KPMG

State of the Banks

Banks prepare for the new reality

FY 2020 edition

KPMG Netherlands

kpmg.nl/financialservices

Contents

Foreword

It’s June 2021 and we are publishing the third release of the State of the Dutch bank analysis (FY20). Due to a very busy season a bit later than we had anticipated but we hope it still provides some good insights into the performance of the 4 large retail banks in the Netherlands.

Compared to our last publication date on the FY19 results which took place in the third week of social distancing, we are finally in a much better place as a society thanks to the constraints we have had in place for such an extended period of time. With vaccination now fully under way we can finally look forward to a return to (the new) normalcy post-summer.

Banks have operated under challenging circumstances during 2020. Not only as a result of the COVID-19 impact, which obviously had a profound impact, but also due to other structural aspects such as the continued low interest rate environment, pressure on margins, increasing compliance cost and changing client behavior.

Banks have played a pivotal role in providing access to government support measures for their clients and have been pro-active in mitigating direct adverse impact to their clients. Throughout the evolution of the crisis, banks have been able to continue to serve their clients without disruption. This is a tribute to the already advanced state of digitization in the Dutch banking landscape and will likely accelerate other developments like closing more branch locations and digital client interactions.

The uncertain situation resulting from COVID-19 translated in lower overall economic activity and this understandably has hit the top line of the Dutch banks with income being at the lowest level in five years. In addition, margins have declined and although we generally see more diversification into fee income generation, this does not significantly move the needle yet.

2020 was another year where significant steps have been taken by Banks to address the cost income ratio. For instance by re-assessing the strategy, and/or product-service portfolio, driving digital processes and last but not announcing a further reduction in FTE's. However next to the immediate impact of COVID-19 two aspects have negatively impacted this ratio. First of all the lower income base and the significant non-structural cost increases banks faced on the compliance agenda (e.g. resulting from KYC & AML requirements).

From an asset quality perspective things look quite positive. The housing market continues to be strong and the economic outlook is good with higher growth projected for the next two years. However as the government support measures have been made available widely to companies, for banks with SME exposure, it will remain a challenge to understand how and which sectors and companies will emerge successfully post-support measures. And although the banks are well-provisioned, this may affect the bottom line for banks in the next few years.

Ferdinand Veenman

Head of Financial Services

KPMG Nederland

Income

Income is at its lowest level in five years

The business model of Dutch banks – relying heavily on interest income – continues to face pressure in the years ahead. Banks are struggling to keep interest income at healthy levels despite the challenging interest rate environment and are looking to diversify income streams, but this is not moving the needle yet.

Interest income and margins under pressure

Last year, net interest income of all four major Dutch banks has decreased (average decline in FY20: 4.7%) and is at its lowest level in five years for three out of four banks. Increasing income is a challenging task. The high degree of competition for mortgages also fueled by institutional investors through OTD mandates in the Dutch market pushes banks to keep their rates to a bare minimum to safeguard market share. In light of COVID-19, banks were not able to grow lending volumes, potentially due to the availability of governmental supporting schemes, diminished businesses' demand for credit and competition from non-traditional lenders in the SME/consumer market and working capital financing.

Margins have declined for all banks to 143 bps and 144 bps respectively for ABN AMRO and ING, and 130 bps for both Rabobank and De Volksbank, the lowest level in post-financial crisis years.

Figure 1 Total Operating Income (2016-2020)

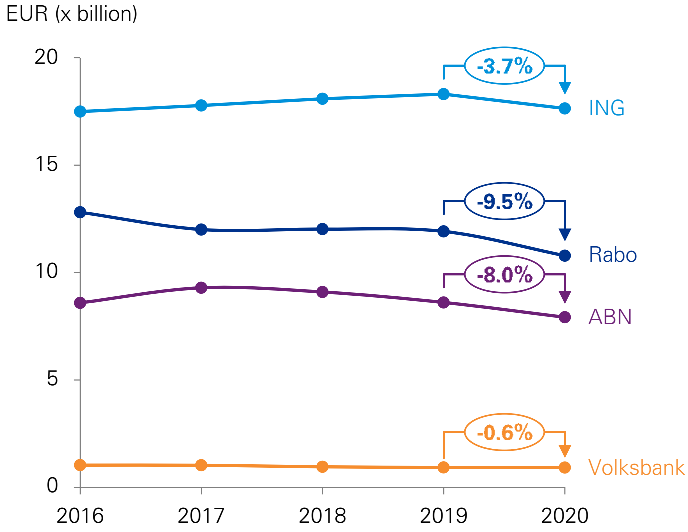
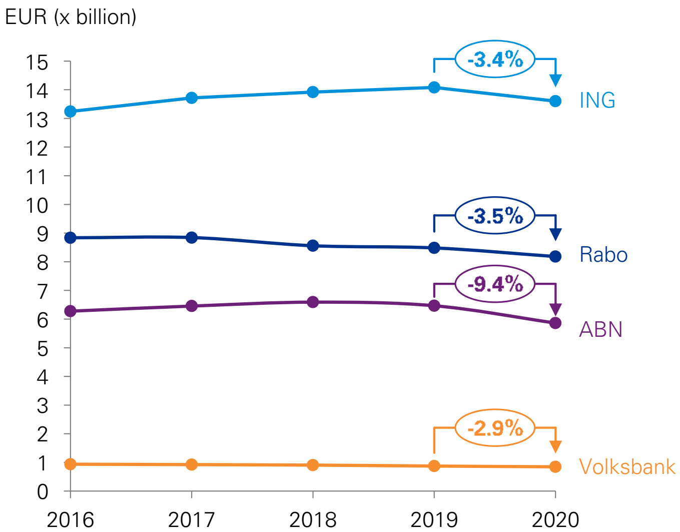


Figure 2 Total Net Interest Income (2016-2020)



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At the same time, Dutch banks continue to struggle finding substantial alternative sources to diversify their income. Circa 75% of income is derived from interest-bearing assets for ABN AMRO, ING and Rabobank. De Volksbank is almost fully reliant on interest income.

Figure 3 Net Interest Margin (2016-2020)

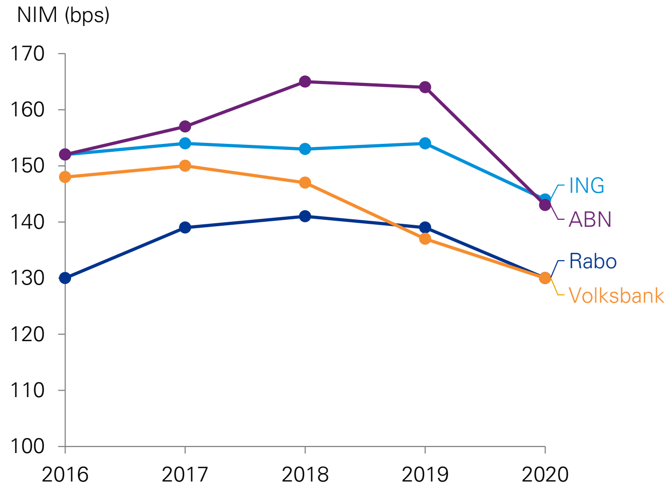
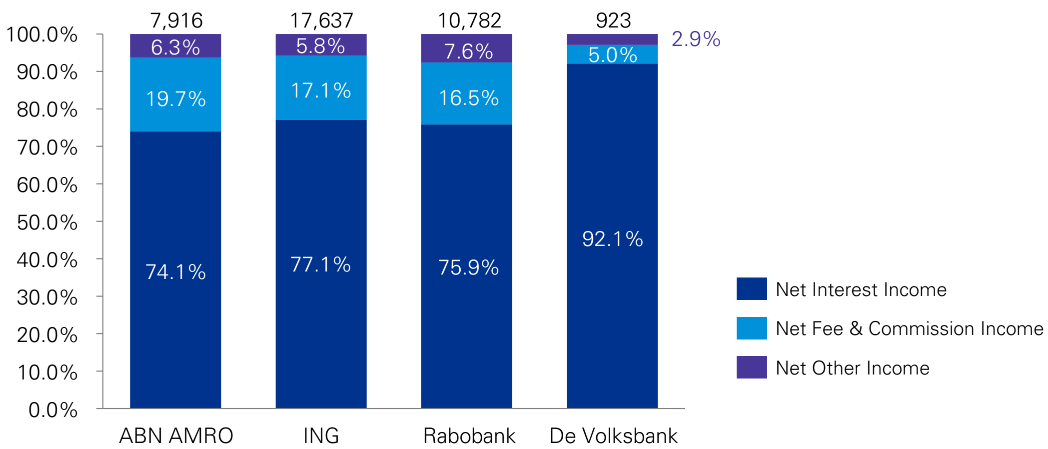


Figure 4 Total Operating Income (2016-2020)



Banks are searching for alternative income

The low interest rate environment is expected to remain. Hence, the exploration of alternative income remains a top priority. Competition in this field is high and so are the costs to tapping into substantial and innovative income streams. The following trends are emerging:

— **Exploring new PSD2 opportunities and platform models**
  The full opportunities provided by the introduction of PSD2 in 2018 have not been captured yet and so far, new concepts have focused on personal budgeting capabilities. In the following years we expect more proof-of-concepts in other areas. In Belgium, KBC Bank is experimenting with integrating public transportation and parking services in their app and – in line with digital frontrunners in the Asian market – providing non-banking services to non-customers. Dutch initiatives have been more conservative; Rabobank has enabled mobile phone transfers via phone numbers, and all banks provide basic integration of competitors' bank accounts.

— **Widening product and service offering**
  Increasing cross-sell amongst the existing client base has been a proven way of increasing income without incurring high acquisition costs.
  De Volksbank has announced a significant change of strategy by entering the business credit market and offering insurance and private investment products. With a primary focus on cross-selling, De Volksbank expects fee and other income (now 7.9%) to double within a few years. ABN AMRO sees growth opportunities in the SME market through the introduction of differentiated digital payment packages and opportunities to earn fees by advising clients on their approach to sustainability. Moreover, Rabobank announced the start of a Carbon bank focused on buying and selling of CO_2 credits as well as seeking additional fee income in the insurance brokerage market.

Preparing for the future

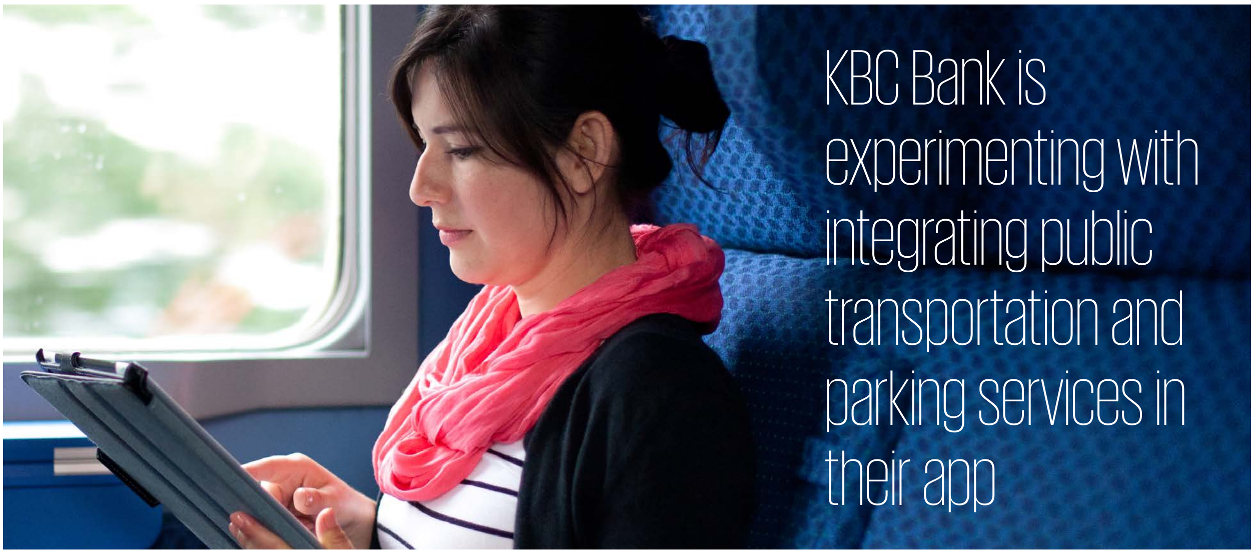
Most challenges to maintain income levels have been known by the sector for some time. COVID-19 has accelerated the risk of further decline in interest income as the positive macro-economic outlook we started with in 2020 has been substituted by uncertainty. Amidst these challenges, banks need to prepare their playbook for sustaining and developing (top) level (diversified) income and a healthy margin.

Strategic considerations for banks to prepare for the new reality:

— Develop compelling customer value propositions on price, products, and services to engage the most attractive customers and drive profitable growth. Determine pricing strategies across the bank and prevent siloed approaches.

— Build a customer-centric organization and culture that inspires people to deliver on the customer promise and drive up business performance. Adding additional value through advice and services can increase fee and commission income.

— Create intelligent and agile services, technologies, and platforms, enabling the customer agenda with solutions that are secure, scalable and cost-effective. Incorporate non-banking services, and find opportunities.



Costs

With income under pressure, attention is needed for cost containment

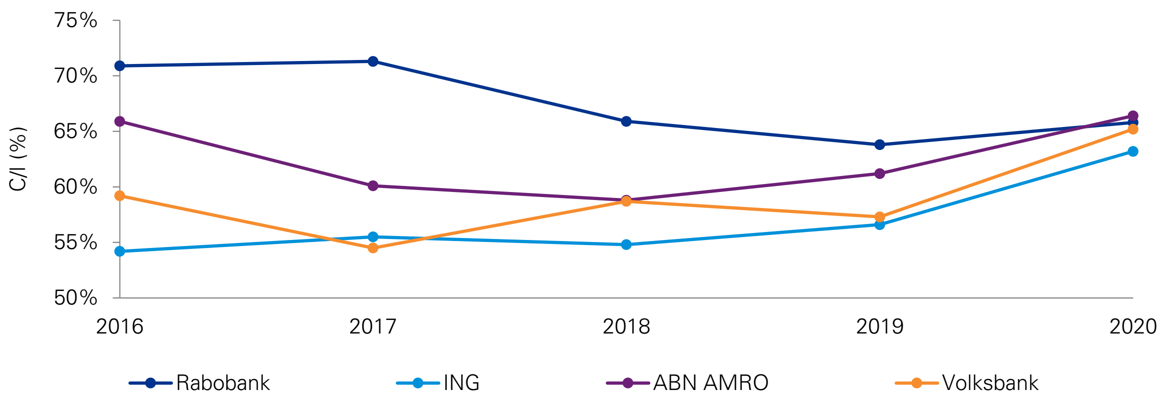
With continuous pressure on income, Dutch banks have put in great efforts of reducing costs in recent years. However, these efforts have produced mixed results. COVID-19 has resulted in a large increase of cost-to-income ratios (C/I ratio). Although this is caused mainly due to a decline in income, containing costs remains difficult for the four Dutch banks.

The average C/I ratio of the four major Dutch banks has increased from 58.5% in 2015 to 62.5% in 2020. Rising regulatory costs, costs relating to maintaining and replacing legacy systems and processes, and continuous investments in the digital transformation of processes all remain important factors in the struggle to lower operational expenses. In recent years, the increased effort in building effective AML/KYC capabilities has complicated cost containment further.

Despite these developments, ABN AMRO and Rabobank managed to lower their operational expenses in FY20, albeit moderately. On the contrary, the operating expenses of ING and De Volksbank have increased in 2020, whereas the rise in costs of De Volksbank can be attributed to incidental costs due to its reorganization.

The current developments are likely to be a constant factor in the coming years putting more pressure on attaining efficient business operations and assessing cost-benefits per market and product offerings. Unsurprisingly, the current ambitions on C/I ratios were not met by all the four banks in 2020. Rabobank already announced that it will push back its C/I ratio target by one to two years. Taking the rise in C/I ratios of the last years into account, one could argue that the C/I ratio targets of the Dutch banks are perhaps too ambitious ranging from 50% to 58% in the long term.

Figure 5 Cost-to-Income Ratio Development (2016-2020)



Efforts to lower costs

Despite the increase of their C/I ratios, various measures have been undertaken in 2020:

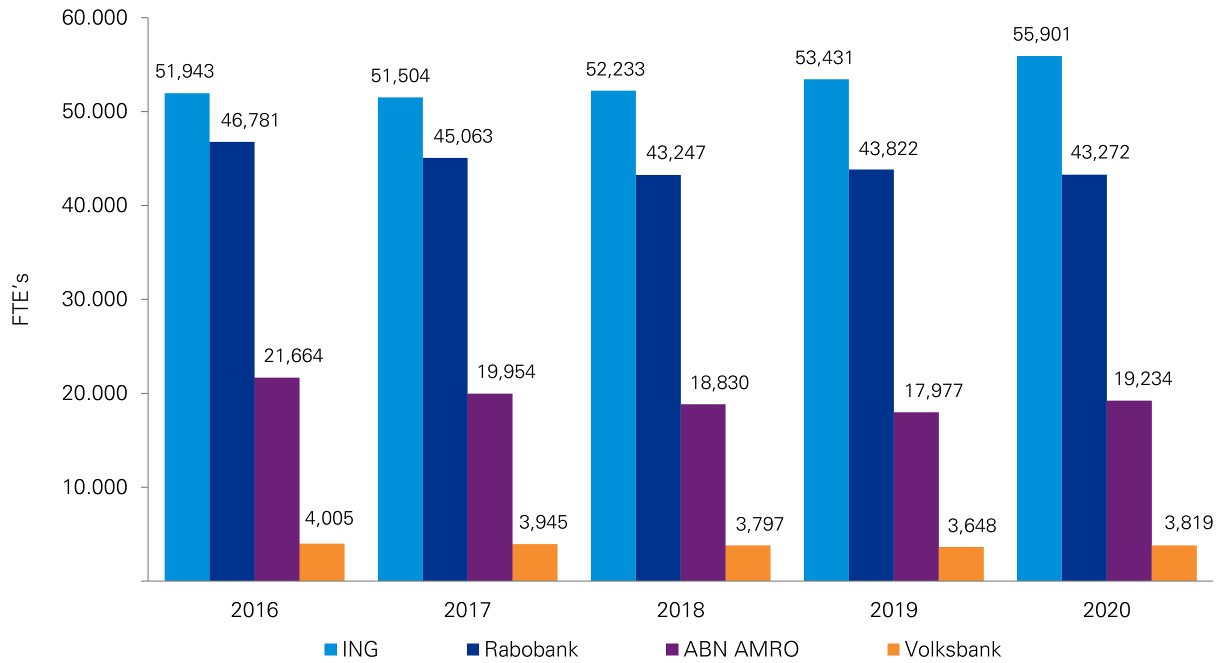
— Banks are continuously assessing their strategy, increasingly focusing on the profitability of selected activities. Dutch banks are increasingly focusing on core banking activities in the domestic market and, assessing the need for costly consumer savings. Both ABN AMRO and ING decided to shut down unprofitable business units. ABN AMRO announced to sell its corporate and institutional banking non-core portfolio activities, whilst ING closed international offices in South America and Asia. Rabobank announced to simplify its Wholesale organization to realize economies of scale and announced to stop offering online saving accounts to clients in Belgium.

— Banks aim to reduce product complexity and streamline the product offering (across borders). For example, ABN AMRO strives to realize a 60% reduction in the complexity of their product portfolio. This move could hurt innovation capacity, but creates big opportunities of creating efficient business operations.

— The acceleration of digital client interactions by COVID-19 has offered more opportunities of realizing longterm cost reductions by closing branches. In the coming years, we expect further developments in the real estate strategy of banks (e.g. ABN AMRO is relocating to their old HQ location). ABN AMRO, ING and Rabobank already announced to significantly reduce the number of their physical branches in the nearby future. De Volksbank is differentiating itself through its multi-brand strategy by focusing on offering local access to its branches.

— Reduction of staff has continued in 2020 and will likely impact the banking workforce in the coming years. ABN AMRO expects to further reduce its workforce by 15% by 2024. De Volksbank recently announced to lay off 400–500 employees in the following years. ING has announced closing of branches resulting in the layoff of 440 employees. Finally, Rabobank announced a further reduction of the workforce by 1,000 FTEs a year for the next 5 years. The outflow of personnel will occur in the next couple of years by a mix of regular outflow and the reduction of external FTEs.

Figure 6 FTE Development (2016-2020)



Preparing for the future

Operational efficiency is key when income is under pressure and investments in KYC/AML activities and digital transformation are needed to stay relevant in the market. Our recent survey of more than 200 executives at some of the world's largest banks confirms the importance of further focus on cost containment. For example, 61% acknowledges that cost reduction has increased as a strategic priority and 83% is refocusing the cost optimization efforts.

Strategic considerations to reduce costs and prepare for the new reality, based on three macro cost levers:

Strategy:

- Geography and offering: Re-evaluate presence in low performing customer segments and geographical areas.
- Operating model & balance sheet: Banks should reduce the cost of funding by optimizing the balance sheet.

Simplicity:

- Organization design & people: Drive the simplification of the organizational design throughout the bank, focus on span of control, organizational layers and realignment of pay and rewards.
- Functional transformation & organizational model: By reducing organizational complexity, decision-making and governance structures, adopting an agile way of working, process re-engineering, QA/QC-risk convergence and the rationalization of procurement and vendor managements functional costs reduction can be realized.

Engineering:

- Digitize processes: Further focus on digital banking, channels and transactions, and digitization of work from front office to back office will create responsive operations, with maximum use of digital interaction. Use tooling in supporting client contact and insights and re-evaluate local physical presence in order to improve operational efficiency.
- Intelligent automation & technology transformation: High emphasis on robotic process, testing automation and cognitive- and call automation to reduce transaction costs. Invest in digitally enabled technology such as cloud, infrastructure connectivity and application rationalization. Accelerate the decommissioning of the obsolete applications and removal of data centers.
- Data, analytics & insights: Improving the use and quality of data and artificial intelligence will increase insights in customer demand and contribute to salesforce effectiveness. Streamlining of the product portfolio and reducing the presence in low performing customer segments and product areas based on data will result in the simplification of the needed operations of the banks.
- Tax & legal optimization: Align the business model and operating model with the appropriate tax and legal structures.

Customer experience in the new reality

COVID-19 impacted the Dutch banking sector

In the first quarter of 2020, strategic priority of banks rapidly shifted to support employees, customers and society to deal with the impact of the COVID-19 pandemic. Based on the experiences with the 2007-2008 financial crisis, Dutch banks took an important social role and presented themselves as part of the solution by financially supporting businesses and consumers that were affected by the pandemic.
In retrospect, two sector-wide trends can be observed that were driven by COVID-19:

1. Banks were positioned as integrity champions in supporting government measures
2. Banks employed a variety of initiatives to accelerate digitization of their services

Consumer trust remained stable during the crisis

The COVID-19 pandemic brought a lot of uncertainty to society. Integrity – being trustworthy and engendering trust – proves to be a fundamental driver of Customer Experience Excellence (CEE) in times of crisis and last year the financial services industry scored highest on this CEE pillar surpassing other sectors. Based on KPMG's annual CEE research, it can be concluded that Dutch banks worked hard to take on a societal role by presenting themselves as part of the solution. Dutch banks introduced a wide range of solutions to guide financially distressed business and consumers through the crisis:

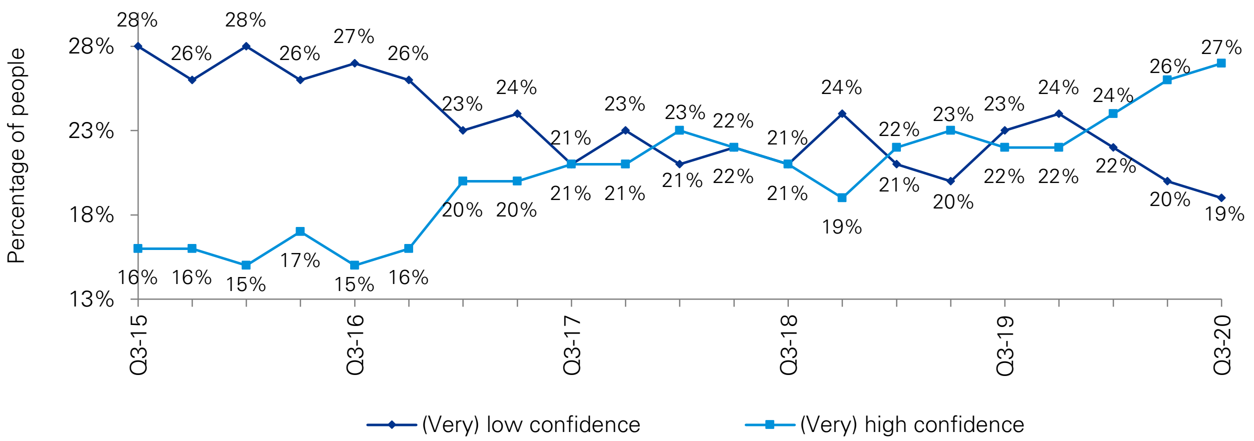
— 172,000 businesses were supported with a total of EUR 33 bln in postponed repayments, loans and additional credit lines

— Approximately 37,000 consumers received payment breaks totaling EUR 88 mln

As a result, consumers experienced that banks are also there to support when times are tough. Consequently, consumer confidence in the Dutch banking sector remained stable over the year 2020 according to a survey conducted by the Nederlandse Vereniging van Banken (NVB).

For the year 2021, the risk exists that banks will find it more difficult to keep on supporting a growing group of financially troubled businesses and consumers. To retain consumer trust banks have to be prudent in the promises they make towards their clients. By setting the right expectations in advance and being realistic to consumers when they can(not) assist, banks prevent that current levels of consumer confidence will diminish as the crisis evolves.

Figure 7 Confidence of Dutch citizens in the banking sector



Source: Banking Confidence Monitor 2020, Nederlandse Vereniging van Banken

COVID-19 measures led to an accelerated adoption of digital and mobile services

The virus also resulted in other means of interaction between customers and banks. As a result of social distancing, customers had to discover new channels to access products and services. Similarly, bank employees had to get used to working from home and different ways to serve clients. To enable uninterrupted client interactions, banks rapidly set up virtual call centers and reallocated staff. Services that were traditionally offered at bank branches, such as mortgage conversations, were quickly rescheduled to virtual appointments through video conferencing.

As opening times of local branches had to be adjusted, banks reported a rapid adoption of digital and mobile services amongst their clients. To explain all available services and actions they were taking in the context of COVID-19, all Dutch banks set up online portals for their clients:

- All banks took additional measures to actively support customers in making the move to digital banking. This group involves elderly people forced to make the shift to digital by lack of other means to contact their bank
- De Volksbank publicly emphasized the importance to keep its local branches open, next to digitally serving its clients. The bank has a relatively large network of physical stores, and is in an earlier stage in the digital banking transformation compared to its larger competitors

In the new reality, customer self service plays an important role according to most banks. Therefore, banks are making investments to offer easy access to products, services and relevant information through their digital channels. For example:

- ING introduced a new chatbot helping customers to find the right products of their needs, boosting digital sales. Furthermore, ING is migrating customers to their new digital banking channel One App / One Web to enhance the digital experience
- ABN AMRO introduced video banking in the retail segments, resulting in a higher NPS. Furthermore, the bank accelerated the digital delivery of new services, such as digital signatures in commercial banking
- Across the board, we see that banks make strategic investments in / partner up with technology start-ups that may improve the value proposition of their financial products

With no alternative available customers increasingly got used to digital and mobile banking during the past year. Examples of ING and ABN AMRO show that banks took an active role in helping customers to make the shift towards digital and mobile. As a result, customers rely less on physical interactions. This development offers some banks the opportunity to close local branches more quickly. However, assessing added value per location can still benefit the brand experience.

Bank	Use of digital and mobile channels	Branch closure
ING	— Mobile interactions increased to 87% in 2020 (2019: 82%). 40% of retail customers only interact with ING by mobile phone	— In 2020, ING announced to close a quarter of its branches and recently announced to half the remaining number — ING plans to expand the number of in-store service points (e.g. at Primera, The Read Shop and Bruna) from 246 to 321
ABN AMRO	— 80% of retail banking clients used the mobile app in 2020	— The number of ABN AMRO branches declined from more than 500 in 2010 to about 100 in 2020
Rabobank	— 66% of private customers and 82% of corporate customers made use of online channels in 2020	— The number of Rabobank branches is declining from more than 900 in 2010 to about 100–150 in the nearby future
De Volksbank	— No data – De Volksbank recently commenced its 2021-2025 strategy with increased focus on digitization of services (omnichannel)	— Contrary to most other banks, De Volksbank does not plan to reduce its number of stores (e.g. SNS stores and RegioBank offices)

Source: analyst presentations & integrated reports (use of digital and mobile channels) and Het Financieele Dagblad (branch closure)

Branch closure is a sector-wide trend, but differentiation is present where either physical branches (SNS), franchisees (RegioBank) or service points (ING) are offered to customers. Branch closure should not be a goal in itself and needs to be considered wisely. Banks should analyse where physical presence adds value and where not. Different service models can be considered that offer customers an optimal blend of physical and online channels.

Strategic consideration for the new reality:

As a result of the digital transformation, accelerated by COVID-19, customer interaction increasingly takes place through online channels. In general, Dutch customers are satisfied with the online services offered by banks. However, Dutch customers also scored their banks lower on the quality of contact they had according to a survey conducted by the NVB. Banks need to invest in the quality of online customer interaction. To create a memorable online experience, empathy and understanding can be embedded to improve the quality of online customer interaction by giving customers the feeling that the bank understands their personal situation and is 'human' in its treatment.

In the new reality, online customer interactions and digital customer experiences will become even more relevant as we expect that competition between banks will increasingly take place in this area. Furthermore, banks should prepare for a growing group of young customers that grow up with a smartphone, become increasingly tech savvy and have different expectations that need to be fulfilled by their banks.

In light of the ongoing trends, we offer three strategic considerations that Dutch banks can adopt from digital-only challenger banks:

1. **Customers are different, and so are their needs:**
   Banks should not just sell financial products, but offer tailored solutions instead to solve the customer's problems. For example, an online 'Fit Finder' can be introduced to assist customers in making decisions that cater their financial needs best
2. **Use data to make the value offering individualized:**
   Banks can leverage big data, internet of things and advanced analytics to get a better understanding of the customer's physical, rational and psychological needs. Examples to adapt the experience accordingly include digitally targeting the customer with personalized offers, or customer agents that change their tone of voice to match the customer's language
3. **Goalsetting is key:**
   Banks should formulate KPIs focused on both commercial performance as well as people performance. Parameters to measure performance should include employee sentiment, customers sentiment and commercial success

Asset Quality

Dutch banks typically show strong asset-quality measures relative to European peers; with a declining trend in NPL-ratio from above 3% in 2015 to below 2% in 2019 – traditionally outperforming the EU average of 3.4%. However, the impact of the pandemic on the ability of lenders to pay back loans – particularly in the SME and corporate lending market – starts to become visible in the FY20 financial performance of the Dutch banks. Especially with government support withdrawing as the pandemic crisis is coming to an end, this trend may only continue and spread to retail loans as well. In this section, we look at selected metrics of asset quality.

Deteriorating portfolio quality exacerbated by COVID-19

For all Dutch banks in scope, the proportion of the lending portfolio that was performing and deemed to be Stage 1 in line with the EBA guidelines, decreased in 2020, relative to 2019, with ABN AMRO experiencing the strongest decline of approximately 600bps, that was unexpected by the market. In fact, the increased credit risk – especially among SMEs and corporates in the lending portfolio – is evident. The declining trend is primarily due to a large shift to Stage 2 ratios, especially among Rabobank, ING and ABN AMRO – which reported an average increase of 3.1% on this metric, relative to 2019. ABN AMRO showed the largest increase, and the largest proportion of Stage 2 assets, at 10.2% - highlighting the need to make improvement of asset quality a priority to limit further deteriorations in 2021.

However, while most banks experienced short-term delays and impairments, not all banks reported increases in Stage 3 ratios; which mainly indicates that direct government support to borrowers prevented borrowers from defaulting on their loans. In the last 3 years, Rabobank has been steadily reducing its non-performing loans while ING and De Volksbank were able to continue to operate at low levels – in particular compared to European averages. In contrast, ABN AMRO incurred various incidents and has an increasing amount of non-performing loans.

Figure 8 Stage 1 Ratio (2018-2020)

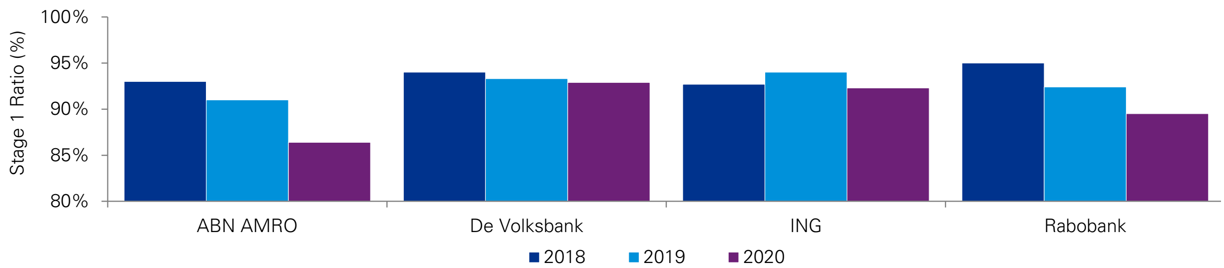
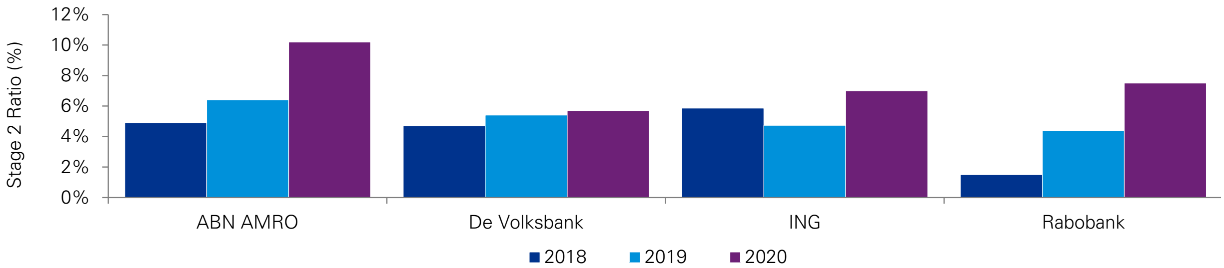
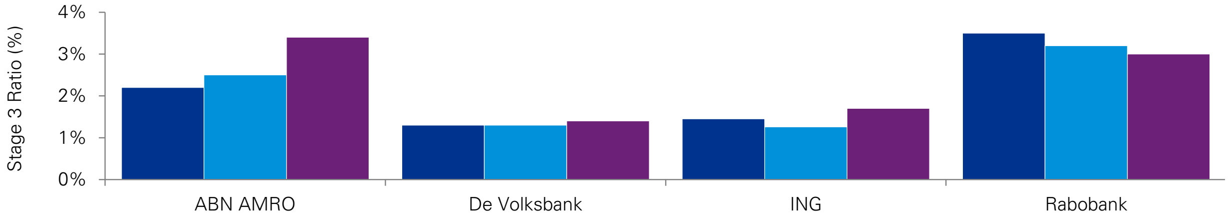


Figure 9 Stage 2 Ratio (2018-2020)



Sources: KPMG Analysis, Annual Reports, ECB Financial Stability Review

Figure 10 Stage 3 Ratio (2018-2020)



Sources: KPMG Analysis, Annual Reports, ECB Financial Stability Review, EBA/RTS/2020/07

Figure 11 Stage 3 Coverage Ratio (2018-2020)

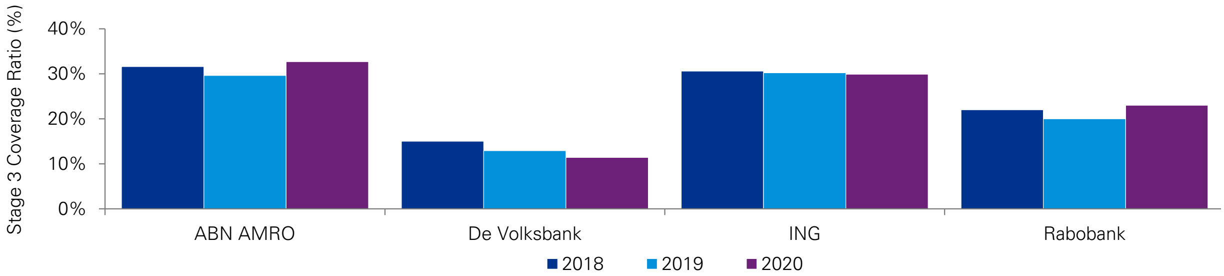
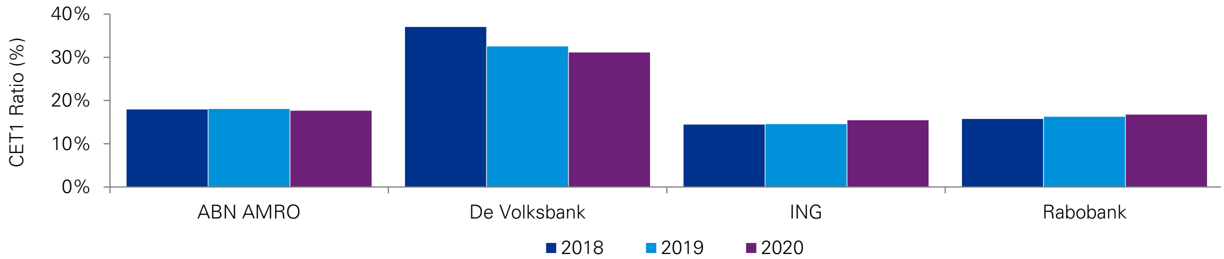


Figure 12 CET1 Ratio (2018-2020)



Sources: KPMG Analysis, Annual Reports

Ability to cover for defaults varies across banks

The variation in expectations of future economic activity, and the impact of this on the specific bank-portfolio explains the variation in provisions taken in FY20, and thus also the Stage 3 Coverage ratios. In fact, ABN AMRO increased allowances significantly – relative to the size of their portfolio - for (existing) Stage 3 clients to account for expected losses. Alternatively, de Volksbank – whose portfolio is primarily composed of retail loans and mortgages – decided to take relatively small provisions which, combined with an increase in Stage 3 loans, led to a decrease in coverage ratio. Obviously, strong collateral values (supported by ever increasing house prices) explain low coverage ratios for mortgage lending. Accurately being able to estimate the impact of economic activity on expected credit losses on a particular loan portfolio, and managing provisions accordingly, is a key capability for banks to manage asset quality and reserves well and efficiently, in FY21.

Banks have strong capital buffers at the outset of the crisis to withstand new losses

While asset quality deteriorated, banks responded by taking preventive measures such as not paying out dividends. The EBA's prudential treatment of software assets also caused regulatory capital relief, which recognizes software assets as CET1 capital instead of pure intangible assets – providing a regulatory-capital incentive to invest in software assets and thus increasing CET1 capital. Looking at the Dutch banks, De Volksbank and ABN AMRO were the two banks that reported marginal decreases in CET1 ratio, while ING and Rabobank showed slight increases. De Volksbank has capital ratios that are significantly stronger than those of the other banks, due to its smaller size, and less complex offering of banking products and services. While these CET1 ratios are strong, the question remains to what extent the CET1 ratios will be eroded in FY21 and/or will have to be additionally replenished in upcoming years.

Considerations to manage asset quality

Adjust and manage NPL strategies:

- Update strategies to reflect changes in the external environment, thereby increasing capabilities to analyse the dynamics of externalities and making portfolios more flexible.
- Review strategic mix of optimizing in-house workout capacity, outsourcing, joint ventures, structured credit and clean sales.
- Special consideration should be given to customer experience and bank reputation, as the majority of obligors in financial difficulties typically recover to become fully performing clients again.

Accelerate credit programs: Start or prioritize and accelerate programs that strengthen pro-active credit management – improving capabilities to detect and act upon signals, giving banks client-level insight into the impact of actions on the bank's overall capital and asset quality key indicators. And also enabling the bank to take preventive actions towards clients.

Embrace higher standards: Hope for the best. Prepare for the worst. Embrace the higher standards applicable for high-NPL banks, which essentially require banks to meet the expectations defined in the ECB's NPL Guidance with respect to strategies, governance and operations (chapters 2 and 3).

Invest in understanding what ESG means for your portfolio: COVID-19 demonstrated the importance of defining a 'new reality' for investing, and highlighting the importance of delivering societal impact beyond financial returns. For a time, the immediate health and economic crisis pushed the sustainability agenda to the back-burner. However, our view suggests that — in the 'new reality' of the post-COVID world — environmental, social and governance (ESG) will increasingly become central to the economic equation of asset-quality.

Macro economic outlook

GDP expected to recover in FY21

After suffering an unprecedented decline in GDP growth – culminating with -9.2% quarterly decline in Q2 2020 – the Netherlands began showing signs of recovery. Among other things, the significant reduction in export of goods and services and decreased consumer spending were the largest contributing factor for the export-dependent Dutch economy. However, with key drivers of economic growth expected to recover, the Dutch economy is expected to grow over FY21 – positively impacting funding needs of the economy, and therefore banks' lending potential.

Consumer confidence linked to increased consumer savings

Consumer confidence in the Netherlands hit an all-time-low, leading to decreased customer-spending too. This is also evidenced by the large growth in net customer-savings on Dutch bank accounts, of 5.5% in FY20 relative to 2.5% in 2019. This additional liability for banks places pressure on the leverage ratio, as banks run the risk of attracting more deposits than they have demand for loans. The recovery of consumer confidence in FY21 will likely lead to a decreased savings-rate for customers, and banks are likely to notice this in their balance-sheet composition throughout FY21.

Figure 13 GDP expected to recover in FY21

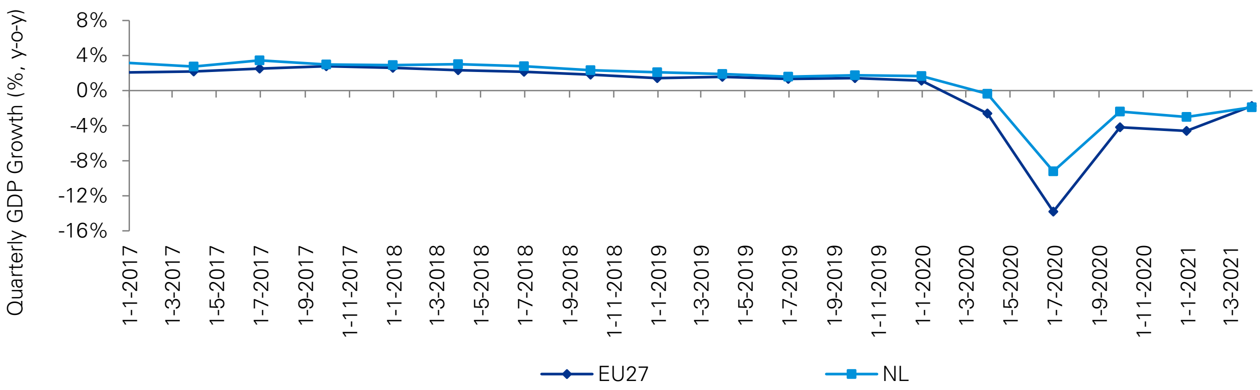


Figure 14 Consumer confidence linked to increased consumer savings

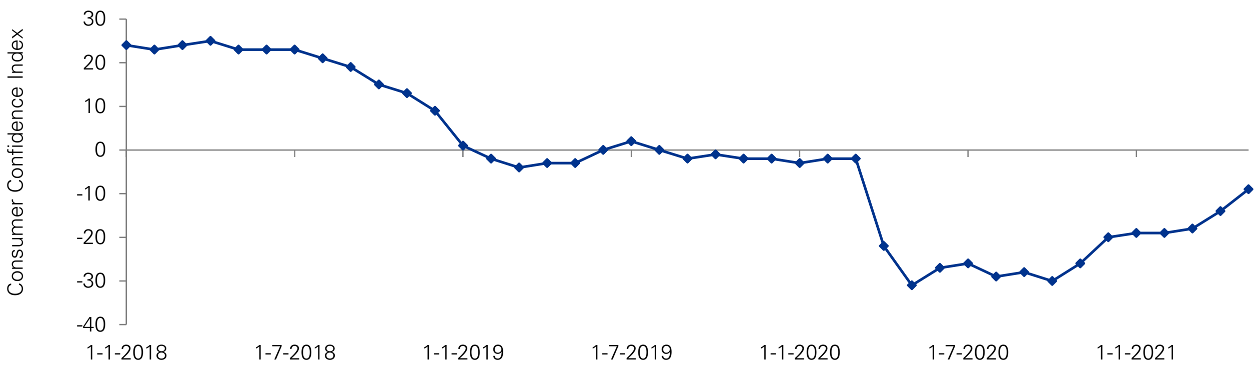
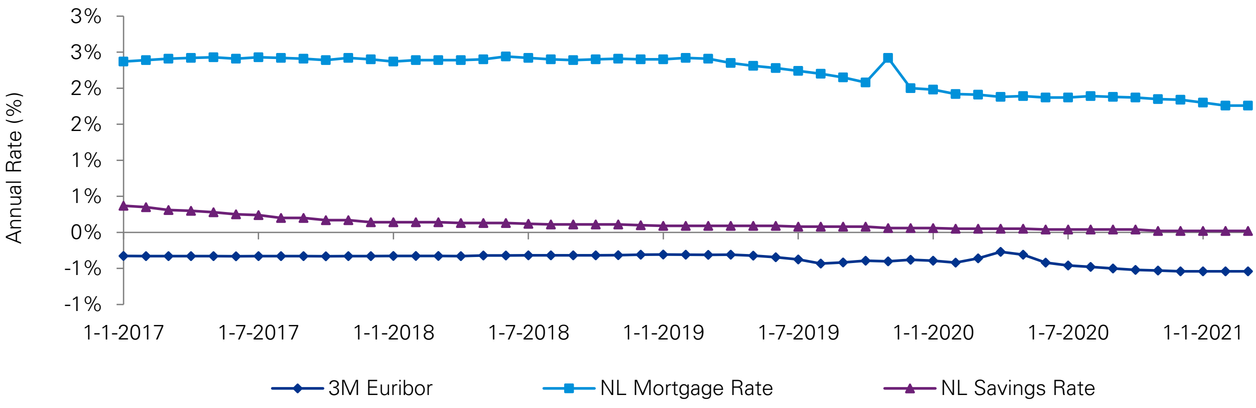


Figure 15 Low interest rates continue to place pressure on Interest Income



Low interest rates continue to place pressure on Interest Income

The squeeze on net interest margin is a trend that continued in FY20 and is expected to continue in FY21, due to expectations of continued low interest-rate environments, as evidenced by the market's negative forward-rate for EONIA until 2026. The ECB reiterated the decision to keep ECB interest rates unchanged, in an effort to increase inflation to a healthy 2% target. Consequently, for banks, a movement to aim to source more non-interest-related income, is observable in the market. Offering improved customer experience, and aiming to enlarge fees and commission income, can help reduce dependence on the low interest rate environment.

ING full year results

ING felt the impact of the COVID-19 pandemic, resulting in higher provisions, incidental impairments and lower income. Despite the economic circumstances, ING's results remained resilient with EUR 2.5 bln net profit. In fact, ING reaped the benefits of their Mobile-First strategy resulting in onboarding retail clients and higher fee and commissions. In addition, excluding all incidental costs items from the equation, ING bettered their C/I ratio.

Income & interest margins

ING's net income declined for the first time since 2012 by EUR 669 mln to EUR 17.6 bln, mainly caused by a 3.4% decrease in net interest income of EUR 474 mln and the impairment on ING's stake in TMB of EUR 230 mln. Fee and commission income has increased.

ING's net interest income decreased due to several reasons; 1) Continuing costly customer deposits, 2) ING's core lending portfolio decreased by EUR 2.5 bln, 3) Reduced possibility to reprice loans due to high liquidity driven by TLTRO-III and government support, and 4) Negative interest on liabilities increased.
Consequently, net interest margin decreased to 144 bps (FY19: 154 bps) to the lowest level in recent years.

ING's net profit was heavily impacted by the COVID-19 pandemic and decreased by 48.0% to EUR 2.5 bln, mainly driven by loan loss provisions and operating expenses.

C/I

ING's has the ambition to reach a 50-52% cost/income ratio. ING realized a cost/income ratio of 63.2% due to lower net income and the impact of COVID-19 causing higher operating expenses (including incidental items) by EUR 743 mln, namely; higher regulatory costs, goodwill impairments on CGUs Retail Belgium and Wholesale Banking, and impairments for (in)tangible assets, e.g. Maggie Program. However, if these incidentals are excluded, ING's cost/income ratio would be 52.2% (FY19: 56.6%), which is close to their ambition of 50-52%.
ING approaches to their target on the condition that the economy recovers and the impact of COVID-19 lessens to avoid future impairments.

Loan book

ING's portfolio increased 3.93% to EUR 887.5 bln outstandings, mainly driven by Wholesale Banking in the Netherlands and Retail C&GM in Germany. The quality of ING's loan book slightly increased despite the impact of COVID-19. The NPL ratio slightly increased, however was sufficiently offset by an increase in investment grade loans and a decrease in non-investment grade loans. ING's substandard grade loans remained stable. The quality of the loan book is strong with a Stage 3 ratio of 1.7% (FY19: 1.4%).

Figure 16 FTE Development (2016-2020)

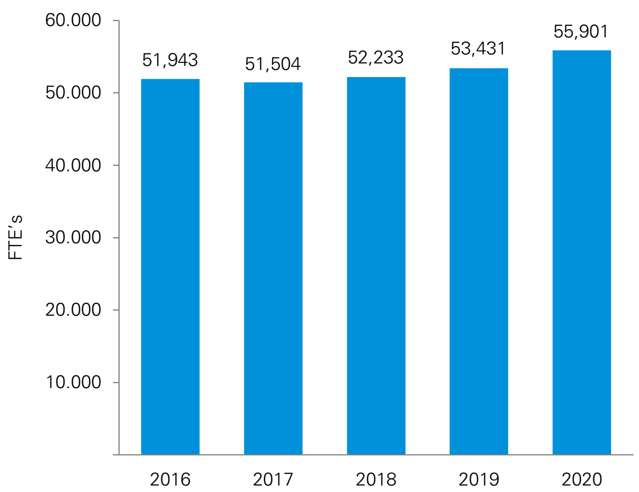


Figure 17 CET1 Ratio Development (2016-2020)

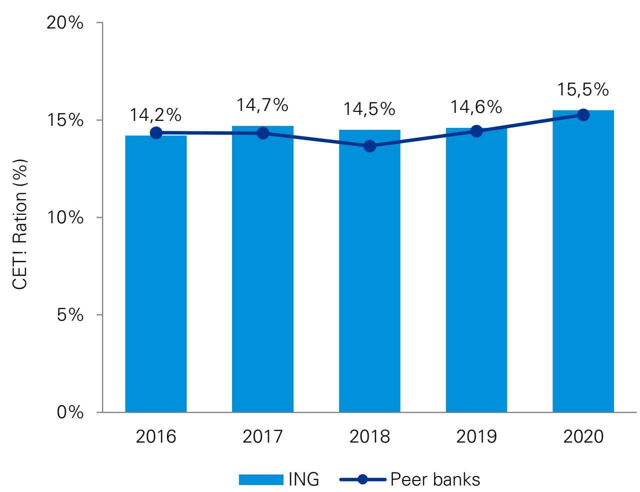


Figure 18 Income Distribution ING (2016-2020)

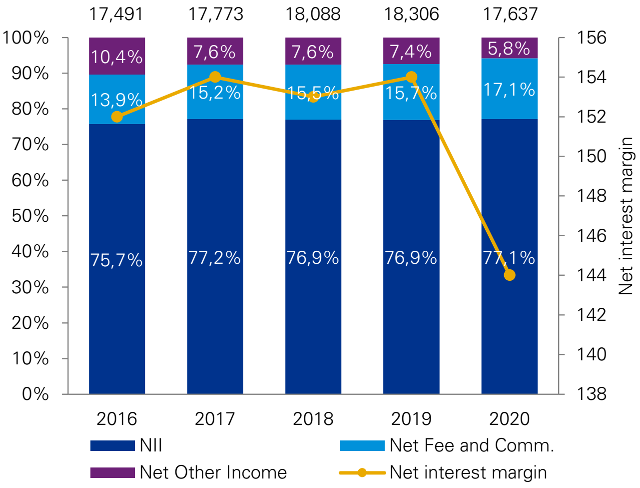
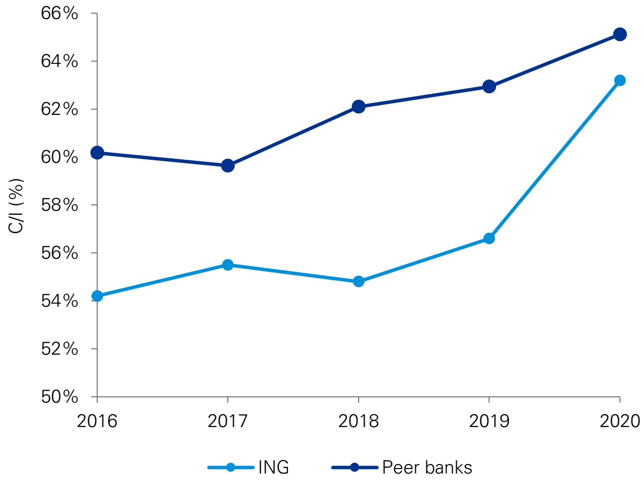


Figure 19 Cost-to-Income Ratio Development (2016-2020)



The loan loss provisions rose by EUR 1,555 mln to EUR 2,675 mln caused by the economic impact of the COVID-19 pandemic. Wholesale banking is responsible for half of the net addition to the provisions, mainly driven by various individual Stage 3 provisions and high collective Stage 1 and Stage 2 provisions. Retail is responsible for the other half, largely due to provisions on Retail Belgium.

Digitalization

ING's mobile-first strategy gained momentum due to the digitalization of the society driven by the COVID-19 pandemic. Their digital capabilities provided ING with an advantage in virtually servicing their clients to meet the growing demand for mobile banking adding over EUR 0.5 mln retail customers. ING expanded their digital capabilities to insurance and investments resulting in growth in fee income.

KYC/AML developments

KYC remains a high priority for all banks. In 2020 ING continued to execute and update policies and procedures; 1: ING introduced three KYC pillars that oversee customer due diligence, transaction monitoring and screening. 2: ING set up a special taskforce to monitor transactions for crime related to COVID-19. 3: ING improved KYC training by partnering up with ACAMS. 4: ING integrated their global pre-transaction screening tool to all countries in scope and joined four Dutch banks to collectively monitor transactions.

Banca d'Italia lifted its ban on ING's client onboarding that was imposed due to poor KYC processes and compliance. ING France was also under regulatory inspection in this regard.

ESG

ING's business activities have significant influence on communities and the environment. Their purpose is to help society stay ahead of the challenges they are facing.

ING leverages their Terra approach to tackle environmental issues. For the social domain, ING applies the UN Guiding Principles on Business and Human Rights to ensure active and effective management of social risk and opportunities. As for governance, ING's strategy pursues strengthening their leadership in the fight against climate change. Consequently, in 2020, ING was rated 1st in market cap by Sustainalytics, rated AA by MSCI ESG and rated A list for climate leadership.

Rabobank full year results

Despite worse forecasts earlier in the year, Rabobank achieved a net profit of EUR 1.1 billion. However, the negative consequences of the COVID-19 pandemic were clearly felt by the bank. Impairment charges increased significantly and the bank's interest income declined due to the insecure economic environment. Apart from these extraordinary events, Rabobank continued to executed its strategy which is focused on making the organization more future proof and contributing to society.

Income & interest margins

Rabobank realized a net profit of EUR 1.1 billion in 2020, a decrease of 50% (FY19 EUR 2.2. billion). This decline can mainly be attributed to significantly higher impairment charges resulting from the COVID-19 pandemic. Furthermore, the low interest environment Rabobank is facing, is continuously pressuring the profitability of the bank. This is also reflected in a 9 bps drop in net interest margin to 130 bps. 75.9% of Rabobank's income in 2020 resulted from interest income (FY19; 71.9%). This increase is due to a drop in other income (43%), caused by the absence of positive revaluations due to the COVID-19 pandemic which resulted in lower income from the bank's Corporate Investment division. Like most banks Rabobank aims to further balance its income sources by improving net fee and commission income.

Asset Quality

2020 was an extraordinary year following the major increase in impairment charges (approx. EUR 1 billion) due to COVID-19 and affecting net profit. However, FY20 impairment charges were lower than expected due to a better performance of the Dutch economy than expected, extensive governmental support and the composition of Rabobank's loan book. Vulnerable sectors in the private loan portfolio were Food service and Retail (automotive and fashion).

Rabobank supported its clients in order to prevent financial difficulties and as a result reduced the inflow of stage 1 & 2 clients. Approximately 18,000 clients received payment holidays. Despite this support, the bank expects a further inflow to FR&R in FY21. Around EUR 950 million of loans are in stage 3, of which the majority are in Wholesale & Rural due to a small number of larger defaults, whereas only a relatively small part of stage 3 consist of the Dutch retail clients alleviated by governmental support.

The ultimate impact of COVID-19 on the non-performing loans of Rabobank is not yet visible. From 2018 onwards NPLs have decreased from 3.8% to 2.5% by 2020. The relatively limited impact of COVID-19 so far can be attributed to the support measures of the government and payment holidays.

Figure 20 FTE Development (2016-2020)

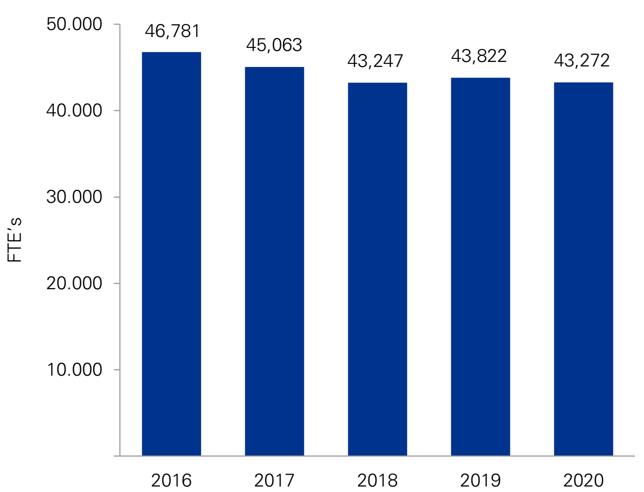


Figure 21 CET1 Ratio Development (2016-2020)

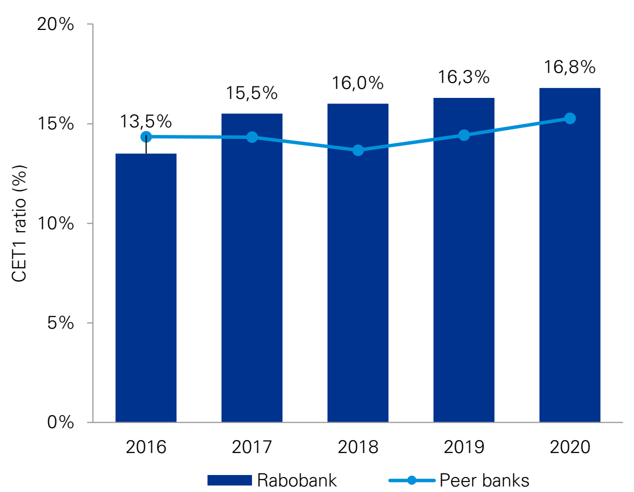


Figure 22 Income Distribution Rabobank (2016-2020)

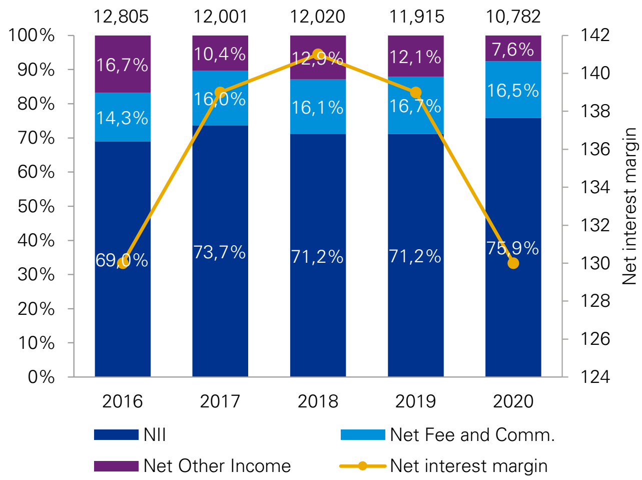
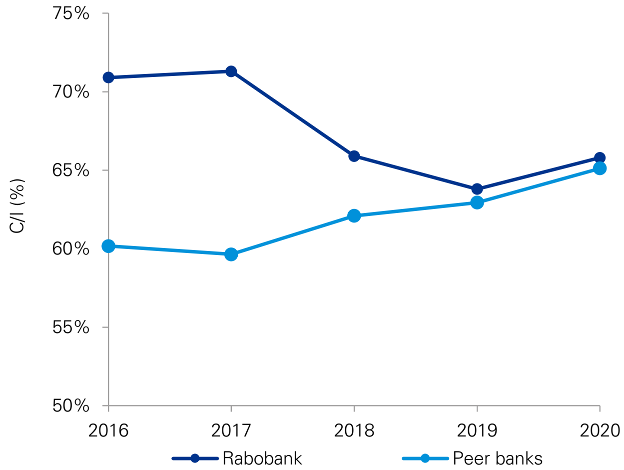


Figure 23 Cost-to-Income Ratio Development (2016-2020)



C/I

Rabobank realized a reduction of 2.3% in underlying operational expenses compared to last year. This decrease in costs was mainly attributable to a workforce reduction of 550 FTE and a decrease in travel and event related expenses.

Despite this reduction in costs, Rabobank's C/I ratio has risen from 63.0% in FY19 to 64.5% in FY20 as the decline in costs was lower than the decline in income. In order to lower costs, Rabobank announced a further reduction of the workforce by 1,000 FTE a year for the next 5 years Additionally, cost reduction needs to be achieved by the acceleration of digital services and further simplification of Rabobank's governance model by concentrating all banking and cooperative activities in 14 regions for the Dutch retail business.

KYC/AML developments

For some years now, KYC and AML are focus activities of Rabobank. In 2020 alone, 800 new employees were welcomed in this compliance domain resulting in 4,000 employees worldwide. Next to the inflow of new employees in this domain, Rabobank invested approx. EUR 400 mln. in dedicated resources and further automation of processes. The bank reorganized its CDD operational structure by centralizing specialists into 8 regional centers alleviating resourcing needed at local banks.

Digitization & Branch network

The COVID-19 pandemic has accelerated the adoption of digital banking services. Employees and customers were forced to work from home which led to an increase in digital customer interactions. An indirect result of this was the acceleration of the closure of local branches. In the following years, Rabobank aims to further reduce of its local offices network from 300 to 150 offices.

ESG

Rabobank positions itself as the sustainable and cooperative bank at heart due to its deep roots in food and agri. The bank's social character is reflected in its mission 'Growing a better world together' and its strategic goals to be a meaning full cooperative.

In 2020, Rabobank was rated 1st out of 390 banks in the Sustainalytics ESG Risk rating category diversified banks for a third year in a row. This recognition confirms the sustainable performance of Rabobank.

Additionally, the bank initiated and supported multiple activities to realize a meaningful contribution to society. For example, by accelerating the build of affordable housing in The Netherlands by teaming up with the bank's subsidiary BPD (Area developer). Furthermore, Rabobank renewed its partnership with Word Wide Fund for Nature (WWF).

ABN AMRO full year results

In 2020, ABN AMRO had a change in leadership and is preparing the organization for the new reality. The first net loss since 2010 was recorded due to an increase in impairment charges. ABN AMRO is experiencing the impact of COVID-19 on their loan book and is taking steps to improve their KYC/CDD activities. COVID-19 has also accelerated plans for further digitalization and the strengthening of the bank's sustainable propositions to become a future-proof bank.

Income & interest margins

ABN AMRO's in total income decreased by 8% to EUR 7.92 billion. The combination of increased impairment charges related to COVID-19, a sharp decline and subsequent rebound in oil price, and individual client cases resulted in a net loss of EUR 45 million. COVID-19 is expected to impact the bank's results in FY21 as well.

Net interest income has declined with 9.4% in FY20 due to the low interest rate environment, partial phase-out of the CIB portfolio and decline in appetite for credit of retail customers. Margins are under pressure and declined to 143 bps.

Net fee & commission income (NFCI), declined with 4.5% to EUR 1.56 billion. ICS credit card usage declined and CIB activities have been partially phased out.

C/I

C/I Ratio is with 66.4% at the highest point in 5 years due to lower income.

Retail Banking (RB) recorded a decrease of 3% to EUR 2.02 billion in operating expenses due to lower provisioning for AML programme. CIB recorded an increase of 10% to EUR 1.21 billion in operating expenses due to one-offs for the partial phase of CIB non-core of which 64% was for personnel expenses.

ABN AMRO expects to achieve a cost saving of EUR 100 million in 2021 and EUR 700 million in total savings towards 2024.

Asset quality

Even though the EUR 2.3 billion impairment significantly impacted the ABN AMRO's net profits, the charges were lower than expected. Moreover, ABN AMRO's also benefitted from the resilience of the Dutch economy as well as the extensive government measures.

The impairment charges come from CIB which increased with over 400% to EUR 1.66 billion and Commercial Banking (CB) which increased with almost 300% to EUR 542 million. CIB noted three exceptional client cases and individual stage 3 impairments in the oil & gas and energy sector, while CB noted individual stage 3 impairments for the food, shipping, and industrial goods & services sectors. The collective impairments in stage 1, 2, and 3 are mainly due to corporate loans and consumer loans.

Figure 24 FTE Development (2016-2020)

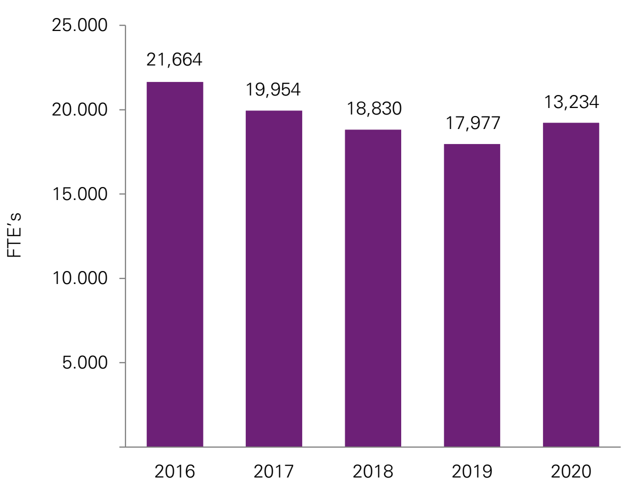


Figure 25 CET1 Ratio Development (2016-2020)

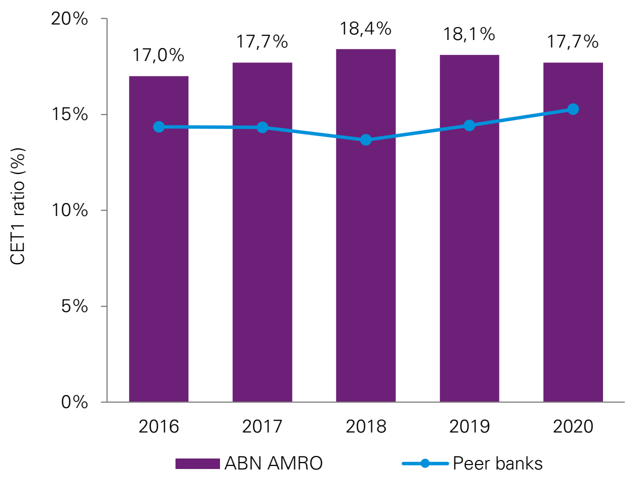


Figure 26 Income Distribution ABN AMRO (2016-2020)

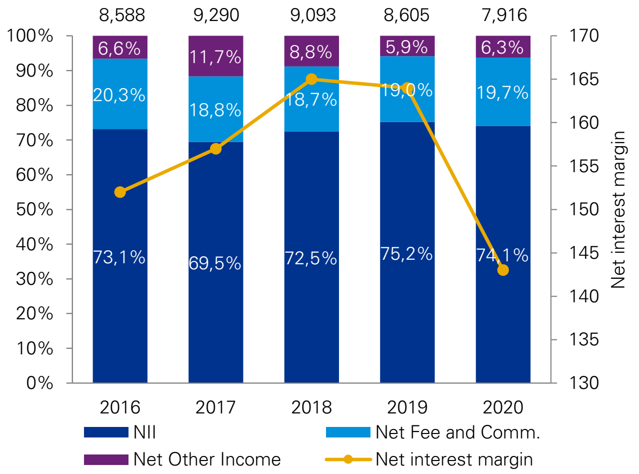
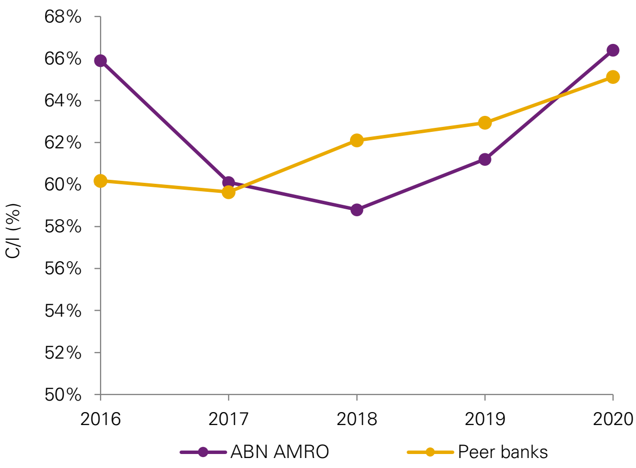


Figure 27 Cost-to-Income Ratio Development (2016-2020)



Despite the fact that the impairment charges were significant on the non-performing loans, ABN AMRO saw moderation in the second half of FY20 by the large-scale government support, the wind-down of CIB non-core portfolio and the increase in oil price which is a positive development for stage 3.

KYC/AML developments

The Detecting Financial Crime unit has grown from ca. 2,000 FTE's in 2019 to ca. to 3,800 FTE's in 2020. The bank expects its AML costs to peak in 2021 thereby increasing its personnel base further to 4200 FTE's.

The AML-related personnel expenses increased by EUR 40 million of which about 25% was allocated to salaries. Total AML costs were about EUR 400 million and is expected to peak to EUR 425 million in 2021.

The Public Prosecutor's investigation is expected to be finalized in HY 2021.

Digitization & branch network

ABN AMRO has almost fully transitioned to videobanking. COVID-19 has further accelerated this customer channel. The bank conducted 86% of all its advisory consultations through videobanking reaching as much as 90% for its mortgage advisory.

ABN AMRO will aims to centralize its operations to advance its efficiency. By the end of 2024, the bank aims to have 90% of all high-volume processes end-to-end digitized.

In 2020, ABN AMRO reduced its number of retail branches by 17 to 103 locations. The bank expects to close 20 retail branches per year going below 100 branches by year-end of 2021.

ESG

In 2020, ABN AMRO ranked in the top 10 percent of sector banks on the Dow Jones Sustainability Index (DJSI). ABN AMRO has set operational sustainability targets for sustainable client loans and investments and expects to reach the top 5% of the banking sector in 2021 on the DJSI. And markets itself as the advisor to accelerate the 'sustainability shift'.

ABN AMRO aims to have all its offices energy label A classified. By 2024, the banks aim to derive 30% of its assets from sustainable investments and financing.

De Volksbank full year results

De Volksbank experienced a tempestuous year, in which it realized a net profit of EUR 174 mln (FY19: EUR 275 mln). Additional to challenges posed by COVID-19, the bank regularly made the news because of its boardroom dynamics which resulted in the departure of the CFO and COO. Last year, a new CEO was welcomed who will be responsible to commence the bank's strategy 2021-2025 that focuses on digitization, cost control and diversified income sources. In KPMG's 2020 CEE research, de Volksbank's brands scored high on Customer Experience Excellence. Of the 215 cross-sector brands that were evaluated, ASN Bank was being ranked first and SNS was being ranked 31st (second bank in the rankings).

Income & interest margins

De Volksbank's total income decreased by EUR 6 mln to EUR 923 mln in 2020 fueled mainly by lower income in mortgage production and a further drop in market rates. Consequently, net interest margin decreased to 130 bps (FY19: 137 bps) to the lowest level in recent years.
Fee income represented about 5% of total income in 2020, and decreased by 10% compared to the previous year. This was mainly due to a changed classification of distribution fees paid by RegioBank to its franchisees. Regular fees on mortgage and insurance advice have risen. As part of its new strategy 2021-2025, de Volksbank aims to enlarge the share of fee and commission income by broadening its range of products and services.

Asset Quality

As a result of COVID-19, de Volksbank had to make a
As a result of COVID-19, de Volksbank had to make a
considerable addition to its credit loss facilities. Impairment charges were EUR 38 mln in 2020, compared to a EUR 7 mln reversal in 2019.

Most of the impairment charges resulted from residential mortgages (EUR 29 mln) and SME loans (EUR 8 mln) related to businesses that were impacted by the lockdown. Only a minor amount resulted from consumer loans (EUR 1 mln), as de Volksbank only holds a relatively small portfolio. The overall impact of COVID-19 on the non performing loans of de Volksbank is not yet visible in the financial results of FY20. The stage 3 ratio (stage 3 loans expressed as percentage of total loans and advances) only showed a slight deterioration from 1.3% in 2019 to 1.4% in 2020.

C/I

De Volksbank's operating expenses rose by 14% in 2020. Six percentage point of the increase can be related to a higher contribution to the deposit guarantee scheme and increased staff & consultancy costs. The remaining increase can be contributed to a EUR 45 mln restructuring provision for the bank's new strategy 2021-2025. Consequently the cost/income ratio, adjusted for incidental items, increased to 60.3% (FY19: 57.3%).

Figure 28 FTE Development (2016-2020)

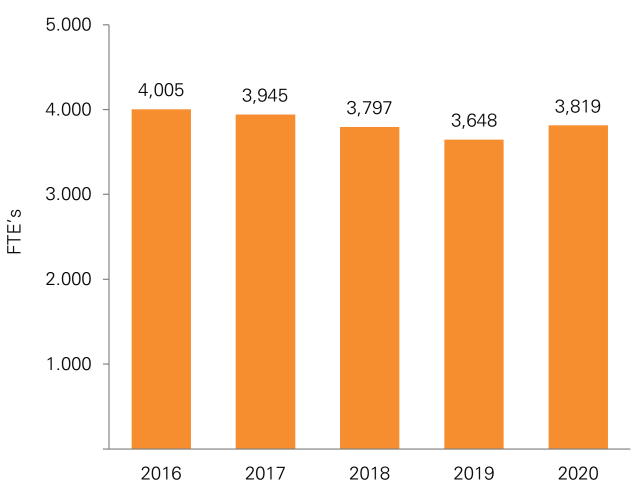


Figure 29 CET1 Ratio Development (2016-2020)

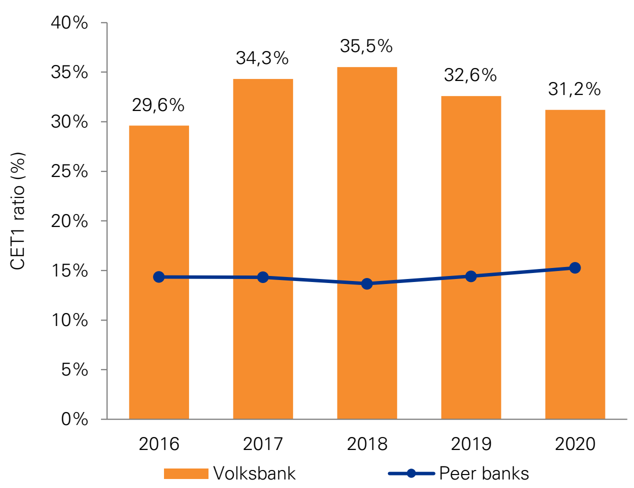


Figure 30 Income Distribution De Volksbank (2016-2020)

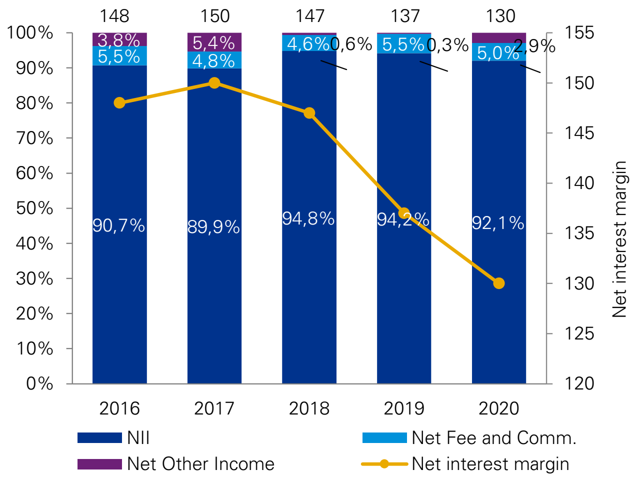
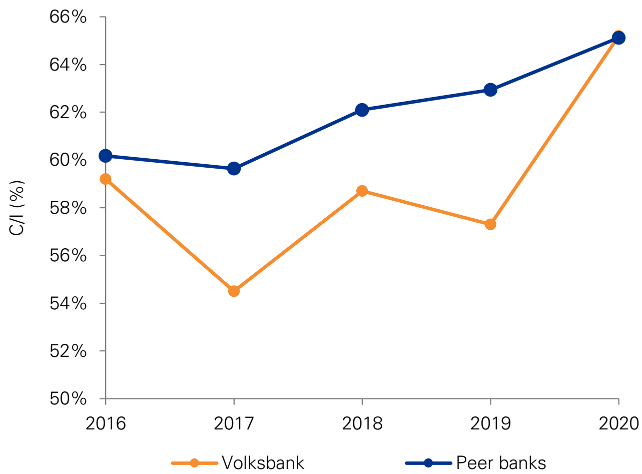


Figure 31 Cost-to-Income Ratio Development (2016-2020)



The restructuring provision will be used to transition the organization to a more agile way of working, resulting in a flatter organization that works more efficiently. This transition will lead to a reduction of about 400-500 FTE in the period 2021-2023. In FY20, de Volksbank employed a total of 3800 FTE.

Digitization & Branch network

The new 2021-2025 strategy focusses on digitization of services, cost control and diversification of the bank's income sources. Spearheads are delivering a strong social impact, building a strong customer relationship and at the same time achieve strong financial results.
De Voilksbank continues to operate four brands to target different customer segments.
In terms of brand development, we expect that the biggest change can be expected at SNS (more focus on young people, enlarging fee income by offering a broader range of products and services). Additionally, all brands will increase focus on serving SME's.

ESG

De Volksbank strives to be a social bank that contributes to 'more financial confidence in the Netherlands' and aspires to be 'a leader in sustainability by thoughts and actions'. All brands, being SNS (financial resilience), ASN Bank (sustainability), RegioBank (quality of life in local communities) and BLG Wonen (home ownership for everyone), contribute to this image.

Several CSR related initiatives have been employed in 2020. For instance, de Volksbank adopted ASN Bank's objective of having a net positive impact on biodiversity in 2030. Furthermore, the bank was the first in Europe to issue a EUR 500 mln subordinated green Tier 2 bond.

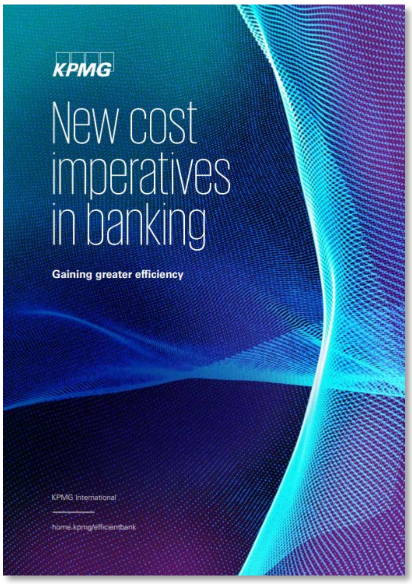
KYC/AML developments

KYC and AML is a hot topic for all Dutch banks, including de Volksbank. In July 2020, Transaction Monitoring Netherlands (TMNL) was established with four other banks in the fight against money laundering and terrorist financing. According to de Volksbank, TMNL is an important addition to its own transaction monitoring activities. On a daily basis, its 'Competence Center Client Integrity' employs about 130 people.
Related to de Volksbank's compliance function, its traditional focus on non-prudential laws and regulations is currently being broadened to include prudential. Compliance employed ca. 50 people in 2020, and is substantially expanding as a consequence of the abovementioned reason. In addition, further investments in tooling and process optimization will be made.

Selected thought leadership

Future of Retail Banking
KPMG Connected Enterprise for Retail Banking

Customer in the eye of the storm
2020 NL Customer Experience Excellence report



New cost imperatives in banking
Gaining greater efficiency

State of the banks
Assessing industry trends and key performance metrics of the four largest players in the Netherlands