ABN AMRO Q2 2023 Results Transcript

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

I will now hand you over to your host, Robert Swaak, the CEO, to begin today's conference. Thank you.

Robert Swaak: Thank you. Thanks very much, and good morning, everyone. Welcome to our Q2 results. I'm joined by Ferdinand Vaandrager, our interim CFO, and as always, by Tanja Cuppen, our CRO. I'll update you on the main topics for this quarter before we start the Q&A session. So let me first take you through the highlights on slide two.

Very pleased with another quarter of strong results. Net profit reflects strong NII and is supported by impairment releases as credit quality remained solid. NII continue to benefit from the higher interest rate environment. Our overall deposit volume remained stable while clients continue to transfer cash into interest-bearing accounts.

Business momentum is also holding up for corporate lending. We again managed to show growth on our mortgage portfolio despite a slow housing market. We have lowered our FY2023 cost outlook to €5.2 billion as the SRF contribution this year was lower than expected. The tight labour market is causing a delay in sourcing qualified staff we need for a number of investments and therefore will lead to a cost overrun into 2024.

In addition, the continuing higher inflation and slower reduction of our AML costs than we had anticipated also means that we will not be successful in bringing down cost of €4.7 billion by 2024.

Now, as we're nearing the end of our plan period, we will also be updating you on our financial targets at our Q4 results. In addition, we will present a new capital framework and update you on potential share buybacks.

We’ve gone over the highlights. We set our interim dividend at €0.62 for the first half of 2023.

Turning to slide three, let me say a few words on our progress on executing our strategy. We are continuing to invest in our digital capabilities, including artificial intelligence, which has the potential to improve many aspects of our operations.

In Q2, we launched an interesting pilot that used an on-prem ChatGPT server which automatically records and summarises client calls. In addition, during the call, the advisor is automatically prompted with the right product pages based on the conversation. The advisors involved in the pilot are very enthusiastic as it allows them to spend more time with their clients and we are currently evaluating how we can incorporate this further and more broadly in our operations.

We are progressing further on the simplification of our Wealth Management organisation. In this quarter we established the branchification of Neuflize. Our Impact funds went live. And what is unique for this type of fund is the low minimum threshold of €50,000. This offers more clients the opportunity to continue to invest in companies striving for positive impact on people, planet and society.

ABN AMRO Ventures invested in a company whose product we used to detect fraud and protect our clients against malware, for example.

On the Dutch economy, which you'll find on slide four. The Dutch industry PMI rose slightly in July but still indicates a contraction of activity. And the outlook for the German industry worsened however, which is an important export market for the Netherlands. On the positive side, many sectors still carry large order books and we are starting to see lower purchase prices coming through.

Bankruptcy remains low confirming the resilience of the Dutch economy. House prices have now fallen 6% on average due to higher mortgage rates and deteriorated housing market sentiment. The end of the price correction isn't cited for 2024. We now expect a modest 3% decline.

The affordability and financing of homes will gradually improve as wage increases come through to compensate for inflation. And also the low number of transactions reflects the lack of new construction, which is hampered by higher interest rates, price inflation for materials and environmental restrictions.

The second quarter performance, let's take first NII, and you'll find that on slide five. Looking back at the last four quarters, our NII showed a strong recovery from the negative rate environment, mainly as deposit margins improved. Deposit margins still increased a bit further during Q2 with the effect of the higher rates starting to level off.

The margin we locked in on new mortgage production was in line with our average portfolio margin and also the portfolio volume increased somewhat. Corporate margins are holding up. And for deposits, the competitive forces we experienced and the impact this has on volumes and margins will become the main driver going forward. We expect to start to see some margin pressure on saving accounts following the last increase of 25 bps as of 1st August.

Treasury result was €50 million lower this quarter, and that was caused by unfavourable interest rates resets. This is not structural, and we expected the recovery followed by a further increase as the Treasury results still stands to benefit from higher rates.

Looking ahead to the next quarter, I expect a recovery in Treasury results while we may start to see some margin pressure on savings.

So turning to slide six on balance sheet developments. We are achieving good results in our strategic focus sectors, which are the digital sector, mobility and new energy. We made further gains in all of these sectors, particularly in our Northwest European markets. In our home market, the mortgage portfolio held up despite the slower housing markets. And new mortgage applications are gradually increasing now. So the third quarter might end up a bit strong.

Consumer loans declined due to higher repayments and less demand. This quarter, we further reduced the remaining non-core portfolio, which is now down to just €0.5 billion. We are making good progress on winding down the non-core back office operations in the various countries.

Moving to our client deposit base. As expected, clients continue to optimise their cash by switching to interest-bearing accounts. Overall, our client deposit volumes remain stable. And we see limited deposits leaving the bank as most of our clients opt for the savings products we have on offer, in particular our time deposits.

Returning to fees and other income on slide seven. Fees were flat compared to last quarter. During the second quarter, the market volatility was lower compared to previous quarter, and this is reflected in clearance fee income. Debt and equity markets were acquired in Q2 and fees are lower as a result.

Nevertheless, Corporate Banking showed an increase in fees and fee income due to a one-off fee booked in non-core. Wealth Management fee income was also stable driven by stable results for Asset Management. And other income was up versus Q1, largely related to fair value adjustments from IFRS 17 and higher Treasury results.

Now turning to slide eight on costs. Our cost saving programmes continued to deliver cost reductions. We made further progress on winding down non-core operations, and the implementation of our new client service model is also leading to savings. We booked a release related to the Single Resolution Fund as the contribution was lower than we originally anticipated. And this will bring down regulatory leverage for the full year to around €340 million. And as a consequence, we now expect full year cost of around €5.2 billion.

At the beginning of the year, we flagged a further – a need to further invest in our data capabilities, our digitalisation of our processes, and building up of our sustainable finance regulation capabilities. We are, due to tight labour markets, experiencing delays in sourcing staff for these projects. So we expect investment cost to increase in the second half of the year, and to run over into 2024. Now this is in contrast to the assumption we made on our cost target, where we, in fact, anticipated investments to decrease by €100 million in 2024.

Also more effort than expected is required to ensure AML activities can be maintained at the highest standards needed to fulfil our gatekeeper role. But it is clear that our AML processes are becoming increasingly more complex and our original assumptions on related cost reductions need to be reviewed.

We acknowledged at the beginning of the year that it would be challenging to reach our 2024 cost targets. An increasing number of our original assumptions back in 2020 have come under pressure and we faced an inflationary environment, continued delayed investments or I should say delayed investments, and new insight in our future AML operations. We will deliver on our non-core cost reduction. And I also expect regulatory levies to come down further.

As we stand here today, it is clear we're not going to succeed in reaching our target of €4.7 billion by next year. But I will add immediately that we will remain fully committed to cost effectiveness. That is not changing. We started to work on a financial plan for the years ahead, and therefore we'll present you with our new financial targets with our Q4 results.

Turning to impairments on slide nine. This quarter, we saw a release in impairments of €69 million, which was for large part related to the release of the remaining COVID overlay and a net release on individual corporate files. After an assessment of a large number of clients, we concluded that the impact of COVID-19 on our clients has been absorbed in the credit risk metrics and an overlay was no longer warranted.

The overlay related to the war in Ukraine has obviously kept in place. For some new provisioning related to inflow in Stage 3, however, more than offset by releases in individual corporate files both in core and non-core.

The inflow on Stage 3 for mortgages was related to the introduction of stricter credit monitoring metrics. The credit quality of our book remains solid and the impact of the economic slowdown in our loan portfolio is not visible so far. And therefore, we expect the cost of risk for 2023 to remain well below our through-the-cycle cost of risk of 20 basis points.

Slide 10 on capital. Our Basel III capital ratio stands at 14.9% and Basel IV at around 16%. And we remain well capitalised. 50% of our net profit is added to common equity tier one capital and the other half approved to our dividend reserves. Offsetting the capital generations were higher RWAs due to model updates, and this is only partially offset by credit quality improvements and business developments. The countercyclical buffer increased as of 25th May, has raised the MDA trigger to 10.5%. However, our capital position remains well beyond this level.

Now, to round out with our financial targets. We're off to a good year, a good start of the year, actually, with an ROE well above our 10% ambition. Our NII has recovered from the negative interest rate environment and we have more or less completed the de-risking of our balance sheet with the wind down of our non-core portfolio. A solid risk profile and a resilient Dutch economy have led to impairment releases over the first half of the year, which has further boosted our results.

As I mentioned, cost targets for ’24 are no longer achievable. Also given the delay, we are currently facing in attracting staff. We have announced that we will present our new financial targets and capital framework with our Q4 results, given that we're nearing the end of our plan period. In addition, we will present or update you on our share buybacks.

With that, I guess this is the time to ask the operator to open the call for questions.

Questions and Answers

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Giulia Miotto at Morgan Stanley. Your line is open. Please go ahead.

Giulia Aurora Miotto (Morgan Stanley): Yes. Hi. Good morning. A couple of questions for me. The first one, maybe [inaudible] today is rather than bank taxes. We have seen some headlines yesterday coming from Italy –

Robert Swaak: Sorry. Say again, Giulia on the cash –

Giulia Aurora Miotto: Yes, can you hear me well?

Robert Swaak: Yes, I can hear you fine. Yeah.

Giulia Aurora Miotto: Okay, perfect. I was saying we have seen some totally unexpected headlines yesterday coming from Italy. And I was wondering if you sense anything similar coming in any of your markets? So that is my first question.

Then the second question on the NII line. So ABN has a long-dated replicating portfolio. And therefore, I was wondering how – whereas rates are expected to start coming down towards the end of next year, and then in 2025. So how long do you think the NII can keep growing for? And if you could maybe update the rate sensitivity guidance that will be also very welcome. Thank you.

Robert Swaak: Okay. Yeah, thanks, Giulia. I'll ask Ferdinand to take the questions on NII.

Yeah, on the unexpected communication out of Italy. I'll leave it for the Italians to deal with the outcome of that we translated it to into our main markets. We haven't had any kind of suggestions of announcements of the kind. I would also say that the Dutch market right now, in the way of interest rates and deposit rates, is a very transparent market. We have optionality for our customers in market. Customers can switch between banks fairly easily. And there's a wide variety of interest rates if I can say that on offer.

In addition, what we also had in particularly the Dutch market, the Dutch banks have been paying bank taxes for about ten years now. It's about €500 million on an annual basis, for ABN AMRO about €100 million. So we've had a – we've already had some kind of a measure for banks to be taxed separately.

We see a good functioning market on interest rates here in the Netherlands with customers actually having a choice. And also I would say, windfall gains – I mean, if you look at the way the development of ROEs generally in the past versus where we are now, we're quite happy where we're ending up now. But to start to talk about windfall gains in light of financial, the financial results over the last few years, I think that's certainly trying to come to terms with that term. Let me put it that way.

So in summary, functioning market has transparent market, customer choice and bank taxes, they're being paid. So we haven't really heard any of these kinds of messages coming into our market.

Robert Swaak: NII, Ferdinand?

Ferdinand Vaandrager: Yeah. Hi, Giulia. If you look for this quarter to the underlying drivers for us, number one is deposit margins where we still see improvements, although it's clear that the effect of higher rates on the replicating portfolio starts gradually levelling off from current levels.

Then secondly, you have the Treasury results, our equity mismatch, yeah, that will keep adding over the coming quarters as a positive driver, Robert has already indicated, this can be volatile. So to provide a bit more transparency, we said, it was a quarter-on-quarter negatives from a roughly €50 million related to the repricing profile of our swap portfolio.

But if you look for the next quarter, that's why we say it was – due to volatility, we can already see the roll-off on some shorter term receiver swaps that will catch up in the next quarter.

Then the last lever clearly what's happening with asset margins on lending products. And there we see that they're holding up as pricing is catching up with the higher rates.

So then going forward, we are entering now more of a BAU situation, where deposit margins will be driven by the effect of competition on volumes and margins. You've seen we have a stable deposit - overall deposit level. But you've also seen in the past four months, there were three rate increases. So the ability to predict what's going to happen there is low and competition behaviour is unknown. But what you do see that the margins on current accounts clearly still benefit from higher rates. And also our Treasury results continue to benefit from that.

So also you're linked to the replicating portfolio. And then I stop there, clearly around 40% is on less than - reprices in less than a year. And overall is roughly three-year duration. But you know the investments there in swaps is in a barbell structure.

Giulia Aurora Miotto: Thank you. Can I just follow-up on one thing you said. So replicating portfolio is levelling off. So does this mean that you don't expect the benefit to continue to come through for a few quarters? Or is that still a positive? I would have thought the replicating portfolio is still a positive to your NII?

Ferdinand Vaandrager: Yes, but I'm just saying the rate of increases quarter-over-quarter is levelling off.

Giulia Aurora Miotto: Okay. Thank you.

Robert Swaak: And they are still positive.

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

Flora Bocahut (Jefferies): Yes. Thank you. Good morning.

Robert Swaak: Good morning.

Flora Bocahut: The first question I wanted to ask you is coming back to the NII. I mean, I just heard all the details that you gave us, and thank you for this. The question I have is very simple. Based on everything you just described, it looks to me also thinking that we are about to have rate cuts probably next year. Should we expect therefore that this year is going to be the peak of NII? And when we look forward towards ’24, ’25, there is a risk that NII declines.

The second question is on RWA. I think you had guided on the past that the Model Review Impact would last all year. We had it in Q2, we had it in Q1. Should we expect further RWA increase from model reviews in H2 this year as well? Thank you.

Robert Swaak: Ferdinand, NII, and then, Tanja.

Ferdinand Vaandrager: Yeah, NII and I know it's a key topic. Is it peak NII or not. I just explained what the underlying elements and drivers are. And as already alluded to, the expectation of potentially the ECB pivoting start happening end of next year. So with all those elements and also an unknown volume margin on the back of competition, it's very hard to predict that. And I think it's definitely too early to start guiding what we expect NII to do in ’24 and ’25.

Tanja Cuppen: Okay. Yes. On RWA, yeah, as you indicated, we have taken significant steps already in simplifying our model landscape and preparing for the introduction of Basel IV. And thereby, the largest part of RWA increases is behind us. We do expect further RWA increases that can result from, for example, model reviews that we are doing on an ongoing basis, but also methodology and policy changes. And still also moving IRB models to more standardised or foundation approaches. So yes, we will continue to work on our model landscape and adjust RWAs, as it comes.

I think important to know as well as that the impact of model-related increases on the Basel IV are lower than under Basel III.

Flora Bocahut: Thank you.

Robert Swaak: Thank you.

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

Farquhar Murray (Autonomous): Hi. Morning, all. Just two questions, if I may. Firstly, on the capital return update. Could you just elaborate on the reasoning for timing this year end results? It feels a little bit like a deferral. And is ABN now committing to a strict annual pattern of updates from here, which seems perhaps a bit less frequent than peers?

And then secondly, just coming back to the NII conversation. Thanks for the details there. Just in terms of that €50 million step down, should I therefore think of that as kind of a struct permanent kind of clunk down in terms of the Treasury book that probably gradually recovers? Or are you suggesting that receiver swap conversation is actually going to recover a fair chunk of that relatively quickly? I just wouldn't mind understanding how much – how to look through the volatility there, if that's okay. Thanks.

Robert Swaak: Yeah, thanks for the questions. Ferdinand will follow up on NII. Let me take capital return.

We – since we are updating our financial KPIs at the end of the year, because we're nearing the end of a plan period, we also thought it was good to then update our capital framework at the same time, because clearly, we're running into the end of our – we're getting nearer to the end of a plan period, based on assumptions that we had concluded off on it in 2020. And we felt it was better than to take both the update on our targets together with an update on capital framework, and therefore then also can be able to conclude off on potential share buyback.

So we'd rather do it together than start to do this piecemeal. And I think from the – from where we are in the plan period, it makes good sense.

In terms of the frequency that you've alluded to, I wouldn't infer any conclusions from the fact that we're doing an update on our financial targets in Q1. We will review our capital framework and we'll come back and revert then at that time, both on the framework and on share buybacks.

Ferdinand Vaandrager: Yeah, Farquhar, hi. Just coming back on the more volatility in the Treasury results. As said, it's clearly still a positive, but the positive effect is lower than in the previous quarter. They've always said that this line item can be volatile because it's fully related to the repricing profile to swap portfolio. So can this quickly reverse in the next quarter? So as said in the previous comments, we are highlighting this and also expect this to recover, if you look at the next quarter, as I said, that's potentially linked to the roll-off of some shorter term receiver swaps, which can then have the additional positive effect in the next one.

Farquhar Murray: Okay, great. Many thanks.

Robert Swaak: Okay, thanks.

Operator: Thank you. We'll take our next question from Tarik El Mejjad at Bank of America. Your line is open. Please go ahead.

Tarik El Mejjad (Bank of America): Hi. Good morning, everyone. Just two actually follow up questions on – still on NII. I mean, I understand that it's very helpful the different moving parts you gave us. But I still really like a bit surprised by the fact that you can't give us a net guidance on the trend of NII. Because if you think the main driver here is the competition from deposit rates. Maybe you can give us a sensitivity on where deposits beta would go or terminal one by the end of the year and then we can have at least a range of NII target there or guidance. So that's the first one. So would you be able to give us that range functional deposit beta?

And secondly, on the capital return. I hear your question or what you want to do everything together with Q4 results. But I guess this is about the threshold of 15% and so on. But returning capital progressively, at least some share buyback in the second half could have been done independently from that, I guess. So were you rather planning to use some of the capital to do some acquisitions in Wealth Management that didn't happen and then you had to delay distribution? Or was it always the plan to not do anything this year and then wait for next year? Thank you.

Robert Swaak: Yeah, I'll take the – your last question. And Ferdinand, I think will expand a little bit more on NII, although, we have to say that there's a high level of uncertainty, but I won't get ahead of that answer.

When we talk about share buybacks and the timing of announcing any further share buybacks, we did not commit to any timing of those share buybacks. And there is a preference to once you begin to update and to begin to review the financial performance of the bank, particularly going forward into next plan period. And at the same time, want to be very clear on share buybacks and your capital framework, that you do need to take that together. We do think that given where we are right now, we have a good view as to what we expect and how we expect to land in 2023, what the potential is for lending in ’24, including insights further in some of the other choices that we've been making, as it relates and it has effect on our capital framework that it's good to do that all together.

I'll just remind you that when we came up with our capital framework, this is back in 2020, with a number of variables that, as we talked about in previous calls, have either changed or have been adjusted. So we'd like to have that overview. Absolutely appreciate that there is a need for more information on share buybacks, we still remain committed to capital return. But indeed, we'd like to present that together. So you have a one view in one time, rather than starting to do this in chunks, which I don't think we've ever done. And we'd much rather have that complete overview.

Ferdinand Vaandrager: Yes. Hi. And then may be following on, on pass-through expectations. And what guides it? Well, it's pretty clear. We can observe what the beta or the pass-through has been so far, and it's relatively low. It's around the 20%. But as said before, over the past four months, we've seen four rate increases. We definitely do not price based on a beta. And that's where I had the earlier comments because it's really dependent on the competitive behaviour, as well as the yield on the replicating portfolio.

If you look at our deposits, do we see a shift from migration from current accounts, €97 billion, most of that we pay 0% on. Yes, you start see some optimising there. So on Q1, you saw migration of roughly €10 billion into time deposits or saving accounts. That slowed down now to around €6 billion. So even there, despite the gap between the saving rates and the current accounts increasing, we don't see a significant migration.

But as said, also for ABN, where by far the majority of the deposits comes from the Netherlands, we don't provide any sort of forward-looking expectation on a beta because that will sort of implicitly sort of guide what our pricing expectation is.

But for now the beta is around 20%. We don't see any outflow. You see some transfer into interest-bearing deposits. And our loan to deposit is almost at historic low levels. So there's no incentive for us to be a price leader in terms of rate increases, let's say.

Tarik El Mejjad: Thank you. So the 20% deposit beta is after the August rate hikes?

Ferdinand Vaandrager: Yeah. So that if you include – that's also including then your current accounts where you pay zero in. So if you just look at the saving accounts, then clearly the betta is 30-35%. So depends on what your definition is.

Tarik El Mejjad: Okay, thank you.

Ferdinand Vaandrager: Is that clear? Okay.

Robert Swaak: Thank you.

Operator: Thank you. And we'll now move on to our next question from Martha Sanchez Romero at Citi. Your line is open. Please go ahead.

Martha Sanchez Romero (Citi): Good morning. Thanks very much for taking my questions.

Robert Swaak: Good morning.

Martha Sanchez Romero: The first one, could you please remind us your priorities in terms of capital allocation? Do you think you need to make the bank more efficient, and hence, you could prioritise cost restructuring, even M&A before increasing capital repatriation to shareholders?

My second question is related to the first one, really. Do you think your commitment to reduce costs will imply additional restructuring charges? And the third one is a quick follow up on the first question on risk weighted asset inflation. Ballpark, what's the load of core tier one headwind should we expect from the review of internal models? Thank you.

Robert Swaak: Can you repeat your last question? Because you're coming through –

Martha Sanchez Romero: Yeah, so do I need to repeat it?

Robert Swaak: Yeah, just very quickly.

Martha Sanchez Romero: Yeah. So just ballpark, what is the impact on fully loaded core tier one expected from the ongoing review of internal models? Thank you.

Robert Swaak: Yeah, I'll take your first question. I’ll ask Ferdinand to take the second. And Tanja will take the third.

On prioritising capital allocation, I think we've always been very clear that the way we execute our strategy, we've made a very clear choice in the segments we serve and the Northwest European geographies that we serve. So that's an organic execution of our strategy with an associated capital allocation, if you will, in terms of executing our strategy.

M&A has been – always has been a part of a strategy that we would always consider. As we've talked about, M&A in the past, it hasn't changed today. If there is an opportunity that would help us execute our strategy more effectively, and therefore be accretive, but also financially accretive, then certainly M&A is something that we take into consideration. And that will then lead to the – to necessary capital allocations.

So the way we're executing our strategy means that we stay committed to the choices we made around the segments – the growth segments, the geographical areas, and that will carry with it an associated capital allocation.

And when M&A opportunity comes up, we will then take the consequences and review and clearly allocate as necessary.

Ferdinand Vaandrager: Yeah. And maybe follow on, on costs. First of all, the outlook for this year. So we got now to around 5.2. So the major reason for lowering that was the announced Single Resolution Fund contribution, which was around €70 million lower. But it's also we said, we have an underrun in certain investments we're doing. And Robert has already by the introduction, it's an investment in digitalisation of our processes. But also, for example, significant investments in data capabilities and data infrastructure, what we need as we need to report more and more on non-financial data, also linked to sustainable finance regulation.

Secondly, in the second half, also the second phase of our increased CLA of 2.5% kicks in. So that's why we guide for 5.2 billion. And if you annualize the current run rate, you will be below that.

And then if you go for the outlook for costs for ’24, in the previous quarters, we always linked this to five levers. Two of them are still very much relevant. First of all, is the cost in non-core. It’s – over last year, it was roughly €160 million. So we still expect definitely €100 million of costs to come out of there. And secondly, it's a lowering of the regulatory levies of up to €200 million. And I think with the lower SRF contribution, you've seen the first part of that.

On the other levers, and that's also the reason why we don't see any – despite really functional costs, we think the 4.7 billion is not achievable. A number one is much higher inflation than expected in 2020. So the €100 million lower costs coming from cost savings being higher than inflation, that is less achievable now.

Then the number two is the investments. As I said, we have an under-run on some of the assessments so that will flow through into 2024. And also there that was earlier guidance for roughly €100 million. And lastly, you have the AML sort of expected costs coming down when we end up in a BAU situation while Robert alluded to that. Also there, the up to €100 million reduction might be postponed beyond 2024. So that's why you get some sense of the direction of travel towards 2024.

Then your last question, how do you link that to potential restructuring costs? Now, we mentioned the restructuring costs in 2020. We have not booked any significant restructuring costs. But as I'm saying, we have an under-run currently in some of the priorities we're doing. We're reskilling staff. And you'll also see that specifically from external staff the headcount has come down quite significantly in a year's time.

So the conclusion of that is that I do not expect any significant restructuring professional cost in 2024.

Sorry, a bit of a long answer, but I hope it provides you with some context. Now, we're not fully subscribed to the 4.7 billion.

Robert Swaak: Tanja?

Tanja Cuppen: Yeah. And then maybe on your third question on RWA. Well, once we do model reviews, and have visibility on the impacts, we do include it in our calculations and in our financials. So all the visibility that we do have, we have included and once we finalise new model reviews, there might be implications, but that's not something we can predict what the size will be in the future.

Robert Swaak: Does that answer your question?

Martha Sanchez Romero: Yes, kind of. Thank you.

Robert Swaak: Thanks.

Operator: Thank you. We will now move on to our next question from Benoît Pétrarque at Kepler Cheuvreux. Your line is open. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux): Yes, good morning. Thanks for taking my questions. So the first one is on NII. Maybe just to take a bit of long-term perspective on the deposit margin, could you help us to understand where your deposit margin is currently versus the long term average? I think ING is actually disclosing a lot on NII as deposit margin versus lending margin. And, again, that's very useful. And I think it would be nice to have the same type of disclosure for ABN. I'm just wondering where you are now currently on the deposit margin?

On the capital framework, what do you have in mind currently? You have this 15% in the past. Is that still something you want to keep? Were you happy with that? Or you've seen some maybe limits to setting kind of a threshold. So just kind of try to get a bit of direction into what we could get in February?

And sorry, it's not clear to me yet fully what is holding you back to announce a share buyback in H2? I guess it's maybe a bit of M&A goal to that. But again, just wanted to have that clear. Because I think on your profitability level and KPIs, I think, I'm not sure if there's something you really need to give an update on share buyback.

And then maybe just finally, on the fees. You had €23 million one-off positive. Is that a real positive? Or do we need to strip that out? I.e., to get it to a clean level of fees or in Q2, or do you think Q2 especially low because of low volatility, weak financial market and so on? Thank you.

Robert Swaak: Yeah. Thanks. Benoît, the deposit margin and fees, Ferdinand will take. On what we expect to announce in terms of the capital framework at Q1, let me just say that all components of our current capital framework will be under review, to ensure that what we come up with again, is something that we can carry for a period. So we will be reviewing all the components. That's probably as far as I can say at this point, because we're – as you can imagine, we're still in the midst of working our way into what the capital framework actually would look like. But all components will be on the review.

And I appreciate the question on timing of share buybacks and your second year – or sorry, the suggestion on the second half of the year. Again, I just revert to what I would say earlier. If we are in a situation where we have good reason to review our plans, I mean, we'd want to continue to instil the cost discipline. We want to ensure that as we are in an inflationary environment, which is changing, we come to the right conclusions in terms of our cost levels, but also at various income levels over a plan period that will have ultimately – will be drawn into the share buybacks that we want to do. And it is very clear, and I hopefully, I just confirmed that also in this call, that we will stay committed to regular share buybacks as we did also over the course of the last periods.

So that will continue into future. But as I said, we'd like to have the overall view and then communicate with the outcome of that is – and do that all in one go.

Ferdinand Vaandrager: Yes, Benoît, first of all, on your fees, why are we highlighting €23 million is basically because we still have our disclosures on non-core, and this fee came from non-core. And as you know, our overall loans are now down to roughly €500 million. So there's a very small tail remaining there. And we're in the process of transferring the residual from the countries to the Netherlands. So as it is in non-core, is something we highlight. So if you look, quarter-on-quarter, this is something you, as an analyst, could strip out.

Then on margin developments, we had the discussion before. I know the disclosures you just mentioned from another bank, but do realise, for us, the deposits are fully related to the – or almost fully related to the Dutch markets. And that's also one of the reasons why we're not explicitly stating what our margins or forecasts are there.

But I did say that we still see an increasing deposit margin this quarter. I also said if you look overall to the asset margin side, it is roughly flat for corporates. If you look for consumer loans, it's a relatively small portfolio, where you do have clearly some pressure on margins because your funding costs go up. And you have statutory interest of maximum 12%.

And on mortgages, we do start in a phase now although our lower productions, where new inflow of margins clearly are at a higher level than what we saw last year. So the new production is now more or less at the level of what that back book margin is. So that should give you some colour on the underlying levers of the overall margin developments. But the most important reason is, as I just said, our fully dependency on the Netherlands that went down from to provide an explicit overview of deposits.

Benoît Pétrarque: Thank you very much.

Robert Swaak: Thanks, Benoît.

Operator: Thank you. Ladies and gentlemen, if you find that your questions have been answered, you may remove yourself from the queue by pressing star two. Thank you. We'll now move on to our next question from Guillaume at BNP Paribas Exane. Your line is open. Please go ahead.

Guillaume Tiberghien (Exane BNP Paribas): Yes, good morning. Thanks for taking the time. Two questions on capital. The first one is on the table where you show the tier one ratio, etc. The regulatory and other adjustments has increased from a negative 120 to a negative 330. So I was wondering what that was. And the other element is still on the RWA and the change in the models, because: A, you're losing all of your retained earnings to an increase in RWA; B, as far as I know, not many banks are experiencing such an impact from changes in models. So I was wondering whether you can elaborate a little bit more as to what's wrong with your models? Thank you.

Robert Swaak: Thanks. Thanks for the question. Tanja?

Tanja Cuppen: Yes, I'm looking for the table that you're referring to.

Guillaume Tiberghien: It's page 31 in the report.

Robert Swaak: Thank you.

Ferdinand Vaandrager: Is it okay? It's a rather detailed question that we start with the second part of your question first.

Guillaume Tiberghien: Sure.

Robert Swaak: And also maybe because we don't have the Q report here readily available for us that Investor Relations will pick up with you after this call. Is that okay?

Guillaume Tiberghien: Sure.

Robert Swaak: Okay. And maybe you can repeat the second question?

Guillaume Tiberghien: The second question still is with regard to the changing the models, because not many banks are seeing such an impact from changes in model on RWA. And so I was wondering what is wrong with your model? Because you've changed them already quite a lot since four years.

Tanja Cuppen: Yeah, that's true. And we are actively working on simplifying our model landscape, also ahead of Basel IV. And a significant part of our models is related to what is also the low default portfolios.

Well, and because of the fact that there are low defaults, it's a bit counterintuitive. It's not always easy to develop models that meet the requirements that are set today.

So if the number of defaults are too low, then yeah, it's not possible to develop an advanced model. And that's why we are reviewing our model landscape and also moving portfolios to less advanced approaches. And we do that also ahead of Basel IV. Because in the Basel IV, you get input floors, that put in a floor, and in any case, and for other parts of the portfolio even require to go to an LGD that is prescribed by regulation. That's the case for the large corporates.

So that's explains our moves. Of course, I cannot see what choices other banks are making in terms of transitioning from where they are today to the Basel IV environments.

Guillaume Tiberghien: Okay. Thank you.

Robert Swaak: We'll come back on your first question on the reg and other adjustments in the Q?

Guillaume Tiberghien: Yeah, thank you. It's a half of your retained earnings. So it's quite an impact – quite a non-negligible impact.

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

Benjamin Goy (Deutsche Bank): Yes, hi. Good morning. Two questions please. One on asset quality, one on your deposits. Certainly, you can speak a bit more about your Stage 3 inflows and trends you're seeing [inaudible].

And the second question on the deposits, because there clearly has been, let's say, a fast follow-on deposits side, but sometimes following with a lag. I was just wondering whether 25 basis points really makes a difference to your client to switch banks? Why is there some inelasticity in the deposit base? Because so far deposits are stable, and we only see the mix just within ABN AMRO. Was just wondering how it was versus competition? Thank you

Robert Swaak: Yeah. So Tanja, if you want to take the Stage 3. I'll take the first.

Tanja Cuppen: Yeah. So on Stage 3, and you see that also in our disclosures, the Stage 3 exposure for corporates came down a little bit. And that's the net impact of outflows and inflows. So we did see some inflow, although, yeah, I would say nothing extraordinary. And also no specific trend there in terms of sectors. So you see kind of the inflow will get into, I would say, more normal levels and leading to some additions in provisions, but as said, offset by the fact that we were successful in resolving files, of course, at the non-core side, but also in the core portfolio, we were able to generate outflow in Stage 3.

Robert Swaak: And on your question on deposits and the reaction of customers, it is actually obvious now in – for the second quarter, we've had a – so we've had a number of rate hikes. We see some migration. So we've seen for this quarter about a €7 billion migration away from current accounts into savings accounts and time deposits. And it – actually, what it tells you is that whereas the overall deposit space then remain stable is that our clients are clearly opting for the interest rates that we've offered them in conjunction very often with some of the other banking relationships that they have with us.

So I think it's good to see that there is a – that clients continue to make use of the interest rate that we've offered whilst we're continuing our relationship with our bank as well.

The market in the Netherlands, I guess to earlier comments, is competitive in that sense that there's different interest rates being offered, but at this point the migration away from ABN AMRO is indeed very limited. And I would subscribe to the reason here that it's also due to the relationship that these clients have with our bank, among many of the other products that they will have with ABN AMRO and not just only their current accounts or saving accounts.

Benjamin Goy: Understood. Thank you.

Robert Swaak: Thank you.

Operator: Thank you. We'll take our next question from Raul Sinha at JP Morgan. Your line is open. Please go ahead.

Raul Sinha (JP Morgan): Good morning. Thanks for taking my question. I'm going to have two please, maybe one on detail and one broader question. The one on detail is just coming back to your comment on the replicating portfolio tailwind levelling off. I'm sorry to come back to that. But obviously, it's numbers that we cannot see from the outside. And I just wanted to explore a little bit of why that might be the case for the bank, and just assuming that this is probably because the short-term element of your replicating barbell has completely repriced. And I guess you probably still have some tailwind from the long-term long duration element of it. So if you confirm that.

And then the second related point to this replicating question is, can I check if this is also because the equity replication is booked another income rather than NII? Is that one of the reasons why perhaps some of the repricing of the replication is not in NII? And that's probably why you're making the comment of levelling off. That's the first question. I don't know if you want to answer that first. And then we can take the second one.

Robert Swaak: Okay. Go ahead, Ferdinand.

Ferdinand Vaandrager: No, it's fine. As I said, some are replicating. So the levelling off to put it in context, we're definitely not saying that we don't think there are further increases ahead, but the rate of increases underlying will gradually slow down. As you rightfully say, 40% to 45% of the replicating portfolio reprices within the year. So we've seen already quite a bit of that benefits, and the overall duration is roughly three years.

So there will still be a tail wind, although the quarter-on-quarter increases will gradually start to level off. And on equity replicating, I don't know if you refer to the equity mismatch?

Raul Sinha: I'm just talking about the equity base.

Ferdinand Vaandrager: Yeah, the equity base. Yeah, but that's also in NII and that's booked there under the Treasury income.

Raul Sinha: Got it. Thank you. I guess the second one –

Ferdinand Vaandrager: So the Treasury results in other income is more related to also our hedging effectiveness what's in there, but for the equity income is also booked on the NII. So that's included.

Raul Sinha: Got it. Thank you. That's very clear. The second one maybe for Robert is just on fee income growth, which is running well below its plan. It's running well below your sort of medium-term aspirations of 5-7%. And I just wanted to get your thoughts on the evolution from here and whether you're coming to the conclusion that M&A might be really needed to supplement your franchise, in order to really kickstart sort of longer term fee growth from here? Thank you.

Robert Swaak: Yeah, thanks. Thanks for the question. Yeah. Fee income has been set for this quarter. But I think it's good to realise that fee income for some part of the fee income, about half of it is also very attributable to market performance. So both Wealth Management and Clearing have had the effects of relatively quiet markets come through in terms of the fee generating capability that we saw.

We came off with a very strong clearing performance in Q1. And we've had – over the last periods, we've had fee growth of around 7%. So I would still say, based on the fee-generating capabilities that we have, also in terms of the segments that we've identified in our strategy, which would generate fees, we're still very much investing in those areas. And we still think that those are areas that will continue to generate sufficient fees for us, but in part we're depending on market circumstances. So overall, we would look to maintain the 5-7% CAGR that we've set up for '20 to '24.

And in terms of your question on M&A, look, what I've said before, if we think that M&A is relevant to any of these components of our strategy, but it is also very clear that we would consider the – we would consider M&A, and components of our strategy would be feeder lines within the bank, would be around wealth management, as we've indicated before.

So, yeah, I mean that's – those are – if those opportunities present themselves, we'll review them. But we still stick very much with the organic growth capability in the segment choices that we've made, as it relates to fees.

Raul Sinha: Thank you very much.

Ferdinand Vaandrager: Thank you.

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

Amit Goel (Barclays): Hi. Thank you. So two questions for me. First, on capital. I think you mentioned that all aspects of the capital framework are under review. And a lot has changed since it was originally set. Just wanted to check, from your perspective, what are the key changes that have happened? And in general, are you thinking about more or less capital return?

And then secondly, on costs. Appreciate we're getting an update with Q4. But also, I just wanted to check your expectations for '24-'25? Do you think you can do better than the €5.1 billion of costs that's in consensus for 2024? And if the €4.7 billion isn't achievable by then, do you initially think about it as achievable for 2025 or not? Thank you.

Robert Swaak: Yeah. So on capital, I mean, clearly, we're in different economic circumstances than we were back in 2020. So we took up some considerations in those 200 basis points on the economic situation. We did not have the inflationary environment in which we're – to which we're currently operating. At the same time, we've taken out some uncertainties that we had at the time of predominantly relating to settlements that we needed to conclude off with the public prosecutor.

So a number of those components that began to constitute the build up to a threshold have either changed or been adjusted. So that is why we definitely want to review the – all the aspects of our capital framework.

Yeah. In terms of costs, I would suffice to say at this point, the cost discipline will continue to be there. Clearly, we have to, as Ferdinand has indicated, the various components that we currently have under review. I don't think you should defer anything from that in terms of the – where we're going to end up ultimately other than the fact that we will continue to execute a high level of cost discipline, as we come up with that new number for '24.

I think, in all fairness, it's a bit too soon to begin to indicate what that number potentially could be. But the cost discipline will remain, that's not changing. And I think some of the factors that have led us to release the €4.7 billion right now, in a way are just unavoidable, given the situation, where we are in terms of inflationary pressure in light of the pressure on the labour markets, and at the same time, you will have seen us realise some of these cost savings and continue to execute. And some of the cost savings, for example, as Ferdinand has already indicated, non-core will still continue to execute against those programmes, and some other existing programmes that we have in place. But too soon, at this point to give you a final number. But we will do so on – at Q4.

Amit Goel: Got it. But just so to understand from what you're saying. So the '24 also then start to provide a new fund rate going forward into '25 and beyond, given the pressures that is driving it?

Robert Swaak: Yeah, let us – yeah, so let us complete the analysis. And then we can give you that complete view in Q1.

Amit Goel: Thank you.

Robert Swaak: Sorry, Q4. Apologies.

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

Kiri Vijayarajah (HSBC): Yes, good morning. A couple of questions from my side. Firstly, just a very quick one. In terms of the persistence of those AML remediation costs into 2024, can we just have some reassurance that no fresh issues have actually popped up on the radar screen that you might need to address here, but it really is just a timing issue in terms of winding down the resources you've got deployed there on AML remediation?

And then secondly, just on Wealth Management and picking up on some of your comments about organic growth. Have you got specific plans to make opportunistic hires and private bankers in Western Europe say, basically accelerate the growth and hiring plans in Wealth Management just because this big integration project involving two of the biggest players in private banking globally going on at the moment? Or is it more a case that current cost pressures on the issues that your cost targets for next year, means you maybe have to take your foot off the pedal there in terms of chasing organic growth, and maybe take a backseat, given some of those concerns there? Thank you.

Robert Swaak: Yeah, I'll take both of your questions. So let me just be clear that we expect to complete our work on remediation programmes on our AML client files. We still expect to complete those in ’23. So that will continue.

But indeed, as we said, as we're nearing the completion of the client file remediation, we are also wanting to ensure that we continue to maintain the levels required. So to make the AML or the ongoing AML activities much more continued sustainable, and keep them at an adequate level for the various regulatory requirements.

So we will complete the client file remediation programmes in ’23, and then beyond ’23, we will continue to ensure that we have our ongoing AML activities at par. And therefore, we do think that that will need either more cost or it will drive cost to an extent that we do not see yet our AML reduction as we had envisioned initially to come in, in the period within which we have indicated. So the AML benefits will come in more gradually. We will continue to invest to ensure that our BAU AML activities are of the quality that is required.

And then on your question in terms of what we're hoping for team grabs, or are we continuing to invest? We've done so over the last over the last plan period. So we will continue to invest and explicitly to a point of team grabs when we can, we will. We've done that in certain areas. Our current indications on cost and cost levels are not preventing us from executing the strategy as we set out for our wealth management practice.

So we are very much committed to the markets we're currently in. So in Germany, in France, and in Belgium. And we continue to invest when necessary. And that does include hiring corporate bankers, or hiring – sorry, hiring wealth management bankers to come in to our practice. So we will continue to do that. That stands aside from the discussion we have on cost.

Kiri Vijayarajah: Great. Thank you.

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

Anke Reingen (RBC): Yeah. Thank you for taking my question at this stage. Just two smaller ones. Firstly, really, on the buyback. Apologies for coming back. But would you already apply for approval before disclosing your plan? Or would it be you present your plan in February and then ask for approval, which then obviously would mean you only start later?

And then secondly, with respect to your costs and your continued focus on cost discipline. Do you think that – do I understand this correctly, you focus – the focus on absolute costs you think is the right thing? Or is it in the current environment better to focus on cost to income ratio? Thank you.

Robert Swaak: Yeah. So on the – on buybacks, we're always in a, what I would call constructive dialogue with our regulators, both in terms of the planning that we're doing, the – what we're communicating to you today so that that communication will be ongoing. We have yet to decide, based on the analysis that we do exactly what we're looking at in terms of the capital framework and any potential share buybacks that we will carry that into the conversation obviously with our regulator as we by the way always do. And just remind me again, your second question?

Anke Reingen: Are you going to focus on absolute cost or do you think a cost to income ratio is a better [inaudible] to cover?

Robert Swaak: Yeah. So we will continue to focus on absolute cost, because that does provide very, very clear focus also within the bank and we've seen some very good results over the last two years. Our focus on an absolute cost, of course, in terms of the comparables and comparisons we do to assess our overall performance we use cost to income as a ratio to do benchmarks, but the guiding will continue to be on absolute cost.

Anke Reingen: Okay, thank you. If you can just clarify on the first question, the point that the ongoing dialogue does not – would imply you could also already talk about the buyback when you present your plan. And we don't have – you don't have to wait to ask for approval after you present your full plan?

Robert Swaak: Yeah, we always have to – we always will carry a complete dialogue with the regulator. And that's also about the intentions we have on any potential share buybacks.

Anke Reingen: Thank you very much. Thank you.

Operator: Thank you. We'll now take a follow-up question from Flora at Jefferies. Your line is open. Please go ahead.

Flora Bocahut: Yes, thank you. Just two quick clarifications, please. The one is regarding the MDA, where on the slide 10, you have a footnote that mentions the MDA went up, but it is expected to go up again next year. So I just wanted to check I have the right numbers there. My understanding is, it is now going to be at 10.5% for this year, and you expect it will go to 11.1% next year?

And then the second question is on the Single Resolution Fund. You had talked before about a discussion with the SRB on the calculation method. Can you maybe remind us how much is at stake here and the timing that you expect for the resolution of this conflict with the regulatory authority on this? Thank you.

Robert Swaak: Tanja, if you take the MDA, and then Ferdinand a bit more colour.

Ferdinand Vaandrager: Yeah, I can also take the MDA, is fine. If you look at the MDA trigger based on SREP now, as communicated, it's at 10.5%. So that's already increased, because the countercyclical buffer first effect of 1% is included in there. And clearly, if you look from Q2 next year, this will increase again, because the countercyclical buffer there for the Netherlands will move from plus 1% to plus 2%. So that will be the increase as of Q2 2024.

The second question is on the dispute with the Single Resolution Board. I think overall we disclosed before what the overall cost are that is what they are claiming that's €120 million pre-tax over the period 2016 to 2022. And that's really related to what the calculation methods they are using, specifically related to our mortgage bank.

So since the start in 2016. So we did pay the €120 million under protest, just to comply with the Dutch regulation, but we booked it as other assets, so it has no P&L impact. And we will keep challenging this SRB decision also in court. But clearly the outcome is always uncertain.

Flora Bocahut: Okay, so to be clear on this, there is a risk that if you lose this dispute, you have to take €120 million through your P&L, right?

Ferdinand Vaandrager: Yes, correct.

Flora Bocahut: Okay, thank you.

Operator: Thank you. We will now take our last question from Jason at ING. Your line is open. Please go ahead.

Jason Kalamboussis (ING): Yes. Hi, good morning. The first thing – the first question is on Wealth Management and coming back to the point that was made before on fees and commission, where you say that there is a – due to volatility on markets, the progression has been a bit slower. But if I go back to about the old 10 quarters, I mean, it has been remarkably stable. So it was 145 in second quarter '21. It's 146 this quarter. So there doesn't seem to be a benefit in Wealth Management from markets and also from inflows. So could you comment on that? That would be great. And also if you could provide us with a split of discretionary versus non-discretionary in your Wealth Management.

The second question is on missing out on the Degroof Petercam acquisition. Could you comment on why [inaudible] the race. And putting the price aside, just a generic question is, do you find that the company may not be ready to pursue more aggressively such deals, or do you find that's not an issue?

And finally on the share buybacks. I mean, the consensus was expecting this €250 million, nearly everyone had seen the numbers. And over the last four years, we seem to be quite often having a disconnect between the quantum and the timing on this issue, with what you will announce in February, do I understand that over the period of three years or whatever, there is going to be total clarity on threshold, timing, quantum, including certain way M&A plans, so that we don't need to go through the start and stop that we have seen over the last four years. And if you could include there in your comments, if there is in relation with a Dutch state stake reduction, and if it has any bearings on the share buyback, just thinking about the contingents last year, so that we get an overall picture of what to expect for February? Thank you very much.

Robert Swaak: Yeah. Just to start off with your – the last part of your question. There is no relation there. Just the state continuing to execute their programmes and a potential share buyback.

The second part of your question, we will review. As I said, we'll review all the components that we need for a capital framework to ensure that we have, again, just a complete communication on how we look at the various components of the capital framework and the associated share buybacks. So we'll be as complete as we can be at Q4.

And in terms of your Wealth Management questions, it's more about the different parts of Wealth Management that may be more susceptible to market performance. I also mentioned clearing. So it does very much depend on inflow clearly also of our NNA, which we again also this year, or this quarter, we've seen a positive inflow in terms of cash.

But yeah, it is very much a component within Wealth Management that are affected by market performance. It's not a one to one relationship in of itself, but it is very clear that if market performance trends up, then on our asset management, we will see the fees starting to increase as well. But so are sensitive to market movements.

The – I don't have the split to discretionary –

Ferdinand Vaandrager: No, we don't disclose the discretionary portfolio management from the advice. We don't disclose.

Robert Swaak: Okay?

Jason Kalamboussis: Okay. Thank you very much. And on the Degroof Petercam acquisition or if at least you can comment on the [inaudible]

Robert Swaak: Yeah, I don't comment on individual transactions that are recorded in markets. I would suffice to say that what I said early in the call, and I've said in previous calls will continue to hold true that we're ready for the type of M&A that we feel we need to do and in light of the business models that we currently have. And I will leave it at that.

Jason Kalamboussis: Okay, great. Thank you very much.

Robert Swaak: Thank you.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Robert for closing remarks. Thank you.

Robert Swaak: Okay. Well, thank you very much. And thanks, everyone for joining again today and look forward to the follow up conversations. Thank you.

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