Q1 2020 Analyst Call Transcript

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Participants: Robert Swaak, CEO; Clifford Abrahams, CFO; Tanja Cuppen, CRO

Conference call replay:
https://channel.royalcast.com/abnamroinvestors/#!/abnamroinvestors/20200513_1

Robert Swaak: Good morning and welcome to ABN AMRO's Q1 results. I am joined by Clifford Abrahams, our CFO, who is dialling in from London, and Tanja Cuppen, our CRO, who has joined me for the call here in Amsterdam.

Even though these are challenging times to be doing my first analyst call, I have been looking forward to sharing my initial thoughts and views with you. Of course, I am looking forward to meeting you when possible, which I sincerely hope will be soon, depending clearly on how the Corona crisis will continue to evolve in terms of travel restrictions.

After I have shared some of my first observations on ABN AMRO, I will talk about a response to Covid-19 and my key priorities for the next few months, as well as the outlook for the year. Clifford will go through the details of the first quarter results and run you through capital, and Tanja will then update you on developments in our loan portfolio, including impairments. Also, Tanja will give more insight into the resilience of our loan book.

Let me start with the results in the last quarter on slide 2. The first quarter results were significantly impacted by the Covid-19 crisis. We realised a loss of EUR 395 million, predominantly because of EUR 1.1 billion impairments this quarter. These impairments reflect two exceptional client files in CIB and a significant collective provision upfront for sectors most impacted by Covid-19 and the oil price.

Regular impairments were relatively modest and impairments for the remainder of the year are expected to be significantly lower than the Q1 run rate. Underlying operational performance was good, both net interest income and fees held up well and costs are well controlled. With a well-diversified portfolio and a very strong capital position we indeed have a good starting point going into Covid-19.

I will now share my first observations and key priorities as CEO of ABN AMRO. It is a challenging yet exciting time to start as CEO of ABN AMRO. In the last few weeks I spoke to many colleagues and various stakeholders outside of the bank. All of these conversations helped me to further deepen my vision but also understanding of the bank. ABN AMRO is a bank with strong fundamentals, such as our attractive market positions in the Dutch mortgage and SME markets and a strong private bank with scalable onshore franchise in North Western Europe.

Our solid capital and liquidity positions are an important asset in navigating through current circumstances and our fundamental ability to pay dividend. Although some progress has been made in the CIB refocus, the profitability remains too low and the risk profile of certain parts of CIB are not fully aligned with that of the bank. We will share the outcome of the CIB review we started earlier this year with you in August. Let me be clear; I am indeed disappointed by the two exceptional client cases in CIB, which explain a significant part of the impairments this quarter. So, the CIB review is a key short-term priority for me.

Other priorities in the coming period are to navigate the bank through the Covid-19 crisis, as you would expect, and to make progress on AML-activities.

I am very pleased with the strong digital capabilities of the bank, a result of continuous investments made in the past few years. We will accelerate this. In addition, we will review the strategy to ensure we deliver on our three strategic pillars going forward and will update you on that after the summer. Also at the time, we will be addressing operational efficiency, financial targets, and capital.

To reiterate, the bank has strong fundamentals and the priorities are clear to me. I am determined to deliver results in the years to come.

I am proud of the bank's responses to Covid-19. It has been very clear that we support our clients wherever possible in line with our purpose 'Banking for better, for generations to come'. A purpose, I passionately believe in and indeed is our compass for taking action on Covid-19. As a bank, we aim to support our clients in a responsible way, as is part of this sustainability pillar. The automatic payment holidays we announced provides additional liquidity, giving clients time to get back on their feet. We also support senior clients and clients with payment arrears with coaches and help lines to weather the current situation.

Customer experience, our second pillar, is reflected in easy digital delivery, such as video banking, rewarded with high net promoter scores by clients. The recently announced government guarantee scheme for small loans will be executed by New10. This means that we can give clarity to clients in 15 minutes while safeguarding KYC and customer care and the money will be in their accounts within 48 hours.

In the commercial bank, the introduction of digital signatures has been accelerated in response to Covid-19, clearly demonstrating the agility of the bank. Our significant IT investments in the past years have resulted in strong digital capabilities, part of the future-proof bank pillar.

Over 90% of our employees today currently work from home effectively. In March, we were also able to quickly leverage the capacity for video banking and virtual call centres, continuing our services while working from home. We now onboard new colleagues at a distance, which is indeed important to keep AML activities on track, one of my priorities.

Let me give a bit more background on our digital response. Our strong digital proposition combined with the dedication of all of our people enabled us to serve clients without interruptions in the last two months. As you can see, the far majority of our clients bank with us digitally, online, and increasingly mobile. We were able to swiftly leverage our platforms, so we would continue to service our clients while working from home. This is also demonstrated by the strong increase in video banking in all segments during the lockdown. In the retail bank, interaction with clients through video banking was even well above 90% in April.

We also see a strong increase in the onboarding of new retail clients through the mobile app. Clients had a lot of questions and a smart mix of communication channels, including chatbots and virtual call centres, enabled us to respond to this need very fast. We were the only Dutch bank capable of offering an automatic payment holiday due to system and process flexibility. The digital acceleration enables us to further improve customer experience and operational efficiency going forward.

On slide 6 I will give a bit more detail on the response to Covid-19 by the Dutch government as well as our own supporting measures. The solidity of the Dutch economy, often talked about, and government finances make it possible for the government to free up around EUR 100 billion to support the economy. Measures already announced include government guarantees for companies, tax relief, labour retention, and furlough compensation. The government is also working on compensation schemes for sectors suffering the most. In addition, large scale income support measures were started by the government, for example salary compensation for the self-employed. This will make it easier for clients to continue to service their mortgage.

These targeted measures aim to minimise the impact on the Dutch economy, which should reflect on the credit quality of the Dutch clients going forward. After an intelligent lockdown of two months in the Netherlands, shops could for example stay open, the government is now working towards a gradual return to a new normal, whatever that new normal may be. Continued support from the government will be necessary though, to support the economy and it is indeed currently contemplated. We have contributed by offering well over 100,000 clients immediately impacted by Covid-19, payment holidays and provide government-guaranteed loans to bridge the drop in income.

Let me give you a bit more insight into the resilience of our loan book on slide 7. As you can see on the left-hand side, most of our loan book is now in low-risk Dutch mortgages which continue to perform well. The corporate loan book is diversified and largely comprises collateralised lending. The far majority of loans is to Dutch clients, most of whom have access to the government support measures I just talked about.

On the right-hand side, you can see that 8% of loans is in sectors immediately impacted. That is around 20% of loans within the commercial bank and about 10% of loans in CIB, which by the way, includes oil and gas. Exposures to high-risk sectors, such as offshore, diamonds, and Trade & Commodity Finance, have been reduced in recent years, resulting in a modest additional impact in these sectors. Clearly, more de-risking in CIB is necessary, as mentioned before.

Tanja will now run you through impairments and asset quality in more detail. With that, I would like to turn it over. Actually, we will change that. We are going to have Clifford talk first, as you are used to. So, I hand it over to Clifford to talk you through our first quarter results.

Clifford Abrahams: Thank you, Robert.

On slide 8 you can see that the effects of Covid-19 have unfortunately led to our first quarterly loss since the IPO. A loss of EUR 395 million was due to impairments of EUR 1.1 billion for the quarter. Alongside that, interest income held up well in our client business and fees gained on increased trade inflows. Expenses continued to decline thanks to our cost efforts. All the more impressive, considering the increase spend on KYC.

As Robert mentioned, Tanja will run through impairments and asset quality later and I will pick up the key elements of the P&L in the next few minutes.

On slide 9 we have set out client lending. You can see overall client lending remained stable. On mortgages we remained disciplined, whilst we have seen a slight increase in competition, primarily from non-banks. Looking ahead, we expect a modest slowdown in the housing market in the Netherlands in reaction to Covid-19. They have, encouragingly, in the month of April held up reasonably well.

Commercial banking remained flat. I expect volumes here to pick up as clients use the headroom on current accounts and state guarantee facilities come through.

Within CIB, loans increased and some clients drew on committed lines and placed their cash on deposits to ensure they got access to sufficient liquidity at all times. We are pleased with modest drawdowns so far and during the month of April, this effect is moderated.

Turning now to NII on slide 10, NII remains resilient and within our guidance that we set out in February. Overall, loan margins have led to a modest decline of EUR 20 million in the quarter, half of which is due to deposit margins and the other half in slightly lower margins in corporate loans.

Mortgage prepayment penalties came down by EUR 25 million in the quarter, from seasonally high levels in Q4. That accounts for the drop in NII sequentially, that you see on slide 9.

Robert described the payment holidays we are giving our clients. These will not materially impact NII and let me explain why. The payment holiday does not alter the accumulation of interest owed by the clients over time and accounting follows the accrual of our interest, which will be paid later. Because we do not charge compounding interest with delay in payments, we booked an amortisation loss of EUR 35 million. You will see that under impairments.

Looking ahead, as of April 1, we started charging 50 bps on deposits over EUR 2.5 million, which will have the effect of raising NII by around EUR 30 million in the next quarter. However, low rates will continue to pressure deposit margins overall for accounts below EUR 2.5 million, where client rates are 0 currently.

Overall, the volume outlook is stable with corporate loan growth, draw downs and guaranteed loans offsetting mortgages and consumer loans reductions. Pulling this together, I expect NII to remain in the range of EUR 1.5 billion to EUR 1.6 billion per quarter, though trending towards the lower end of this range at the back end of the year.

Turning now to fees and other income on slide 11, I am pleased with fees in Q1 which increased strongly to EUR 438 million. Clearing benefitted most but we also saw increased fees in Private Banking. On the other hand, other income was lower and reflected tough markets. This was primarily driven by increased credit value adjustments – CVA – which measures the risk of non-collateralised exposures we run on swap contracts with clients. Private Equity investments were also revalued lower, reflecting the current economic outlook.

So, looking ahead, I expect other income to average the EUR 100 million per quarter guidance we have traditionally given but perhaps a little bit lower in coming quarters from weaker private equity results.

Now moving to costs, on slide 12. I continue to be pleased with our cost development. The immediate impact from Covid-19 on costs turned out the be slightly positive. This was due to for example lower travel expenses, rebates, lower expenses on events and the like. Our existing cost saving programs achieved another EUR 50 million in cost savings in the quarter, lower both personnel cost as well as other expenses. You can see personnel costs further declining, also reflecting lower pension costs due to a new collective labour agreement.

We are making good progress on AML remediation programs and boosting the business usual activities here. This has resulted in increased costs of around EUR 40 million in the quarter, all according to our plan.

We are currently on track with our cost saving programs, having delivered EUR 950 million so far out of a total EUR 1.1 billion, targeted by full year 2020.

For the remainder of 2020 and the results of Covid-19 I do see some risk to the timing of delivery of our structural cost saving programs of EUR 1.1 billion but we also see opportunities for shorter-term cost savings. So overall, we are comfortable with our guidance of EUR 5.1 billion of costs this year.

I now hand over to Tanja to pick up impairments on slide 13.

Tanja Cuppen: Thank you, Clifford. Let me start with saying that I am very disappointed with these significant impairments of EUR 1.1 billion this quarter. Let me talk you through the components.

The amount can be split in three categories. First, EUR 460 million related to exceptional client files. One case was in our clearing subsidiary, relating to a client trading volatility in the US, as announced as well in the press release we issued in March. The trading strategy failed during extremely volatile markets in March. We had to close out the position of the client, which led to a significant loss. The other file is related to a potential fraud case in Trade & Commodity Finance. We have been working with these clients for over two decades, so this

case was also really exceptional. Unfortunately, fraud tends to emerge in times of stress. We have taken lessons from these cases and have taken measures to prevent this from happening again.

The second category in impairments is related to the Covid-19 pandemic and oil price developments. This totals to around EUR 500 million. We booked impairments for all clients directly impacted by the lockdown, for example leisure, non-food retail and transportation. Most of these clients are performing but have had a significant increase in credit risk, which means that we need to book a provision. Impairments in the Oil & Gas sector were raised by over EUR 200 million, predominantly related to non-performing clients. Downward revisions of our macroeconomic assumptions added another EUR 100 million.

The third category is our regular impairments which with 16 bps were in fact below our through-the-cycle run rate.

On the next slide, I explain how this translates into the different business lines and in the guidance for the full year.

On slide 14, I would like to start with a word on our Q1 cost of risk of 132 bps. This is an on-balance sheet metric. However, this quarter we have an exceptional off-balance sheet loss of EUR 215 million. If we include this loss, the cost of risk would amount to 164 bps.

Let’s now look at our business segments. You can see that Covid-19 and oil-related impairments predominantly impacted our corporate loan books. In terms of cost of risk, the impact amounts to around 150 – 170 bps.

Turning to the full year, we expect an increasing number of clients to become non-performing over the year, leading to an increase in Stage 3 impairments. For next quarters I expect less inflow in Stage 2.

We modelled the expected impairments for the year, using the base scenario of our Group Economic’s department, published in April, which assumes a decline in GDP for the Netherlands of 3.8% this year and 2.2% recovery in 2021. This scenario is based on an assumption of a two months’ lockdown and considered the intelligent lockdown measures of the Dutch government. Under this scenario, we expect a full year cost of risk of around 90 bps or approximately EUR 2.5 billion for the full year, including both exceptional files.

Recently, government presented a roadmap towards a gradually lifting of the lockdown measures, which is not far from our base case assumptions.

Let’s now turn to slide 15, showing the industry break down of our loan book. Robert already mentioned the resilience of our loan book. As you can see, our loan book is diversified with only a few corporate sectors touching 5% of the total. 45% of the total exposure is related to Dutch mortgages and some consumer loans. Public administration relates to mainly government exposures with our liquidity buffer.

Of the corporate exposure the immediately impacted sectors are highlighted on this slide. In these sectors not all clients are affected equally and this is shown on the right, where we break out affected sub-sectors.

With the transfer of EUR 17 billion in loans to Stage 2, these sectors now have a higher coverage ratio which serves as a buffer in case of further deterioration. The corporate loan book consists predominantly of collateralised lending and for each sector we have risk appetite limits in place, which are tightly managed. With the impairments taken we are well covered in the affected sectors.

I now hand back to Clifford to discuss capital developments on slide 16.

Clifford Abrahams: Thank you, Tanja. Starting with liquidity on the right-hand side, you can see the LCR dipped modestly during Q1 but overall remains robust. We are keeping a close eye on deposits and draw down the committed credit lines. Overall, we are comfortable with what we have seen so far.

As you can see on the left, our capital position remains strong, at 17.3% CET1 ratio under Basel III. This ratio excludes the 2019 full-year dividend that we have reserved and which equates to an additional 60 bps in capital at Q1. We stand ready to pay our 2019 dividend after October 1, subject of course to the regulatory position as well as economic conditions and the outlook at the time.

Our Q1 result led to a 40 bps decrease in CET1 and regulators have temporarily lowered capital requirements, which translate into a potential buffer available to deal with Covid-19. In our case, the SREP-requirement went down to 9.7% from 12.1% implying a buffer equivalent to a substantial 7.5% in our CET1 ratio. So overall, we are feeling very comfortable.

I still expect TRIM to take place later this year and the add-on for mortgages from DNB possibly next year. We want to remain well capitalised coming out of the crisis, as regulatory easing is likely to be temporary. That strong capital position will underpin our dividends going forward, coming out of Covid-19.

As Robert had mentioned, we will give a capital update after the summer. I will now hand back to Robert.

Robert Swaak: Thank you, Clifford. Before I recap the highlights of our first quarter results, I would like to say a few words on our financial targets.

I absolutely want to be held accountable for targets we set. However, it is clear that we will not meet the existing ROE or the C/I targets this year. Also, we decided to postpone any dividend payments until October 1, following the request from the ECB. As mentioned at the start of the call, I review CIB together with the team, the strategy, and the financial targets in the coming months and share the outcome after the summer.

This brings us to the end of our presentation on the first quarter results, a quarter which was significantly impacted by the Covid-19 crisis. The underlying operational performance was good and costs are under control. We served our clients without interruption, thanks to our state-of-the-art digital channels and the unrelenting efforts of all of our colleagues. I take comfort from our strong capital position and the diversified loan book.

Before we get into the questions, one comment from my side. I am happy to respond to any questions, clearly. You will all appreciate that having formally taken up my role just after the quarter end I will ask Cliff and Tanja to take any detailed questions on the quarter. Now, let me turn back to the operator to open the call for questions.

Benoit Pétrarque (Kepler Cheuvreux): Good morning. Good luck, Robert, with your new challenge! Just on the risk. I am looking at the Stage 2 ratio, which doubled to 12%, almost 13%. All you have done is this assessment of transfers from Stage 1 to Stage 2; do you have any quantitative data or was it more just your own feeling about specific sectors? On your slide 15, on the right-hand side you mention that exposed sectors to Covid-19 will get support from the Dutch government. So, I think you can get guaranteed loans from the State. How much roughly from your high risk exposure and Stage 2 could get support from the Dutch government?

My second question is on dividends. It is quite clear that 2020 will be close to breakeven. Obviously, you will also start CIB review, which may also cost money basically. So I was wondering why you decided to?

Robert Swaak: I was counting three questions there. We will count the first two as one. Tanja, could I ask you to take on the first two?

Tanja Cuppen: Benoit, thank you for your questions. The first one was in relation to our Stage 2 provisioning and the clients that we moved to Stage 2. We indeed did that based on an analysis of sectors and sub-sectors that were impacted by the lockdown measures. As you can imagine, our models do not capture these impacts because they rely on historic data. So we really did an assessment for the sectors where we saw a significant increase in risk and, as mentioned, that relates to sectors like leisure, non-food, retail, transportation, but also the oil and gas sector. That is the first part of your first question.

The second part was with respect to the guaranteed loans. These are guaranteed by the government. These guarantees apply to new loans provided by banks to clients that are impacted. So, it does not apply to our existing loans on the books.

Robert Swaak: Thank you, Tanja. And in terms of dividends, just let me reiterate that we will take a decision after October 1. Clearly, that decision will be subject to regulatory approval and circumstances. And when we know then we will communicate that.

Giulia Miotto (Morgan Stanley): I am sorry, I was on mute. Hello, and good morning, two questions from me. So, the first is on GDP estimates on your provisions guidance. The estimate is minus 3.8% for 2020, which may be seen by some as perhaps optimistic. So, I was wondering if you could share with us some sensitivity as to what guidance you would see, for example 1% worse GDP? So any sensitivity or any range would be very useful. This is the first question.

Then the second is more strategic. Maybe, Robert if you can share any thoughts on the CIB as a business in ABN business portfolios? Does it still make sense to have that business or would you consider it closing down and getting out of, for example, oil and gas all together? Thank you.

Robert Swaak: Let me take that second question, and then for the first question on GDP estimates I hand it over to Tanja. We have announced a CIB review and the reason for announcing that review is because we have noticed over time that CIB did not meet the return requirements. We have also noticed that in parts of CIB, there is a risk profile that are not always consistent with that of the bank. That was the reason to start the review. I come in as a new CEO, and I do put a high priority on the review. We are expecting to complete the review around Q2. I would also propose that I then come back to all of you what that means for CIB, what the results of the review mean for CIB. And with that, Tanja, the question on GDP estimates?

Tanja Cuppen: Indeed, we have used the economic scenarios that were published half April, and that indeed assumes a decline of 3.8% this year, but a recovery of 2.2% next year, so towards the end of 2021, a decline of minus 1.6%. For Europe, the European economy actually combined, 2.7% decline. This is also to give you a bit more background. I mention this because the impact on the portfolio and on impairment levels is dependent also on longer-term economic developments and not so much on how deep the ‘V’ is in this case.

I am not able to provide you sensitivities because GDP is, of course, only one measure that goes into our economic scenarios, unemployment and oil price developments are the other ones. And yes, there is a lot of uncertainty in the market, also on how the government support measures are basically effective in terms of supporting companies. I think we see some positive signals there but I think it is not possible to get sensitivities as you were asking for.

Robert Swaak: Thank you, Tanja.

Johan Ekblom (UBS): Thank you very much. Just two questions on asset quality, please. I think you are right to highlight that it is not only the GDP numbers that drive the provisioning. So, can you maybe highlight what as well you have assumed or roughly sketch out how we should think about the unemployment, house price levels that are implied by your guidance? Because I would assume that with a longer, but maybe not as deep recession that could potentially be worse for both of those. So that is the first question.

The second question is just so I can try and understand your provisioning guidance. You are saying that you do not expect to see material increases in …

Robert Swaak: Are you still on?

Operator: We are having a technical problem. Just one moment, please?

Robert Swaak: Okay.

Operator: I think his line has been dropped on the call.

Robert Swaak: Johan, we seem to have lost you. If you want to come back at a later time so we can answer your questions.

Tarik El Mejjad (Bank of America Merrill Lynch): Yes. Just two questions from me. The first is on the cost of risk. Could you please give some indication on the level of provisions in 2021? Should we expect in this generated level of provisions or you think you would front load most of the provisioning in 2020?

The second question is on costs. You have mentioned, Clifford, that it was quite tough to implement the 2020 savings. It is understandable, given the social and political pressure, to rationalise costs. But equally, you mentioned that there are some savings that came from the Covid. Could you quantify how much of these savings you get from potentially Covid from less events and so on in 2020? And how much of these are recurrent into 2021? And just on costs, maybe some indications on the remediation programs and how much more costs we should expect from this? Thank you very much.

Robert Swaak: Thanks for your question. Tanja, could I ask you to take the first, on provisioning?

Tanja Cuppen: I understand your question about guidance for 2021, but that is really too far out to come up with guidance. As said that already for 2020 the situation is uncertain. We tried to give you insight in our thinking and in our assumptions for the underlying, underpinning this forecast. But I do not have a crystal ball, so we really cannot provide guidance for 2021.

Robert Swaak: Thank you, Tanja. And Clifford on the cost?

Clifford Abrahams: On costs, on DFC, our spend in line with the plan that we set out in February. So, you recall the little chart we provided at this time in February, which showed we expected to spend a little under EUR 400 million during 2020. That is very much on track. And the step-up in costs reflects Q1 to Q1, so that ramp up is still ongoing actually. We are very much on track as Robert indicated that work is ongoing.

I think around the 2020 outcome, I do not want to give some precise figures on Covid savings. I was just indicating how we are feeling about cost more generally. Our cost saving programs are currently on track, the EUR 950 million I indicated. But some of the remainder of the EUR 1.1 billion involves material IT change. Whilst the bank actually is operating remarkably well under lockdown with everyone at home, an area that is more exposed is substantial change. So it is more about the practicalities of the IT change that is on our mind rather than government pressure or some of the other indications that you talked about in your questions. So it is really more practical issues. We see some savings in Covid and if you put it all together, I think the numbers I am talking about are pretty modest, the pluses or minuses. but overall it gives us comfort that we will deliver on what we indicated in February.

Robert Swaak: Thank you, Clifford.

Johan Ekblom (UBS): I apologise for dropping off there. Just very, very quickly. So, the first thing is, when we think about the scenarios, you clearly pointed out that is not only GDP that matters. So can you at least

give us some indication as to what impact you are forecasting on unemployment and house prices and oil prices? That would be very helpful?

My second question is also for Tanja. When we think about provisioning for the rest of the year, do I understand it correctly that you think that the bulk of the Stage 2 migration is done and what we should expect in the coming quarters is mainly some of these Stage 2 loans migrating to Stage 3?

Tanja Cuppen: Johan, good that you are back in. Yes, on the scenarios, I wanted to give some further feeling on the different assumptions because the full numbers the long presentation, will be on our website later today. But we assume unemployment will go up to 5% next year and house prices this year will still increase also on the back of the impact of the first quarters. But for next year we issue a drop in house prices of 4%. So that is an assumption.

Regarding the oil price we have assumed Brent, but of course, WTI had some more struggles, around 30-35, but have also taken into consideration the recent developments around the oil price in the US, and what that would mean for oil production as well. So that is what I can say about the scenarios.

Then regarding your question on provisioning and inflow into Stage 2. This quarter we have EUR 17 billion in assets in inflow in Stage 2 and I do not expect a similar move in subsequent quarters. There will still be some inflow but I also expect an outflow. We see quite some clients that are, even though they are impacted by the crisis, innovative and are finding new ways of generating income. We see on the other hand also clients that will really run into problems and move to Stage 3. I hope that answers your question.

Johan Ekblom (UBS): Thank you.

Martina Matouskova (Jefferies): Good morning and thank you for the presentation. I want to just follow up on two small points and I am very sorry if I am repeating Benoit's question on dividend but I am interested in your outlook. Many of your peers said that a 2020 dividend would be difficult, not because of capital levels, but more of a political challenge, because the governments have supported the economy and the banks particularly. So I was just thinking, your focus in expense in 2020 will be on helping customers with Covid-19. And then you have another strategy review. But all this comes at a certain cost. I was just wondering when you stand with this with your outlook on the 2020 distribution, just a kind of high-level thoughts, if you could.

Secondly, what would you expect from the ECB on the ECL impact when you get more guidance and advice from them in summer?

Robert Swaak: Thank you on your question on dividends. I know we have talked about it before and we have mentioned it before. Determining on dividends will be a decision that we need to take as of October 1. The ECB has clearly issued guidance in this and it is this guidance that we follow. Now of course, that means that as of October 1, we will reassess the situation. We will look at the Covid-19 implications. We will also look at the regulatory approval. And then subject to all of that, we will come to a decision. I really do not want to get ahead of that decision at this point in time.

So, whilst I appreciate the question, we are not going to be able to get back on that until we have done that assessment that I have just mentioned.

Tanja Cuppen: Let me take your second question on the ECB giving guidance on expected credit loss. It is important to understand that for our impairments, we follow IFRS9. So, that is determined by accounting standards or not by the ECB. And this is indeed an expected credit loss approach, which includes the economic conditions. The ECB does with its guidance and its additional measures have an impact, for example, on capital – a subject that was touched upon by Clifford – and on RWA calculations, for example but not on the expected credit loss. Does that answer your question?

Martina Matouskova (Jefferies): Yes, it does. Thank you very much. Have a lovely day.

Robert Swaak: Thank you.

Anke Reingen (Royal Bank of Canada): I just had some questions on net interest income. Thank you for the detail on the deposit base you are charging. I am just wondering, in the current environment, is that really possible or can you really continue to charge for deposits? Do you still think it is realistic that you will roll out the base on the deposits you are going to charge?

And then I was wondering on the new TLTRO offer in June. Are you considering potentially taking up some of the funds at the minus 100 basis points? And would that be included in your NII guidance for the rest of the year?

Robert Swaak: Clifford, could you?

Clifford Abrahams: We have already started to charge negative rates from April 1 on balances of EUR 2.5 million and above. You have seen other competitors in the market charging on negative rates thresholds below that. So, we have taken that step. We do not comment on future price action, as you would expect, but negative rates is a fact and not a plan.

I note the attractive terms on TLTRO 3 and I think it is quite possible we would participate in that facility alongside our normal market activity. We have taken all elements into account in our guidance and that guidance obviously reflects a view on interest rates, which can move up and down. But based on current rates, we feel comfortable in reconfirming our guidance of EUR 1.5 to EUR 1.6 per quarter albeit trending towards the lower part of that range later in the year.

Anke Reingen: Okay, thank you.

Benjamin Goy (Deutsche Bank): Hi, good morning. Two questions, please. First on your Stage 3 exposures. Correct me if I am wrong, but I think they went up roughly EUR 1 billion quarter on quarter. Maybe you can shed some light on why it moved up so quickly, maybe with only two to three weeks of lockdown really impacting the quarter?

Then a follow-up on the net interest income, because Clifford you mentioned that later in the year it would be going towards the lower end of the range. Does that mean that Q2 is still flat to slightly up helped by the deposit pricing or it is a straight line towards the lower end of the range from here?

Robert Swaak: Tanja, you could take the Stage 3 exposure question and then we will turn it over to Clifford.

Tanja Cuppen: Thank you. So the inflow that we have seen in Stage 3 is actually for a small part related to COVID-19 but of course, there is some impact from the drop in oil price we saw already earlier on. And then the incident that we have seen in TCF is also included in there.

Clifford Abrahams: Ben, I think your summary was right. I indicated an amount of around EUR 30 million per quarter in respect of the charging negative rates. So, we will see the benefit of that in Q2 and that will help NII in Q2, but then the ongoing grind on margins from low rates will continue after that. But I think your summary is right and adds a bit of colour to help guide.

Benjamin Goy: Thank you.

Kiri Vijayarajah (HSBC): Good morning, just a couple of questions from my side. So firstly, going back to the EUR 35 million amortisation loss you have taken on the payment holidays, I know it is not a big number in the grand scheme of things, given the EUR 1.1 billion you are taking but I am just really curious what assumptions

you have made there? Because a lot of your peers have not really taken anything yet for the impacted payment holidays on the loan line. So just your thinking on that.

Secondly, and coming back to the review of CIB activities, just a very simple question, really. Is the derivatives clearing business on the table as part of that review? Because it sounds like from your comments, the focus is elsewhere on the CIB loan book and segments within that rather than derivatives clearings. So just really clarify what is and what is not on the table as part of that CIB review? Thank you.

Clifford Abrahams: We thought it was helpful to indicate that figure. We have given payment holidays to a big chunk of our SME portfolio, so around half, because we have chosen to do it in the way we call it an opt-out. We have given it to everybody and if they do not take it, then we do not give it to them. So rather than the other way around, I think it is common across the sector, people have an opt-in approach. We think opt out is the way to go and ultimately, I think they will end up in the same place, but operationally we think it is easier to do what we have done and fairer to clients. So we know upfront who is getting the payment holiday and it is a substantial chunk. Many of those clients, as Tanja indicated, are good credits and will be good credits. We will get that money eventually but what we are not doing is charging interest on interest. I think that there may be some differences among banks, but we think it is just not right to on the one hand offer a payment holiday and on the other hand charge interest on that. So that EUR 35 million is the effect of not charging interest on interest in respect primarily of that SME portfolio. And I would expect other banks to perhaps disclose these figures overtime as they get a clearer sense of what the figures are.

Robert Swaak: Thanks, Clifford. As to your second question, just let me reiterate what we have communicated before and certainly as I came in as CEO, I have made it a priority. We are reviewing CIB, so that means that all the activities of CIB are on the table.

Kiri Vijayarajah: Okay. Thank you.

Pawel Dziedzic (Goldman Sachs): Hi. Good morning and thank you for the presentation. I have just a follow-up question on your cost of risk guidance. Because you guide for 90 basis points and this is EUR 2.5 billion, it strikes me as a quite precise guidance. Given that there is a lot of uncertainty it is not necessarily something that is easy to understand why it is so precise. So you have been asked before about sensitivity to GDP, and I understand that you cannot answer to single variable and so on but can you maybe talk a little bit how much uncertainty there is around this EUR 2.5 billion number? How can it change it a downside scenario, or if things go slightly better?

My second question is actually within the same thinking. Can you talk a little bit about the charges going forward and the mix between CIB and the rest of the bank? Because in Q1, obviously over 70% was purely CIB. But how do you think that will change as we go through the next quarter? I am particularly interested in how the charge would change the moment some of your clients, SME, or retail, start basically going out of this payment holidays? Thank you.

Robert Swaak: Tanja?

Tanja Cuppen: This is not an easy question to answer. Well, by choice, we have not come with a range, but with a number of around 90 basis points or EUR 2.5 billion, based on heavy assumptions that we share with you. So on the one hand, it is quite precise but on the other hand, we all know that there is a lot of uncertainty. You asked again about sensitivity, but that is very difficult to give that. Of course, there is an upside in a sense that if there is more effectiveness than anticipated from all the governments measures. But there is also a downside if there is no recovery into 2021 and we would see further GDP decline into 2021. But I cannot give a guidance or numbers there or provide ranges at this stage. There is just too much uncertainty around it.

If I look further into the numbers and the forecast for the full year of 90 basis points, then I would say about half of the additional impairments is related to CIB and the other half to the rest of the bank. So that gives you

a bit of a feel for how it is spread. It definitely depends on how clients come out of this period with this payment holiday and how the economy picks up in the coming months.

Pawel Dziedzic: That is very helpful. Thank you.

Stefan Nedialkov (Citigroup): Robert, welcome to ABN!

Robert Swaak: Thank you!

Stefan Nedialkov: A couple of questions on my side. You used to do a stress test on the oil price and obviously the current levels of produce stressed. But have you done anything in terms of looking at maybe US$ 15 to US$ 20 per barrel on Brent? And what are the results of that?

The second question is again on asset quality or related to the first question. Within CIB, when you say that the risk appetite has been historically quite different to that of the bank, we can see that CIB margins have historically been quite rich, but also provisions have been very high. Can you just in general terms describe why CIB is different from the rest of the bank, in terms of maybe seniority or lending, collateralisation, terms, geographical reach, et cetera? How is that risk appetite going to be put more in line with that of the larger group?

And if I may add a third asset quality question here? When I look at your mortgages, the Stage 2 ratio has increased quite dramatically, especially compared to the third quarter of 2019. It has gone from around 2% Stage 2 ratio on the residential mortgages to around 7%. So that is around EUR 7.5 billion of inflows into Stage 2 residential mortgages. And quarter on quarter it is around 3.5 billion, you have given payment holidays from what I understand to around EUR 1.5 billion, so there is a lot more than just payment holidays going in here. Can you elaborate please and give us a more colour? Thank you.

Tanja Cuppen: I will take all three questions. So first, your question on stress test for the oil price. We did not really perform a stress test as of yet, but maybe I can talk to you to our oil and gas exposure a little bit, because what you saw on page 15 in our presentation is that we have around 4% of our total portfolio in oil and gas. About half of that is related to TCF. So, no direct exposure to the oil price. EUR 6.4 billion in outstanding is actually oil and gas, of which EUR 1.7 billion is related to offshore and offshore supply. We talked about it before, we have been de-risking very actively in this sector. Also a significant part is clearly impaired, over 40%, and also with a 40% coverage ratio. For the remaining part on oil and gas for the portfolio, that we feel is most exposed we have moved to Stage 2 and have booked an additional provision in Stage 2 of EUR 30 million. So, in that sense, we feel that we have taken the right measures there, also to sustain a lower oil price of US$ 20 to US$ 25 for the coming period. You also need to understand that a significant part of this portfolio is reserved-based lending and quite a few of these clients are hedged against the oil price, so there is no immediate impact for them, but I think the longer-term outlook will play a role there. And of course, we will do further analysis there. But I feel very comfortable with the provisioning level that we have taken there.

Your second question was on risk appetite. Yes, we have very explicit and tight risk appetite for the whole bank also for CIB on different sub-segments. And as said, we are also reviewing our risk appetite in relation to the broader strategic question. But I can assure you that, for example, on leveraged finance we have caps in place to deal with risk there. And you have seen as well that for example, for trading commodity finance we have drawn down exposure over the years as well.

Your last question was on the Stage 2 ratio for mortgages that have gone up. Indeed, you have seen that has happened since Q3. And what has happened since Q3 is that we introduced new unlikely-to-pay triggers and that means that we have more triggers in place that cause a move from Stage 1 to Stage 2 and from Stage 2 to Stage 3. You see that reflected in our numbers. So this is not related to Covid-19, but very much related to tighter definitions.

Stefan Nedialkov: Tanja, thank you so much for that colour. Just to follow-up on the last question: the Q-on-Q movement in Stage 2 mortgages, was that mostly Covid, the EUR 3.5 billion increase, or was part of that related to unlikely-to-pay additional triggers you introduced?

Tanja Cuppen: No, it was mostly related to the Stage 2 triggers. There have been some impacts for a certain group of clients that are self-employed and that really saw an immediate impact. Clifford mentioned it already, that pick up by our mortgage clients on the opt-in approach that we offered was actually quite small. But going ahead, we moved the clients that we feel that are directly impacted were moved to Stage 2, based on their employment.

Clifford Abrahams: Yes, that is right, Tanja. It is an automatic process. So those that have opted in for the payment holiday, we have switched to Stage 2 and those in vulnerable sectors – dentists, pilots – we have taken a view across the sector. So in the same way we have the SME. That gives you a feel for that process. It is a top-down adjustment.

Stefan Nedialkov: So roughly EUR 1.5 billion on the payment holidays and around EUR 2 billion inflow from the vulnerable or self-employed?

Clifford Abrahams: Of that order.

Stefan Nedialkov: Thank you.

Robert Swaak: Alright, thanks for the question. In the interest of time, I want to make sure everyone gets a chance to ask questions. Please continue to limit your questions to two. I know we stand ready to answer but I do want to give everyone a fair chance on this as well. So, thanks for the question.

Robin van den Broek (Mediobanca): Good morning, everybody. Thank you for taking my questions. I am not sure to what extent you can answer my questions but I am going to ask them anyway. Maybe in relation to the strategy going forward, I think the ECT angle within the IPO equity story was that it could bring some growth. Maybe more generally speaking, how important is growth going forward? Because if you prune your CIB or maybe exit it entirely, you are left with a pretty solid Dutch business, I would say. But the issue is there could be that the mortgage book, especially with stagnating or dropping house prices, could decline because your annuity framework still has increasing presence in your back book.

My second question relates to capital. Your buffer to the revised MDA trigger point is over 8 percentage point if I add back the final dividend on 2019, so that is pretty high. It is probably best in the sector; I would almost say. But how relevant is that? How are you thinking about your buffer, basically also seeing that regulatory overhang is probably still going to come through later year? So how do you look at that buffer at the moment?

Robert Swaak: Let me take that first question. Clifford, maybe you can take second one. So on your first question, just generically let me reiterate that regarding the strategy of the bank, as it has been around sustainability, customer centricity and future-proofing the bank, it is been really interesting to see how in the times of crisis and that the bank has evolved very, very quickly. So it is acting very much upon its strategy and consistent with a purpose. Why do I say that? Because I think the digital acceleration is actually proving what we have talked about for quite a few years, that the investments that we are currently doing in our entire digital infrastructure are setting us up very nicely for further progress in terms of growth. So, I do not want to get ahead of this strategic review. We need to go through every single step. But as a general rule, I am very sensitive to the overall business model that we currently have. And so, we will have that front and centre certainly as we carry out the review. Clifford?

Clifford Abrahams: Yes. I will give you some feel on capital but I will not stray into the guidance that we intend to do after the summer. I think on capital and as it relates to dividend, I think it is highly relevant that our

buffer is 7.5% plus, right? That means that we are well-placed to run the bank through this challenging period. But importantly, coming out of the challenging period, we are in a position to safeguard healthy dividends going forward. It is a balance through the crisis, which is to support our clients, but we are committed to a solid balance sheet, a solid capital position, I think you and others should take comfort from that 7.5%.

There are clearly a number of factors that we will be thinking about, the whole sector will be thinking about. The regulator will have a point of view, and that may be a binary matter for the whole sector. I think the environment is relevant. If it is extremely uncertain it is hard for any company, including banks, to pay out big dividends. But in due course, the environment will normalise and at that point, what will be important is ongoing profitability, but also solvency. And our expectation is that TRIM has been delayed, Basel IV has been delayed and we need to demonstrate that those requirements are well met, in order to safeguard the dividends going forward.

No one's asked about Basel IV on this call yet, but I am pleased to confirm our Basel IV number is around 14%. We are still in excess of our prudent target early in the phasing, although Basel IV has been delayed. That should give comfort that we are well placed on dividends once the situation starts to normalise. And we will clearly update more on this after the summer.

Robin van den Broek: Thank you. I appreciate the colour.

Albert Ploegh (ING): Good morning. I will stick to two questions. First to come back on the CIB review. You mentioned all options are on the table, but maybe to frame this statement a little bit, you clearly have some activities that have high cost, but low capital intensity and on the risk profile, can you give a little bit of a feel? I know it is early days on the roughly EUR 40 billion RWAs but what kind of percentage you feel is now not meeting that risk profile? Just to have a bit of an idea of the scope of the review.

My second question is on the draw downs. I saw it is something like EUR 3.1 billion near the end of the quarter, in March obviously. Can you say a little bit on what you see in client behaviour so far in April and early May? Is some of that already paid back? And can you talk a bit about what kind of margin uplift that could give on the second quarter NII? Thank you.

Robert Swaak: I will take the first question, and Clifford, if you take the second part? I totally understand the question but let me repeat what I have said before. All CIB activities are currently in the scope of the review and I do not want to get ahead of the outcome of the review and I do not want to prejudge it either. So, I ask a bit of patience and we will come back to you on our findings, as we communicate on the results of the review during Q2.

Albert Ploegh: I understand.

Clifford Abrahams: And on those committed lines, it is very much stabilised through April and early May and by stabilised, I mean in some weeks you have seen committed lines coming back into the bank and in other cases modest drawing, but it is very much stabilised. If you recall, markets were very difficult at the end of March, and companies were concerned about access to debt markets. So drawing down on their committed lines and actually putting the money on deposit with us, generally speaking, a neutral from a liquidity perspective. That has very much stabilised during the period and since you see debt capital markets conditions normalised, not completely, but considerably. Those committed facilities generally reflect terms agreed in the past. They are not opportunities for widening spreads. We see scope while we help clients, we want to support our clients but we also need to reflect the current cost of funding and the constraints on balance sheets generally. So you would expect in the current environment, opportunities to safeguard margins are there. We are taking that well, so obviously being fair to our clients during this difficult period.

Albert Ploegh: Thank you, Clifford.

Bart Jooris (Degroof Petercam): Hello, also two questions from my side, first of all, on the measures Tanja mentioned and that you have taken, so that those large individual cases will not repeat. Could you give some more colour on that? How confident are you because that threatens to become a little bit of a trust issue in your investment case?

Secondly, if I understood it well, in CIB you did your Stage 2 provisioning mostly on whole sectors and sub-sectors. Is there a chance that you might finetune this in the coming quarters where you really go and look at the line-by-line or is that too large to do? Could we see some effect of this if you finetune that?

Tanja Cuppen: Indeed, these were significant incidents but it is also good to understand these were very unusual circumstances and in these circumstances, you see also that risks crystallise in this type of situation. Especially the fraud in TCF is such an example. Still, when we take losses we look at lessons learned and also see what we can take additional measures to strengthen our risk management, which we have done in this case as well. We have reviewed our Trade & Commodity Finance portfolio to see whether there are any positions that we would be concerned about, also taking into consideration these type of developments. The same goes for Clearing. We have gone through the portfolio and through the client base and look carefully as well to see if we would run into very extreme situations again and that we are sufficiently protected. So I am comfortable with the measures that we have taken. That is on your first question.

On your second question, the answer is yes. Yes, we will further finetune in the coming periods, dependent on actual developments with clients. At the end of March, this was our best estimate in terms of the clients that were significantly impacted by Covid-19, but by now we also start to see developments there, which clients run into further problems and which clients also are able to sustain a longer period of stress. So the answer is, yes.

Bart Jooris: Thank you very much.

Daphne Tsang (Redburn): Welcome Robert, just two questions please. The first is on dividend. You currently have dividend policy of at least 50% sustainable profit. I appreciate that you will give us an update but you will probably still be limited by the ECB's suggestions before October to do anything about dividend. But based on your current existing policy, would you classify the Covid-related losses, led by impairments, as unsustainable profit, and hence would you probably add back to the profit base when considering dividends? By doing, you probably may be paying out of your capital, but you seem to have a large surplus capital to weather that anyway. So if you can shed some colour on that, and whether the latest conversations banks have with regulators would suggest any lifting on the restriction before the government's guarantee schemes end? That would really be helpful.

My second question is on your loan guarantee scheme. I am just wondering what the uptake is in April or early May even. What is the impact you would expect on NII and NIM from the mix shift from retail, which you currently are seeing as relatively stable volume towards the Corporate and SME lending, where you are seeing some volume because of the draw down? Probably the mean pressure will be high, especially due to the guarantee schemes.

Robert Swaak: Clifford, you can take the second, I will answer the first question on dividend.

As I am sure you will appreciate, I know that dividend is important to your considerations, and it has a high-priority, certainly as incoming CEO, being very respectful of returns to shareholders. At the same time I also say that we are in Q1, we are in changing circumstances and that means it is just simply too early to give any kind of guidance. I also think in terms of the considerations we need to do, which includes a well-respected ECB view I think now is not the time for me to begin to articulate any additional considerations in terms of dividend. But again, let me just reiterate that I totally understand the importance of the question and also the relevance of returns to shareholders.

So with that maybe Clifford if you can take the second question?

Clifford Abrahams: Your question on government guaranteed loans and margins is a fair question, but I think the flows are still quite modest relative to our lending book of little over EUR 250 billion. We expect a stable or perhaps modestly slowing mortgage book. The growth that we expect is on the commercial and corporate side. That growth would be underpinned actually by the payment holidays because they are accruing, and that is a sizable amount in the case of the SME book.

The governments' amount that they have indicated to support the whole sector is quite material. It is billions for all banks. My expectation is if more is needed, more would be made available. I think the lending we have seen to-date has been fairly modest in terms of new lending. It is uncertain how that will build going forward but whether it is government-guaranteed funding or more general funding, we will support our clients. And in general terms that lending will give an adequate return to the bank. We will not make money on the guaranteed part, but equally we do not hold capital for the guaranteed part. On our residual risk, there will be a respectable return commensurate with the risk. That is one of the principles underpinning the government's approach. That gives you a feel, so I do not see dramatic changes in margins of the book as a whole. And the principal drivers are the ones I discussed earlier in the context of the presentation.

Robert Swaak: Thanks Clifford.

Alicia Chung (Exane BNP Paribas): Good morning, everyone. Just one question from me. When I look at the coverage ratios on your corporate loans as of today, you have a coverage ratio of 1% for Stage 2 loans, and 34% for Stage 3 loans, both of which screens seem quite low. Will the EUR 2.5 billion of provisions for 2020 include some allocations to increase coverage ratios on both of these or will it be simply used to fund provisions for stage migration and new NPEs? Thank you.

Tanja Cuppen: I need to take that question. Alicia, it will go to both. So it will be both new inflow, new defaulted assets as well as adding to the coverage ratio in case restructurings are more difficult than currently anticipated. You see that also in this quarter's provisioning parts of the impairments are related to existing Stage 3 files and parts of them are related to new ones.

Alicia Chung: So on that basis, what coverage ratios are you aiming for on the corporate Stage 2 and Stage 3 loans?

Tanja Cuppen: We do not have a target in terms of coverage ratio. Different types of exposures have also different coverage ratios. It is also dependent on the level of collateral and as you are aware, we do a lot of collateralised lending. So for example, in Trade & Commodity Finance, a significant part is collateralised lending, where I guess, for example, the Leverage Finance portfolio has less collateral and you would see on average, higher coverage ratios on defaulted assets in that portfolio.

Alicia Chung: Thank you.

Benoit Pétrarque (Kepler Cheuvreux): Yes. What will be the impact of the SME support factor and also the intangible deduction on capital please? Thank you.

Clifford Abrahams: I have seen that in the context of other banks. These are fairly small in the context of our 17.5%. We are looking at both, the SME support factor a positive development. On the capitalisation of IT, we do not generally do that. I think if there are capital benefits, we will explore it but I do not expect to see a wholesale change in our approach to IT capitalisation. So I see those benefitting the margin but quite small, given other things going on. You see, for example, we have maintained our TRIM add-on this quarter, and that is a material amount. We think that is sensible given our view that TRIM will be delayed but will happen. So happy to take offline the pluses or minuses, but those two I think are fairly modest in the scheme of things.

Benoit Pétrarque: Thank you very much.

Robert Swaak: If there are no further questions, thank you operator. Let me also thank you for your questions.

This concludes my first time on this call as CEO of ABN AMRO. As I said during the introduction, I really look forward to meeting all of you in person as soon as I can. But for now, thanks. Goodbye and take good care of yourselves.

End of call