de volksbank

2020

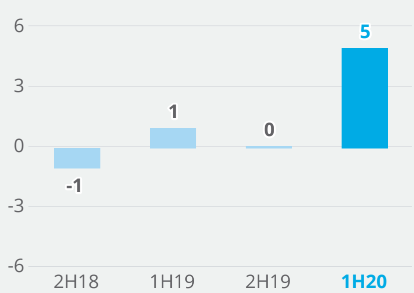
Interim financial report

14 August 2020

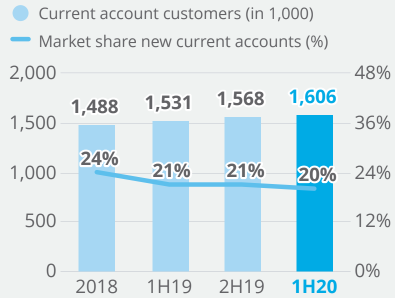
The original press release was drafted in Dutch. This document is an English translation of the original.
In case of any discrepancies between the English and the Dutch text, the latter will prevail.

Key figures

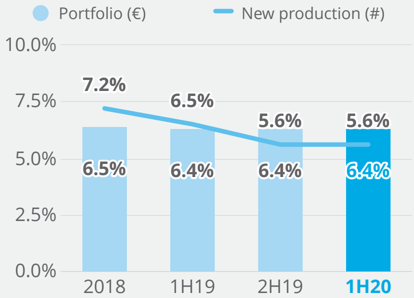
Net Promoter Score[1]



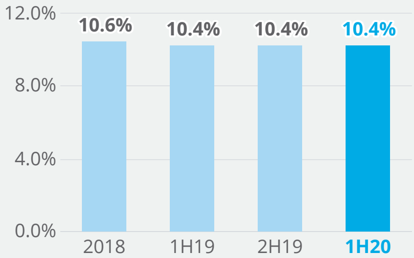
Current account customers[2]



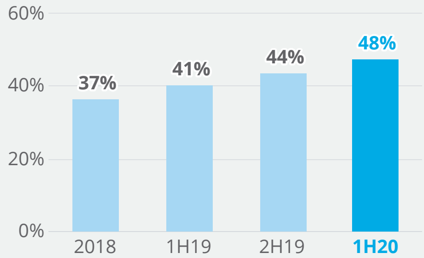
Market share of retail mortgages[3]



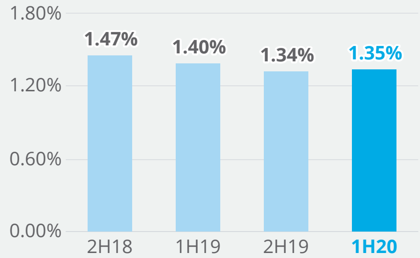
Market share of retail savings



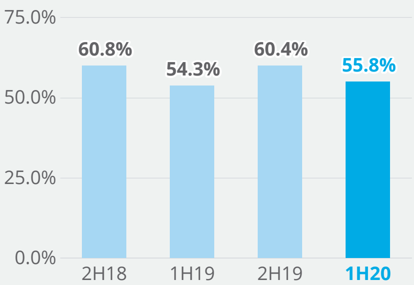
Climate-neutral balance sheet



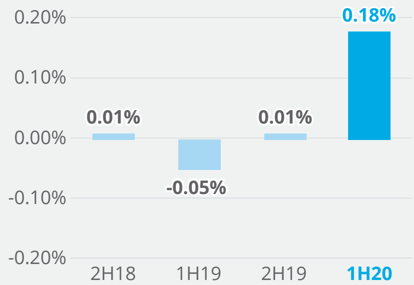
Net interest margin



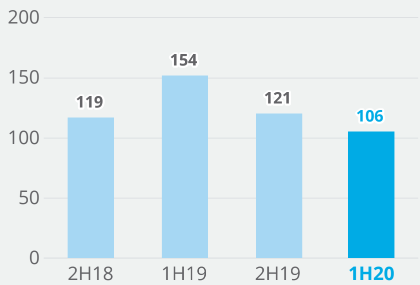
Cost/income ratio



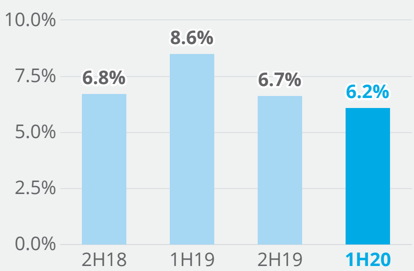
Cost of risk total loans



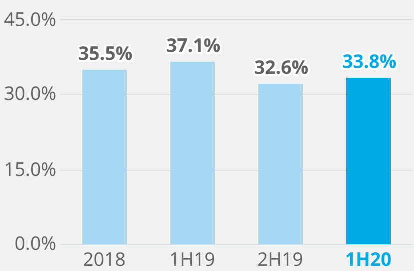
Net result



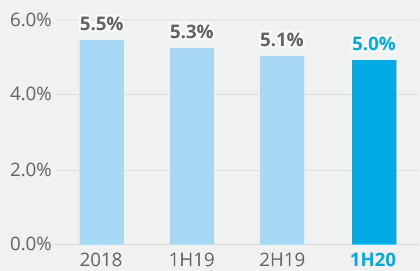
Return on equity



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 first quarter of 2020 because total market size figures were not yet available. Market shares 1H19 and 2H19 have been adjusted due to adjustments of market size figures by CBS.

Foreword

Maurice Oostendorp, Chairman of the Board of Directors of de Volksbank

"The Covid-19 pandemic and the resulting lockdown of European and non-European countries since mid-March 2020 have had far-reaching consequences for people personally, in terms of health and safety, and for society as a whole. The first priority was and is, of course, to control the spread of the virus. The measures taken in this context have affected the economic development and financial position of citizens to such a degree that support measures are necessary and appropriate. Given its social role, de Volksbank wants to contribute to this.

Despite the Covid-19 crisis, de Volksbank has shown robust progress on its shared value ambition in the first half of 2020.

De Volksbank has a range of measures in place to help customers in case of potential financial problems ensuing from the Covid-19 pandemic. Each customer situation requires a specific approach in which we offer as much individually tailored financial advice as possible. Retail mortgage customers, for example, are given the opportunity to take a payment holiday of up to six months, allowing them to spread the agreed delayed mortgage payments over a term of no more than five years. At the end of June, 1,695 retail customers made use of such schemes, which is less than 1% of our retail customers.

SME customers, too, are given the opportunity to take a payment holiday of up to six months. At the end of June, 260 customers, slightly more than 6% of our customers with an SME loan, took the opportunity to do so. Furthermore, de Volksbank (SNS, ASN Bank and RegioBank) introduced a credit facility of up to € 50,000 (Small Loans Covid Guarantee Scheme) for its SME customers to meet increased liquidity needs. The Dutch government guarantees 95% of these loans. Likewise, SME customers may, under certain conditions, raise the limit of their existing credit facility.

SNS, ASN Bank, RegioBank and BLG Wonen continued their services to their customers even after the outbreak of Covid-19 crisis. Practically all SNS shops remained open, initially on an appointment-only basis. ASN Bank and BLG Wonen also remained fully operational. RegioBank branches continued their services, with additional measures and adapted opening hours. Customers appreciate our efforts: all our brands contributed to the growth of our average Net Promoter Score (NPS) from 0 at the end of 2019 to +5. The number of current account customers and savings deposits entrusted to us continued to grow and new mortgage production also showed an increase.

In the first half of 2020, the climate neutrality of our balance sheet improved further. Customers also increasingly recognise that we want to encourage and help them to increase their financial resilience.

The transition to working from home, which was made possible for almost all our employees, went smoothly. Our employees showed tremendous commitment. We have now taken measures to allow our staff to return to the office on a limited scale, with their safety remaining our top priority. The KPI 'Genuine attention for employees' showed a slight improvement.

The impact of the Covid-19 pandemic on our income and operating expenses remained limited in the first half of 2020. At the time of publication of the annual figures for 2019, we indicated that net interest income in 2020 would be lower than in 2019, mainly because of the persistently low interest rate environment. In the first half of 2020, the pressure on the interest margin was largely alleviated by higher compensation received as a result of a high level of remortgaging-related early repayments. Total income rose by € 9 million to € 480 million thanks to higher treasury results and realised profits on bonds. Operating expenses excluding regulatory levies rose by € 13 million to € 269 million, € 7 million of which was due to the absence of a positive revaluation related to a previous contribution to the Deposit Guarantee Scheme, recognised in the expenses for the first half of 2019.

The impact of the Covid-19 crisis was particularly visible in a significantly higher addition to the credit loss provisions. At the time of publication of the annual figures for 2019, we expected impairment charges on loans and advances to remain low in 2020, given the macroeconomic outlook at that time. However, in the models we use to determine the credit loss provisions, we now assume considerably more pessimistic scenarios for the future. We currently expect the gross domestic product to contract by 6% in 2020, followed by a 4% recovery in 2021. Unemployment will rise to above 6% in 2021, and house prices are expected to fall in 2020 and to rise slightly as from year-end 2021.

This led to an addition to the credit loss provisions of € 45 million in the first half of 2020, whereas there was a release of € 13 million in the first half of 2019. As a result of this, interim profits were considerably lower at € 106 million, a drop of 31% compared with the first-half net profit of € 154 million in 2019.

De Volksbank's capital position remained consistently strong. In the first quarter of 2020, the CET1 capital ratio even showed a slight increase to 33.8%. Our liquidity position also remained strong. The return on equity stood at 6.2%, compared with 8.6% in the first half of 2019. This drop was the result of the aforementioned extra addition to the credit loss provisions.

De Volksbank's present strategic plan will run until the end of 2020. We are currently working on tightening up our strategy. The consequences of the Covid-19 crisis create additional uncertainty, but we expect to complete the necessary analyses and tightening of the plan in the second half of 2020. This may lead to revised or new strategic pillars and objectives. Our mission of 'Banking with a human touch' will not change. It remains our ambition to give further substance to the social character of our bank and to create value for all our stakeholders based on the shared value principle.

On 17 June 2020, Martijn Gribnau joined the Board of Directors of de Volksbank and with effect from 15 August 2020, he will take over as Chairman of the Board. Over the past few months - regardless of the Covid-19 restrictions - we have worked together intensively and prepared the handover. I am confident that the bank will be able to continue to put its social role further into practice under his chairmanship.

Our employees have embraced 'Banking with a human touch' and our promise 'Better for each other'. People feel increasingly attracted to this way of providing financial services, as evidenced by the growth in the number of customers and their increasing satisfaction. I am grateful for having been able to contribute to this."

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	30-6-2020	31-12-2019	30-06-2019	Target 2020
BENEFITS FOR CUSTOMERS				
Customer-weighted average Net Promoter Score (NPS)[1]	+5	0	+1	+10
ASN Bank	+18	+17	+16	
BLG Wonen	-9	-17	-17	
RegioBank	+18	+14	+12	
SNS	-5	-11	-11	
Current account customers (in 1,000)	1,606	1,568	1,531	1,500
RESPONSIBILITY FOR SOCIETY				
Climate-neutral balance sheet[1]	48%	44%	41%	45%
Financial confidence barometer[2]	51%	48%	49%	>50%
GENUINE ATTENTION FOR OUR EMPLOYEES				
Genuine attention	7.9	7.7	7.6	≥ 7.5
RETURNS FOR THE SHAREHOLDER				
Return on Equity (RoE)	6.2%	7.7%	8.6%	8.0%
OTHER OBJECTIVES				
Cost/income ratio	55.8%	57.3%	54.3%	50-52%
Common Equity Tier 1 ratio[3]	33.8%	32.6%	37.1%	≥ 19.0%
Leverage ratio[3]	5.0%	5.1%	5.3%	≥ 4.75%

1 For the methodology for the calculation of these KPIs, 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 Annual Report 2019, Section 3.2.2 Financial resilience.

3 For more information, 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 +5, compared with a break-even score at the end of 2019. This was the highest NPS ever reached. All brands contributed to this improvement. The NPS at RegioBank rose from +14 to +18 and that of ASN Bank from +17 to +18. ASN Bank and RegioBank are among the select group of Dutch bank brands with a positive NPS. The NPS at SNS improved from -11 to -5 and at BLG Wonen from -17 to -9.

Number of current account customers

In the first half of 2020, the number of current account customers rose by 38,000 (72,000 gross) to 1,606,000. The target of 1.5 million current account customers was reached as early as the end of 2019.

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.

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

Halfway through 2020, our balance sheet is 48% climate neutral, an improvement of 4 percentage points compared with year-end 2019. The CO2 loss totalled 1,366 kilotons (2019: 1,290 kilotons). The increase was mainly due to the inclusion of current emission factors, which leads us to attribute more emissions to our mortgage portfolio. This is compensated by an increase in the CO2 profit to 653 kilotons of avoided CO2 emissions (2019: 573 kilotons). This increase was mostly the result of loans provided for three offshore wind farms, two biofermentation projects and a biomass plant.

The largest part of the CO2 emissions on our balance sheet is caused by the energy consumption of the financed homes. The emissions are currently calculated on the basis of 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, 27% have a home with energy label A or B. For the other homes that we finance with energy labels C to G, there is still significant room for improvement through, for example, insulation measures or solar panels.

Incidentally, a higher grade energy label does not necessarily mean that the actual energy consumption, and thus the CO2 emissions of a home, is reduced. For this reason, we want to recalculate the CO2 emissions of the residential portfolio on the basis of the actual energy consumption data. In 2019, de Volksbank and other parties involved in PCAF held discussions with Statistics Netherlands (*CBS*) and Dutch grid managers on the supply of anonymised consumption data at portfolio level.

Financial resilience

We want to help our customers to increase their financial resilience. In a monthly survey, we ask 530 of our customers 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 resulted in an average score of 48 at the end of 2019. This score rose to 51 in June; a positive development, as we aim 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 our customers, both 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 with every customer, giving customers 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 remained open, we introduced video calling, and the 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

We want to empower employees to make a meaningful contribution to our mission and strategy by giving attention to autonomy, personal growth and professionalism. We aim for a score of at least 7.5 (on a 1-10 scale) in 2020 on the KPI 'genuine attention for employees'.

In early April 2020, we asked employees how they experienced genuine attention, especially in this challenging period. We were also curious about the impact that the Covid-19 measures had on employees and how we could best support them, now that most of the employees permanently work from home.

Well over 80% of our employees replied within five days, allowing us to rapidly respond to the results and take advantage of the ideas and feedback. The survey results show that employees generally feel they are sufficiently supported and are able to do their work from home. The work-life balance is a point of concern for more than a third of the employees, primarily for those having young children. Employees are flexible in planning their working hours and are given the leeway and trust to create a new balance. De Volksbank supports them by giving all sorts of vitality tips, guidance and tools.

Almost all questions on the basis of which the KPI genuine attention for the employee is calculated scored higher than in the last measurement in the autumn of 2019. Consequently, the average score of this KPI rose from 7.7 to 7.9. This third measurement has revealed an upward trend since the April 2019 baseline measurement.

Commitment and engagement are also two key indicators of shared value for employees. These were not measured in April 2020 and will be included in the employee survey that will be conducted this autumn.

Returns for the shareholder

Return on equity

For the Return on Equity (RoE) we pursue a target of 8%. The lower net profit combined with the higher average equity translated into a RoE of 6.2%, a decline compared with both the first half of 2019 (8.6%) and the second half of 2019 (6.7%).

Other objectives

Cost/income ratio

Higher operating expenses excluding regulatory levies resulted in a cost/income ratio of 55.8%, a slight increase compared with the first half of 2019 (54.3%), but an improvement compared with the second half of the year (60.4%). As in 2019, the cost/income ratio exceeded the target range of 50% to 52% for 2020. For the full year, too, we expect to exceed this target range.

Capital

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

Outlook

We expect the pressure on our net interest income to increase in the course of 2020. Operating expenses in 2020 will not fall below the level of 2019. If changes in the expectations concerning economic contraction, unemployment and house prices in particular give cause to do so, the credit loss provisions will be adjusted.

All things considered, we are expecting the net profit for 2020 as a whole to be considerably lower compared with 2019.

Economic developments

The Dutch economy

The Dutch economy was hit hard by the Covid-19 pandemic, but compared favourably with many other countries with a contraction of -1.5% in the first quarter. Thanks to the 'intelligent lockdown' a large part of the Dutch economy continued to operate at reasonable capacity. Retail spending still slightly grew, even, although substantial differences were obviously seen between sectors. The hospitality and tourism industries in particular suffered major blows.

The government rapidly introduced a broad set of measures to prevent a brief crisis from causing permanent damage. For instance, there was the Temporary Emergency Bridging Measure for Sustained Employment (*Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid*) to protect as many jobs and incomes as possible, and the Temporary Bridging Measure for Self-Employed Professionals (*Tijdelijke Overbruggingsregeling Zelfstandig Ondernemers*) to support businesses and employees. Despite these measures a wave of dismissals soon set in. Since the dismissals largely involved part-time employees working in the hospitality industry – mostly young people and students – this job loss did not translate into a surge in unemployment, as many of them did not register as jobseekers. Hitting a record low of 2.9% in February, the unemployment rate rose to 4.3% in June. Inflation in the Netherlands plummeted from 2.7% in December 2019 to 1.6% in June. This was caused partly by the elimination of the 2019 VAT increase from the figures, but the sharp decline in energy prices was also a significant factor.

Housing and mortgage market

The Dutch housing market held up well in the first half of 2020, mainly because of the market conditions, which were still extremely tight. Apart from the areas relatively severely affected by the Covid-19 pandemic as a result of which people were more cautious about viewings, interest in house purchases remained at the same level and no downward trend was observed in the number of transactions. On the contrary, in the first six months the number of transactions was up 6.6% from last year. Nevertheless, a limited increase in the supply of homes was visible. House prices, too, continued to rise. In June, they rose by 7.6% compared with the same month last year. Since the housing market generally responds to economic developments with a two-quarter delay, the relatively favourable trend is no guarantee for the future.

Interest rates and government bond yields

Central banks started the year with an extremely accommodating monetary policy on account of slightly imbalanced and low economic growth. The impact of the Covid-19 pandemic on the Chinese economy (with spillover effects on the rest of the global economy) prompted safe haven flows as early as the end of January, putting pressure on long-term interest rates. When the virus reached Europe, a sharp decline in long-term interest rates set in, with the Dutch 10-year yield hitting a low of -0.65% in early March. Market expectations and further ECB interest rate cuts played a major role here. However, when the ECB focused on liquidity-easing measures and left the initiative to governments, interest rates slightly rose again and hovered around the ECB policy rate of -0.5%. The money market did experience some tensions immediately after the outbreak of the crisis but these gradually subsided, especially after the special TLTRO related to the pandemic enjoyed unprecedented popularity and banks raised € 1,300 billion from the market at highly attractive rates. The Dutch 10-year yield ultimately ended up virtually flat at -0.31%.

Despite the historically low savings rates, the Dutch retail savings market grew to € 384 billion at the end of May, from € 368 billion at year-end 2019. The Covid-19 pandemic caused consumer spending to drop to considerably lower levels than are normally seen.

Commercial developments

	30-6-2020	31-12-2019	30-6-2019
CUSTOMERS AND CURRENT ACCOUNTS			
Total number of customers (in 1,000)	3,292	3,270	3,238
Total number of current account customers (in 1,000)	1,606	1,568	1,531
Market share new current accounts[1]	20%	21%	21%
MORTGAGES			
Retail mortgages (gross in € billions)	48.3	48.2	48.5
Market share new mortgages (in #)	5.6%	6.1%	6.5%
Market share mortgage portfolio (in €)	6.4%[2]	6.4%[3]	6.4%[3]
SAVINGS			
Retail savings (in € billions)	40.5	38.4	38.5
Market share retail savings	10.4%	10.4%	10.4%

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 First quarter 2020 figures because total market size figures were not yet available.
3 Market shares 1H19 and 2H19 have been adjusted due to adjustments of market size figures by CBS.

Customers and current accounts

In the first half of 2020, ASN Bank, BLG Wonen, RegioBank and SNS combined welcomed 113,000 new customers. Setting this off against customers who left the bank, the total number of customers rose by 22,000 (first half of 2019: 36,000). This net growth was lower than in the first half of 2019 due to the outflow of 15,000 savings 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 38,000 (72,000 gross) to 1,606,000.

De Volksbank's market share of new current accounts remained high at 20% (2019: 21%). This market share has been 20% or more since 2014, significantly above the market share on a total portfolio basis of approximately 8%.

Mortgages

De Volksbank's new mortgage production showed a limited increase to € 3.0 billion, from € 2.8 billion in the first half of 2019 (+7%). The market share of new mortgages was 5.6%, down compared with the first half of 2019 (6.5%). This decline was due to competition in the mortgage market and the further increased demand for mortgages with a fixed-rate term of 15 years or more.

Interest rate renewals amounted to € 1.7 billion, an increase in comparison with the first half of 2019 (€ 1.3 billion). Early renewals in particular, approximately one third of the total, showed an increase.

Repayments rose to € 2.9 billion, up compared with the first half of 2019 (€ 2.4 billion). This was mainly a consequence of the expanding remortgage 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 more than doubled as a result of a significantly higher mortgage refinancing market. The number of refinanced mortgages across the market as a whole rose by nearly 90% in comparison with the first half of 2019.

De Volksbank managed to slightly grow its mortgage portfolio because mortgage production exceeded redemptions by € 0.1 billion. In addition, as a result of lower interest rates, IFRS valuation adjustments related to hedge accounting increased from € 1.2 billion at year-end 2019 to € 1.6 billion. This was offset by a € 0.4 billion drop resulting from the off-balance sheet recognition of the undrawn parts of home construction accounts.
On balance, the retail mortgage portfolio grew slightly to € 48.3 billion (gross book value).

As a result of the high demand for mortgages with a fixed-rate term of 15 years or more, the share of these mortgages in the total portfolio grew to 22.0% (€ 10.4 billion), compared with 19.6% at year-end 2019 (€ 9.2 billion).

Savings

Retail savings at de Volksbank rose to € 40.5 billion, compared with € 38.4 billion at year-end 2019. Our market share remained stable at 10.4% (year-end 2019: 10.4%).

Financial results

The chapters Financial results and Risk management contain information that is required under IAS 34. This information is labelled 'Reviewed'.

Profit and loss account

in € millions	1st half 2020	1st half 2019	Change	2nd half 2019
Net interest income	436	442	-1%	433
Net fee and commission income	29	25	16%	26
Other income	15	4	275%	-1
Total income	**480**	**471**	**2%**	**458**
Operating expenses excluding regulatory levies	268	255	5%	278
Regulatory levies	24	23	4%	18
Total operating expenses	**292**	**278**	**5%**	**296**
Impairment charges financial assets	45	-13	446%	6
Result before taxation	**143**	**206**	**-31%**	**156**
Taxation	37	52	-29%	35
Net result	**106**	**154**	**-31%**	**121**
Cost/income ratio[1]	55.8%	54.3%		60.4%
Return on Equity (RoE)[2]	6.2%	8.6%		6.7%
Net interest margin (bps)[3]	1.35%	1.40%		1.34%
Operating expenses as a % of average assets[4]	0.83%	0.81%		0.86%

1 Total operating expenses adjusted for the impact of regulatory levies / total income.

2 Net result / average month-end total equity for the reporting period.

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

4 Operating expenses adjusted for regulatory levies / average month-end total assets for the reporting period.

Net profit

Compared with the first half of 2019, net profit dropped by € 48 million to € 106 million (-31%). This drop was mainly attributable to a swing in impairment charges of financial assets. These amounted to € 45 million, after a reversal of € 13 million in the first half of 2019. In addition, total operating expenses were € 14 million higher. Total income rose by € 9 million.

In comparison with the second half of 2019, net profit went down by € 15 million (-12%). This decrease was attributable to € 39 million higher impairment charges of financial assets. Total operating expenses went down by € 4 million and total income rose by € 22 million.

Income

Breakdown of income

in € millions	1st half 2020	1st half 2019	Change	2nd half 2019
Net interest income	436	442	-1%	433
Net fee and commission income	29	25	16%	26
Investment income	8	8	0%	4
Other results on financial instruments	7	-5	--	-5
Other operating income	--	1	--	--
Total income	**480**	**471**	**2%**	**458**
Net interest margin (bps)	1.35%	1.40%		1.34%

Net interest income

Net interest income decreased by € 6 million to € 436 million (-1%), 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. Compensation received for loss of interest on account of early repayments of mortgages was substantial and higher compared with the first half of 2019, which compensated part of the impact of the interest rate renewals in the first half.

In addition, interest expenses on savings were lower. In the first half of 2020, retail savings grew by € 2.1 billion. Due to the growth of savings 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 will be charged 0.5% interest.

The net interest margin decreased to 1.35%, in comparison with 1.40% in the first half of 2019.

In comparison with the second half of 2019, net interest income rose by € 3 million. This increase was mainly attributable to higher compensation received for loss of interest on account of early repayments and lower interest expenses as a result of savings rate cuts. These positive effects were largely offset by lower interest income from mortgages.

Net fee and commission income

Net fee and commission income increased by € 4 million to € 29 million, mainly driven by higher commissions received for payment transactions and mortgage advice.

Compared with the second half of 2019, net fee and commission income rose by € 3 million, mainly thanks to higher commissions received for mortgage advice and insurance. This increase was partly offset by lower net commission income due to lower stock markets.

Investment income

Investment income remained stable and consisted mainly of realised results on fixed-income investments sold as part of asset and liability management and the optimisation of the investment portfolio.

Other results on financial instruments

Other results on financial instruments amounted to € 7 million (first half 2019: € 5 million negative). The € 12 million increase was largely due to higher treasury results, making use of money market conditions. Besides this, the result on hedge ineffectiveness of derivatives, for example related to mortgages, was higher. This result was slightly positive in the first half of 2020 and negative in the first half of 2019.

Expenses

Operating expenses and FTEs

in € millions	1st half 2020	1st half 2019	Change	2nd half 2019
Staff costs	186	186	0%	187
Depreciation of (in)tangible assets	14	16	-13%	20
Other operating expenses	92	76	21%	89
Total operating expenses	**292**	**278**	**5%**	**296**
Regulatory levies (included in other operating expenses)	24	23	4%	18
Adjusted operating expenses	**268**	**255**	**5%**	**278**
Cost/income ratio	55.8%	54.3%		60.4%
Operating expenses as a % of average assets	0.83%	0.81%		0.86%
FTE				
Total number of internal FTEs	3,051	3,015	1%	2,991
Total number of external FTEs	609	678	-10%	657
Total number of FTEs	**3,660**	**3,693**	**-1%**	**3,648**

Total operating expenses rose by € 14 million to € 292 million.

Regulatory levies rose by € 1 million to € 24 million, of which € 8 million was related to the resolution fund contribution (first half of 2019: € 7 million), and € 16 million to the ex-ante Deposit Guarantee Scheme (DGS) contribution, equivalent to the first half of 2019.

Adjusted for regulatory levies, operating expenses rose by € 13 million to € 268 million, because of € 15 million higher other operating expenses. Of this increase, € 7 million was related to a positive revaluation in the first half of 2019 for a previous contribution made under the DGS in relation to the insolvency of DSB. In addition, consultancy costs rose, for example for regulatory projects, as did IT and marketing costs. On balance, the impact of Covid-19 on total operating expenses was limited.

Staff costs remained at the same level compared with the first half of 2019. The costs of hiring external staff dropped and compensated for higher permanent staff costs. In comparison with year-end 2019, the total number of FTEs increased marginally by 12 to 3,660. The number of internal employees rose by 60 to 3,051 FTEs and the number of external employees dropped by 48 to 609 FTEs.

The depreciation of tangible assets and amortisation of intangible assets, especially related to developed software, information processing equipment and office inventory, were € 2 million lower.

Adjusted operating expenses divided by average total assets rose from 81 basis points (bps) in the first half of 2019 to 83 bps.

Compared with the second half of 2019, total operating expenses were down by € 4 million, despite a € 6 million rise in regulatory levies due to the fact that the annual contribution to the resolution fund is always fully recognised in the first half of the year. Excluding regulatory levies, operating expenses were down by € 10 million, mainly thanks to lower marketing costs and the decrease in the depreciation of assets. In the second half of 2019, the depreciation of assets was up due to the write-down of tangible assets.

Impairment charges financial assets Reviewed

in € millions	1st half 2020	1st half 2019	Change	2nd half 2019
Retail mortgage loans	33	-8	--	10
Other retail loans	1	--	--	-2
SME loans	5	-3	--	-5
Other commercial loans and loans to the public sector	1	-1	--	3
Investments	1	-1	--	--
Other	4	--	--	--
Total impairment charges financial assets	**45**	**-13**	**--**	**6**
Cost of risk total loans	0.18%	-0.05%		0.01%
Cost of risk retail mortgage loans	0.14%	-0.03%		0.04%
Cost of risk SME loans	1.56%	-0.69%		-1.42%

Impairment charges of financial assets amounted to € 45 million; in the first half of 2019 there was a reversal of € 13 million. The swing was caused by substantial additional impairments in connection with the Covid-19 pandemic.

The impact of Covid-19 on the level of impairment charges is twofold. The main cause of the increase in the first half of 2020 is the deteriorated economic outlook used in scenarios to determine the credit loss provisions.
Apart from this, the pandemic and its economic consequences may actually lead to an increase in the number of customers moving to stage 3 because they default on their loan due to having fallen into arrears. Up to 30 June this effect was limited.

Retail mortgage loans

Impairment charges on retail mortgages amounted to € 33 million after a reversal of € 8 million in the first half of 2019 and an addition of € 10 million in the second half of 2019.

The higher charge were caused by the deteriorated economic outlook to determine the credit loss provision and by the tighthening of the credit methodology implemented at the end of 2019 and the beginning of 2020. A detailed description of the credit loss provisioning of retail mortgages is set out in the chapter Credit risk.

The retail mortgage-related reversal in the first half of 2019 was largely driven by a decrease in stage 3 loans due to the improved economic conditions at that time. The addition in the second half of 2019 was the result of additional impairments on interest-only mortgages an an adjustment to the provisioning model.

Other retail loans
Impairment charges on other retail loans amounted to € 1 million and were mainly related to stage 1 provisions for debit balances on current accounts due to an expected rise in unemployment.
In the first half of 2019, there were no impairments on other retail loans.

SME loans
The addition to provisions on SME loans amounted to € 5 million as a result of an increase in stage 2 loans due to the deteriorated economic outlook used in scenarios to determine the credit loss provision, in particular an increase in the expected number of bankruptcies. Stage 3 loans also showed a slight increase.

The first half of 2019 saw a reversal of impairment charges on SME loans of € 3 million as a result of a decline in both stage 2 and stage 3 loans due to an improved economic outlook and the recovery of customers in default, respectively.

Investments
Impairments on investments amounted to € 1 million and were related to fixed-income securities, especially Spanish sovereigns.

Other
Other impairment charges totalled € 4 million and related almost entirely to an extension of the discounting period of the principal and the expected interest on a loan granted in connection with DSB's insolvency.

Taxation
De Volksbank recognised € 37 million in corporate income tax on the profit for the first half, corresponding to an effective tax rate of 26%, slightly higher than the nominal rate of 25% as a result of the introduction in 2020 of the interest deduction limitation on borrowed capital (thin cap rule).

Risk management

Credit risk

Reviewed

in € millions	30-06-2020	31-12-2019	30-06-2019
Retail mortgage loans[1]	48,261	48,161	48,455
Other retail loans	70	87	90
SME loans	690	704	730
Other commercial loans and loans to the public sector	2,010	1,628	2,383
Total loans and advances to customers[2]	**51,031**	**50,580**	**51,658**
CREDIT RISK INDICATORS			
Total loans and advances to customers			
Loans and advances in stage 3	688	645	595
Stage 3 ratio	1.4%	1.3%	1.2%
Stage 3 coverage ratio	13.4%	12.9%	14.6%
Retail mortgage loans			
Retail mortgage loans in stage 3	549	540	500
Stage 3 ratio	1.2%	1.1%	1.1%
Stage 3 coverage ratio	9.3%	8.0%	8.4%
In arrears	1.3%	1.0%	0.9%
NHG guaranteed	29%	29%	30%
Weighted average indexed LtV	64%	67%	68%

1 Including IFRS value adjustments.
2 Gross carrying amounts.

Total gross loans and advances to customers rose by € 0.5 billion to € 51 billion in the first half of 2020, mainly related to an increase in other commercial loans and loans to the public sector. Retail mortgages increased fractionally and other retail loans and SME loans showed a modest decrease.
Credit loss provisions rose from € 125 million as at 31 December 2019 to € 170 million as at 30 June 2020, predominantly driven by the deterioration of macroeconomic prospects resulting from the Covid-19 pandemic. 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) rose from 12.9% to 13.4%.

Covid-19 crisis Reviewed

General approach to customer services

Wherever possible, we support our existing customers who have run, or are expected to run, into payment problems because of the Covid-19 crisis. In principle, every customer is eligible for this support.
We offer retail customers with a mortgage to opportunity to take a full or partial payment holiday of no more than 6 months (interest and repayments) combined with a default interest reduction to 0% during the payment holiday and 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.

We offer the same options to customers with personal loans, revolving credit and/or current accounts. No interest is charged on the arrears.

We also offer our SME customers a repayment and/or interest holiday of no more than 6 months. 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 commercial loan.
Furthermore, there is the possibility to increase the limit of existing commercial loans or to temporarily halt their repayment.

Together with the other banks, de Volksbank has opted not to foreclose on any homes (with the exception of cases of fraud, crime, abuse of the collateral) until at least 1 July 2020.
On 6 May, the Ministry of Finance published the policy decision needed to agree a longer repayment period in which the customer remains entitled to mortgage interest tax relief.
De Volksbank uses this room to make repayment arrangements.

In order to take the best possible account of the impact of the Covid-19 crisis on the affordability of their mortgage, which is in the interests of our current and potential customers, we have adjusted our acceptance policy.
Applicants with business incomes or flexible incomes in particular are liable to be hit hard by the crisis. Since it is difficult to establish this at the level of sectors and/or professions, de Volksbank has opted for customised solutions at customer level. Additional questions about whether and how applicants are affected help create a projection of the future income and the impact of the Covid-19 crisis on this income. If this overall picture is found to be acceptable, a new loan may be granted.

For next-home buyers who have not sold their current home, we have lowered the maximum bridging loan from 100% to 90% in order to reduce the risk of a liquidity problem if the home is sold at a lower price than expected. The second adjustment is the requirement that the buyer of the home must provide a bank guarantee. Should a situation arise in which he/she is forced to withdraw from the transaction, our applicant will be certain that the 10% penalty is covered.

Responding to the Covid-19 crisis, on 2 April 2020 the EBA published guidelines clarifying the conditions that must be met to qualify as a moratorium. The repayment/interest holiday granted to SME customers comes under the (private) moratorium that the seven largest banks in the Netherlands announced on 19 March 2020.

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

Complying with the EBA guidelines published on 25 March 2020, we have slightly adjusted the stage allocation process for customers who are running into temporary or permanent financial problems as a result of the Covid-19 crisis. Under the EBA guidelines, payment measures taken in response to the Covid-19 crisis do not automatically need to be qualified as a deterioration of a customer's credit quality. We expect that the payment problems of these customers, which are often caused by a lack of liquidity, will be made good in the near future. That is why, in principle, financially strong customers (stage 1) subject to a Covid-19 related measure (and facing the resulting arrears) are not transferred to stage 2, unless they were already considered to pose a relatively higher risk. For mortgage customers, the latter applies to loans with a Loan-to-Value (LtV) of more than 90% and for corporate customers it applies to the higher risk exposure classes. Furthermore, as has always been the case, other changes in a customer's credit profile may in fact be a reason to move this customer to a higher stage, such as a decrease in the Net Present Value (NPV) of a loan by more than 1%, a recent non-performing status of a customer, a significant increase in the current probability of default (PD) of a customer, or fraud.

Macroeconomic scenarios used in credit risk models

Despite the Covid-19 crisis, the upward trend in house prices persisted in the second quarter of 2020. We expect that a negative impact of the crisis will in fact be seen with some delay, despite factors such as the structural housing shortage and low interest rates. This is reflected in the macroeconomic scenario (MES) as at 30 June 2020, which predict a 2% drop in the average house prices in the period from June 2020 to June 2021. This is in contrast to the year-end 2019 scenarios, which still assumed an increase of nearly 3.0%. After 2021 we expect a slow recovery.

We expect the unemployment rate to rise to above 6% in the third quarter of 2021, despite the Dutch government's relief measures. The number of bankruptcies rose in April, but remained more or less stable in the rest of the second quarter. Nevertheless, we expect small businesses and self-employed persons to be hit hard by the economic downturn, 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 to be able to provide credit facilities and to be able to support incomes of companies and employees whose activities are affected by the Covid-19 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, after a sharp drop in the second quarter of 2020.

Scenarios per 30 June 2020 Reviewed

Macro economic parameter	Scenario	Weighting	30-6-2021	30-6-2022	30-6-2023	30-6-2024
Relative change in house price index	Base	50%	-2.2%	0.2%	3.7%	3.7%
	Up	15%	0.1%	2.7%	3.7%	3.7%
	Down	35%	-18.5%	3.8%	3.7%	3.7%
Unemployment rate	Base	50%	6.0%	5.6%	5.3%	5.3%
	Up	15%	5.6%	4.7%	4.2%	4.2%
	Down	35%	7.4%	8.7%	8.7%	8.7%
Number of bankruptcies (monthly)	Base	50%	685	649	581	575
	Up	15%	662	515	437	433
	Down	35%	801	1,057	1,051	1,042

Scenarios per 31 December 2019 Reviewed

Macro economic parameter	Scenario	Weighting	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Relative change in house price index	Base	50%	2.9%	2.9%	3.4%	3.4%
	Up	15%	4.7%	4.5%	3.9%	3.9%
	Down	35%	0.3%	-0.1%	2.9%	3.4%
Unemployment rate	Base	50%	3.6%	3.8%	3.8%	3.9%
	Up	15%	3.4%	3.3%	3.3%	3.3%
	Down	35%	3.7%	4.5%	4.7%	4.8%
Number of bankruptcies (monthly)	Base	50%	362	369	367	363
	Up	15%	345	324	313	304
	Down	35%	381	440	458	455

Sensitivity analysis

The table below illustrates the sensitivity of the credit loss provisions on retail mortgages compared with the year-end 2019 macroeconomic scenarios. This is in order to assess the impact of the change in the first-half projections on the portfolio as at 30 June 2020. If the macroeconomic scenarios had remained equal to those at year-end 2019, the credit loss provisions on retail mortgages would have been € 50 million lower.

If unemployment rates are increased to the level as indicated in the estimates of De Nederlansche Bank in all three scenarios (i.e. base, up, down), the credit loss provision for retail mortgages would have been € 5 million higher. Finally, the table shows the impact of a 100% weighting of the down scenario. In that case, the provision for retail mortgages would be € 53 million higher than the figure presently reported.

Due to their limited size the other retail loans and SME loans portfolios are only impacted by other scenarios to a modest degree. The credit loss provision for SME loans would thus increase by € 5 million in case of a 100% weighting of the down scenario. Sensitivity of the other commercial loans and loans to the public sector portfolio to the various scenarios is also low, due to the limited exposure to stage 3 loans.

Credit loss provisions in the first half of 2020 are deemed sufficient in relation to the current uncertainty resulting from the Covid-19 developments. For, in the determination of the provision all macroeconomic scenario-based expectations (i.e. up, base and down scenarios) were taken into account. Unless there is a negative change in these scenarios, it is expected that the credit loss provisions related to the Covid-19 crisis are sufficient.

Sensitivity analysis IFRS provision for credit losses Reviewed

in € millions	Provision for credit losses 30 June 2020	Impact provision for credit losses MES 31 Dec 2019[1]	Impact provision for credit losses MES 30 Jun 2020 with increased unemployment[1]	Impact provision for credit losses MES 30 Jun 2020 with 100% down scenario[1]
Retail mortgages	111	-50	+5	+53

1 MES: macroeconomic scenarios

Credit loss provisions by portfolio Reviewed

Retail mortgages
The credit loss provision for retail mortgages rose by € 39 million in the first half of 2020. This was mostly due to the deteriorated economic outlook in the scenarios used to determine the credit loss provision – in particular the higher unemployment expected – resulting in an increase in the number of customers with deteriorated risk profiles. The expected drop in house prices also prompted an increase in the provision in all stages. The direct impact of the pandemic was limited as at 30 June, which is reflected in a modest rise in stage 3 loans compared with year-end 2019.

The stage 1 provision grew by € 18 million, mainly caused by the deteriorated macroeconomic outlook used in the credit loss provisioning model.

Loans and advances to customers in stage 1 who were granted a payment holiday because of the Covid-19 crisis totalled € 179 million as at the end of June 2020. We expect payment arrears with these customers to be resolved within the foreseeable future. That is why, in principle, these customers are retained in stage 1 and are not classified as forborne for the time being.

The amount of stage 2 loans and advances rose by € 503 million to € 2,949 million, largely as a result of the change in the provisioning methodology for interest-only mortgages that was implemented at the beginning of 2020. Under this methodology, the scope was expanded to include more customers in the tightened provisioning process. The increase in unemployment in macroeconomic projections also resulted in higher PDs at customer level, triggering a rise in both the number of customers affected by the SICR methodology and the average coverage ratio in stage 2. The provision in this stage grew by € 13 million as a result.
As at 30 June 2020, the total stage 2 loans and advances subject to a Covid-19 measure amounted to € 146 million; these customers are regarded as performing forborne.

The amount of stage 3 loans and advances rose by € 9 million to € 549 million, mainly due to the Covid-19 crisis. The stage 3 provision grew by € 8 million. This increase was largely caused by an expected drop in house prices and rising arrears. Furthermore, the provision for interest-only loans placed in stage 3 is no longer based on the average coverage ratio of stage 3 customers, but calculated based on the LtV. This adjustment created a limited increase in the coverage ratio. The total stage 3 loans and advances subject to a Covid-19 measure amounted to € 65 million at the end of June 2020; these customers are classified as non-performing forborne.

The weighted average indexed LtV of the retail mortgages improved to 64%, 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. The percentage of customers who take out NHG-guaranteed loans has remained stable for a number of years now.

Other retail loans
The size of other retail loans decreased, from € 87 million as at the end of 2019 to € 70 million. 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 other retail loans. The credit loss provision dropped by € 1 million to € 13 million. The increase in the coverage ratio to 18.6% is mainly due to the adjusted macroeconomic scenarios. The expected unemployment rates are higher, resulting in a higher average provision per account or loan.

Other retail loans are expected to decline further in the second half of 2020. Three quarters of the approximately 10,000 accounts in the revolving credit portfolio have been frozen, and these customers are further phasing out their credit. The other 2,500 customers who are still actively using their revolving credit will be contacted again as from the third quarter of 2020 to determine whether the expenses for this loan are still appropriate considering their current financial situation.

SME loans

In the first half of 2020, SME loans decreased by € 14 million to € 690 million. The credit loss provision grew by € 5 million to € 36 million. The first signs of the crisis are seen in transfers of loans from stage 1 to stage 2. A higher number of bankruptcies and higher unemployment in the macroeconomic projections translated into a € 4 million increase in the stage 2 provision. The stage 3 provision grew by € 1 million as a consequence of the inflow of customers who had run into financial problems because of the Covid-19 crisis. The effects of the Covid-19 crisis are expected to become more visible in the second half of 2020.
As at 30 June, a total of 260 SME customers were permitted to repay their loans (and possibly pay interest) at a later stage, involving a total amount of € 105 million in loans. New loans provided to meet liquidity needs arising from the Covid-19 crisis totalled € 1 million.
The Small Loans Covid Guarantee Scheme, announced on 7 May 2020 and formalised on 10 June, had been used to a limited extent only as at 30 June.

Other commercial loans and loans to the public sector

Other commercial loans and loans to the public sector is made up almost entirely of the loan portfolio of ASN Bank, which is hardly directly affected by the Covid-19 crisis. The main reason being that 45% of the portfolio consists of private loans to local authorities and loans to housing associations and hospitals guaranteed by guarantee funds. The other 55% involves loans contributing to a more sustainable world. These loans are predominantly based on government incentives (subsidies and price guarantees). Only a highly limited portion of the portfolio (exposure of € 1.9 million), may be hit directly. A measure (suspension of repayment and interest payments) has been taken for three customers (exposure of € 0.2 million).

Loans and advances to customers as at 30 June 2020 Reviewed

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	43,166	-24	43,142	92.5%	0.1%
Other retail loans	49	--	49	70.0%	0.0%
SME loans	506	-1	505	73.3%	0.2%
Other commercial loans and loans to the public sector	1,817	-1	1,816	90.4%	0.1%
Total loans and advances to customers stage 1	**45,538**	**-26**	**45,511**	**92.1%**	**0.1%**
STAGE 2					
Retail mortgages	2,949	-35	2,914	6.3%	1.2%
Other retail loans	9	-1	8	12.9%	11.1%
SME loans	96	-9	87	13.9%	9.4%
Other commercial loans and loans to the public sector	155	-1	154	7.7%	0.6%
Total loans and advances to customers stage 2	**3,208**	**-46**	**3,163**	**6.5%**	**1.4%**
STAGE 3					
Retail mortgages	549	-51	498	1.2%	9.3%
Other retail loans	12	-12	--	17.1%	100.0%
SME loans	89	-26	63	12.9%	29.2%
Other commercial loans and loans to the public sector	38	-3	35	1.9%	7.9%
Total loans and advances to customers stage 3	**688**	**-92**	**596**	**1.4%**	**13.4%**
TOTAL STAGE 1, 2, 3					
Retail mortgages	46,664	-110	46,554		0.2%
Other retail loans	70	-13	57		18.6%
SME loans[1]	690	-36	654		5.2%
Other commercial loans and loans to the public sector	2,010	-5	2,005		0.2%
Total loans and advances stage 1, 2, 3	**49,434**	**-164**	**49,270**		**0.3%**
IFRS value adjustments[2]	1,597	--	1,597		
Total loans and advances to customers	**51,031**	**-164**	**50,867**	**--**	**0.3%**
Off-balance sheet items stage 1	2,815	-2	2,813	--	0.1%
Off-balance sheet items stage 2	58	-1	57	--	1.7%
Off-balance sheet items stage 3	17	-3	14	--	17.6%
Total off-balance sheet items[3]	2,890	-6	2,884	--	0.2%
Total on- and off-balance sheet items loans and advances to customers	**53,921**	**-170**	**53,751**	**--**	**0.3%**

1 Gross SME loans include mortgage-backed loans for a gross amount of € 631 million.

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

3 Consists of off-balance sheet facilities (of which € 441 million conditionally revocable), guarantees and repurchase commitments.

Loans and advances to customers as at 31 December 2019 Reviewed

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
STAGE 1					
Retail mortgages	43,977	-6	43,971	93.6%	0.0%
Other retail loans	62	--	62	71.3%	0.0%
SME loans	566	-1	565	80.4%	0.2%
Other commercial loans and loans to the public sector	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					
Retail mortgages	2,446	-22	2,424	5.2%	0.9%
Other retail loans	12	-1	11	13.8%	8.3%
SME loans	67	-5	62	9.5%	7.5%
Other commercial loans and loans to the public sector	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					
Retail mortgages	540	-43	497	1.1%	8.0%
Other retail loans	13	-13	--	14.9%	100.0%
SME loans	71	-25	46	10.1%	35.2%
Other commercial loans and loans to the public sector	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					
Retail mortgages	46,963	-71	46,892		0.2%
Other retail loans	87	-14	73		16.1%
SME loans[1]	704	-31	673		4.4%
Other commercial loans and loans to the public sector	1,628	-3	1,625		0.2%
Total loans and advances stage 1, 2 and 3	**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%
Off-balance sheet items[3]	2,548	-6	2,542	--	0.2%
Total on- and off-balance sheet items 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.

Statement of changes in provisions for loans and advances to customers Reviewed

	Retail mortgages		Other retail loans		SME loans		Other[1]		Total		Off balance	
in € millions	**1H20**	**1H19**	**1H20**	**1H19**	**1H20**	**1H19**	**1H20**	**1H19**	**1H20**	**1H19**	**1H20**	**1H19**
Opening balance	**71**	**58**	**14**	**24**	**32**	**41**	**3**	**3**	**119**	**126**	**6**	**5**
Change in credit risk	36	3	-1	4	7	-2	2	-1	44	4	--	-1
Originated or purchased loans	12	2	1	--	1	--	--	--	14	2	--	--
Matured or sold loans	-5	-5	--	-3	-2	--	--	--	-7	-8	--	--
Impairment charges (releases)	**43**	**--**	**--**	**1**	**5**	**-2**	**2**	**-1**	**51**	**-2**	**--**	**-1**
Write-offs	-4	-5	-1	-10	-1	-1	--	--	-6	-16	--	--
Closing balance	**110**	**53**	**13**	**15**	**36**	**38**	**5**	**2**	**164**	**108**	**6**	**4**
Impairment charges (releases)	**43**	--	**--**	1	**5**	-2	**2**	-1	**51**	-2	**--**	-1
Recoveries and other charges trough P&L	**-10**	-8	**--**	--	**--**	-1	**--**	--	**-10**	-9	**--**	--
Total impairment charges (releases)[2]	**33**	**-8**	**--**	**1**	**5**	**-3**	**2**	**-1**	**41**	**-11**	**--**	**-1**

1 Other commercial loans and loans to the public sector.

2 The total impairment charges (releases) for the period excludes charges (releases) for investments, these amount to € 1 million (1HY19: reversal of € 1 million).

Overviews of retail mortgages

Exposure to retail mortgages 30 June 2020

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	43,166	-24	43,142	92.5%	0.1%
Stage 2	2,949	-35	2,914	6.3%	1.2%
Stage 3	549	-51	498	1.2%	9.3%
Total stage 1,2,3	**46,664**	**-110**	**46,554**		**0.2%**
IFRS value adjustments[1]	1,596	--	1,596		
Total retail mortgages	**48,260**	**-110**	**48,150**		
Off-balance sheet items stage 1	1,962	-1	1,961		0.1%
Off-balance sheet items stage 2	55	-0	55		0.0%
Off-balance sheet items stage 3	4	-0	3		0.0%
Off-balance sheet items[2]	2,021	-1	2,020		0.0%
Total on- and off-balance sheet items retail mortgages	**50,281**	**-111**	**50,170**		**0.2%**

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

2 Off-balance sheet items: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Exposure to retail mortgages 31 December 2019

in € millions	Gross carrying amount	Provision for credit losses	Book value	Stage ratio	Coverage ratio
Stage 1	43,977	-6	43,971	93.6%	0.0%
Stage 2	2,446	-22	2,424	5.2%	0.9%
Stage 3	540	-43	497	1.1%	8.0%
Total stage 1,2,3	**46,963**	**-71**	**46,892**		**0.2%**
IFRS value adjustments[1]	1,198	--	1,198		
Total retail mortgages	**48,161**	**-71**	**48,090**		
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%
Off-balance sheet items[2]	2,548	-6	2,542		0.2%
Total on- and off-balance sheet items retail mortgages	**50,709**	**-77**	**50,632**		**0.2%**

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

2 Off-balance sheet items: liabilities from irrevocable facilities, guarantees and repurchase commitments.

Retail mortgages in arrears as at 30 June 2020

in € millions	Gross carrying amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	43,164	43,164	--	--	--	0.0%
Stage 2	2,949	2,622	231	95	1	11.1%
Stage 3	551	284	38	117	112	48.6%
Subtotal	**46,664**	**46,070**	**269**	**212**	**113**	**1.3%**
IFRS value adjustments[1]	1,596					
Total	**48,260**	**46,070**	**269**	**212**	**113**	

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

Retail mortgages in arrears as at 31 December 2019

in € millions	Gross amount	No arrears	≤ 30 days in arrears	> 30 days ≤ 90 days in arrears	> 90 days in arrears	% in arrears
Stage 1	43,977	43,977	--	--	--	0.0%
Stage 2	2,446	2,170	236	39	1	11.3%
Stage 3	540	333	42	64	102	38.5%
Subtotal	**46,963**	**46,479**	**278**	**103**	**103**	**1.0%**
IFRS value adjustments[1]	1,198					
Total	**48,161**	**46,479**	**278**	**103**	**103**	

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

Retail mortgages by LtV bucket

in € millions[1]	30-6-2020					31-12-2019				
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3	Total	
NHG[2]	**12,260**	**617**	**84**	**12,961**	**29%**	**12,636**	**467**	**77**	**13,180**	**29%**
- of which LtV ≤ 75%	7,534	249	37	7,820	18%	6,444	171	29	6,645	15%
- of which LtV >75 ≤ 100%	4,646	311	41	4,998	11%	5,892	254	40	6,185	14%
- of which LtV >100 ≤ 110%	63	41	3	107	0%	242	27	4	273	1%
- of which LtV >110 ≤ 125%	10	8	2	20	0%	42	7	2	51	0%
- of which LtV > 125%	7	8	1	16	0%	17	8	2	27	0%
Non-NHG	**28,922**	**2,252**	**453**	**31,627**	**71%**	**29,303**	**1,920**	**448**	**31,671**	**71%**
- of which LtV ≤ 75%	21,332	858	188	22,378	50%	20,095	697	163	20,956	47%
- of which LtV >75 ≤ 100%	7,342	1,090	186	8,618	19%	8,556	900	178	9,634	21%
- of which LtV >100 ≤ 110%	164	164	27	355	1%	506	176	36	718	2%
- of which LtV >110 ≤ 125%	59	59	18	136	0%	103	57	28	188	0%
- of which LtV > 125%	25	81	34	140	0%	43	91	43	176	0%
Principal amounts excluding savings deposits	**41,182**	**2,869**	**537**	**44,588**	**100%**	**41,939**	**2,387**	**525**	**44,851**	**100%**
Credit provision				-110					-71	
Accrued interest				95					100	
IFRS value adjustments[3]				1,596					1,198	
Savings deposits				1,981					2,012	
Total retail mortgages				**48,150**					**48,090**	
Weighted average indexed LtV				**64%**					**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.

Interest rate risk in the banking book

Interest rate risk management aims to protect and generate stable net interest income. We achieve this goal by optimising the value of our cashflows from interest received.

The most impotant factor for managing the interest rate position and interest rate risk of the banking book is interest income sensitivity to market rate changes. The short-term impact of these movements is measured using the Earnings-at-Risk (EaR) method, and to measure the long-term impact we use the Economic Value of Equity (EVE) method.

At the end of June 2020, the EaR before tax amounted to € 53 million (year-end 2019: € 61 million). An adjustment of the short-term interest rate risk profile is the main reason for the decrease compared with year-end 2019. The purpose of this adjusted positioning is to limit the sensitivity to changes in the short-term interest rate, as the ECB may reduce interest rates even more in response to the Covid-19 crisis.

At the end of June 2020, the duration of equity stood at 0.4 (year-end 2019: 0.3). Given our expectation that interest rates will continue to be low for a longer period of time, a slightly higher duration of equity is desirable. We have opted for a gradual rise through regular balance sheet developments rather than steering this process upwards by means of financial instruments.

Non-financial risks

Controlling (temporarily) adjusted processes has been a point of focus and we have been extra alert to operational and compliance incidents since the outbreak of the Covid-19 pandemic. Many people have been working from home since March and many more people are online. Having established that the number of cases of online fraud is on the rise, de Volksbank has intensified its focus on this issue.

The Covid-19 pandemic has led de Volksbank to adjust several customer processes. For example, SNS shops and RegioBank branches were temporarily closed during regular opening hours and could only be visited by appointment. De Volksbank has also created the option of customer contact through video calling. The risks associated with these developments have been identified and sufficiently mitigated, including by adjusting customer identification processes.

De Volksbank suffered from a severe DDos attack in March, which caused critical applications to be unavailable to customers and staff for three hours. We have investigated the impact of the attack and implemented some improvements. We have established that, in general, detection systems and follow-up processes worked properly.

At the end of December 2019, de Volksbank – in coordination with other banks – decided to close 16 ATMs to guarantee the safety of their immediate surroundings. In the first half of 2020 we again faced an ATM explosive attack that put the immediate surroundings at risk. In response to this event, de Volksbank decided to close another 200 ATMs in shops.

Changes in laws and regulations related to the Money Laundering and Terrorist Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*; Wwft) and sanctions regulations continue to follow one another in rapid succession. For instance, the fifth and sixth Anti-Money Laundering Directives (AMLD) both entered into force within a short period of time. The fifth AMLD was implemented in the Wwft with effect from 21 May 2020. The requirements of the sixth AMLD must be implemented in national legislation on 3 December 2020 at the latest. The Compliance policy will be amended accordingly and compliance with the tightened laws and regulations will be monitored.

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% needs to be composed of CET1 capital. This obligation stems from the Supervisory Review and Evaluation Process (SREP) as performed by the ECB in 2019, and the SREP decision applicable from 1 January 2020. As a measure to support 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 be supplemented with Additional Tier 1 and Tier 2 capital, thus bringing forward Article 104(a) of the CRD V, which was scheduled to come into effect in January 2021.

Capitalisation

in € millions	30-6-2020	31-12-2019	30-6-2019
Shareholders' equity	3,382	3,435	3,578
Non-eligible interim profits	-106	-214	-154
Shareholders' equity for CRD IV purposes	**3,276**	**3,221**	**3,424**
Cashflow hedge reserve	-24	-26	-29
Other prudential adjustments	-3	-6	-3
Total prudential filters	**-27**	**-32**	**-32**
Intangible assets	--	-2	-4
IRB shortfall[1]	--	-31	-38
Total capital deductions	**--**	**-33**	**-42**
Total regulatory adjustments to shareholders' equity	**-27**	**-65**	**-74**
CRD IV CET 1 capital	**3,249**	**3,156**	**3,350**
Additional Tier 1 capital	--	--	--
Tier 1 capital	**3,249**	**3,156**	**3,350**
Eligible Tier 2	500	500	500
IRB excess[1]	13	--	--
Tier 2 capital	**513**	**500**	**500**
Total capital	**3,762**	**3,656**	**3,850**
Risk-weighted assets	**9,612**	**9,680**	**9,029**
Risk exposure as defined by the CRR	64,535	62,006	63,110
CET1 ratio	**33.8%**	**32.6%**	**37.1%**
Tier 1 ratio	33.8%	32.6%	37.1%
Total capital ratio	39.1%	37.8%	42.6%
Leverage ratio	5.0%	5.1%	5.3%

1 The IRB shortfall/excess 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 went up to 33.8%, from 32.6% at year-end 2019, primarily due to an increase in CET1 capital. As a result, the CET1 capital ratio remained well above our target of at least 19.0%.

In the first half of 2020, shareholders' equity fell by € 53 million to € 3,382 million. On the one hand, the shareholders' equity decreased as a result of the 2019 dividend reservation of € 165 million, on the other hand the shareholders' equity increased as a result of the € 106 million net profit for the first half of 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 has been added to the CET1 capital from the non-eligible (interim) profits as at year-end 2019 of € 214 million, after deduction of € 165 million allocated for dividend.

The interim profit not yet eligible as CRD IV equity (€ 106 million) is the full net profit for the first half of 2020.

To determine the CET1 capital, shareholders' equity for CRD IV purposes is subsequently subjected to a number of regulatory adjustments. Total regulatory adjustments amounted to € 27 million negative at the end of June 2020 (year-end 2019: € 65 million negative) and consisted mainly of a prudential adjustment for the cashflow hedge reserve. The deductible item related to the Internal Ratings Based (IRB) shortfall, which amounted to € 31 million at year-end 2019, dropped to zero in the first half of 2020, which was due to the increased provisions following the Covid-19 crisis. On balance, the CRD IV CET1 capital rose by €93 million to € 3,249 million.

Risk-weighted assets (RWA)

in € millions	30-6-2019	31-12-2019	30-6-2019
	CRD IV	CRD IV	CRD IV
Credit risk - Internal ratings based (IRB)	5,832	5,932	5,318
Credit risk - standardised approach (SA)	2,147	2,128	2,027
Securitisations	14	8	7
Operational risk	1,503	1,503	1,544
Market risk	20	5	--
Credit Valuation Adjustment (CVA)	96	104	133
Total	**9,612**	**9,680**	**9,029**

In the first half of 2020, RWA decreased by € 68 million to € 9.6 billion. This decrease was mainly attributable to a € 120 million reduction for an adjusted weighting of the credit facility granted to the Deposit Guarantee Fund (DGF) and to € 100 million lower RWA for the credit risk of the retail mortgage portfolio, calculated according to the internal rating based (IRB) approach. The decrease in RWA was partly offset by a € 202 million increase related to the increased risk-weighted short-term exposures to other financial institutions.

Despite deteriorated economic conditions, the average risk weighting of retail mortgages in the first half of 2020 went down from 12.9% at year-end 2019 to 12.6%, taking into account that payment arrangements made with customers in response to the economic impact of the Covid-19 crisis do not automatically qualify as a deterioration in a customer's credit quality.

The RWA for operational risk, market risk, the Credit Valuation Adjustment and revised securitisation framework remained unchanged at € 1.6 billion in total.

Leverage ratio

The leverage ratio dropped from 5.1% at year-end 2019 to 5.0%, mainly driven by an increase in the leverage ratio denominator (by € 2.5 billion). The denominator is the risk exposure amount as defined by the Capital Requirements Regulation (CRR). The increase in this risk exposure was in line with the growth of the balance sheet total (€ 2.5 billion). The increase in the denominator of the leverage ratio was partly compensated by the € 93 million increase in Tier 1 capital.

The 5.0% leverage ratio is well above the regulatory requirement of 3.0%[2] and our target of at least 4.75%. 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

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

Based on the balance sheet position as at the end of June 2020, we expect our RWA to increase by approximately 40%[3] as a result of the full phase-in of Basel IV and that this will consequently reduce our CET1 capital ratio by approximately 10 percentage points. The largest effect is caused by the output floor on the basis of the revised Standardised Approach (SA) for credit risk versus the current internal modelling approach on the basis of PHIRM[4]. To give banks more time to prepare for Basel IV following the Covid-19 pandemic, the BCBS has postponed the introduction

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

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, following the full phase-in of Basel IV, our CET1 capital ratio will still exceed our minimum target of 19%[5].

Minimum floor on risk weighting of mortgage loan portfolios

In October 2019, DNB announced that it would increase the minimum floor on the risk-weighting of the mortgage loan portfolios of Dutch banks for a period of at least two years, with the exception of mortgages (partially) covered by the National Mortgage Guarantee (NHG) scheme. This measure applies to banks that use internal risk models to calculate capital requirements for their mortgage loan 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 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 subordinated liabilities on 1 January 2024 (Tier 1 capital, Tier 2 capital and SNP notes). This assumption is based on the bank's current views on the future MREL subordination requirement regulations. Based on its current capital position, de Volksbank thus expects to issue Senior Non-Preferred (SNP) notes totalling € 1.5 billion to € 2.0 billion up to 2024. De Volksbank is closely monitoring the developments concerning a potential MREL subordination requirement and will adjust its capital planning if necessary.

MREL

in € millions	30-6-2020	31-12-2019	30-6-2019
CET1 capital	3,249	3,156	3,351
Tier 2 capital	513	500	500
Total capital	**3,762**	**3,656**	**3,851**
Other eligible unsecured liabilities with remaining maturity > 1 year	1,717	1,748	1,542
Total capital including other eligible liabilities	**5,479**	**5,404**	**5,393**
Risk exposure as defined by the BRRD (MREL)	63,186	60,738	61,751
Risk-weighted assets	9,612	9,680	9,029
MREL BRRD			
MREL (Total capital)	6.0%	6.0%	6.2%
MREL (Total capital including other eligible liabilities)	8.7%	8.9%	8.7%
MREL RISK-WEIGHTED ASSETS			
MREL (Total capital)	39.1%	37.8%	42.7%
MREL (Total capital including other eligible liabilities)	57.0%	55.8%	59.7%

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

At the end of June 2020, the non-risk-weighted MREL ratio stood at 8.7% (2019: 8.9%). This includes the total capital and all other unsecured liabilities eligible for MREL under the current BRRD.

Total capital and eligible liabilities rose by € 75 million to € 5,479 million, mainly as a result of the € 93 million increase in CET1 capital. The risk exposure as defined by the BRRD rose by € 2.4 billion to € 63.2 billion.

The risk-weighted MREL ratio, based on CET1 capital and Tier 2 capital (€ 3,762 million in total), stood at 39.1% (year-end 2019: 37.8%). Both are subordinated to other outstanding liabilities. Based on the balance sheet position as at the end of June 2020, we estimate that the risk-weighted MREL ratio met with subordinated instruments would be approximately 11 percentage points lower under full phase-in of Basel IV.

5 Based on our balance sheet position as at 30 June 2020 and assuming that the Basel IV rules are implemented in European legislation without change.

Dividend

For the regular dividend distribution, de Volksbank has set a target range of 40% - 60% of the adjusted net profit. In line with this policy, de Volksbank had the intention to pay NLFI a dividend of € 165 million for 2019 in April 2020. This comes down to a payout ratio of 60%, the top of the target range applied by us.

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 of this year, 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. Although the dividend has not yet been paid out, the amount has already been reserved for dividend 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 the capital, this would require a shareholders' resolution to pay up the capital.

Liquidity and funding

Liquidity

In the first half of 2020, de Volksbank maintained a strong liquidity position that amply met both internal targets and regulatory requirements. Because of the Covid-19 pandemic, we stepped up our level of monitoring. There was no reason for specific additional measures or actions with respect to our liquidity position.
The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remained well above the (future) regulatory minimum of 100%. As at 30 June 2020, the LCR stood at 182% (year-end 2019: 182%).

Key liquidity indicators

	30-6-2020	31-12-2019	30-06-2019
LCR	182%	182%	147%
NSFR	>100%	>100%	>100%
Loan-to-Deposit ratio	96%	102%	103%
Liquidity buffer (in € millions)	17,563	16,897	15,953

The ratio between loans outstanding and deposits attracted, known as the Loan-to-Deposit ratio, dropped to 96%, from 102% at year-end 2019. This drop was caused by a growth in deposits, of which € 2.1 billion due to an increase in retail savings, while there was a slight decline in loans. We did not take into account the € 0.4 billion increase in the carrying amount of loans as a result of hedge accounting.

The liquidity buffer remained high and amounted to € 17.6 billion as at 30 June 2020 (year-end 2019: € 16.9 billion).

Liquidity buffer composition

in € millions	30-6-2020	31-12-2019	30-6-2019
Cash position[1]	3,754	3,836	3,570
- of which central bank reserves & nostro accounts	*1,400*	*2,302*	*2,209*
- of which contractual wholesale cashflows maturing within ten days or less	*2,354*	*1,534*	*1,361*
Sovereigns	2,830	2,805	2,149
Regional/local governments and supranationals	1,152	1,091	871
Other liquid assets	327	263	431
Eligible retained RMBS	9,500	8,902	8,932
Liquidity buffer	**17,563**	**16,897**	**15,953**

1 The cash position 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 30 June 2020, the cash position amounted to € 3.8 billion (year-end 2019: € 3.8 billion). The funding need arose mainly from the € 0.4 billion repayment in wholesale funding and a € 0.3 billion increase in collateral placed in relation to derivative transactions in the form of cash. The funding need was more than fully met by a € 3.0 billion growth in deposits. The resulting net inflow of cash is not reflected in the (10-day) cash position, in particular because – as at 30 June 2020 - the volume of short-term loans and investments entered into for cash management purposes with a remaining maturity of more than ten days was € 1.9 billion higher compared with year-end 2019.

The liquidity value of other liquid assets in the liquidity buffer amounted to € 13.8 billion as at 30 June 2020 (year-end 2019: € 13.1 billion):

• The value of unencumbered sovereign debts in the liquidity buffer remained virtually stable at € 2.8 billion;
• The liquidity value of eligible retained RMBS rose by € 0.6 billion. This is mainly because of lowered ECB collateral valuation haircuts for liquid assets, partly because the ECB collateral

valuation haircuts were lowered by 20% as from 20 April. This is a temporary Covid-19 measure that is expected to apply until September 2021.

As at 30 June 2020, € 2.7 billion in assets had been invested for cash management purposes with an investment horizon of more than 10 days (year-end 2019: € 0.8 billion). These loans will be available as liquid assets on short notice.

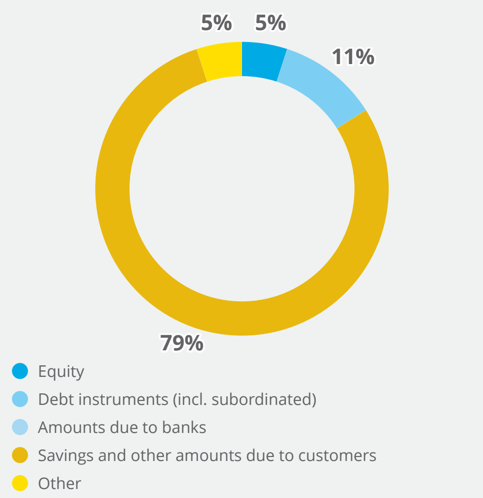
Funding

Retail savings are de Volksbank's main source of funding. Through our brands, we attract demand deposits, current account balances and term deposits from retail customers, as well as savings deposits and current account balances from SME customers. In the first half of 2020, customer funding grew to € 50.8 billion (after the adjustment of € 0.4 billion for home construction accounts), from € 48.1 billion at year-end 2019.

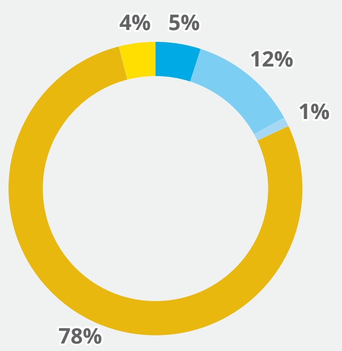
We also attract wholesale funding through various funding instruments spread over maturity, market, region and type of investor.

The diagrams below provide an overview of the book value-based composition of the total liabilities as at 30 June 2020 and year-end 2019. The percentage of our funding that is made up of savings and other amounts due to customers rose from 78% to 79%.

Equity and liability mix as at 30 June 2020: € 65.4 billion



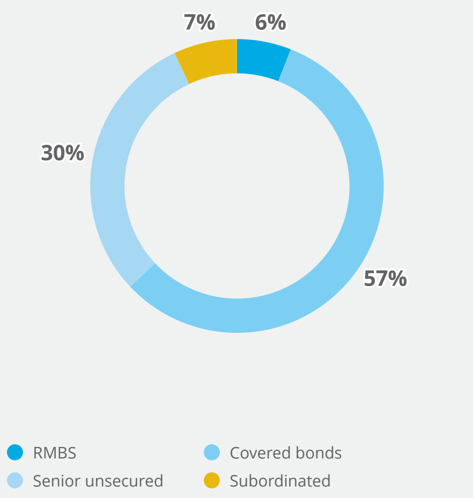
Equity and liability mix as at 31 December 2019: € 62.8 billion



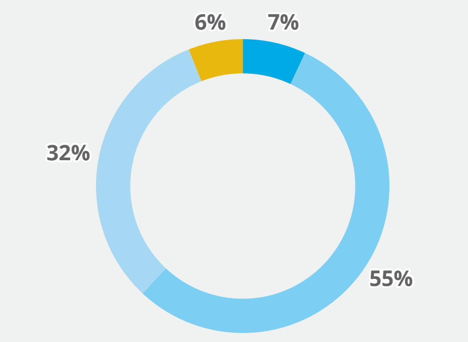
In the first half of 2020, de Volksbank did not conduct any capital market transactions as the available funding was more than sufficient.

On balance, the wholesale funding mix changed in the first half of 2020 (from € 7.9 billion to € 7.5 billion), primarily due to the redemption of:
• senior unsecured funding (€ 0.3 billion);
• covered bonds (€ 0.1 billion).

Capital market funding mix as at 30 June 2020: € 7.5 billion (nominal value)

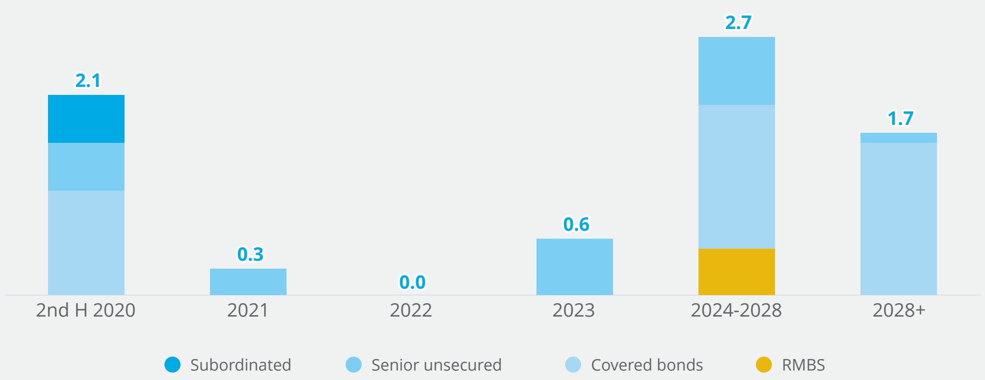


Capital market funding mix as at 31 December 2019: € 7.9 billion (nominal value)



The figure below presents an overview of the maturity calendar of the outstanding wholesale funding with an original maturity of more than one year. It is assumed that this funding will be redeemed at the first possible date. In July 2020, de Volksbank successfully issued € 0.5 billion of green Tier 2 capital instruments to replace the outstanding Tier 2 capital instrument with a first call option date of 5 November 2020. Additionally, in the second half of 2020 we expect to issue senior bonds to meet our wholesale funding needs. Moreover, we are considering participation in future TLTRO III operations of the ECB because of the favourable conditions.

Capital market funding maturities
(in € billions)



Responsibility statement

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

- The condensed consolidated interim financial statements, for the six-month period ending on 30 June 2020, give a true and fair view of the assets, liabilities, size and composition of equity, financial position and profit or loss of de Volksbank N.V. and the companies included in the consolidation; and
- The Interim Financial Report, for the six-month period ending on 30 June 2020, gives a true and fair view of the information that is required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of de Volksbank N.V. and of the companies included in the consolidation.

Utrecht,13 August 2020

The Board of Directors

Maurice Oostendorp, Chief Executive Officer

Jeroen Dijst, Chief Risk Officer

Marinka van der Meer, Chief Customer Officer

Mirjam Verhoeven, Chief Operations Officer

Martijn Gribnau, member under the Articles of Association

Condensed consolidated interim financial statements

Consolidated balance sheet

Before result appropriation and in € millions	30-6-2020	31-12-2019
ASSETS		
Cash and cash equivalents	1,079	2,026
Derivatives	702	718
Investments	5,469	5,350
Loans and advances to banks	6,817	3,791
Loans and advances to customers	50,867	50,461
Tangible and intangible assets	114	128
Tax assets	64	99
Other assets	266	268
Total assets	**65,378**	**62,841**
EQUITY AND LIABILITIES		
Savings	40,521	38,404
Other amounts due to customers	11,073	10,641
Amounts due to customers	**51,594**	**49,045**
Amounts due to banks	246	541
Debt certificates	6,545	6,906
Derivatives	2,188	1,841
Tax liabilities	16	15
Other liabilities	852	492
Provisions	45	64
Subordinated debts	510	502
Total other liabilities	**10,402**	**10,361**
Share capital	381	381
Other reserves	2,895	2,779
Retained earnings	106	275
Shareholders' equity	**3,382**	**3,435**
Total equity and liabilities	**65,378**	**62,841**

Consolidated income statement

in € millions	1st half 2020	1st half 2019
INCOME		
Interest income	590	644
Interest expense	154	202
Net interest income	**436**	**442**
Fee and commission income	62	58
Fee and commission expenses	33	33
Net fee and commission income	**29**	**25**
Investment income	8	8
Other result on financial instruments	7	-5
Other operating income	--	1
Total income	**480**	**471**
EXPENSES		
Staff costs	186	186
Depreciation and amortisation of tangible and intangible assets	14	16
Other operating expenses	92	76
Impairment charges financial assets	45	-13
Total expenses	**337**	**265**
Result before taxation	**143**	**206**
Taxation	37	52
Net result for the period	**106**	**154**

Consolidated statement of comprehensive income

Other comprehensive income

in € millions	1st half 2020	1st half 2019
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS		
Other changes in comprehensive income	--	1
Total items never reclassified to profit or loss	**--**	**1**
ITEMS THAT ARE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
Change in cashflow hedge reserve	-2	-3
Change in fair value reserve	8	18
Total items that are subsequently reclassified to profit or loss	**6**	**15**
Other comprehensive income (after tax)	**6**	**16**

Total comprehensive income attributable to the shareholder

Total comprenhensive income

in € millions	1st half 2020	1st half 2019
Net profit	106	154
Other comprehensive income (after tax)	6	16
Total comprehensive income	**112**	**170**

Condensed consolidated statement of changes in total equity

Consolidated statement of changes in total equity

in € millions	Issued share capital[1]	Share premium reserve	Revaluation reserve[2]	Cashflow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2019	381	3,787	6	31	14	-918	268	3,569
Transfer of 2018 net result	**--**	**--**	**--**	**--**	**--**	**107**	**-107**[3]	**--**
Other comprehensive income	--	--	--	-3	18	1	--	16
Net result for the period	--	--	--	--	--	--	154	154
Total result for the period	**--**	**--**	**--**	**-3**	**18**	**1**	**154**	**170**
Transactions with shareholder	--	--	--	--	--	--	-161[4]	-161
Total changes for the period	**--**	**--**	**--**	**-3**	**18**	**108**	**-114**	**9**
Balance as at 30 June 2019	**381**	**3,787**	**6**	**28**	**32**	**-810**	**154**	**3,578**
Other comprehensive income	--	--	--	-2	-13	1	--	-14
Net result for the period	--	--	--	--	--	--	121	121
Total result for the period	**--**	**--**	**--**	**-2**	**-13**	**1**	**121**	**107**
Transactions with shareholder	--	-250	--	--	--	--	--	-250
Total changes for the period	**--**	**-250**	**--**	**-2**	**-13**	**1**	**121**	**-143**
Balance as at 31 December 2019	**381**	**3,537**	**6**	**26**	**19**	**-809**	**275**	**3,435**
Transfer of 2019 net result	**--**	**--**	**--**	**--**	**--**	**110**	**-110**[5]	**--**
Other comprehensive income	--	--	4	-2	8	-4	--	6
Net result for the period	--	--	--	--	--	--	106	106
Total result for the period	**--**	**--**	**4**	**-2**	**8**	**-4**	**106**	**112**
Transactions with shareholder	--	--	--	--	--	--	-165[6]	-165
Total changes for the period	**--**	**--**	**4**	**-2**	**8**	**106**	**-169**	**-53**
Balance as at 30 June 2020	**381**	**3,537**	**10**	**24**	**27**	**-703**	**106**	**3,382**

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 dividend payment deduction.
4 Dividend paid out to NLFI.
5 This is the result after deduction of the dividend payable.
6 Dividend to be paid out to NLFI included under other liabilities.

Condensed consolidated cashflow statement

in € millions	1st half 2020	1st half 2019
CASHFLOW FROM OPERATING ACTIVITIES		
Operating profit before tax	143	206
ADJUSTMENTS FOR		
Depreciation and amortisation of tangible and intangible assets	14	16
Impairment charges and reversals	45	-13
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Change in advances to customers	-406	-1,015
Change in liabilities to customers	432	457
Change in advances to banks	-3,026	-619
Change in liabilities to banks	-295	-225
Change in savings	2,117	1,099
Change in trading portfolio	-21	--
Other adjustments and changes in operating activities	576	1,272
Net cashflow from operating activities	**-421**	**1,178**
Net cashflow from investment activities	**-161**	**-544**
Net cashflow from financing activities	**-365**	**499**
Net decrease of cash and cash equivalents	**-947**	**1,133**
Cash and cash equivalents as at 1 January	2,026	815
Change in cash and cash equivalents	-947	1,133
Cash and cash equivalents as at 30 June	**1,079**	**1,948**

Notes to the condensed consolidated interim financial statements

Accounting principles

General information

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

The condensed consolidated interim financial statements of de Volksbank comprise financial information of all entities controlled by de Volksbank, including its interests in associates. These condensed consolidated interim financial statements were prepared by the Board of Directors and approved by the Supervisory Board on 13 August 2020.

Basis of preparation

Statement of IFRS compliance

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

Main accounting principles for financial reporting

The accounting principles applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting principles applied in the preparation of de Volksbank's financial statements for the year ending on 31 December 2019. Changes in standards and interpretations affecting the 2020 accounting principles are described in the following section.

Changes in published Standards and Interpretations effective in 2020

In 2020 the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), respectively, became mandatory. These were adopted by the EU and are applicable in the current financial year:

- Amendments to IFRS 3 Business Combinations;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Amendments to References to the Conceptual Framework in IFRS Standards .

With the exception of Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform, none of the above-mentioned amendments affect the condensed consolidated interim financial statements.

IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In 2019 and 2020 the reference rates (IBORs) for variable-interest financial instruments are being replaced by Alternative Reference Rates (ARR). Since the changes are market driven, there is currently some uncertainty around the timing and precise nature of these changes. The interest rate benchmark reform affects the risk exposure of the bank mainly via its fair value hedge accounting activities, where IBOR-linked derivatives are designated as a fair value hedge of fixed interest rate assets and liabilities. Fall back language related to issued debt securities has been incorporated in the legal documentation. For floating rate loans (mortgages) this process is still in progress. Approaches to the transition vary. For derivative contracts facing central clearing counterparties a market-wide, standardised approach to reform will be followed. Bilateral derivative agreements will be negotiated with the counterparty. De Volksbank has established an IBOR Transition Programme, chaired by the head of Financial Markets.

As of 2020 de Volksbank adopted the phase 1 amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' in relation to the Interest Rate Benchmark Reform. In order to facilitate the transition to the new rates these amendments implemented practical expedients for hedge accounting requirements, which limit possible hedge accounting issues. These practical expedients relate in particular to the requirements for prospective and retrospective testing, so that the application of hedge accounting can be continued. These amendments have no further impact on de Volksbank. The impact on financial reporting will become clearer following the anticipated completion of Phase 2 of the IASB's IBOR Reform project in the course of 2020

Impact of Covid-19 on the use of judgements, estimates and assumptions in the preparation of the condensed consolidated interim financial statements

The preparation of the condensed consolidated interim financial statements requires de Volksbank to make judgements, estimates and assumptions based on complex and subjective opinions and best estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the reporting period. In this respect, management judges situations on the basis of available information and financial data which could potentially change going forward. Although the estimates are made to the best of management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Covid-19 has led to a revision of the judgements, estimates and underlying assumptions used in this reporting period and future periods for the item Impairment charges on loans and receivables in the condensed consolidated interim financial statements. For detailed information and disclosure of the accounting judgements, estimates and assumptions used, reference is made to the section Credit risk.

Presentation revision
In 2020, de Volksbank concluded that the accounting treatment of home construction accounts needed to be revised. Due to this revision, these accounts are no longer recognised as a financial liability in the IFRS balance sheet, but as off-balance sheet commitments. As a result, both loans and advances to customers and other amounts due to customers decreased by approximately € 0.4 billion in the IFRS balance sheet. The comparative figures have not been adjusted.

Notes to consolidated statement of financial position and consolidated income statement

Debt certificates

Covered bond programme
In the first half of 2020, de Volksbank did not issue any capital market funding (debt certificates).

Redemptions and repurchases of debt certificates
In the first half of 2020, de Volksbank redeemed € 46 million in bonds under securitisation programmes, and redeemed, repurchased and/or recognised on own book a total of € 220 million of other bonds with original maturities of more than one year.

Other liabilities

Lease contracts
On 12 June 2020, the complex of buildings in own use in Den Bosch was sold to third parties. Immediately upon sale, one building and part of the car park were leased back for a period of 5 years. This event has been accounted for as a sale-and-leaseback transaction. The book value of the property and the car park amounted to € 4.7 million and was sold for € 7.2 million. The total lease liability included in the balance sheet is € 4.3 million and the associated right-of-use asset is € 2.3 million. The sales result is € 0.5 million.

Impairment charges
We have provided explanations of impairment charges of financial assets and credit loss provisions under Financial results (see table Impairment charges of financial assets) and Credit risk (see text and overviews labelled 'reviewed'), respectively.

Related parties
As part of its business operations, de Volksbank frequently enters into transactions with related parties. Parties related to de Volksbank include the SNS REAAL Pension Fund, associates, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State, the Board of Directors, the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities. Loans and advances to the Board of Directors, the Supervisory Board and close family members, where applicable, consist mainly of residential mortgages granted under standard personnel conditions.

Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships. Normal banking transactions relate to loans and deposits, financial assets held for trading and financial investments available for sale, and are entered into under the same market and commercial terms that apply to non-related parties.

Update on legal proceedings
There have been no noteworthy developments with respect to ongoing legal proceedings.

Post balance sheet events

Dividend
In the first half of 2020 de Volksbank did not pay out dividend to NLFI in response to the European Central Bank's request to banks not to pay dividends for 2019 and 2020 until at least 1 January 2021. The final dividend of € 165 million still to be paid has been included under other liabilities (€ 161 million was paid in the first half of 2019) as a future dividend liability.

Issuance of debt instruments

In July 2020, de Volksbank successfully issued € 0.5 billion of green Tier 2 capital instruments to replace the outstanding Tier 2 capital instrument with a first call option date of 5 November 2020.

Board of Directors of de Volksbank

The Supervisory Board of de Volksbank has decided to part ways with Pieter Veuger, Chief Financial Officer van de Volksbank. The Supervisory Board has informed NLFI, shareholder of de Volksbank, and the Works Council accordingly.

Fair value of financial instruments

Fair value accounting of financial assets and liabilities

The table provides information on the fair value of the financial assets and liabilities of de Volksbank. For a number of fair value measurements estimates have been used. The total of the fair value presented below does not reflect the underlying value of de Volksbank and should, therefore, not be interpreted as such.

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

For financial assets and liabilities measured at amortised cost, the fair value is provided including accrued interest.

Hierarchy in financial instruments as at 30 June 2020

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through OCI	2,064	2,062	--	2	2,064
Investments - fair value through P&L	36	31	--	5	36
Derivatives	702	--	656	46	702
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised cost	3,367	3,305	86	--	3,391
Loans and advances to customers	50,867	--	--	53,801	53,801
Loans and advances to banks	6,817	--	--	--	6,817
Other assets	266	--	--	--	266
Cash and cash equivalents	1,079	--	--	--	1,079
Total financial assets	**65,198**	**5,398**	**742**	**53,854**	**68,156**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	2,188	--	2,141	47	2,188
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	510	516	--	--	516
Debt certificates	6,545	--	--	6,841	6,841
Savings	40,521	--	36,869	4,060	40,928
Other amounts due to customers	11,073	--	11,145	--	11,145
Amounts due to banks	246	--	246	--	246
Other liabilities	852	--	--	--	852
Total financial liabilities	**61,935**	**516**	**50,400**	**10,948**	**62,716**

Hierarchy in financial instruments as at 31 December 2019

in € millions	Book value	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Investments - fair value through OCI	2,027	2,024	--	3	2,027
Investments - fair value through P&L	14	10	--	4	14
Derivatives	718	--	663	55	718
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE					
Investments - amortised cost	3,309	3,238	127	--	3,365
Loans and advances to customers	50,461	--	--	53,855	53,855
Loans and advances to banks	3,791	--	--	--	3,791
Other assets	268	--	--	--	268
Cash and cash equivalents	2,026	--	--	--	2,026
Total financial assets	**62,614**	**5,272**	**790**	**53,917**	**66,064**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Derivatives	1,841	--	1,785	56	1,841
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE					
Subordinated debts	502	515	--	--	515
Debt certificates	6,906	--	--	7,153	7,153
Savings	38,404	--	35,236	3,656	38,892
Other amounts due to customers	10,641	--	10,707	--	10,707
Amounts due to banks	541	--	541	--	541
Other liabilities	492	--	--	--	492
Total financial liabilities	**59,327**	**515**	**48,269**	**10,865**	**60,141**

Notes to the valuation of financial assets and liabilities

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

Investments

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, credit quality and maturity of the relevant investment.

Loans and advances to customers

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative ('teaser rates'). These rates may differ for each sub-portfolio due to differences in maturity, LtV class and form of repayment. In determining the expected cashflows, expected future prepayments are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and customer group to which the loan relates.

Derivatives

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

Loans and advances to banks

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

Other assets

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

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

Subordinated debt
The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by de Volksbank, differentiated to maturity and type of instrument.

Debt certificates
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by de Volksbank.

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

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

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

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

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

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

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

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

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

Change in level 3 financial instruments

Change in level 3 financial instruments measured at fair value for the 1st half of 2020

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	3	4	55	56
Unrealised gains or losses recognised in P&L[1]	-1	--	-9	-9
Unrealised gains or losses recognised in OCI[2]	--	1	--	--
Closing balance	**2**	**5**	**46**	**47**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 1st half of 2019

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	3	4	68	70
Unrealised gains or losses recognised in P&L[1]	2	--	-2	-3
Unrealised gains or losses recognised in OCI[2]	--	-2	--	--
Closing balance	**5**	**2**	**66**	**67**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Change in level 3 financial instruments measured at fair value for the 2nd half of 2019

in € millions	Fair value through profit or loss	Fair value through OCI	Derivatives assets	Derivatives liabilities
Opening balance	5	2	66	67
Unrealised gains or losses recognised in P&L[1]	-2	--	-11	-11
Unrealised gains or losses recognised in OCI[2]	--	2	--	--
Closing balance	**3**	**4**	**55**	**56**

1 Included in the line item 'Result on financial instruments'.

2 Included in the line item 'Fair value reserve'.

Sensitivity of level 3 valuations of financial instruments

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

Sensitivity to non-observable parameters of level 3 financial instruments as at 30 June 2020

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflows	Discount curve	46	"-0.5% of +0.5%"	3	3
		Prepayment rate	46	-1% of +1%	1	1
LIABILITIES						
Derivatives	Discounted cashflows	Discount curve	47	"-0.5% of +0.5%"	2	2
		Prepayment rate	47	-1% of +1%	2	2

Sensitivity to non-observable parameters of level 3 financial instruments as at 31 December 2019

in € millions	Valuation technique	Main assumption	Carrying amount	Reasonably possible alternative assumptions	Increase in fair value	Decrease in fair value
ASSETS						
Derivatives	Discounted cashflows	Discount curve	55	-0.5% of +0.5%	4	4
		Prepayment rate	55	-1% of +1%	2	2
LIABILITIES						
Derivatives	Discounted cashflows	Discount curve	56	-0.5% of +0.5%	2	2
		Prepayment rate	56	-1% of +1%	2	2

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed prepayment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to prepayment rate adjustments. The main non-market observable parameter for determining the fair value of level 3 instruments is the applied estimate of the discount curve.

The level 3 derivatives relate to securitisation transactions. There is a relationship between the fair values. This is due to the fact that the derivatives of the SPVs (front swaps), which are part of the securitisation programmes Hermes, Pearl and Lowland, are entered into back-to-back with the same counterparties (back swaps). As a result, the fair value changes of the front and back swaps are always comparable, but opposite. The level 3 derivatives related to the SPVs of the Holland Homes securitisation programmes are not entered into back-to-back by de Volksbank.

Transfers between categories

In 2019 and in the first half of 2020, no significant movements occurred.

Independent auditor's review report

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

Our conclusion

We have reviewed the condensed interim consolidated financial statements included in the accompanying interim financial report of de Volksbank N.V. based in Utrecht for the period from 1 January 2020 to 30 June 2020.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of de Volksbank N.V. for the period from 1 January to 30 June 2020, is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

The condensed interim consolidated financial statements comprise:

- the consolidated balance sheet per 30 June 2020;
- the consolidated income statement, the consolidated statement of other comprehensive income, the total comprehensive income for the period attributable to the shareholder, the condensed consolidated statement of changes in total equity, and the condensed consolidated cashflow statement for the period from 1 January 2020 to 30 June 2020;
- the notes comprising of a summary of the significant accounting policies and other explanatory information.

Basis for our conclusion

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

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

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

Emphasis of matter relating to uncertainty about Corona

The developments around the Covid-19 pandemic have a profound impact on people, society and on the economy. This impacts operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The impact may continue to evolve, giving rise to complexity and inherent uncertainty. De Volksbank N.V. is confronted with this uncertainty as well. The condensed interim financial statements and our review report thereon reflect the conditions at the time of preparation, including the uncertainty and the impact on significant assumptions and estimations, that are disclosed in the notes to the condensed interim financial statements in the section accounting principles and the disclosures in the risk management paragraph section of the interim financial report in the section Covid-19 crisis. We draw attention to these disclosures. Our conclusion is not modified in respect of this matter.

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

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

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

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

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

The level of assurance obtained in a review engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing.

Accordingly, we do not express an audit opinion. We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with Dutch Standard 2410.

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

Amsterdam, 13 August 2020

Ernst & Young Accountants LLP

signed by A.B. Roeders

General information

About de Volksbank

General
De Volksbank is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium-sized enterprises. De Volksbank carries multiple brands and has a single back office and IT organisation. The product range consists of three core product groups: payments, mortgages and savings. De Volksbank has a balance sheet total of € 65 billion and 3,051 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.

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

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

RegioBank
Quality of life in the neighbourhood
Just dropping by for a question or good advice. This is precisely what you can do at more than 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

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

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