Q1 2021 Analyst Call Transcript

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Participants: Robert Swaak (CEO); Annemieke Roest (CFO ad interim); Tanja Cuppen (CRO)

Conference call replay:
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Robert Swaak: Thank you so much. Good morning, and welcome all to ABN AMRO's Q1 results. I am joined by Annemieke Roest, our Interim CFO, and Tanja Cuppen, our CRO. I will talk you through the highlights of our Q1 results, and then Annemieke will go through our first quarter results in more detail. Tanja, as always, will then update you on our impairment developments in our loan portfolio and run you through our capital developments.

So, turning to our first quarter results on slide 2. As you know, we have agreed to a settlement with the Dutch prosecutor regarding the anti-money laundering investigation. We will go a little bit more in detail on AML on the next slide. Excluding the AML settlement, our net result was EUR 426 million. Low interest rates and the wind down of CIB non-core led to a decline in NII.

Client loans for the core bank are stabilising. We showed good progress on the winddown of CIB noncore and the portfolio is now down by about 60%.

Our costs continue to be under control and the first cost reductions towards EUR 700 million cost savings by 2024 were realised. Our cost of risk for the core bank is now expected to be at or below the through-the-cycle guidance of 25 to 30 bps and we expect CIB noncore impairments to be significantly below last year. We continue to show a very strong capital position with our Basel IV-ratio above 15% and our threshold of 15% for share buybacks will be recalibrated at Q4.

We stand ready to pay the full year 2019 dividend in Q4, of course, ECB conditions permitting.

So let me spend a bit more time on the AML settlement. We reached a settlement with the Dutch prosecutor, which consists of a fine of EUR 300 million and a disgorgement of EUR 180 million. The investigation covered the period between 2014 and 2020 and the prosecutor identified shortcomings in our processes to combat money laundering in the Netherlands. We have recognised the seriousness of the matter and reiterate full commitments to our moderate risk profile and our role as a gatekeeper of the financial system.

Our culture as well as our license to operate remain clear priorities for me. Back in 2019, ABN AMRO established a centralised AML unit, replacing AML efforts organised by business line. This AML unit now implements all activities in a structural and bank-wide manner and is also responsible for running all remediation programs. The prosecutor as well as the Dutch Central Bank acknowledge that we are on the right track with the remediation programs announced in Q3 2019 and progressing according to the timetable as agreed upon. So, no additional remediation programs are required. And just to remind you, we are currently running remediation programs for retail banking, corporate banking and our credit card business. A large part of the remediation costs, especially cost of external FTEs, have been provisioned for in the past. This year, we expect AML costs to peak and then gradually decline to around EUR 370 million towards 2023 as remediation programs are completed in the course of 2022.

Turning to slide 4, let me update you on the progress of the CIB noncore winddown. The strength of the commodity markets has allowed us to move ahead faster than initially anticipated and I am pleased with the results so far. We have achieved a significant reduction of the noncore portfolio of around 60% as of Q1, ahead of schedule. We are now well within the latter half of the winddown, so the pace of reductions will at some point start to slow.

This quarter, we successfully sold a portfolio of TCF loans of around EUR 900 million, and we are evaluating other opportunities for asset sales that are capital-accretive. Even without further asset sales, we will reach a 70% reduction by year-end.

Looking at the financials of CIB noncore, we have limited impairments for specific clients in line with the rest of the bank. The good progress we made in derisking the non-core portfolio allowed us to release impairments more than offsetting new additions this quarter. Costs for CIB non-core will decline modestly towards year-end, with the next round of redundancy scheduled for the summer. This will be followed by material cost reductions in 2022.

The Dutch economy is feeling the impact of Covid-19, and it is good to realise that we are somewhat less in terms of effect than the Eurozone average. In general, our lockdown measures have been less stringent and the extensive government support measures have been very effective. The main route for government support is direct income support and tax relief for companies, and these programs were extended through to the summer.

The housing market has been unaffected by the pandemic and both house prices and number of transactions remain strong. Given now that the vaccination programs are underway, I am indeed hopeful that restrictions can be eased later this year, leading to a rebound of the economy. We expect unemployment to rise next year to support measures then, but we do not expect this to stand in the way of an economic recovery. Tanja will discuss the outlook on loan impairments later on.

So, let's move to slide 6, where I would like to discuss our progress on sustainability, another one of our strategic choices. Sustainability is an integral part of our purpose Banking for better for generations to come and we do indeed aim to create long-term value for all of our stakeholders, making a positive impact on what we do every single day, offering financial services for our clients.

We recently published our climate report giving insights into the various methods we have piloted to prepare science-based target setting for client portfolios. These so-called science-based methods enable us to determine how we can best reach our climate goals, working with our clients and which actions are necessary to adhere to the Paris Agreement. Sustainability is also a business opportunity to us addressing a clear client need.

We focus on three specific areas to support our clients' transition, namely climate change, the circular economy and social impact. As you know, we aim to increase the volume of our client loans and investments in sustainable assets to 30% by 2024. Looking at the client assets, both on our own balance sheet as well as assets under management currently around 21%, are sustainable. In the last quarter, we saw clients further increasing their investments in ESG and impact-related investments now totalling to about EUR 31 billion. This interest in this type of investment remains high, and we are targeting further growth going forward.

So now let's move to slide 7, where I would like to highlight the key commercial developments. I am pleased with the results in our mortgage business, and we are seeing positive momentum in the volume of our mortgage book. The short response time is important to clients looking for a mortgage and we invested in our mid-office so we can handle high volumes while keeping response time low. Our investments in digital channels enabled us to reduce our retail branches further, and we have now dropped below 100 branches. The threshold for negative pricing will be lower to EUR 150,000 as of July 1.

Private banking is calling all clients personally to advise them on the alternatives for their cash holdings, and this is indeed highly appreciated.

Looking at commercial banking, we saw very limited additional working capital demand from SMEs, given the economic backdrop. Unlike other countries, in the Netherlands, almost no government support for Covid-19 is transmitted through the banking sector. So consequently, we did not meet the first TLTRO through benchmark. The outlook for the next reference period, however, is better. Loans are stabilising, and the pipeline is building. The expected economic rebound later in the year should further accelerate this momentum.

Now financial markets performed strongly, and we managed to drive up fee income in clearing and global markets on the back of this. Commercial banking will gain from the new payment packages we are introducing, which improves how we charge for additional services.

Across all business lines, we continue to help our clients dealing with the impact of Covid-19, and our clients are working hard to pull-through this period as we await the reopening of the economy.

So, with that, I would like to hand over to Annemieke to discuss our financial results over the first quarter. Annemieke?

Annemieke Roest: Yes. Thank you, Robert. So here on this slide are the pro forma results of Bank core. Excluding the impact of CIB non-core, Bank core showed high operating income and lower expenses compared to last quarter. The fourth quarter contains a number of incidentals, however. And excluding these, operating income would have been flat while operating expenses would be up marginally. Impairments came down strongly, showing a net release of EUR 37 million for the first quarter. This softens the impact of the AML settlement and Bank core showed a modest loss for the quarter as a result.

Turning to client lending now on Page 9. Mortgage volumes were up slightly on the quarter. Our market share was 70% in a strong market. Our strong operational capabilities enable us to maintain quick response times also in periods of high volume. Corporate lending stabilised following a number of quarters of decline.

Companies still have limited funding needs as the economy is impacted by lockdown measures and government support goes directly to employees and companies. We expect lending to rebound when the economy recovers after Q3 and support measures are phased out.

Now turning to interest income on slide 10. Let me first remind you of the incidentals in our Q4 results amounting to EUR 57 million negative in total. As you may recall, this was related to a change in assumptions or mortgage prepayment. Excluding incidentals, NII declined for Bank core compared to Q4. Lower margins on deposits amounted to EUR 28 million lower NII, which was above trend.

Over the coming quarters, given the current interest rate environment, we expect deposit margin pressure around EUR 20 million on average, though actual results may fluctuate around this number. The lower threshold of EUR 500,000 for negative rates kicked in on January 1, which offset the impact of the margin pressure.

As you are aware, we did not meet the TLTRO-requirements for the additional 50 basis points lower funding costs. The outlook for the next period is better, however, given the expected pickup of the economy.

Now moving to fee income on slide 11. I am pleased with the development we are showing. We are pushing hard to increase our fee income and for the third quarter, fee income has increased. Private banking showed good results due to market performance.

In CIB, we saw good results in global markets and clearing again had a strong quarter as market volatility was high. Fee income for the credit card business is still depressed, and I expect a rebound following easing of lockdown restrictions.

Now turning to costs on slide 12. As you are aware, we expect cost to increase to EUR 5.3 billion this year, excluding incidentals. This is a result of rising AML costs, reaching a level of EUR 425 million this year, as well as EUR 100 million of additional investments to realise our strategic agenda. We are targeting EUR 700 million of cost savings by 2024, and the first savings were realised this quarter.

I would now like to hand over to Tanja.

Tanja Cuppen: Thank you, Annemieke. Q1 was benign in terms of impairment, especially considering the economic environment. This is mainly due to releases and limited Stage-3 impairments across all business lines. The derisking of CIB non-core led to releases, partly offset by limited Stage-3 additions for the oil and gas sector.

Turning to Commercial Banking. Due to government support measures, our models observed less credit quality deterioration than you would expect in an economic downturn. Therefore, we further increased the existing management overlay for the impact of Covid-19 on clients in vulnerable sectors.

In total, we have now taken over EUR 300 million of management overlays. Based on the good start for Q1 and the expected economic rebound later this year, we expect the full year 2021 cost of risk for the core bank at or below the through-the-cycle cost of risk of 25 to 30 basis points.

Impairments for CIB non-core remain uncertain but are expected significantly below the amount that we have seen last year, given the good progress on the winddown and the improved outlook on oil, gas and commodity prices.

Turning to capital on slide 14. Our capital position remains very strong with a Basel III CET1- ratio of 17.4% and a Basel IV-ratio above 15% after absorption of the AML settlement. RWAs increased somewhat this quarter, mainly related to a model review for the oil and gas exposures and the post model adjustment for the impact of Covid-19. These effects offset to a large extent the decline in RWAs from the wind down of CIB non- core.

The TRIM process is finalised now, which has significantly closed the gap between Basel III and Basel IV. I expect further closure of this gap by year-end as we plan to move some portfolios to Basel III foundation and standardised approaches. We also expect the Dutch Central Bank mortgage floor to be imposed later this year.

With that, I would like to hand back to Robert.

Robert Swaak: Thank you, Tanja. So, let's turn to slide 15. On this slide we show our related targets we set for 2024 with our current performance on these targets and provide some guidance into 2021.

Starting with our return on equity. In Q1 2021, our return was impacted by the AML settlement and therefore, this will have a large impact on the expected full-year ROE.

I am pleased with our mortgage performance this quarter, a 17% market share in a very strong market is a good result. A number of initiatives I will expect to come through in 2021, which will further improve our market share from mortgages and SMEs. For example, the launch of our low-cost mortgage label dedicated to the intermediary market. This quarter, we realised cost savings, mainly in IT and branch closures and we have a clear trajectory to bring costs below EUR 4.7 billion by 2024.

As Tanja mentioned, we now expect the cost of risk for the core bank at or below the through-the-cycle range of 25 to 30 bps and CIB non-core impairment significantly below last year's level.

Our capital position continues to be very strong, and we stand ready to pay the full year 2019 dividend in Q4, again, ECB conditions permitting. We will recalibrate the Basel IV threshold for share buybacks at Q4.

So, to wrap up, with the settlement out of the way, we can now fully focus on our strategic priorities, and I am pleased with the progress we made this quarter. The winddown of CIB non-core continues to run ahead of schedule. We took action on deposit margin pressure, further lowering the threshold for charging negative rates. Expenses are under control and further cost reductions are coming through. We are working hard to increase fee income, and this quarter again showed higher fee income.

Our capital position remains strong, and we stand ready to pay the full year 2019 dividend in Q4.

Looking ahead, I expect the economy to rebound as lockdown restrictions ease in the second half of the year.

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

QUESTIONS AND ANSWERS

Benoit Pétrarque (Kepler Cheuvreux): Good morning, two questions on my side. The first one is on the core NII. I was trying to understand a bit the moving parts into the coming quarters. So, we have a EUR 1.3 billion figure for the first quarter. I think you keep the EUR 20 million drag per quarter. You talked about the good pipeline on loan growth, about deposit repricing and also the TLTRO III benefit.
So, is that fair to assume that this kind of EUR 1.3 billion level will start to stabilise and even slightly increase in the coming quarter? I just want to have your view on that and also on the EUR 20 million drag per quarter. We have seen some steepening year-to-date. I know it is early signs and early movement but do you keep the EUR 20 million because the economists at ABN are quite bearish on the steepening or do you think that is really going to be the base estimate looking at the current curve for the coming quarters?

My second question is on non-core. You have a different cost of risk guidance, clearly, but if I look at the non-core, I see it is now EUR 6.9 billion for EUR 1.7 billion of Stage 3 and a 64% coverage ratio.

I think you mentioned some uncertainty on the non-core and cost of risk. But I guess, the book is now much smaller and much more under control than a year ago. What could be the cost of risk into 2021 and beyond? What could be the ultimate impairment and cumulative impairment on a EUR 6.9 billion book with a 64% coverage ratio? I am trying to get a bit of guidance on what is left actually and what is at risk? Do you start to become a bit more positive on the final outcome on this portfolio?

Robert Swaak: Sure. Well, thanks for your questions. Let me take the first question, and I will ask Tanja to comment on your second question. We continue to see NII being impacted by deposit margin pressure, and that sits around that EUR 20 million. In terms of your question around the steepening of the curve, we have actually seen the longer-term interest rates improving and we are seeing short-term interest rates stabilising a bit. That means that in terms of our own replicating portfolio, the effects will continue to come through of any steepening of a curve at a delayed time. So, we are going to continue to see pressure on NII, but I also might add that there is some pressure on NII because of our CIB non-core. We have the building blocks, and that would include an estimate of about EUR 10 million on a per quarter basis.

It is important to recognise that we have realised this performance because of the situation in the Netherlands, where a good support has been issued to companies. We have seen, therefore, limited uptick on credit demand and certainly, as you know, we have an exposure to the Dutch market. At the same time, we are positive on Q3 and Q4. So, as we saw our loan volume stabilising, by the end of the quarter, which is a good sign, I would absolutely expect the loan volumes again to begin to increase as the economy begins to open up.

Tanja, could I ask you to take the second part.

Tanja Cuppen: Yes, you referred already to the remaining size of the non-core portfolio of EUR 6.9 billion and we are definitely pleased with the good progress that the winddown is making. If you look at the appendix to the presentation, you see as well in the portfolio EUR 1.1 billion of the remaining portfolio is in Stage-2. That is the part of the portfolio that we feel has an increased risk, so under close watch. That is also where we expect at least some fallout in the coming period. But of course, there is uncertainty around that as well. There, I also see upside in terms of us benefiting from the good liquidity in the market. Over the past period, we have been successful in selling both performing as well as non-performing exposure within the levels that we feel is appropriate. So, that also led to some releases in impairments, for example. That will definitely also impact the cost-of-risk number going forward because once we sell assets, we will not have any future impairments on these assets that we sell.

As said, it is difficult to give a guidance in terms of cost of risk, given the rapidly declining outstanding balance but if I would have to say something for this year, last year the level of impairment was EUR 1.1 billion, the portfolio has reduced by 60% and also on a pro rata basis, the guidance will be below that level of 2020. Hopefully, that gives you some feel for the metrics and while looking at this EUR 1.1 billion and assuming that would move to Stage-3, I think then you are looking at mostly the upper bound of what the unwind could cost.

Benoit Pétrarque: Could you accelerate a bit the disposals now?

Tanja Cuppen: We are looking at this on an ongoing basis. As I said, the liquidity in the market is good. So, if the right opportunities are there, we will definitely do that, and that is what we did with the Trade & Commodity finance portfolio.

Benoit Pétrarque: Thank you very much.

Stefan Nedialkov (Citigroup): Good morning, a couple of questions on my end as well. On NII, I was a little bit surprised that the benefit from the negative deposit rates was only EUR 28 million. I was probably looking at something around EUR 40 million. I do not know if that was your expectation as well but if your expectation was indeed higher than the actual this quarter, could you give us some colour on what happened? Did you see more meaningful deposit outflows on the back of the negative rates? And just circling back, deposits were obviously up in 1Q. Is it fair to assume that if negative rates were not imposed, the rebound in deposits Q-on-Q would have been quite a lot stronger? Related to that question, is that what drove the deposit margin to be so around 40% more negative versus your guidance, so EUR 28 million versus the EUR 20 million per quarter or is that due to some sort of non-linearity in your replicating portfolio? Just some colour around those two elements and how they are interacting would be very useful.
My second question is on your CET1 target of 13% plus 200 basis points for uncertainties. You are kindly indicating that you will be recalibrating in 4Q. It is quite a long way away. Can we just ask a very simple question here? The AML is out of the way. That was around 50 basis points. Does this mean your recalibration should be at least 50 basis points, so down to 14.5% and within that 14.5%, how should we think about the priority between M&A, buybacks, dividends and buffers?

Robert Swaak: Thanks for your questions. Maybe Annemieke, could you explain on NII?

Annemieke Roest: Yes. Your question was on charging negative rates. That is indeed a bit more outflow than expected. We saw we can charge EUR 23 billion more compared to Q4. So, that relates to the EUR 28 million. You have expected EUR 40 million, but that was not our expectation. But indeed, there was a bit more outflow than expected.

On the EUR 20 million on average deposit margin pressure, yes, that is related to the replicating portfolio and that portfolio consist of short, medium and long-term tenors. High-interest rate investments from a period long ago will mature or are maturing and reinvested against lower rates and you know that the short-term rates have come down. So therefore, the impact this quarter was higher than the EUR 20 million we guided on average. Hopefully, this gives some more background on your question on NII.

Robert Swaak: Thank you, Annemieke. On the recalibration of our CET1 threshold, you are absolutely right. We have always said that the AML is a significant part of the uncertainty that we take into consideration when we established the 200 bps. At Q4, we will have a full sight of how the year is turning out in terms of the economic uncertainties, which also played a role, certainly, any potential M&A continues to factor in our decisions making. Therefore, at Q4 is the right time to begin to think about the recalibration. I certainly would not do it any sooner and at this point, I would not want to give any more kind of specific details, just to really highlight the components of the threshold that we have always talked about.

Operator: We lost our connection with Stefan during your answer.

Robert Swaak: Okay. Stefan, are you there?

Operator: No, he will have to redial and join the call again. I am going to put through the next question and that is Omar Fall from Barclays.

Omar Fall (Barclays): Good morning, just two questions. The first one is around communication and the budgeting that is ongoing at the group. So, you told us that the deposit margins would have a EUR 20 million negative impact per quarter when you first set that guidance last year. But you said that when swap rates were at their lows, certainly medium-term tenor ones and the shorter-term ones were not far off where they are now. So, the rate environment has not gone worse since and unlike others in the sector, you have not actually had a huge jump in pandemic-led deposits. Yet we are here and the impact has been worse than that EUR 20 million for three quarters in a row, and materially so, at closer to EUR 30 million for the last two quarters. That difference in magnitude on an

annualised basis is almost 10% of consensus earnings. So, it is not just a rounding or fluctuation problem as you have called it. So why is it that you have such low visibility on the replication portfolio? And why is it that the bank struggled so much to consistently meet near-term guidance?
Then the second question is just a simple one, following the sale of the TCF of EUR 900 million. Could you just update us on where you expect the non-core loan book to end up at year-end now, please?

Robert Swaak: Yes. So, on your first question, we have used the replicating portfolio for quite some time and we have always said the way the replicating portfolio translates back into that short-term guidance can vary. We still, at this point, see no reason to adjust the EUR 20 million based on what we know about the replicating portfolios in our current estimates. That does not mean that during a quarter, the actual result could vary.

Maybe, Tanja, your question on the core.

Tanja Cuppen: On the noncore portfolio, we indeed expect a further reduction and as mentioned, if we just assume scheduled repayments, the speed will come down and therefore, only a limited reduction towards year-end. But assuming other steps we have taken before, it could be a more significant reduction towards year-end. So yes, there is uncertainty around it and of course, we will only accelerate if that is at the right conditions. It is hard to give a number but I can say that we actively work on this, and we make sure as well that the actions that we take are capital accretive.

Omar Fall: Okay. And just as a quick follow-up. I understand your point on the deposit margin guidance that it can fluctuate, but it has only fluctuated in one direction since you gave the guidance. I would have thought that they would d be sometimes up, sometimes down, but that does not seem to have been the case. I am just trying to understand why that is.

Robert Swaak: No, and I appreciate that. When we do the analysis, we review the replicating portfolios as they come into the portfolios, we still find the EUR 20 million to be the right number, given the longer-term outlook that we have.

Omar Fall: Thank you.

Tarik El Mejjad (Bank of America Merrill Lynch): Just two quick questions, please. I want to just come back to the revaluation of the 15% threshold. I understand you still want to have better visibility on the upcoming uncertainties. But if you have to rank the concerns you had in terms of economic AML and regulation and so on, how would you rank these?

My second question is on fee income. We have in mind the EUR 400 million run rate you have been above in Q1, so how should we think about this run rate, given you sound quite optimistic about growth from the economic reopening in the second part of the year and maybe payments will also pick up with that and so on? So, could you maybe just refresh this guidance?

Robert Swaak: Yes. Thanks for your question and I appreciate the question in terms of putting a priority on the components. Clearly, the AML settlement is important to us and we would almost forget about it. But this was an important event for the bank and important in terms of taking care of uncertainties, as we define the 200 bps thresholds that we came up with. I really would not want to prioritise any other component in there for the simple reason that A. economic conditions are what they are and we will have to see how they continue to play out, although there is indeed an optimism and certainly on my side as to how Q3 and Q4 could potentially turn out but also B., M&A is important to the strategy of the bank. So that will be factored into the considerations as well. So, I would rather not prioritise any of the components. I think it is incumbent on us to take a thorough look at the different components and then come up with the recalibration at Q4.

Your second question was on fee income. I appreciate your question, particularly as we have shown, again, a strong quarter on fees. We are ending up above the guidance, actually. I would still say, as long as we are in lockdowns, we would continue to guide below EUR 400 million. What is important now is that we have seen improved performance on the Clearing side, clearly benefiting from market conditions and also in markets and CIB, the private bank has shown a good performance, again, consistent also with the strategy, where we have continued to emphasise the transfer to fee income as well. On the retail side, fee income has been muted for the very obvious reason said any credit card activity is still very much low and particularly at times of lockdowns as low as minus 50%. So, as soon as the economy begins to pick up again, which, again, based on what we know now and based on the speed of vaccinations, it should well be in Q3, Q4, that could potentially change. But for now, we will continue to guide below the EUR 400 million for the reasons that I have just indicated.

Tarik El Mejjad: Thank you very much.

Giulia Miotto (Morgan Stanley): Good morning. A couple of questions from my side as well. So, the first one on the market share movement in mortgages, that is quite some change, 14% to 17%. So, I am wondering from a competitive perspective, what is changing and how do you achieve this higher market share? Is it a better offering? Is it a lower price? Is it some competitor retrenching? Any colour there would be interesting.

Secondly, on the EUR 5 billion add on that you expect from the DNB, do you have a clear indication that this is coming by 2021? Or is that your working assumption, but actually, could be delayed further?

Robert Swaak: Yes, Tanja, I will ask you to take that second question. Indeed, on your first question, we are actually very pleased with the increase in market share at 17%. It is reflective of a number of things. It is very reflective of our competitive position in the mortgage market in the Netherlands. We have seen volumes in mortgages come up also for ABN AMRO, and all of that in a competitive environment. Much of that increase is due to the fact that we have invested in capacity in our mid-office to ensure that we can quickly respond to questions and to request on mortgages out of the market, whether that is through our intermediaries or otherwise. We have indicated before that we would emphasise this particular segment for ABN AMRO, it is the strength of ABN AMRO. It always has been and it is good to see that we are seeing the immediate effects now also in this quarter.

The other part of this is that we continue to upgrade our service offering in the mortgage markets. So, we are now launching mortgages to entrepreneurs in a digital capability. So that is also, again, a quick transition from demand to the actual mortgage. So, on the whole, we are repositioning ourselves, settling on the demand that customers put on us in terms of speed, and we are seeing that playing out right now.

Tanja Cuppen: Yes. On the DNB mortgage floor. As you know, that was planned to be introduced last year, and it was postponed in light of Covid-19. It is hard to say whether that will be reintroduced this year or not or later. But in light of the increase in house prices, we do believe that it is prudent to assume that this will come back at some point and therefore, we include it in our projections.

Giulia Miotto: Thank you.

Anke Reingen (Royal Bank of Canada): My first question is on the potential benefit of TLTRO. Just confirming, would that be on a larger balance than the EUR 32 billion, more like EUR 35 billion, what you could see the benefit?
Then on the capital. I understand the point that you want to get more certainty with Q4 and economic. But just conceptually, the 13% is your target. Are we talking buffer on buffer and to keep in order to keep your flexibility for M&A?

Also, is there anything you can share with us in terms of directed buyback from the government?

Robert Swaak: Thank you for your questions. TLTRO, Annemieke, could you take that question?

Annemieke Roest: For the next period, an extension of the terms by twelve months is based upon the new hurdle. We currently have EUR 32 billion, and we are allowed to increase that to EUR 35 billion, but we have not yet decided on our participation/preparation in this scheme.

Robert Swaak: Okay and yes, on your question around capital, I am just trying to understand your question. Was your question whether we are still allowing for M&A in the buffer?

Anke Reingen: Yes. You have a target of 13%, and you are talking about recalibrating the 15% down. Why would not it be 13%? Basically, because you would have a buffer on the 13% for acquisitions. I am trying conceptually to understand the buffer-on-buffer concept. If buying back shares from the government could be an option as well then how you invest the capital? Is it included in your buyback plan basically?

Robert Swaak: Sure. Yes, we have determined that 13% to be a base at which we are comfortable running the bank. So that is coming off of what we know around our previous CET1 core ratios. So therefore, the 15%, again, as we communicated previously, included any potential buffer for the components we have been talking about. So, as we said before, the AML has been taken out of that buffer, that uncertainty, if you will. Therefore, M&A is coming out of this particular buffer. That is the way we have always looked at it.

In terms of the government's role or the major shareholders' role in terms of buybacks, again, let us first do any recalibration. We will then determine if and when we would do buybacks, and that is when the process really then starts, as you would in any of these cases. So it is, first of all, determining how we recalibrate and then we take decisions, any potential decisions on buybacks.

Anke Reingen: Thank you very much.

Johann Scholtz (Morningstar): Just two quick ones. On slide 3, it struck me that you qualified that the ALM settlement is essentially, if I understand it correctly, limited to your Dutch activities. For the period 2014 to 2020. I was just wondering if there is any sort of risk of additional settlements outside of that scope.
And then secondly, just quickly on lending spreads. Could you give just a bit more colour, how you see the future evolving on lending spreads? Especially in the current environment, you are starting to see a steeper yield curve. Would that have an impact on competitors and client behaviour?

Robert Swaak: Yes, on the settlement, what we have included here is exactly what the investigation covered. So, it was the period 2014 to 2020 and it was related to our Dutch operations. So that is what we have settled on. There was no other investigation. That was the investigation, and that was the scope of the investigation.

In terms of your question, again, on the effects of lending and potential steepening of the curves, right now, what we are seeing is longer-term interest rates steepening and shorter-term interest rates stabilising. It is clearly a situation that we will continue to monitor very closely in terms of pricing, where we want to price at the right levels as we have always done. We do that consistently, taken into consideration our own risk profiles and competitive positioning. So, it does not change our behaviour. We will consistently look for the right levels of pricing, but we do keep very close to market dynamics.

Johann Scholtz: Thank you.

Thomas Dewasmes (Goldman Sachs): Good morning and thank you for the presentation. My first question is on capital, please. Can I confirm with you that the Basel III CET1 went down in the quarter, but the Basel IV CET1 went up, given what the tangible equity did and what your volumes did as well? Also, would you like to share with us whether this Basel IV CET1 is now closer to 16% or 15% since you have been showing it above 15%, at least for the last two quarters?
My second question is on the non-core unit. So, if I step back and look at when you announced the plan a few quarters ago, obviously, you are going much faster than planned, which is negative for NII fees probably, et cetera. But could I confirm with you that the level of provisions you have budgeted at the time was indeed much higher than what you are seeing now and that therefore, the overall capital impact or capital accretion from the disposals is much higher than you had planned originally?

Robert Swaak: Thank you. Tanja, could you take the capital questions?

Tanja Cuppen: Yes, indeed, Basel III is impacted by model updates as also provided in the presentation. Basel IV is impacted less, but still, there is some impact and you need to think of Basel IV CET1 levels to be about the same level as the last quarter. So, do you want me to answer the question on CIB noncore as well?

Robert Swaak: Yes please.

Tanja Cuppen: Then I focus on the impairment levels. Indeed, we assumed the non-core wind down to be capital accretive and so far, impairments have been below the levels that we had anticipated. So that is a positive and also, our outlook is more positive than we initially budgeted. So, from that point of view, we feel that the capital accretion should be more positive than initially assumed.

Thomas Dewasmes: And can I just quickly confirm that the level of the Basel IV CET1, is closer to 16% or 15%?

Tanja Cuppen: Well, we say above 15%, and we are reluctant to be more precise. As you know, this is a regulation that is where the implementation rules are not fully clear yet. The European Commission will decide on that in September 2021. So, our calculations are educated estimates, and I do not want to create this feel of preciseness that you are looking for. So, let's await what the European Commission is coming with and then we are probably also able to come with more precise numbers.

Thomas Dewasmes: Understood. Thank you very much.

Guillaume Tiberghien (Exane BNP Paribas): Just two precisions, please. One is on the TLTRO. How will you account precisely of the benefit if you meet the threshold?
The second one relates to the recalibration and the dividend payment. When you say at Q4, do you mean during calendar Q4 or when you publish Q4 in February next year?

Robert Swaak: Yes. So, on maybe both your questions, we account for any benefits when we know we are fairly sure that we would recognise the benefit. That is when we would account for it.

As to your second question, that would be at Q4. So that means beginning of 2022.

Guillaume Tiberghien: Okay. Just for the TLTRO, you mean you would book a one-off gain or spread over a number of years?

Robert Swaak: Annemieke, would you?

Annemieke Roest: Yes, I can answer that one, Robert. We will add the benchmark period is till the end of December. So, then we are sure and then we can book the benefit for this year, so for two quarters in Q4 and then, of course, recorded for the additional quarters in 2022. But that will be done in 2022. So hopefully, that is clear now.

Guillaume Tiberghien: Thank you.

Jason Kalamboussis (KBC): I just got a couple of follow-ups. The first one is the EUR 400 million. You are continuing with the guidance that is below EUR 400 million on the fees and commissions. But assuming a better economic outlook in the second half and things picking up just after the summer, normally already in Q3, we should be having the credit card usage that should be at much better levels and as you said, it is down 50%. So, I would have expected that this below EUR 400 million guidance is possibly one for the second quarter, but normally, in the third quarter and fourth quarter it should be at a much better level, except if there are other elements on which you have doubt within your fees and commissions. That was the first question.

The second one is, when I am looking at the NII, just a follow-up on what was said before. Indeed, in Q3 instead of minus EUR 20 million you have minus EUR 28 million. For Q1 it is the same thing, but also in CIB, non-core wind down, you had minus EUR 15 million on both rather than minus EUR 10 million. Especially on the CIB non-core wind down, is it fair to assume that therefore, we may have a compensating element in the coming quarters, so we may be actually better than the minus EUR 10 million?

And then a quick third one. The AML fine is about 0.5%. Hopefully, you had assumed a bit more as a buffer, so possibly 1%. I understand that we will have to wait for Q4 for us to give us a precise number but I just wanted to have an early caution. How do you think about M&A? Do you think that now that you have the AML fine, your priority is more around capital distributions? Or do you want to start thinking about being slightly bolder on what you consider as M&A, so a bit bigger bolt-on, if you want, notably on the private banking?

Robert Swaak: All right. Thanks for your questions. On your question around fees, we have guided consistently during lockdowns at below 400 million. We will see what happens in Q3, Q4 as the economy begins to open up and we absolutely would expect consumer behaviour and spending behaviour to change and therefore, credit card fees to begin to increase again. We will take a look at that time and see exactly when that happens and until that time, I think it is only fair to maintain the guidance that we currently have. But again, Q3, Q4 we should begin to see the opening up of the economy and the associated usage of credit cards, and therefore, the realised fees.

As to your question on AML, in relation to maybe reprioritising capital distributions versus M&A. I have been CEO now for a year. I have very clearly from the outset indicated that I fully appreciate the need for capital distribution. That is the reason why we kept 2019 accrued. It is also the reason why we are being clear today as to where we stand in terms of our 2019 dividend. I have also said that it is important for this bank to be able to execute a strategy. The strategy was predicated on our own core strengths, and we have said we would always target any or review any M&A opportunity if and when it presents itself. Certainly, over the last couple of quarters, I have been very clear in what area of the bank, we feel that could be accretive and beneficial to the future of our bank. So, I would continue to state that. So, both the understanding and the requirement of capital distribution back to shareholders as well as when the opportunity presents itself to enable us to act in the core part of our strategy. I will maintain a focus on potential M&A, focused around private bank activities and at the same time, continue to review the potential for capital distributions. Did that answer your questions?

Jason Kalamboussis: Very clear. Thank you very much. And then on the CIB non-core winddown impact on the NII?

Annemieke Roest: I can answer that one, Robert. We guided indeed minus 10 per quarter, and it was only two times minus 15. Further ahead, we still keep the guidance of minus 10 because it is really depending on opportunities to still wind down further. So, the guidance is still minus 10.

Jason Kalamboussis: Very good. Thank you very much.

Stefan Nedialkov (Citigroup): Hi, thank you. Just a quick follow-up on Basel IV. So, the EU commission will come with final proposals this year and from what we hear, the discussion of the parallel stack versus single stack approach is very much alive, if we believe some of the banks in Europe. What is your view? Is the parallel versus the single stack question, a live question and how are you impacted by this? What do you include in your Basel IV inflation, a parallel approach or a single approach? And what is the sensitivity if the EU commission goes one way or the other?

Robert Swaak: Tanja?

Tanja Cuppen: Yes. I do not have the details at hand for that. I do not know, Annemieke, whether you are up to date on that topic?

Annemieke Roest: No, I think we can take this to the IR team after the call if that is okay for you.

Stefan Nedialkov: Sure. Thank you.

Robert Swaak: We will make sure we come back to you on that one.

Annemieke Roest: Yes.

Kiri Vijayarajah (HSBC): Just a couple of questions from my side, mainly on the volume side. So firstly, coming back to the TLTRO volume threshold, you are sounding quite confident for the second half of this year but I am wondering which specific portfolios do you think are going to deliver the growth to get you over the line next time around? Where the delta versus the last measurement period? Because I see with one of your Dutch peers, they relied quite heavily on the wholesale bank short-term lending to hit their TLTRO volume threshold. So, should we expect something similar from you?
And then on your sustainability volumes that you have shown on slide 6, a very helpful slide by the way. But am I reading that right that you are expecting to go backwards in the CIB loans and the mortgage loans in terms of the sustainability share between now and the end of the year? So, what is driving that backward move, please, on some of those percentages you show on slide 6?

Robert Swaak: So, on your question on TLTROs, typically, when we see the economies tick in, we have an exposure to the Dutch economy and we would expect the credit activity for the corporates and the SMEs to increase. So, we would expect then the loan book to continue to increase again and again, that is advantageous, and that works in our favour in terms of our TLTRO.

As to your second question, I am looking at the slide.

Kiri Vijayarajah: Yes. So just the sustainable loans, your 1Q, you are at 14%, say, on the CIB loan, then that falls to 11% by the end of the year. Am I reading that right?

Robert Swaak: Yes, we are detailing the targets here and we got actuals reported.

Kiri Vijayarajah: Yes. Okay. Sorry, misunderstood. Thank you.

Robert Swaak: Yes, that is why I just wanted to make sure I understood the question. Thanks!

Robin van den Broek (Mediobanca): Yes. Maybe first of all, could you update us of the progress of the sale-and-leaseback of the headquarters plans? Is it still in the phase of printing brochures? Or could we expect anything over the next few months? And in connection to that, we have seen press rumours about indicative pricing there, that could be EUR 1 billion. You have said your book value is EUR 250 million, so that would imply a capital gain of EUR 750 million. But I have also heard that you might have to deduct the cost of the lease basically within the determination of a capital gain for CET1 capital. Could you explain the dynamics around that a little bit more carefully?

Next to that, on flexible credit on the consumer side there has been an adverse Kifid ruling, as you, of course, know. You have indicated that your intention is to come to a broader compensation scheme. I think you want to go to court to find the right parameters for such an approach. You have some provisions for that, but I am assuming that those provisions are mainly in place for active Kifid files running. Or do you also have a more collective provisioning already?

And lastly, I think during the prior earnings call, you indicated that there could be knock-on effects for capital on operational risk, RWAs in relation to the AML file. Can you just confirm that that is now baked in? Or could we see some further effects later on?

Robert Swaak: Yes. I will ask Tanja to comment on Kifid and on the RWA, and I will take the sale and leaseback. So, Tanja, go ahead.

Tanja Cuppen: Yes. Indeed, regarding the Kifid ruling with respect to consumer loans with a variable rate, we have indeed, as you mentioned, some provisions for active Kifid files. We have communicated before that we do not agree with this Kifid ruling, and we are taking several complaint cases to the civil court. We have now decided to hold this process for three months to explore talks with the Dutch Consumer Association, as you were alluding to. Both for civil cases as well as for these explorative talks, we have not taken any provisions as we cannot make a reliable estimate at this time. So, I think that probably answers your question.

On the AML settlement, indeed, it does have an impact on operational risk capital as well. For Basel III, that was already mostly included, given that we work there with scenarios, and we have updated our scenarios already in the past. So, we do not expect any significant change there as a consequence of the settlement.

For Basel IV, the approach for operational risk is based on historic operational losses and there, we have already included the impact of the AML fine. So that means that what I said before on the level for Basel IV, the impact of operational risk is included in our number, that is above 15%.

Robert Swaak: Thank you, Tanja and in terms of your questions on the sale and leaseback, look, let me just say that we will confirm the book value and we expect to have that transaction. We are looking for completion towards the end of the year and I think that is the time I will give you more details on the transaction.

Benoit Pétrarque (Kepler Cheuvreux): Yes. I have two follow-up questions. The first one was on the head office, if the gain will be included in the calculation of the EPS for the dividend. And then just on the cost base. You guided for less than EUR 4.7 billion by the end of 2024. But obviously, the non-core winddown is accelerating. Any views on the speed of the cost reduction on the non-core, if that could be a bit earlier than expected based on the pretty strong developments year-to-date?

Robert Swaak: Yes. Thanks for the questions. Again, just on the sale and leaseback, we will make any further calculations at the time when the transaction is completed, and we have the details.

On your comment about the winddown, we are pleased with the speed of the winddown, and therefore, it will necessitate also on our side and certainly in 2022 to continue to actively review our cost levels associated with the winddown as well. Because it is accelerating, we will do it in a responsible manner.

What I would like to just emphasise is we are talking about an orderly winddown and that means that whilst we would always look for any opportunities to accelerate not only the winddown, but also to bring down on the associated cost levels, we would do that at a responsible manner, so that we can continue to ensure an orderly winddown even as we start getting into the tail end of the book.

Benoit Pétrarque : Clear. Thank you.

Anke Reingen (Royal Bank of Canada): I just wanted to follow-up on your targets on sustainability, the share of the weighting and your CIB loans. 25%, 27% is obviously quite a large share. Do you think, given the focus of a lot of these banks on expanding their sustainable loans that their profitability or the margin is lower on the sustainable loans, but potentially, if there is an increase in risk-weighted assets on brown assets, so the profitability will be higher or at least the same?

Robert Swaak: Yes. Without going into too much detail in terms of the individual pricing on these loans, what we are actually seeing is there is a huge demand for these types of loans. So, it is clearly the bank emphasising a strategic direction, but it is also very much answering a market-driven demand as well. That allows for continued competitive pricing, as I would expect it to occur also in these sustainable loans. I do think it is encouraging to see that even in a time where we consider ourselves in a Covid-19 pandemic. Yes, there is some light at the end of the tunnel towards the end of this year. But even during that time, we have seen continued demand for these types of loans. So, I would expect normal competitive pricing to continue.

Anke Reingen: Thank you.

Operator: We have no further questions, sir, please continue.

Robert Swaak: Okay. Well, if there are no further questions, I would like to thank everyone for participating. We really look forward to speaking to many of you very soon and for now, goodbye, and have a great day.

End of call