ABN AMRO Q1 2023 Results Transcript

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Participants: Robert Swaak (CEO); Ferdinand Vaandrager (CFO a.i.); Tanja Cuppen (CRO);

Operator: Hello, and welcome to the ABN AMRO Q1 2023 Analyst and Investor Call. My name is Laura, and I will be your coordinator for today's event. Please note, this call is being recorded. And for the duration of the call, your lines will be on listen only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Robert Swaak, Chief Executive Officer of ABN AMRO, to begin today's conference. Thank you.

Robert Swaak: Thank you, and good morning, everyone. Welcome to ABN AMRO's Q1 results. Today, I'm joined by Ferdinand Vaandrager, our Interim CFO, Tanja Cuppen, our CRO. I'll update you on the main topics for this quarter before we start the Q&A session. So let me first take you through the highlights on slide two.

We had a very good start to the year with a net profit of €523 million and an ROE of almost 10%. Dutch economy remained resilient and business momentum was good for corporate lending. Net interest income further increased, which was largely driven by improved deposit margins. Fees are resilient and underlying costs continued the downward trend.

Our credit quality remains solid. Impairments were low, while we kept prudent buffers in place. And I am indeed pleased, we finalised our second share buyback in the beginning of April. In the first quarter, we saw turmoil in the financial markets in addition to the already existing macroeconomic challenges. However, banks in the Eurozone turned out to be resilient, supported by high capital buffers and conservative liquidity management.

So first, turning to slide three. Let me say a few words on the progress we're making on the execution of our strategy. We are a personal bank in a digital age. We've continued the three strategic pillars: customer experience, sustainability and future-proof bank. These pillars still serve as our guiding principles. Recent developments confirm our strategic choices as we continue to benefit from our improved risk profile.

Upon publication of our climate strategy, we've indicated that we will allocate a total of up to €1 billion in early-stage capital to accelerate the transition to a decarbonised energy economy by 2030. In the past few months, our Sustainability Impact Fund has announced several investments, including an acquisition in a provider of battery systems.

With the plans of the European Payments Initiative platform to join forces with iDEAL and Payconiq, we are pleased to become part of an ambitious initiative to build a uniform European payment infrastructure. Partnering with other large European banks will also enable us to keep innovating for our clients.

Recently, we won the WealthBriefing European Award 2023 for Best Overall European Private Bank for being a "distinctive client-focused bank that recognises the importance of client relationships and our purposeful role in society." This is what our strategy is about, and I'm very pleased with this recognition.

So let's turn back to the Dutch economy on slide four. The Dutch economy so far has remained resilient. Our Group economics team expects the Dutch economy to grow by 1.2 percentage points this year. To-date, the economic impact of the energy crisis has been less severe than we expected. Consumer confidence has improved slightly while growth in consumer spending is decreasing.

Meanwhile, the Dutch Purchasing Manufacturing Index continues to decrease, indicating that business conditions are deteriorating. Bankruptcies did rise somewhat in the last quarters, but remained low from a historical perspective. Now this is expected to continue given the phase out of government support measures, elevated energy prices and slowdown in consumer spending.

House prices are expected by our Group economics team to decline by 6% this year and another 4% in 2024, driven by higher mortgage rates, waning interest from private investors and lower disposable income.

So overall, the Dutch economy has remained resilient. However, we do see some deterioration of certain indicators causing the economy to cool down. So let me give you some insight on our deposit base.

Let me start with the developments in our deposit base over the previous quarters. Now this is on slide five - as shown on the top left side of slide five. Total deposits increased, mainly reflecting higher seasonal professional deposits. Underlying, we saw a shift from the current accounts to time and professional deposits. This development is a direct result of higher coupons on demand and time deposits and clients optimising their cash position.

Looking at the composition of our client deposit base on the bottom of the slide, it is highly diversified and over 40% is covered by deposit guarantee schemes. Wealth clients generally hold more cash than covered by deposit guarantee schemes, but still around 20% of these deposits are covered.

The largest pocket of deposit sits with our around five million personal and business banking clients with demand deposits being the main product. Here, 72% is covered by the Dutch deposit guarantee scheme. Our Wealth Management clients tend to be more focused on optimising their cash position, around 26% of volumes are currently in time deposits.

And then finally, our corporate clients in total hold around €40 billion in deposits. And this is generally used as working capitals on current accounts and hence, we see less volume in savings type products here. Overall, our deposit is highly diversified and a significant part of deposits are covered by deposit guarantee schemes.

Let's turn to slide six on balance sheet development.

Pleased that we continued to see good business momentum in our corporate loan book. Corporate loans increased by €0.7 billion in the last quarter. This reflects the progress we made in gaining business in our Northwest European focus sectors: digital, mobility, and new energy.

We made good progress on the CB non-core wind-down, which is now largely completed. Our mortgage portfolio was stable around 155 - sorry, €151 billion, reflecting limited inflow due to fewer housing transactions and strong competition, but also limited outflow.

So let's now look at the first quarter results in more detail, starting with the net interest income on slide seven.

During the first quarter, we saw similar dynamics in NII as in Q4 last year, with a further improvement in deposit margins. The increase in treasury result was also broadly in line with Q4 if you exclude the effect of the swap unwinds we flagged in the previous quarter.

With regards to deposits, margins on current accounts continued to benefit from the higher interest rate environment. However, this is partly offset by client switching from current accounts to savings and time deposits, which have lower margins. Competitive forces are driving the margins on the savings accounts. We have increased the rate by another 25 bps from 1st May after an earlier increase of 25 bps in the beginning of March.

Pressure on mortgage NII is expected to continue, given the weaker housing market and strong competition. We expect treasury NII to show a modest uplift in 2023 due to current rates. The combination of all these drivers is currently net positive, but how this will develop further out is hard to predict.

Let's turn to fees and other income on slide eight. Compared to last quarter, fees are flat. Fee income did increase in Wealth Management from positive stock market performance. In addition, we saw net new assets of about €0.4 billion. At Personal & Business Banking, the slowdown in the housing market and a decline in the payments transaction volume resulted in somewhat lower fees. Other income is always volatile when compared to Q4, mainly the results at Treasury were lower this quarter.

So turning to slide nine on costs. The decline in underlying costs continued during Q1 and was mainly driven by a reduction of external FTEs. Our cost programmes delivered further savings and, in aggregate, around €370 million cost reductions have been achieved since 2020. Full year costs are expected at around €5.3 billion as investments will be higher in the remainder of the year.

Also, staff costs will be higher in the second half of the year as the CLA increase of 2.5% kicks in, in the beginning of July. We will continue to work hard to reduce costs further. However, given the higher inflation and higher investments, it will be challenging to achieve our 2024 target.

Slide 10 now on impairments and asset quality. Credit quality further improved in the last quarter. Impairments were around - were €14 million in Q1, resulting in a cost of risk of 4 basis points. We saw net inflow into Stage

3, mainly from new and existing client loans in our corporate loan book. The prudent management overlays, largely related to uncertainties for the war in Ukraine, remain in place. And the impaired ratio continued the downward trend as our non-performing loans decreased further. The decline in the Stage 3 coverage ratio is largely due to the impact of the introduction of IFRS 17 on consumer loans.

So the good performance of the loan book reflects our strong risk management, good diversification and strict adherence to our risk appetite. So we feel we're well positioned in case we encounter an economic downturn.

Now turning to capital and liquidity. We remain well capitalised with a Basel III CET1 ratio of 15% and Basel IV ratio of around 16%. Basel III CET1 ratio declined slightly, reflecting the increase in RWAs and a deduction from capital due to the first-time adoption of IFRS 17. The RWA increase is related to business developments, mainly growth in clearing and an adjustment to the application of the SME support factor and modelled updates. Our models are reviewed on an ongoing basis, and this can lead to model updates and/or add-ons.

Our liquidity position remains strong with all ratios well above the regulatory requirements, and we continue to have a large liquidity buffer in place, which is fully hedged against the interest rate risk. The recent turmoil in the financial markets did not impact our liquidity position.

So let me wrap up with our financial targets. All client units contributed to our very good result of an ROE of 9.6%, in line with our ambition of a 10% ROE by 2024. The recovery of our top line continued reflecting higher interest rates. Costs are under control with underlying costs declining further. We benefit from a solid risk profile in a resilient Dutch economy. The quarter's cost of risk of 4 basis points is well below through the cycle level, and our capital ratios remain strong. And we recently finalised our second share buyback meprogram amounting to €500 million.

With that, I'd like to ask the operator to open the call for questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll take our first question from Farquhar Murray at Autonomous. Your line is open. Please go ahead.

Farquhar Murray (Autonomous): Good morning, all. Just two questions from me. Firstly, on the deposit details on slide 5, that's really helpful and actually many thanks for that. It does show a decline in the current account balances, presumably into time deposits. Can you just confirm that the bulk - vast bulk of that actually occurred within the Wealth Management business and not Personal? And actually, would you have the comparable for 4Q for the 26% figure on slide five in terms of time deposits in the wealth business?

And then secondly, just with regards to the capital update to come at 2Q results. Could you possibly just confirm where we are in terms of the discussions with the regulator around that? And in terms of approach and philosophy, could you just confirm the 15% threshold for buybacks related to the 16% Basel IV figure? And might you actually possibly update us around targets and thresholds at 2Q or is it too early? Thanks.

Robert Swaak: Yeah. Let me take the second question, and I'll ask Ferdinand to take the first. Yes, it is too early to talk about any updates. We would still confirm the thresholds that we're using, the 15% and the 16% current Basel IV CET1 ratio, around the 16% that we're showing now. But to your question, that would be too early to talk about any further updates at this point.

Ferdinand Vaandrager: Yes. Hi Farquhar. In more detail, we don't provide exactly the detail on a quarter by quarter basis. But as you see, overall, you see on the client deposits, you see a decline of €3.7 billion. And there, you do see a shift out of current accounts of €10 billion into time deposits of €7 billion. And next to that, you see an increase of just over €10 billion in the professional deposits. And the professional deposits is mainly a seasonal recovery because for some parts of the business, like clearing in the fourth quarter will always steer the business down and you also see some inflow from client deposits. And those inflows in professional deposits, you're right, it's mainly coming from the corporate banking side that flow to money market time deposits.

And then if you look in the other time deposits on the clients, that's mainly wealth management shifting from current accounts into short-term time deposits. So those are the underlying drivers there. And also keep in mind that normally, you do see in the first quarter or you can see, but that might also be in the month of April, that due to tax payment reasons, you might see some of a seasonal outflow out of deposits as well.

Farquhar Murray: Okay. Many thanks.

Robert Swaak: All right. Thank you.

Operator: Thank you. We'll now take our next question from Andreas Scheriau at Goldman Sachs. Your line is open. Please go ahead.

Andreas Scheriau (Goldman Sachs): Hello. Thank you very much for taking my questions. So following up on the – on Farquhar's NII questions. Has there been any change to the size of your retail replicating portfolio over the last few quarters? And looking ahead, are you planning any changes over the next several quarters? I think that somewhat relates to that mix shift that you might be seeing.

And then on your comments on the treasury result. So I think last quarter, you had an uptick - a clean uptick of around €50 million. Is that roughly then what we saw in addition, basically, you saw a tailwind of €50 million this quarter? And if so, was that - am I reading this correctly, your introductory comments? And would you be able to comment on how much - what headwind you have seen from the asset margin side? Thank you very much.

Robert Swaak: Thanks, Andreas. Ferdi, do you want to?

Ferdinand Vaandrager: Yes, sure. Morning, Andreas. Yes, I am aware that in the previous quarter, we provided more detail on those three elements, as you mentioned, and clearly had a rise of €116 million quarter-over-quarter. It's mainly driven by improved deposit margins, but clearly also increase in treasury results.

And to give you some indication, I think the delta is broadly in line with the increase we saw in Q4. But then you need to adjust that as we disclosed as well as Q4, that it was roughly €35 million significant positive effect from the effect of the swap unwinds. So if you would look at that, it should be - you can sort of rationalise that to around €50 million.

Then more specifically, asset margin pressure, maybe a bit of volume. I think specifically on mortgages, we said that previously as well, there is fierce competition. The market is clearly lower, declining. If you look at new production, for example, for ABN, it was €2.9 billion, that was almost 30% down versus Q4. And also, if you look at the more general land registrations in the Netherlands, the number of transactions were down 21% quarter-on-quarter. So it's a smaller market, and the same competitors are there as we did have in the roughly 20 years segment.

So mortgages, you still see that the inflow of new production is below the outflow, but the positive thing is that also on the outflow redemptions, they were fairly limited around €3.1 billion, mainly because refinancing is unattractive and you also see people taking along their mortgage when they move home. So that's also limited then on the overall book.

If you then go to corporate loans, there you see the margins relatively stable, also helped by a few refinancings of TLTRO shorter driven facilities towards our corporate clients.

And the last element there is consumer margins, but that's something we reiterate every quarter that it is impacted by the industry-wide shift to lower risk products and also cap on the maximum client interest, which is set by the regulator, which is 12%.

Andreas Scheriau: Thank you. And just briefly on the size of your - of the replicating portfolio that of the retail one, has that changed over the last few quarters? And do you expect it to change?

Ferdinand Vaandrager: No, it's not something we specifically disclose on. We've earlier said what the size was, around €185 billion. And also, we said in earlier quarters that the duration average was around three years but also that the big part is below one year. So has it structurally changed? No. Do you see some migration out of your current accounts? Yes. But it has not changed significantly versus previous quarter.

Andreas Scheriau: Okay. Thank you very much.

Robert Swaak: Thank you.

Operator: Thank you. We'll now take our next question from Benoît Pétrarque at Kepler Cheuvreux. Your line is open. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux): Yes. Good morning, gentlemen. So the first one is on net interest income, which was very strong in Q1. What is your read on such a level? Do you think this is a sustainable run rate? And I think in February, you said that the deposit margin was running at historical level, that you were likely to overshoot in the short term. So I guess now you are overshooting. What is your view on deposit margin going forward? Just to give us a bit more feeling about the direction going forward. The second question is, let's say, on capital and on distribution. I wanted to – because last year, you updated us on capital with the €250 million conditional buyback in the second quarter. So can we expect an update in the second quarter, so in August, on capital?

And also maybe on M&A, I think there are a couple of files coming to the market, actually, both in the Netherlands and Belgium. So are you still keen to look into potential M&A? And could that maybe be a reason for, well, keeping a bit more capital in the bank for the rest of the year? Thank you.

Robert Swaak: Yeah. Thanks, Benoit. I'll take those three questions. In terms of outlook on NII and on margins, what we said is that, and as Ferdi just also indicated, it is very difficult to predict where we're going to end up at the end of the year. What we are seeing, you're right, we did guide towards historical margins at the beginning of - or at the end of last year, I should say. I think you could safely conclude that we're above those margins. The question is, when will that begin to taper off?

Clearly, we need to – we'll be taking into consideration the dynamics on the deposit base that we've just alluded to. Customer behaviour in this quarter has been fairly predictable as our customers are rebalancing their different balances across the different accounts.

And then, of course, there's the competitive side to this, which we indicated that if you've got such a significant share of the deposits being held by the major banks in the Netherlands, clearly, the competitive pressure that we have with the competitive monitoring that we do will also be determinate.

So I think those factors make it very hard to predict where NII is going to end up for this year. I would signal, as I said, we are above historical margins. And at some point, that should begin to come down.

Benoît Pétrarque: Just maybe moving to capital - sorry, on competitive pressure on deposits, do you see something happening? Do you see a bit more competition? Or is that still like similar to February?

Robert Swaak: Yes. It's actually very consistent, where you see smaller banks and international banks in the Netherlands moving at rates that are not unexpected in terms of the shifts that we're seeing from the major banks. That is - we're a fast follower. So we'll take a look at what the others are doing before we make our final calls. So far what we've seen is not entirely unexpected. But maybe, Ferdi?

Ferdinand Vaandrager: Yeah. Maybe, Benoît, you read the Dutch newspapers as well. You have some of the challenger banks like bunq Bank or Openbank, which is from Santander. They're offering already 2%. And if you look at LeasePlan Bank, 1.5%, NIBC, 1%. So despite these very competitive rates in the market, we do not see yet the effect of migration of saving deposits outside the bank.

But as Robert said already, it's very difficult to predict at what level clients might become more price sensitive. But for now, the challenges are there, the competitive rates are there, but we don't see the effect in migrations.

Robert Swaak: Thanks, Ferdinand. And Benoit, in terms of your question on the updates and M&A. As I said, we just completed the second round of share buyback. So - and we're still in Q1. So at this point, I do think it is too early to talk about new share buybacks.

And in terms of your last question on M&A, our point of view hasn't changed. That has been the same every single quarter we've talked about M&A. So we continue to look at potential deal flow. We'll continue to look in the direction that we've always indicated, which basically goes as far as to say, any M&A is strategically accretive, then we would be interested in reviewing.

But we're also very well aware that there is a – it's not about just strategic accretiveness, it's also very much about the comparative ROEs that we have on share buybacks that we take into consideration. All of that factors into our ongoing monitoring of M&A.

Benoît Pétrarque: Great. Thank you very much.

Operator: Thank you. We'll now move on to our next question from Jon Peace at Credit Suisse. Your line is open. Please go ahead.

Jon Peace (Credit Suisse): Thanks. Good morning, everybody. So my first question is on costs, please. I mean I guess the message about the target next year being challenging is one that you've had before. And I think since you first gave that €4.7 billion target, the CLA probably adds about €120 million on to it. But if I look at consensus, it's about 10% higher than your guidance next year. So I'm just wondering how challenging is it? Should we be thinking of adjusting the €4.7 billion by the €120 million? Or could you really come in above €5 billion like consensus is suggesting?

And my second question, please, about the cost of risk. Just as you're sort of seeing trends go into the second quarter, could we again possibly see a cost of risk, which is closer to the first quarter level than through the cycle rate if Stage 3 is still staying very, very low? Thank you.

Robert Swaak: I'll let Tanja to take on the second question. I'll take the first.

Tanja Cuppen: Yeah. So on cost of risk, yes, it's very hard to give some guidance on cost of risk for the quarter because inherently, by individual files there can be some fluctuation. So I'm not going to talk about Q2. But what I can say for the full year is that I do expect that we will end up within the cost of risk guidance of 20 basis points, provided that we will not get a recession, and that's currently our baseline scenario as well. So that's what I can say.

And so, well, you can make your own assessment, I think for Q2. I think so far, the economy in the Netherlands and also in the rest of Northwest Europe is resilient and that, of course, translates into the performance of our credit book, which I would say, in any case, is performing very well given the – well, the strict risk appetite that we have applied to our credit underwriting.

Robert Swaak: Thanks, Tanja. And in terms of your question on cost, yes, I'm well aware that consensus sits above the €4.7 billion. Indeed, we did signal the €4.7 billion will be harder to attain if only you take into consideration the CLA that we've happily just concluded off, giving us at least certainty on that part of the spectrum. But we'll continue to focus on cost discipline. I think that's the essence.

The target dates back from 2020 as we talked about before. So yes, new conditions now prevail in the circumstances that we're in.

To your question as to is it €4.7 billion? Is it higher than the €4.7 billion? With €120 million CLA consequences already coming into that '24 cost base, we're still looking at a number of levers that we will continue to execute against, that we've highlighted at the end of '22, which will also be relevant at '23.

So before I go on with those levers, I also think it's important to note that even though we have a current run rate, which we're quite happy on in Q1, we're still emphasising we'll end up at around €5.3 billion and then you get to the levers that we continue to target. One clearly sits around the non-core wind-down, which you can see, even as we've disclosed, is still proceeding at pace. We still expect to see about €100 million cost savings coming in from the wind-down.

There's still some movement around reg levies that we would expect to see coming through in '24. We will continue to monitor the effectiveness of our AML costs. So we expect to see some of that cost base coming down. So all of that will give us still pathways into at around that €4.7 billion. So at this point, we're maintaining – keep in mind, it is a target. But to your point, it's not – the quality of that target was certainly not the same as back in 2020. But the cost discipline is what we focus on.

Jon Peace: Great. Thank you.

Operator: Thank you. We'll move on to our next question from Flora Bocahut at Jefferies. Your line is open. Please go ahead.

Flora Bocahut (Jefferies): Yes, thank you. I have really one key question left, which is around the RWA growth this quarter, which you have explained well in the slide. But just thinking forward here, how much should we expect in terms of RWA move, considering also the volume growth on the loan side, but then obviously, also the regulatory impact and model changes, please? Thank you.

Robert Swaak: Tanja?

Tanja Cuppen: Yes. So as you are aware, we expect RWA continue to grow during the year as well for - to support business growth and maybe, to some extent as well, has some impact of the - well, the economy and some deterioration in credit risk profile. And also, as you mentioned, there will be ongoing model reviews and model updates that will add to RWA as well in the coming period. I cannot size this at this moment, given that we are going through these exercises.

Flora Bocahut: And if I can just follow up on this. The model reviews, they don't impact the Basel IV RWA, right?

Tanja Cuppen: Well, they do, to some extent, but to a much lesser extent, because the Basel IV has several floors included and therefore less sensitive to changes in models. But there's still - it's still model based. So there are still inputs through models, but the impact is much lower.

Flora Bocahut: Okay. Thank you.

Robert Swaak: Thank you.

Operator: Thank you. We'll take our next question from Benjamin Goy at Deutsche Bank. Your line is open. Please go ahead.

Benjamin Goy (Deutsche Bank): Hi, good morning. One question left, and that's on your mortgage market share. I think it's below your back book market share. So I think it makes sense given the competition size, but why is it even lower and why you don't shift it either to the corporate book or to shareholders Y-o-Y higher pay-out. Maybe the returns you generate still with these lower mortgage margins, would be interesting to know in that context. Thank you.

Robert Swaak: Yes. It's - so it's really two questions in one, I understand the question. At this point, our market share, we're targeting a certain amount of market share every single quarter. And what we saw in the market share in new production in Q4 continue to be - it is down from Q4, but it's still at a healthy 15% in an overall market that has been shifting down as Ferdinand indicated previously.

We do look to maintain a healthy presence in the mortgage market. We have a significant part of our book in the mortgage market. And we're acting in very different segments of the mortgage market as well. So it's not a one-size decision to shift margin development more in the corporate book. It's more – it will be the continued emphasis on the corporate book, where we see good margin development in this environment and also being very mindful of how we develop our market share in the mortgage book. That means that we're not going to sacrifice profitability at all cost for market share, but we do maintain a very strategic outlook on how we want to maintain market share in these economic conditions.

Benjamin Goy: It makes more sense, but you wouldn't disclose your returns to generate at these margins?

Ferdinand Vaandrager: No, Benjamin, the only thing we said is that the margin of inflow is below outflow in general. But that does not say that the margin on new production is below your back book, right? And we've explained in previous quarter at those moments when you're in a very fast rising environment, very often the margins, once the market is closed, might often be lower, right? And we are really sort of sticking to steer margin as well. So not winning market share at any price, hence, also reflected in a little bit lower market share than the previous quarter.

But once you come in an environment where interest rates are more stable or you're going to see months, where interest rates are actually coming down, then you see fairly quickly an expanding margin on your new production. So there are several different levers, but it doesn't say that if the inflow is still below outflow that it would be unprofitable or below our target so we should shift our capital allocation out of market share. That's clearly not the case.

Benjamin Goy: Understood. Thank you.

Robert Swaak: Thanks.

Operator: Thank you. If you find that your question has been answered, you may remove yourself from the queue by pressing star two. We'll now move on to our next question from Giulia Aurora at Morgan Stanley. Your line is open. Please go ahead.

Giulia Aurora (Morgan Stanley): This is Giulia Aurora from Morgan Stanley. Thank you for taking my question. First question on the asset quality. So if we look at the Netherlands, this country saw one of the fastest house price appreciation in Europe in the last few years. And you mentioned in the presentation that you now expect the house prices to drop by 6% this year and 4% next year. Dutch households are also amongst the most levered in Europe. What could be the implications for the asset quality in the case if house prices decline will be higher than expected?

And my second question on fee income. You previously stated that you are looking to grow fees by 5% to 7% target growth rate. Does this target still stays? And could you talk about your key ambitions here and where you expect the growth to come from? Thank you.

Robert Swaak: Yeah. On the – Tanja, do you want to take the question on housing? I think that's the LTV and unemployment.

Tanja Cuppen: Yeah. So I can take the question on asset quality of our mortgage book because that's very much related to the house prices. And well, we have, in the appendix also, a slide on the leverage, the loan to value of our book. You see that only 3% has a loan to value of above 100% and only 12% would be above the 100% if house prices would drop by 20%. And so the expectation is 10%. But if it would go down by 20%, the house prices, that would be 12% of the mortgages that would have a loan to value of over 100%.

And loan to value is, of course, one of the components, but I would say more important is, well, the income side of households and that very much relates to unemployment. And as you are aware, in the Netherlands, unemployment is very low. And although we do expect that it will go up a little bit, it will still be at historic low levels, and that's why we are very comfortable as well with the quality of our mortgage book.

Robert Swaak: Thank you, Tanja. And on your questions on fees. Yes, we will continue to have the ambition of 5% to 7% CAGR, but that will remain in place. As we disclosed in previous quarters, our fee growth are really a combination of some of the strategic initiatives that we've begun to build. It includes business development that we have. It includes effects on payment packaging pricing that we've seen come through over the last couple of years.

I would remind you in terms of the realisation of that 5% to 7% CAGR. We had a growth of about 7% back in '22 versus '21. And so I think we indicated at the time that the growth trajectory within that 5% to 7% is probably not as smooth as we'd like it to be. It's probably as half of the fees are dependent indeed on market performance on wealth management, for example, and clearing. You're seeing the effects of that this quarter as well.

We're maintaining, as I said, the ambition. I think if you were to look at fees, as we're now seeing the period in the quarter, it is very clear that because the consumer spending is down, you've just alluded to house price - house transactions, but also lower appetite from capital market services. Clearly, that will have an effect on fees market-wide. So we're in conditions right now that would explain our fees staying resilient and staying at the same pace as we had in the quarter-on-quarter. So they stay flat.

But like I said, we'll maintain that 5% to 7% CAGR, would give you a little bit of colour around it.

Giulia Aurora: Thank you.

Operator: Thank you. We'll move on to our next question from Kiri at HSBC. Your line is open. Please go ahead.

Kiri Vijayarajah (HSBC): Yes. Good morning, everyone. Firstly, just a clarification on the threshold for the share buyback. So right now, does the ECB look at Basel III or Basel IV? Or is it more a case ECB being ECB, they simply just take the lower of the two for now. And until we get kind of industry-wide implementation of Basel IV, the focus is more towards the kind of more conservative Basel III number, your 15.0%.

And then secondly, on the contraction in the mortgage book, I just wonder, do you see household deposits potentially being run down in order to potentially pay down household mortgages? You don't really flag it as an issue on your really useful slide five, but just wondered if you see that as a potential risk going forward. Thank you.

Robert Swaak: I'll take the first question. Ferdinand, you can take the second question. The framework that we've set against, so that 16% against the 50% threshold, so the around 16% where we're at, is against Basel IV. So that's how we are also communicating with the regulator. Clearly, you look at Basel III developments, but we've set our capital framework against Basel IV. So that's the conversation that we also would have with the regulator.

Ferdinand Vaandrager: Yeah. And specifically - Kiri, hi - is there a risk? I mean there's always, right? But that's also one of the reasons it's very difficult in this environment to provide any guidance on NII going forward, right? So we still expect upside, although it will most likely be at a diminishing rate until what we've seen so far.

And if you were already mentioned, it's your pass-through rates driven by competition, its potential migration, also related to your question, can it be used for pay down of debt. And for both of them, it's difficult to say. We do not see that effect as of yet. Can it start to have an impact? Yes, it can always have an impact. But so far, we don't see that. And as a reminder, we still have the tax deductibility in the Netherlands as well, which is an important element why people might not pay down on their mortgages.

But these are a few of the reasons. And the last one, not mentioning yet clearly, it's also dependent on your view on the ECB trajectory, right? It's been on an upward trajectory, but it's also what will happen with March and when the ECB will pivot. And there are some expectations, including our own economists, that the first pivot will start at the end of the year.

Kiri Vijayarajah: Okay, great. Thanks guys.

Robert Swaak: Thank you.

Operator: We'll take our next question from Amit Goel at Barclays. Your line is open. Please go ahead.

Amit Goel (Barclays): Thank you. Got two questions. The first, actually just going on, I guess, a slight adjustment to the return on equity target. I just want to check in terms of the term ambition versus the target. I just wasn't 100% sure what the difference is there. And within that 10%, are you factoring in a €4.7 billion cost base in '24? Or using that as an exit rate?

And then the second question, just coming back on capital. I just wanted to understand a bit better in terms of why you don't actively look to get the CET1 on a Basel IV basis down to the 15% level. Is it uncertainty over that kind of final Basel IV impact? And/or are there a couple of items that could shift meaningfully in that calculation? Thank you.

Robert Swaak: Yeah, I'll take your first question. So we're now at 9.6%. When we - back in 2020, we indicated an ambition of 10% in normal interest rate environment. So I think is the way we phrased it. I think we're now at that level. So that 10% is where we're at. It will continue to be the - our ambition to end up around that 10%. That's effectively where we are today.

Tanja, you can ask the question or answer the question?

Tanja Cuppen: Yes. On Basel IV, as you are aware, the framework is not final yet. We hope that, well, the discussions will continue and that clarity will come in the second half of this year. And then the implementation date would be 1st January 2025. And given that it's not final, we have also not implemented all the Basel IV rules in our systems yet. And that means as well that we cannot present, well, very accurate numbers yet. And that's why we keep this rounded number, which is 16%, so it's rounded up to 16%.

Once the Basel IV rules become clear and final, we will also work towards giving more detail on the Basel IV outcome, and then there will also be more certainty around it.

Amit Goel: Thank you. And on the cost assumption within that 10% ambition?

Robert Swaak: Yes, that's still that's €4.7 million, but we're at 9.6% now with a cost level that we're currently carrying. So when we came up with that ambition back in 2020, we had the €4.7 million as part of the ROE calculation. But I think from the numbers today, you can see that we're already at 9.6% with the current cost levels that we carry. So I think that will give you enough signal.

Amit Goel: Okay. Thank you.

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

Anke Reingen (RBC): Yeah. Thank you very much. Just one follow-up question. You just said the Basel IV ratio is rounded up to 16%. I know you obviously don't want to give us the exact number, but maybe if you can give us a feel for – about how much you would be considered to round the 16%?

And then secondly, obviously, your profit benefit on the rising rate environment, although obviously been hit in the past. But how much do you see a risk that there is more political pressure for you to adjust customer rates or that the deposit guarantee fund could go up in response to current events or something like bank levies as we've seen in other countries? Thank you very much.

Robert Swaak: Tanja, if you could take the first question, I'll take the second.

Tanja Cuppen: Yeah. So on Basel IV, on purpose, we provide this round number in the year round with the signal that we round it up. We cannot give an accurate number because that would – there are so many assumptions still underneath that the number would not be valuable without having all the assumptions and the moving parts. As I just explained, we still need to implement it in our system. So I cannot provide further detail there.

Robert Swaak: And on your second question, at this point, we're not experiencing any political pressure. We have the arrangements that are currently in place are in place. And in the Netherlands, that is still a very consistent discussion. So we're not, at this point, experiencing any undue political pressure.

Ferdinand Vaandrager: Maybe, Anke, on your regulatory levies, and it's also explained in the slide in the analyst presentation of the cost bridge, we still do expect '24 vis-à-vis '23, a significant reduction both in the deposit guarantee scheme as well as the Single Resolution Fund. As earlier indicated, the target size of the fund should be reached for SRF at year-end '23 and deposit guarantee scheme somewhere Q2 '24.

Might it change or increase the size on the back of higher deposits overall? It's a possibility, but we have not seen any signs that it might change from here. And also potential windfall taxes, you see it in some European countries. It's really not a focus point in the Netherlands. It's much more the political debate on the excess of profit, for example, in the energy sector currently, where they're looking at additional taxation. And we have had bank tax already for several years, which has not been the case in so far the European countries, also keep that in mind.

Anke Reingen: Okay. Thank you.

Robert Swaak: Thank you.

Operator: Thank you. We'll move on to our next question from Marta Sanchez at Citi. Your line is open. Please go ahead.

Marta Sanchez (Citi): Thank you very much. My first question is a follow-up on deposit costs. Most banks in Europe are providing today some sort of guidance around deposit betas by the end of the year. And where they expect to - deposits generally to settle, provided Euribor stays at around 3%. So is this something - can we extract from you some sort of guidance on where do you expect the blended cost of deposits for you over the next two years?

And the second question is on the outlook for volumes. Can you provide some sort of guidance on where do you see the mortgage book by the end of the year and the corporate book as well? And just a clarification, sorry, on the - on your comments on the ongoing review of internal models. Can you – I'm not sure if you said, can you provide a guidance on potential regulatory headwinds that you're expecting in your ratio this year and next? Thank you.

Robert Swaak: Okay. I'll take the first question. Ferdinand, if you could take the second question on volumes. And Tanja, on the potential reg headwinds.

The price savings that we currently or the pricing that we actually do or committed to are not based on beta. That's why, for us, beta really is a resultant. So far, I think, roughly speaking, the pass-through of - until today has been around 25%. But that's really a resultant and it's not how we steer on deposits. I think we've talked about this before. I think it's important to realise that for us, both the competitive behaviour, some effects on the replicating portfolio yields and a number of other factors come into play for us to set pricing. So not determined by beta as such.

Ferdinand Vaandrager: Yes. Maybe also to add to that, if you look at our interest rate sensitivity we provided last year, it was definitely different from some of the other banks because it was not based on an expected deposit beta. It was really based on a cap on historic margins. And as Robert already earlier explained, we're currently in the phase, where we are above historic margins.

So then you are in an area that it's definitely not something that for further rate increases, we have any predictions or forecasts on what deposit beta might be. And as Robert said, it's only 25%. If you look at the last two rate increases, that has increased to 50% pass-through.

And then –

Robert Swaak: Sorry, go ahead.

Ferdinand Vaandrager: No, and then shortly on your volume, as Tanja said already, also RWA, we do expect a volume growth. Difficult to say for mortgages now. It's currently a slowdown in the market with new production clearly lower. But as said, we still balance that out with limited redemptions of our book. So the book is flat, but clearly depending what the outlook is, which is currently uncertain.

If you look at corporate loans, but also coming back out of the presentation, the positive thing here is, if you look at our corporate bank core, so if you exclude the winddown still of non-core, we did see a growth of almost €800 million. And that was specifically generated in the focus sectors outside the Netherlands in digital mobility and new energy.

What you do see in consumer loans, it's a relatively small book of just below the €10 billion. Yes, there, we don't expect any significant growth because as said earlier, that's a book which has a structural changing and being derisked.

So overall, we still do expect growth, but most important via corporate. You've also seen the ECB lending survey. The outlook is limited, but we still expect with a focus on our strategy that we can grow.

Robert Swaak: Thanks, Ferdi. Tanja, on any expected?

Tanja Cuppen: Yeah. So on the - indeed the internal models, as I mentioned, indeed, we do expect further - well, actually call it headwinds on RWAs going forward because we are indeed evaluating our models on an ongoing basis and also evaluate whether we can move certain portfolios to a more - less advanced, more simplified approaches. And yes, we haven't made up our decisions there yet. And so also from that point of view, we cannot give a trajectory on what that would mean for RWA.

So this will be an ongoing discussion, I expect, in the coming period. And once we have visibility on this, we will, of course, update you.

Marta Sanchez: [Inaudible] rounding error of 10 basis points or something on capital. Is this something that could be more meaningful?

Ferdinand Vaandrager: Sorry, we lost you for the beginning of your question.

Marta Sanchez: Sorry. No, I was just saying that to provide some reassurance today what the headwinds may be, is this something that it could be just a rounding error of 10 basis points or could be something more material, the review of your internal models?

Tanja Cuppen: Yeah. As I said, we are going through the review, and I think it's too early to say what the outcome of this will be.

Marta Sanchez: Thank you.

Operator: We'll now move on to our next question from Raul Sinha at JP Morgan. Your line is open. Please go ahead.

Raul Sinha (JP Morgan): Good morning. Thank you for taking my questions. Maybe two, if I can. One a follow up. Just to try to understand how you approach the discussions around the buybacks going forward. Would it be fair to assume that as and when you come to a decision that another buyback is on the table, is required from - at a Board level, would you expect to then apply for regulatory approval after you have kind of decided that? Or do you think that this could happen perhaps - the regulatory approval for the buyback could happen in advance of any announcement to the market so we might actually see a buyback in the second quarter? So that's just trying to explore the timing.

The second question is just around page 21, where you've been flagging this discussion around the calculation method for your Single Resolution Fund contributions for the past few quarters. And you're saying that the SRB is disagreeing with ABN AMRO's position on how you calculate the SRF contributions and you flagged €120 million potential payable in the first half of 2023. Can I just check what the timing of this would be? Would we find this out with the second quarter results, if it was to go any other way? And would this also have a kind of ongoing impact in terms of regulatory costs? Or is it just kind of a one-off catch-up payment? Thank you.

Robert Swaak: Ferdi, if you take the second question. I'll take the share buyback.

Ferdinand Vaandrager: Yes, Raul, hi. I think it was only a small change towards disclosure we had in our integrated annual report, and that's on the potential impact of €120 million pre-tax. Yeah, as I said, we are still in discussion and that's for the contribution of the period 2016 up until 2022. So we're talking here about a one-off. We still think, and as you know, it's a bank levy introduced in 2016. So the calculation methods there are based on your exposure. We think we have calculated it correctly. So we disagree with the sort of repayment of the period ’16-’22. So that's also the reason that we have no provision for it because we think it's not more likely than not that it will result into a payment.

Can we already expect something in the next quarter there? We cannot provide any sort of indication on timing for this.

Robert Swaak: Thanks, Ferdinand. And on the - to give you a little bit more insight in process, typically, we will come to a decision on any potential share buyback, and we will then engage with the regulator. The regulator approves - has to approve the applications. So we first make up our minds internally, as we've done before, and then we submit for approval.

Raul Sinha: Got it. Thank you.

Robert Swaak: All right. Thanks.

Operator: And we'll take our follow-up question from Benoît from Kepler Cheuvreux. Your line is open. Please go ahead.

Benoît Pétrarque: Yes. Sorry to ask another follow-up question here. On the pass-through rate of like 25%, I think you referred to retail. I was wondering what is your kind of overall blended pass-through rate as we speak. I'm asking because we've seen a bit of a weakened eye on the core banking - sorry, corporate banking. And I was wondering if this is coming from maybe a bit of a higher pass-through in the quarter on the corporates. Thanks.

Robert Swaak: Ferdinand?

Ferdinand Vaandrager: Yeah, Benoît, it's not something - it has come back to what I said earlier, the pass-through specifically for wealth is a bit higher. As you have seen, the saving rates higher deposits is currently higher. So that's a different pricing strategy than some other banks are doing. And if you look specifically to corporate clients, it's difficult to say, right?

On one hand, they have current accounts. Clearly, they don't have any savings accounts, and that's normally that's working capital. So a few things can happen. Yes, you can see an outflow of current accounts into more money market-related term or it can actually be put to work into the business. That's not something we can give a clear sort of view on what exactly the underlying levers are, but those are the two elements you should think about.

So there you see the migration having the biggest impact. And if you do see a shift towards term, yeah, margins on term are clearly lower than margins on savings accounts.

Benoît Pétrarque: Okay, great. Thank you very much.

Robert Swaak: Thanks, Benoît.

Operator: Thank you. Once again, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. And we'll now take another follow-up question from Farquhar Murray at Autonomous. Your line is open. Please go ahead.

Farquhar Murray (Autonomous): Good morning. Just a quick question, really just coming back to NII in terms of the main surprise today. If we take the base of €1,620 million of NII in the first quarter, and we look at the commentary you've made around replication portfolio, which you're saying kind of the dynamic there was similar at 1Q as 4Q. Should we expect a material drop off in that in the second quarter? I suspect probably a bit more graduated than that. And similarly, on the deposit pass-through.

Adding volume, I presume 2Q must be up Q-on-Q. And at that point, I presume it's difficult to really see the full year number being much less than 4 times the first quarter. I just wonder if that's a fair summary of what we might be looking at, though I do appreciate there's obviously uncertainties around all of it. Thanks.

Ferdinand Vaandrager: Yeah, Farquhar, it's a fair question. It's a sort of base case, your Q1 times four and what's the upside from here. Yeah, but I come back to the reasons I provided before. Yes, your replicating portfolio benefit keeps coming through, but at a diminishing rate until we've seen so far. So that's one.

And number two is your treasury results also there. Yes, it was, again, a positive delta this quarter. But also here, this might be more volatile. This is not a sort of direct benefit at the same level you will see quarter-over-quarter.

And then number three is all your assumptions, one, what is the ECB going to do? Number two, what were the competition on savings accounts be? So at what point do you start - consumers start shifting towards savings accounts with the challenger banks? And number three, is deposit migration from current accounts into savings accounts? And if you see from the disclosures in our Q report, it's now roughly evenly spread, current versus savings account, 100 each.

Historically, that has been around one-third current, two-thirds savings. So also there, you can still see some migration there as well. So there are so many variables. It's very difficult to say what the NII will be towards the end of the year. But it's clearly positive at the moment, but the overall impact will clearly be at the expectation at the diminishing rates going forward.

Farquhar Murray: Many thanks.

Operator: There are no further questions - there you go. It's another follow-up question, I'm sorry, once again from Anke at RBC. Your line is open. Please go ahead.

Anke Reingen: Yeah, sorry for following up and going on about this, but the treasury result. Certainly, I mean it's quite large in terms of the core absolute impact. As long as rates are rising, we should expect this lag to be a positive. But then when they're stabilised, it could be a negative? Or is there any direction you can give us on the treasury, if that's possible, given the magnitude of the impact? Thank you.

Ferdinand Vaandrager: Yes. Hi Anke. It's difficult, and we said that previously as well because our duration of equity is not a sort of ring-fence portfolio of swap contracts. We earlier disclosed that remaining maturity bandwidth is somewhere between the one and three years. But you already saw quite a substantial benefit in

Q4, and it includes all on and off balance interest rate exposures and the resulting exposure is managed. But that includes past and present interest rate steering. So it's very difficult to say.

It's clear that higher interest rates are beneficial but you cannot sort of exclude the effects of historical interest rate steering. So on a quarter-on-quarter basis, the behaviour of our equity mismatch, so the treasury NII can partly differ from the long-term trends you've been seeing now over the past two quarters.

Anke Reingen: Thank you.

Robert Swaak: Thank you.

Operator: Thank you. There are no further questions in queue. I will now hand you back to your host to conclude today's conference. Thank you.

Robert Swaak: Well, thank you very much, and thanks to all. Obviously, this concludes the analyst call. Thanks again, as always, for all of your questions and look forward to talking to everyone very soon. For now, see you later.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]