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ABN AMRO Q1 2024 Results Transcript

ABN AMRO Investor Relations
Wednesday, 15 May 2024

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

Operator: – Hello, and welcome to the ABN AMRO Q1 2024 Analyst and Investor Call. Please note this call is being recorded. And for the duration of the call, your lines will be on listen-only-mode. However, you will have an opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. If you require assistance at any point, please press star zero and you'll be connected to an operator.

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

Robert Swaak: Thank you. Thank you very much and good morning, everyone. Welcome to our Q1 results. I'm joined by Ferdinand Vaandrager, our CFO, and Caroline Oosterloo, our interim CRO. I'll update you on the main topics for the quarter, and as usual, we'll be happy to take a Q&A at the end.

Let me first take you through the highlights of Q1 on slide two.

We had a very strong start to the year with a net profit of €674 million and a return on equity of 11.6%. Business momentum remained good and both our mortgage portfolio as well as our corporate loan book grew. Net interest income is resilient as we still benefit from the current interest rate environment. Compared to the same period last year, our fee income went up by 6%, driven by good performance of all client units.

Our credit quality remains solid and we saw limited impairments. We maintain a strong capital position with Basel III CET1 ratios of 13.8% and a Basel IV ratio of around 14%. We continue to focus on the optimization of our capital position. I am pleased, we finalised our third share buyback in the beginning of May.

So let's turn to slide three, where I'd like to say a few words on the progress of our strategy.

Over the past 200 years, we've always been an enterprising bank with a wealth of expertise, always putting our clients' interest first. Our new brand promise 'For every new beginning', which we launched in March, projects this history effectively into the future. With our brand promise, we aim to evoke the excitement of beginning, and we put our clients' mindset and their challenges first and promise to be ready with all our expertise in whatever way we can support them best. And to live up to this promise, we are focused on being a personal bank in the digital age, with a clear licence to grow. And as you know, sustainability has always been at the heart of our strategy.

We set climate targets for two more sectors, agriculture and inland shipping, and that means that 68% of our total loan portfolio is now covered, and we're working hard to set targets for the additional sectors, all of which is in line with our NZBA commitment.

The ongoing improvements we've made in the mortgage customer journey has contributed to a market share and new production of 19% in Q1. This made us market leader, held by a strong position in the first-time buyer market, an important strategic client group for us. We aim to support our clients at all important financial steps in their life, and buying your first house, for example, is an important milestone for all our clients, and supporting them in this decision is often the beginning of a strong and trusted relationship.

All that we're doing in a Dutch economy, which we talk about on slide four.

Overall, the Dutch economy does remain resilient. Unemployment is still low, the housing market is increasingly buoyant, consumer spending is holding up, and manufacturers are getting more optimistic. The Dutch manufacturing industry even seems to recover faster than in adjacent countries. Looking ahead, our economic bureau expects that economic growth will slowly increase, driven by domestic demand and with interest rates expected to drop in the second half of the year, making financing of investments easier, we expect growth to pick up further.

House prices have started to rise again, and we're almost back to the record level of July 2022. Our economic bureau has revised their house price forecast upward from 4% to 6% for this year. The prospect of interest rate cuts and higher wages has helped sentiment among house buyers. The number of transactions is also on the rise. It is expected to remain subdued for a while as supply does remain limited, also due to lagging new construction.

Then turning to our first quarter performance on slide five, as I mentioned earlier, our market share of new production in the Dutch mortgage market rose to 19%, leading to €800 million growth in the mortgage portfolio. That indeed is healthy business momentum. Also for our corporate loans in Northwest Europe that continued, and we welcomed new clients in our focus segments, New Energies, Digital and Mobility.

The downward trend in consumer lending continued, driven by run-off of several products and lower client demand from restricted lending criteria. Looking at our client deposits, we saw a decrease this quarter, mostly in current accounts. This drop was mainly in January as some of our retail and private banking clients face payment requirements for taxes, dividend payouts and invoices, for example, at the beginning of the year. We also saw some further migration to term deposits. The outflow of client money to other banks remains very limited. Our total deposits actually went up due to an increase in professional deposits. Now this mainly reflects movements of clearing as clients brought down their position towards year-end and reversed this in Q1.

Turning to slide six on our NII, we saw that NII improved in Q1. Our Treasury result benefited from the current interest rate environment. Margins on our assets, as well as deposits, declined somewhat this quarter. The latter was driven by migration from current accounts into professional and time deposits. At current interest rate levels, it does remain beneficial for clients to move cash into term deposits. Given the current interest rate

environment, we are confident to reach our guidance of around €6.3 billion NII for 2024. Now this is based on an expectation that our Treasury result will improve in the second half of the year, and this will be partly offset by gradual normalisation of deposit margins and some limited asset margin pressure.

Turning to fee income on slide seven, again, a good start of the year for fees, with an increase of 6% compared to the same period last year. This increase was driven by all client units. Retail banking fees increased due to higher payment volumes and the increased pricing of payment packages as of the start of the year. Fees at Wealth Management benefited from the continuation of the good performance of equity markets, leading to higher assets under management. And this quarter we also saw an increase in net new assets driven by around €800 million inflow in securities.

At Corporate Banking, we had a successful first quarter in capital markets, which led to high fee income. And looking at Other income which is volatile by nature, we saw an increase compared to Q4 last year. We booked higher asset and liability management results at Treasury, and XVA results were higher also.

Turning to slide eight on costs.

Now, we will continue to remain focused on cost discipline and as you can see, our underlying costs, so excluding regulatory levies and incidentals, came down from the elevated Q4 cost level. Now, in addition to the cost discipline, this was partly related to high consultancy and marketing costs in Q4, latter related to the launch of our new brand promise. As we mentioned last quarter, we do expect costs to increase during 2024 from additional investments. We continue to upscale our resources, especially for data capabilities and regulatory programmes. Also, our CLA is up for renewal at the end of June. So given these developments, we expect a full-year 2024 cost land at around €5.3 billion.

Turning to slide nine on impairments. Credit quality remains solid, with limited impairments of €3 million. Inflow in Stage 3 was mainly in our corporate loan book and somewhat higher than we've seen in previous quarters. This was not in one specific sector and was largely offset by Stage 1 and 2 releases from improved macroeconomic scenarios. Additionally, we had a small release of management overlays related to products and run-off. We still have prudent management overlays in place, currently around €250 million.

As we mentioned in Q4 last year, we expect a gradual normalisation of impairments this year, so the full-year cost of risk is expected to be at the lower end of our through the cycle cost of risk of 15 to 20 basis points. Now, this actually does underline the good quality of our loan book and the de-risking that we've done over the past years.

Then, turning to capital, our Basel III CET1 capital ratio stands at 13.8%, and we continue to be well-capitalised with 320 basis points[1] headroom above our MDA. I am pleased that in February we have largely addressed our AT1 shortfall through a successful issuance of new €750 million AT1 instrument.

1) *Correction: 300 basis points*

Moving to RWAs, RWAs increased by €4 billion in the quarter, mainly reflecting a rising credit risk RWAs and to a lesser extent higher operational RWAs. Now, the increase in the credit risk RWA can be largely explained by two drivers. Firstly, we took €1.7 billion model-related add-ons as part of an ongoing effort to simplify our model landscape. And secondly, we saw a reversal of the year-end balance sheet reduction of clients of clearing, leading to a seasonal business growth in Q1.

Our CET1 capital remained stable despite our strong first quarter profit, as it was impacted by approximately €300 million of capital deductions. Looking forward, we see upside as we progress on our data capabilities and downside can still come from further model-related add-ons.

Our Basel IV CET1 ratio declined in Q1 more or less in line with Basel III, and is now around 14%. We still expect that the implementation of Basel IV will have a favourable effect on our CET1 ratio.

So, let me wrap up. We had a strong start of the year with an ROE of 11.6%. We were market leader in mortgages and also saw growth in our corporate loan book. Both our NII and fee income were strong this quarter, and we remain committed to cost discipline. Our solid risk profile in the resilient Dutch economy have led to limited impairments in Q1, and we continue to focus on the optimization of our capital position and are fully committed to generating returning surplus equity to shareholders in combination with targeted growth.

So with that, I would like to ask the operator to open the call for questions. Operator, if you could open the call.

Questions and Answers

Operator: Sure. Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Giulia Miotto from Morgan Stanley. The line is open now. Please go ahead.

Giulia Miotto (Morgan Stanley): Hi, good morning. Two questions from me, the first one on Capital. Would you have more visibility now versus what you had in Q4 to sort of guide us to when the end of these model updates can be so you know, what sort of order of magnitude do you still have coming? And how can these model updates also impact Basel IV ratio so much? Because I thought part of this process was to prepare ABN to Basel IV and sort of front-loading, but they seem to also impact Basel IV. So this is my first question on capital.

And then secondly on the NII guidance of 6.3 despite the better curve versus Q4, is this conservative, or is this because maybe, I don't know, deposit migration is worse than what you were expecting or, you know, is there any sort of negative compensating the better curve versus the previous time you gave the guidance? Thank you.

Robert Swaak: Thank you. Let's Ferdinand, you take NII, and Caroline, you want comment on capital? Go ahead, Caroline.

Caroline Oosterloo: Yes. So thank you for the question and an understandable question. So I think there's two elements to the CET1 ratio, of course, the capital side and the RWA side. Let me for now focus on the latter.

So we are continuing, as also announced before, to simplify our model landscape and to review our models and that will be continuing. There are upsides and downsides to this. So there are upsides when we have improved our model landscape, sorry, our data landscape, and we have downside if we have to take add-ons for reviews of our model landscape. We have anticipated by moving certain portfolios to less sophisticated approaches. Indeed, for Basel IV and some of the add-ons we have taken will pass through to Basel IV, others will not, as they will be absorbed by the floors in Basel IV.

Ferdinand Vaandrager: Yeah. And then, Giulia, hi, good morning. And then coming back to your question on NII, we're confident with the guidance we provided at Q4 and that was given at the then current interest rate outlook as the start of February. If you look at the underlying trends for this quarter, Treasury results quarter-on-quarter net up. So there you still see really the benefit from higher interest rates and also less steering cost, specifically for our mortgage portfolio. Deposit income was slightly down, but as Robert said already in his opening remarks, the outflow we've seen in current accounts were mainly seasonal Q1-related, as you normally see, payments at year-end, tax payments and also dividend distributions. And then lastly, the asset side of the balance sheet, we are becoming definitely a bit more optimistic on the back of the economic outlook. So mortgage market is stronger, and our market share was 19%. So market leader in new production

and also on the corporate side, you see a reasonably well-filled pipeline. The only thing still on the asset side is the consumer loans, where we still have some portfolios in rundown.

So to conclude here, we're confident with the outlook we provided, and let's see how the year develops before potentially updating our guidance, Giulia.

Giulia Miotto: Understood. Thank you.

Robert Swaak: Thank you, Giulia.

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

Sam Moran-Smyth (Barclays): Hi. Morning. Thanks. Two questions, unfortunately on the same topics as Giulia. So firstly, on the RWA developments intra-quarter, I understand that €1.4 billion of that is due to the seasonal Q1 rebound of the clearing business. So, am I correct that we should assume in Q4 this year the majority of that would reverse as you get the other side of the seasonal impact and that your capital return announcements with Q4 results will be based on that Q4 CET1 ratio? And then secondly, on the NII, you've noted that you were the market leader for new production this quarter. Should we read into that that your pricing has been more competitive? And then, perhaps more broadly, could you expand a bit more on your outlook for lending margins going forward? Thanks very much.

Robert Swaak: Yes, thanks for the question. I think we'll give a short answer on your first question. You should expect to see that in reverse. And when we determine our share buybacks, we will then absolutely take the CET1 ratios that are relevant at that time to come to a decision on share buybacks.

I think on NII, we can confirm that we've been competitive in the pricing, but what we always do in terms of our pricing points determination is that we look at, one, on market share as an objective, but at the same time, what we don't want to do is sacrifice margins if it does not contribute to our overall position of our mortgage book. So you should look at this as a very dynamic process in which we have indeed been extremely active, and this has now been ongoing for a number of quarters on what I would call very active pricing continuously. And that is, it actually proves not only the maturity of our ability to act in that market, but it also, what it again proves is the deep knowledge we have of the client base, but also our knowledge of our intermediaries, and that allows us to price very actively and therefore now get to a market share that we're extremely happy with.

Sam Moran-Smyth: Thank you.

Ferdinand Vaandrager: Yes. And maybe, Sam, to add to that, if you look at the new production, we've been in the segments where a big part of the growth was, that was in the five-year segment and also the starters, and that's where we priced competitively. And if you look at the new production for us, €3.9 billion in the quarter, that was up 16% versus the previous quarter, and you still see limited redemptions. In terms of pricing, you do start seeing that front book margins are actually at the same level or slightly higher than our overall back book in a more stabilised rate environment. But we do still see some outflow of higher margin

mortgages. But the picture in terms of margin, yes, we price competitively, but overall the margin is starting to bottom out.

Sam Moran-Smyth: Great. Thank you.

Robert Swaak: Thanks, Sam.

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

Farquhar Murray (Autonomous): Morning, all. Just two questions if I may. Just firstly, with regard to capital modelling, it was made very clear that we should expect a kind of mix of add-ons and mitigations to come this year. Q1's obviously a bit more add-ons and deductions. So I just wondered if you could give a sense of what we might expect from here to the year-end, just in terms of net outcome? And then more broadly, just on the data mitigation exercises, are those on track versus where you thought we would be at the start of the year?

And then secondly, there was a report from the CBRE on Monday on potential repayments of overpaid rent. And potentially there's read across from that into the buy-to-let market. I just wondered if you could frame the size of your buy-to-let mortgage book, I think it's actually quite small, and also maybe the underwriting characteristics of that book? I kind of suspect the LTVs are probably lower than primary residences, but I just wouldn't mind checking. Thanks.

Robert Swaak: Thanks for the question. Caroline, the capital and Ferdi on the buy-to-let?

Caroline Oosterloo: Yeah. But first your question on the data mitigation. These activities are on track. Then the capital deductions and RWA add-ons, maybe good to explain a little bit more about the capital deductions and how that works. So we have seen regular capital deductions, mainly in NPE deductions and in IRB shortfall calculations. They're just due to normal movements in a portfolio. We see these each quarter, they can come up, and they can come down, and then we have an impact that is related specifically to moving our large corporate portfolio to less sophisticated approach. And you can see that in the Pillar 3 report that we moved that portfolio anticipating Basel IV to foundation. And I think that's a good example where the treatment under Basel IV is more positive, as the prescribed LGD percentages are lower under Basel IV than they are under Basel III.

Robert Swaak: Okay. Thanks, Caroline.

Ferdinand Vaandrager: Yeah, I know, Farquhar, you read the newspapers. Well, the case is not new. This is on the back of a CBRE study against the sort of residential rent increases and potential overpayments there. So this is specifically for the houses in the private sector, As you say, mitigants here for us, buy-to-let is a very small part. And as you mentioned already, the LTV there is significantly lower as well. And if you look at the very short supply in the market and rising house prices, I would say there is a limited risk. But for us, and let's wait for the Supreme Court to see if we're actually going to see a ruling against these so-called arbitrary indexation over the past few years. But I expect limited impact of this for ABN.

Farquhar Murray: Great. Thanks a lot.

Robert Swaak: Thank you.

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

Kiri Vijayarajah (HSBC): Yes, good morning, everyone. A couple of questions from my side. So firstly, on the current account outflows, it sounds like they were already factored into your NII guidance for the full-year. So all kind of anticipated there. But my question is more, is what proportion of those outflows from current accounts have you been able to recapture on the AUM and fee side? And is there kind of a little bit more momentum to come through, particularly as interest rate cuts come through at the back end of this year? And then just coming back to the Treasury NII result, it sounds like that's remaining stronger for longer than you previously guided. I just wondered, is there any feel for what's the capital or RWAs associated with those Treasury revenues? And does the capital consumption in Treasury eventually come down as the NII contribution also comes down at some point next year? So just sort of line-of-sight on how the Treasury balance sheet and capital might move going forward. Thank you.

Robert Swaak: Ferdi?

Ferdinand Vaandrager: Yeah. Let's start with your first question, Kiri. That is related to the seasonal outflow. Overall, it's a normal trend you see and it is not only the higher number of invoices and tax payments or dividend distribution, it is also what you see for tax reasons that customers switch into savings out of investments and then switch back at the start of the year. So clearly underlying here, if you look at net new assets, we have been able to recap some of that outflow in current accounts into our net new assets in Wealth Management. If you look at the overall migration within our deposits as signalled already at Q4, we really expect that to slow down. So you still saw some migration towards term deposits, but with the current outlook in rates and for us, also lowering our contribution on term deposits, I really think the mix will not really change from here.

Then your question on the overall Treasury results, it's very difficult because it's really an overall portfolio where all our hedging is done. And also you have in there your steering cost, for example, for your mortgage portfolio. As we say here, you can sort of, if you look at our specifically equity mismatch results, it's a sort of portfolio with a duration up until three to four years. So there, we really expect the current interest rate curve to be supportive throughout the rest of the year. Any sort of potential capital RWA related to those revenues, yeah, that is clearly fairly limited, but that's not something we disclose here.

Kiri Vijayarajah: Okay, that's helpful. Thank you, guys.

Robert Swaak: Did that answer your question?

Operator: Thank you. We will take the next question from line Johan Ekblom from UBS. The line is open now. Please go ahead.

Johan Ekblom (UBS): Thank you. Maybe first, just to come back to the capital, and I think Giulia asked if you could quantify kind of the headwinds from model changes. And I don't know if you did. So just see if we can get any more steering on how much further you expect. And then maybe related to the capital, I mean, given where your average risk weights are today, there should be quite a lot of capital optimization. And SRTs is all the hype at the moment. And you haven't used any as far as I can see. Why not use significant risk transfers to at least bridge the gap between Basel III and Basel IV and not show this recurring pressure on your capital ratios? So that's the first question.

And then the second, just to pick up on what you said in the answer to the last question, if I look at the net new assets in Wealth Management, you had 10% net inflows in the quarter, so 40% annualised. How is that possible organically, or is there anything funny going on there?

Robert Swaak: Okay, I'll ask Ferdi to take the NNA. And on your two questions on models, just let me maybe put a little more clarification on this.

It is hard to quantify, but we've always said we will continue to update our models, simplify our model landscape. I think in previous calls we indicated that the majority of RWAs taken are well behind us, and what you're seeing is actually the effect of us continuing to do so. That goes hand-in-hand with what Caroline already talked about, the data remediation that we undertake as we review models. And that means that it's hard for us to guide on and therefore to give you quantification. As we said, the majority of RWAs take-ons should be behind us, given we've been at this for quite some time. But we've always said it could well be that we would expect some RWA growth to continue.

The optimization that you talked about, RWA optimization, clearly, that's something that we utilise as we steer the business going forward and as we have been doing. That means that we will continue to look for ways to optimise, but also to use the allocated RWAs in the business itself. So that is a process that we have ongoing in the relevant parts of the bank, and we will continue to execute that portfolio allocation very diligently.

On NNA, Ferdi?

Ferdinand Vaandrager: Yeah, on NNA, if you look at the total assets, that can be volatile because it can be related to short-term custody, for example, related to M&A transactions or other elements in there. So the two elements in there are, number one, clearly a good market performance, so you see a rise in total assets. And secondly, you will see shorter-term volatility on the back of short-term custody accounts, underlying, as said, net new assets. You saw some outflowing cash and inflow in securities. So we see that as a positive trend.

Johan Ekblom: But maybe just to follow up, I mean, the largest increase you've had in the last five years is €2.6 billion in Wealth Management, and it's €19.7 billion this quarter. This is not normal volatility, right?

Ferdinand Vaandrager: Yes, it's €19 billion. So this is specifically related to very short-term custody money, Johan. So this is really a one-off. And, for example, cash to finance a M&A transaction by wealth clients, as an indication. So this can be volatile, but this most likely will not be seen the next quarter.

Johan Ekblom: But we should assume there's a big negative next quarter, then?

Ferdinand Vaandrager: Yes, correct, Johan.

Johan Ekblom: Okay. And then just on the capital, I mean, maybe it's for you to take away and think about. But, I mean, when you say the majority is behind, I mean, you had €55 billion or €53 billion of add-ons. Now, it'd be really helpful to get a sense of if the majority, does that mean €10 billion is left, or does it mean €40 billion is left, right? So if we can maybe try and get some better steer on not an exact number, but just the order of magnitude of headwinds that we face because it's clearly a key input into capital return and ROE assumptions, etc., which looks increasingly stretched after today's results.

Robert Swaak: I appreciate that question very much, Johann, and we'll see what we can do. What we are trying to do is be as clear as we can be, given what we know today. But your question is fair. We'll take that into consideration. If there's any further clarification or quantification, I think is a better word to give.

Johan Ekblom: Thank you.

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

Guillaume Tiberghien (Exane BNP Paribas): Yes, thank you very much. The first question, sorry about that, is still again about the RWA add-on. The question, I guess the way I would phrase it, is to say we don't really understand how fast they go up, how far they will go up, and maybe when they start going backwards, is it going to be also a question of we won't know how low they will go and how far they will go down, all these add-ons because you seem to have suggested that there's going to be some mitigation. So I think trying to understand whether the €51 billion of Q4 is definitely the endgame, that would be useful.

The second question is relating to the year-end buyback. Will it be driven by the Basel IV equity tier one? Because ultimately, you will announce a buyback based on Q4 results, which is Basel III. But we will already be in a Basel IV world by the time you announce it. And I guess joined to that question, do you expect to build capital from the level of Q1 level at 13.8%?

Robert Swaak: Yeah. Thank you very much for the question, and very understandable. Let me take your second question, and I'll ask Caroline to comment on your first question.

So when we determine our share-based buyback that will – sorry, share buyback – that will be based on our capital framework. Our capital framework we've utilised is a threshold which we've identified of 13.5% of Basel IV. So that will be our reference. So we will be using a Basel IV. As we have been very clear about what our capital framework actually is like, you're absolutely right. This is a first quarter that we're now looking at. We've seen a very strong result coming into the quarter, and as you look at our guidance, and also we have the outlook for the rest of the year, we continue to see ample opportunity for capital generation. That's something to not forget as we navigate a full year, by the time we will determine share buybacks. So I would definitely confirm that we're looking at capital generation for the duration of the year.

And then maybe, Caroline, you can give a bit more colour on the RWAs ups or downs.

Caroline Oosterloo: Yeah. So, Robert, you said on the earlier question that we can't quantify exactly, and you asked about, I think, the timing also of the upward and the downward movement, and that is actually not easy to predict. When we do model reviews, it takes a long throughput time until we know the final impact, which we will then take immediately. And when we improve our data, we can only take it when we know the complete impact, and it flows through our models. So there is this timing issue that is difficult to predict. What we have, what we do guide, and I think that gives some more clarity, is that we expect that the Basel IV CET1 ratio is favourable to the Basel III ratio.

Guillaume Tiberghien: So maybe, if I can rephrase, let's assume your add-ons go to €70 billion, just for the point of the exercise, and then they're going to start going down. Are we going to stop at €50 billion, or are we going to be surprised that maybe they'll end up only at €40 billion, for example?

Robert Swaak: As understandable as your question is, I think that's a very difficult question to answer. We need to have more visibility, as Caroline has said, as we undertake these reviews. But I think it's important just to keep in the back of your mind that as we determined our capital framework, and we determined our guidance over the course of the year, as we discussed also in Q4, there is a view that we have as we develop our models and there is a commitment on our side to share buybacks. We've talked about this before, and I think we've executed that also over the last couple of years. So we will take into consideration the question is, is there any more specifics that we can give on RWA movement. At this point, just given, exactly as Caroline has said, I think, as we also said in the previous quarter, it does take some time to actually get these models either validated or the analysis completed. It is very difficult to give you right now the as I would call it, the up or down movement that you've requested. But we absolutely appreciate the question, and we'll see what we can do in terms of a bit more granular information on this and can give more sight on this space.

Guillaume Tiberghien: Thank you.

Robert Swaak: Thank you.

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

Tarik El Mejjad (Bank of America Merrill Lynch): Hi. Good morning, everyone. Just a few questions from my side. The first one, back on NII. So if you take the moving parts for NII, I'm already struggling with the €6.3 billion. So I want to clarify where the swing factor is. And I think the Treasury reserves is where you could miss or achieve the guidance. So, can you give us comfort on why you think this is higher because the steering costs should go down – should go up because you expect volumes to go up, and then the rates will come down? So what makes you confident that this will remain high, and can you confirm that my view that asset spreads still under pressure volumes? Yes, you argue volumes are going up. But actually when you take the corporate mortgage and net of lower consumer is up 0.4% quarter-on-quarter, and then you have a replicated portfolio the short part of it that actually will become a headwind. So, can you just maybe, I mean, confirm us on the Treasury result because that's the lower quality part of the NII?

And then can I ask question about '25, and what do you think the evolution will be for 2025 because that's the most relevant I guess for everyone? And then second question is on the SME's legal case. There were some headlines a few weeks ago. If you can comment on that perhaps what can be maximum size and timing for this that will be very helpful, and that is there in any provisions for it would that be booked in costs or in provisions, and how that impacts your 5.3 billion guidance for the full year? Thank you very much.

Robert Swaak: Thank you. I'll take your question on the SMEs. And Ferdi, a bit more explanation on NII?

Ferdinand Vaandrager: Yeah. Morning, Tarik. If I look at your question on Treasury results so yes if you look at the underlying NII run-rate, NII need to go up to get to our guidance of €6.3 billion. Clearly, we saw quarter-on-quarter a positive trend on the Treasury results, but I also said to the previous question the mismatch results is not a ring-fenced portfolio of swap contracts, but it's all on and off balance interest rate risk exposure what we manage there. But to give you a sort of direction, and we said that before as well, the remaining maturity is up to four years, so you will see a continued tailwind from Treasury results throughout the year. And yes, the steering costs have come down, but the steering costs are significantly elevated if you see a lot of prepayments because then the duration changes of your markets book. And we do see good new production, but that does not mean that the steering cost will need to go up.

Then replicating portfolio, yes, we said it last time as well, we expect it still to be a tailwind towards midyear. But then, aligned with the markets, we expect the first rate cut in June, and it's our expectations rates will go down to 2.75% at the end of the year. So then you will start seeing a shift from a tailwind into a slight headwind in the second half of the year.

And then overall asset spreads, yes it is roughly flat. But I said earlier on mortgages, you really start seeing the margins bottoming out. On the Corporates, it's indeed wait and see. But with still TLTRO out of the market, we do expect that towards the coming quarters, margins might start improving here. And yes, we still see the pressure of our consumer book, but on our total balance sheet it's less than €10 billion. So that effect is not significant of the rundown of portfolios we're doing there.

So if you add this all up together and if you look at the current curve, we are confident in the €6.3 billion for this year. But let's see how the year evolved before we start giving any sort of look-through of expectations for 2025, Tarik.

Robert Swaak: Did that answer your question? Tarik. And then I'll take the SME part.

Tarik El Mejjad: Yes, thank you. I mean, look, it answers. It's very – thank you. Given this detail is I think there's a sense that, you know, there's many moving parts that it's difficult to appreciate, especially Treasury reserve from the outside. And that gives this lack of confidence, at least from my side, on the guidance. But, thanks for the effort of explaining it.

Ferdinand Vaandrager: Yes, but Tarik, it's also what we said clearly in our guidance earlier was it's based on the current interest rate outlook, and if you compare that to February, it's an important driver. Economic outlook is an important driver. And then we also said in the guidance that we expect deposit migration to slow

down. And I said earlier, I think the mix will not really shift from here. And then it's also the price tracking on our savings accounts and in our assumption is that that will not change. So with interest rates going down, it's implicitly an increase in the beta. So I think that might be seen as conservative.

Tarik El Mejjad: Thank you.

Robert Swaak: Then maybe on the – your question on the SME claim, we were very much aware of this claim. We've received at least a written summons to start or to commence the collective action. What we actually continue to state is that we don't have any substantiation of any of the claims or damages claimed, and that continues to be the case today. It is apparent that there's an argument that's being used by the Claim Foundation, that earlier Kifid rulings, it actually relied on revolving consumer credits with variable interest should now be applied to small enterprises. We continue to state that the Kifid ruling was exactly for consumer credits, so cannot be one-for-one applied to smaller entities. We've also said that we believe that what they're probably referencing is a product we call in Dutch 'Ondernemingskredieten' but this is a credit for smaller entities that we've actually stopped, that we're phasing out. And we can also state that if we've received any complaints, we've settled with the very client. So at this point there is no provision for the reasons that I've just indicated. And we'll just have to see how this further evolves.

Tarik El Mejjad: Okay, thank you. If I can just add a quick one on capital, maybe for Caroline. So you said that the Basel IV went down in line with Basel III by 50 bps quarter-on-quarter, if that means that your full-year Basel IV CET1 was 14.5% because we tried all to figure out what was the around level. So, yeah.

Caroline Oosterloo: I fully get that you would like to know the exact decimal number, and I understand that. But at first maybe one movement of the last few quarters, and we've given rounded numbers and I would like to say that the decrease over the last three quarters, we believe, is closer to 1% than to 2%. So I think that gives some better indication. And on Basel IV uncertainties, although the regulation is now approved, still all the technical standards are actually not ready. So the final implementation, and we get these, well, they come out now, and they have impact on the actual calculation standards and data definitions. And until we have them, we just can't calculate very precisely, and then it doesn't make sense to give you any precise number.

Tarik El Mejjad: Okay. Thank you very much for your answers. Thank you.

Robert Swaak: Thanks for the questions.

Operator: Thank you. We will take the next question from line Raul Sinha from J.P. Morgan. The line is open now. Please go ahead.

Raul Sinha (J.P. Morgan): Good morning. Thank you very much for taking my questions. I think on the model add-ons, we've asked enough times about all the details, so I'll spare you another question on that. But I just wanted to come back to the timing aspect of this, I guess in the context of what's going on, we understand your prudence in moving to an annual approach on buybacks last quarter. But my question is just to understand whether you think that these data quality issues will be largely resolved by the time you get to the

year-end process, where you need some clarity around your capital position to be able to decide the capital surplus and distribution. So that's the first question.

And I guess the second question, Ferdi, just coming back to your assumption or your confidence around the deposit migration is over and that there will not be further mix changes from here. I was wondering if you could give us some sense of what the current deposit beta is as you see it so that we can try to estimate deposit tracking and when rates go down, what happens to the beta? Thank you.

Robert Swaak: Thanks for your questions. So look, on data quality where we, as we identify issues on data quality, we work hard to resolve them. We talked about some examples in the past. Are we completely finished? That's very difficult to state because we have ongoing reviews, and we do want to simplify. This is something that we've been at for quite some time, and we'd like to do this right. So you can rest assured that as we identify data quality issues that we then work to resolve them as fast as we can. That is the reason why we're also being transparent about what we are actually doing in simplifying our model landscape. But to tell you, we're going to be completely done by the end of the year, that's almost trying to predict what we're going to be finding over the next couple of periods. And whilst we're executing this, exactly as Caroline said, the pace and the timing, and we resolve the issues as quickly as we can, I cannot say that we can completely resolve anything, but we are working as fast as we can to resolve them, and we have line-of-sight on what it takes to get it done.

On deposit migrations beta?

Ferdinand Vaandrager: Yeah. Raul, on migration and beta, if you would look at the simple sort of calculation savings coupon of ECB deposit rates the saving component 1.5% with a 4% ECB deposit rate. So there, the deposit beta is 35% to 40%. If you look in European context, saving rates are actually at a higher level than many of the surrounding countries. In our assumption, the 1.5% stays the same. So with the ECB deposit rate coming down most likely as of next month, that implicitly means that in our forecast there's an increase in the deposit beta in our assumptions for the rest of the year. If the tracking is down here as well, every ten basis points of client raise has an impact of €100 million if you look at the total savings base we have.

Then on migration, specifically there, if you look at the switch, I think most clients have optimised their saving portfolios by now, and it's also in the second half of the first quarter we started lowering our remuneration on term deposits. So also with the current interest rate outlook, I think it is unlikely we're going to see any significant further migration of our deposit base, hence my confidence that it will stay around the same levels.

Raul Sinha: Thank you very much.

Robert Swaak: Thank you.

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

Benoit Petrarque (Kepler Cheuvreux): Yes, good morning. So the question is on share buyback and, actually, your convergence towards the 13.5% CET1 ratio by '26. You know, how fast you want to converge? Because when I look at your Basel IV, it's 14-14.5% range. Consensus expects €750 million share buyback next year. So that will put the pro forma today at a range of 13.5-14% already. I appreciate you will be generating capital in the next three quarters, but you are also talking about risk-weighted assets add-ons. I mean, we also talking on the market about potential provisioning on the SME revolving credit. So, will that be fine for you to be actually relatively close to the 13.5% Basel IV by end of '24? That's something you don't want to see at this stage, and you are willing to push towards more '26? So that's the first question.

Number two will be on the Treasury result, on the NII result. So you say on the duration of the equity, you have a four- to five-year duration. How much is kind of short-term within that bucket? I'm asking because I like to get a bit of feeling about how sensitive the Treasury and NII result will be to ECB cuts. I understand that 25 bps might not be a significant impact, but maybe in '25 that could be a bit more negative. So just checking that.

Third one is on the cost guidance. I know you're in discussion now with unions on this new CLA, but could you remind us how much you have in terms of salary increase in the new CLA in your cost guidance for the next three years?

And just on finally, on the net new money, it will be useful to get a kind of clean net new money, excluding all the noise we've seen also money market. So kind of quality net new money, kind of type of figure which will make sense given your – we are talking about Wealth Management and that should be quite well, quite clean at the end. Thank you.

Robert Swaak: Thank you, Benoit. Let me take the share buyback and the cost guidance, and maybe Ferdi will comment on Treasury and net new money.

So, on your question on share buybacks, look, we've given you where we now currently stand and what our thinking is in terms of the RWAs as much as we can. Yes, indeed, we still have a full year, or three quarters to go in terms of capital generation, and we've targeted 13.5% in 2026 as a framework. All that will go into determining a magnitude or a magnum of a share buyback towards the end of the year. I would also continue to emphasise that as we generate capital, as we work to resolve issues, as we've identified them, that all will go into the factoring of quantum's. So I think it's really, a) it's early in the year, b) we will give all the considerations that have gone into quantum of share buybacks at the time we communicate about the share buyback. But we have a 13.5% target for '26. That capital framework, in and of itself, is not changing.

On Treasury, Ferdinand?

Ferdinand Vaandrager: Yeah. Benoit, it's difficult to start providing indications how much is short-term versus two, three, four years on the Treasury result. We have been always quite open on our replicating portfolio, but here it's also the more flexibility you have. It's not four to five years. I've said before, it's maximum four years. But also what we've seen in a previous quarter with an inverse curve, where you have a pickup on the shorter term, then we will steer towards that. But overall, it's just the overall resulting exposure, what we manage

within the Treasury buckets, and it includes also the effects of past interest rate steering. So we will not provide any sort of more underlying sort of indicators of that.

Then looking at net new money, it's a fair argument, Benoit, and we will look into that to make it very clear what is the net new assets. I think we disclosed that, but also, if you have some shorter-term volatility specifically related to what we mentioned earlier as our short-term custody, that we make that more visible so you can see the underlying drivers there.

Robert Swaak: And Benoit, your question on cost guidance in relation to the CLA, as we said, the CLA is now due end of June. So, negotiations currently are ongoing. But when we talked about a 60% cost-income in 2026, so to give you a little bit of feel how we dealt with inflation generally, as we began to determine an absolute cost base for '24, but also the 60% cost-income ratio, we took an average of around 3% inflation. So that's on average for the calculations that we did coming to a 60% cost-income ratio. So that's an assumption, clearly, to go into any further details and, you know, let's see. Let the negotiations take place, and we'll see in due course what that reveals.

Benoit, you still there?

Benoit Petrarque: Yes. Thank you very much. Thank you very much.

Robert Swaak: All right. Fine. Take care.

Operator: Thank you. We will take the next question from line Patrick Nilsson from Goldman Sachs. The line is open now. Please go ahead.

Chris Hallam (Goldman Sachs): Good morning, everyone. It's Chris Hallam from Goldman Sachs. So I just have two housekeeping questions left. So first, could I just check, in terms of OPEX, what your latest view on regulatory levies is? For this, year with Q4, you said you'd expect that to be around €200 million this year. But given Q1 was lower, is that still the right figure for 2024? And then second, on the capital deductions, are there any more sizeable portfolios moving to a less sophisticated approach, either this year or early next year?

Robert Swaak: Okay, thank you for the question. Yeah. So on reg levies, we do expect full-year '23 to be around €335 million. And sorry, full-year '23 was around €335 million. Full-year '24 will come in significantly lower. Our estimates run about €175 million.

Ferdinand Vaandrager: Yeah. And that is specifically, Chris, here, what changes, on one hand, you're going to see in 2024 an increase in the Dutch banking tax. For us, that will go up by €30 million. And secondly, last year in Q1, we had €200 million in single resolution fund contribution, and the target size of the fund has been reached. So that has gone to zero. So overall, on the regulatory levies for this year, we expect actually a bit lower than the €200 million we indicated because we had not expected SRF to go to zero.

Robert Swaak: And then on capital?

Caroline Oosterloo: Yeah. Chris, on your question of moving any other portfolios to less sophisticated approaches, we don't expect any of those to be happening this year. But for '25, as we announced before, we do expect some smaller portfolios to still move to less sophisticated approaches. And really, depending on the composition of those portfolios at the time we move them, will determine any capital deduction at that point in time.

Chris Hallam: Got it. Thanks very much.

Robert Swaak: All right, thank you.

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

Farquhar Murray (Autonomous): Thanks. Apologies. This is a very quick follow-up. I know you've not updated the guidance commentary, and it's quite early in the year, arguably, but on costs you have come in massively better than consensus expected. I just wondered, as a management team, do you think costs were coming in a bit better than expected you may have thought at the start of the year and maybe also, obviously, probably within the rounding of the guidance? I just wanted a more directional sense of how you felt the quarter came through.

Robert Swaak: Yes, that's a very fair question. Keep in mind that the quarter came in when you referenced, for example, Q4 was slightly elevated, with particular costs relating to brand and brand release. But certainly, we continue to exercise good cost discipline and at the same time we want to continue to invest in the capabilities that we need for the bank as we continue to execute our strategy. And that means that we will continue to invest in data, areas of data requirements, IT requirements, regulatory requirements. So those levels of investments will continue. So that's why we are still sticking to a €5.3 billion guidance for this year. We will continue, as I said, to exercise tight discipline. We know exactly where we want to invest. And this goes also hand-in-hand with the fact that we're looking at a cost-income ratio in 2026, where we really want to make sure that as we invest, we allow the bank to grow. And I think that's the reason why we're creating the room for the investment whilst we exercise strict discipline on cost control.

Farquhar Murray: Okay, just a question on top of it. Just a follow-on, did you think you had a bit more room for investment in Q1 than you expected then?

Robert Swaak: Well, if we're coming in lower than expected by default, and we'll carry that into next quarters if that's necessary.

Farquhar Murray: Okay, thanks a lot.

Robert Swaak: So, bottom line, the €5.3 billion will stand, and we'll continue to exercise exactly the discipline that you see now in this quarter.

Farquhar Murray: Thanks.

Operator: Thank you. It appears no further question at this time. I'll hand it back over to the host for closing remarks.

Robert Swaak: Okay, thank you very much. And thank you, as always, for your questions. We've absolutely taken your questions on capital to heart, and we'll see if there's anything we can do to further clarify. And I look forward to talking to many of you over the next few weeks.

Thank you. Bye-bye.

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