# Q1 2022 Analyst Call Transcript

ABN AMRO Investor Relations
Wednesday, 18 May 2022
11:00 CET

**Participants: Robert Swaak (CEO); Lars Kramer (CFO); Tanja Cuppen (CRO)**

Conference call replay:
https://channel.royalcast.com/landingpage/abnamroinvestors/20220518_1/

**Robert Swaak:** Thank you so much. Good morning, and welcome as always to ABN AMRO's Q1 results. Today, I am joined by Lars Kramer, our CFO, and Tanja Cuppen, our CRO.

I will update you on the progress of our strategic agenda and Lars will then go through our first quarter results in more detail and Tanja will update you on impairment developments in our loan portfolio and on capital.

As we all know, our world changed significantly in the last quarter. The war in Ukraine shook our sense of security and stability, causing further economic uncertainty and a sharp increase in inflation. Our thoughts continue to be with all those affected by the war, and we aim to provide support where possible. Thanks to a joint effort with other Dutch banks and supervisory authorities, refugees from Ukraine can open a Dutch bank account with ABN AMRO, which enables them to indeed receive living allowances or wages. We are helping out in many other ways, as are all of our colleagues and we will continue to offer support where we can.

Now, turning to our first quarter results, we delivered a solid performance with a net profit of EUR 295 million. We again show decent growth in mortgages as well as corporate lending. Net interest income was EUR 1.3 billion. The decline versus last quarter, are mainly due to lower treasury results. Fees are up 10% year on year with all client units contributing.

We are making good progress on our AML remediation programs, though our remediation programs will continue into 2023. And for this we did take an additional EUR 50 million cost revision this quarter. We do remain fully committed to bringing our cost below EUR 4.7 billion by 2024,

We finalized our first share buyback last week, returning EUR 500 million with capital to shareholders.

We continue to focus on the execution of our strategy, and in 2022 we specifically focus on the new client service model and climate strategy.

So first turning to slide three, I would like to say a few words on the progress we are making on the execution of our strategy.

Across our three strategic pillars, we highlight some examples of our progress in each of the client units. Personal and business banking introduced a new mortgage product for clients that want to let out their former dwelling. We continue to invest in our mortgage back office, which helped us to become market leader in new mortgage production during February and March.

Wealth management is making further progress in growing the entrepreneur and enterprise concept, adding clients and booking deals in the Netherlands and in Germany.

And I am indeed proud that we are the first bank in Europe to offer clients insight into the impact of their sustainable investments via internet banking.

In corporate banking, we set up a desk for product-as-a-service, a circular economy business model And to further accelerate the integration of sustainability, we now have set up a sustainability centre of excellence across all client units focusing on climate, circularity and social impact. We are updating our climate strategy, which we will present later this year.

Now on the next slide, I will tell you more about social impact, part of our purpose and our strategy.

Social impact is part of our purpose Banking for better for generations to come, but also business opportunity is part of the sustainability pillar. For us, social impact is about ensuring equal opportunity, for natural inclusion and making clients more financial resilient.

A good example of financial inclusion is the inclusive banking team we started. This team is currently focusing on the needs of female clients, an important client target group. Transition loans and social bonds are gaining momentum and we are helping our clients to structure these products.

As part of our diversity and inclusion effort, we have recruitment programs aimed at refugees and disabled persons, also unlocking valuable talents. One in five persons between the ages of 16 and 28 years are unable to pay their bills. We support this group, irrespective if they are clients of us, with budget coaches and aim to improve their financial resilience.

We launched the Gimi-app to familiarize children with the bank accounts while parents remain in control. Banking is becoming increasingly digital and more and more clients no longer visit a branch. To ensure financial inclusion, also for clients who struggle to conduct their banking affairs online, we provide financial care coaches.

So turning to slide 5, let me update you on our new client service model. Last year we focused on strengthening our digital and data capabilities. Also, we further simplified the organization.

This year, our focus is on implementing our new client service model. We define three levels of service, which move progressively from fully self-serve through to personal expert advice. Clients looking for self-service expect easy digital delivery through apps, full digital services and a seamless experience. Currently 95% of daily banking products are available remotely, mainly through digital channels, supported by telephone and video banking. I expect we can make all products available remotely by Q3, at which point there will be no need for any clients to visit a branch. Last year our chat bot Anna handled more than a million requests, of which 40% were fully handled by the chat bot. Clients can move seamlessly to the expertise service level and, for example, our chat bot can connect clients to sales advisors or experts and mortgage clients, simply click for a video banking call with an expert. Our clients very much appreciate the ease and comfort of video banking, as evidenced by the high Net Promoter Scores for this particular channel.

In addition to improving the client experience, the new client service model will be an important driver for more efficiency and enabling further growth.

Now before I hand over to Lars, I will say a few words on the economy. The Dutch economy has indeed fully opened up and all restrictions are lifted. However, we went from Covid straight into a war in Ukraine. As you can see from the chart, this has impacted consumer confidence sharply. However, consumer spending has remained strong so far, and it is still too early to assess the full impact of the war. It is too early also to assess the impact it will have on consumer behavior and the economy at large. Inflation is a source of concern but we expect inflation to ease next year as past rises in energy prices dissipate. Bankruptcies have ticked up with government support measures now phased out but are still very low by historical standards. Meanwhile, house prices in the Netherlands continue to rise, mainly due to lack of supply, and we expect the price increase to continue, though at a lesser rate while the number of transactions will come down.

Let me now hand over to Lars to discuss the first quarter results.

**Lars Kramer:** Thanks Robert, so just looking at slide 7.

Over the first quarter, our mortgage share increased to 17% and the portfolio grew with EUR 700 million. What we are seeing now is mortgage rates rising at unprecedented speed, and we are pretty much back to the 2014-2015 levels and there is also starting to be an impact on the prepayment markets, which although still strong this quarter, we expect this to decline going forward. We are seeing the first signs of clients actually opting for shorter terms, so around 10 years and rather than locking in rates for the 20 years or more. That has been happening for a while now. And for us this is encouraging, as traditionally banks have been stronger in the shorter maturities versus the non-banks.

In the corporate lending space we saw another quarter of loan growth with volumes increasing by EUR 1.3 billion. Also, business momentum remains high and our activities in Northwest Europe are starting to materialize.

Turning to the impact of this on our interest income on slide 8. So business NII has held up, especially as higher volumes have offset some of the lower margins. But treasury NII continues to decline. The mortgage margins also on new production remain under pressure, mainly as a result of struggling to keep up with the rapid increase in long-term rates where we have been pricing behind the curve, which is a structural effect in the markets. But as expected, the prepayment penalties were lower, following a very strong fourth quarter. We also expect clients to be less inclined to break open long-dated mortgages with a low coupon, though we are also lengthening the expected maturity of our mortgage book. This does lead to higher hedging costs.

From the deposit margin front they held up as the threshold for charging negatives was lowered as of January 1st and overall, taking into account the much improved rate outlook, we now expect NII for this year to be at the top end of our guidance, so around the EUR 5.1 billion mark. With current rates, the replicating portfolio will actually turn into a tailwind going forward. Mortgage prepayment penalties are however expected to decline. In the previous quarter, we talked about NII expectations to be bottoming out next year, in the second half of 2023, but given the strong increase in rates we have now changed to expect that this will happen in the first half of 2023.

Before I go into more detail on the interest rate sensitivity on the NII, I just want to stress that this is a scenario analysis on sensitivity and not a forecast. We only show the impact of different rate scenarios on the components of NII that are actually rate sensitive, so specifically treasury results and deposit margins. We also assume all volumes remain constant and we also keep asset margins constant in these scenarios.

The left hand chart shows rates that are used in the scenarios and these are based on the actual market rates as of April the 29th. And what the analysis shows is that for 2023 the tailwind from deposits is pretty much offset by the mortgage prepayment penalties drying up and the impact of the higher hedging costs to cater for the longer mortgage duration. Though the replicating portfolio does become a significant tailwind in the forward rate scenario, it is important to note that we do in the analysis cap our deposit margins. I will not discuss the actual margin that we use, but the cap that we used is in line with the levels that we did attain in the previous positive rate environment. The thinking behind this is that as client rates move into positive territory, the margins will start becoming increasingly driven by competition and less by interest rates. The treasury results, on the other hand, will remain interest sensitive, and this is due to the yield we are earning on the duration of equity, which is also sometimes referred to as mismatch result. So, pretty much the increase in NII shown in years two and three are largely related to this increase in this mismatch result.

Now looking at slide 10, we talk about fees. Fees are actually up 10% year on year and all the client units have pretty much contributed to this result. Partly we are looking at the normalization from the impact of Covid, but equally we continue to work hard to structurally increase our fee income, and we recently announced an increase in payment fees which will start benefiting our fee income starting in July.

The other income line was also stronger due to ALM results and a decent private equity return. Given the economic environment, we only expect moderate private equity results for the remainder of the year.

And lastly, looking at costs on slide 11. As you have already heard, in this quarter we took an additional EUR 50 million of cost provisions for the AML remediation on certain projects because these will take longer and will run into 2023. We also see an increase in our regulatory levies, especially a step-up in the SRF contributions, but it is also important to note that the strategic investments that we are making are not a straight line inclusion in the cost base and you do see some front loading continuing in Q1 for these investments. But the cost savings programs that we are also running in the bank are progressing very well and we have to date booked about EUR 185 million of cost savings. So, in terms of cost savings, we remain firmly on track in terms of meeting the EUR 4.7 billion guidance that could be put out there for 2024.

Let's now turn to Tanja.

**Tanja Cuppen:** Thank you, Lars.

On slide 12 we see that in Q1 we took EUR 62 million of impairments, largely related to the weakened macro-economic outlook. As Robert already mentioned, the economic impact of Covid eased but now the war in Ukraine is causing further economic uncertainty and sharp increase in inflation. To reflect this, we gave a higher weight to the negative economic scenario.

Also, we took a new management overlay for the potential second order effects of the war in Ukraine and released the largest part of our Covid-related management overlays.

Stage ratios further improved this quarter, reflecting the progress on the non-core wind down and disciplined credit risk management for the core portfolio. So far the war in Ukraine has led to a credit downgrade only for a very limited number of files.

Now, turning to slide 13 on the capital position. We remain very well capitalized with a Basel III capital ratio of 15.7% and a Basel IV capital ratio of around 16%. The decline in our Basel III CET 1 ratio versus previous quarters reflects a strong RWA increase, largely related to EUR 5 billion add-on for model reviews and model redevelopments. Due to these ongoing model redevelopments Basel III and Basel IV CET1 ratios have now converged.

With this I want to hand back to Robert.

**Robert Swaak:** Thanks, Tanja. Let's turn to slide 15 where we list our long term targets.

The strong increase in interest rates should benefit our return on equity over time. And as mentioned previous quarter, we shared some insight on our rate sensitivity towards 2024. Market share for mortgages has improved and I see encouraging signs that we can sustain this market share and perhaps continue to improve. Cost saving programs are on track to reach across space below EUR 4.7 billion by 2024 and our cost of risk is below the through-the-cycle level. However, the economic outlook is uncertain with inflation up sharply. Our capital ratios remain strong and we recently finalized our EUR 500 million share buyback program.

So if I could ask the operator to open the call for questions.

## QUESTIONS AND ANSWERS

**Giulia Miotto (Morgan Stanley):** Thank you, good morning two questions from me, one on costs and one on capital. If I look at costs I hear your guidance 5.2 but year on year in Q1 and excluding one of costs are already up 6% and so the guidance would imply that costs need to be down 4% year on year for the remainder of the year, whereas it seems that all the increases are coming from IT, AML investments, which are not something that fades away in the quarter. Also, if I remember well, you have negotiations with the unions coming up in June. So any elements that you can give us to make the EUR 5.2 billion guidance a bit more tangible. Also, can you remind us of the one offs? I had EUR 100 million of restructuring costs and now EUR 50 million of AML. I do not know if there is anything more coming on the AML side. That is the broader question on costs.

The one on capital is fairly quick. The EUR 300 million buyback is now completed; when can we expect the announcement of another tranche? Is this Q2 or later in the year, or next year?

**Robert Swaak:** Giulia, thanks for the questions. I will take them both. In terms of the cost and the guidance on the 5.2, I would like to reiterate that we did book exceptionals and incidentals in this first quarter, so clearly the EUR 50 million AML and any SRF levy will come in through the cost lines for this quarter. When you look at our overall cost base and the way we are managing the cost base, it is very clear that we have also during this quarter frontloaded some of our IT investments to make sure that we keep pace with the further digitization of the bank. But when we look at the measures that we are taking around realizing the cost saves, we are looking at and executing on a number of items. One is locations, as we continue to close down locations. The other is continued efficiency through the digital applications that we have launched into the market. We are looking to increasingly automate our AML activities, but also by continuing to simplify our client service model, we are allowing ourselves to be set up for much more efficient, effective operations. So even though we saw a bit of a spike and certainly caused by incidentals that we are seeing coming through in this quarter it has not changed our expectations on the lower than 5.2 for this year.

Your question on inflation and CLA, we were able to conclude off with the unions on our social impact plan, so that is locked in. We did agree that we would sit with the unions again over the course of this summer and would then have the conversation using the six month results for the bank, as we will have then further guidance, also on inflation. We expect, whatever is the result of that conversation, that we still have sufficient room in terms of our cost base to absorb anything that may come out of this.

In terms of capital, yes, I am happy we were able to complete our first share buyback program. I think it was the first one and what we are also now saying is that in light of the uncertainties that we are seeing, certainly playing out in the rest of this year, what I would like to have is this full visibility on the bank's results. Clearly, when the economic conditions are as uncertain as they currently are I think it would be prudent to take a view as to what the full year results of the bank would be, and I expect that would be towards the latter end of the year before we announce any further share buybacks. At that point in time when we have that full visibility, we will then conclude and then we will continue the constructive conversations with the regulator on this.

**Giulia Miotto:** Perfect, thanks. And then just a clarification on the one-offs that are expected for the year. Is there more to come on the AML front or restructuring?

**Lars Kramer:** These AML remediations are pretty much across Retail and Corporate banking, so we will have a look at on the corporate banking side whether there are some more files but I think this was materially the number.

**Giulia Miotto:** Thanks.

**Benoit Pétrarque (Kepler Cheuvreux):** Good morning, I have a couple of questions and I would like to start with the full year 2022 NII guidance of EUR 5.1 billion. If I strip out the TLTRO3 benefit of 88 million, I come to EUR 5.0 billion. I guess it is a good starting point to think about 2023. I guess the way we need to look at it is that there will be potentially upside from the forward curve on the top but can you talk a bit more about the net between margin development and volumes in light of what you see currently on the market? I am especially referring to the back book margin development recently. Could you talk a bit about that? And also, whether that EUR 5.1 billion will look the same assuming the ECB will hike by 50 bps in July. Will that roughly be the same or will that be a different figure?

My second question is on the very high steering cost at treasury level, of EUR 30 to EUR 40 million this quarter. Is it fair to assume that will eat most of the upside from the current curve on the replicating portfolio? Could you talk about the drag you expect in the coming quarter from the steering costs and potentially higher steering cost and hedging cost for the coming quarter? What could that be per quarter for the rest of the year?

Finally, you keep your return on equity of 10% for the long run, assuming normalized rates. Is that still a level you have in mind, maybe looking at your forward rate scenario or would that be different today? I just wanted to check that. Thank you.

**Robert Swaak:** Lard, could I ask you to take the questions on NII and treasury and then we will conclude off on ROE.

**Lars Kramer:** In terms of margins against volumes here, what we are actually seeing is on both mortgages and corporates quite a nice, continued build-up of volumes, so despite the big build-up that we had at the end of last year, it is actually quite pleasing to see that the demand continues. Clearly, in terms of our high level GDP assumptions, we are expecting a little bit of a GDP lowering in terms of expectations versus what we guided before. This feeds into expectations on volume but we are still expecting GDP growth, so I do expect volumes to continue growing in line with GDP.

The margin pressure is evident both in mortgages and corporates. In corporates because of the TLTRO pass-through that we had, so there is some near term pressure on the margin. But in terms of some of the new production which is not under the TLTRO we are actually seeing margins hold up quite nicely. On mortgages this has been a continued pressure for the last couple of years in terms of the front book being lower than the back book. And as I said earlier, with the price rises, you are always roughly about 9 days behind the curve in terms of adjusting your prices. But what we are starting to see is at least that the margins have been improving even though they are still lower than the back book they have been improving over the last few months. With the curve being as volatile as it is, with us having stepped up the prices sometimes when the curve does drop in the odd week we do not necessarily follow it down, so that does give us some locking of a higher margin.

You were asking about the ECB and if they were to increase by 50 bps by July. I would say as we have talked before the impact in the years 2022 and 2023 is pretty insensitive to what happens on the ECB side. You see that in our sensitivity table that we put out there as well because this ties into your treasury steering cost. You know the three elements that effectively eat up any benefit that we have in the near term, while customer behavior normalizes and therefore our book normalizes also in terms of the mortgage early refinancing behavior that we expect to come off significantly and then we also see at some point the negative rates will start shifting back up to zero if the ECB really does start raising Bearing in mind that we have about 95 billion now booked at negative 50bps, that is a pretty large first step that we have to absorb. Hence you do not see this big sensitivity in 2022 and 2023. And then there is a balance of the of the steering costs in terms of the longer duration. So really very little near-term pick-up and that is why we have also kept our guidance for 2022 at the top end of the range rather than going beyond the range.

**Robert Swaak:** And then the final question on ROE. I would say we would still stick to our guidance of the 8% in 2024. And clearly we will have to see how the forward rates will continue to evolve before we would change that guidance. Initially we had indicated and we continued to indicate that if the forward curves continue to shift the way they are, that 10% is tenable, but it is not changing our overall guidance, so our guidance remains 8% in 2024.

**Benoit Pétrarque:** Thank you very much.

**Tarik El Mejjad (Bank of America):** Hi good morning I have two quick questions, please. The first one will come back to cost but more towards 2024 rather than just the 4.7 billion, but then the 5.2. This guidance was given before we observed inflation in costs back last year and early this year and then inflation has doubled post the Russia Ukraine crisis. You seem to reiterate the same absolute numbers and you have not moved to a more adequate kind of jaws or cost/income. Your last reporting demonstrated a bit of acceleration in costs explained by what you just described. But there is also some underlying increase in there, so should we expect some actions from you in second part of the year to keep that guidance or are you comfortable that EUR 4.7 billion could be achieved even with double the inflation you assumed initially in your strategic plan?

The second question is on growth. I am sorry to sound as a broken record on that topic, but I really want to understand your engine for growth in your whole strategy. Now you have completed the deleveraging of the CIB but I want to understand what the main drivers for growth in CIB in terms of sectors and regions are. Maybe you can give us some outlook, probably adjusted, for the global economic slow-down.

**Robert Swaak:** Thank you. I will take both questions, unless Lars has anything to add on the cost side. I would just reiterate the 4.7, even in light of the inflationary pressure we are seeing. This is also partly relating to the longer-term contracts that we have been able to close on for example major components of our costs related to IT. We currently are still projecting not only the 5.2 but het continued increase to 4.7, but I would say that is not a smooth glide path. Clearly, that is over a period of leading into 2024. But at this point we see no reason to adjust the guidance. Lars, if you want to add anything?

**Lars Kramer:** You mentioned the cost/income ratio and for me, one of the clear benefits of having van absolute number is the discipline it also gives to the internal organisation. If you start having now this tailwind in terms of interest rates, there is the potential that people think they will not be as disciplined on cost because of all this extra income. From my side, that is the key of holding very firmly to van absolute number and not switch to a cost/income ratio-driven approach.

**Robert Swaak:** So, let me confirm that there is no sense at this point to change to relative numbers on cost control.

In terms of your question on the engines of growth, when you look at the underlying trends and we see the volumes continuing to grow in mortgages – which we named as one of our value segments – the progress we have made in making sure that our operations in the mortgages side is so efficient and so effective that our throughput times have been significantly reduced. I would still expect, irrespective of price pressure, volumes to continue to pick up.

On the Corporate banking side we have been very clear that we would begin to focus our efforts in Northwest Europe. that indeed, is now paying off. Across the Corporate bank operations we are seeing volumes increasing in the sectors that we have highlighted but also the themes that we have begun to prioritize around digitization, themes related to sustainability, transition themes. These are all focus areas of the Corporate bank that have now begun to drive results, increasingly on wealth management, which we also have continued to emphasize. One of the named potential growth areas we have seen solid performance over the last few quarters, and we indeed expect that to continue. We have also, as part of this strategy, identified a shift where we can away from NII to fee and fee growth continues to remain strong into this quarter. It is reflecting some of the strategic choices that we have made as a bank. For example, our clearing operations continue to contribute and continue to contribute as expected. And as you recall, that was a very clear decision on our side to continue with our clearing operations. Our credit card operations, which we also said we would continue to incorporate in our overall strategy, is also now showing increased performance. On our personal business banking we were very clear about the digitization of our operations, which we continue to execute against, but also that we would look for opportunities to increase rates where we can. So, what you see now is an envisaged tariff rates increase on the Retail side of the operations and at the same time, we are continuing our development of payment packages to our SMEs, which are also contributing to the overall fee performance. So in short, whilst I know we are understandably focusing on cost, the actual decisions we took in terms of our strategy review are beginning to show results now in the underlying choices that we have made and in that sense continuing to contribute to a growth model at the bank.

**Tarik El Mejjad:** Thank you.

**Stefan Nedialkov (Citi):** Good morning. I have a couple of questions on the cost side of things. At your last Investor Day, you guided to investments, if I recall correctly, around EUR 100 million per year, more or less. I just wanted to circle back to what we saw in Q1. Did you take most of that EUR 100 million in Q1 and would that be driven by your upcoming negotiations with the unions?

Then on the AML charges, EUR 50 million is quite high when you look at the run rate of around EUR 400 million of AML cost per year. Is that run rate changing at all? If it is not, how do we square off the EUR 400 million with the fact that around 20% of your FTEs are engaged in compliance efforts?

**Lars Kramer:** On the investments it is about EUR 100 million a year. You are right. Did we take it all in the first quarter? No, definitely not. It comes a little bit more throughout the year and it certainly has not been linked to any inflation negotiations on collective labour, because those negotiations will only start in the second half of this year. We continue to make investments. That is clear. We are moving the infrastructure and the new service model does require that investment. That will continue. We are trying to be pretty disciplined as well in terms of making sure we have some oxygen to continue to invest in the business rather than using it all to absorb any cost inflation.

On the AML, here as well you have to take a look in terms of what we do for remediation efforts and what we do for business as usual. This EUR 50 million is very much in terms of a set of files that have to be re-looked at, re-remediated in a way. That will take a bit longer. So, it is van isolated portion of the entire footprint of our 5.3 million clients, the bulk of which have been remediated. So, here our expectation in terms of run rate on business as usual is very much as we spoke about earlier, was that this year would be roughly the same as last year and that we would then start seeing a decline in the run rate coming into 2023 in terms of also all the efforts we are trying to focus on much more a risk-based approach in terms of selection. The fact that we are starting to see a lot more automation in terms of also identification of what needs to be remediated, that effort of trying to move from people-based large teams to a bit more artificial intelligence-based will continue to happen. We should see more of that traction actually manifesting in the run rates coming down next year.

**Stefan Nedialkov:** Thank you, if I may just follow up on the EUR 50 million? Was it driven by a longer than expected time to remediate all the files? I know you have mentioned previously that your efforts might continue over 2022. I am just trying to understand why this was not included in the charge you took last year, whether this is purely time-driven, effort-driven or something new has come up.

**Robert Swaak:** Let me expand a little bit on this. To build on what Lars has said, these are files which we identified needed to be remediated. Very clearly, what we are preferring here is quality over speed. So what we have done, we do quality reviews on the files that we remediate. We then come to a conclusion whether these are files are fully complied or not. So, in that process you identify a number of items that need to be remediated, that are just not living up to the quality standards that we have concluded off. So, rather than pushing this through in terms of speed, we have decided to then postpone that complete remediation until 2023, to take a bit more time to ensure the quality of the filly up to standard.

**Stefan Nedialkov:** Thank you.

**Anke Reingen (RBC Capital Markets):** Thank you very much for taking my question and apologies of one more on costs. Just in terms of the Q1 base, what can we take out if we want to consider it as a run rate for the rest of the year? I guess there would need to be some material step down in order to meet the EUR 4.7 billion. And within this, the EUR 50 million you have in Q1 for non-core costs. How quickly can that come down? And maybe the EUR 185 million of cost savings, how quickly are they coming through over the years?

Secondly, can you give us a bit more of an outlook about the expectations of loan-loss charges for the year, in terms of maybe underlying and the Russia-Ukraine overlay, can you use it against other economic impact or is this quite specific in what areas you can use it?

Lastly, in your negative scenario GDP growth this year and flat next year. How sensitive is it to an assumption that GDP is actually negative?

**Robert Swaak:** Thanks for the questions. Lars, could you elaborate a bit more on costs and I will ask Tanja to answer questions 2 and 3.

**Lars Kramer:** In terms of specific run rates I cannot give you the specific run rates but if you look outside of the incidentals and the levies you saw the overall structural cost base starting to turn and coming off to a lower amount in Q1. I expect to see some bills pretty much across the boards in terms of what I would call the non-personnel expenses, which does have a lot for the contracting base in it in terms of also the IT build. It also has a large chunk of the offshoring that we are doing in it as well. That is also the line item where you see in terms of any investment that we make in infrastructure, which would have had a higher run rate in the first quarter. Those are the areas where I would expect to see some benefit coming through. We have a continuous also in terms of working towards the overall 15% reduction in terms of personnel levels by 2024. We have just gone through another step of reorganizing ourselves, so that organization is also stepping down, so I expect to see some of that coming through and then, as you rightly say, the non-core will unwind over the next two years, so it is not as if it is going to come all this year. That will be quite an even unwind over the next two years.

**Tanja Cuppen:** Your question related to loan loss charges for the year. Let me take one step back. As Robert mentioned already, the uncertainties are quite big at this point in time. Nobody knows how the year will pan out, so from that point of view it is difficult to give guidance for the full year cost of risk but what I can say is that we have discussed the through-the-cycle cost of risk guidance of around 20 bps in an average year. if you look at our base case scenario, that is an average economic development, so that would be in line. But of course, situations can develop very differently as well. In our negative scenario, we do not expect that GDP goes negative already this year, at least not for the full year, although that could happen in the later quarters. That is very dependent on what will happen in the area of sanctions. It is important to know that the economic scenario that is included in our calculations for Q1, also included in the pack are the scenarios of the end of February, so just before the war. We always use these scenarios to calculate our provisioning. But that is why the weight of the negative scenario is a lot higher. Actually, our current base scenario is in between the base scenario that is in the slide deck and the negative scenario.

As said, we have also taken a management overlay for second order effects and these are generic. The second order effects are in the area of higher energy prices, higher commodity prices, supply chain issues, inflation effects and therefore, they are quite generic. We expect them to be absorbed by developments in the remainder of the year.

**Anke Reingen:** Thank you.

**Farquhar Murray (Autonomous):** Good morning all, just one question for me. There has been some debate around a cliff edge on SME loans post-Covid. Could you give us an update on what you are seeing on the ground in that respect and has that debate been able to progress with the regulator or should we take it that the Russian and inflation uncertainties are essentially pushing that discussion later into the year?

**Tanja Cuppen:** We have not seen any cliff effects in relation to SMEs coming out of Covid or Covid-support. Covid-support in our SME portfolio is predominantly in The Netherlands, so I am talking about The Netherlands. Covid-support has been phased out gradually and a very limited number of our clients still have support over the last period. The main outstanding effect that we can still expect is that there are deferred taxes, so clients could choose to defer their tax payments and now they need to repay that in the coming period up till five years. That is a gradual effect and that will not be a cliff effect. Of course, it is an additional burden for SMEs. It is maybe good to know that also we have reduced our management overlays related to Covid quite a bit this quarter, given that we have reviewed our clients for these type of effects. We are comfortable with where they are.

**Farquhar Murray:** Okay. Thanks a lot.

**Stefan Nedialkov:** I did not want to overload you with questions on the first try, so here are some other ones. On NII, your assumption for constant asset margins are quite fair because asset margins are driven by competition but in reality – I know we have not had a lot of period periods where rates have been rising in the past ten years – if you look back to the middle of 2010, how did asset margins behave for you when rates were rising, I would say 2016 – 2017? Could you talk a little bit about that? That would be really helpful.

My second question on NII. You are not disclosing your cap on the deposit margins in the replicating portfolio. Can you, however, talk a bit about the deposit beta that we should be thinking about, above 0% and heading closer to 1.5%?

Thirdly, you talk about an ROE of 8% in 2024. Is that based on the current spot curve?

My last question is for Tanja. Basel IV is now 30 bps better than Basel III. What is driving that benefit?

**Lars Kramer:** In terms of looking back as to how asset margins perform historically, I have to come back to you on that one because personally I was not here, so I do not have that built in into my memory base. So, we will come back to you on that one.

In terms of the deposit margin cap also I do not want to get drawn on what our working assumptions are. There is also a little bit competitive sensitivity on it. We do build a reasonably healthy margin. Once we get to zero we start building up that margin. We have tried to use in our cap something which has been historically the sort of average level, so it is not as if we are being overly conservative or overly exuberant in terms of what we are capping in there.

On the ROE, the curve that we are using in terms of this ROE is very much that forward curve at the end of April. On that front, if that curve really does materialize in the long run then the 10% in 2024 is definitely achievable.

**Robert Swaak:** Tanja?

**Tanja Cuppen:** Stefan, maybe you can repeat your question but I did not fully capture it.

**Stefan Nedialkov:** Sure. Basel IV of 16% CET1 ratio is 30 bps above your Basel III CET1 ratio. Usually, it is the other way around. Some banks in Europe benefit from Basel IV on a net-net basis. You guys have obviously absorbed all the Basel IV impact, so now that we are here, what is driving the 30 bps benefit under Basel IV versus Basel III?

**Tanja Cuppen:** Your question is clear to me. Let me first mention that regarding the Basel IV number we still present a rounded number of around 165, so you cannot conclude that it is 0.3% higher. We really see the Basel III and Basel IV number converging but the Basel IV number is still surrounded with uncertainty. As you know, the Basel IV rules are still not final and also, we are still working on the implementation in our systems. So, we do not have a fully accurate number and that is why we present 16%. So, you really need to see this as a convergence of numbers as opposed to a difference.

**Stefan Nedialkov:** I see. So, there is not much to read into that.

**Tanja Cuppen:** No.

**Stefan Nedialkov:** Thank you very much.

**Jason Kalamboussis (ING):** Hi, I just have one quick question. The additional remediation in the first quarter on AML, was it due to discussions you had with the regulator? Was it driven by that? Then a little question, I may have missed it, so apologies for it, but what are currently the numbers of FTE's in AML and how do you expect this number to evolve in 2023 and 2024? The same question goes for the euro amount for 2022, 2023 and 2024.

**Robert Swaak:** Anytime we take decisions on timing of remediation it is always done with the regulator. We have had a constructive dialogue with the regulator around our timing and therefore, we were able to communicate what we communicated around the completion of remediation in 2023, directly related to the provision taking.

In terms of FTEs, we would expect over time FTEs that are directly related to the detecting of financial crime to begin to come down because we have a continued transfer to business as usual and because we are continuing to further automate the processes.

**Jason Kalamboussis:** So how many FTEs do you have currently involved in AML?

**Lars Kramer:** About 5,000 and we have about 450 million of spends in terms of business as usual. So, in terms of trying to pinpoint what is that number going to be in three years' time, we are expected to be significantly lower but we do not have an exact figure that we can share with you now.

**Jason Kalamboussis:** Okay, and part of the AML reduction of these 5,000 is included in your minus 15% by 2024. Is that correct?

**Lars Kramer:** Part of it, yes. But a large part of it is also in the externals. The 15% is a balance but it is also a mix between internals and externals.

**Jason Kalamboussis:** Great. Thank you very much.

**Omar Fall (Barclays):** Good morning, thanks for taking my question. Just one, please. Why are you locking us in to wait until the full year results to come back on capital return? You know that is eight months that shareholders have to wait. Your direct peer has 100 bps plus less capital, some Russia issues and the same domestic regulator just announced a new buyback in capital return to start imminently. So, why are you so different to them and other European banks engaging in capital return? Is it that the regulator maybe would have an issue with a buyback at the same time as the added remediation efforts? I know you would like to be prudent, but obviously a higher cost of equity because the market thinks you are hoarding capital for some unknown reason is also not particularly prudent. Thank you.

**Lars Kramer:** Firstly, there is no linkage between the remediation and the capital. In terms of what we are trying to achieve in buybacks is something which is a bit consistent over time, so not necessarily a lumpy return. We are in time working towards this 13% level and at the moment our 15% threshold is not really a constraining factor. So, from that perspective, the timing of any capital return really is being dictated by the uncertainties of what is happening in Ukraine materially. You mentioned the cliff edge effect on SMEs earlier, we do still have to see that all evolves. Prudence is a word but we want to be realistic as well; looking at the situation in the world today, it does make sense to push the pause button a bit on this and to really see how the next six to eight months do evolve. I do not want to comment on other banks' capital returns because I do not know how the discussions are at our direct competitors and their regulators.

**Omar Fall:** Got it. And to be clear, we should wait until full year results and not Q3 or some point in the second half?

**Robert Swaak:** What I said is that we want to have the visibility of the full year results and then we can consider. That is what we are now working towards, getting full year visibility, understanding the consequences, as Lars has just alluded to, of the current crises, and then we will have the conversation here around share buybacks.

**Omar Fall:** Very clear. Thank you.

**Giulia Miotto: I** have a question on the new disclosure around the discussion with the regulator on regulatory levies. I just do not quite understand this disclosure. Is there any more colour you can give us on that this says and what impact this could potentially have and the timing?

**Lars Kramer:** In terms of SRF contributions, the discussions with the SRB on calculations have only just started. I expect by Q2 to be able to come back to you and give you more clarity. This is just a signal that we are in discussions on SRF contributions to the SRB.

**Giulia Miotto:** And this is for 2022?

**Lars Kramer:** Yes, but a portion of it could be for 2022 but there is also a lookback-component to it.

**Giulia Miotto:** Thank you.

**Kiri Vijayarajah (HSBC):** Good morning everyone, a couple of questions. Firstly, a follow-up on the cost. I think you said you were exiting some locations or closing locations. Are we talking about further branch closures going on in The Netherlands or that kind of more back office functions? I see headcounts in Personal and Business banking also coming down, is that the natural attrition and are there severance costs or anything to speak of?

And then, forward looking, in terms of your cost target for 2024, what have you allowed for in terms of your operational headcount numbers, so outsiders, non-core CIB runoff and outside of the AML-related headcount? What is your operational headcount going to look like? Are you proactively thinking of managing that down in terms of trying to get that 2024 cost number?

And then quickly just on the capital return. I fully understand what you said that you need the clarity of full year results before the next deployment announcement, but does the same also apply in terms of using capital for bolt-on acquisitions, so for instance deals in wealth management are effectively also off the table for the same reason that you want to wait till full year results to get some clarity around some of the risks out there?

**Robert Swaak:** Taking your last question, there are no concrete opportunities or results at this point around any potential M&A. In terms of the question that you asked around our cost rate as it relates to closing of branches, those do relate to continued closing where we see the potential for the closing of branches. So indeed, that will continue as consumers behave we track the traffic across the branch and then we close as necessary. So what you are actually seeing is the continued effect of further digitization of our services but also allowing us to continue to close branches, as warranted by consumer traffic. Yes indeed, you see those numbers coming through in terms of FTEs as they begin to come down.

In terms of your question on 2024, I would just reiterate that we guided towards that 15% overall FTE reduction and that still stands. That is as much detail as we would give at this point in time. But we still hold to that 15%.

**Kiri Vijayarajah:** Thank you.

**Robin van den Broek (Mediobanca):** Good morning everybody, thank you for taking my questions. Just a couple left. On NII, I appreciate the colour you have already given on margins and volumes but I think with the Q4 results you were very specific that this would EUR 100 million headwind for this year. could you update us on that number and also talk a little bit on how persistent you think those dynamics are for future years?

My second question is again coming back on costs. I do not really get the improvement on the underlying basis because Q4 normally has the hockey stick effect and you are flat basically quarter on quarter. So, I think it will be extremely helpful if you just give us the number of the frontloaded IT expense in the quarter, for us to help understand the trajectory for the year.

Thirdly, on 2024 I think you did not do anything on regulatory levies. You did not assume that to go down by them. Could you just confirm that?

**Robert Swaak:** Lars, it is back to you on the cost.

**Lars Kramer:** Well, on the NII first in terms of the EUR 100 million. In terms of what we spoke about the last time we had the four buckets of about EUR 100 million a piece, which was the asset bucket, the deposit bucket, the non-core and the treasury bucket, the mix is changing between those buckets. That is why you are in terms of the sensitivity still not seeing any real pickup in 2022 or 2023 in terms of a net change, but clearly the mix I terms of those buckets is changing with the deposit bucket benefitting a bit more but the treasury bucket feeling more pain. I am not going to sit here starting to give run rates. We are working on the savings programs in terms of our IT transformation. A lot of that comes through. If you are aware that there has been the strength to ruling in Europe, which is in a way delayed migrations for us for example onto the Cloud. We have now found a way of actually getting comfortable to restart those migrations. These are some of the underlying things where you start seeing a pickup in terms of savings run rates. The front office transformation, for example, where we have just been talking about the shift from branches. Our organizational structure resolves and that has now stabilized in terms of pretty much in Q1. That in itself adds some additional momentum in terms of getting some savings out there. Then, there is a continuous digitization and a move. We talk a lot about people starting to use video banking more in the mortgage space and as a result of that you are getting direct contact between customer and ourselves and agent, rather than having to go through call centres. So, you have the dynamic of branch call centre and digitization and again, that is a mix that will continuously be evolving more and more towards the digital multichannel. But in terms of absolute pacing and being able to put a run rate on that is going to be a bit too difficult.

**Robert Swaak:** But in summary, Lars, to add on, we still deem our existing plans to be sufficient and to be sufficiently flexible to absorb any unexpected increase.

**Lars Kramer:** And then your question on the reg levies. Yes, we are still including all reg levies as of the continued run rate as we have this year. So, we have not taken anything out in the 2024 being fully funded.

**Robin van den Broek:** Thank you. I appreciate what you said on the four buckets but I am not sure you actually gave colour on the volume times margin effects. I think you only touched upon moving elements between the deposit bucket and the treasury bucket, but any thoughts on volumes times margin and also the persistency of that throughout the years?

**Lars Kramer:** In terms of the volumes and margins, basically what I said earlier, which is we do have a continued pressure on the mortgage margin and this is really in terms of the price increases being tracked by a 9-day lag. But there is an improvement in that margin but it is still lagging what the back book is at. In the corporate space we are seeing that there has been some negative impact as a result of the TLTRO, so that is feeding through. But in terms of real new production outside of the TLTRO, we are seeing basically an improving margin. In terms of the volume itself, you can see that in Q1 we had quite a nice follow-through in terms of volume despite the very strong Q4. That is encouraging and again here, I take the lead a bit that we do look at GDP as still being positive, even though it is a bit depressed based on previous expectations. But it is still positive.

**Robin van den Broek:** Is it fair to say that on the mortgage repricing that the part of the book that is actually up for repricing had an above-back book margin?

**Lars Kramer:** Above back book or back book margin, not necessarily above back book. That is an average margin across time. Clearly, the stuff that is repricing is at a higher margin so you have that running off and you are replacing it with effectively lower margins.

**Robin van den Broek:** It seems that the margins between 2010 and 2015 were particularly good and that might be the bit that is more up for repricing at the moment. That was the reasoning behind the question.

**Lars Kramer:** A huge part of the book has been refinanced. There is a very small proportion of our residual book that is still at rates that are higher than today’s rates. So, that is why we are refinancing prepayment fees that we have been receiving with about EUR 260 million a year to really come off. That demand for refinancing is going to come down quite steeply.

**Robin van den Broek:** Thank you very much.

**Benoit Pétrarque:** I just want to better understand the steering cost and especially how this works on a quarterly basis. It is clearly linked to the level of prepayment. Can we assume that in a quarter where you get lower prepayments you will see an even more negative treasury result? Or did you take some of it upfront? How does that work in practice?

Assuming you will be doing a much more substantial part of your mortgage production on the tenure will that soften a bit your steering cost assumptions as the asset duration will automatically come down a bit?

**Lars Kramer:** None of these things are absolute. It also depends a little bit as to where the market is at and where we may do some pre-positioning in terms of steering. Generally, we do operate within some pretty tight duration limits that we have to stay within, so it does tend to feed through quite quickly and then immediately that we have to do the steering. So yes, there is. If prepayments for example were to effectively not slow down as much as expected, then we could do some steering in terms of bringing it to a shorter duration, which is also, as you say, if things move to 10 years, that could be a benefit as well.

**Benoit Pétrarque:** Thank you.

**Robert Swaak:** If there are no further questions, this concludes the analyst call. As always, thank you for your questions and we look forward to speaking to you again. Bye!

End of call