Q3 2022 analyst & investor call
Transcript

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Robert Swaak: Good morning, everyone. Welcome to ABN AMRO's Q3 results. As always, joined by Lars Kramer, our CFO, and Tanja Cuppen, our CRO. I'll update you on the main topics again for this quarter before we start the Q&A session.

So let's get to the main events on slide two. The strong increase in our results reflects improved underlying operating income as well as a number of profitable divestments. Our deposit margin showed a strong recovery, driven by the rapid rise of interest rates during the year. Client activity remained strong during the third quarter, although we see higher energy prices and the war in Ukraine impacting consumer and producer confidence.

Underlying costs came down as we reduced external FTEs working on AML and IT by around 700. We again recovered impairments on non-performing loans this quarter, reducing our non-performing exposure significantly. So we have a clean balance sheet. And in the current difficult environment, we feel we are well positioned.

Our capital position remains strong. And looking ahead to the next quarter, we are flagging that the change in TLTRO terms is expected to impact our Q4 results by around €250 million pre-tax.

So let's turn to slide three. I'd like to start with a few words on the delivery of our strategy execution.

Nowadays, there's no real need any more to visit a retail branch as virtually all of our products and services can be handled online. Now this is a direct result of our investments we've made in our digital and online channels and allows us to further reduce our location footprint. Over the past years, we transformed our mortgage business, so clients can take out a new mortgage and manage their existing mortgage online. The success of our online mortgage channel is also demonstrated by the fact that we are currently a market leader.

Now, it is important that our elderly clients also receive the service they need. We have dedicated coaches, which the elderly can call on. If needed, we will visit the client's home. The service is highly valued and generally preferred to visiting a branch.

Moving on to Wealth Management. Our sustainable investment offering continues to attract clients with a further €1 billion of assets under management added.

Corporate Banking is continuing to show strength in client activity with asset volumes growing in Northwest Europe. The new proposition is our ID & pay application, an example of embedded banking. ID & pay aims to be Europe's first payment and identification service provider, and this application allows third parties to offer their clients digital identification and payment functionality using the bank's secure infrastructure.

On the next slide, I'll highlight the main Dutch economic indicators. The Dutch economy is still showing a decent performance. Unemployment remains low and the same goes for bankruptcies. We expect GDP to decline by the end of 2022 as demand weakens. The effect of higher energy prices is starting to be felt by households leading to lower consumer spending.

The government recently announced a support package of around €37 billion, partly compensating households and businesses for higher energy prices. This should dampen somewhat the impact on purchasing power, especially for lower income households. Given the backdrop of a worsening economic outlook, I want to highlight some key points demonstrating that our loan book is well positioned.

So let's turn to the next slide on our mortgage portfolio. Our largest portfolio consists of Dutch mortgages, so let me give you a qualitative view on the risks in this portfolio. During the previous financial crisis, house prices bottomed out in the course of 2013, following a 20% decline from the previous high.

At that point, over one-third of our mortgages were under water. As you can see from the bottom chart, this resulted in impairments rising to around 25 basis points during 2012 and 2013. Actual loss rates over the whole downturn are much lower and over the period shown impairments averaged around 5 basis points.

Now moving to our current mortgage portfolio. If we would experience a similar decline in house prices, only 11% of mortgage is at risk of negative equity, so a significant improvement. Materialisation of losses in the mortgage book is closely linked to unemployment, as you can see from the bottom chart. Currently, the unemployment rate is still very low at 3.7%, so we expect unemployment to slowly rise going forward, dampened by the Dutch government support. So all in all, we are very comfortable with the risks in our mortgage book.

Turning to slide six. I'll update you on our third quarter results, starting with our loan developments.

During the third quarter, our mortgage portfolio grew by €1.7 billion. Our market share increased to 19% in Q3, and we've held on to our market leader position since February. Corporate lending maintained commercial momentum with a loan book growing by €1.8 billion. A healthy one-fifth of the corporate deal pipeline is now due to new clients, and we are showing further growth on the back of our Northwest Europe strategy. Deposits remained stable this quarter following strong growth in Q2.

Turning to slide seven. I'll update you how positive rates are feeding through into our NII. During the third quarter, our deposit margins recovered strongly. The magnitude of the increase is unprecedented and reflects the rapid increase of central bank rates. Going forward, we expect margins will be increasingly driven by competitive forces rather than higher interest rates. Some competitors are already offering interest on savings accounts, and we will raise our rate to 25 basis points as of 1st December.

Mortgage prepayment penalties have now bottomed out, so I expect no further drag going forward. Reflecting the strong Q3 results, we now expect full year NII of around €5.3 billion, excluding incidentals.

Now on to slide eight, on fees and other income. Fees were resilient quarter-on-quarter and up 7% year-on-year. Both clearing and payment services fees showed strong performance year-on-year. Stock markets were down, leading to less trading activity and lower asset management fees.

Our income was up significantly. In total €175 million was reported as incidental in other income as all business segments booked gains from divestments. Excluding these divestments, other income was up €108 million due to strong results for ALM and an equity stake revaluation.

While significant gains were booked this quarter, unwinding the TLTRO interest rate hedge will impact other income in Q4. Now the impact from unwinding the hedge adjusting for remaining TLTRO benefit under the original terms is around €250 million.

I'll discuss our costs now on slide nine. The underlying costs declined as external FTEs came down by more than 700, mainly in the areas of anti-money laundering and IT. With AML, FTE reductions mainly took place in the business as usual operations with a modest FTE reduction in the remediation projects. As we've mentioned before, we don't expect to absorb the impact of elective labour agreement in our full year cost guidance of €5.3 billion. The new CLA will add around €60 million to personnel costs this year, rising to €120 million by 2024.

For our 2024 target, we assumed an overall inflation of between 2% and 3%, and the current CLA adds around 3% inflation to our personnel expenses. So it is clear that in the current environment, we'll need to work hard to meet our cost target, which we formulated back in 2020. However, having the organisation work towards an absolute cost base does enforce focus and discipline, and I'd like to keep the bar high on cost reductions.

Turning to slide 10, on impairments and asset quality. We took around €60 million of additions in Stage 1 and 2, mainly related to the worsened economic outlook. In addition, we added €30 million management overlay related to the government plans for reducing the overall nitrogen emissions in the Netherlands. Offsetting these overlays are sizable releases in Stage 3.

These are mainly driven by a number of defaulted loans, which were successfully restructured or cured. Earlier in this presentation, I highlighted the quality of our mortgage portfolio. Back in 2020, we made the strategic decision to clean up our loan book, winding down what subsequently became our non-core exposures. Currently, our non-core exposures are very limited and well provisioned for.

Turning to our core corporate lending portfolio. As you can see from the table, we are in good shape. We have just over €3 billion in Stage 3 exposures of corporate loans. Non-performing exposures declined further this quarter as we successfully restructured and cured several loans, while other clients repaid or returned to Stage 2.

So in summary, a clean balance sheet, and with that, we're well positioned in case of a downturn.

So let's then turn to slide 11 for capital. Well capitalised with a Basel III CET 1 ratio of 15.2% and a Basel IV ratio of around 16%. This quarter, we deducted the conditional share buyback of €250 million from capital, leading to an impact of around 20 basis points. Around half the increase in credit risk RWA is due to removing the SME support factor from part of our SME portfolio where we need additional data from our clients.

Also certain models were changed from advanced to foundation IRB. And over the past three years, significant Basel III model add-ons were taken as well as moving some advanced models to foundation or standardised. Going forward, we may experience further impact from the regular and ongoing model updates. However, the risk of further RWA increases has diminished.

Basel IV RWAs are now below Basel III, reflecting the increased conservatism now included in our Basel III credit RWAs.

So let me summarise. We delivered another good set of results, which has boosted our year-to-date return on equity to 9.4%. NII is benefiting from the return to positive interest rates. We saw underlying costs coming down as external FTEs declined. These positive jaws will then support our results as we go into an uncertain future.

The balance sheet is well positioned for the uncertain times ahead. Dutch mortgages are in much better shape compared to the last downturn. We cleaned up our balance sheet by winding down our non-core exposure. We have a strong capital position and the full year results are taking shape. We are evaluating next steps and I'll update you on capital returns at Q4.

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

Questions and Answers

Operator: As a reminder, if you would like to ask a question or make a contribution, please press star one. Please limit yourselves to two questions per person. The first question comes from the line of Benoît Pétrarque of Kepler Cheuvreux. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux): Yes. Good morning. So two questions on my side. The first one is on net interest income. Obviously, back to May, you provided us a very useful update on NII sensitivity to a forward rate scenario. I was – I mean, rates have been moving up quite sharply since then. I was wondering if you could just duration-wise update us on where we might land for 2023 and 2024? And I think back then, you kind of capped the deposit margin at around these record levels as from 2023. Where are you – or where will you be, let's say, at the end of the year after the 25 bps increase in deposit rates versus your historical deposit margin? Are you getting close to that level? Or do you think there's still a bit of upside in 2023?

And I was also conceptually trying to understand why a historical deposit margin is a good proxy for future NII developments, given that banks and the entire banking sector has been suffering from a very low and depressed deposit margin for quite some years, almost 10 years now.

And then the second question is on capital returns. How do you read the comments made by the Dutch Central Bank? Does that make you a little bit more, well, cautious ahead of a potential update in the fourth quarter? Or do you still think that ABN is a very strong position, and therefore, we should be hopeful for a capital distribution? And then if I just may, on the DPS for 2022. There are quite a number of positive one-offs at the end of the day in the EPS. So will you calculate your DPS on a 50% reported EPS? Or do we need to kind of adjust the DPS for dividend calculation? Thank you very much.

Robert Swaak: Thanks, Benoit. On your last question, it is – it will continue to be the 50%. So we're not going to change that. On your second question, on capital return, the statements by the Dutch regulator are clearly understood. Given the economic conditions, it doesn't change our conversation constructive dialogue we have with the regulator on any capital return. So we still expect to update you at Q4.

Lars, for NII.

Lars Kramer: Yeah. Benoît, on the NII, I mean, we really use an approach where we do look at the historical margin, and that's how we've done our estimations. And that's why also the sensitivity that we put out at the end of Q1, we use that as a basis.

Now clearly, with the very sharp increases that we've had over the last three to five months, that level of historical margin, we've been getting closer to it. We're not there yet. So there is definitely some room for some further upside.

The other area that we also clearly have in terms of further sensitivity going forward is also around our equity position, right? So that is also something that stays sensitive going forward. The areas that ultimately when we put that sensitivity together in Q1, we also said it was very much focused on the liability side. Ultimately, and focused on the interest rate side, I mean, clearly, we also do still have some potential for growth both on the liabilities as well as on the asset side.

Benoît Pétrarque: Okay. So no update at this point also – is the €200 million still – for next year delta, for next year is still looks quite conservative. Is that – or should we –

Lars Kramer: Sensitivity in terms of quantum, but it's clearly been pulled forward. So you've got to look at the year one and the year two, where the biggest increases were projected and that timeframe has been pulled forward.

Benoît Pétrarque: Great. Thank you very much.

Robert Swaak: Thanks, Benoît.

Operator: The next question comes from the line of Benjamin Goy of Deutsche Bank. Please go ahead.

Benjamin Goy (Deutsche Bank): Yes. Hi. Good morning. I was just wondering in terms of capital return, whether withholding tax play any role in the timing or the scope of share buyback?

And then secondly, if I hear you correctly on the 2024 cost, you don't want to change it, the target, but maybe you can discuss a bit more the moving parts since you gave that guidance almost two years ago. Obviously, a lot has changed. And – yeah, maybe give a bit more colour because it would be a substantial reduction, which I think is for almost any bank in Europe, very difficult to achieve. Thank you very much.

Robert Swaak: Yeah, thank you. I'll take the first question, Lars. You can take a question on withholding tax. So, on your first question, we're going to update you at Q4. Right now we're seeing a Basel IV of around 16%.

At the time when we talked about the 13% to 15%, we indicated that, that 15% is a threshold. And what I've said in previous quarters is that as long as it's not constraining in our considerations, I wouldn't feel a need to change that 15%.

Now we're still at Basel IV around 16%. So we're going to complete our review on potential capital we'll return at Q4. We'll then update you also accordingly.

Lars Kramer: On the withholding tax, that's not really something that drives us.

Benjamin Goy: Okay. Good to hear that you have more flexibility there. But on costs, 2024, any more colour you can give other than the CLA which comes on top?

Robert Swaak: Yeah. So the colour I would give on the cost for '24. Clearly, this is a process we've been in since 2020. And it's not – it's certainly something that is the cost levers that we've talked about before, are in part, back-end loaded. We've indicated this before when we signalled AML costs coming down.

Now clearly we would expect – you already see some of our FTE reductions in the course of this year. But as we complete our remediation programmes in '23, we would expect to see a continued decrease of AML costs. We've signalled before also that regulatory levies are back-end loaded toward – into '24.

At the same time, we considered to – we continue to wind down our non-core operations. Now clearly, that's not linear. And so we expect to have some of the €100 million benefits that we also see still from that process coming in toward '24. So we continue to target 4.7 in a highly inflationary environment. But hopefully, that gives you a little bit of colour on how we see the pathway into the targets that we've set for ourselves right now.

Benjamin Goy: Good. Thank you.

Operator: The next question comes from the line of Giulia Miotto of Morgan Stanley. Please go ahead.

Giulia Aurora Miotto (Morgan Stanley): Hi. Good morning. Can I check something on the capital – like regulatory impact. Are you now done with the move from advanced to foundation or is there more to come? And if there is more to come, can you perhaps quantify that? So that's my first question.

Then secondly, in terms of NII, in terms of deposit beta, so you mentioned that frontier competitive portions will drive the deposit margin. What sort of deposit beta do – should we expect in the Netherlands? I think in other markets, further ahead with the heightened cycle less in UK but in the US, also beta remains below 50%. So is that your expectation for the demand as well as to like, I don't know, 30% maybe would be realistic? Thank you.

Robert Swaak: Thanks, Giulia. Tanja, if you could take the questions on capital. Lars can comment on NII beta.

Tanja Cuppen: Yes. On capital, yes, as you've seen Basel III and Basel IV RWAs have been converging now for some time. And actually, well, Basel III is now higher than Basel IV. And indeed, we have been redeveloping models – are still in the process of redeveloping models and are moving models to foundation, where we make an estimate on what the impact will be. And that process will continue, although the majority of that process is behind us.

But for the future, we do expect further development of models, further updates and that can have both positive as well as a negative impact on RWAs.

Giulia Aurora Miotto: Can I follow up there? Sorry, just a second. And I was surprised actually the Basel III is now below Basel IV. And I was wondering does it make sense? Or ultimately, the like Basel IV will come down – yeah, it seems quite strange to me.

Tanja Cuppen: Yeah. So it has to do actually with the rules of Basel IV versus Basel III. And there are some technical differences there that have an impact. For example, of large corporates in the Basel IV, you're required to go to a foundational approach. That means they should take a standardised approach to loss given default and apply a floor there. And the floor on the Basel III is actually higher than the Basel IV. And so that explains the difference.

And for this portfolio, we are already going to foundation and the Basel III. And later on, we will move to Basel IV, which will mean that RWAs will be lower than on the Basel III. So there are technical explanations for that difference.

Giulia Aurora Miotto: Interesting. Okay. Thank you. But for capital distribution this year, the threshold is 15% is the top line on Basel III or Basel IV? Sorry –

Robert Swaak: It's Basel IV. Yeah, no worries. It's Basel IV. We'll go to your beta question, Giulia. Lars?

Lars Kramer: Yes. Giulia, hi. It's Lars. Look, on betas, ultimately, we do sort of place our own projections on our historical margins. So betas will play a part. I mean you've seen a bit how the market has started repricing very quickly from negative up to zero. I mean that was a very, very quick repricing. So there, you have a pretty high beta.

In terms of what's happened subsequently, we've also seen a step through in terms of the bigger banks going up with the 25 basis points. We are going in there on 1st December. Ultimately, the beta will be determined by how we react in terms of competitively against each other and the – ultimately, the funding flows and how the customers reposition their deposits between the banks.

Pretty much most of the customers here in the Netherlands are multi-banks. So we would expect our deposit position to actually stay quite stable. And you actually see that already in Q3 deposit levels have actually been quite stable.

Giulia Aurora Miotto: Thank you.

Robert Swaak: Thank you.

Operator: The next question comes from the line of Tarik El Mejjad of Bank of America. Please go ahead.

Tarik El Mejjad (Bank of America): Hi. Good morning. Just a couple of questions, please. On the TLTRO, the one-off cost in Q4 will be booked in other income rather than NII. Can you confirm that, please?

And the second question is more strategic on the CIB. I understand at the moment, it's quite difficult to roll over again a growth strategy, given the slowdown in the macro. You have to be careful a bit about asset quality and underwriting. So how do you see then your growth in that area in the next few years evolving, especially that – is there a risk that you – given that you're already kind of subscale or small in some sectors, not all, would make you difficult to rebuild the franchise there? Just really to understand your strategy in that part of the business. Thank you very much.

Robert Swaak: Yeah, thanks for the question. So let me confirm the €250 million is in other income. We – in terms of the strategy for CIB, we have been very, very clear that the way we're rebuilding our corporate bank is through very focused approaches into sectors where we've had traditional strengths and where we are well positioned in the Northwest European markets that we serve.

And that means that we – clearly, as we navigate more difficult economic times, certainly, we would expect to see some impact on volumes, particularly if economic conditions continue to worsen. At the same time, we're also positioned for transition sectors, such as renewables, transition sectors in energy that we've – and new energies that we're very close to.

We've positioned ourselves in sectors around mobility, but also digital. So diversified with focus. And so overall, generically, you're right, as economic conditions continue to potentially worsen, it could lead to a slack of volume growth, but it's – I would say that's generic for the industry. It's not specific for us. We have made some very specific choices – focused choices in the markets in which we operate.

Lars, anything you want to say on the €250 million other income?

Lars Kramer: Well, I think on the TLTRO, materially, yes, it will go into other income. There will be a small bit that goes into the NII as well.

Tarik El Mejjad: Okay. Thank you very much.

Lars Kramer: Thank you.

Operator: The next question comes from the line of Anke Reingen of RBC. Please go ahead.

Anke Reingen (RBC): Yeah. Thank you very much for taking my question. The first one is on your 2024 ROE target – or ROE target. Should this really be 10% now given the rate environment?

And then secondly, thanks for the detail on the mortgage market and the provisioning. I just wonder what the sensitivity is to risk weightings. Would that be something that, yeah, depending on the house price move, what impact should we see on risk weightings? Thank you very much.

Robert Swaak: Thank you. I'll ask Tanja to comment on the risk weighting in the mortgage market. And your question on ROEs with the implied forward rates that 10% is still attainable. Keep in mind that we're looking for a '24 outcome in changing economic conditions. So that we do need to keep in the back of our minds. But with the forward implied rates, that 10% is attainable.

Tanja Cuppen: Okay. And then on the mortgage market, as you are aware, there is a DNB floor for RWAs for mortgages. And – well, that is based on loan to values, but we are quite far away from the fact that, well, this mortgage floor will not be the constraining factor in calculating RWAs for mortgages. So I don't expect a significant impact.

Anke Reingen: Okay. Thank you very much for that context. Thanks.

Robert Swaak: Thank you.

Operator: The next question comes from the name of Amit Goel of Barclays. Please go ahead.

Amit Goel (Barclays): Hi. Thank you. So two questions. One, so – I think hopefully, I understood it correctly. In terms of the €250 million buyback, it seems unlikely that any of that will get completed in the remainder of this year. But I'm just curious, can you announce a new programme before that has actually been kind of fully executed?

And the second question is just coming back again on NII. I'm just kind of curious, again, in terms of the moving parts, why effectively the Q4 implied is not higher still? And what are the moving parts or the main moving parts that you see for next year versus this year? Thank you.

Robert Swaak: Thank you. Thanks for the question. Lars, if you can take the implied in Q4, and I'll take that first question. The short answer is yes, we can do that. We can still conclude off on separate programmes. And Lars, maybe –

Lars Kramer: Yeah. And I would say in terms of the NII in the fourth quarter, the – one of the big drag factors that has to still work its way through and finally is obviously on the negative rate reset where we have – where we are stepping through on 1st October. So that has to still work its way through for the full quarter.

And then for next year, clearly with the rates where they are, the duration of the mortgage book also continues to go out, and we have to ultimately, in terms of our interest rate management, we are managing that duration as well. And if the rates keep going up, that is also an expense that we have to factor in as a potential future drag.

Amit Goel: Okay. Thank you.

Robert Swaak: Thank you.

Operator: The next question comes from the line of Andreas Scheriau of Goldman Sachs. Please go ahead.

Andreas Scheriau (Goldman Sachs): Hi. Thank you very much for taking my questions. Can I come back to NII, please? At what point and to what extent would you expect deposit migration from current accounts into savings or term deposits?

And then secondly, how do you think about current accounts? Would you consider paying an interest rate on those? Or do you consider them operational balances? And you will not – are you not planning on paying anything there? And could you comment on the factors you consider when setting savings rates in general, perhaps you can specifically talk about the role of the replication yield in this context? You've talked about the margin cap, for instance, before. Thank you.

Robert Swaak: Lars?

Lars Kramer: Yeah. So, on the current accounts, we do see those as operational. So we would not be charging or paying interest rates on those. Really the setting of the rates on the accounts, primarily comes back to, can we preserve or at least get to the historical margins that we are – that we use as a reference point. And ultimately, though, there is always the main external driver is what do the other banks do. And then do we see something underlying in terms of customer behaviour. And it's a clear reflection is how quickly the banks have moved in the last quarter on this.

Robert Swaak: Yeah. And let me just reiterate that increasingly, that is becoming – will be the normal environment which we see market dynamics we've seen before, which is really driven by competitive behaviour by banks, as well as any funding costs as a factor.

Lars Kramer: Yeah. And I think the – and in terms of your question on switching, for us, this is also very much a funding management exercise. So if we do in terms of also trying to steer the balance sheet as to the sort of length of funding that we need, sometimes we would set the term deposits and start increasing the rates. But at the moment, we're so liquid, that that is not really something that's necessary, obviously, as liquidity and funding tighten, then that becomes more of a factor in terms of attracting longer-term savings.

Andreas Scheriau: Perfect. Thank you very much.

Robert Swaak: Thank you.

Operator: The next question comes from the line of Farquhar Murray of Autonomous. Please go ahead.

Farquhar Murray (Autonomous): Good morning, all. Just two questions, if I may. Actually, unfortunately, all worth coming back to NII. Firstly, in terms of your guidance, obviously, it implies about €1.4 billion to €1.5 billion for the fourth quarter. If we adjust that for kind of the negative deposit rate of about, say, €80 million and TLTRO of about €40 million. Are there any other adjustments to make in order to kind of hit the run rate going into next year?

And then just more generally, I'm a little bit surprised by your positive commentary around volumes in mortgages and corporate loans. Could you just outline what's behind that given the macro backdrop, and also obviously, much, much higher mortgage interest rates in the backdrop, which is obviously kind of reduced volumes elsewhere? And do you think that momentum can continue into next year? Thanks.

Robert Swaak: Yeah, I'll take the volumes question. Lars, do you want to –

Lars Kramer: I mean on the NII, I think those are the two major moving parts that you can factor in.

Farquhar Murray: Perfect.

Robert Swaak: Yeah. And just back to your question on volumes, I think I clearly indicated that negative economic circumstances will – are bound to have impact on volumes. So both on – in the mortgage book, we would expect volumes to begin to come down over the next few quarters. I mean that's clearly an expectation driven by the rising interest rates. And if economic conditions continue to worsen, I would expect to see volume effects certainly given the outlooks.

Farquhar Murray: Just wondering, have you not seen those to some degree already? I mean obviously, the headline rate has obviously moved than presumably customers can see that and must be responding already?

Robert Swaak: Well, we're starting to see a slowdown, certainly of volumes. But when you look at our Q3 performance, there's still a level of high performance on the back of – at the time rising interest rates, which drove a volume quite a bit. But certainly, in the last quarter, we should expect to see volumes beginning to come down.

Farquhar Murray: And do you think the loan book would come down, particularly on the mortgage side next year then, even if just modestly?

Lars Kramer: You're talking about a net deleveraging or just –

Farquhar Murray: Just mortgage – balance.

Lars Kramer: No, I wouldn't expect – also if you look at our expectations on the macro here in the Netherlands, it's definitely not as depressed as the rest of Europe either. So from a GDP perspective, okay, we do expect some recessionary pressure here. But in terms of stock levels, I don't expect that to be happening.

I mean what is interesting is that with the interest rates rising, okay, it's really slowed down the refinancing pressure. And therefore, that level of demand has come off and it's pretty much gone now. But it has had an effect on house prices. And lower house prices actually does have some beneficial impact on demand as well. So that you were asking a bit just maybe underlying some of the continued build-up is actually prices coming down. And I mean, you know the market over here is structurally undersupplied. So that's another area.

And then the other thing with the increase in rates that is actually helpful is because people are not refinancing as much or hardly at all. That refinancing in the past used to actually mean quite a lot of people took their mortgages away and went to another bank. So effectively, the backdoor is also closed in terms of outflows. So the outflow side of the mortgage book has also reduced. So all of that, I think, is reasonably defensive on the overall level of the stock of mortgages.

Farquhar Murray: Okay. Thanks very much. That's really helpful.

Robert Swaak: Thank you.

Operator: The next question comes from the Kiri Vijayarajah of HSBC. Please go ahead.

Kiri Vijayarajah (HSBC): Yes. Good morning, everyone. Just a couple of quick questions left. So firstly, on the other income line, you've had a steady stream of gains, real estate disposals through the course of this year. So presumably, that falls back towards more normal levels in 2023. So what should we be thinking about as kind of a more normalised quarterly run rate there? I know going back a couple of years, you did have some quite old guidance of €50 million a quarter. So would that be quite a good benchmark to use for next year on the other income line?

And then on the short-term NII drivers, I think last quarter, you mentioned mortgage steering costs as a drag. So is that something that suddenly got a lot easier for you guys to manage? Or is it more a case that those mortgage steering costs you're now able to pass on to the end customer, so just sort of making sure that, that's kind of now dropped out of the equation as a drag on your NII and what's happening in terms of Dutch mortgage pricing on that front? Thank you.

Robert Swaak: Thank you. I think it's fair to say on other income, we're not providing any additional guidance other than the volatility that you see in other income. Lars, over to you.

Lars Kramer: Yeah, on the NII and the steering costs. As I mentioned earlier, I mean, the steering costs are always there, but definitely in terms of where if you were to look at the steering costs three months ago, six months ago, those have come down, and we have repositioned.

Now, are they going to disappear completely? No, they're always going to be a factor, and it really is linked to a bit of volatility of the interest rates. So as the volatility reduces, that steering cost will also come off.

Kiri Vijayarajah: Okay. Thank you.

Robert Swaak: Thanks.

Operator: As a reminder, if you would like to ask a question, please press star one. The next question comes from the line of Benoît Pétrarque of Kepler Cheuvreux. Please go ahead.

Benoît Pétrarque: Yes. Sorry, I've got two follow-up questions. I think the first one is on the question from Giulia on Basel IV, Basel III. So just to understand it correctly, if you talk to your regulator, the DNB, let's say, and ECB, are they focusing – when you talk with them about capital distribution, are they focusing on the Basel III or the Basel IV figure? I will be surprised if they will be focusing on the Basel IV because then you will end up ultimately potentially paying back some of the future regulatory tailwinds to shareholders upfront. So I was kind of curious where this stands.

And then just to come back, sorry, on this beta discussion, the fact that Rabo moved to 25 bps and you followed quite fast afterwards. Is this first move not a response to a kind of expectation from the Dutch society that rates moved up, therefore, banks should remunerate positively deposits? Or do you – I mean, you seem to read something more aggressive from your competitors, i.e., that – yeah, the pass-through is quite high and will remain quite high, i.e., the upside for shareholders on NII is going to be quite limited.

So I wanted to understand better seems to – it seems that you have more on the defensive side in terms of pass-through. While I had more of a read of kind of, yeah, the Dutch price have been talking about higher rates, everybody is talking about higher savings rates, now the large banks have been passing on the first 25 bps, but we should not expect a very aggressive stance from a – at the end of the day, quite consolidated banking landscape in the Netherlands. Thank you.

Robert Swaak: Tanja, do you want to comment on that?

Tanja Cuppen: Yeah. So I think the question on Basel III, Basel IV was on – and talking about distribution. And of course, we are talking about with our regulator, both on Basel III as well as on Basel IV. And on distributions to the market, we have provided our guidance with the 50%. So that has not changed.

Robert Swaak: On pricing?

Lars Kramer: And then in terms of the pricing, ultimately, we were very keen to get back to normal interest rates also in the view of, yes, customers and getting back out of the negative rate space as quickly as possible.

The next step up, I would honestly say is a bit of a combination of where have the rates gone – headline rates generally also rates on assets and then seeing a bit that we do not get caught by a competitor moving, especially with that first step from zero into positive territory. So we'll have to see a bit after this.

I mean it's not as if that was stimulated by any sort of funding issues or deposit rebalancing, clearly not, but we also just wanted to protect against that.

Benoît Pétrarque: Okay. Very clear. Thank you very much.

Operator: We currently have no further questions. If you would like to ask a question, please press star one. There are no further questions. I will hand back to your host for closing remarks.

Robert Swaak: All right. Thank you. Well, thanks, everyone. Thanks for taking the time and joining us on this call. Look forward to speaking to all of you again very soon. Thank you.

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

[END OF TRANSCRIPT]