Q4 2022 analyst & investor call Transcript

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

Robert Swaak: Thank you. Good morning, everyone. Welcome to ABN AMRO's Q4 results. As always, I'm joined by Lars Kramer, our CFO, and Tanja Cuppen, our CRO.

I'll update you on the main topics for this quarter before we start the Q&A session. Let me summarise the main events on slide two.

Our fourth quarter net profit reflects strong interest income and another quarter of low impairments. Business momentum remained healthy for mortgages and corporate loans. Net interest income increased strongly, driven by improved deposit margins and good treasury results. Full year NII, excluding incidentals, ended at €5.5 billion, above guidance following two ECB rate hikes in the fourth quarter.

Our fees ended up 7% higher for the year as fee income on payment services rose while clearing had a good year. Other income took a hit from the unwinding of our TLTRO hedge. Costs continued on a downward trend around 2% lower on an underlying basis versus previous quarter.

However, for next year, we do expect costs to remain flat around €5.3 billion due to higher investments and higher inflation. Credit quality remained solid during 2022, with the cost of risk remaining well below the through the cycle levels. Given the uncertain outlook, we kept a number of prudent management overlays in place.

We are thus proposing a final dividend of €0.67 per share and, in addition, announced an unconditional share buyback of €500 million. This new share buyback supersedes the unused conditional share buyback of €250 million, and total shareholder remuneration for its 2022 is equivalent to €1.55 per share and reflects a yield of around 11% at the current share price.

So I'd like to talk a little bit about the achievements on our strategy execution. I'm turning therefore to slide three.

We had a good year attracting new business. We were a market leader in Dutch mortgages, and our entrepreneur and enterprise concept is now live in all countries. We successfully transitioned our retail business to a digital-first model with now only 27 branches remaining. We simplified our organisational structure and intend to appoint a Chief Operational Officer on the Board in due course.

The CB non-core wind-down is well underway as we fully closed our activities in a number of countries. We published our climate strategy and joined the Net-Zero Banking Alliance back in December. And clearly, our goal is to bring our portfolios in line so as to limit global warming to 1.5 degrees and support the transition to a net-zero economy by 2050.

With regards to capital return, we distributed 50% of our net profit and will distribute an additional €500 million through a share buyback. In coming year, we will continue to deliver on our strategic objectives, and our client units are focused on improving their service, and thereby, raising their net promoter score. We aim to further diversify our income sources by increasing our fee income and realising further growth in our focus segments.

We will finalise our remediation while increasing the efficiency of our AML processes. Cost discipline remains high on the agenda, given the pressure from higher inflation and additional investments.

So let me expand a bit on the transition of our Retail business. Over the years, we made significant investments – now this is turning to slide four – in mobile and remote channels, and our highly rated mobile app has extensive functionality. Clients can block cards, open new savings accounts, do stock trading, increase their mortgage, for example. The majority of our clients do most of their banking now through mobile and online channels. In addition, clients can easily get in touch with one of our professionals, either through customer care, video banking or financial care coaches.

Now customer care, many deals with daily banking topics while video banking connects clients with specialists for advice, for example, on mortgages. Clients rate video banking highly, and it has been a game changer in implementing our goal of convenience everywhere and expertise where it matters. Certain client groups who require extra care, for example, the elderly for whom we set up a special contact number, so any client who needs extra help can be teamed up with one of our financial care coaches, and we are expanding our capacity here as well.

Care coaches even visit clients at home, and we offer country-wide coverage. So the combination of our mobile app, contact centres, video banking and care coaches enables us to operate with only 27 branches. Now this clearly puts us at the forefront of transitioning a traditional bank to a digital-first bank.

So let's turn to the Dutch economy on slide five. Our economic bureau expects the Dutch economy to contract slightly in the coming quarter. Thereafter, a small growth is expected to resume, leading to 0.5% growth over the year. The economic impact of the energy crisis has so far been less severe than initially anticipated. And for the Eurozone economies, we expect a shallow recession, and therefore, the impact on external demand for Dutch goods should be limited.

Bankruptcies remain low from a historical perspective. It did rise somewhat during Q4. This trend is expected to continue given the phaseout of government support measures, higher energy prices and lower consumer spending. House prices are expected to decline by 6% this year and another 4% in 2024, driven by a combination of higher mortgage rates and lower disposable income.

Our current base view represents a modest impact to the economy. However, the risk of more severe scenarios materialising remains elevated while the war in Ukraine continues.

So turning to slide six on balance sheet developments. Over the year, we grew our mortgage portfolio by €4.4 billion, a good result. And even as we end at the slowdown of the housing market during Q4, we still managed to grow our mortgage portfolio further. We kept a good business momentum for corporate loans, and our loan portfolio grew by €1.9 billion during 2022. This growth also reflects the progress we made in gaining business in our Northwest European focus sectors: digital infrastructure, mobility and logistics and renewable energy.

Turning to deposits. We saw an increase of almost €3 billion during Q4, reflecting increased economic uncertainty, which led to higher savings.

Turning to NII then on slide seven. During the fourth quarter, our net interest income took a large step in normalising, now fully reflecting the positive rate environment. The size of these ECB rate hikes were higher than we anticipated, and this is reflected in our deposit margins and treasury results. We cleaned up our swap portfolio, mainly by unwinding offsetting positions but also using unwinds as an alternative to enter into new contracts. This boosted treasury NII by €35 million and should be excluded when determining a clean run rate.

While mortgage volumes increased, margins on new production and other inflow is lower than the margin on mortgages flowing out. This then very logically leads to a decrease in the overall portfolio margin during Q4. Looking ahead, interest on saving accounts will increase to 50 basis points on 1st March. Competitive forces will increasingly drive margins on savings accounts, limiting further upside. However, margins on the current accounts which receive 0% interest continued to benefit from higher interest rates.

From a treasury NII – for treasury NII, we expect a modest uplift in 2023 due to higher rates. At current mortgage margins, the portfolio margin will decline further, and given the weaker housing market pressure, our mortgage NII is expected to continue. The combination of all these drivers is net positive currently. However, it's not – it is difficult to predict how this will develop further out.

So let me discuss fees and other income on slide eight. Our 2022 fees increased by 7% as payment transaction volumes rose, including credit cards and we increased fees for payment services. Also, Clearing continued to show good results as market volatility remained high throughout last year. Other income in Q4 was negatively impacted by the change in TLTRO terms, which led to a loss of €319 million as we unwound our hedge.

Following the change in terms, we repaid €21 billion TLTRO instruments. So then to slide nine on costs. The decline in underlying costs continued during Q4 and was mainly driven by a reduction of external FTEs. Over the year, external FTEs decreased by 30%, largely in our AML unit. Our cost programmes delivered further savings, and in aggregate, around €340 million cost reductions have been achieved since we announced cost reduction programmes in 2020.

The new CLA entered into effect at the start of the fourth quarter, raising salaries by 4% or around €30 million for the quarter. This increase was offset by some staff-related provision releases. Taking these releases into

account, the decline in costs slowed down during the fourth quarter, and this will carry into 2023 as we expect costs to remain flat at €5.3 billion.

So allow me to elaborate a bit on this on the next slide. For this year, I expect to be non-core and AML-related costs to come down in line with our strategy. However, these cost savings will be largely offset by increasing investments. For example, we are building up our sustainable finance regulation capabilities. We're also investing in our data capabilities, for example, linked to risk models and further digitalisation of our processes. We also experienced some pressure on procurement costs as vendors are passing on the cost of higher energy prices and higher inflation.

So then turning to our 2024 cost target. As we stated before, a significant proportion of cost reductions are back-ended loaded, for example, the reduction in regulatory levies of around €200 million. We have some plan to bring our investment spend down by €100 million in 2024. We're working hard to reduce costs further. However, given the cost drivers I mentioned for '23, achieving our '24 target will be challenging.

Turning to slide 11 on impairments and asset quality. In Q4, we took €30 million – sorry, €32 million in impairments. For the full year, impairments were only €39 million, equivalent to a cost of risk of 3 basis points. We saw for the first time this year a more normalised inflow into Stage 3, mainly from individual client loans in our corporate book. However, impairments are still well below the through-the-cycle level of around 20 basis points.

We still have significant management overlays in place of around €330 million, mostly related to the war in Ukraine. And our non-performing loans decreased, further reflecting repayments write-offs and clients returning to Stage 2. Our Stage 3 coverage ratio declined as we wrote off a number of highly provisioned loans.

Now the good performance of the loan book is a reflection of our strong risk management, with focus on diversification and strict adherence to our risk appetite. So we feel we're well positioned for a potential economic downturn.

So then to capital on slide 12. We remain well capitalised, with a Basel III CET1 ratio of 15.2% and a Basel IV ratio of around 16%. These capital ratios include a €500 million capital deduction for the announced share buyback.

During the fourth quarter, we saw a reduction in RWAs. And the seasonal effect of reducing our balance sheet towards year-end was partly offset by methodology and policy changes. During 2022, we saw some Basel III model add-ons and moved some advanced models to foundation or standardised. However, we expect that the risk of further RWA increase has diminished going forward, and we should be moving closer to the finalisation of Basel IV this year.

So then let me wrap up with our financial targets. All client units – now this is on slide 13 – contributed to our good results, with an ROE of almost 9%. We are well into positive interest rate territory, and we're focused on

achieving our vision of 10% ROE. We managed to grow both our mortgage portfolio and corporate loan book over the year, and our top line showed strong recovery, reflecting higher interest rates.

We managed to keep costs flat despite inflationary pressure and higher investments than anticipated. And we announced our €500 million share buyback programme today. The share buyback is against a backdrop of regulators urging banks to be cautious in their capital distribution. And there remains a risk of severe downside scenarios given the war and higher energy prices. We continue to be in constructive dialogue with our regulator. And as the year unfolds, we will evaluate our room for distribution on an ongoing basis.

We decided to forego the option of the conditional share buyback of €250 million because maintaining the conditional buyback limits the room for capital distributions, and it leads to an ongoing deduction from capital.

Moving forward, we want to take the timing of distribution in our own hands, ensuring control over any subsequent share buybacks.

Now before I ask the operator to open the line for questions, let me also say thank you to Lars for his leadership and the hard work he has done for the bank. I, indeed, see him leaving as a regret and loss for the bank, though at the same time, I respect his choice. And of course, we'll wish him all the best. We still have a call to go, Lars. We remain committed on our strategy, and I'm confident that we will maintain continuity as we appoint a new CFO.

So with that, I'd like the operator to open the call for questions.

Questions and Answers

Operator: Thank you sir. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one. If you find that your question has been already answered, you may remove yourself from the queue by pressing star two. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, it is star one to ask a question. The first question comes from Raul Sinha from JP Morgan. Please go ahead.

Raul Sinha (JP Morgan): Hi. Good morning. Thanks very much for taking my questions. A couple from my side, please. Firstly, I just wanted to go back to NII. In Q4, you obviously had a very strong result. A couple of points related to that. Firstly, could we understand how much benefit you had from negative deposit pricing in Q4? I think there was a residual amount, a small one though.

And then secondly, I just wanted to get your thoughts on how sustainable you think the deposit margin will be in 2023, just given that we should start to expect customers to migrate away from zero-interest bearing accounts. So just some colour on the sustainability of that would be really helpful.

And then the second kind of broader question is around your cost target. I was wondering why you haven't updated your 2024 cost target, given you are flagging that it is going to be increasingly challenging. And if you could talk about what are the main unknowns as far as you're concerned for 2024 costs, that would be really helpful. Thank you.

Robert Swaak: Okay. Thanks, Raul. I'll ask Lars to take the questions on NII. And let me just say quickly on the cost target. No, we haven't updated the 2024, although we're flagging increased difficulty in attaining that level. And the reason why we haven't done so, we still see clear inroads into a '24, appreciate its back-ended cost levels around that €4.7 billion. This sits in the assessment around the savings we will continue to see from both AML – from an AML perspective, which is about €100 million in total.

We will continue to see regulatory levies come down, which also sit around a €200 million level. We see our non-core operations closing at pace, and we expect a further €100 million at the end of '24 effect. And also, what we anticipate is that we will bring forward investments now and therefore, potentially leading to a lesser investment towards the back end. So it's another €100 million that we anticipate.

So we're seeing clearly still the inroads into that €4.7 billion, though we have to say that circumstances certainly are changing given the fact that we have the inflationary pressure with us. And certainly, we are dealing with that as best as we can, but we will keep that target for now. And then on NII, Lars?

Lars Kramer: Yeah, Raul. In terms of any sort of residual benefit on negative, I think we switched finally to 0% on 1st October. So I don't expect there to be any sort of residual flow-through into the fourth quarter. We went up to positive 25 on the first of December. So if anything, there is maybe a quarterly normalisation to do for the extra two months of October, November, if you want to do a carry-forward in terms of additional interest

costs on that step up to 25 bps, which was only in for one month in the quarter. And then obviously, again, we stepped up the rates effective 1st March by another 25 basis points.

Raul Sinha: Thank you. I guess the question is really around how much assumption – how much do you think deposits will migrate? So far, are you seeing customers moving away? I guess this is probably too early to say because rates are still quite low in your savings accounts. But do you expect that there's going to be a large migration away from zero-interest-bearing next year?

Lars Kramer: Well, this year, in '23, I would say we're certainly not seeing it at the moment. I mean all the balances are pretty much staying quite consistent in terms of mix. We've seen some build-up over the last year in terms of time deposits. So there is a little bit of – I wouldn't even say migration. It's a – there's also some new inflow there.

Really, we haven't seen either the competitive behaviour in terms of the market space fighting for deposits causing any sort of disturbance in that. And also, in fact, when it comes to customers, we are still seeing – even in the last quarter, we're still seeing positive inflows. So this dynamic can change pretty quickly. At the moment, what's underlying the inflows, I would say is again, uncertainty as to where things are heading over the next six months to 12 months and people are again building up their deposit bases and their savings. And this was something we also witnessed during COVID.

Raul Sinha: Thank you. That's very helpful.

Robert Swaak: Thank you.

Operator: Thank you. Our next question comes from Farquhar Murray from Autonomous. Please go ahead.

Farquhar Murray (Autonomous): Good morning, all. Just two questions, if I may. Firstly, on capital return. I just wondered if you could help us understand the framing and the reasoning behind the buyback of €500 million and the CET1 landing zone of 15.2%. In fairness, obviously, the dividend was mechanically higher than we might have expected, but the CET1 ratio does seem a bit high versus peers. And you mentioned constructive dialogue with the regulator. Should we think of that as a base case update at 2Q results? Or could it actually possibly be sooner than that? And then secondly, just turning to the deposit side of things. Obviously, probably a fight on deposits is probably overdoing it. But if I do step back, it seems like you're shadowing Rabobank a little bit more on deposit rates than perhaps ING. I just wondered if you could outline the reasoning behind that approach. Thanks.

Robert Swaak: I'll take – yeah, let me take your first question on capital. I would say on your second question, we determine our own rates, and we determine our own increases when and if we see it fit. So that's – we're more into a – what you would expect a competitive environment on pricing.

In terms of the capital returns, just give me a bit more colour. Let me just start with the €250 million unconditional – sorry, conditional buyback that we switched back into unconditional. That clearly has to do with the fact that we wanted to, for one thing, be very, very clear about our buybacks, and having a €250

million conditional buyback in place actually limits us in further capital distributions because it is deducted from capital.

So that was the reason to remove the conditionality. We came to a total amount of €500 million for a number of reasons. We – as always, we set the €500 million against the backdrop both the environment in which we currently operate, the economic conditions that we see ahead of us but also the regulatory caution that you hear around banks taking a cautious view on share buybacks. Those are two reasons.

The other one that we clearly always do and whenever we determine share buybacks, look at our own capital plans. And then we determine the amount, and so we landed on the €500 million.

In terms of your question on could you expect more over the course of '23? We're very committed to a return of capital to shareholders. I think we said that at the outset. And we will continue to evaluate the potential for share buybacks. I would say let's get this one out of the way. That means that we will be busy around – say until around June. We will then assess again in that time frame what the economic conditions are, what the circumstances around which we operate, whilst at the same time, continuing indeed the constructive conversations with our regulator.

Farquhar Murray: Okay. Many thanks.

Robert Swaak: All right. Thank you.

Operator: And our next question comes from Robin van den Broek from Mediobanca. Please go ahead.

Robin van den Broek (Mediobanca): Yes. Good morning. Thank you for taking my questions. The first one is on NII. I'm just thinking back to your Q1 '22 update where I think you were basically implying that the dynamics on the liability margin side would basically hit historic margins when the ECB would go through roughly 50 basis points of policy rate, so 100 bps improvement at the time. I think now you're sort of alluding that margins are in line with historic levels, but it does seem that you have reaped a lot more benefits from the replicating portfolio in the meantime. So I was just wondering if you can maybe bridge those two guidance levels together.

Secondly, on costs. I appreciate what you said that there's uncertainty around getting to the €4.7 billion in 2024. But if you do hit 2024, it should imply probably another material downtick on costs in 2025 as your exit rate on costs in 2024 is likely to be materially lower at the beginning of the year. So I was just wondering, should we read your comments about a challenging environment maybe more in that the timing of hitting that €4.7 billion run rate might be more Q4 '24 rather than hitting it for the full year? Or should we indeed conclude that there is further downside on costs when we go towards 2025?

And maybe lastly on capital. I mean I think it's been quiet in local press around the Dutch state's – the states government – the state's willingness to do further sell-downs. But anything you've read that you can update us on? I think the last update was around this time last year where I think the Ministry of Finance said that they would ask the NLFI to study, and they reiterated the intention to sell down. But since then, I think it's been

very quiet. Maybe you have something that you've seen that I've missed, but an update there will be appreciated. Thank you.

Robert Swaak: Yeah, Robin. Let me – I'll take your last two questions, and Lars will take the question on NII and bridging the gap.

Just in terms of the timing on the €4.7 billion, I think it's hard to say whether that's actually back-end loaded toward 2024 or throughout 2024. We want to get into 2023, execute what we said we would and then see what it actually – how it actually lands over the course of 2024. I think that's the fairest answer I can give you. We will continue to target it. As we indicated, it's challenging, but we will continue to target this. But I find it difficult to tell you how – and spread over the year 2024, where it will land.

And then clearly, how we then land the – if we land at that €4.7 billion, that will tell us a bit more on how we land at the '24 level. So it will give you a bit more on what it actually means for '25. I think that's probably –

Robin van den Broek: But the better assumption is that you still see inroads basically to getting to, I don't know, a starting rate for 2024 that's sort of equal to the exit rate in 2024, thus no material downside for costs in 2025. Is that how we should read that answer?

Lars Kramer: So let me just flesh that out a little bit. I would say the €4.7 billion is the absolute target for the full year. And really in terms of then seeing potential further downside, that would, I would say, be quite optimistic. I think really getting to the €4.7 billion for the full year is already for us the stretch at the moment.

Robin van den Broek: Okay.

Robert Swaak: Just reiterating the discipline we have around cost. I think that's probably the best thing to read into this. Yes, and as to your question on the intentions of the NLFI, I think you're right there. I don't think there have been any other public statements. So the minister last time had indicated that she has requested the NLFI to review and to recommend a point of action for the shareholder. And that's as much information as we have at this point.

Lars Kramer: And just coming back to the NII. In terms of the sensitivity that I think you're referring to, yes, we put that sensitivity out, especially with the explanation that we were building in a historic margin, effectively a capital assumption there. And you're right, we have, by the end of this year, reached the historic margins a lot quicker than expected. I mean the rate rises did come through a lot faster than expected as well.

So on deposits, we're pretty much at historic margins in terms of – but that's not the only thing that's driving NII. So I think it's still fair to say that we also continue to see pressure, well, certainly on the consumer finance portfolio's margins. But more and more so also on the mortgage markets. And in the mortgage portfolio, we are seeing a pressure on the margin coming through a little bit, both on the front book as well as the back book running off.

The good thing, though, is that in terms of the mortgages, at least volumes for us are holding up. You can see we increased mortgage volumes in the last quarter as well. We – on a full year basis, we increased our market share on mortgages. And on other assets, certainly on the corporate side, we do expect these margins to be maintained, if not improve a little bit and volumes to hold up to see a little bit of growth.

Robin van den Broek: So sorry to come back on that. But I think with Q1 '22, I think your economic bureau forecasted policy rate to be up 100 basis points by the end of 2022. And I think in your guidance, you also said that you would be basically hitting historic margins on the deposit margin side for the end of 2022. And obviously, rates have gone a lot more beneficial for banks in the meantime. And yet you're still saying that you're only at historic margin now. So it sounds like something got better underneath, but I'm not sure where it's coming from.

Lars Kramer: Yes. Thank you – sorry. You can still hear me?

Robin van den Broek: Yes, I can hear you.

Lars Kramer: Yeah. Well, I mean, in terms of what we are seeing is we're pretty much now at the historic margins. So that's how we've played out for the year. And really what we're now trying to see is ultimately what are the flows going to do in terms of the various buckets of deposits as well as potentially on the asset side.

Robin van den Broek: All right. Thank you for the answers.

Robert Swaak: Okay.

Operator: Thank you. Our next question comes from Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux): Yes, good morning. So a couple of questions on my side. Coming back on this historical deposit margin level already reached, it's quite fair to assume that you will overshoot that level in the coming quarters. So I just wanted to check that with you. And also maybe more peaking a bit beyond 2023, 2024, 2025, is that still the best case to kind of think that in the current environment and also looking at current client behaviour, and trying to extrapolate that, that you will be back to a level of historical levels on margins? Or can you – can we hope for maybe a slightly higher deposit margin also in the longer run?

And linked to that, I looked at the corporate side, and Corporate Banking seems to also show very strong improvement in, well, deposit margins. Well, I will expect maybe the pass-through to be a bit more rational there. So do you expect maybe some pressure on the corporate NII in the coming quarter, a bit faster than we might get on the retail side?

The second question is on cost. And here, I wanted to check with you on the 2023, €5.3 billion. If you expect investment on the top, so we might end up maybe a bit higher than the €5.3 billion on the reported for 2023. I think you mentioned that you wanted to bring investment a bit upfront.

And then on the buyback, just to clarify, a very short one on that one. Was the removal of the €250 million conditional share buyback a condition to get the approval on the full €500 million or you could have kind of also pitched €750 million without any problems from your regulator?

And then for – maybe for the next CFO, I think it would be great to bring a bit more granularity on the NII. We got a lot of details in the past. Now we are back to very high level trends quarter-on-quarter. I think one of your peers, ING, is now reporting deposit NII and lending NII. I think that's a very good improvement for the reporting. So that's just for the next CFO. Thank you. And Lars, thank you for your time as well for those two years. Thank you very much.

Robert Swaak: Appreciate that last comment, Benoît. We'll take your suggestions on board. That's not only for the CFO. That's also for this – for all of us, including myself. Just let me take your questions on costs. The – we're anticipating the cost for '23 to land at €5.3 billion, and that's including the – any investments that we need to potentially bring forward. So I'd like to remove any ambiguity on that, if there's any.

In terms of the – your question on the €250 million, I think the most important element in the decisions around the €250 million was to remove the conditionality as discussed. Once we had determined that that's what we wanted to do, we then step back, and we then say, what is then the total share buyback that we feel – and we can execute? And that's with all the explanations I just gave on the previous answer. That's how we landed on the €500 million. So removing the conditionality was one and then determining the amount in its entirety.

And then maybe, Lars, any?

Lars Kramer: Yeah. On the NII, I mean in terms of potential for overshoot, clearly, yes, as we've now reached the historic margins, there is a potential for overshoot in the near term. But again, ultimately, we have to be a bit cautious as to how it plays out. I mean when we went from negative 50 to zero, we effectively did 100% pass-through. Yes, we've been able to slow down the pass-through over the last couple of increases.

But this is something where we take a real wait-and-see approach as to – is that overshoot going to be something we can structurally lock in for the long term? I think we're too early in the cycle to tell.

On the corporates – on the corporate side, again, at the moment, we're not seeing any pressure on the corporate side. Yes, it does tend to be less sticky and more sensitive, but it's actually remained pretty stable also on the way down when we were really bringing down rates. And at the moment, it's not, in any way, showing any difference in behaviour.

Benoît Pétrarque: Okay. Great. Thank you very much.

Robert Swaak: Thanks, Benoît.

Operator: And our next question comes from Benjamin Goy from Deutsche Bank. Please go ahead.

Benjamin Goy (Deutsche Bank): Yes. Hi, good morning. Two questions left. So first, I just wanted to bit better understand why you don't give a quantitative NII guidance this time. I mean you say essentially net positive tailwinds from here. So why is it not as easy as saying annualised it, and let's say, more than €6 billion NII. That's the starting point.

And then secondly, on fee income, can you give a bit more outlook from here? It seems like there is generally the – a more willingness to pay for service in Dutch banking. So wondering what it means for the fee outlook and the opportunities here aside from the cyclical tailwind or headwinds depending on the environment. Thank you very much.

Robert Swaak: Thanks for your question. On fees, I would say that given the increases in payment packages that we have been able to realise and keep in mind that is to ensure that our customers not only have fee payment increases but also have the value for the fee increases that we have. We feel that that's conducive to the overall kind of statements we've made around a 5% to 7% CAGR for fees, the outlook that we have for '24. And we will maintain that outlook, the 5% to 7% CAGR growth, on fees into '24. So that's just been very consistent on how we're looking at fees at this point.

To your point about not giving more quantitative guidance, I think what we're highlighting here in the various explanations we're giving on NII is that there's still a number of uncertainties. So whether it's the room that we have in the historical margins, the upside potentially on historical margins, the potential downside as we see margins compress over the next few months given the market dynamics is causing us to not lead in with a more quantitative guidance at this point.

Benjamin Goy: Okay. Fair enough. Maybe something for the remainder of the year. Thank you.

Robert Swaak: All right. Thank you.

Operator: And our next question comes from Amit Goel from Barclays. Please go ahead.

Amit Goel (Barclays): Hi. Thank you. Just actually some follow-ups on the NII. I guess you just commented, obviously, there's a range of outcomes, I guess, in terms of the trend into this year. But if I took the Q4 underlying run rate, maybe I'm just curious like what's the kind of range of outcomes in terms of could it be kind of plus/minus 5%?

And then secondly, as we go beyond into 2024, would you then still expect growth based on kind of structural hedge impact? So I appreciate, again, there's a range of outcomes, but – or are you thinking there's a bit more stability then to come? So those would be my follow-on questions. Thank you.

Lars Kramer: I don't really want to be drawn on giving ranges because then it's as good as us trying to pin down some sort of guidance. It's probably fair to say that the Q4 underlying is a reasonable reflection of where things are heading, especially if you take the view that historic margins are effectively leading. Of course,

there's the potential benefit of some overshoot. Will things improve going into 2024? I would expect that we actually get more into stabilisation mode. And ultimately, the market starts behaving more normally as well.

We've also worked through, over the last few years, very much on the non-core unwinding. So all of that also from a business model perspective, we get into more stability. There is, of course, still some benefits that we will get from our equity position. I mean that is always in terms of the €20 billion that we're sitting on there, which has roughly a duration of sort of one year to three years. So that is some upside, apart from any potential overshoot benefit that we may have in terms of pass-through that could still be factored in if you were going to try and come up with a range.

Benjamin Goy: Got it. Thank you.

Robert Swaak: Thank you.

Operator: Our next question comes from Flora Bocahut from Jefferies. Please go ahead.

Flora Bocahut (Jefferies): Yes. Good morning. The first question is actually on the cost of risk. I was looking at the slide five. And wanted to ask you what exactly has been driving the bankruptcies up, what sector in particular, what company size? And then also on the house prices, just to make sure we're on the same page, should I understand that you expect a 15% cumulative decrease in house prices over the next two years based on the chart that you showed there?

And the second question is on capital. You gave us a target for 13% Basel IV common equity Tier 1 ratio, but there is no date. You say it's for the long term. Should we expect that you plan to get there by 2025, and therefore, we should see excess capital being distributed in equal steps towards '25? Would that sound about right?

Robert Swaak: Tanja, do you want to take the –

Tanja Cuppen: Yeah. So shall I take the questions on cost of risk and the bankruptcies? And the chart in our presentation is, of course, the bankruptcies in the Netherlands, so not the bankruptcies of clients of the bank. And what we want to show there with this graph is that you see the bankruptcies are going up again to kind of normalised levels. And what we see there is actually – yes, well, the normal cycle of companies that, well, are not competitive enough basically, well, running to bankruptcy, and we see that actually across sectors.

So no specific trends there. Also, I would say nothing too concerned but more in a normal cycle that you would expect in an economy that is slowing down.

Flora Bocahut: Okay.

Tanja Cuppen: On house prices, it's actually in our Q report. You see our assumptions for house prices. And I think by memory, we expect, in our base scenario, a 7% reduction in house price over the coming three years. And then we have an assumption in our negative scenario of 30% reduction as well as a – well, a much more downside scenario. And you see in the presentation, page 20 of the presentation as well is the resilience

of our mortgage book to a drop in house prices. So there, we show that if house prices would drop with 20%, only 11% of the portfolio would be, yeah, what we call underwater with a loan-to-value above 100%. And in light of the very low unemployment, we are very comfortable with the quality of our mortgage book.

Robert Swaak: Okay. And maybe to your second question, if I understand it correctly, so we have a threshold that we communicated previously in Basel IV, 15% for share buybacks. Right now, what we're seeing is a Basel IV CET-1 ratio of around 16%. So in terms of the share buybacks that we are considering now or that we've just announced, we do not see a constraint. And certainly, if we come closer to Basel IV, 15% being constraining, we would then consider the situation at that time. But for now, given the share buyback that we just announced and the thresholds that we have in place in our capital framework, we do not find that constraining. But as I said before in other calls, if it does become constraining, then clearly, we would have to evaluate.

Flora Bocahut: If I may just follow up on that latter comment. The question was more regarding the pace at which you expect to get to up the target. Like, do you intend to stay much above that 13% Basel IV target still for a long time? Or should we expect that towards '25, you'll get there, basically?

Lars Kramer: Look, I would say in terms of pace, the pace is very much dictated with the situation at any point in time. And I mean, really, we're now at the point, let's get this €500 million off the shelf, and then we will continue to see where we are as a company on a quarterly basis. And where the world is in terms of macro on a quarterly basis. And ultimately, we always have to go into discussions with the regulator on this as well.

So to try and give that long-term glidepath when we are really looking at things on a quarterly basis, I think that's not something we can pin down. That's why we have – in terms of the long-term target, it remains 13%, but to pin a date on it is just too difficult with the volatility that we have in the environment.

Flora Bocahut: Okay. Thank you.

Operator: Thank you. Our next question comes from Andreas Scheriau from Goldman Sachs. Please go ahead.

Andreas Scheriau (Goldman Sachs): Thank you very much for taking my questions. Can I come back to slide seven and NII, please, the treasury results, in particular, where the improvement was €85 million quarter-on-quarter? If I understood you correctly, we should only strip out the €34 million to get to a clean run rate and the other €50 million should stay, if not increase as the equity hedge rose. Is that – was that the right way to think about this?

And then more generally, could you talk us through the most important components in the treasury NII line, please, and its drivers? I mean the equity hedge is one of this, but what about the rest? And is the rest, in any way, correlated to rates?

And then on the lending margin side, you talked about pressure from mortgages but also potential uplift from the corporate side. On a net basis, could you provide any sort of steer at the quantum that we're looking at for 2023? That would be my two questions. Thank you very much.

Robert Swaak: I think it's difficult on your second question to provide any steer. We do see mortgage margins to be under pressure, and we do expect the corporate margins to remain stable, but it's very hard to see – to give you a net-net effect on '23, just given the uncertainty that we have around the market at this time. Lars, in terms of more underlying details in treasury and NII?

Lars Kramer: Yes. So in terms of the €35 million, that is correct. That needs to come out of the €85 million. In terms of the repeat position, again, you have quite a few drivers underlying there. You've got an investment portfolio. You've got hedges on fair value and on that liquidity position. So here again – and we've got the equity running through there. So those are the ones. And really, it's the equity that is the most sensitive in terms of sort of open-ended price movements.

Andreas Scheriau: Okay.

Lars Kramer: And then I would say on the corporate margins or giving a steer on the overall margin, I mean, this is again – because you made the comment earlier – I think it was Benoît about giving more insights into margins. I think you should bear in mind as well, maybe us relative to other banks because we are so significantly concentrated here in the Netherlands, for us to start disclosing margins, it's a lot more revealing than other banks that have a much broader sort of footprint of activities. So I think that's another reason we are also a bit careful.

Andreas Scheriau: Understood. Thank you very much.

Robert Swaak: Thank you.

Operator: And our next question comes from Anke Reingen from RBC. Please go ahead.

Anke Reingen (RBC): Yeah. Thank you very much for taking my questions. Just following up on this, the fact that Basel IV ratio is above the Basel III ratio. And you actually gave us more deal on Basel III rather than on the Basel IV ratio. Is it – is there a risk that potentially the Basel III ratio becomes your driving factor for capital distribution until we are in a full Basel IV world? And how should we think about it? Is that basically Basel III will move towards the Basel IV ratio over time on 2025?

And then just on the cost of risk, I guess, there's a lot of uncertainty, but is it fair to assume like first half potentially? Or is your assumption first half loan losses remain low and then potentially pick up second half in the year, so we could end up at the normalised level for 2023? Thank you very much.

Robert Swaak: A few questions. Tanja?

Tanja Cuppen: Yes, on Basel IV versus Basel III. Indeed, the Basel IV level is above our Basel III level at the moment. And it's – we don't provide the detailed number yet because also the regulation is not fully final, so

it's a rounded up number that you see in the presentation. I think I shared before that the main factor there is – or one of the main factors for differences – there are several differences between Basel IV and Basel III is the application of floors for large corporates, which is higher on the Basel III than on the Basel IV.

So that explains some of the difference that then explains as well that once Basel IV will come into force, and we still expect that for 1st January 2025 that that Basel IV will be the leading driver in – well, everything we do, including capital planning. But until that moment, we will live in a Basel III world. I hope that answers you – yes?

Anke Reingen: But your capital distribution is based Basel IV and not Basel III, right?

Tanja Cuppen: Yeah. So our capital distribution – the threshold that we have communicated is based on Basel IV.

Anke Reingen: Okay. And there's no risk that because you just said you're living in a Basel III world until 2025. But just to confirm, your distributions are based on Basel III until – on Basel IV before '25?

Tanja Cuppen: The threshold that we have communicated is based on Basel IV, and the threshold is also not constraining at this point in time.

Anke Reingen: Okay.

Tanja Cuppen: And maybe then on your question on cost of risk. So yes, we normally don't guide on cost of risk, but I think your assumption that the first half of the year will show lower loan losses than the second half. I think that is something which you would normally see in a cycle. So we see a deterioration of the economy, and it always takes some time to trickle through into, well, the loan book and loan loss provisioning. So yes, I do expect a gradual increase of loan loss provisions throughout the year.

Anke Reingen: Thank you.

Operator: As a reminder, to ask a question, please signal by pressing star one. Our next question comes from Marta Sánchez Romero from Citi. Please go ahead.

Marta Sánchez Romero (Citi): Thank you very much. Good morning. I just have a very quick one on mortgages. Thank you so much for the outlook on activity that you've given us on slide five. I just wanted to know what kind of market share do you plan to achieve over the next couple of years.

Robert Swaak: Yeah. We've – when we set out our strategy for mortgages, we're looking to get – I think our longer-term targets are the 20% on production. And that kind of ensures that we maintain a competitive market share, given the fluctuations in volumes that we see. So it's good to see over the last quarter that even though volumes – and we expect volumes overall to come down, we still took 17% of new production. So we're targeting, in terms of our longer-term rates, 20% production market share. That answered your question?

Marta Sánchez Romero: Yes, thank you. Thank you so much.

Operator: Thank you. And as a final reminder, to ask a question, please signal by pressing star one. We will pause for just a moment to allow you to signal. As there are no further questions in the queue, I would like to hand the call back over to Robert Swaak for any additional or closing remarks. Over to you, sir.

Robert Swaak: Right. Thank you. Well, thanks, everyone. Clearly, this concludes our analyst call. Again, thank you for all your questions, and I really look forward to catching up with all of you soon. For now, see you later.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]