio[4]	5.2%	5.0%	5.1%	≥ 4.75%

1 For the methodology for the calculation of these KPIs, please refer to the 2019 Annual Report, chapter About the non-financial information.
2 Based on the moving average of the past 6 months. For the methodology, please refer to the 2019 Annual Report, Section 3.2.2 Financial resilience.
3 Adjusted for the impact of incidental items. Please refer to chapter Financial results.
4 For more information, please refer to chapter Capital management.

Benefits for customers

We aim to be a bank that provides fair banking products where customers feel at home and that looks from its customers' perspective. Growth in the number of current accounts and the positive trend in customer satisfaction, as expressed in the Net Promoter Score, indicate that customers appreciate our mission of banking with a human touch.

Net Promoter Score

The customer-weighted average of all brand-specific Net Promoter Scores (NPS)[1] improved to +2, compared with a break-even score at the end of 2019. This improvement was driven by SNS and BLG Wonen. The NPS at SNS improved from -11 to -9 and at BLG Wonen from -17 to -5. The NPS at RegioBank remained stable at +14 and that of ASN Bank showed a limited decrease from +17 to +16. ASN Bank and RegioBank are in the top 3 of Dutch bank brands with a positive NPS.

Number of current account customers

The number of current account customers rose by 89,000 (156,000 gross) to 1,657,000 in 2020. The target of 1.5 million current account customers was reached as early as the end of 2019. Within the total number of customers, the number of active multi-customers[2] increased to 949,000, from 899,000 at the end of 2019. We consider the development of the number of multi-customers as an important indicator of the quality of our relationship with our customers.

1 Marks on a 1 to 10 scale determine if a customer is a 'promoter' (9-10), 'passively satisfied' (7-8) or a 'detractor' (0-6). A positive NPS requires the percentage of promoters to be higher than the percentage of detractors.
2 The number of customers with an active current account (> 10 customer-initiated transactions per month for 3 months in a row) and in addition at least one product from another product group.

Responsibility for society

We aim to make a positive contribution to society. Through our core activities mortgages, savings and payments, we can have a considerable positive impact on sustainability in our chain and our customers' financial resilience.

Climate-neutral balance sheet

At year-end 2020, our balance sheet was 59% climate neutral. This means that we exceeded our target of 45% for 2020. The total CO2 emission rose slightly to 1,354 kilotons from 1,290 kilotons at the end of 2019. This was compensated by an increase of the avoided CO2 emissions to 794 kilotons (2019: 573 kilotons). The increase was mainly driven by additional project financing and the purchase of climate bonds.

The emissions of our bank balance sheet mainly ensue from the high number of mortgages we finance, which cause 1,219 kilotons of CO2 emissions (2019: 1,180 kilotons). These emissions are based on the provisional and final energy labels of the homes we finance. The average energy label of our mortgage portfolio remained unchanged at D. Of our customers, 29% have a home with energy label A or B. For the homes with energy labels C to G, there is still much room for improvement through, for example, insulation and solar panels. In 2020, our brands helped their customers make their homes energy efficient, including by sharing information through various channels. We also launched the website 'woningverbeteraars.nl' to provide consumers with better information and to facilitate the sustainability of residential properties.

A higher grade energy label does not mean that the energy consumption, and thus the CO2 emission, is automatically reduced. For this reason, we are exploring options to calculate the CO2 emissions of the residential portfolio on the basis of actual energy consumption data. For instance, in May 2020 we cooperated with Statistics Netherlands (CBS) in publishing the actual energy consumption of the residential portfolios of de Volksbank and six other financial institutions for 2015 and 2016.

In 2020, we made further progress with the elaboration of the Partnership Carbon Accounting Financials (PCAF) methodology in our business processes, and we will report according to this methodology as from 2021. We expect the switch to the PCAF methodology to have a significant negative effect on the measurement of our climate neutrality as, for example, other emission factors are applied in calculating the impact.

Financial resilience

We want to help our customers to increase their financial resilience. In a monthly survey, we ask 1,300 Dutch people, 530 of whom are customers of our brands, if they notice that the bank is there to help them in case of financial stress. The respondents answer the question on a scale of 1 (totally disagree) to 100 (totally agree). This score averaged 48 at the end of 2019 and rose to 51 at the end of 2020 with which the upward trend continues since the baseline measurement in 2018. We aimed to reach a score of more than 50 in 2020,

Especially at times like these, our presence is of the utmost importance and we intend to show that we are there for both our retail and SME customers. Together with other Dutch banks, we have taken measures to help our customers. For instance, de Volksbank has lowered the interest rates on current account overdrafts for all its brands. The Arrears Management department was able to help many customers and temporarily offered them financial relief by agreeing to a payment holiday on their mortgage or consumer loan. De Volksbank assesses for each customer what the most suitable solution is: a partial or full payment holiday. It is best not to let payment arrears accumulate unnecessarily if customers are still able to pay part of the loan, since they have to catch up on any arrears when the payment holiday ends. That is why we make feasible arrangements, giving the customer plenty of opportunity to recover financially.

Personal contact with our customers and our availability, especially at times when customers have many questions about their money, are paramount. That is why the SNS shops and RegioBank branches remained open with additional or adjusted opening hours. We introduced video calling, and the SNS shops launched several small initiatives throughout the country. One such example is proactively contacting customers who might be financially affected by the Covid-19 crisis.

Genuine attention for employees

Every day, our employees put our mission of 'banking with a human touch' into practice with their heads and hearts. To provide them with maximum support, we give genuine attention to professionalism, autonomy and personal growth.

We would like employees to develop themselves in order to make a difference for customers and make a meaningful contribution to our mission and strategy every single day.

For the KPI 'genuine attention for employees', we aimed for a score of at least 7.5 (on a 1-10 scale) in 2020. Obtaining an average score of 7.9 at the end of 2020, we therefore reached this target. Twice a year, we ask employees how they experience this genuine attention. The first survey, conducted in the spring of 2020, already showed higher scores than those in the previous year for nearly all questions, especially in that challenging period. What is more, it emerged that employees generally felt they were sufficiently supported and were able to do their work from home during the time the Covid-19 measures were in force.

The second survey of October 2020 revealed that we had succeeded in holding on to this high appreciation of genuine attention. Employees experience great trust and the freedom to make a meaningful contribution, which is essential in a situation where they work fully from home. Commitment and engagement are also two key indicators of shared value for employees. We saw an upward trend for these indicators, too. Giving scores of 7.6 (2019: 7.4) and 8.4 (2019: 8.0), respectively, our employees were more engaged and committed in 2020 than they were the year before. According to employees, collaboration, innovation and efficiency are the main points for improvement. We will set to work on these aspects.

Returns for the shareholder

Return on equity

For the return on equity (RoE) we pursue a target of 8%. Return on equity amounted to 5.1%. Excluding incidental items, the adjusted Return on equity stood at 6.1%, a decline compared with 2019 (7.7%) as a result of a lower net profit combined with higher average shareholders' equity.

We propose to pay out a dividend of € 104 million on the 2020 profit. This implies a pay-out ratio of 50% of the adjusted net profit and 60% of the net profit. The proposed 2020 dividend will be distributed when the ECB recommendation on dividend payments permits.

Other objectives

Cost/income ratio

The cost/income ratio (operating expenses excluding regulatory levies divided by total income) was 65.2%. Adjusted for incidental items, the cost/income ratio was 60.3%, an increase compared with 2019 (57.3%) and nearly entirely caused by higher operating expenses excluding regulatory levies. As in 2019, the adjusted cost/income ratio exceeded the target range of 50% to 52% for 2020. This is due to the pressure on net interest income in the current low interest rate environment. Moreover, the total operating expenses declined less than we expected in 2016, in particular as a result of additional costs related to laws and regulations, for example for transaction monitoring.

Capital

Please refer to the chapter on Capital management for an explanation of our capital objectives and achievements.

Outlook

Net interest income in 2021 is expected to be lower than in 2020, especially as a result of lower interest income on mortgages in the sustained low interest rate environment.

Other income, mainly comprising treasury results and realised results on fixed-income investments, is expected to fall below the exceptionally high level of 2020.

Operating expenses, excluding the one-off restructuring charge in 2020, are expected to be higher in 2021 compared with the 2020 level, mainly driven by expenses related to our new strategy. Regulatory levies are also expected to be higher due to a higher contribution to the Deposit Guarantee Scheme.

Given our low risk profile, we expect impairment charges on loans and advances to be lower in 2021 compared to 2020. However, economic developments in the Netherlands and the financial resilience of customers whose incomes have been cut by the crisis and the impact this has on our credit loss provisions are highly uncertain.

All things considered, we expect the net profit for 2021 to be lower compared with 2020.

Economic developments

The Dutch economy

In 2020, the Dutch economy was hit extremely hard by the Covid-19 pandemic and the measures intended to control the spread of the virus. The gross domestic product (GDP) contracted sharply in the first half of the year. A strong upswing followed thanks to the relaxation of the measures, but a slowdown nevertheless followed as the second wave of the virus hit the country in October and new containment measures were introduced. Although the performance of the Dutch economy still compares favourably with most other European countries, measured throughout 2020, there was an unprecedented decline. Many companies were in dire straits as customers stayed away or they were forced to close down. Seeking to avoid permanent damage caused by unnecessary bankruptcies or job losses, the government introduced numerous support measures, such as the Temporary Emergency Bridging Measure for Sustained Employment (*Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid*), the Temporary Bridging Measure for Self-Employed Professionals (*Tijdelijke overbruggingsregeling zelfstandig ondernemers*) and the Fixed Costs Allowance (*Tegemoetkoming Vaste Lasten*). The measures proved effective. As a percentage of the labour force, unemployment rate rose to an annual average of 3.8%, limiting the increase compared with previous year to 0.4 percentage points. The number of bankruptcies even dropped to the lowest level in twenty years. Inflation in the Netherlands plummeted from an annual average of 2.6% in 2019 to 1.3% in 2020. This was caused partly by the elimination of the 2019 VAT increase from the figures, but the sharp decline in energy and fuel prices was also a significant factor.

Housing and mortgage market

In 2020, the housing market developments remained insensitive to problems elsewhere in the economy. Partly because of the persistently low mortgage rates, interest in home purchases remained high. Despite the limited number of homes for sale, the number of transactions rose to 235,511, only slightly below the 2017 record. The rate of the price increase did not slow down in any way and even accelerated during the year. The average annual increase amounted to 7.8%, exceeding even the equally substantial rise in the previous year.

Interest rates and government bond yields

In March 2020, the spread of the pandemic triggered 'safe have flows' in the financial markets, causing the prices of government paper – which was always considered safe – to rise sharply and, conversely, redemption yields to drop sharply. The anticipated further reduction in the policy rate by the ECB also contributed to this development. On 9 March, the Dutch ten-year yield hit a record low of -0.64%, but moved upwards when the ECB proved unwilling to lower its deposit interest rate of -/-0.5% even more. Bond yields remained under slightly downward pressure for the rest of the year, with the ECB's ramped-up bond purchases seeming to have been of decisive importance. The Dutch bond yields were in lockstep with the German yields. On balance, the Dutch ten-year yield dropped by 42 basis points to -0.48% in 2020. In the money market, tensions arose immediately after the outbreak of the crisis. Large-scale ECB liquidity injections, including through "Pandemic Emergency Longer-Term Refinancing Operations" (PELTROs), eased the tensions again.

Saving market

Despite the historically low savings rates, the Dutch retail savings market grew to € 390 billion at the end of December 2020, from € 368 billion at year-end 2019.

Commercial developments

Commercial developments

	31-12-2020	30-6-2020	31-12-2019
CUSTOMERS AND CURRENT ACCOUNTS			
Total number of customers (in 1,000)	3,342	3,292	3,270
Total number of current account customers (in 1,000)	1,657	1,606	1,568
Market share of new current accounts[1]	19%	20%	21%
MORTGAGES			
Residential mortgages (gross in € billions)	47.8	48.3	48.2
Market share of new mortgage production (in #)	5.0%	5.6%	6.1%
Market share of mortgage portfolio (in €)	6.2%[2]	6.3%	6.4%[3]
SAVINGS			
Retail savings (in € billions)	42.1	40.5	38.4
Market share of retail savings[4]	10.8%	10.5%	10.6%

1 Source: Ipsos market research, based on Moving Annual Total (MAT), at the end of each reporting period, looking back over the last 12 months.
2 Third quarter 2020 figures because total market size figures were not yet available.
3 Market share 2019 has been adjusted due to adjustments of market size figures by CBS.
4 Market shares as of 2019 have been adjusted due to the inclusion of bank savings.

Customers and current accounts

In 2020, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 235,000 new customers. Setting this off against customers who left the bank, the total number of customers rose by 72,000 (2019: 68,000). This net growth was higher than in 2019 despite the outflow of 15,000 customers as a result of the discontinuation of savings accounts at BLG Wonen. As in 2019, the growth in the number of customers was largely attributable to the growth in the number of current account customers. This number rose by 89,000 (156,000 gross) to 1,657,000.

De Volksbank's market share of new current accounts was slightly down but remained high at 19% (2019: 21%). This market share is significantly above the market share on a total portfolio basis of approximately 8%.

Mortgages

De Volksbank's new mortgage production showed an increase to € 5.9 billion, from € 5.5 billion in 2019 (+7%) in a mortgage market that grew by 25% compared with 2019[3]. This increase was mainly driven by a significantly higher mortgage refinancing market, which grew by approximately 50%. The market share of new mortgages was 5.0%, a decrease compared with 2019 (6.1%). This decline was due to intense competition and the further increased demand for mortgages with a fixed-rate term of 15 years or more.

Interest rate renewals amounted to € 3.2 billion, an increase in comparison with 2019 (€ 2.8 billion). Early renewals in particular, approximately one third of the total, showed an increase.

Repayments amounted to € 6.1 billion, up from 2019 (€ 5.3 billion). This was mainly a consequence of the expanding mortgage refinancing market and an increase in the number of people moving house. Contractual repayments also gradually increased in line with the changing composition of the mortgage portfolio, reflected in an increase in annuity mortgages. Early repayments rose significantly as a result of a sizeable mortgage refinancing market. As mortgage production was slightly lower than repayments and because of other movements (- € 0.2 billion), de Volksbank's mortgage portfolio showed a decrease to € 47.8 billion compared with € 48.2 billion at the end of 2019.

Savings

Retail savings at de Volksbank rose to € 42.1 billion, compared with € 38.4 billion at year-end 2019. Our market share showed a limited increase to 10.8% (2019: 10.6%).

3 Source: HDN

Financial results

Profit and loss account

in € millions	2020	2019	Change	2nd half 2020	1st half 2020
Net interest income	850	875	-3%	414	436
Net fee and commission income	46	51	-10%	17	29
Other income	27	3	800%	12	15
Total income	**923**	**929**	**-1%**	**443**	**480**
Operating expenses excluding regulatory levies	602	533	13%	334	268
Regulatory levies	50	41	22%	26	24
Total operating expenses	**652**	**574**	**14%**	**360**	**292**
Impairment charges of financial assets	38	-7	--	-7	45
Result before taxation	**233**	**362**	**-36%**	**90**	**143**
Taxation	59	87	-32%	22	37
Net result	**174**	**275**	**-37%**	**68**	**106**
Addition to restructuring provision	-34	--		-34	--
Total incidental items	**-34**	**--**		**-34**	**--**
Adjusted net result	**208**	**275**	**-24%**	**102**	**106**
Cost/income ratio[1]	65.2%	57.3%		75.4%	55.8%
Adjusted cost/income ratio[2]	60.3%	57.3%		65.2%	55.8%
Return on Equity (RoE)[3]	5.1%	7.7%		4.0%	6.2%
Adjusted Return on Equity (RoE)[4]	6.1%	7.7%		5.9%	6.2%
Net interest margin (bps)[5]	1.30%	1.37%		1.25%	1.35%
Cost/assets ratio as a % of average assets[6]	0.92%	0.83%		1.01%	0.83%
Adjusted cost/assets ratio as a % of average assets[7]	0.85%	0.83%		0.87%	0.83%

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items.
3 Net result / average month-end total equity for the reporting period.
4 Net result adjusted for incidental items / average month-end total equity for the reporting period.
5 Net interest income / average month-end total assets for the reporting period.
6 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.
7 Operating expenses adjusted for regulatory levies and incidental items / average month-end total assets for the reporting period.

Net profit

Net profit dropped to € 174 million, compared with € 275 million in 2019 (-37%). Of this drop, € 34 million is attributable to incidental items, consisting entirely of a restructuring provision of € 45 million before tax in 2020 in connection with the transformation to a new organisational structure and way of working.

Net profit, adjusted for incidental items, decreased by € 67 million to € 208 million (-24%). This drop was mainly attributable to a swing in impairment charges of financial assets. These amounted to € 38 million, after a reversal of € 7 million in 2019. In addition, adjusted total operating expenses were € 33 million higher. Total income showed a limited decline of € 6 million.

Income

Breakdown of income

in € millions	2020	2019	Change	2nd half 2020	1st half 2020
Net interest income	850	875	-3%	414	436
Net fee and commission income	46	51	-10%	17	29
Investment income	17	12	42%	9	8
Other results on financial instruments	9	-10	--	2	7
Other operating income	1	1	--	1	--
Total income	**923**	**929**	**-1%**	**443**	**480**
Net interest margin (bps)[1]	1.30%	1.37%		1.25%	1.35%

1 Net interest income / average month-end total assets for the reporting period.

Net interest income

Net interest income decreased by € 25 million to € 850 million (-3%) and the net interest margin decreased to 1.30% (2019: 1.37%). This was mainly due to lower income on mortgages as a result of (early) interest rate renewals at lower rates. In addition, new mortgage production was concluded at substantially lower rates than the rates of repaid mortgages.

This lower income was partly compensated by higher compensation received for loss of interest on account of early repayments of mortgages. This compensation amounted to € 56 million and exceeded the level of 2019 (€ 34 million) as a result of a higher mortgage refinancing market.

In addition, interest expenses on savings were lower. In 2020, retail savings grew by € 3.7 billion. As a result of this and given our policy to not introduce a negative interest rate on retail savings in 2020, lower interest expenses could not fully compensate for the decline in interest income. As from 1 August 2020, SME customers who have savings deposits in excess of € 1 million are charged 0.5% interest.

Finally, net interest income was positively impacted by another classification of distribution fees paid by RegioBank. In the fourth quarter, RegioBank changed its commission fee model from a combined savings balance and customer model to a full customer model. As a consequence, distribution fees paid are classified as fee and commission expenses instead of interest expenses. The impact of this modified classification amounted to € 7 million. The full effect will be visible in 2021.

Net fee and commission income

Net fee and commission income decreased by € 5 million to € 46 million, mainly due to a changed classification of distribution fees paid by RegioBank. Excluding this classification change, net fee and commission rose by € 2 million, mainly driven by higher fees received for mortgage advice and insurance, partly compensated by a one-off termination payment.

Investment income

Investment income rose by € 5 million to € 17 million, driven by higher realised results on fixed-income investments sold as part of asset and liability management and optimisation of the investment portfolio.

Other results on financial instruments

Other results on financial instruments amounted to € 9 million (2019: € 10 million negative). The € 19 million increase was largely due to higher treasury results. Besides this, the result on ineffectiveness of hedge accounting, among others related to mortgages, was higher. In 2020, this result was almost nil, and in 2019 it was negative.

Expenses

Operating expenses and FTEs

in € millions	2020	2019	Change	2nd half 2020	1st half 2020
Staff costs	427	373	14%	241	186
Depreciation of (in)tangible assets	29	36	-19%	15	14
Other operating expenses	196	165	19%	104	92
Total operating expenses	**652**	**574**	**14%**	**360**	**292**
Incidental addition to restructuring provision (staff costs)	45	--	--	45	--
Regulatory levies (included in other operating expenses)	50	41	22%	26	24
Adjusted operating expenses	**557**	**533**	**5%**	**289**	**268**
Cost/income ratio[1]	65.2%	57.3%		75.4%	55.8%
Adjusted cost/income ratio[2]	60.3%	57.3%		65.2%	55.8%
Cost/assets ratio as a % of average assets[3]	0.92%	0.83%		1.01%	0.83%
Adjusted cost/assets ratio as a % of average assets[4]	0.85%	0.83%		0.87%	0.83%
FTE					
Total number of internal FTEs	3,171	2,991	6%	3,171	3,051
Total number of external FTEs	648	657	-1%	648	609
Total number of FTEs	**3,819**	**3,648**	**5%**	**3,819**	**3,660**

1 Total operating expenses adjusted for the impact of regulatory levies / total income.
2 Total operating expenses adjusted for the impact of regulatory levies and the impact of incidental items (gross amounts) / total income adjusted for the impact of incidental items.
3 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.
4 Operating expenses adjusted for regulatory levies and incidental items / average month-end total assets for the reporting period.

Total operating expenses rose by € 78 million to € 652 million, largely driven by a one-off restructuring charge of € 45 million and € 9 million higher regulatory levies.

The restructuring provision of € 45 million has been made in connection with the new strategy. The organisation will be structured differently and will transition to a uniform and agile way of working with independent customer teams. This approach will result in more efficient cooperation and a flatter organisation, which is expected to reduce the number of jobs by 400-500 in the period 2021-2023. A provision totalling € 45 million has been formed for this purpose.

Regulatory levies amounted to € 50 million, of which € 8 million was related to the resolution fund contribution (2019: € 7 million), and € 42 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution, as against € 34 million in 2019. The increased DGS contribution was mainly caused by growth in covered deposits.

Adjusted for regulatory levies and the one-off restructuring charge, operating expenses rose by € 24 million to € 557 million.

Excluding the one-off restructuring charge, staff costs were € 9 million higher than in 2019. The rise in permanent staff costs was underpinned by wage inflation and an increase in the number of internal employees, which was partly compensated by lower costs of travel and training as a result of Covid-19. In comparison with year-end 2019, the total number of FTEs increased by 171 to 3,819. The number of internal employees rose by 180 to 3,171 FTEs and the number of external employees dropped slightly by 9 to 648 FTEs. The increase in the number of internal employees was mainly in the areas of IT, compliance, customer integrity and in connection with the SME finance proposition finance.

Depreciations of tangible and intangible assets were € 7 million lower as part of these assets had already been written off at year-end 2019. The lower depreciations mainly related to software developed, information processing equipment and office equipment. The year 2019 also included an impairment charge of ATMs.

Other operating expenses, excluding regulatory levies, were € 22 million higher. Of this amount, € 6 million was related to a positive revaluation for a previous contribution made under the DGS in relation to the insolvency of DSB. This revaluation totalled € 1 million in 2020, as against € 7 million in 2019. In addition, particularly consultancy costs rose, for example in connection with the new strategic plan and for regulatory projects.

Adjusted operating expenses divided by average total assets rose from 83 basis points (bps) in 2019 to 85 bps.

Impairment charges of financial assets

in € millions	2020	2019	Change	2nd half 2020	1st half 2020
Residential mortgages	29	2	--	-4	33
Consumer loans	-1	-2	--	-2	1
SME loans	8	-8	--	3	5
Other corporate and government loans	--	2	--	-1	1
Investments	--	-1	--	-1	1
Other	2	--	--	-2	4
Total impairment charges of financial assets	**38**	**-7**	**--**	**-7**	**45**
Cost of risk total loans[1]	0.08%	-0.01%		-0.04%	0.18%
Cost of risk residential mortgages[1]	0.06%	0.00%		-0.02%	0.14%
Cost of risk SME loans[1]	1.16%	-1.05%		0.74%	1.56%

1 Impairment charges / average month-end portfolio exposure for the reporting period.

Impairment charges of financial assets amounted to € 38 million; in 2019 there was a reversal of € 7 million. The swing was caused by substantial additions to the credit loss provision in connection with the Covid-19 pandemic.
A detailed description of the credit loss provisioning is set out in the chapter Credit risk.

Residential mortgages
Impairment charges on residential mortgages amounted to € 29 million, compared with € 2 million in 2019. The higher charge was caused by the deteriorated economic outlook used to determine the credit loss provision, a change to the provisioning methodology for interest-only mortgages that was implemented at the beginning of 2020, and the application of an expert overlay in connection with the high degree of uncertainty surrounding economic developments in the Netherlands and the financial resilience of customers whose incomes have been cut by the crisis. In 2019, the release as a result of a decrease in stage 3 loans was more than offset by additional impairments for interest-only mortgages and adjustments in the provisioning model that particularly affected stage 2 loans.

Consumer loans
The reversal of impairment charges on consumer loans amounted to € 1 million and was mainly prompted by model improvements. This was partly compensated by higher stage 1 and stage 2 provisions for debit balances on current accounts due to an expected rise in unemployment. In 2019, we saw a reversal of impairment charges on consumer loans of € 2 million.

SME loans
The impairment charges on SME loans amounted to € 8 million as a result of the application of an expert overlay for customers active in sectors carrying a higher risk of adverse financial consequences ensuing from the crisis, especially on the back of the lockdowns.

The year 2019 saw a reversal of impairment charges on SME loans of € 8 million as a result of a decline in stage 2 loans due to an improved economic outlook at that moment. Stage 3 loans also decreased due to a recovery of customers in default.

Results of the second half of 2020 compared with the first half of 2020

Compared with the first half of 2020, net profit decreased from € 106 million to € 68 million. This drop is largely attributable to incidental items, consisting entirely of a restructuring provision of € 34 million after tax.

Net profit, adjusted for incidental items, showed a limited decrease by € 4 million to € 102 million (-4%). This decrease was mainly attributable to € 37 million lower total income. In addition, adjusted total operating expenses were € 23 million higher, largely compensated by a € 52 million swing in impairment charges of financial assets. This was a reversal of € 7 million, after a charge of € 45 million in the first half in connection with the Covid-19 pandemic.

Net interest income decreased by € 22 million to € 414 million, mainly due to lower income on mortgages as a result of (early) interest rate renewals at lower rates. In addition, new mortgage production was concluded at substantially lower rates than the rates of repaid mortgages.

Net fee and commission income amounted to € 17 million, down € 12 million on the first half of 2020. Excluding the changed classification of distribution fees paid by RegioBank, net fee and commission declined by € 5 million, mainly driven by lower fees received for mortgage advice and insurance and a one-off termination payment.

Investment income showed a marginal increase of € 1 million to € 9 million and consisted of realised results on fixed-income investments in both halves of the year.

Other results on financial instruments dropped by € 5 million to € 2 million, a decrease that mainly ensued from lower treasury results and lower results on the repurchase of funding.

Total operating expenses rose by € 68 million to € 360 million, largely driven by a one-off restructuring charge of € 45 million. Adjusted for this one-off charge, operating expenses rose by € 23 million, € 10 million of which staff costs, because of an increase in both the number of internal and external employees. Other operating expenses were also € 10 million higher, predominantly driven by higher marketing costs and consultancy costs. Regulatory levies were € 2 million higher in connection with a € 10 million higher contribution to the Deposit Guarantee Scheme (DGS) caused by growth in covered deposits. This was largely compensated by the recognition of the full annual resolution fund contribution in the amount of € 8 million in the first half of 2020.

Impairment charges of financial assets consisted of a reversal of € 7 million, after a charge of € 45 million in the first half in connection with the Covid-19 pandemic. The reversal of impairment charges on residential mortgages amounted to € 4 million. In the second half, house prices continued to develop positively and the economic outlook used to determine the credit loss provision was not as negative as it was presumed to be in the first half. This was partly compensated by the application of an expert overlay in connection with the high degree of uncertainty surrounding economic developments in the Netherlands and the financial resilience of customers whose incomes have been cut by the crisis. The reversal of impairment charges on consumer loans amounted to € 2 million.

Risk management

Credit risk

in € millions	31-12-2020	31-12-2019
Residential mortgages[1]	47,808	48,161
Consumer loans	63	87
SME loans	724	704
Other corporate and government loans	2,113	1,628
Total loans and advances to customers[2]	**50,708**	**50,580**
CREDIT RISK INDICATORS		
Total loans and advances to customers		
Loans and advances in stage 3	678	645
Stage 3 ratio[3]	1.4%	1.3%
Stage 3 coverage ratio[4]	11.4%	12.9%
Residential mortgages		
Residential mortgages in stage 3	543	540
Stage 3 ratio[3]	1.2%	1.1%
Stage 3 coverage ratio[4]	6.4%	8.0%
In arrears[5]	1.2%	1.0%
NHG guaranteed	29%	29%
Weighted average indexed LtV	61%	67%

1 Including IFRS value adjustments.
2 Gross carrying amounts.
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.

During 2020, gross loans and advances to customers increased slightly by € 0.1 billion to € 50.7 billion. This growth was attributable to Other corporate and government loans, which grew by € 0.5 billion, and to SME loans, the total outstanding amount of which increased by € 20 million.

Residential mortgages and consumer loans contracted by € 0.4 billion and € 24 million respectively.

Credit loss provisions rose from € 125 million as at 31 December 2019 to € 171 million as at 31 December 2020, predominantly driven by the uncertainty around the impact of the Covid-19 pandemic on the portfolio developments of de Volksbank and macroeconomic prospects. The stage 3 ratio (stage 3 loans expressed as a percentage of total loans and advances) showed a slight deterioration from 1.3% to 1.4%. The stage 3 coverage ratio (provision for stage 3 loans as a percentage of total stage 3 loans) decreased from 12.9% to 11.4%, mostly driven by the strong increase of house prices despite the Covid-19 crisis.

Covid-19 crisis

General approach to customer services

In response to the Covid-19 crisis we have adjusted our approach to customer services in order to support our customers that suffer from the economic consequences of the pandemic.

For our retail customers that foresee payment problems on their mortgage or any of their consumer loans due to Covid-19, we offer the opportunity to take a full or partial payment holiday of up to 6 months (interest and repayments) with a repayment term of no more than 5 years depending on the customer’s repayment capacity. The payment holiday may also be granted to customers who are already in arrears but who are temporarily unable to comply with their payment arrangements due to Covid-19. In line with the fiscal policy of the Dutch government, banks may extend this payment holiday until the end of 2021. De Volksbank applies this extension only selectively, since we believe that it does not in all cases contribute to the long-term financial resilience of our customers. The ability to pay the outstanding arrears in full generally diminishes as time progresses and the amount of arrears accumulates. Our aim is to help customers to get a grip on their financial situation as fast as possible.

We also offer similar support to our SME customers hit by the Covid-19 pandemic by providing the opportunity to take a repayment and/or interest holiday of up to 6 months. In addition, customers with an active business current account who meet a number of conditions are eligible for the Small Loans Covid Guarantee Scheme (*Kleine Kredieten Corona garantieregeling*; KKC). The Dutch State guarantees these loans for 95%. Entrepreneurs with annual turnover of € 50,000 or more and a funding need between € 10,000 and € 50,000 may apply for this corporate loan. Another option is to increase the limit of the existing overdraft facility.

Adjustments to the credit loss provision methodology resulting from the Covid-19 crisis

In reaction to the special situation surrounding Covid-19, in April 2020 the European Banking Authority (EBA) published guidelines advising banks, among others, on how to classify exposures subject to Covid-19 supporting measures for the purpose of provisioning calculation. In these guidelines the EBA listed conditions to qualify for general payment moratoria. According to the EBA guidelines, customers receiving Covid-19-related support measures and falling within the scope of the general payment moratoria do not automatically need to be qualified as forborne and are therefore placed in stage 2. It is expected that the support provided will be limited to bridging liquidity shortages customers face due to the economic lockdown, which is temporary and that the customers have the potential to recover soon. As the Covid-19 crisis persisted, the EBA extended the deadlines for general payment moratoria, first moving the end date from 30 June to 30 September. In the light of the second Covid-19 outbreak, in December 2020 the EBA introduced a new deadline for the application of moratoria of 31 March 2021.

Within de Volksbank only certain measures available to SME customers qualified for 'general payment moratoria'. Together with other Dutch banks de Volksbank decided not to make use of the extended deadlines for the general payment moratoria. This means that only supporting measures granted prior to 30 September 2020 fall under the scope of the general payment moratoria. For the purpose of stage allocation we differentiated between SME customers under moratoria with a low and a potentially high risk. This was done based on the customer's probability of default (PD) bucket. Customers that were performing prior to the payment relief measures and had a PD in the low risk PD buckets, were kept in stage 1. Other customers, with a PD in the two highest buckets, were moved to stage 2.

We apply regular stage allocation rules for SME customers applying for payment relief after 30 September 2020 and for customers who were eligible for a moratorium but that have not been able to catch up on their payment obligations despite the supporting measures.

Retail customers and ASN Bank's private loan customers do not fall under general payment moratoria and their financial situation is assessed individually in case of potential or existing financial difficulties. This gives us more certainty regarding their repayment capacity. EBA guidelines published in the early phases of the Covid-19 pandemic provided significant flexibility in terms of customer classification for the purpose of provisioning calculation. Nevertheless, in light of the increasing uncertainty around the duration of the Covid-19 pandemic, starting from September 2020 we revised our policy in respect of customers subject to the Covid-19-related measures. Currently, all non-SME customers with a Covid-19-related payment arrangement are considered forborne and are placed at least in stage 2. In other words, in our stage allocation process we do not differentiate between retail customers and customers of ASN Bank with and without a Covid-19 supporting measure.

Expert overlay

There is a lot of uncertainty around the consequences of the Covid-19 pandemic and the impact of the second-wave lockdown on the Dutch economy. Although the quality of our credit portfolio has not experienced a severe deterioration in 2020, it is expected that prolonged lockdowns may lead to an increase in default rates as more customers may not be able to recover and go into default.

Since our models to determine loan loss provisions (ECL model) are not calibrated for the Covid-19 related events, we believe that the ECL outcomes may underestimate the elevated risk. For this purpose, we implement a so-called expert overlay for both the residential mortgage and SME portfolio.

To estimate the amount of this expert overlay for the residential mortgage portfolio, we considered macroeconomic stress reflected in the drop in house prices. The house prices and house price index are two macroeconomic risk drivers in the ECL model having an impact on the PD and LGD of a customer, therefore affecting mostly stage 1 and stage 2 provisions.

For the SME loan portfolio the expert overlay was applied based on the assumption that all stage 1 customers in the sectors hit most by the pandemic (such as the catering industry, travel agencies, non-essential stores, fitness clubs and hairdressing salons) will show a significant increase in credit risk even if they do not face problems at the moment of evaluation. To cover this risk, the stage 1 provisions were increased up to the level of stage 2 provisions that would be calculated for customers in the aforementioned sectors given the actual stage 2 coverage ratios.

Macroeconomic scenarios used in credit risk models

2020 has been a turbulent year for the economies worldwide. The economic crisis was unprecedented and the uncertainty macroeconomic outlook is also very high. The macroeconomic expectations at the end of the first quarter of 2020, when the crisis had just started, were adjusted upwards later in the year. Despite the Covid-19 crisis, the upward trend in house prices persisted. Nevertheless, we expect that house prices respond to the economic downturn later in 2021. This is reflected in our base- and down macroeconomic scenario (MES) as at 31 December 2020, which predicts a 1.8% and 5.3% drop in the average house prices in 2021. The increase in house prices is expected to resume in 2022.

In 2020, the unemployment rate deteriorated. In the base scenario we expect the unemployment rate to increase further to 5.8% in 2021 and stabilise around 5% in the following years. We expect small businesses and self-employed persons to be hit hard by the second economic lockdown, and the number of bankruptcies to soar between now and the end of 2021.

Since the outbreak of the Covid-19 pandemic, the Dutch government has introduced (tax) support schemes so as to be able to provide credit facilities and to support incomes of companies and employees whose activities are affected by the crisis. The actual impact that the pandemic will have on the Dutch economy depends on its duration in both the Netherlands and the rest of Europe. Current views lead us to expect that the economy will show a moderate recovery in the years ahead.

Sensitivity analysis

The tables below show the macroeconomic expectations of de Volksbank for the next four years. They also show how sensitive the provisioning levels are to the up-, base- and down scenarios weights. The sensitivity analysis is performed for the residential mortgage portfolio only. Given the limited size of the other portfolios, their sensitivity to the various scenarios measured in euros is marginal. Based on the expectations as at 31 December 2020 in case of a 100% weighting of the down scenario, the provision for residential mortgages would increase by € 30 million, from € 111 million to € 141 million. In case of a 100% weighting of the up scenario, the provision would decrease by € 42 million and in case of a100% weighting of the base scenario by € 7 million. In all three situations sensitivity of the provisions to changes in scenario weights is higher than it was in 2019, which is mostly attributable to the deteriorated macroeconomic outlook. Also, the dispersion of up and down scenario values in relation to base scenario values increased.

Macroeconomic scenarios as at 31 December 2020

	Macroeconomic Parameter	2021	2022	2023	2024	Long-term average	Weight	Unweighted ECL	Reported (weighted) ECL
Up	Relative change in house price index	7.3%	5.2%	3.7%	3.7%	3.7%	15%	69	
	Unemployment rate	5.4%	4.2%	4.0%	4.0%	4.0%			
Base	Relative change in house price index	-1.8%	3.2%	3.7%	3.7%	3.7%	50%	104	111
	Unemployment rate	5.8%	5.0%	5.0%	5.0%	5.0%			
Down	Relative change in house price index	-5.3%	1.2%	3.7%	3.7%	3.7%	35%	141	
	Unemployment rate	8.1%	7.1%	6.8%	6.8%	6.8%			

Macroeconomic scenarios as at 31 December 2019

	Macroeconomic Parameter	2020	2021	2022	2023	Long-term average	Weight	Unweighted ECL	Reported (weighted) ECL
Up	Relative change in house price index	4.7%	4.5%	3.9%	3.9%	3.9%	15%	62	
	Unemployment rate	3.4%	3.3%	3.3%	3.3%	3.3%			
Base	Relative change in house price index	2.9%	2.9%	3.4%	3.4%	3.5%	50%	68	71
	Unemployment rate	3.6%	3.8%	3.8%	3.9%	4.0%			
Down	Relative change in house price index	0.3%	-0.1%	2.9%	3.4%	3.5%	35%	81	
	Unemployment rate	3.7%	4.5%	4.7%	4.8%	4.8%			

Credit loss provisions by portfolio

Residential mortgages

The credit loss provision for residential mortgages rose by € 40 million in 2020. This significant increase is explained by several factors. In 2020 we reviewed our provisioning methodology for interest-only loans. Both the application of segmentation rules and the provisioning levels were tightened, resulting in a sharp increase in total exposure as well as in the amount of stage 2 provisions. As a result of these adjustments and the worsened outlook for the unemployment rate, the stage 2 coverage ratio rose to 2.0% in 2020 from 0.9% as at 31 December 2019. Secondly, the application of the expert overlay significantly levelled up the total provisioning amount for the residential mortgages. This increase was especially pronounced in stage 1 and stage 2.
The amount of stage 3 loans and advances rose by € 3 million to € 543 million. This slight deterioration was caused partially by the inflow of customers hit by the Covid-19 crisis and was mostly compensated by the regular outflow from the default portfolio due to recoveries and write-offs. The stage 3 provision decreased by € 8 million, mainly driven by the favourable developments in the house prices. This resulted in a lower coverage ratio of stage 3 loans, which dropped from 8.0% as at 31 December 2019 to 6.4%.

The percentage of customers who take out NHG-guaranteed loans has remained stable for a number of years now. The weighted average indexed LtV of the retail mortgages improved to 61%, from 67% at year- end 2019. To determine the LtV, we index collateral values every month on the basis of house price developments. Rising house prices have led to a shift of mortgages to lower LtV buckets.

Consumer loans

The size of the consumer loan portfolio decreased to € 63 million from € 87 million as at the end of 2019. The amount of loans and advances in stage 3 dropped slightly from € 13 million as at the end of 2019 to € 12 million, primarily driven by the write-down of balances of customers who had been in default for a long period of time.

So far, the Covid-19 crisis has had a limited impact on consumer loans. The credit loss provision dropped by € 2 million to € 12 million primarily as a result of the implementation of a new ECL model. The increase in the coverage ratio to 19.0% was mainly due to the unemployment rate being adjusted upwards in the macroeconomic scenarios in 2020. This resulted in a higher average provision per account or loan.

The consumer loan portfolio is expected to decline further in 2021 mostly driven by the decline in the revolving credits.

SME loans

During 2020, the new production (€ 117 million) exceeded repayments and SME loans increased by € 20 million to € 724 million. The credit loss provision grew by € 7 million to € 38 million. The consequences of the Covid-19 crisis are reflected in the increase in the stage 2 ratio, which grew to 12.4% from 9.5% in 2019. Furthermore, the total volume of stage 3 exposure grew by € 12 million. The effects of the Covid-19 crisis are expected to have a pronounced impact on the portfolio developments in the course of 2021.

Other corporate and government loans

Other corporate and government loans are made up almost entirely of the loan portfolio of ASN Bank. This portfolio is hardly directly affected by the Covid-19 crisis, as 45% consists of private loans to local authorities and loans to housing associations and hospitals guaranteed by guarantee funds. The other 55% consists of loans contributing to a more sustainable world. These loans are predominantly based on government incentives (subsidies and price guarantees). Only a limited portion of the portfolio is hit directly. Customers from this portfolio therefore made little use of the Covid-19 related support measure (suspension of repayment and interest payments).

Loans and advances to customers by stage 31 December 2020

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Residential mortgages	43,154	-24	43,130	93.3%	0.1%
Consumer loans	38	--	38	60.3%	0.0%
SME loans	558	-6	552	77.1%	1.1%
Other corporate and government loans	1,916	--	1,916	90.7%	0.0%
Total loans and advances to customers stage 1	**45,666**	**-30**	**45,636**	**92.9%**	**0.1%**
STAGE 2					
Residential mortgages	2,539	-52	2,487	5.5%	2.0%
Consumer loans	13	-1	12	20.6%	7.7%
SME loans	86	-5	81	11.9%	5.8%
Other corporate and government loans	154	-1	153	7.3%	0.6%
Total loans and advances to customers stage 2	**2,792**	**-59**	**2,733**	**5.7%**	**2.1%**
STAGE 3					
Residential mortgages	543	-35	508	1.2%	6.4%
Consumer loans	12	-11	1	19.0%	91.7%
SME loans	80	-27	53	11.0%	33.8%
Other corporate and government loans	43	-4	39	2.0%	9.3%
Total loans and advances to customers stage 3	**678**	**-77**	**601**	**1.4%**	**11.4%**
TOTAL STAGE 1, 2 AND 3					
Residential mortgages	46,236	-111	46,125		0.2%
Consumer loans	63	-12	51		19.0%
SME loans[1]	724	-38	686		5.2%
Other corporate and government loans	2,113	-5	2,108		0.2%
Total loans and advances to customers excluding IFRS value adjustments	**49,136**	**-166**	**48,970**		**0.3%**
IFRS value adjustments[2]	1,572	--	1,572		
Total loans and advances to customers	**50,708**	**-166**	**50,542**		**0.3%**
Off-balance sheet items stage 1	2,754	-2	2,752		0.1%
Off-balance sheet items stage 2	46	-1	45		2.2%
Off-balance sheet items stage 3	15	-2	13		13.3%
Total off-balance sheet items[3]	**2,815**	**-5**	**2,810**		**0.2%**
Total on- and off-balance sheet items for loans and advances to customers	**53,523**	**-171**	**53,352**		**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 674 million.
2 Consisting of fair value adjustments from hedge accounting and amortisations.
3 Consists of off-balance sheet facilities (of which € 428 million conditionally revocable), guarantees and repurchase commitments.

Loans and advances to customers by stage 31 December 2019

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Residential mortgages	43,977	-6	43,971	93.6%	0.0%
Consumer loans	62	--	62	71.3%	0.0%
SME loans	566	-1	565	80.4%	0.2%
Other corporate and government loans	1,470	--	1,470	90.3%	0.0%
Total loans and advances to customers stage 1	**46,075**	**-7**	**46,068**	**93.3%**	**0.0%**
STAGE 2					
Residential mortgages	2,446	-22	2,424	5.2%	0.9%
Consumer loans	12	-1	11	13.8%	8.3%
SME loans	67	-5	62	9.5%	7.5%
Other corporate and government loans	137	-1	136	8.4%	0.7%
Total loans and advances to customers stage 2	**2,662**	**-29**	**2,633**	**5.4%**	**1.1%**
STAGE 3					
Residential mortgages	540	-43	497	1.1%	8.0%
Consumer loans	13	-13	--	14.9%	100.0%
SME loans	71	-25	46	10.1%	35.2%
Other corporate and government loans	21	-2	19	1.3%	9.5%
Total loans and advances to customers stage 3	**645**	**-83**	**562**	**1.3%**	**12.9%**
TOTAL STAGE 1, 2 AND 3					
Residential mortgages	46,963	-71	46,892		0.2%
Consumer loans	87	-14	73		16.1%
SME loans[1]	704	-31	673		4.4%
Other corporate and government loans	1,628	-3	1,625		0.2%
Total loans and advances to customers excluding IFRS value adjustments	**49,382**	**-119**	**49,263**		**0.2%**
IFRS value adjustments[2]	1,198	--	1,198		
Total loans and advances to customers	**50,580**	**-119**	**50,461**		**0.2%**
Off-balance sheet items stage 1	2,491	-1	2,490		0.0%
Off-balance sheet items stage 2	22	-1	21		4.5%
Off-balance sheet items stage 3	35	-4	31		11.4%
Total off-balance sheet items[3]	**2,548**	**-6**	**2,542**		**0.2%**
Total on- and off-balance sheet items for loans and advances to customers	**53,128**	**-125**	**53,003**		**0.2%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 638 million.

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

3 Consists of off-balance sheet facilities (of which € 446 million conditionally revocable), guarantees and repurchase commitments.

Residential mortgages by LtV bucket

in € millions[1]	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total		2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 Total	
NHG[2]	12,039	503	90	12,632	29%	12,664	468	77	13,209	29%
- *of which LtV ≤ 75%*	8,381	267	52	8,700	20%	6,460	172	29	6,661	15%
- *of which LtV >75 ≤ 100%*	3,627	215	34	3,876	9%	5,903	254	40	6,197	14%
- *of which LtV >100 ≤ 110%*	22	11	1	34	0%	242	27	4	273	1%
- *of which LtV >110 ≤ 125%*	5	5	2	12	0%	42	7	2	51	0%
- *of which LtV > 125%*	4	5	1	10	0%	17	8	2	27	0%
Non-NHG	29,255	1,975	442	31,672	71%	29,368	1,925	449	31,742	71%
- *of which LtV ≤ 75%*	22,798	940	221	23,959	54%	20,140	699	163	21,002	47%
- *of which LtV >75 ≤ 100%*	6,295	869	163	7,327	17%	8,575	902	179	9,656	21%
- *of which LtV >100 ≤ 110%*	106	66	20	192	0%	507	176	36	719	2%
- *of which LtV >110 ≤ 125%*	37	43	12	92	0%	103	57	28	188	0%
- *of which LtV > 125%*	19	57	26	102	0%	43	91	43	177	0%
Principal amounts excluding savings deposits	**41,294**	**2,478**	**532**	**44,304**	**100%**	**42,032**	**2,393**	**526**	**44,951**	**100%**
Provision for credit losses				-111					-71	
IFRS value adjustments[3]				1,572					1,198	
Savings deposits				1,932					2,012	
Total residential mortgages				**47,697**					**48,090**	
Weighted average indexed LtV				**61%**					**67%**	

1 LtV based on indexed market value of collateral.
2 The size of guarantees related to NHG-guaranteed mortgages expires on an annuity basis.
3 Consisting of fair value adjustments from hedge accounting and amortisations.

Non-financial risk

As a result of the Covid-19 outbreak, since March 2020 the credo for staff is to work from home unless activities require a presence at the office. De Volksbank actively monitors the consequences for staff. The new situation has not led to an increase in staff absence. Management and HR are redesigning the 'new way of working' (HNW) guidelines for both the Covid-19 period and thereafter.

According to our cyber threat reports, the cyber threat keeps increasing, as indicated by increased levels for the risk indicators phishing (correlating with the Covid-19 outbreak), malware and vulnerabilities. Furthermore, de Volksbank suffered from DDoS attacks that impacted iDEAL availability. We are further strengthening the control framework. IT General Controls are further rationalised.

In 2020, we continuously saw an increase in fraud in our payment transactions, as well as an increase in the related amount of damage reimbursed to customers. Currently, de Volksbank faces approximately 200 reported fraud cases in payment transactions per week. The increased frequency of 'WhatsApp fraud' is the major contributor to the rising number of fraud cases. Moreover, in the third quarter of 2020, Compliance signalled an increase of 7% in the number of bank accounts opened at de Volksbank with the aim of conducting fraud. The cause of this increase is currently being investigated.

Furthermore, the foreseen closure of a number of our SNS and RegioBank ATMs was accelerated in 2020. This was done in order to protect society and our partners from the risk of raids on our ATMs. Lastly, de Volksbank will continue to participate in Public Private Partnerships to ensure the integrity of the Dutch financial system.

De Volksbank is continuously incorporating laws and regulations into internal policies, processes and procedures to control customer integrity. Changing laws and regulations have a considerable impact on our organisation. The day-to-day Wwft policymaker and other persons pay considerable attention to the implementation of these changes. The progress made is regularly discussed at Board level.

Capital management

Capitalisation

With effect from 12 March 2020, de Volksbank is required to meet a minimum total Overall Capital Requirement (OCR) of 14.0%, of which at least 9.41% (previously: 10.5%) needs to be composed of CET1 capital. This obligation stems from the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2019, and the SREP decision applicable from 1 January 2020. As a measure to support the banks' capital position in response to the Covid-19 crisis, the ECB announced that, as from 12 March 2020, the Pillar 2 requirement need not be entirely composed of CET1 capital, but may partially consist of Additional Tier 1 and Tier 2 capital. In doing so, it brought forward Article 104(a) of CRD V, which was scheduled to come into effect in January 2021.

Capitalisation

in € millions	31-12-2020	30-6-2020	31-12-2019
Shareholders' equity	3,450	3,382	3,435
Non-eligible interim profits	-131	-106	-214
Shareholders' equity for CRD IV purposes	**3,319**	**3,276**	**3,221**
Cashflow hedge reserve	-22	-24	-26
Other prudential adjustments	-4	-3	-6
Total prudential filters	**-26**	**-27**	**-32**
Intangible assets	--	--	-2
IRB shortfall[1]	--	--	-31
Additional deductions of CET1 Capital due to Article 3 CRR	-70	--	-3
Total capital deductions	**-70**	**--**	**-33**
Total regulatory adjustments to shareholders' equity	**-96**	**-27**	**-65**
CRD IV CET 1 capital	**3,223**	**3,249**	**3,156**
Additional Tier 1 capital	--	--	--
Tier 1 capital	**3,223**	**3,249**	**3,156**
Eligible Tier 2	500	500	500
IRB Excess	11	13	--
Tier 2 capital	**511**	**513**	**500**
Total capital	**3,734**	**3,762**	**3,656**
Risk-weighted assets	**10,331**	**9,612**	**9,680**
Risk exposure as defined by the CRR	62,494	64,535	62,006
CET1 ratio	**31.2%**	**33.8%**	**32.6%**
Tier 1 ratio	31.2%	33.8%	32.6%
Total capital ratio	36.1%	39.1%	37.8%
Leverage ratio	5.2%	5.0%	5.1%

1 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV directives and the IFRS retail mortgage provision.

De Volksbank's CET1 capital ratio decreased to 31.2%, from 32.6% at year-end 2019, primarily due to an increase in RWA. The CET1 capital ratio remained well above our target of at least 19%.

In 2020, shareholders' equity increased by € 15 million to € 3,450 million. On the one hand, the shareholders' equity decreased as a result of the 2019 dividend reservation of € 165 million, on the other hand it increased mainly as a result of the € 174 million net profit for 2020.

To determine shareholders' equity for CRD IV purposes, non-eligible interim profits are deducted from shareholders' equity. After profit appropriation by the General Meeting of Shareholders in April 2020, € 49 million was added to the CET1 capital from the non-eligible (interim) profits as at year-end 2019 of € 214 million, in addition to the deduction of € 165 million allocated for dividend.

The interim profit not yet eligible as CRD IV equity for 2020 (€ 131 million) is the dividend reservation on the net profit for the first half and the full net profit for the second half of 2020.

To determine CET1 capital, shareholders' equity is subsequently subjected to a number of regulatory adjustments. Total regulatory adjustments amounted to € 96 million negative at the end of December 2020 (2019: € 65 million negative) and consisted mainly of a deduction of € 70 million related to the expected impact of the update of our Advanced Internal Ratings Based (Advanced IRB or AIRB) model and a prudential adjustment for the cashflow hedge reserve.

On balance, CRD IV CET1 capital was up by € 67 million to € 3,223 million.

Risk-weighted assets (RWA)

in € millions	31-12-2020	30-6-2020	31-12-2019
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based (IRB)	5,897	5,832	5,932
Credit risk - standardised approach (SA)	2,296	2,147	2,128
Securitisations	17	14	8
Operational risk	1,451	1,503	1,503
Market risk	--	20	5
Credit Valuation Adjustment (CVA)	70	96	104
Additional risk exposure amounts due to Article 3 CRR	600	--	--
Total	**10,331**	**9,612**	**9,680**

In 2020, RWA increased by € 652 million to € 10.3 billion. This increase is mainly due to an upcoming update of our internal model to assess retail mortgages (PHIRM[4]). The estimated impact of this on the RWA of € 600 million is already included in the capital figures at year-end 2020. The remaining increase was mainly attributable to a € 369 million increase related to the increased short-term exposures to other financial institutions, partly offset by a € 120 million reduction due to an adjusted weighting of the credit facility granted to the Deposit Guarantee Fund (DGF) and a reduction of € 89 million for SME loans, mainly related to increased loan-splitting for these exposures in 2020.

Furthermore, RWA for the credit risk of the retail mortgage portfolio, calculated according to the AIRB approach, was € 35 million lower. Despite deteriorated economic conditions the credit quality of the portfolio improved, partly due to the strong development of the housing market. As a result the average risk weighting of retail mortgages in 2020 went down from 12.9% at year-end 2019 to 12.7%. The RWA for operational risk, market risk, the Credit Valuation Adjustment and the revised securitisation framework decreased by € 81 million to € 1.5 billion in total.

Leverage ratio

The leverage ratio increased from 5.1% at year-end 2019 to 5.2%, mainly driven by an increase in the leverage ratio numerator (Tier 1 capital) by € 67 million. The leverage ratio denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR). The increase in risk exposure amounted to € 0.5 billion. This increase mainly results from the growth in the balance sheet total (€ 4.6 billion) and a deduction of central bank exposures of € 4.5 billion, as allowed by the ECB as a temporary Covid-19 relief measure. The increase in the balance sheet total was mainly due to the growth in deposits.

The 5.2% leverage ratio is well above the regulatory requirement of 3.0%[5] and our target of at least 4.5%. Based on our capital targets, the amount of capital required to meet the leverage ratio requirement is higher than the amount required to meet risk-weighted capital requirements. This is the consequence of the bank's focus on retail mortgages, a low-risk activity with a correspondingly low risk weighting.

Developments in capital requirements

Basel IV

On 7 December 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.

As at year-end 2020, we estimate that as a result of Basel IV, fully phased in, our RWA will grow by approximately 30%[6], and that our CET1 capital ratio will decrease by approximately 7 percentage points. The largest effect comes from the output floor on the basis of the revised

4 Internal Rating Model for Retail Mortgages (PHIRM).
5 This leverage ratio requirement will apply from June 2021.
6 Starting from (1) loan-splitting for retail mortgages, and (2) the assumption that 93% of the retail mortgages meet the documentation requirements.

Standardised Approach (SA) for credit risk versus the current internal modelling approach on the basis of PHIRM. To give banks more time to prepare for Basel IV following the Covid-19 pandemic, the BCBS has postponed the introduction of Basel IV by one year, phasing in the output floor from 50% in 2023 to 72.5% in 2028. The anticipated changes in internal modelling approaches and the SA for operational risk under Basel IV are expected to have a limited effect on the RWA of de Volksbank.

We estimate that our CET1 capital ratio under full phase-in of Basel IV will still exceed our target of at least 19%[7].

Minimum floor for risk weighting of mortgage loans

In anticipation of the implementation of Basel IV, DNB announced in October 2019 that it would increase the minimum risk weighting for mortgage portfolios of Dutch banks, with the exception of mortgages with (partial) National Mortgage Guarantee (NHG) coverage. This measure applies to banks that use internal risk models to calculate capital requirements for their mortgage portfolios, such as de Volksbank. To support the banks' capital position in response to the Covid-19 crisis, DNB has postponed the introduction of this minimum floor with effect from the autumn of 2020 until further notice.

MREL

In its capital planning de Volksbank starts from the assumption that the minimum non risk-weighted MREL requirement of 8% must be fully composed of CET1 capital and subordinated liabilities (Tier 1 capital, Tier 2 capital and SNP notes[8]) as from 1 January 2024. Based on its current capital position, de Volksbank expects to issue SNP notes totaling € 2.0 to € 2.5 billion up to 2024. De Volksbank is closely monitoring developments regarding (intermediate) MREL subordination requirements and will adjust its capital planning if necessary.

MREL

in € millions	31-12-2020	30-6-2020	31-12-2019
CET1 capital	3,223	3,249	3,156
Tier 2 capital	511	513	500
Total capital	**3,734**	**3,762**	**3,656**
Other eligible unsecured liabilities with remaining maturity > 1 year	1,859	1,717	1,748
Total capital including other eligible liabilities	**5,593**	**5,479**	**5,404**
Exposure measure as defined by the BRRD (MREL)	65,406	63,186	60,738
Risk-weighted assets	10,331	9,612	9,680
MREL BRRD			
MREL (Total capital)	5.7%	6.0%	6.0%
MREL (Total capital including other eligible liabilities)	8.6%	8.7%	8.9%
MREL RISK WEIGHTED ASSETS			
MREL (Total capital)	36.1%	39.1%	37.8%
MREL (Total capital including other eligible liabilities)	54.1%	57.0%	55.8%

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

At year-end 2020 the non-risk-weighted MREL ratio stood at 8.6% (2019: 8.9%). This includes the total capital and all other unsecured liabilities eligible for MREL under the current BRRD.

In 2020, total capital and eligible liabilities rose by € 189 million to € 5,593 million. This increase is the result of the € 78 million increase in total capital and the issuance of senior debt of € 500 million in 2020.
On the other hand, de Volksbank decided on the instructions of the Single Resolution Board (SRB) that € 121 million in outstanding structured unsecured debts would be disregarded in the determination of MREL-eligible liabilities, since these are no longer eligible for MREL under new regulatory requirements applicable after 28 December 2020 (BRRDII). Furthermore, during 2020 an amount of outstanding senior unsecured debt of € 267 million was no longer eligible for

7 Based on our balance sheet position as at 31 December 2020 and assuming the implementation of Basel IV rules in European legislation remains unchanged.
8 Senior Non-Preferred notes

MREL due to a remaining maturity shorter than one year. The risk exposure measure as defined by the BRRD rose by € 4.9 billion to € 65.4 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (together € 3,734 million), that are both subordinated to other liabilities outstanding, amounted to 36.1% (year-end 2019: 37.8%). Based on the balance sheet position as at the end of 2020, we estimate that the risk-weighted MREL ratio met with CET1 capital and subordinated instruments would be approximately 8 percentage points lower under full phase-in of Basel IV.

Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the net adjusted profit. In line with this policy, de Volksbank decided in its General Meeting of Shareholders in April 2020 to declare a dividend of € 165 million for 2019 in April 2020. This comes down to a payout ratio of 60%.

On 28 July 2020, the ECB requested banks not to pay out dividends for 2019 and 2020 until at least 1 January 2021 on account of the Covid-19 pandemic. On 27 March 2020, the ECB had already requested banks not to pay out dividends for these years until at least 1 October 2020. De Volksbank has, therefore, temporarily postponed the planned dividend payment for 2019. On 15 December 2021, the ECB recommended that until 30 September 2021 de Volksbank exercises extreme prudence when deciding on or paying out dividends. The ECB considers that it would not be prudent to consider making a distribution amounting to more than 15% of accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the CET1 capital ratio, whichever is lower. In accordance with this recommendation, de Volksbank intends to pay € 20 million of the dividends over 2019 before 30 September 2021. The remaining dividend for 2019 will be paid out as soon as the ECB recommendation is no longer restrictive.

Although the dividend for 2019 has not yet been paid out, the amount has already been reserved for distribution, as a result of which it is no longer part of the bank's CET1 capital. Following the General Meeting of Shareholders in April 2020, the dividend determined for 2019 was declared and recognised as a liability in the balance sheet. If the deferred dividend was to be added to capital, it would require a shareholders' resolution to pay up the capital.

For 2020, we propose to pay out a dividend of € 104 million. This implies a pay-out ratio of 50% of the 2020 net adjusted profit, and with 60% of the net profit. The proposed dividend for 2020 will be paid out as soon as it is in accordance with the ECB recommendation to make such payment.

Liquidity and funding

Liquidity

In 2020, de Volksbank maintained a strong liquidity position that amply met both its internal targets and regulatory requirements.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum of 100%. As at 31 December 2020, the LCR stood at 233% (year-end 2019: 182%).

Key liquidity indicators

	31-12-2020	30-6-2020	31-12-2019
LCR	233%	182%	182%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio	92%	96%	102%
Liquidity buffer (in € millions)	19,121	17,563	16,897

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio[9], dropped to 92%, from 102% at year-end 2019. This drop was caused by a growth in deposits, of which € 3.7 billion of which was driven by an increase in savings of retail customers, while there was a limited decline in loans.

The liquidity buffer remained high and amounted to € 19.1 billion at 31 December 2020 (year-end 2019: € 16.9 billion).

Liquidity buffer composition

in € millions	**31-12-2020**	**30-6-2020**	**31-12-2019**
Cash position[1]	5,925	3,754	3,836
- of which central bank reserves & nostro accounts	*5,010*	*1,400*	*2,302*
- of which contractual wholesale cashflows maturing within ten days or less	*915*	*2,354*	*1,534*
Sovereigns	2,778	2,830	2,805
Regional/local governments and supranationals	1,252	1,152	1,091
Other liquid assets	337	327	263
Eligible retained RMBS	8,829	9,500	8,902
Liquidity buffer	**19,121**	**17,563**	**16,897**

1 The cash position, as presented above, comprises central bank reserves, current account balances held at correspondent banks and contractual wholesale cashflows maturing within ten days or less. As a result, the cash position deviates from the cash and cash equivalents balance in the balance sheet.

As at 31 December 2020, the cash position amounted to € 5.9 billion (year-end 2019: € 3.8 billion). The 2020 funding need arose mainly from the € 2.5 billion repayment in capital market wholesale funding and was more than fully met by a € 5.3 billion growth in deposits. Furthermore, de Volksbank participated for € 0.7 billion in TLTRO-III funding from the ECB and issued € 0.5 billion in green Tier 2 capital instruments, € 0.5 billion in covered bonds and € 0.5 billion in green unsecured bonds in 2020. Although in 2020 cash inflows were substantially higher than cash outflows, driven by the € 5.3 billion deposit growth, this was only partly visible in the cash position as available liquidity was invested in longer maturities. At year-end 2020, the volume of short-term loans and investments entered into for cash management purposes with a remaining maturity of more than ten days (not included in the cash position) was € 2.7 billion higher compared with year-end 2019.

The liquidity value of other liquid assets in the liquidity buffer as at the end of 2020 amounted to € 13.2 billion (year-end 2019: € 13.1 billion):

- The liquidity value of eligible retained RMBS decreased to € 8.8 billion (year-end 2019: € 8.9 billion). The € 0.7 billion reduction in retained RMBS notes related to the TLTRO-III

9 Loan-to-Deposit ratio: loans and advances to retail customers / amounts due to retail customers

participation was largely offset by the impact of reduced ECB collateral valuation haircuts for de Volksbank's retained RMBS notes. The reduced ECB haircuts are partly the result of a general reduction of collateral valuation haircuts by 20% as approved by the ECB as from 20 April 2020. The latter is a temporary Covid-19 measure that is expected to apply until June 2022;
- The value of other liquid assets in the liquidity buffer rose by € 0.2 billion, predominantly because of nominal growth of de Volksbank's liquidity portfolio.

As at year-end 2020, € 3.5 billion in assets had been invested for cash management purposes with an investment horizon of more than ten days (year-end 2019: € 0.8 billion). These assets are available as liquid assets on short notice.

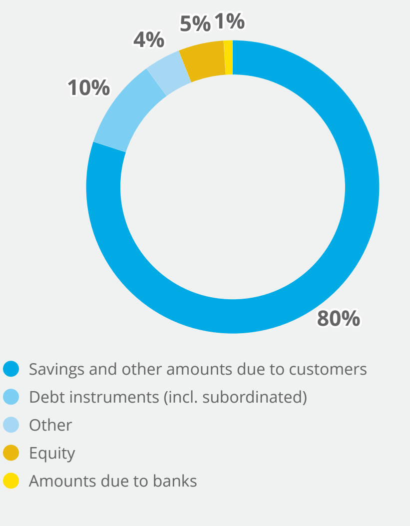
Funding

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. In addition, funding takes place through savings deposits and current account balances from SME customers. In 2020, customer deposits increased to € 53.0 billion, from € 48.1 billion at year-end 2019.

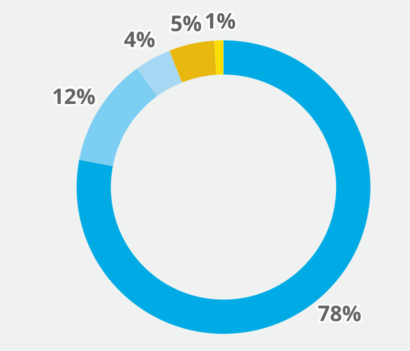
The bank also attracts funding from the capital market through various funding instruments spread over terms, markets, regions and types of investor.

The diagrams below provide an overview of the book value-based composition of the total liabilities as at year-end 2020 and 2019. The percentage of our funding that is made up of savings and other amounts due to customers rose to 80%, from 78% at year-end 2019.

Equity and liability mix as at 31 December 2020: € 67.5 billion



Equity and liability mix as at 31 December 2019: € 62.8 billion



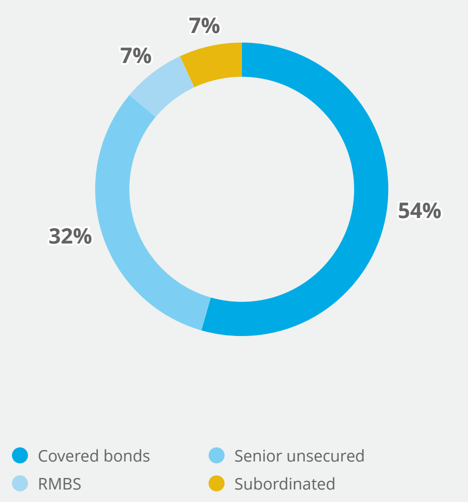
In 2020, de Volksbank successfully executed a number of capital market funding transactions:
- € 0.5 billion in a green Tier 2 capital instrument with a call option during the three-months period starting on 22 July 2025;
- € 0.5 billion in covered bonds with a maturity of twenty years;
- € 0.5 billion in green unsecured bonds with a maturity between 18 months and two years.

The new Tier 2 capital instrument has replaced the Tier 2 capital instrument that was called on 5 November 2020.

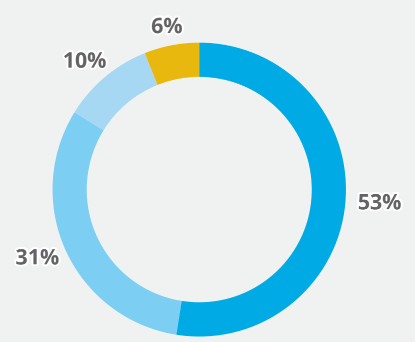
In addition to the € 0.5 billion Tier 2 capital replacement, the € 0.5 billion covered bond transaction and € 0.5 billion in unsecured funding transactions, the capital market funding mix changed in 2020 (with the total amount of capital market funding decreasing from € 7.9 billion to € 6.9 billion), primarily due to the repayment of:

- covered bonds (€ 1.2 billion);
- senior unsecured funding (€ 0.7 billion);
- certificates issued under securitisation programmes (€ 0.1 billion).

Capital market funding mix as at 31 December 2020: € 6.9 billion (nominal value)

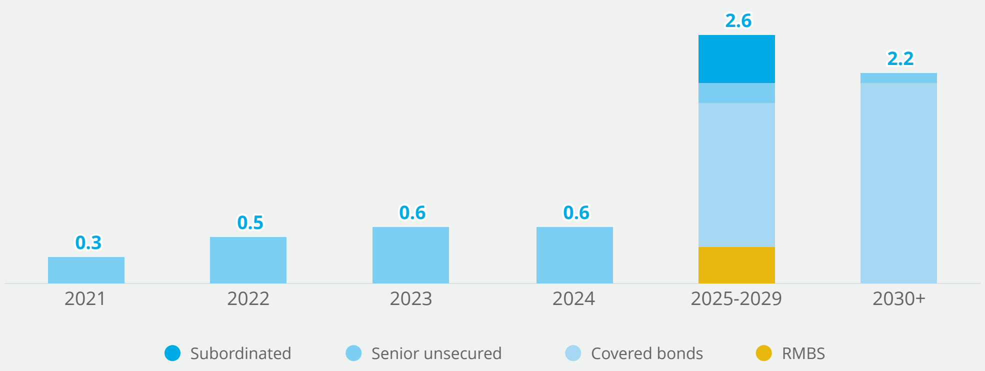


Capital market funding mix as at 31 December 2019: € 7.9 billion (nominal value)



The figure below presents an overview of the maturity calendar of the capital market funding outstanding with an original maturity of more than one year. In the graph it is assumed that this funding will be redeemed at the earliest possible dates. In 2021, we expect to issue covered bonds and senior non-preferred debt to strengthen our layer of subordinated debt.

Capital market funding maturities
(in € billions)



Condensed consolidated interim financial statements

Consolidated statement of financial position

Before result appropriation and in € millions	31-12-2020	31-12-2019
ASSETS		
Cash and cash equivalents	4,672	2,026
Derivatives	864	718
Investments	5,113	5,350
Loans and advances to banks	5,990	3,791
Loans and advances to customers	50,542	50,461
Tangible and intangible assets	110	128
Tax assets	42	99
Other assets	151	268
Total assets	**67,484**	**62,841**
EQUITY AND LIABILITIES		
Savings	42,111	38,404
Other amounts due to customers	11,541	10,641
Amounts due to customers	**53,652**	**49,045**
Amounts due to banks	945	541
Debt certificates	6,119	6,906
Derivatives	2,163	1,841
Tax liabilities	17	15
Other liabilities	558	492
Provisions	80	64
Subordinated debts	500	502
Total other liabilities	**10,382**	**10,361**
Share capital	381	381
Other reserves	2,895	2,779
Net profit for the period	174	275
Shareholders' equity	**3,450**	**3,435**
Total equity and liabilities	**67,484**	**62,841**

Consolidated income statement

in € millions	2020	2019
INCOME		
Interest income	1,148	1,263
Interest expense	298	388
Net interest income	**850**	**875**
Fee and commission income	121	118
Fee and commission expenses	75	67
Net fee and commission income	**46**	**51**
Investment income	17	12
Other result on financial instruments	9	-10
Other operating income	1	1
Total income	**923**	**929**
EXPENSES		
Staff costs	427	373
Depreciation and amortisation of tangible and intangible assets	29	36
Other operating expenses	196	165
Impairment charges of financial assets	38	-7
Other expenses	--	--
Total expenses	**690**	**567**
Result before taxation	**233**	**362**
Taxation	59	87
Net result continued operations	**174**	**275**

Consolidated statement of comprehensive income

Other comprehensive income

in € millions	2020	2019
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Unrealised revaluations of property and equipment	--	1
Change in other reserves	--	1
Total items never reclassified to profit or loss	**--**	**2**
ITEMS THAT ARE RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-4	-5
Change in fair value reserve	10	5
Total items that are reclassified to profit or loss	**6**	**--**
Other comprehensive income (after tax)	**6**	**2**

Total comprehensive income attributable to the shareholder

Total comprehensive income

in € millions	2020	2019
Net profit	174	275
Other comprehensive income (after tax)	6	2
Total comprehensive income for the period	**180**	**277**

Consolidated statement of changes in total equity

Consolidated statement of changes in equity 2020

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Net profit for the period	Total equity
Balance as at 1 January 2020	381	3,537	6	26	19	-809	275	3,435
Transfer of net result 2019	--	--	--	--	--	110	-110[3]	--
Unrealised revaluations	--	--	--	--	22	--	--	22
Realised revaluations through P&L	--	--	--	-4	-12	--	--	-16
Realised revaluations through equity	--	--	-4	--	--	4	--	--
Other comprehensive income	--	--	-4	-4	10	4	--	6
Net result 2020	--	--	--	--	--	--	174	174
Total result 2020	--	--	-4	-4	10	4	174	180
Dividend to be paid	--	--	--	--	--	--	-165[4]	-165
Transactions with shareholder	--	--	--	--	--	--	-165	-165
Total changes in equity 2020	--	--	-4	-4	10	114	-101	15
Closing balance	381	3,537	2	22	29	-695	174	3,450

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

2 The revaluation reserve consists of revaluations of property in own use.

3 This is the result after deduction of the dividend payable.

4 Dividend to be paid out to NLFI included under the other liabilities.

Consolidated statement of changes in equity 2019

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Net profit for the period	Total equity
Balance as at 1 January 2019	381	3,787	6	31	14	-918	268	3,569
Transfer of net result 2018	--	--	--	--	--	107	-107[3]	--
Unrealised revaluations	--	--	1	--	13	--	--	14
Realised revaluations through P&L	--	--	--	-5	-8	--	--	-13
Realised revaluations through equity	--	--	-1	--	--	1	--	--
Other movements	--	--	--	--	--	1	--	1
Other comprehensive income	--	--	--	-5	5	2	--	2
Net result 2019	--	--	--	--	--	--	275	275
Total result 2019	--	--	--	-5	5	2	275	277
Dividend pay-out	--	--	--	--	--	--	-161[4]	-161
Capital distribution	--	-250	--	--	--	--	--	-250
Transactions with shareholder	--	-250	--	--	--	--	-161	-411
Total changes in equity 2019	--	-250	--	-5	5	109	7	-134
Closing balance	381	3,537	6	26	19	-809	275	3,435

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

2 The revaluation reserve consists of revaluations of property in own use.

3 The result after deducting the dividend payment of € 161 million.

4 Dividend paid out to NLFI

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 *Stichting administratiekantoor beheer financiële instellingen* (NLFI).

De Volksbank's financial statements have 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 2019 consolidated financial statements of de Volksbank, taking the changes in IFRS-EU into account as from 1 January 2020. The preparation of the financial statements for 2020 is in progress. The figures in this press release have not been audited.

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 three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 67 billion and 3,171 internal employees (FTEs), which makes it a major player in the Dutch market. The head office of de Volksbank is located in Utrecht.

Mission and ambition

The mission of de Volksbank is 'Banking with a human touch'. To live up to our mission we formulated an ambition based on the principle of shared value. Shared value is directed towards social and economic as well as financial and non-financial aspects. Our ambition is to optimise this shared value by delivering benefits for customers, taking responsibility for society, giving genuine attention to employees and achieving returns for the shareholder.

Our brands

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

SNS

Financial resilience

SNS is for anyone who wants to bank with a straightforward, no-nonsense and humane bank. Not only in terms of products traditionally offered by a bank, such as current accounts or mortgages. But above all, broader than that: what do customers think is important, what do they need help with or what keeps them awake?
SNS supports its customers in managing their financial lives and makes customers financially resilient by being close to them, in a simple and humane way. www.snsbank.nl

ASN Bank

Sustainability

ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for 50 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. ASN Bank bases its choices on the three pillars of its sustainability policy: human rights, climate and biodiversity.
ASN Bank demonstrates that its clear and understandable products offer a good feeling *and* good money.
www.asnbank.nl

RegioBank

Quality of life in the neighbourhood

Just dropping by for a question or good advice. This is precisely what you can do at approximately 500 branch offices of independent advisers in villages and small towns all over the country.
In addition to taking care of money matters close to home, RegioBank is also committed to improving the quality of life in the neighbourhood. It promotes local cohesion because it believes that having a social network close by makes people happy. The bank is a partner of *Oranje Fonds* and supports social activities. After all, RegioBank is not just a bank, but part of the local community: a liaison that wants to strengthen social vitality and local entrepreneurship in the region. www.regiobank.nl

BLG Wonen

Homeownership for everyone

BLG Wonen is committed to a housing market that is fairer and more accessible. 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 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. www.blg.nl

Disclaimer

This press release contains factual information only and should not be regarded as an opinion or recommendation concerning the purchase or sale of securities issued by de Volksbank. This press release does not contain any value judgement or predictions with respect to the financial performance of de Volksbank.