ABN AMRO Q3 2024 Results Transcript

ABN AMRO Investor Relations
Wednesday, 13 November 2024

Participants: Robert Swaak (CEO); Ferdinand Vaandrager (CFO); Serena Fioravanti (CRO)

Operator: Good morning, and welcome to ABN AMRO Q3 2024 Analyst and Investor call. I will now hand over to Chief Executive Officer, Robert Swaak. Please go ahead.

Robert Swaak: Thank you. Thank you so much. Good morning, everyone. Welcome to our Q3 results, joined by Ferdinand Vaandrager, our CFO. And for the first time, and welcome, we're hosting this Analyst call together with Serena Fioravanti, our new CRO. Please join me in welcoming Serena. We've had a lot of that over the last couple of days.

I'll update you on the main topics for this quarter, followed by Q&A as always. So let me take you through the highlights of Q3 on slide two.

ABN AMRO showed yet another strong set of results. Our profit amounted to €690 million, driven by higher net interest income, higher fee income, and net impairment releases. Our mortgage book again showed a quarter of solid growth. While costs were higher, these were anticipated, given our new collective labour agreement and additional hiring. Our Basel III CET1 ratio rose to 14.1%, and Basel IV CET1 ratio remains around 14%.

We took the decision to postpone the assessment of a potential share buyback to Q2 next year, and I'll discuss the rationale behind this decision in a moment.

But let me first start with the other developments of this quarter.

We've entered into a new partnership, as we turn to slide three, through our neobroker BUX, and our clients now have easy access to participate in initial public offerings on Euronext. The intermediary mortgage channel is important for us to attract new clients, and therefore I am pleased that we were awarded by independent financial advisors for a leading role in active client management.

Moving to sustainability, we actively support and continue to provide our expertise to clients who are transitioning to a sustainable business model. And particularly in the area of energy transition, we came up with an innovative private financing solution for the construction of two large-scale biomethane plants for one of our clients.

Scamming attempts are becoming increasingly sophisticated, as we all know, and it is often difficult for our clients to determine if an incoming call is truly from a bank employee or not. So therefore, we've introduced an innovative feature to our mobile application, an internet portal called Call Check. Clients can now request a check when they're unsure if they are called by one of our employees.

They will then receive a message confirming this is indeed a legitimate call as soon as they log on online. We are rolling out new use cases for generative AI in our production environment. Currently, over 10,000 employees are one way or another making use of this new technology, and we see promising results in terms of higher productivity.

So let's turn to the Dutch economy on slide four.

As you know, the Dutch economy remains resilient with GDP projected to grow by just over 1%. Both inflation and unemployment are expected to remain low. However, the worsening economic outlook in Germany may start to impact the Netherlands, as Germany is our main export destination.

Also, the recent election of Trump has increased downside risks to the Eurozone growth and inflation outlook, especially for export-orientated countries such as Germany and the Netherlands, if plans indeed materialise to impose tariffs.

In October, the Purchasing Managers' Index for the Dutch manufacturing industry fell from 48.2 to 47, indicating some contraction. The number of new orders, especially export orders, is declining, and, on the other hand, Dutch consumers continue to spend despite the persistent negative consumer confidence.

House prices increased further, driven by higher wages, falling mortgage rates, and a structural shortage in the housing market. The Dutch mortgage market rebounded strongly in 2024, with mortgage applications up by 25% compared to last year.

So our performance has been even stronger. And turning to slide five, this is driving clearly our client lending this quarter.

So while the overall mortgage market grew by 25% compared to last year, our production rose by 50%. Similar to previous quarters, our mortgage portfolio again showed strong growth, with total volume up by €1.6 billion. We continue to attract new customers, mainly in the first-time buyers' market, which is also a result of our strong market position in the NHG mortgage segment.

Turning to our corporate loan book, we continue to grow in our transition themes of New Energies, Digital, and Mobility. Now this was offset by lower Asset-Based Finance volumes outside the Netherlands, and this reflects a capital allocation assessment.

Decrease in consumer loans continued, as several products are in runoff and stricter lending criteria led to lower client demand. Increase in total deposits was largely related to higher professional deposits at Clearing.

Now turning to the individual line items, starting with NII.

Our interest income increased further during the third quarter. Both asset and deposit margins were broadly flat quarter-on-quarter. And during Q3, client savings coupon remained constant while the yield on the replicating portfolio showed a very modest decline as expected. The increase in NII was driven by higher treasury results. Hedges that are currently rolling off are having a positive effect on net interest income, and this effect is expected to persist going forward. Given these developments, we are on track to a full-year NII of above €6.4 billion.

On the next slide, we highlight the key drivers for our interest income for the next year.

We hedge our balance sheet against interest rate movements, and for our assets, we can hedge most of the interest rate risk. So to manage the interest rate risk of our deposits, and specifically our non-maturing deposits, we use a replicating portfolio. This portfolio generates a return for which we pay a savings rate, the difference between the return and this rate being our deposit margin.

So shown on this slide is the interest rate sensitivity of our replicating portfolio under two different forward curves. The chart shows the trajectory of the replicating income given forward rates from end of October, and for reference, we also show forward rates of June. So as you can see, the replicating income under these rate assumptions could decline by around €400 million next year.

Now, this is under the assumption of a constant savings rate of 1.5%. As we mentioned before, any 10 basis point reduction in the savings rate corresponds to around €100 million in interest income over a full year.

Now, we have not included the treasury result in the interest rate sensitivity analysis. However, we expect a higher treasury result for next year.

So if we simply extrapolate, the run rate as of Q3, the full-year ’25 treasury NII would be around €100 million higher compared to this year.

In addition, business developments will also impact NII over the coming year, but the numbers on this slide at least will give you some insight into our sensitivity to interest rates.

Now turning to fee income on slide eight.

Year-to-date, our fees went up 6% compared to the same period last year, which is above our growth ambition of 3% to 5%. All client units contributed to this good performance. Compared to previous quarter, fee income at Personal and Business Banking benefited from higher expenditures and more payment transactions during the summer holiday season.

Wealth Management benefited from good market performance of our assets under management. And Clearing and Global Markets also turned in a good quarter. Other income is the most volatile top-line item as it contains a lot of different items in this quarter we saw an increase compared to Q2.

We sold a fully written-down loan leading to a gain, where last quarter we had a derecognition loss. The results in our equity participations, however, were lower compared to last quarter.

So then turning to slide nine on costs.

During Q3, our expenses rose due to an increase in salary costs as a result of our new CLA, as well as further hiring of staff. The impact of the new CLA was around €60 million in Q3, half of it related to the 6% increase in salary, and the other half, as discussed previously, for the accrual of reward premiums, which will be paid for the first time in 2025.

Now, this accrual we took this quarter was for nine months, as it includes a catch-up effect. Next quarter will only include regular accruals and will therefore decline by around €20 million compared to this quarter.

We are increasing resources for data capabilities and regulatory programmes, such as, for example, the Sustainable Finance Regulation and Cyber and Information Security. In this quarter, we hired almost 500 internal employees, while we saw a decrease in external employees. These cost increases were anticipated and incorporated in our full-year guidance of €5.3 billion.

Now turning to impairments on slide 10.

Credit quality remains solid with a stable impaired ratio of 1.9% and another quarter with net impairment releases. These releases were largely related to the mortgage portfolio, where we introduced a new impairment model under IFRS 9 that better incorporates the effects of certain macroeconomic variables. This is partly offset by inflows in Stage III for new and existing corporate clients.

The inflow was not sector-specific, but rather across the economy. This quarter, we were also able to recover some individual files. So the amount of management overlays went slightly up and is currently around €240 million.

Following six quarters of net releases, it is clear that we are still operating well below our through-the-cycle cost of risk. We expect a gradual normalisation of impairments going forward.

Now turning to slide 11 on capital.

Our Basel III CET1 capital ratio increased this quarter to 14.1% and remains well above our CET1 requirement of 11.2%. RWAs decreased by €2.5 billion. Data quality improvements led to around €1 billion of RWA relief. In addition, credit risk declined, reflecting business developments at Clearing and Asset-Based Finance.

Market risk RWA ended lower we steered down certain trading portfolios. Our Basel IV ratio remains around 14%.

Now let me elaborate on our decision to postpone the assessment of our capital position and with that the room for potential share buyback.

As you know, we are in the process of simplifying our credit risk models, and, at the same time, we are preparing for the upcoming Basel IV introduction. Implementing Basel IV while changing models at the same time is complex and is taking longer than anticipated.

Now this would impact our planned capital assessment, as we would need to include regulatory prudence for the implementation uncertainties that have arisen from this delay. Now, this would be in addition to the impact of the HAL acquisition and the impact of our final submission to move some remaining portfolios to a less sophisticated approach.

So rather than determine the room for a share buyback on the basis of today's implementation uncertainties, we choose to postpone our assessment to Q2 2025. The capital assessment will then be performed after implementation of Basel IV, and on the basis of a final Basel IV capital ratio.

So let me wrap up. The bank continues to show a strong performance, led by consistent execution of our strategy. The strong start of the year has continued into the third quarter. We maintain the positive momentum in our mortgage production, and this has led to a net growth of €4 billion in our mortgage book since January.

All business units are contributing to fee growth, and the year-to-date growth of 6% is outperforming our growth ambition of 3-5%. This quarter, the new collective labour agreement came into force. We maintain our cost guidance for this year and continue to focus on cost discipline.

We again had a net release of loan impairments, reflecting a resilient Dutch economy, but also the result of our current balance sheet, which we have de-risked over the past years.

And with that, I would like to ask the operator to open the call for questions. Thank you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll pause for just a moment while waiting for them to queue for questions. Thank you. We will now take our first question from Giulia Miotto of Morgan Stanley. Your line is open. Please go ahead.

Giulia Aurora Miotto (Morgan Stanley): Hi. Good morning. I'll ask two questions on capital, please. So on Basel IV, we are literally 1.5 month away from it becoming live. But you're still giving us the numbers saying around 14%. Is it possible to be more precise? And Robert, you said the process is taking longer and is more complex. So what has surprised you versus your expectations?

Related to this, when you think about capital assessment and buyback, could the 13.5% move? That's the first question.

The second question is for Serena. So SRTs. ABN hasn't done much so far with SRTs. Do you think this is a tool that the bank could use to optimise their RWA density? Thank you.

Robert Swaak: Yeah. Thanks, Giulia. I'll take your first two questions, and then Serena, if you want to take the second question.

What we will continue to use is a rounded number as we work to complete our conversion to Basel IV. That is indeed based on the fact that, as I said, we're experiencing a bit of a delay in some of the work that we are doing, given the combination of data remediation, but also the model simplification.

We'd like to make sure that we get as much of this work completed before we start to settle down on Basel IV numbers. And indeed, the opportunity is there. We have a certain timeframe within which to report an exact Basel IV number. That's also the reason why we decided to take the decision that we just talked about.

Now on the capital, your question on 13.5%, you know, I would not get ahead of those discussions. Right now, the 13.5% is what we've stated our capital ratios would be in 2026, and we maintain those targets into 2026. Serena?

Serena Fioravanti: Yes, thanks. Good morning, Giulia. Thanks for your question. On risk-weighted assets optimisation, I think we already commented in Q2. It can be expected that we will make more use of instruments such as SRT or other risk transfers. We'll include also potentially CDS or insurance sales, as we said before, we maintain this approach.

Giulia Aurora Miotto: Thank you.

Robert Swaak: Thank you.

Operator: Thank you. We will now take our next question from Benjamin Goy of Deutsche Bank. Your line is open. Please go ahead.

Benjamin Goy (Deutsche Bank): Hi. Good morning. Two questions, please, as well. First, on net interest income. Just checking on your sensitivity to further ECB rate cuts, particularly in corporate banking, where we saw a significant decrease quarter-on-quarter, how the ECB rate cuts or potential rate cuts affect the development here and the Group overall.

Then secondly, you mentioned FTEs up another 500 in the quarter, which is higher than normal seasonally. Just wondering, do you expect more bills up into 2025 and impacting the cost base, or you're more or less done now in terms of significant hiring? Thank you.

Robert Swaak: So, Ferdi, if you want to take the NII question, and I'll take the cost.

Ferdinand Vaandrager: Yes, Benjamin. Hi. On NII specifically, and you're also referring to corporate bank specifically. The underlying message is on NII for this quarter that both assets and liability margins are holding up quite well. And you're also seeing that in our net interest margin of 165 basis points, which is actually up 3 basis points compared to the previous quarter.

What we tried to do with the sensitivity slide in the analyst pack, and Robert already alluded to that in more detail, really provide the sensitivity on the current forward curve, what it will do with our replicating portfolio. But clearly, this is under the assumption that volumes and pricing are staying flat. So on this basis, you can do your own assumption. So it's not guidance. We try to be helpful with sensitivity.

Then if you look underlying NII for this quarter, that might, if you look at the division level, which might complicate a bit. Always at the start of the year, we have a budget from treasury, where we try to allocate out all NII to the client units. We do that via our fund transfer pricing. There were some changes with interest rates coming down. Hence for this quarter specifically, some of the NII income from the client units were transferred back towards the treasury line. Hence that is the overall €60 million transition between client units and treasury.

And the last one is if you look at the treasury results, it was up €40 million for the quarter. And there, as said, we expect it to be structurally higher next year, but it can clearly be volatile. But if you look at the current run rate of treasury results in Q3, that could mean an uplift of up to €100 million next year.

Robert Swaak: On your question on cost, you're right. I mean, we did signal over the previous quarters that we want to continue to invest in our people and also in expertise. So the hiring has indeed picked up. And I'm actually glad that that is the case, because that means that we can put all the required resources to work in the bank as we work on our issues around data capability, the regulatory programmes that we talked about before.

We are, however, intending to keep the €5.3 billion flat. So the €5.3 billion will absorb the additional hiring that we're doing in addition to the CLA increases that we see.

Benjamin Goy: Thank you.

Robert Swaak: Thank you.

Operator: Thank you. And we will now move on to our next question from Tarik El Mejjad of Bank of America. Your line is open. Please go ahead.

Tarik El Mejjad (Bank of America): Hi. Good morning, everyone. Sorry, I'll just follow up on the NII questions. I mean, the swing factor for you next year on NII is clearly treasury results, your ability to cut savings rates and to the margin, the volume growth incremental from here. So on the treasury results, I mean, Ferdinand, you always commented that these are quite unpredictable. And last year, you basically shifted guidance a couple of times. So what makes you confident that the run rate of €30 million, €40 million per quarter is valid for the full year '25?

Secondly, on deposit rates or savings coupons, as you call them. I know you can't guide for these, but what are you observing now in the competition landscape in the Netherlands? And so just to have a feel on how these can start to move down.

And second question, maybe on costs. So the €5.3 billion ballpark costs in '25, and I think you also mentioned '26. Can you take us through the moving parts for next year? You mentioned the CLA increase can be absorbed. But what can actually make you confident to maintain those as we can see the trend is more going upwards than stable? Thank you.

Robert Swaak: Thank you. Ferdi, if you take the NII, I'll take costs.

Ferdinand Vaandrager: Yes, good. Tarik, yes, indeed, as said before, the treasury results can be volatile. The €40 million delta we saw for this quarter, we're just arguing that the expectation is that this will be structurally at a higher level next year. But this is clearly not guidance. We're merely saying if the run rate of Q3 would stay at the same level in next year, then it will be €40 million higher.

And what we've always said there, the treasury results is basically the market value of our hedge book, of which the largest part is the invested equity position. But it is really dependent in terms of repricing of the overall swaps there.

Then your second question was specifically related to client saving coupons. Overall, the deposit costs have not changed. For us, it's still 1.5%. So that means the pass-through has increased with ECB rates coming down. But what you do start to see is our remuneration on time deposits that has come down since early September between the average 20 to 70 basis point, depending on which maturity.

So there you do start seeing that overall deposit costs start to come down. Overall competitive landscape has not changed. The majority of the banks are still at the same level. But what you do start seeing with lower ECB rates is that the challenger banks start cutting the remuneration on their deposits.

Robert Swaak: Thanks, Ferdinand. And on the costs, yeah, Tarik, so moving parts. Certainly, the CLA I've mentioned, and just to give a little bit more detail on this. So for the full year ’24, we're expecting €100 million increase. That's based on a 6% salary increase for the second half year and the €40 million accrual that we take because we've introduced a performance component in our pay, which I'm actually quite happy about.

For ’25, there is an additional cost of about €20 million, which consists of the €100 million salary increase, but we have a benefit of €80 million because of lower pension premiums. And then there's a €40 million for FY26, which again is a first half year impact. That's the CLA.

Then we continue to be cost disciplined around other cost categories. And I think we've been quite disciplined also over the last couple of quarters, hence the consistent guidance now on that €5.3 billion, even as we continue. So that is the one moving part that I would also highlight.

We will continue the hiring where we deem this is necessary because we do want to use this opportunity now that we are getting access to the labour market, which was quite tight last year to make sure we have the relevant expertise in the bank. Other than that, we will continue our cost discipline. And that means that we will be able to maintain the around €5.3 billion outlook that we've given into ’26.

Tarik El Mejjad: Thank you.

Ferdinand Vaandrager: Thank you.

Operator: Thank you. Once again, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now move on to our next question from Benoît Pétrarque of Kepler Cheuvreux. Your line is open. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux): Yes, good morning. So first question will be, again, on the reason to delay the share buyback decision. So did you actually ask for an approval to your regulator during the third quarter? And maybe what is your initial feeling about your capacity to announce a share buyback in ’25 based on what you see on the ground, your capital generation and so on? Can we still expect a share buyback or it's still relatively complex? Also, mid-’25, that could remain actually complex linked to the M&A you've done and the capital position?

The second question is on the simplification of the model landscape. I think you referred to that for the first quarter and what impact will be on restricted assets on the Basel IV basis.

And just on the treasury result. So if I understand correctly, if the treasury results stays at the Q3 run rate, there will be an effect of roughly €100 million positive on ’25 NII versus ’24. But this is not a guidance and you think that line item could remain volatile. And my question here is, historically, it has been indeed very volatile and more going down when rates were going down than up. So I was wondering if there's a risk that treasury result will actually go down in the coming quarters? Thank you.

Robert Swaak: Okay. Let me take the first question. And then on simplification, Ferdinand, on RWA and on treasury.

We haven't asked for approval because we've gone through our own analysis at this quarter and we came up with the conclusions as we've articulated. So the fact that we do have a number of uncertainties stemming from the data remediation that we're doing, the Basel IV conversions that we will be doing. We wanted to make sure that we have a reliable Basel IV number, a reported number, which will be the basis for the capital assessment and therefore for a potential share buyback.

And without getting ahead of what we're actually going to be deciding in 2025, we do feel that if we were to take a decision in Q4, as I stated before, you'd have to make assumptions and you'd have to be prudent and also conservative in the assumptions you use because of the uncertainty. So we've chosen to take a period to complete the work that we're currently undertaking, both in terms of the Basel IV introduction and the data remediation, establishing a reported Basel IV number that will take us to the assessment and therefore a decision on a share buyback.

So after we've done this assessment and concluded as such, there's no need for an application. And we will then consider that at Q2 in 2025. That's on the first part of your question.

On simplification-related RWAs, Ferdinand?

Ferdinand Vaandrager: Yes, Benoît. As we said in the previous quarter that we intend to make up a decision on the final portfolios we want to bring to less advanced approaches towards year-end. It currently looks like we will formalise that in a request towards year-end or Q1. And we said earlier that you normally already take an add-on as if the model has transferred already to less advanced approaches. So then you can expect an impact from that in Q1.

We also earlier said that the majority is behind us and we indicated that that is roughly 90% to 95% what is behind us. So this should provide you some indication of the expected impact.

And yes, on treasury results, I was referring to overall the timing of hedges and the repricing dynamic of our swap book. The largest part is the invested equity position and that has a duration of two to three years. So that will benefit longer from higher interest rates.

And secondly, also we have seen almost no prepayment in mortgages. So that also means that steering costs there are much lower than the previous year. So yes, what can clearly happen if you would see significant lower rates, that again prepayments will increase. So you will see an increase in prepayment penalties in NII, but that would also mean that you need to steer harder on your duration overall, which might have a negative impact on threshold results.

So in the sensitivity is where we stand today as an indication, if you would look at the run rate that translate in €100 million year-over-year.

Benoît Pétrarque: Thank you very much.

Robert Swaak: Thanks, Benoît.

Operator: Thank you. And we'll now move on to our next question from Matthew Clark of Mediobanca. Your line is open. Please go ahead.

Matthew Clark (Mediobanca): Good morning. So a question for Ferdinand. You made a comment at a recent conference that it would be unrealistic to expect NII to be the same level next year. Just wondering, given the moves in the curve since and the other factors you've discussed today, whether you stick by that comment. Thank you.

Ferdinand Vaandrager: Hi, Matthew. Yes, indeed. And it's also, as said, if you have seen the moves in forward curve since discussing it at your conference, has become lower than where we were at that point speaking at your conference. So if I look at it today, that clearly stands firm.

Matthew Clark: Thank you. It wasn't our conference. I don't want to claim credit for that. But very clear. Thank you.

Robert Swaak: Thank you.

Operator: Thank you. And we'll now move on to our next question from Anke Reingen of RBC. Your line is open. Please go ahead.

Anke Reingen (RBC): Thank you very much. Sorry, just to come back on your buyback decision in 2025. Just to make sure I understand it correctly. So it's basically the element of uncertainty and that's with respect to negative but as well as positive model updates that could impact your decision. And you're not suggesting it's like potentially no buyback.

And then secondly, on the comment about the flat costs in the next years. Just to confirm, that's pre-HAL? Thank you very much.

Robert Swaak: Yeah. So on your last question, that's indeed pre-HAL.

Yeah. So on your first question, what we are signalling is that we're going to be doing that assessment in 2025, and have indicated, and as I just said, that if we were to do it at year-end, we would have to make certain assumptions because of the uncertainties.

That would lead to a level of conservatism, because if there's uncertainty, you have to come up with certain proxies. So rather than taking that as a basis, we felt it was much better to have our final numbers and then on the basis of that, do a capital assessment and then in turn come to decisions on share buybacks.

Anke Reingen: But it's not like you see this large negative review coming? So there are positives and negatives? The base case still remains that there is a buyback in 2025?

Robert Swaak: Well, the base case will be confirmed when we take a decision and communicate the quantum and timing of share buybacks. So I am signalling to you that the reasons why we are taking this decision. And so that's where I would leave it.

Anke Reingen: Okay. Thank you very much.

Operator: Thank you. And we'll now take our next question from Farquhar Murray of Autonomous. Your line is open. Please go ahead.

Farquhar Murray (Autonomous): Good morning all. Just two questions, if I may, actually both on the capital discussion. Firstly, just regards to the kind of nature of the delay. Are those specific to the data remediation exercise or data quality, or is it more about the kind of model discussion with the regulator? I'm just trying to understand what's driving the delay specifically. And does it have any implications with the quantum of excess capital or Basel IV position that you're reporting? In a way, delay I can understand, but I'm just wondering about your confidence essentially in the numbers.

And then a bit more specifically to ABN. Why is ABN the only bank that is kind of delaying its decision making next year? Is that because of the data exercise being somewhat unique? I just wonder why you would be only the one we're seeing so far? Thanks.

Robert Swaak: Ferdi, you want to take the first two. I'll take the last one.

Ferdinand Vaandrager: Yes, Farquhar. In addition to what Robert said already, the implementation is complex because whilst we're moving some of our credit risk models to simplified approaches, and at the same time moving to the Basel IV capital regime. And why is this complicated that Basel IV requires a much more granular assessment of risk weights on the more simplified approaches compared to the current regime? And that is mainly related to prospective requirements on how to measure the value of collateral. So that's more scrutiny. And all the data topics you refer to, and I mentioned that before as well, is really related to collateral eligibility and valuation, segmentation, and external ratings.

So it's really still remediating data gaps. We have the combination between Basel IV and moving to simplified approaches. And then again, when can you expect an accurate Basel IV number? We will need to report as all banks over Q1 results. So that will be the COREP over Q1. There is a potential extra time provided of six weeks after your results. And that comes back to what Robert said earlier. After Q1, we will have a very good view of where we stand under Basel IV, so we can do the assessment.

And then most likely, we have also concluded the Hauck Aufhäuser Lampe acquisition.

Robert Swaak: And to your second part of the question, it is hard to make that comparison. I can just see what we are actually undertaking. And I think it's absolutely the right direction that we need to take in that we continue to simplify our model landscape. And I think it's the combination of those factors and the stated complexity, which we, by the way, do have a good handle on. It's in effect an execution issue.

We know what the issues are, and we continue to resolve those. And ultimately, what we're aiming for is a simplified model landscape. And that really has been a strategic decision for the bank. We'd like to complete that. So without referencing other banks, this is what we have been executing and will continue to execute.

Farquhar Murray: Okay. Just one follow-on, if I may, on that. I mean, essentially, do you have the data inputs you need, and it's just a matter of working those through within the models? Or just in effect, you've got some confidence on having the inputs you need for this exercise?

Robert Swaak: Well, we have the confidence in our reported numbers as we stand today, both in our Basel III and our Basel IV. We use the Basel IV rounding. And our reported Basel III number, well, you've seen the move in our Basel III number as well. So we stand by, obviously, the numbers that we report.

Ferdinand Vaandrager: Yeah, absolutely, Farquhar. And then just to add there, it's clearly with those changes for those data points, which you cannot automatically stream yet into your Basel chain. You will have to take some regulatory prudence. So that means either use more conservative assumption or use proxies. And we have a very clear roadmap and a substantial team of people working on remediating those over the coming months.

Farquhar Murray: Okay. Thanks a lot.

Robert Swaak: Serena, anything you want to add to that?

Serena Fioravanti: Yeah, you will see in the results that we published today that we also commented to some of the data efforts has already impacted Q3 positively of €1 billion risk-weighted assets. That gives you a fair on the ongoing development in this area.

Farquhar Murray: Thanks.

Robert Swaak: Thank you.

Operator: Thank you. As a final reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. And we'll now take our next question from Guillaume Tiberghien of BNP Paribas. Your line is open. Please go ahead.

Guillaume Tiberghien (Exane BNP Paribas): Good morning. Thank you. And I've got two questions on capital. The first one is to make it very clear in my head about the model and the timing of the buyback. When you will do the request to change the models at the beginning of the year, you said you would add a layer of conservatism when you do the request. But when you will get the decision for the buyback in August, will you have had all the answers, or could there be a further delay in the buyback because you won't have had the approval for the model?

The second question is on the next step of regulatory development. I'm thinking, for example, about the ECB focussing more and more about climate, etc., etc. Are there any big areas where we could see further headwinds to capital from the regulation, please? Thank you.

Robert Swaak: So maybe a general comment, and I'll ask Ferdi to comment on the details. The level of conservatism that we talked about is the assessment that you do at Q4, were we to do a capital assessment for the purpose of share buybacks. So that we've chosen to base our assessment of the capital assessment on a final reported Basel IV number in 2025. So that's on the level of conservatism that I was alluding to. Ferdi, do you want to pick up the rest of it?

Ferdinand Vaandrager: Guillaume, that is correct. So first of all, moving to simplified approaches, when you submit, you normally take immediately the add-on as if the model would already be implemented. So that's one. So no more uncertainties after that from that, and that will be Q1. And as Robert said, at Q1, we will report a regulatory compliant Basel IV number. That's Q1.

And if we come back to the market with our assessment in August, that provides enough time to have the assessment and also go through the approval process for a share buyback. And maybe Serena, you want to say something about inclusion of other elements going forward?

Serena Fioravanti: Yeah. We constantly upgrade our models and review our models for new regulations to come. We do have programmes in place to address climate. And at this point, we don't see any material changes coming through that would be worthwhile mentioning, but we do embed all regulations ongoing. And that would be, if material implemented, as we just said, through add-ons.

Guillaume Tiberghien: Thank you.

Robert Swaak: And on your question on ESG, clearly it is a focal item from the regulator, and rightfully so to the extent that the climate change, the associated risks that we all, all societies are ultimately running in terms of climate change.

Are there any concrete right now headwinds that I could point to? No, not at this time, other than disclosure requirements that we have and the consistency that we use in the execution of our climate strategy. But I would – certainly might well develop. That's entirely unsure at this point.

Guillaume Tiberghien: Okay, thank you. Can I ask just a clarification or a follow-up on HAL? The cost base that we have to have in mind is around €250 million; is that correct?

Ferdinand Vaandrager: Can you repeat that?

Serena Fioravanti: The HAL cost base.

Ferdinand Vaandrager: The HAL, the total cost base. Well, the point we made there is, the total income. We've said that of HAL, Hauck Aufhäuser Lampe, if you look at the last reported numbers, well, €370 million. And we've also said that we expect €60 million pre-tax run rate cost synergies in year three. And that's at the time when we communicated that, that is roughly 22% of the cost base, €60 million.

Guillaume Tiberghien: Thank you.

Robert Swaak: Thank you.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Robert for closing remarks.

Robert Swaak: Okay. Well, thank you all for your questions. As always, look forward to catching up with you. And until next time, thank you.

[END OF TRANSCRIPT]