# ABN AMRO Q2 2024 Results Transcript

ABN AMRO Investor Relations
Wednesday, 7 August 2024

**Participants: Robert Swaak (CEO); Ferdinand Vaandrager (CFO); Caroline Oosterloo (interim CRO);**

**Operator:** Hello, and welcome to the ABN AMRO Q2 2024 Analyst and Investor Call. My name is Caroline, 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 mode. However, you will have an 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 questions. If you require assistance at any point, please press star zero and you'll be connected to an operator.
I will now hand over the call to your host, Robert Swaak, the CEO, to begin today's conference. Thank you.

**Robert Swaak:** Thank you so much, and good morning, and welcome everyone to our Q2 results. As always, joined by Ferdinand Vaandrager, our CFO, and Caroline, our Interim CRO. I will update you on the main topics for this quarter, followed by Q&A. And this morning, we also announced that we intend to appoint Serena Fioravanti as our new CRO. She's a highly experienced risk manager and has a strong track record leading complex risk projects. So her background will be of great value to the bank, and I am delighted with her arrival.

Now, while Caroline will still be the Interim CRO for most of the third quarter, it is the expectation that she will hand over before the next analyst call. So for now, thanks a lot, Caroline, even though we will continue to work very closely together.

So let me take you through the highlights of Q2 on slide two.

ABN AMRO had another strong quarter with a net profit of €642 million and a return on equity of 10.8%. We further increased our market share in new mortgage production, which resulted in further growth of our mortgage portfolio. Net interest income grew on the back of increased lending and improved deposit margins.

We are raising our NII guidance for the year as the rate outlook has become more favourable since the beginning of the year. And we have concluded a new collective labour agreement, which has entered into force on 1st July, and I'll highlight the effects of this agreement later on.

Also this quarter, we had net impairment releases continuing the low cost of risk level of recent years. Our Basel III CET1 ratio remained strong at 13.8% and we set our interim dividend at €0.60 per share, which corresponds to €500 million.

Now, last Thursday, I announced my intention to leave ABN AMRO during the first half of 2025 and the search of my successor started. I'll briefly touch on my decision at the end of this presentation. But let's continue the discussion on the second quarter results.

During the second quarter, we announced the acquisition of Hauck Aufhäuser Lampe. Now with this acquisition, we will create one of the leading private banks in Germany. Germany is, in terms of AUM, the largest wealth market in the Eurozone, and this combination will take the third position in that market. The acquisition is expected to close in the first half of 2025.

We also reached a new milestone with our payment request application known under the name of Tikkie, which now has 10 million active users. Over the past few years, our loan book in renewables and other decarbonisation technologies grew to over 4 billion currently at this time. We also said our new target is then to increase this book to 10 billion by 2030.

As part of our net-zero banking commitments, we set two new 2030 interim reduction targets for CO2 intensive sectors, namely trucks and vans. So that allows us to cover now 67% of our total loan portfolio in line with our NZBA commitments.

For all our colleagues this quarter, generative AI tools are now available with the launch of ABN AMRO GPT. This is a secure and compliant in-house version of ChatGPT. And it's important to note that generative AI's further used to generate text and retrieve information from large documents and our developers use it to write and document code. We're actively exploring further possibilities of generative AI.

And last, but by no means least, a few words on the reliability of our banking services. An external party continuously monitors availability and security for us. We obtained a high security rating and achieved almost 100% availability for our online payment services.

Let me spend a minute on our recent performance in the mortgage market in light of the recovery of the Dutch housing market. And this is then turning to slide four.

The combination of higher wages and lower interest rates has led to improved affordability. This has led to a strong rebound of the Dutch housing market with prices at new record levels since April. Following the rise in prices, transaction volumes are also on the rise. In terms of new mortgage production, the Dutch market rose by 22% year-to-date versus last year.

However, ABN AMRO's mortgage production increased by 60% during that same period, greatly outperforming the market. We were able to attract many new clients, making effective use of our different mortgage labels. But also our operations quickly adapted to the higher transaction volumes.

And another interesting development over the past six quarters has been the gradually increasing market share of the main banks versus insurance companies and pension funds. The market share of the four main banks has increased by more than 10 percentage points over this period. Now, we believe this development is caused by clients increasingly opting for short interest rate fixings and that banks were able to adjust quicker to higher transaction volumes.

Now historically, and with that, I mean before the negative interest rate period, banks held the majority of the mortgage market. And while it's still too early to call this reversal structural, it is nevertheless a positive development, which we thought to highlight.

Now moving to the Dutch economy, which you'll find on slide five. I'll briefly cover the topic as the picture has not really changed all that much from previous quarter. GDP in the Netherlands is expected to pick up during the remainder of the year, which is driven by government spending and household consumption.

PMI dipped below the neutral level in July, reflecting weaker PMI results actually across Europe as well as in Germany, our main export market. The consumer spending remains stable. And looking ahead to next year, we expect modest inflation, modest GDP growth and continuing low unemployment rate.

So let's turn then to our second quarter performance, starting with client lending on slide six.

With our 20% market share of new production in the Dutch mortgage market, our mortgage portfolio grew by €1.6 billion during Q2. We again added new clients in our transition teams, New Energies, Digital and Mobility, mainly accounting for the growth in corporate clients.

Client deposits rose mainly related to holiday allowances. The migration into interest-bearing accounts further slowed down this quarter as we expected, and professional deposits, which can be volatile quarter-to-quarter decreased in Q2 mainly at Clearing.

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

Second quarter NII increased close to €50 million, largely reflecting improved deposit margins and growth in lending. Now not all of this increase is structural, around €10 million was due to release related to our Euribor provision. In terms of margins, we saw slightly improved margins for corporate loans, which was partly offset by limited margin pressure on mortgages.

Since our year-end results presentation, the interest rate outlook gradually changed to higher for longer. And in recent days, the markets have been quite volatile, so we do need to see where markets ultimately end up settling. However, given current rates, our NII stands to benefit during the remainder of the year. And given the good performance first half of the year, we are raising our NII guidance and now expect to end above €6.4 billion for the full year 2024.

Now this is based on the expectation that our treasury results will improve in the second half of the year, while we expect modest margin pressure. Note that we don't make any assumptions on future direction of client savings rates, but simply keep the savings rate constant in our guidance.

Fee income on slide eight.

Overall fees went up 4% compared to the same period last year and were largely stable compared to previous quarter. After a good first quarter, Corporate Banking and Personal Business Banking managed to carry forward most of the business momentum into Q2. Personal & Business Banking fees were lower versus Q1 as the fees we pay for outsourced ATM services went up from seasonally higher transaction volumes.

And then other income is the most volatile top line item. However, this quarter we saw a limited decrease compared to Q1. We took a modest haircut on the sale of some non-core assets that results in the movement in other income.

Turning to costs on slide nine.

During Q2, our expenses rose due to the earlier discussed higher external staffing and IT costs. As you are aware, we are increasing resources for various projects such as data capabilities, sustainable finance regulation, further digitisation of processes.

Regulatory levels on the other hand are coming down. This quarter, the target size for the deposit guarantee scheme fund was reached, so the contribution will drop significantly going forward. We do expect costs to increase in the second half of the year due to the new CLA as well as further investment in additional resources.

The impact of the new CLA will be around €100 million over the second half of 2024 from the agreed salary increase and the accrual that we will carry for the reward premium, which will be paid for the first time in 2025. So while the new CLA does pose some cost pressure going forward, we still expect FY 2024 costs to come in at around €5.3 billion, as we had incorporated most of the CLA increase in our outlook.

For 2025, the impact of the new CLA will be an additional €20 million versus 2023 due to a further salary increase offset by a decrease in pension premium paid by the bank from 37% to 30%.

So let's turn to impairments on slide 10. Credit quality remains solid. With a stable impaired ratio of 1.9% and impairment releases of €4 million. In Q2, the inflow in Stage 3 was mainly in our corporate loan book and not related to any specific sectors. We were able to recover some individual files, which were then written off. And together with a further decrease of our management overlays, especially for products in runoff, we saw limited impairment releases.

We still have prudent management overlays in place currently around €230 million. Given the current economic outlook, the good quality of our loan book and the derisking done in past years, we now expect the full year cost of risk to be well below and through-the-cycle cost of risk of 15 to 20 basis points. So the gradual normalisation of impairments is expected to start next year.

Turning to slide 11 on capital. Our capital position remains strong with an unchanged Basel III CET1 ratio of 13.8%. Now this remains well above our increased CET1 requirement, which now stands at 11.2%. The increase reflects the earlier announced higher Dutch countercyclical buffer, which was raised from 1% to 2%, which is partly offset by the O-SII buffer, which is lower by 25 basis points to 1.25%.

RWAs increased €2.2 billion, mainly from business growth, leading to higher credit risk RWAs as well as somewhat higher market risk RWAs.

Our Basel IV ratio was flat versus Q1 and remains around 14%. So both under Basel III and Basel IV, our capital ratio was stable this quarter.

And let me wrap up. The strong start of the year has continued into the second quarter. We're again market leader in new mortgage production, and this resulted in a €1.7 billion growth of our mortgage book. NII showed a strong increase. And together with the current rate outlook, we feel comfortable raising our NII guidance to above €6.4 billion for the full year.

We will continue to focus on cost discipline. So while the new CLA adds to our cost base, we do maintain our cost guidance for this year. The CLA is a fair and a comprehensive package for our staff that focuses on appreciation, prospects for the future and long-term employability.

Now these aspects are important as we continue our efforts in the area of data capabilities, digitalisation and regulation. Our interim dividend payment is set at €0.60 per share, amounting to €500 million in dividend payments, and we remain committed to a number of financial targets for 2026. And looking at our year-to-date performance, we are on track.

We continue to execute our strategy, which we presented in November 2020. And we also need to look further ahead as it is common to review and update the strategy every four to five years.

I appreciate the announcement of my departure may have come as a surprise and unexpected. When you start a final term, succession and timing is always a topic you discuss with the Supervisory Board to ensure continuity. And last week, we jointly decided that it would be in the best interest of the bank that I would step down during the first half of 2025. Now, this will allow a making of way, particularly in a timely manner for a successor to get involved at an earlier stage of the coming strategic period, which is consistent with how I started at ABN AMRO.

Now it goes without saying that I will continue to fully dedicate myself to the bank and its stakeholders until a suitable candidate is found.

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

## Questions and Answers

**Operator:** Sure, thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Farquhar Murray from Autonomous. The line is open now. Please go ahead.

**Farquhar Murray (Autonomous):** Morning, all. Just two questions, if I may. Firstly, could I start with the CEO announcement last week, and obviously, the comments you made earlier are very helpful. So perhaps the one I'd like to just focus on is, could you just elaborate on what is meant by new strategic period? And should we see that as signalling a new approach, your attitude from here on anything?

And then just secondly, with regards to a more numbers question. On the new guidance of €6.4 billion of NII, could you elaborate on the drivers behind that? Perhaps what's different from, say, a quarter ago? And to the extent you can, I think obviously, you've given us the comment on beta, but what's your kind of view on the deposit market from here and liquidity tension? Thanks.

**Robert Swaak:** Yes, thanks for the question. Ferdinand will take NII, and I'll expand on your first question.

We always refine the strategy every four to five years. I mean this is where you have a normal period in the normal cycle of strategic review. So I came in at a time when we were doing this, and we will start that process over the next couple of months. We've been also very clear. We started a strategy in 2020. We're fully committed to executing that strategy as we stand and we – and that also allowed us to further upgrade targets for the – or to announced targets in 2026.

So the process on our current strategy will continue fully, and we're just getting into a review, like I said, which we would do every four to five years. So that's really what it is. So it's really too early to get ahead of what the outcome is, but I would just emphasise, it is a normal process that we always do.

**Ferdinand Vaandrager:** Yes, Farquhar, maybe on NII. As I said in the previous quarter, it's too early to start upgrading our guidance but we said we're very comfortable with the outlook. If you look currently at the underlying run rate, you end up around the €6.4 billion and we still expect some tailwind for the NII in the second half of the year. Hence, we are upgrading our outlook to above €6.4 billion.

Clearly, a big driver is interest rates. And if you compare it to the start of the year when we provided guidance, the shape of the curve is a bit more benign. Clearly, there's lots of volatility now in the markets. But if you look at our forecast is based on our own economists. And there, you really see that market consensus on interest rate is moving to where our own base case forecast is. And as a reminder, we expect ECB rates at 3% end of this year and 1.5% end of next year.

Then if you look at liquidity, the total deposit base is stable. Client deposits are increasing. You always see some seasonal effects of tax payments in Q1 and holiday allowances in Q2 but it's in line with the expectation that we have seen a significant slowdown in terms of migration. And so also there, that provides comfort in the outlook.

Lastly, on our treasury results for this quarter, quarter-on-quarter roughly flat, but we expect there at the second half of the year that we will be benefiting from a more supportive rates environment, and this is really dependent on the timing of hedges and the repricing dynamic. So also there, we have a reasonable good feasibility that the trend is supporting at – in the second half of the year.

So if you combine it with good business momentum, we are positive on NII outlook for the second half of the year, Farquhar.

**Farquhar Murray:** Great. Thanks very much.

**Robert Swaak:** Thank you.

**Operator:** Thank you. We will take the next question from the line Guilia Miotto from Morgan Stanley. The line is open now. Please go ahead.

**Giulia Miotto (Morgan Stanley):** Hi. Good morning. My first question –

**Robert Swaak:** Good morning.

**Giulia Miotto:** Thank you for taking my question. The first question will be on capital, which was actually relatively uneventful this quarter. But could you please give us an update on where you are in terms of model updates? And specifically, if I look at Pillar 3, which I don't think we only have the Q1 Pillar 3, but this a sizable difference between the sum of standardised foundation and advanced IRB and the total credit risk. It's about €30 billion of add-ons. Which buckets do these refer to also, let's say, large corporates or mortgages or whatever? And does this mean that you are done on those portfolios, or can we still see some upward revisions? So that's my first question on capital.

And then the second question is on interest income. Could you give us a sensitivity if, let's say, rates end up 50 basis points above or below where your economists assumptions to land?

**Ferdinand Vaandrager:** Your line falls away, Giulia.

**Robert Swaak:** What was the last part of your question?

**Ferdinand Vaandrager:** I think it will be harder but maybe we can start.

**Caroline Oosterloo:** Yes. I don't know if we are still here.

**Robert Swaak:** Operator, are we still live?

**Operator:** I think you lost connection from – yes. Giulia, could you repeat your last question again? Thank you.

**Robert Swaak:** Last part of your question, Giulia.

**Giulia Miotto:** All right. So the first question was clear about the model updates where you are, etc?

**Robert Swaak:** Yes.

**Giulia Miotto:** Yeah. Okay. So that one was clear, fine. So my second question then was on NII, and it's a simple question. It's a question around rates. Ferdinand, as you said, there is a lot of volatility. So could you give us some sensitivity around plus or minus 50 basis points with respect to the curve? What would that mean for your NII, everything else being equal? Thank you.

**Robert Swaak:** Caroline, you take the first, and I'll ask Ferdinand to take the second one.

**Caroline Oosterloo:** Yeah. So good morning, Giulia. So indeed, we have been and are continuing to structurally assess our models also in anticipation of the Basel IV regulation. And we've now determined the ultimate approach on the majority of our portfolios, and we have taken add-ons to report RWAs on that basis.

We will finalise that assessment in the next quarters. So we're not done yet. And we plan to do a final submission to move the last portfolios to less sophisticated approaches. And related to that, we can expect some add-ons in the coming quarter.

**Giulia Miotto:** Sorry, can you just say which portfolios you still have – you're still planning to migrate and which instead are done?

**Caroline Oosterloo:** Well, we are not – that's not what we're – those details I can't give you, but you will see in the Pillar 3 report, which ones have been degraded. And the difference that you saw is in data in the Pillar 3 report relates to the add-ons that you can't see in the Pillar 3. But I think good to mention that there we have – where we have already decided on the ultimate approach, we report the RWA levels already by taking add-ons. Does that clarify your question?

**Giulia Miotto:** Okay. Well, no, because I would like to know which ones have already been migrated and when we can see an end to this, whereas I think you said in the next quarters. So as at the end – so for more than one quarter, you still expect some add-ons, if I understood you correctly.

**Caroline Oosterloo:** Yeah.

**Ferdinand Vaandrager:** Yeah. And Giulia, then to come back to NII and also coming back to Farquhar because I didn't answer his last part of his question.

What does it mean in terms of pass-through assumptions in the outlook and guidance we provide on NII, we assume that saving rates will stay at the same level. So that means when the ECB rates come down faster, the deposit beta in our assumption will increase. So it's a flat savings rates of 1.5%. And as we said earlier, every 10 basis points of client rates increase or decrease is roughly an impact of €100 million if you look at our current savings rate.

We refrain from providing a sensitivity in terms of parallel shift of the curve. But coming back to my earlier comments, if you look at our base scenario was already much more prudent I think in terms of rate expectation than where the market was. So that's why we are comfortable also looking at the volatility in the market now to provide this up guidance on NII.

**Giulia Miotto:** Thank you.

**Robert Swaak:** Thank you.

**Operator:** Thank you. We will take the next question from line Guillaume Tiberghien from BNP Exane. The line is open now. Please go ahead.

**Guillaume Tiberghien (BNP Paribas Exane):** Yes. Thank you for taking the question. Two, please. Number one is on the cost. You only assume a €20 million increase in cost next year from the CLA net of the pension improvement. That does seem a little bit low. So I wanted to understand how you – what are the building blocks for that?

And then the second one is on the wealth management. Did you have another significant inflow this quarter of a very fast money? You said I think €13 billion, so that brings to about €32 billion inflow in Q1 – in H1, So I wanted to understand how much of that will reverse in H2, please.

**Robert Swaak:** Ferdinand?

**Ferdinand Vaandrager:** Yeah. First, starting with your first question. Yes, if you look at client assets, the overall increase was just above €8 billion. NNA was high. But on the other hand, there was one divestment in there. That was specifically our PPI, which we sold to Achmea. And then again, it's custody, and custody was plus €12.6 billion.

In the call in the previous quarter, I told you there was around €10 billion in custody, which we would have expected to flow out this quarter. It's more sticky for the moment than expected. So we have seen a further increase in overall custody. But then again, we expect that to flow out in the next quarter or the quarter afterwards. So if you look at core net new assets, it's plus €0.6 billion. It's higher in securities because there was a small outflow in cash in wealth management.

**Robert Swaak:** And on your question on the CLA. Just to give a little bit more details on that. The €20 million indeed is correct, and that consists of €100 million, which is related to the overall salary increase we expect in 2025 but also a benefit from lower pension premiums of €80 million, which we negotiated also earlier [inaudible].

**Ferdinand Vaandrager:** Thank you. So delta effect on top of what we see this year, Guillaume, that's why you are going to see the benefit of the lower pension contributors. So it's a net effect on top of the €100 million we see this year.

**Guillaume Tiberghien:** Okay. Thank you.

**Operator:** We will take the next question from line Benoît Pétrarque from Kepler Cheuvreux. The line is open now. Please go ahead.

**Benoît Pétrarque (Kepler Cheuvreux):** Yes. Good morning. So just a couple of questions on my side. First one is on the strategic – about the new strategy. Because personally, I was not expecting a bank like ABN AMRO to come with a significantly different strategy going forward because I mean you are in one country, you are quite simple business model. So when you said there will be a new strategic process, I was wondering if you have something in mind. And if I think about something where maybe we have seen a bit less investments than at some banks, it's probably IT. And in the past, we talked about the IT landscape. And I was wondering if there is anything special on that side, or you have any ideas about what the new strategy will look like? Because again, it seems that the bank is quite simple at the end of the day, and I will not expect any big update on that.

The second one is on NII, maybe less focusing on '24 and more focusing on '25. Just wondering here, how you see NII developing in '25 based on the current curve and finally if you assume a stable savings rates and deposit rates. But just to have a bit of a feel about the direction NII will take next year.

And the other question was on the cost. So I think the CLA impact is clear. I think you mentioned in the slide some digitisation investments, some upscaling of resources for data capabilities and regulatory programme. I was wondering if you could maybe just quantify that in euro millions, please. Thank you very much.

**Robert Swaak:** Okay. Thank you. Let me take the question on strategy, and then Ferdinand, you can take NII cost.

**Ferdinand Vaandrager:** Yes.

**Robert Swaak:** Look, the only reason we talked about a period of a strategy review is because, as I said before, the four to five years is kind of a term where you evaluate how has the environment changed, are there any refinements that you need to do, even in a successful strategy. So that's the reason for us to talk about a period of a strategy review.

The bank at its core is positioned in the Netherlands, in Northwest Europe. We've also said we continue to execute the strategy as we see it today. And like I said, we've even updated our targets into 2026.

So I would not get ahead of what this review actually would do. It's – you should see it as a normal process that we always go through.

In terms of the questions that you have on IT landscape, we set out back in 2020 to future proof the bank. And part of that is indeed continuing to invest in a landscape that has high requirements. I mean, we've significantly digitised the bank over the last couple of years as we closed down offices taken over our customer – our ability to serve our customers through various channels, digital channels. It will require us to continue to do the kind of investments that we've always done.

So that I would absolutely expect to continue. There is no change there. So see it as a normal process that we always go through and the reasons why we talked about it is because we are also starting to think through when you hand over, when you think about succession timing, when is then a good time. And that's as we concluded earlier in the process and later in that process.

**Ferdinand Vaandrager:** Yes, Benoît, and then on NII 2025. It's too early to be explicit there, but we've said consistently that our forward-looking outlook that we expect a gradual normalisation of deposit margin. So if you look at our internal outlook this year, it's going to be very healthy. But the question is how fast we will start seeing the normalisation. And let's wait until we start 2025 when we have a better view on the rate curve on client behaviour and also how the development is going to be with savings rates.

Then your second question more specifically on costs. Yes, we do expect higher investments in the second half of the year. And that is still really the investments we do in our data capabilities and risk models, it's digitalisation of processes, but it's also clear the continuous investments in the safe and secure payment infrastructure. And on top of that, you have new regulation like SFR.

And next to that, as Robert already said, we continue to invest in our IT landscape and a more modular application design landscape. The peak in investments of all these programmes, we said we expect that to be in 2024 and start gradual declining afterwards, including our cost on AML.

Secondly, what is also positive is that the regulatory levies have come down quite significantly. Also the DGS has reached their target size. But what for us is very important that we start switching investments in new products and services. Really, that needs to step up which will contribute to the top line. So that's also where our communication has been that we expect cost to remain relatively flat.

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

**Robert Swaak:** Thank you.

**Operator:** Thank you. We will take the next question from line Kiri Vijayarajah from HSBC. The line is open now. Please go ahead.

**Kiri Vijayarajah (HSBC):** Yes. Good morning, everyone. A couple of questions from my side, please. So firstly, on the mortgage market and the 62% share taken by the bank. So just – is it your sense that's coming more from the insurers pulling back, or is it the banks, I guess, getting more comfortable getting more clarity around Basel IV? And ultimately, I guess, the banking sector having excess capital they need to put to work. So just some colour around the mortgage dynamics and market shares there.

And then secondly, turning to capital and specifically the FRTB. I know market risk is pretty small for you guys. But hypothetically, if the FRTB is never implemented, what's the actual impact on your Basel IV ratio, please? I mean is it not material? So just some quantification there, please? Thank you.

**Robert Swaak:** Yeah, I'll take the mortgage questions, and Ferdi, you can take FRTB.

Yeah, it's interesting. We've always talked about the competitive dynamic in the mortgage market. And what we actually – we see the trend as we've disclosed it. And I think in part, it has to do with the, you know what we always talked about, the tenors of mortgages five to ten years, which is a comfortable area for banks that have been traditionally in. Whereas if tenors would go up again to – based on interest rates go up to 30-year that plays more to the longer balance sheet.

So five to ten years is one that is – that sits in the areas of banks. The other element that I – that we've identified, we're able to – hence also our 20% market share in new production – we're able to handle large volumes very, very fast. So that may play a role.

And then also, clearly, as we continued our market presence now for so long with excellent relationships with our intermediaries, you do see a pool toward banks. But at the same time, we thought we'd highlight this because it is a market dynamic that we've seen going the other way for quite some time and we now see an impaired reversal. So we'll continue to monitor it on a quarterly basis, but these are some of the dynamics we're seeing in the market, and we thought we'd highlight that to you.

**Ferdinand Vaandrager:** Yes. And Kiri coming to Basel IV implementation, it's been very explicit. It's delayed for a year. We would have hoped for an early opt-in for banks who would benefit in terms of RWA FRTB. So the potential positive impact there will only materialise then in Q1 2026. And our benefit is somewhere between €1 billion and €2 billion in terms of RWA.

The other element is the Dutch mortgage floor. Also there, communication has been that it will be rolled out for another two years. But it's also our expectation that this macro prudential 458 will be phased out at a certain moment. And there, the potential benefit in terms of lower RWA is more significant.

**Kiri Vijayarajah:** Great. Very helpful, guys. Thank you.

**Robert Swaak:** Thank you.

**Operator:** Thank you. We will take the next question from line Sam Moran-Smyth from Barclays. The line is open now. Please go ahead.

**Sam Moran-Smyth (Barclays):** Hi there. Thanks for taking my questions. Two questions, please. Firstly, on fees. Just to clarify, you guided to 3% to 5% CAGR with your targets at the start of the year. Could I just clarify whether that guidance included the impact from acquisitions, or when we consider the fee uptick from HAL? Should we consider that that fee CAGR to actually be higher or at least at the upper end of the 3-5% range?

And then second question, both on kind of RWAs and then also the positivity that you're seeing in the Dutch mortgage market. So look, your economists are forecasting some pretty healthy house price growth, particularly in 2025. How quickly from a RWA valuation perspective, can you revalue the mortgages from a kind of Pillar 3 perspective? And therefore, could we see lower LTV buckets that lead to an RWA lessening from that dynamic? Thanks very much.

**Robert Swaak:** Yeah. Thanks for the question. I'll ask Caroline to take RWA on mortgages. Yeah, on the 3-5% that we provided in terms of fees CAGR, that did not include the acquisition. So that's to be very clear on that. At the same time, I would be cautious on that range. I mean, we're seeing about a 4% increase. And so we're comfortable with the 3-5% range that we've given in terms of our targets that we set for ourselves on fees. Caroline, mortgages?

**Caroline Oosterloo:** So on the mortgages and the revaluation of the underlying houses, we do that on a continuous basis. So in fact, that will always flow into our numbers. But as we are on this input floor that Ferdinand just referred to, the impact is, of course, very limited because the input floor is constraining.

**Ferdinand Vaandrager:** Yes. And maybe also to add there, Sam, specifically if you look at mortgages, a very big part of the new production is first-time buyers. So if you look at margin development, a big part is state guaranteed NHG. And there, the margins are a bit lower. But RWA consumption is also lower.

And secondly, as you say, after revaluation it might have an impact that you're getting in a lower LTV bucket there that there is then a rate discount. So those two elements are also leading that we still see some slight margin pressure on the margin book.

**Sam Moran-Smyth:** Thanks very much. Very helpful.

**Robert Swaak:** Thanks.

**Operator:** Thank you. We will take the next question from line Tarik El Mejjad from BofA. The line is open now. Please go ahead.

**Tarik El Mejjad (Bank of America):** Hi. Good morning. And thanks for taking my questions. A few follow-ups, please. First on NII. Can you please explain again the dynamics of the treasury results and the delta first half versus second half? And also, what would be the sensitivity of your NII and replicated portfolio in the context of fast-dropping five-year swap rates that we observed in the last few days.

Secondly, on capital. So clearly that the German private banking deal you've done is great for the business. You still have to fix Belgium and France. If you want to be within top five, top three players, would that involve more use of capital and potential deals if they present to you?

And the last question on your deposits, Robert. I understand and I heard your comments about the strategy, no major shift about the concerns of a succession plan, but in every term of CEO, there is always a succession plan but you go through the end of the plan. I mean, as much as you can say, is there any extent any diversions in terms of strategy between you and the Board mainly on the M&A being a takeover target or taking over some bigger banks domestically. There's a large one that's been discussed in the press. So if you can say something about that? Thank you very much.

**Robert Swaak:** Yeah, I'll take the second part of your question, and I'll ask Ferdinand to comment on the first.

So just to combine maybe the both. So let me start with that very last part of your question. There is no discussions. There is no disagreements. There is no – there's nothing between the Board and I in terms of outlook, in terms of strategy, none of that.

So the mindset we've always had from day one, whenever I talk to you about M&A, if it helps us to accelerate our strategy, I think HAL was a great example. It's something that we would review. We are very much focused on an organic strategy. I think that's very important to emphasise and we'll continue to be so. I mean, that's how we set up our strategy.

And as I said, anything on M&A that we feel is accretive, both financially, strategically is something that we would review when and if that's relevant. So no disagreements with the Board on any of this, and we will continue to execute our current strategy as we've always had. So look for continuity there.

And by the way, that's the reason to also consider the right time of a succession. So you're right, this is always a topic. And then you decide on the right moment. And that's where we landed.

**Ferdinand Vaandrager:** Yes. And Tarik, on NII, specifically on treasury results, always some questions because it can be volatile here. The biggest part of our treasury result, that's where we steer the residual interest rate risk is from the invested equity position and that's being managed at a two to three year duration of equity. We are comfortable for the second half of the year because that's when we start benefiting from the supportive rate environment.

And if you look at the market value of the hedge book, it's very dependent on the timing of the hedges, so the repricing dynamic of receiver swaps. So if we currently look at the book here and you look at the repricing there, we're positive, it will be a net increase in the second half of the year.

It's not that we have a more aggressive steering there because it's very much constrained by the supervisory outlier test.

Then on the replicating portfolio, I think it's roughly unchanged compared to the previous quarter, so around €155 billion, of which 40% is invested below one year. Replicating yield has been supportive again in the second quarter. But if you look at the current outlook, we expect it to become a small headwind on the back of lower rates. So clearly, we're looking at five years. But as it is invested in a barbell structure, you cannot just use the five-year swap rate as a reference. And there will always be a delay.

**Tarik El Mejjad:** Thank you.

**Robert Swaak:** Thank you.

**Operator:** Thank you. We will take the next question from line Matthew Clark from Mediobanca. Your line is open. Please go ahead.

**Matthew Clark (Mediobanca):** Hi. Two more questions on the same topics, please. So firstly on net interest income. You've guided your 2024 upwards on better than expected rate trajectory. I'm just wondering – or higher for longer. I'm just wondering whether without quantifying 2025, that expectation carries over to 2025. So is 2025 looking better than you originally expected, or is it just not clear enough to be able to say at this stage?

And then second question is on the strategic planning cycle. From the outside, it seems a bit odd to have a strategic planning cycle that's out of phase and almost on a different periodicity than your financial planning cycle. So I'm just wondering what the advantage is of doing it that way. Why set your financial targets and then a year later that you redefine or review your strategic planning cycle? What's the advantage of doing it that way? Thank you.

**Robert Swaak:** Yeah. I'll take the last part of your question. Ferdinand, you can take the first question.

Basically, why we updated our targets for '26, it really was on the back of the fact that we were getting into 2024, and we realised back in 2020 as we begin to set our targets for the period we had then. As you come into the back half of this year, we wanted to upgrade or update the market on how we saw our 2026 targets evolving. And so that gave us focus for that 2026 period.

A strategy period can run longer, but it also tells you something a bit about how we look at our strategic cycle. So based on the performance that we have on our current strategy, we were comfortable with the 2026 targets we've set for ourselves. But we also want to make sure that as we review – again, this is just a regular process we then go through the current strategy, you take a longer-term outlook to ensure that the strategy that we're still executing is still consistent with the environment in which we operate. That's really the way the bank has operated and there's nothing really specific on that.

**Ferdinand Vaandrager:** Matthew, coming back to NII trend 2025. Yes, the upgrade this year, if we talk about the interest curve more favourable or more benign, it's really comparing to the period in time when we provided guidance. So that versus the start of the year. Clearly, the volatility now in interest rate and swap growth, let's wait and see how it settles but we earlier said as well, let's see what happens with interest rates, what happens with deposit flow migration. But we've also said that we expect in our forecast a gradual normalisation of deposit margin. You can translate that, that we do not expect a significant positive trend ’25 versus ’24 in terms of NII development.

**Matthew Clark:** Thank you.

**Robert Swaak:** Thank you.

**Operator:** We will take the next question from line Raul Sinha from JP Morgan. The line is open now. Please go ahead.

**Raul Sinha (JP Morgan):** Hi. Good morning. Thank you very much for the questions. I've got two, please, and then a comment. The first question is just on capital management actions. I was just – we're seeing a number of banks scaling up the capital management actions using SRTs. And in this context, I was wondering if you may be able to comment whether or not you might be in a position to use perhaps more active capital management actions in the second half of the year if you do get more adverse model changes.

The second one, just to clarify, Ferdi, on your comment that replicating portfolio will become a slight headwind going forward at current rates. Is that comment based on the rates in the market right now, or is that versus rates that were at the end of the quarter, please?

**Robert Swaak:** Thanks for the questions. Caroline, on any steering?

**Caroline Oosterloo:** Yeah. So good morning. Well, capital allocation, of course, capital steering will become increasingly important going forward to optimise our capital use. And on RWA optimisation, indeed, it can be expected that we will make more use of the instruments that are in the market to do risk transfers and those can include SRTs, but also things like CDS, insurance sales, etc.

**Ferdinand Vaandrager:** Yeah. And then, Raul, on the replicating portfolio, is it based on interest rates today or my comments that it will switch from a tailwind into a slight headwind. That was the comment we made earlier. So that was already under the expectation what the curve looks like because in our base, then I come back to my base case scenario, we already expected several rate cuts this year. So the switch from a tailwind into a slight headwind.

And as said, the big part is invested shorter than one year was already valid. If we're going to see even more rate cuts beyond our current base case scenario, then the tailwinds might become more forceful than we currently expect.

But we gave guidance on the back of what we see today and what we see today, we are comfortable to provide the guidance as is.

**Raul Sinha:** Thank you. I appreciate that colour. I guess just if I can follow up on the point on the capital management. Should we then expect perhaps less capital volatility or surprises in the second half of the year?

**Caroline Oosterloo:** Yeah, we are, of course, optimising our capital position and continuously balancing ROE and CET1 in that aspect. And as mentioned before, we do expect or it's likely that we have some more add-ons, and we will optimise that position and not only by the RWA optimisation but also by the earlier mentioned improvement of our data capabilities. Although we do expect that the influence from that is in the shorter term. And a little bit less than we earlier expected because it's more complicated, and it takes more time to implement that. So we see that a little bit more in the medium term.

**Raul Sinha:** Thank you very much. And maybe just a final comment for me for you, Robert. I mean thank you for your efforts in leadership. I wish you the best for the handover. This was a set of results from ABN AMRO, which had no negative surprises and indeed a positive surprise in terms of NII. But I guess one of the challenges for the market is still this relative lack of visibility on the NII moving parts. And I think this is partly down to the disclosure. You are one of the few banks that does not give us any help on NII sensitivity or the building blocks in terms of the yields on the replicating portfolio. If we can get better disclosure, perhaps the market would put a better valuation on the stock going forward. So just a comment from me.

**Robert Swaak:** I appreciate the comments. And we'll certainly take that going forward. So thank you.

**Raul Sinha:** Thank you.

**Operator:** Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from line Guillaume Tiberghien from BNP Paribas. The line is open now. Please go ahead.

**Guillaume Tiberghien:** Thank you. It's a small follow-up on Basel IV, just to clarify. So you have to expect a positive impact, but that includes the negative FRTB, which is now delayed. So should we expect then a more – a bigger positive impact on 1st Jan '25, followed by a small dent of capital on the 1st Jan '26? And did you quantify the FRTB as €1 billion or €2 billion, please?

**Robert Swaak:** Caroline, I think it's part of the other way around. But go ahead.

**Caroline Oosterloo:** Yes. So we still expect that Basel IV is favourable for us moving towards implementation date of early next year. The difference indeed, we expect that to become less because FRTB has been delayed. So it will be only there a year later. So adjust to because I got a bit mixed up by the '25 or '26, but it won't be in the first quarter '25. That will be in the first quarter '26.

So in a way, you could say these spreads are, the advantage we see under Basel IV for over two years, where we expected to have that in all in the first quarter next year. And indeed Ferdinand.

**Ferdinand Vaandrager:** And Guillaume, as you said – sorry, I said €1 billion to €2 billion. So if you then model €1.5 billion, I think you're quite close to what the benefit is.

**Guillaume Tiberghien:** Okay. So sorry, I don't understand, it was going to be a small negative. So if it's not happening in '25, then I would have expected the overall positive impact of.

**Caroline Oosterloo:** Positive.

**Guillaume Tiberghien:** Okay. My mistake.

**Ferdinand Vaandrager:** That's why we had hoped for an early opt-in possibility, Guillaume, because for us it's a benefit.

**Caroline Oosterloo:** Yeah.

**Guillaume Tiberghien:** Sorry, I was confused. Okay.

**Operator:** Thank you. We will take the next question from line Farquhar Murray from Autonomous. The line is open now. Please go ahead.

**Farquhar Murray:** Yeah. Just one very quick follow-up. Just on the CLA, we've obviously got the costs for second half '24 of €100 million, €120 million net for full year '25. Could I just quickly ask for full year '26, if that's possible, please?

**Robert Swaak:** Yeah. So to be sure, so for full year '24, it's €100 million, which is the €60 million, a 6% salary increase and about a €40 million accrual that we'll carry. And then for '25, the additional impact is the €20 million I mentioned earlier, which is, again, €100 million coming in from a 6% salary increase in the half year one and the €80 million that we will see related to lower pension contribution. And then for '26, it's the additional impact again of €40 million, which comes in from the 3.75 increase that we agreed for that year. So that gives you the total picture.

**Ferdinand Vaandrager:** Yes, Farquhar. So the delta are roughly 1% in CLA increase is roughly €20 million and 1% less pension contribution, the delta there is roughly €10 million, if you look at sensitivity.

**Farquhar Murray:** Okay. Thanks much.

**Operator:** Thank you. We will take the next question from Benoît Pétrarque from Kepler Cheuvreux. The line is open now. Please go ahead.

**Benoît Pétrarque:** Yes. Just a very short question on wealth management. We have stable fees quarter-on-quarter. I expected an average AUM up in Q2 versus Q1. So I was just wondering what is going on there. And do you see margin pressure or anything special there? Thank you.

**Robert Swaak:** No, nothing special. I mean wealth management fees are stable in the quarter. So there's nothing specific other than the comment we made on NNA. But we do see just the continued execution of the strategy we have around wealth management. So there's nothing specific there.

**Benoît Pétrarque:** All right. Thank you.

**Operator:** Thank you. We will take the next question from line Jason Kalamboussis from ING. The line is open now. Please go ahead.

**Jason Kalamboussis (ING):** Yes. Hi. Sorry to come back to it. But what I'm slightly failing to understand is why the decision to step down was not taken and announced earlier. I mean, presumably, since the five-year cycle, it's something that in December before deciding to go for a second appointment to 2028. At that time, you could have – the decision could have been made jointly, that you would be, in a way, on an ad interim basis or that you would continue but starting to search, the search for the CEO would have started earlier and would have been much clearer for us. And also what is strange is that you have also initiated steps that are more significant, like, for example, the acquisition of HAL. So essentially, you have moved almost to a new strategy past the restructuring while we have this change. So if you could elaborate further on that, that would be great.

The second is just a very quick one. You talked about the tenors of mortgages, five to 10 years, it favours the bank. Do you expect that to continue over the next 6 to 12 months? Thank you.

**Robert Swaak:** So Ferdi, you can take the second part of that question.

Look, so the acquisition of HAL is the execution of our strategy. So that's not moving outside of the scope of what we have always consistently communicated why we would do M&A, would it needed to fulfil the criteria needed to fulfil. And HAL fits perfectly. It adds to the feature capability within the bank. It's as a central part of our wealth management strategy. It is accretive. So it just fulfils all those strategic criteria we've always set for ourselves.

So just to go back to the first part of your question, reappointment. There's – in the Netherlands, we have a four-year term. And so the question was, am I available for four years? Absolutely, I'm available. And we subsequently had conversations around when is a good time to step away, when is a good time in terms of succession, in terms of timing, and then ensuring continuity. That's really the conversation that I – that we had – that I had together with the Board.

And the conclusion we came to for the reasons that I've just disclosed earlier is that the first half of 2025 is a good period. So that's the process we went through. And I don't think there's anything – I appreciate it's a bit surprising knowing that there was a reappointment in our confirmation of the reappointment in April. This is a normal process we go through in conversations around succession and timing.

So just to reiterate, anything we've done since is very consistent with the strategy that we've agreed.

**Ferdinand Vaandrager:** Yeah. And maybe the second part of your question, specifically on market share. It's a trend we haven't seen for a while, but have from nonbanks to banks in terms of market share from 50 to 60%. I think number one reason is that the sweet spot at the moment is ten years, but also the five years buckets has increased significantly. A big part of that, that's roughly 30% of the market is starters and that then the first-time buyers and they tend to choose for lower maturities.

So the shorter maturities are more the sweet spot of the banks. And up until a year ago, the sweet spot was 20 or even higher than 20 years. Will this change? For the current outlook is that it is stable. And I think also for the nonbanks, there are other higher yielding asset classes than just Dutch mortgages. So for now, it's a positive trend. It's difficult to see for how long it will prolong, Jason.

**Jason Kalamboussis:** Thank you very much, both.

**Robert Swaak:** Thank you.

**Operator:** Thank you. It appears no further questions at this time. I'll hand it back over to your hosts for closing remarks.

**Robert Swaak:** Okay. Well, thank you all for the questions as always. And I look forward to the follow-up conversations that I'm sure we'll have over the next period. Thank you very much for joining.

**Operator:** Thank you for joining today's call. You may now disconnect.

[END OF TRANSCRIPT]