Q4 2021 Analyst Call Transcript

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Robert Swaak: Good morning welcome to ABN AMRO is Q4 results. As always, I am joined by Lars Kramer, our CFO, for his last time, Tanja Cuppen, our CRO. I will update you on the progress of our strategic agenda and the share buyback that we announced today. Lars will go through our fourth quarter results in more detail, and then Tanja will update you on impairment developments in our loan portfolio and on capital.

Let's turn to our fourth quarter results on slide 2.

Our Q4 results reflect the underlying economic recovery, which is really gathering steam until December, when lock-down measures were re-imposed. During the fourth quarter, the corporate loan book of the core bank increased by over EUR 5 billion and as a result, we met the TLTRO-threshold and we booked the additional funding advantage for 2021.

We saw a strong fee income with our Clearing bank again turning in a good result. Our Q4 result was further boosted by the sale-and-leaseback of our head office. Combined, this led to a net profit of EUR 552 million for the fourth quarter.

Over the full year, costs were in line with guidance at EUR 5.3 billion, excluding the AML settlement.

We effectively absorbed an increase of AML costs as well as handling costs for the variable interest compensation scheme. Loan impairments showed a strong reversal from previous year and we ended with a net release of EUR 46 million over the year.

We propose a dividend of EUR 0.61 per share per share and I will later elaborate on the share buyback program of EUR 500 million we announced today.

Turning to slide 3, I want to look back on what we achieved in 2021. The wind-down of the CIB non-core, which we talked about quite a bit, has been largely completed well ahead of schedule and our attention is now turning to closing locations. We settled the AML investigation and progress on remediation is good.

In terms of our growth agenda we had a successful start of MoneYou mortgages and Enterprise & Entrepreneur (E&E) is now live in Germany and Belgium.

We further strengthened our digital and data capabilities and continue to further simplify our organizational structure.

We introduced new payment packages for SMEs with a successful uptake and, last but not least, we resume dividend payments, and today we also announced a share buyback program of EUR 500 million.

So looking forward to 2022 and beyond. We are, for the time being, still faced with continued pressure from low rates.

For next year I expect net interest income of EUR 5.0 billion to about EUR 5.1 billion. I do expect NII to bottom out sometime during the second half of 2023.

Our strategic agenda defines a comprehensive approach to deal with the impact of negative rates.

Growth in fee income helps the top line and leads to income diversification.

I expect we can deliver a compound annual growth rate between 5% and 7% on fee income up and until 2024.

We continue to execute on our well-substantiated saving plans which will bring cost below EUR 4.7 billion by 2024.

We will benefit from the de-risking of our balance sheet as we now expect a through-the-cycle cost of risk of 20 basis points going forward.

Of course, it is not all about financials. We will not lose sight of our clients. We will continue to work on putting into practice a personal bank in a digital age. I expect the full range of banking services to be available, remote or digitally as of Q3. We are mindful that not everyone is able to switch to online channels, and therefore we want to continue to ensure digital inclusivity for all of our clients. We are doubling the number of financial coaches our clients can turn to for help. Also, we will continuously focus on AML going forward, as this is our license to operate and also at the same time our license to grow.

On slide 4, I will update you on ESG. As you know, sustainability is core to our purpose and we firmly support the goal of limiting global warming to a 1.5 °C.

To reduce our own carbon footprint, we are developing a Paris-proof campus, which will become our main office building.

Through our clients, we can leverage our influence greater to drive the energy transition. For example, we incentivise our mortgage clients to improve the energy rating of their property by offering discounts, as well as energy savings check.

To support corporate clients achieving their sustainability targets we can offer them sustainability-linked loans. These tailor-made loans link the margin to improvements in the ESG-rating or a specifically sustainability-related performance indicator.

We have developed a standardised version of the sustainability-linked loan, the transition loan, which is specifically tailored to SME clients.

Turning to our sustainability targets, we have made quite a lot of progress over the last year, and in many cases we are already achieving our longer-term targets.

In order for us to maintain momentum, we have raised our target of sustainable client loans and investments from 30% to 36% in 2024.

Now, if you allow me a few words on the Dutch economy which you will see on slide 5.

As we begin to emerge from the pandemic, the economy has proven remarkably resilient, reflecting healthy economic fundamentals and effective government support.

For 2022, Omicron and high inflation will have an impact on GDP growth, and yes, inflation is a source of concern.

However, we expect it to start coming down closer to the second half of this year as supply disruptions are resolved.

Bankruptcies were historically low in 2021 but are expecting to rise steadily again as government support measures are phased out.

Meanwhile, house prices in the Netherlands will continue to rise, mainly due to the low mortgage interest rates and declining supply, so we expect the price increase to continue, though at a lower rate. The number of transactions will therefore come down, however.

We expect the new government to implement measures to increase housing supply and curve demand.

Now turning to slide 6 on capital.

We announced a EUR 500 million buyback program, which will start tomorrow. Let me talk you through our rationale behind this share buyback.

The choice we made was for a gradual release of capital, potentially resulting in multiple buybacks over a period of time, rather than a large buyback without follow up. Going forward, share buybacks will be an integral part of our capital management practice and a tool to optimise our capital position. Our current capital ratio puts us in a good position to discuss a subsequent share buyback with our regulator in due course.

Now, given a gradual release of capital, the threshold is for the time being not constraining. For share buybacks further out we will evaluate the uncertainties we face at that point in time and reassess the appropriate size for our strategic M&A buffer. In dialogue with our regulator we will then decide on the amount of capital we should prudently preserve and if there is room for a further share buyback.

Over time, I expect the amount of capital we preserve over and above our target to gradually decrease, as we work through our regulatory changes and uncertainties are resolved. So therefore, I trust this framework will lead to more predictable capital distributions going forward.

Let me now hand it over to Lars to discuss the fourth quarter results.

Lars Kramer: Thanks, Robert, I will briefly highlight the full year developments.

Last year, net interest income, excluding incidentals, but including TLTRO, amounted to EUR 5.5 billion. The beat versus our NII guidance is mainly due to the higher-than-expected mortgage prepayment penalties and comparing NII to 2020, the decline is mainly due to the non-core wind-down, the effect of margin pressure on deposits, and also the mix between margin and volume pressure on our lending products.

The fee income rose year on year driven by good results from clearing as well as private banking.

Excluding incidentals, expenses amounted to EUR 5.3 billion, as previously guided.

In stark contrast to 2020, we booked a net release on impairments in 2021.

I am pleased with the good profit of 2021 and despite the impact of the settlement of the compensation schemes.

Moving to page 8, we can have a look at some of the loan volume developments.

Over the year, our mortgage portfolio grew by EUR 700 million, which reflects a stable market share of around 15% mortgage prepayments were generally higher towards year end. This led to a small decline in volume during the final quarter. Corporate lending increased in Q4, supported by the TLTRO-incentive that we were able to offer our clients. Consumer lending was actually stable this quarter.

Looking at interest income on page 9, as I have just mentioned, last year's net interest income on a clean basis amounted to EUR 5.5 billion. From this base we estimate NII to decline between EUR 400 million to EUR 500 million in the coming year. Therefore, components to this decline.

- One is the rapid wind-down, which means that limited NII will come from the non-core activities going forward.
- We also expect further margin pressure on deposits though to a lesser extent than last year.
- The margins on our lending business have declined and this could continue during 2022.
- Treasury results include mortgage prepayment penalties as well as interest income on our duration and hedging positions.

Now, we expect the treasury results to partly reverse the good result of last year, as we expect mortgage prepayment penalties to be lower in 2022. So, we estimate that these four components will decline around EUR 100 million each, but looking further ahead, we expect NII may bottom out towards the latter half of 2023, treasury results may decline further, that non-core will only have a minimal effect in 2023, and a gradual rise in interest rates and growth in our corporate books should help to turn NII around.

Moving to fees and other income on slide 10. Here, we delivered another strong quarter in fee income, reflecting particularly good results in our clearing bank as well as in asset management fees. Our strategic initiatives are starting to materialise, for example, the new SME packages, which have kicked in. Going forward, I expect fees to grow on average between 5% to 7% through to 2024.

Our other income of course was boosted by the sale and leaseback of our headquarters in Q4. And excluding the sale, other income improved from higher trading results as well as strong private equity gains. It is worth noting that we do not expect the private equity to repeat the strong performance, so the income in this level would be lower in 2020.

Moving to costs on slide 11. Excluding the incidentals, the total cost for 2021 amounted to EUR 5.3 billion, as we guided. Over the year, the cost of AML increased and the regulatory levies were higher due to the AT1 million tax clawback. We expect our cost base to start declining during 2022 and end below the level of EUR 5.2 billion. The clawback will drop out this year, so regulatory levies will decline by around EUR 50 million. Also operating expenses in CIB Non Core will come down further. Furthermore, our strategic cost saving programs will broadly offset cost increases and we do remain firmly on track to drive our costs below the EUR 4.7 billion level in 2024.

At this point I will hand over to Tanya.

Tanja Cuppen: Thank you Lars.

In Q4 we booked impairments of EUR 121 million. These impairments are largely related to corporate loans reflecting a management overlay for Stage 3 loans in Commercial banking and a limited increase on existing Stage 3 files for both CIB Non Core and Commercial banking.

The total management overlay now amounts to around EUR 424 million. Around half of the overlay is Covid-related, reflecting ongoing uncertainty as most government support measures are being terminated now. The remainder is mainly related to portfolios in wind down.

For the full year, a cost of risk ended slightly below 0, reflecting the strong credit quality of the loan book and the economic recovery after easing of Covid-19 restrictions. It is too early to give any guidance for this year, but I expect a more normal picture again, so without releases.

As Robert mentioned, we have adjusted our through-the-cycle of risk guidance to around 20 basis points from previously 25 to 30 basis points. This is mainly driven by the de-risking of our balance sheet from the wind down of CIB Non Core, and the tightening of our risk appetite, as we communicated in 2020 at our strategy review.

Now turning to slide 13 on the capital position.

We remain very well capitalised with a Basel III capital ratio of 16.3%. This includes a EUR 500 million capital reduction for the announced share buyback. The decline versus previous quarter reflects a strong RWA increase, largely related to credit and operational risks. We implemented the DNB mortgage floor this quarter and have done some additional model reviews. The wind down of CIB Non Core combined with seasonal balance sheet reduction more than offsets the growth in our corporate loan book this quarter. For operational risk we have updated our scenarios for revolving consumer credits with floating interest rates.

As you can see in the chart on the right-hand side, the difference between Basel III and Basel IV RWAs has become limited. The add-ons we have taken in Basel 3 combined with the accelerated CIB Non Core wind down and a more positive Basel IV proposal from the EU, are the main reasons for this.

With that, I want to hand it back to Robert.

Robert Swaak: Thanks, Tanja.

Now, turning to our long term targets on slide 14. We managed to grow our mortgage portfolio over the year and we remain well placed in this competitive market.

On cost, we hit our interim goal of EUR 5.3 billion for this year and I am confident we can get our cost base below EUR 4.7 billion by 2024.

A new through-the-cycle cost of risk of 20 basis points reflects the de-risked balance sheet following the accelerated wind down of our non-core loan portfolio.

We announced a EUR 500 million share buyback program today and share buybacks are an additional tool to manage our capital position while we aim for a gradual decrease of capital over time.

Finally, we propose a dividend of EUR 0.61 per share based on 50% of our full year profit.

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

QUESTIONS AND ANSWERS

Farquhar Murray (Autonomous): Good morning all and apologies, I have actually got a slight chest infection. Two questions from me, if it is possible.

Just coming back to the 200 bps that you are applying between the 13% and the 15% threshold. Can you just explain to us what that now represents? Is that still an M&A buffer that can be fully deployed or is it really building in some degree of gradualness in the convergence towards the target over time from here and when might you be able to revisit?

And then more generally, is it plausible that we would be looking at a sequential buyback in the second half of the year and what really are the kind of criteria for being able to do that?

Finally just on the fee guidance: What gives you the confidence that you will be able to do 5% to 7% growth there? What are the key elements behind that?

Robert Swaak: Alright, thanks and hopefully your cold gets better soon.

On your question on the on the share buyback and the threshold. Let me just start with the decision that we got to in determining what the share buyback should actually look like. What was the amount that we needed? In order to ensure a gradual release of capital as we talked about, but also to ensure that this is a gradual release that is applicable for multiple years. In other words, getting to a share capital which is a cognisant of the fact that this has to be a gradual release of capital but also making it possible to do this more than once. So that analysis got us to a number of EUR 500 million.

Now, particularly around that EUR 500 million, if we then say that will allow us to do multiple of capital returns or share buybacks, I should say, that gives us sufficient flexibility for the purposes, as I have just stated. Therefore, the threshold as we have it is not relevant because it is not really getting close to the levels of our threshold at this point. So, there was no need for us to adjust anything further on the threshold.

Now, as to your question. Absolutely we talked about some of the components of that threshold, some of the risk has gone indeed out of out of the bank, as you can see in our through-the-cycle cost of risk adjustments that we have made. We have settled AML. We still have a number of uncertainties related to Covid, as we navigate coming out of Covid. Regulatory pressure will continue and we have M&A, as part of our strategy. So, that really has not changed. But the most important consideration here is by applying the EUR 500 million, by allowing ourselves the flexibility to do multiple share buybacks. We did not get close to the threshold levels, and therefore there is no need to adjust the threshold.

Farquhar Murray: Okay. Thanks.

Robert Swaak: On fees, we guided to 5% to 7% CAGR to 2024. What we are actually seeing – as I indicated that in our results Q4, but that actually started to also to kick in in in Q3 – is that some of the measures that we have taken to the effect they change away from NII to fees are actually coming to fruition.

So whether it is the payment packages that we have introduced, whether it is the ongoing, strong performance that we are seeing in Clearing, or whether it is the continued strong performance on our wealth management side, these are all basis for and extrapolating what that could actually do in terms of opportunity. We think the 5% to 7% CAGR based on what we are actually seeing over these last few quarters is a good indication, a good proxy and therefore good guidance for our fee development.

Farquhar Murray: Okay. Thanks a lot.

Benoit Pétrarque (Kepler Cheuvreux): Good morning. The first one will be again on the share buyback; I will just ask the first question slightly differently. Could you update us on the on the next round of share buybacks already in 2022? I am taking for example during the second quarter reporting or will there or will that be an update, let's say next year in the fourth quarter 2022, so in February 2023? What is the timing of a new potential round of share buybacks? Did you have any discussion with your regulator on the total pay-out ratio? Now you have a 94% level at EUR 500 million, was that part of the discussion or not at all? Could you push it above 100% potentially?

The second question was on NII. I do not think the guidance is very useful in a way because I think you used the scenario end of November – a 5-years swap at minus 10 bps – and in your statement you said NII will bottom out in H2 of 2023. Will that be at the current of rate, so probably around the 50 bps on the 5-year? When will that bottom out? Could you be a bit more specific?

Also, you may have surprised us a bit on the positive side, because you have put a lot of negatives on the moving parts. Where do you think you have been maybe a bit too conservative on the NII guidance.

Maybe briefly, if I may, on the EUR 4.7 billion cost guidance. How much SRF and DGS did you put in your figure? You have EUR 300 million total and I was just wondering if you have adjusted slightly for the regulatory costs there.

Robert Swaak: Thanks for the questions. I will ask Lars to comment on the NII guidance and on your question on DGS. Maybe again going back to the share buybacks, let me reiterate that it is our intention to use share buybacks on a regular basis and for very obvious reasons because we want to continue to optimise your capital position. Also – and I will continue to repeat that – it adds and it helps the predictability of how we manage our capital distribution and that does not necessarily have to be limited to an annual share buyback.

Now on the on the situation as is today, let's get through the execution of the share buyback now and then we will reassess when and if we can get to a potential second round.

So again, just to emphasize, this is a regular part of our optimisation of the capital position. It is something that we envisage that we would do multiple times, but I would like to get through our first share buyback program first and then we will take the next steps.

In terms of your question on the regulator, I would just say they were very constructive. You know we need to get permission from the regulator on the EUR 500 million. That was a good constructive dialogue, and so therefore you see the results today.

As to your question on whether we are limited on a pay-out above 100%. I am I am not aware of any limitations at this point.

Lars Kramer: Let me take your question on the NII and the November scenario. If you were to take rates as of today, there would be a little bit of an upside that you could factor in but bearing in mind that you know we are not as sensitive to the rate movements and we do have quite a long duration book on the mortgage side and also in our replicating portfolio that I would expect maybe the upside for this year – I am talking 2022, which is what we are guiding on – to be maybe around EUR 25 million if the rates continue at this level. So, of course surprising on the up. If the rates go even higher, and if we are able to drive more volume in terms of our various products – these are all factors that that help in terms of NII – and we also have to see a little bit higher prepayment fees evolve on mortgages because here we definitely do anticipate some reduction versus last year, that could provide some support.

On the cost fronts in terms of DGS, the one clear stepped down is the EUR 50 million in terms of the bank taxes and that is a structural step. That was a one-off in 2021. The other area we expect some step down is on the DGS, so there is maybe a EUR 20 million step down on the 2021 levels. But then on the other hand, we are seeing an increase in our contribution to SRF. So overall, apart from the EUR 50 million, I would expect it to be roughly flat. Here, I would also caution a bit in terms of you know what happens on deposit volumes because we saw a strong inflow again of deposit volumes, and that obviously impacts contributions to DGS as well. So we are sensitive to that.

Benoit Pétrarque: But on 2024 the contribution to the SRF should decline substantially. The same is true on DGS, I think. Is that in your EUR 4.7 billion target?

Lars Kramer: There is a partial step down built in but we are being on the cautious side of that, so let's see how that evolves in terms of where the regulator puts the levels.

Benoit Pétrarque: Great. Thank you very much!

Tarik El Mejjad (Bank of America Merrill Lynch): Hi, good morning everyone two questions, please. The first is on capital return. Thank you for explaining your buyback strategy. I was just wondering why you would not step up a bit the cash pay-out component if there is no limitation of 100% pay-out over the years, so you can potentially return the capital a bit faster.

My second question is on the operating jaws. I was surprised you still stick to an absolute number in terms of cost, given the inflationary environment where we are. So, if you assume there is a squeeze on the revenue side from what you described and then the costs, do you think there is a risk that the costs come slightly higher than your estimate given the environment or do you actually work on extra measures to offset inflation and deliver on your guidance?

Maybe squeezing last question in on other income. What are the new run rate? In the past, you were giving EUR 125 million per quarter; should we come back to that kind of level?

Robert Swaak: Thanks for the questions. Maybe on costs, Lars, you can take those two?

Let me just confirm our thinking around the cash buyback. This was very much around the number that we would get to in terms of allowing us to gradually release capital and so, by again coming to the number that we now have, the EUR 500 million, that release can be consistent. It is a number that we can manage and therefore it does increase the predictability. I would choose a bit of a longer term, optionality in terms of the rounds of buybacks that we can do rather than a short term optimising because I do think it is very consistent with our capital policy and that is something that we have continued to be very predictable and consistent about. So, that is why we came to our choices as we are discussing today.

Lars Kramer: In terms of guiding the absolute number for costs, I find that that provides very good discipline for the organisation and a very clear target to go after. With all the inflationary pressures and so on, there are continuously efforts being made to absorb that, and that is also what we are guiding for the longer term that we are in fact trying to come out at even lower than the EUR 4.7 billion that we previously guided so that I think, should tell you that we are making every effort also to address the operating jaws.

Regarding other income, we clearly had quite a few incidentals in there this year. It was a particularly good year in terms of our ventures and our equity participations. That is not necessarily repeatable in the new year. So, we do not really give guidance on this line but I would say that if you were to look at what we achieved in 2021, we will not necessarily get the same tailwind from our ventures and high equity participations in 2022.

Tarik El Mejjad: My question on capital return was really focussed on the cash pay-out, so your 50%-policy. When you get approved by the SSM, it was on the payback size, I guess. But the pay-out of 50%, some banks increased it somewhere to 60% to 70%. On top you could do the EUR 500 million, which could be as well predictable. So, my question was more on the cash pay-out components.

Robert Swaak: I understand your question. It is a choice that we have made, just stick to 50% dividend policy. As you recall, we communicated that dividend policy. We intend to stick to that dividend policy, to not make changes along the way, again, all in a continued effort to be predictable and to be consistent. So, it is absolutely my preference to hold onto a dividend policy we all know and then we will design and we determine our share buyback, starting with the EUR 500 million that we communicated today. When the opportunity arises for additional share buybacks, we know again that this EUR 500 million gives us a good starting point.

Tarik El Mejjad: Thank you very much.

Stefan Nedialkov (Citigroup): Good morning, I have questions around two topics, on NII and the buyback, not surprisingly. On NII, obviously, you have done a lot of management actions on the cost side and some on the deposit side, especially when it comes to negative deposit charging. What else are you doing when it comes to managing your deposit inflow in terms of conversion into feed-producing assets or discouraging people from holding unprofitable checking/savings accounts, et cetera. Should we expect anything more in 2022 and is that included in your guidance potentially?

Related to that NII question. I am really trying to understand what is going to be the exit rate for NII in the second half of 2023. Obviously, you are guiding to a bottoming out at that time. If I do some simple math, the exit rate potentially suggests quite a low level of NII into 2023 overall and the beginning of 2024.

And on the buyback I have two hopefully very short questions. Is the EUR 500 structured as part of an official ECB authorisation? How big is that authorisation? What is the timeline overall? Or is it just like a standalone EUR 500 million one off and then you have to go back to the DNB for the second one?

And if I may, on the on the NLFI ownership; have you considered a targeted buy back part of the EUR 500 million or in the future?

Robert Swaak: Thanks for the questions. Let me take the share buyback and Lars will explain on cost a bit more.

The share buyback that we have today is a program that we agree with the ECB on a per-program basis. So, the next time we determine we want to do an additional round, we would have another dialogue with the ECB and we would consider the circumstances at that time. So, this is not part of an overall discussion with the ECB; this is very much targeted at the individual share buybacks that we intend to do.

On your question as it relates to the NLFI, it clearly is up to the NFLI to take a point of view and as to and how they want to participate in the share buyback. Right now, we have got to the result of a very pro-rate participation but clearly that is that is the prerogative of the NLFI.

Lars Kramer: On the NII, we have now pretty much introduced our negative rate threshold all the way down to EUR 100,000, so that is effective as of January. In terms of the balance of the book, roughly half-half of the deposit book that is being charged and that is not being charged. Opportunities here become politically very sensitive in terms of going below the EUR 100,000 threshold. There is a lot of resistance there. The opportunities we still have though, are opportunities in terms of high net worth individuals in the corporate space in terms of the level of the rate that we charge. That is clearly an opportunity and to some extent we have anticipated for that. It is looking into the evolution.

The other area is something that we are really also looking at in terms of building out the business. That is very much on the wealth side and is also trying to see people transition from cash into more of an investment portfolio. Now here again, this is also a bit timing up the markets. People are looking at where the levels of the markets are, and they obviously also want to see the right time to enter and exit those markets. This is definitely a strategic evolution for us as well.

Regarding the 2023 exit level, we really are guiding now for 2022, so as I said, he potential upside for 2022 is maybe another EUR 25 million from current rates and we will just have to see how things evolve before we get into specific 2023 guidance.

Stefan Nedialkov: Thank you very much.

Giulia Miotto (Morgan Stanley): Good morning. I have a follow-up question on capital as well. If we think about the M&A buffer, how has your thinking evolved around this? Are you still very much looking at private banking opportunities or could it be also commercial banking or retail banking in the Netherlands for example? So, any colour there?

My second question is on NII, about the front-end rate. Following the ECB on Thursday, many economists are now expecting actually the ECB to hike rates back to zero, by the beginning of 23. I understand ABN is more sensitive maybe to the long end of the curve because of the replicating portfolio but what would be the impact of those potential 50 basis points hike, please?

Robert Swaak: On M&A let me let me just reconfirm what I have said all along. We will continue to review opportunities on M&A. Any M&A has to be accretive to the strategy and therefore wealth management has certainly been an area. But then again, we would also look at opportunities that are potentially working into the feeder function of wealth management. By that I mean one of the propositions that we have started – and in a way that also helps our work and our transition to a more fee-related business model – is the enterprise &

Entrepreneur concept that we began to introduce in northwest Europe. Everything that I have said in the past on M&A still holds and we will continue to review the opportunities.

Lars Kramer: In terms of the NII, again, modelling out to the end of the year, as I have said, with current rates we get to this EUR 25 million potential pick-up. If you want to start adding 50 bps increases, then we would also have to look a bit at the impact on our deposits where we have the big negative rates because at some point you would have to start following that up as well. So, it could be quite dependent on the pace of tracking on the deposit side as well as of course the potential impact of an increase like that being passed on into the mortgage markets and how that affects the mortgage behaviour. So, there could be quite a marginal impact for us initially.

Giulia Miotto: Sorry, just to make sure I understand, if the ECB hikes 50 basis points, let's say tomorrow just for simplicity, that does not have any impact on your deposits. Is that because everything is replicated? Or why is that? I would have thought that at least the balances with the ECB would see a positive impact and then offset by the fact that you cannot charge deposits anymore. Fair enough, but the move to zero should have some small impact.

Lars Kramer: Yes exactly. It is a small impact. It is not going to be a very material impact. I still say in terms of the tracking speed, where you now have sort of half your deposits at negative and half not, that is really where there will be a balancing factor.

Giulia Miotto: Thanks.

Kiri Vijayarajah (HSBC): Good morning, everyone. Firstly coming back up to the share buyback and that pro-rata participation by the NLFI. I was wondering if the underlying thinking from the Dutch state is that they want to preserve that majority stake, at least in the short term in which case do you think this whole sort of pro-rata participation thing is going to be just a repeat feature for the next few buybacks, and whether that has already been agreed upfront with the NLFI? Can you share some of those details?

And then secondly, coming back to your new fee growth ambitions, the 5% to 7% fee growth. I wondered how does that stack up by division between retail, the private bank, the corporate bank; are all three divisions expected to be in that 5% to 7% range? Also, is the clearing business expected to deliver that 5% to 7% fee growth as well? So, just some colour divisionally where that 5% to 7% fee growth comes from? Thank you.

Robert Swaak: Thanks for the questions. I will take your question on NLFI and, Lars, if you could then take the questions on fees.

So on the decision by NLFI clearly, that is a decision by NLFI. I would call your attention to the fact that the Minister of Finance in a statement to parliament has said that they remain committed to reduce their shareholding as and when appropriate. And in effect, that is a repeat of what the government, four years ago, had included in their statements. So that statement has been made. Clearly, it is then up to the Minister of Finance and NLFI, obviously, to take a decision at whatever point in time they decide to do so. For now, the share buyback is a pro-rata share buyback.

Lars Kramer: In terms of the fees by division, I am really looking at this as an overall fee increase for the bank. There are potentially very many sort of different moving parts, and you pointed to one, which is Clearing. Another one is really where the markets are in terms of assets under management. And those are quite tightly connected to market volatility and price movement. So it is very difficult to try and pinpoint and say that every single division will be at 5% to 7%. But we certainly do expect fee increases across all of our divisions because we have got initiatives on the go in every single one of them. So, in personal and business banking in terms of fee packages on the wealth side, clearly in terms of trying to get more movement from cash into securities. On the corporate side, apart from the Clearing, we also have the corporate finance activities and we are hoping to do more customer-focused and broader business with customers, which will have a fee component. So it will be broad-based, but I cannot say that it's going to be 5% to 7% per individual unit.

Kiri Vijayarajah: Okay, thanks.

Robin van den Broek (Mediobanca): Good morning, everybody. My first question is again around NII. I am a little bit confused with the EUR 25 million guidance on today's rate. Is that EUR 25 million specifically for Q4 or is it for the whole year? I took some time modelling your replicating portfolio presentation, I think from was in September 2018 and that would suggest that the upside from the curve movement would be a bit more material than what you are saying just now. So I'm just wondering whether the conservatism on the rate situation is also driven by maybe more fluid movements in other pockets that you are highlighting. When I look at the mortgage margin, for example, on repricing for the 5 to 10 year bucket maturity, it seems that pressure there could be substantially more than EUR 100 million per annum. So is this also part of your overall guidance to get to that EUR 5.0 billion to EUR 5.1 billion level for the year?

And in connection to that, given that you are still benefiting from TLTRO in H1, I was just wondering the exit rate for 2022 specifically, is it fair to conclude that, that is closer to EUR 1.2 billion in the fourth quarter of the year? And maybe if you can then also give the upside from rates for 2023 on the back of today's swap curve. I think that would be helpful.

And then on not recalibrating the CET1 target. You have been talking about that throughout last year and now you are not doing so because it is not really a constraint. That probably was not the case given these outcomes earlier in the year as well. So I am just wondering, to what extent should we see any reluctance from the regulator to change that capital target? Thank you.

Robert Swaak: Let me take that last question and then, Lars, you can answer the other questions.

Again, what we did was – and that is our initiative – we determined the amount of share buybacks given the considerations that I talked to you about before. So I will go back to a gradual release of the capital, being predictable, being able to do multiple rounds, and then have the conversation with the regulator. As we came up with the conclusion that a EUR 500 million share buyback would actually allow us to fulfil all those obligations, or all those criteria, there really was not a reason to recalibrate the threshold. Now I said that we would consider recalibration, so this is part of a consideration that you do at the time that you determine what your buyback is actually going to be. So if you then determine there is no, at this point, limiting factor from the threshold, there is then no reason to actually adjust that threshold.

Now clearly, as we move into subsequent rounds, we will then take the circumstances into consideration at that time. Clearly, we will have that conversation. So it has to be part of any ongoing conversation in terms of determining share buybacks. But at this point, in the way we have designed our share buyback program, it is not a constraint, and therefore, there was no need to adjust. Does that answer your question?

Robin van den Broek: It would have been helpful to get more transparency for the next few years, to crystallise that little bit of extra excess capital that could be there. I think that is what is helping other banks in the space as well that you just have the clarity on the go-to level. Now, that remains a little bit up in the air. But we will see as it comes back.

Lars Kramer: In terms of NII, what we are trying to do here is give you a full year guidance that we stop the dance of trying to reconcile very detailed numbers every quarter. So, in terms of that broad-based guidance, there are a lot of moving parts, and you pick up on the mortgages. For sure, there is pressure on mortgages and we have seen that in terms of the new production that the front book margin is lower than the back book margin. We have been starting to see some ability to pass on pricing in terms of also the cost of funding going up. The biggest part of the impact there remains on the deposit side. So in terms of where the pressure is the most, it stays with the deposit margin. We have tried to offset that as much as possible with the drop in the thresholds to EUR 100,000 and that offsets about half of the expected impact this year.

Then the other big step down that you have to factor in is the fact that we have now unwound the non-core activities, and that really does take almost EUR 100 million out of that line item on an annual basis. So the other impact of mortgages really manifests itself in the treasury line item where, again, as I said earlier, we have had some very healthy prepayment fees for the whole of last year and I do expect some more normalization in that space going forward, so those pre-penalties benefits should be coming down.

Robin van den Broek: That is helpful. And then maybe one more on the ECB rate hikes. It was my impression that you basically have a net deposit exposure that would mean that a rate hike would initially be a negative element for NII. I think, in an earlier question, you indicated that it is just a small positive. Could you maybe elaborate a little bit on that as well?

Lars Kramer: What we are saying is it really depends very much on how we track up, whether we follow a 50 basis points up immediately on the negative rates. I mean bearing in mind EUR 80 billion priced at on average negative EUR 50 bps is EUR 400 million just there on a per annum basis. So the question is, do we track that immediately or do we – as we did on the way down – have a bit of a slower tracking on the way up to protect some of that income?

Robin van den Broek: Presumably, it is a hard sell to clients to not track the ECB rate hike up and till zero at least. That is probably easy to have a softer deposit …

Lars Kramer: This is always the thing we have to manage in terms of what is available for our funding. And if you really look at where this funding is, it is in the corporate space and in the high net worth space, and, ultimately, high quality funding is in the retail space, and they are not being charged negative at the moment.

Robin van den Broek: Thanks, also for overtaking so much time.

Robert Swaak: Thank you.

Omar Fall (Barclays): Sorry to redeliver Robin's questions but we know that the sensitivity to rate changes is pretty minimal over one year because of the replication portfolio as per all your peers. I think it would just be helpful to everyone to know what the sensitivity looks like to 50 or 100 bps changes over a 3-year view? I know that this was not the current management's guidance, but you used to have a deposit margin guidance of minus EUR 20 million per quarter when 5-year swap rates were at minus 40 basis points, which implies a lot of exponentiality on the downside. So I do not think it is unfair for shareholders to ask why that does not apply on the upside?

Then the second question would just be, if you could update us on the core cost base, please? I see there was not much movement in Q4, which is as guided but you previously said the licenses would start to be handed in, I believe, in Singapore, Hong Kong, et cetera, as of last quarter. So, I am just wondering what the progress is there and the plans for this year?

Lastly, I noticed – and it was obviously in the press last year – the Dutch public prosecutor's investigation on dividend, withholding tax credits, if you have any updates on that? Is that something that you are thinking about in terms of potential litigation charges and the materiality of that, that would be helpful? Thank you.

Robert Swaak: Let me take the last question. The settlement with the Dutch public prosecutor is completed. I think you are asking a different question than what I assumed. So I thought you were asking the question on the Dutch public prosecutor settlement that we concluded?

Omar Fall: No, I do recall that one. I am asking about the investigation into the withholding tax credits, the one that is in your quarterly reports in the other risk developments.

Robert Swaak: There are no further developments in that at all. So things are still what they are. Sorry for misunderstanding your question. Lars?

Lars Kramer: On the non-core costs, I think we are running at about EUR 278 million in the year of 2021 and we are expecting to see a step down of that by about EUR 60 million in this year. So again, as I have talked about this in the past, even though the size of the book has come down materially, and that clearly helps us in terms of better asset quality and lower loan losses, it still takes us time to shut the business down and to exit locations. And that is the clear focus now but there is still the tail expected there, which takes us through late into 2023, maybe even some into 2024.

I appreciate also on the NII that you would like more and more sensitivity and more and more detail, but we really have tried to now keep the guidance at this level on an annual basis. So, let's see a little bit how things evolve and how we explain that going forward. But I have told you the major moving parts and those are the ones that we are tracking and try to work on.

Omar Fall: Fair enough. Thanks a lot.

Guillaume Tiberghien (Exane BNP Paribas): Good morning. Thanks for taking my question. The one I had was on cost. On the earlier question on the resolution fund you said it would go up a little bit in 2022. So my question is, by how much, please? To what level, because I cannot remember the level? And in 2024, do you assume that just for the resolution fund specifically, this goes to zero?

The second question relates to your coverage ratio of NPL being quite low compared with quite a few European banks. I was wondering whether there is a risk that either you or the ECB decides that raising the coverage level is appropriate to a much more significant level, let's say, 40% or 50%, for example. Is that a risk that this may happen? Thank you.

Robert Swaak: Tanja, could you take the question on coverage ratio and then maybe, Lars, on resolution?

Lars Kramer: Yes. So on the resolution funds, you are saying it is going up in 2022, but I think it is going down in 2022 in terms of the overall contribution. But yes, in terms of Single Resolution Fund, there will be a bit of a step-up in 2022. The overall contributions of bank levies and bank taxes and DGS should be net down by the EUR 50 million, the one-off tax we paid in 2021.

Going forward into 2024, no, we have not assumed going down to zero. We are taking a cautious approach there. So let's see how that communication comes from the regulatory environment as to contributions. But as of now, we certainly are not being that bullish, if you want to call it that, to measure it down to zero.

Guillaume Tiberghien: Sorry, the Resolution Fund specifically, what is the contribution?

Lars Kramer: We were contributing about EUR 160 million this year. In 2022, we expect it to be around the EUR 180 million mark.

Guillaume Tiberghien: Thank you. I do not understand why you assume that it stays in 2024 because the law says it should finish after 2023.

Lars Kramer: Yes, and we have to see if it is fully funded. I will come back to that one.

Guillaume Tiberghien: Thank you.

Tanja Cuppen: Then your question on the coverage ratio for our NPL book. It is important to compare ourselves to peers. On the other hand, we need to look at the actual composition of the balance sheet as well and our balance sheet has a significant part in mortgages, as you are well aware, with a much lower coverage ratio and of course, very well collateralised. Also our corporate book is mainly collateralised lending more than what you would see at peers. We have a relatively small consumer lending book. So that explains the background of the lower coverage ratio.

On your question with respect to the regulator, the regulator has imposed this prudential backstop regulation, basically meaning that for all the NPL assets, a potential backstop needs to be applied. In that way, there is also a deduction in capital to add up to this minimum percentages that are set in the potential backstop. In that way, the regulator does play a role in the overall level of provisioning, be it not to our IFRS9 provisioning but in (regulatory) capital.

Guillaume Tiberghien: Thank you.

Jon Peace (Credit Suisse): Thank you. Sorry for one more clarification on the buyback. I appreciate NLFI is making their own decisions in terms of what they do. But was there any sense, Robert, in how you are thinking about the pace of buybacks that you would want to leave some flexibility to accommodate them if they were to decide to sell in the future that you wanted to have some dry powder?

And then my second question is on the cost of risk. Tanja said earlier that it was a bit early to give guidance on 2022, but it should be a more normalised year. But you are still sitting on those EUR 400 million of overlays, half of which have Covid? Assuming that the economy is reasonable and Omicron is not too problematic, is it a reasonable expectation that those Covid overlays could get released this year, so that you could come in still decently below the 20 basis points through-the-cycle rate in 2022? Thanks.

Robert Swaak: Thanks for the questions. I appreciate you wanting to get a bit more information as to the thinking of NFLI. And certainly, the way the dialogue goes, we will determine how we want to construct a share buyback program and we will then engage with NLFI, as you would expect us to do. For this round, it is clear the outcome is a pro rata. On any subsequent rounds we will have the next round of the conversations, I would say. It really is a decision that the NLFI needs to take again. Again, I would just point you to the statement that the new minister of Finance has made, and in effect, she reconfirmed the government's intention. So I just leave it at that.

Tanja Cuppen: Shall I take the question on the overlays and whether they would be released this year? The reason that we put in place overlays is because of the fact that our models did not capture the risks well from Covid. You have seen that as well with historically low bankruptcy rates, which is still the case. We do expect that this will go up, again, but the question is whether that will normalise during 2022 or it will take a bit longer? That will also determine how we will address these overlays so that can go into 2023 as well. I do expect that these overlays will be absorbed by the models once they start performing again. So this is our best estimate what the outcomes of the model should be once the situation has normalised.

Jon Peace: Okay, thank you.

Anke Reingen (Royal Bank of Canada): Thank you very much for taking my question. First, I would like to confirm that your 13% core Tier 1 ratio target incorporates the potential countercyclical buffer in the Netherlands in case it gets reactivated at the similar level to reduction in the domestic buffer last year? And then I guess it is right to assume you will resume the interim dividend this year?

And then secondly, just on your sustainability targets. You show us the targeted split in the loan book, for example, with sustainable mortgages. Would that lead to margin pressure as sustainable mortgages or other sustainable products come at lower margins than the non-sustainable part? Thank you very much.

Robert Swaak: Tanja, do you want to take that first question on the countercyclical?

Tanja Cuppen: Yes. I can confirm that is included.

Anke Reingen: Thank you.

Lars Kramer: And also on the interim dividend, which will be resumed.

Anke Reingen: Okay.

Robert Swaak: And then on the sustainable loans that we continue to make available. The pricing thereof is really depending on the customer segments that we deal with, so those are assessments that we make at the time that we extend the mortgage offers. Clearly, in terms of our own sustainability goal sets and by 2030 have all of the homes that we fund to have a type A-rating in terms of sustainability, that is our overall objective. And then our pricing will be on a per individual case, as we would always do.

Anke Reingen: Okay. Thank you.

Johan Ekblom (UBS): Thank you. Can I just come back to the revenue outlook for a second. So on the NII, you are saying that you are estimating you lose about EUR 100 million on volumes versus price on the lending side. Is that largely driven by front book pricing of mortgages? Or is there anything else? Because I guess the impact of refinancing and prepayments that is captured in the treasury, and you are clearly...

Robert Swaak: We lost you, Johan.

Operator: We will continue with the other people. I have a follow-up question from Stefan Nedialkov from Citi. Go ahead, please. Your line is open.

Stefan Nedialkov (Citigroup): Just to follow up on a couple of points from our discussion this morning. On cost, I am just trying to understand the resilience of the EUR 4.7 billion target in the face of higher inflation. You have obviously signed the short-term CLA for six months. Is it fair to assume that that is going to be more in line with the current inflation once the longer-term negotiations are concluded? And what sort of management actions over and above are you able to take to contain this higher inflation this year and potentially next year?

Related to the cost, you had guided to, I believe, EUR 150 million of restructuring costs as part of the program. If you can update us how much has already been taken out of the EUR 150 million? And how much is left that could potentially come this year?

The second question is on Basel IV. Now that you have put in the mortgage add-on buffer and one of your competitors is likely to be doing it with 1Q results, are you starting to see a bit more resilience in terms of the mortgage lending spreads?

You mentioned you are able to pass higher funding costs, a bit more effectively. But are you potentially optimistic that Basel IV is going to be a positive overall for mortgage pricing in the Netherlands this year and next year?

And lastly, if I may sneak one last one in. Your long-term ROE-target of 10%, what level of rate do we need to have for you to reach that in 2024? Thank you.

Robert Swaak: Let me take your last question and the question on CLA and then Tanja, you can take the question on the on Basel IV, and Lars can take the remaining questions on the cost.

We concluded a CLA to ensure we safeguard a social plan, which is what we did. And then subsequently we agreed with the unions that we would revisit the CLA towards the second half of this year. And the reason we did that is we wanted to get more sight on what the longer-term inflation outlook would look like. At this point, we are still pencilling in from our own economic forecast that there will be a reduction on inflation. But to be fair, we are going to have that conversation during the second half of this year. So that is when we will reconvene with the unions.

Tanja Cuppen: Can I take the question on Basel IV and the effect on mortgages? It may be unrelated. We have taken the DNB floor already in our Q4 results and it is uncertain how that floor will relate to Basel IV. That is not clear yet from the regulation. On Basel IV for mortgages and pricing, we have already included Basel IV implications in pricing for some time because we knew it was coming and I do expect that the Basel IV results land more or less in the area where we expected it. Especially in the area of operational risk, the impact has been a bit lower than we had anticipated. So I do not expect any significant changes in our strategies with respect to mortgages.

Lars Kramer: In terms of cost levers, we have a lot of programs on the go and I would say that the most powerful levers in all of those is to try and get some acceleration. Obviously, as we implement these and we go along, whether it is product rationalisation or sort of process automation or centralisation, I mean there are always opportunities that we continue to find. So I think that is where we will continue looking.

In terms of the restructuring costs, I would say we have about EUR 150 million to go between now and 2024. So that is roughly a number that you can use.

And then if I understood the question correctly, it was what sort of level of interest rates would we need to get to an ROE of 10%? Here, we previously said, that we need to see interest rates sort of normalise. Now as to put a sort of number on normalisation, probably 100 basis points or so parallel shift in the curve would be for me some sort of level of normalisation.

Stefan Nedialkov (Citigroup): Thanks so much. Just to clarify, these 100 bps are from here or as of the time you gave the long-term ambition?

Lars Kramer: Yes. I think it take it back to when we gave it.

Stefan Nedialkov: So, as of then add 100 bps across the whole curve? Okay. Thank you.

Operator: We have Johan Ekblom of UBS on the line again.

Johan Ekblom (UBS): Thank you. Apologies for that, and hopefully, it works better this time. Otherwise, I will give you a ring afterwards. But I just wanted to touch a little bit on the revenue outlook. You are entering 2022 with a 2.5% larger loan book than you had on average last year. That should be around EUR 100 million or so in revenues at constant margins. Is there anything on the margin side, apart from what we are seeing on mortgage pricing?

Lars Kramer: You have gone again, Johan.

So I can maybe just take the question in terms of the make-up. For sure, in terms of margins and mortgages, that is one of the bigger contributors on the asset volume to a decline. We, of course, also have the consumer loan book which has seen both volume and margin pressure and continues to do so. People sitting on excess cash are repaying their consumer loans faster. I would expect a little bit of offset on the positive side from corporate loans. So I think that is a bit the interplay on the lending side.

Robert Swaak: We are not sure whether Johan has actually heard the answer.

Operator: He has not, I think. His line is gone altogether now.

Farquhar Murray (Autonomous): Hi, again, just two quick follow-ups, if I may, both on NII. Firstly, that EUR 25 million extra curves stay as they are at the moment, can you just confirm that is full year 2022, and presumably that incorporates replicating portfolio impact plus ECB rate rises and deposit pass-through. Is that right? And are there any other assumptions built into that they are worth flagging?

And then secondly, and I'm sorry, my voice is terrible. If we go back to the old NII commentary approach, you would have previously indicated, say, a EUR 20 million Q-on-Q negative from the replicating portfolio on NII each quarter. Could I ask what that would be now, given where swap curves are? Thanks.

Lars Kramer: I think the EUR 25 million number is probably a fully loaded number for the year. It is a full year effect. And in terms of the previous guidance, which was the EUR 20 million on pretty much deposit margins, there we would see that that number is probably, at the moment, down to about EUR 15 million a quarter sequential.

Farquhar Murray: On the current curve?

Lars Kramer: Yes. Well, and then you take away the EUR 25 million effect.

Farquhar Murray: Okay. Thanks.

Raul Sinha (JP Morgan): Hi, good morning. Sorry to keep you so late, but I have still got a couple of areas to talk about. So the first question is on the contribution to NII of negative rate charging currently. If you could perhaps give us the number, if you disclose that, I am sorry if I missed it. And also, what do you expect it to be before further changes that are coming in on 1January this year for 2022?

And then the second question is on the operational risk add-on that you have taken. I think you have taken EUR 2 billion add-on on operational risk for the evolving consumer credit issue. Can you give us a little bit more colour on what you are assuming in terms of the changes in assumptions? And is there any further risk from this issue going forward, please? Thank you.

Tanja Cuppen: Shall I take the second question on the operational risk?

Robert Swaak: Yes.

Tanja Cuppen: You know that the model that we have for operational risk is on Basel III. It is an advanced model using our scenarios. And we update our scenarios periodically and think of scenarios what could happen and translate that into capital indeed.

We are not disclosing our assumptions in these scenarios. And if we would expect that things are likely to happen or meet the requirements to take a provision, then of course, we take a provision. So this is for all the uncertainty that is out there based on developments that we see in the market. That is all, what I can say about it. I cannot be specific on the actual assumptions.

Raul Sinha: Can I ask if the assumption change was internal driven? Or was that driven by dialogue with your regulator?

Tanja Cuppen: No, it is our own assessment.

Raul Sinha: Thank you.

Lars Kramer: In terms of the level of negative rate income, as of the beginning of January, we have EUR 83 billion of deposits being charged negative rates. So it is about EUR 400 million of negative rate income built into the NII for this year.

Raul Sinha: That is really helpful. Thanks so much.

Giulia Miotto (Morgan Stanley): I have a follow-up question on the 100 basis points that could lift the ROTE from 8% to 10%. Basically, that guidance was given in November 2020 and effectively, if I look at the curve, everything is 100 basis points higher today except the front end. So I am talking about the 5-years swap, the 10-years swap, et cetera, and yet, we are not getting anywhere close to that 100 basis points uplift in guidance. So I am having a very hard time essentially squaring how you can say that EUR 25 million more NII for this year from November to now, which is about a 60 basis point move and also in light of the fact that when the curve is 100 basis points higher as you had indicated in November, it does not seem to have much impact. So any more colour you can give on the NII point would be very helpful.

Lars Kramer: The point there is the, as you said, the 100 basis points has come at the long end of the curve. And really here, for us, we need to see the parallel shift and with it the short end that will give us the most benefit. That is what we have not yet seen happen.

Giulia Miotto: But I thought you said previously that the short end would be a minor impact to NII?

Lars Kramer: Yes, but 100 basis points becomes more significant. And then you start also getting into, again, in terms of deposit pricing and getting into a more normalized environment also from the funding side.

Giulia Miotto: So basically, you are saying that the first 50 basis points of the front-end curve is not meaningful, but the further 50 basis points is what really makes a difference?

Lars Kramer: I think really then you start getting more, again. Once you get above zero, you start getting more normal funding dynamics and customer behaviour dynamics and also where deposit flows go. So yes, in terms of a summary, it is getting back to normal to me as a zero, and then you start seeing dynamics that are easier to model.

Giulia Miotto: Thank you.

Robert Swaak: As there are no further questions, thank you very much. That would then conclude the today's analyst call. Thank you so much for the questions, as always. And look forward to speaking soon. Thank you.

End of call