Q3 2021 Analyst Call Transcript

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Robert Swaak: Thank you and good morning everyone. Welcome to ABN AMRO's Q3 results. I am joined by Lars Kramer, our CFO and, As always, Tanja Cuppen, our CRO.

I will take you through the progress of our strategic agenda and then Lars will take you through our third quarter results in a bit more detail. Afterwards, Tanja will update you on impairment developments in our loan portfolio and on capital. Let's turn to our Q3 results on slide 2.

Over the last quarter, we saw the economy rebounding. At the start of Q3, most restrictions were lifted and society continued to take a significant step towards normalisation. This had a modest positive effect on our results.

Fee income was helped by higher credit card payment volumes, loan growth is picking up and we again released impairments this quarter. The low interest rate environment remains a challenge for us and to counter the margin pressure on deposits we started charging negative interest rates and balances above EUR 150,000, starting 1 July. Cost saving programs are on track as are investments in the foundation for the future bank.

The winddown of the CIB non-core portfolio is now over 85% complete and last, but no way least, our capital ratios remain very strong.

We are in a constructive dialogue with the regulator on potential share buybacks following our full year 2021 results.

Let's turn to our longer-term strategic ambitions on slide 3.

I am very pleased that ABN AMRO is chosen as best mortgage provider by Dutch intermediaries for combining expert advice with fast and convenient services to basic fundamentals. Over the years, we have been working hard to improve the customer experience and we now see these awards show that we are well underway.

This quarter we made further progress on our strategic agenda. Our entrepreneur and enterprise proposition went live in Germany and in the area of sustainability we incentivised homeowners to improve the energy label of their home to label B by offering a discount on their mortgage.

We take inclusivity seriously and we have set up a team to identify and remove any barriers our clients encounter. The team is currently working on an improvement to our service for female entrepreneurs. First in The Netherlands is the introduction also of cash withdrawals of ATMs using only a mobile phone.

The winddown of our CIB non-core is running well ahead of plan and I expect less than EUR 2 billion in loans to remain at year end.

Turning to slide 4, let me update you on ESG client assets.

Our strategy around sustainability has always been and will continue to be built on long-term ambitions in the areas of climate change, the circular economy and social impact. We have set a number of targets, which are linked to these ambitions. Here, I highlight our progress on our ESG client targets.

We target a volume of client loans and investments in sustainable assets of around one third of total by 2024. Since 2014, we actively focus on offering clients the option to invest in ESG assets. Our clients are increasingly looking for societal return in addition to financial return. We invested in new products, reporting tools, staff education, resulting in a consistent increase in client mandates. We made sustainable investing the default option for new clients in 2019. So in Q3, our ESG client assets have grown to EUR 39 billion, corresponding to 26% of total and this is measures in line with SFDR definitions. We expect growth to accelerate further as ESG is becoming increasingly important in all of our investment decisions.

Let me now turn to the new organisational setup that we announced a few weeks ago.

We aim to bring convenience into the daily lives of our clients and expertise when it matters. Now, this is a guiding principle of our strategy. So, to anchor this firmly within the organisation we are simplifying our own organisational structure to three units serving specific client segments. All three client units are for clients' convenience, mainly through digital channels combined with in-depth sector product and sustainability expertise that ABN AMRO is known for.

Wealth management and Corporate Banking will be mainly expertise driven. Our digital capabilities and services will be centralised within personal and business banking, as this unit is primarily convenience driven. Going forward, there will be a single executive board which will foster a collective responsibility.

I am convinced that the new organisational setup is an important step in achieving our strategic ambitions. I expect a more efficient organisation as we removed duplication in management and further centralise the development of the IT infrastructure.

So before I hand over to Lars, allow me a few words on the economy.

During the third quarter, we saw a further economic rebound as restrictions were lifted for the most part. Recently, a few measures had to be reimposed, as intensive care units are slowly filling up again now autumn has arrived. The current measures allow most businesses to operate normally, though the leisure sector of course has some restrictions in opening hours.

We do expect bankruptcies which are currently at a historical low level to increase to more normal levels now support measures have ended. This is expected to lead to a minor increase in unemployment. However, the Dutch unemployment rate is expected to remain well below the European average.

Our economic bureau expects a continuation of low rates, as we expect both inflation and longer-dated interest rates to come down during next year. The housing market will continue to remain very strong. Prices are expected to increase by about 15% this year and again by about 10% next year. Transaction levels are impacted by the lack of supply and this contributes to the sharp increase in house prices.

Let me turn it over to Lars now to discuss our third quarter results.

Lars Kramer: Thank you, Robert. I am looking at slide 7. I will briefly highlight the main results of the bank before going into some further detail.

Our net profit was EUR 343 million and if I exclude the non-core we get to about EUR 406 million.

The operating income was stable but with sizable incidental items in both Q2 and Q3. This quarter we took a provision to compensate clients with revolving consumer credit of about EUR 217 million, EUR 174 million of which was booked in the interest income and the remainder in the cost line. Operating expenses in addition increased due to higher regulatory levies and AML costs. Again, we had limited new impairments leading to a net release for the quarter. The non-core winddown is also progressing well with both loans and RWAs decreasing further this quarter.

Now turning to loan volume development for the core bank on page 8.

Mortgage volume was slightly up for the quarter and the size of the overall Dutch mortgage market increased a bit further. Given our 15% market share in Q3, we still manage to increase our mortgage portfolio. Lending activity in commercial banking increased as government support ended. In CIB core we showed strong growth this quarter, both in corporate lending and financial institutions. The declining trend in consumer lending is also in line with the overall Dutch market.

Now turning to take a look at deposits on page 9.

As Robert has already said, starting 1 July the threshold of charging negative rates was lowered from EUR 500K to EUR 150K. Nevertheless, we had limited outflows of deposits actually increasing during Q3. The threshold will be lowered further to EUR 100K on 1 January 2022 and this will impact a further EUR 9 billion of volumes.

At that point we will have around 50% of our deposits, which is around 5% of all clients, who will be being charged negative rates and for those who are being charged the rate is minus 50 bps though for some financial counterparties the rate is higher.

Turning to our net interest income on slide 10.

NII was impacted by incidentals, mainly the compensation scheme for revolving consumer credit. On a clean basis, NII increased EUR 14 million quarter on quarter. The lower threshold for charging negative rates contributed EUR 27 million to NII and mortgage prepayment penalties were high in the previous quarter and increased further, as clients locked in low rates. I think it is worthwhile noting that at some point these prepayment penalties will return to normal levels but the timing is difficult to predict.

This quarter also the margin pressure on deposits amounted to around EUR 23 million and the increase in interest rates actually had very limited benefits, as short dated rates did not move very much. Our outlook remains cautious, given that our own economic bureau expects rates for longer maturities to come down again next year.

This quarter, there will be some pressure on front book margins of especially our retail products. For now, this impact is limited. However, we are keeping a close eye on these developments.

We did make progress on achieving the TLTRO threshold and actually remain quite optimistic that we will reach the threshold by December.

Let's move to slide 11 to look at fees and other income.

During the quarter, we saw an improvement in credit card usage and payment fees. The credit card usage in our domestic market is actually now back to about pre-Covid levels. The transaction volume outside of Europe is still limited due to travel restrictions. Clearing continued at strong performance, as trading volumes across global financial markets remain high. The higher stock market also helped Fee income in Private Banking.

Other Income for the core bank was again boosted by positive equity participation and venture fund revaluations. Together, these delivered about EUR 56 million of the other income in Q3.

Turning to costs on slide 12.

Expenses were slightly up this quarter and this was mainly from the rising AML costs and the higher regulatory levies. The AML costs are expected to peak this year. We are continuing to increase FTEs in order to really try to finalise the remediation by the end of next year.

We want to emphasize that despite this increase in costs, we do still expect our costs for the year to come in at the EUR 5.3 billion guidance without restructuring and the guardian penalty and that for the longer-term 2024 our cost savings are also on track. Year to date we have already booked about EUR 100 million of the cost savings that we anticipated in our plan.

I will leave it at that and I hand over to Tanja to give us some insights into impairments.

Tanja Cuppen: Thank you, Lars. We are now at page 13.

For the third consecutive quarter we showed a net release of impairment of EUR 12 million for this quarter. The inflow in Stage 3 remains limited, most of which is related to a number of individual Oil & Gas in the non-core portfolio. In Commercial Banking model updates and an improved economic outlook led to releases. The total management overlay amounts to EUR 355 million, following a small net addition this quarter. Around half of the overlay is Covid-related, reflecting uncertainty as government support measures ended.

For the full financial year 2021 cost of risk should end around break even. As Robert mentioned, we expect impairments in Commercial Banking to rise as government support measures ended.

We consider the tail risk of the non-core portfolio well covered, so we do expect limited impairment will materialise in the coming quarters. Looking at the right-hand chart, the difference in risk profile of the non-core portfolio versus the core bank is evident. Although non-core is now down to 1% of total exposure, non-core still constitutes over 10% of Stage 3 exposure. I expect to update you on our revised cost-of-risk target for the core bank in the coming quarter.

Now turning to slide 14 on our capital position.

Our capital position remains strong with a Basel III capital ratio at 17.8%. The decline compared to the previous quarter mainly reflects an RWA increase of EUR 3.3 billion, due to a net increase in loans and a model update.

We took notice of the Basel IV proposal of the European Commission, published on 27 October. In line with the industry view, we considered these proposals on balance and marginally positive, given that for us the output floor at RWAs is only marginally different from the constraint IAB-RWAs, there is no benefit from the phase-in period. We will effectively move straight into a fully loaded Basel IV on implementation, expected by January 2025 at the earliest.

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

Robert Swaak: Thanks, Tanja. Just turning to slide 15 then, where we revisit our long-term targets and the outlook for 2021, which clearly will be impacted by some of the incidentals we have talked about.

We managed to further grow our mortgage portfolio. I think that is very clear. It is also showing up in slide 15, which shows our financial targets. The quality of our mortgage products and services acknowledges this quarter with a number of awards. That is thanks to our hard work. We are now well placed in this very competitive market.

On cost I am confident we can achieve our 2024 targets and for this year we expect a cost base of EUR 5.3 billion, as Lars has alluded to, excluding the AML settlement, and restructuring costs.

With a large part of the non-core assets now wound down, the risk profile of the bank has improved. Over the full year, we expect impairments of around zero.

Our capital position continues to be strong and with our Q4 results we will update you on the threshold for share buybacks and dividends.

As I mentioned at the start, we are in a constructive dialogue with the regulator on potential share buybacks.

Let me ask the operator now to open the call for questions.

QUESTIONS AND ANSWERS

Operator: Ladies and gentlemen, as we are running short in time, please limit your questions to two. Thank you.

Benoit Pétrarque (Kepler Cheuvreux): Good morning. I have two questions, one on capital and one on loan growth. First of all, on capital. You have a 100-bps buffer and that is your buyback threshold. If you put that in euro terms that is about EUR 1.2 billion. Could you help us to understand how your constructive dialogue with the ECB on the buyback takes form? I am trying to understand if you will be pitching potentially for a 100-bps share buyback or do you have a different view on that? Also, have you also started the discussion with the Dutch government on the potential share buyback? Finally, do you still consider lowering the threshold of currently 15% to potentially a lower figure? Is this still something you have in mind? That is a bit of a long question but that is the first on capital.

My second question is on loan growth. Clearly, on TLTRO benefits things seem to go in the right direction. What about 2022? Do you also expect beyond the probably the more short-term effect of trying to get this benefit from TLTRO 3 or do you also expect the long-term loan growth to be also back on your Dutch business, especially thinking about 2022 if you expect positive loan growth there?

Robert Swaak: Let me take your questions on capital. On the 100 bps between 15 and 16, clearly, what we have indicated as get closer to that 15% threshold – which we are – around the Basel IV 16%, that would mean we would start our conversations around potential share buybacks. That is exactly what we are now doing. We are having that conversation as we speak. Hence, we indicated as such in the presentation just now.

Are we then also talking about a potential reconsideration of that threshold? We also indicated, as we consider our conversations on share buybacks we would indeed take a look at the threshold and that again, is predicated on the fact that we had identified factors leading up to that threshold of 15%. So, that also forms part of our dialogue. As we said, indeed, a constructive dialogue with the regulator.

And then on your question on NLFI, you will appreciate that as we go through this process we have to have a conversation with all of our stakeholders, including NLFI. I think it is fair to say we also have a constructive dialogue with them as well.

So regarding TLTRO, yes, we are increasingly confident that we will get to recognising the benefits of TLTRO and that is indeed predicated on the volume growth that we have seen in this quarter. It signals a number of things. It signals to ABN AMRO in the market and our activities in the market in which we are operating right now. It also is indicative of a Dutch economy that is beginning to open up and therefore driving volume growth both in terms of corporate client loans but also in the CB-areas where we have seen some growth continuing.

Our GDP forecast for 2022 still remains at around 3 percentage points, so for all intents and purposes if we continue to see the economies opening up the way we have seen over this quarter, what you are actually seeing is ABN AMRO being well positioned on the back of some of the strategic choices that we have made. So, I am not going to provide you any guidance in that sense, but more from a generic point of view. Let me just leave it at that.

Benoit Pétrarque: : Great. Thank you, Robert.

Omar Fall (Barclays): Hi, thanks for taking my questions, I just have a few, entirely on costs, on Opex. Where are we on the cost elements you highlighted at the last investor day? At the time you said that we would see around EUR 100 million of savings in 2021, which you are highlighting you have achieved. But then you said EUR 300 million in 2022 and 2023. As we are close to 2022 you clearly seem to be slightly ahead. Would you expect most of that EUR 300 million to come through in 2022 or is it a bit more backend-loaded?

Then on the strategic investments, EUR 300 million, and restructuring costs of EUR 150 million that you targeted. How much of that has actually happened?

Lastly, could you just confirm that you still plan the 15% FTE decrease? Since the plan was given, FTEs have actually gone up by 4% of the group. The 2024 cost target is a long way from now, so it would be great to get some building blocks for our modelling.

Robert Swaak: Let me take your last question on the 15% and then I will ask Lars to talk about the various components of our cost and capex. So, on the 15% we have guided and then we go to 15% FTE reduction by 2024 and that still stands on the basis of the measures that we are taking. Lars, maybe on the components of costs?

Lars Kramer: For 2021, we have materially locked in the EUR 100 million and that also enabled us to spend a little more on the AML remediation. So, instead of pushing the costs up overall for the year we have been able to compensate some of that saving. What I would say for next year is that the AML cost base will be roughly the same as this year and then we will start seeing the tailing off probably in 2023 – 2024. That is the aim.

In terms of the strategic investments we have set aside about EUR 100 million on strategic investments and that money is being well spent and definitely being deployed. That will continue. In terms of the restructuring costs where we are trying to cut the EUR 700 million up by 2024. Again, yes, we have made a change a step change this year and we will again see a step change next year but I do caution that because of the AML where we still have one more year of clean-up to do. I would say that a chunk of the savings will probably come more towards the back end rather than we see the EUR 300 million you are talking about coming through next year.

Robert Swaak: That covers your question?

Omar Fall: : Yes, just as a very quick follow up on the FTE. The target is 15% FTE decline. Can you give a sense of how much of that is from AML-related staff? I guess we know how much is coming from the non-core. Just to get a sense what is then core or what is AML, which is a bit more backend loaded.

Robert Swaak: Let me just reiterate that the 15% and the compensation of which we will get to when that is applicable.

Omar Fall: : Thank you.

Stefan Nedialkov (Citigroup): Hi, just a couple of questions on my end. In terms of fees, are you reiterating the EUR 400 million per quarter going forward, given the better level of activity that we are seeing?

Secondly, on Basel IV you mention that the final proposals are marginally positive. Can you quantify how 'marginally positive' that is and is that included in the 16% Basel 4 that you reported?

Robert Swaak: Thanks for the two questions. On fees, we will just reiterate the EUR 400 million guidance that we have given quarter on quarter. I would remind you that we have come off lower numbers as we were navigating a Covid-19 timeframe. As economies continue to open up, we do see that EUR 400 million in terms of fee guidance to continue to hold.

On Basel IV I ask Tanja to comment.

Tanja Cuppen: As said, indeed, the impact we expect it to be marginally positive. We see some components are definitely positive but there are also some that have a slight negative impact. We do not have the exact details yet, so we are doing the calculations right now. I cannot give you a more precise guidance at this stage. Therefore also, around 16% that we are disclosing right now, the new proposals are not included in there. So, it is based on the same methodology that have used over the past quarters, to be consistent there as well.

Stefan Nedialkov: Thank you.

Kiri Vijayarajah (HSBC): Good morning everyone. I have a couple of questions on the CIB. Your cost base on the CIB non-core is coming down nicely but the cost in the CIB core seems to be creeping up again. Not in a major way but I just wondered if we could have some colour on what is happening there, what investments you are making there and how much is coming from maybe an increase in the variable comp.

And then just to try and understand on the Clearing business. Whenever you have a good quarter for revenues does that benefit with the delta maybe come through on the net interest income line or do we see it on the other revenue lines? I am just trying to understand how that clearing business feeds through into some of the individual revenue line volatility that we are seeing in recent quarters.

Robert Swaak: Thanks for the questions. Let me take the clearing one and Lars will comment on the cost levels of CIB. Clearing is mostly coming through fees and commissions lines, irrespective of what quarter we are in. Lars, could you comment on CIB?

Lars Kramer: The increase is not coming from variable remuneration. That I can state. If you look at Q2 on Q3 it is not really materially that different. There is a little bit more going into personnel costs. We are obviously building some teams in various areas, also in Northwest Europe to specifically focus on the enterprise and entrepreneur areas but that is somewhere where we see some personality expenditure increases. In terms of the other expenses, which were up by EUR 1 million quarter on quarter, it is a little bit of rounding here or there. There is nothing particular that we are spending extra money on.

Kiri Vijayarajah: : Thank you.

Giulia Miotto (Morgan Stanley): Good morning. I have two questions, if I may. On NII, of course I share your guidance for 2021 but if I think about the NII evolution sequentially do you think we could say that we have bottomed or not yet? When do you expect to see any positive impact from the recent move in the 5-year swaps? That is the first question on NII.

And then more strategically on potential M&A targets. I understood you have been looking at this for a few months now; is there any update on opportunities that you have seen or any updated thoughts on your inorganic growth strategy?

Robert Swaak: I will ask Lars to comment on the 5-year and I will take the M&A.

Indeed, as I have talked about in previous quarters, we are looking at the potential for any M&A. I would just reiterate that any M&A that we would consider doing would be in the area of bolt-ons. The M&A has to fit very much so within our current business, our geographical footprint. So, as I said before, it has to be accretive in terms of the choices we have made as a bank, the strategic directions that we have made as a bank. We have talked previously about private banking. I have also mentioned previously activities that could serve as a feeder to private banking. These are all areas that we would potentially look at. So, that gives you a little bit of colour around how we are considering M&A at this point.

Lars Kramer: Yes, on the NII. In terms of giving guidance for next year, we are not going to give guidance for next year at this point. What I can reiterate is that what we have seen for most of this year, which is the pressure on the deposits and we have talked about the EUR 20 million in a quarter on average, which will continue into the next quarter to a little bit less. The unwinding of CIB non-core about EUR 10 million will come through next quarter as well. What we are starting to see in terms of the pressure on the retail margins and the front book both in terms of mortgages as well as in terms of consumers, is continuing as well and that is something we are really watching quite carefully. We have been able to pass on some price increases over the past quarter but again, with the swap curve increasing we can only get so much in terms of margin increase.

In terms of the prepayment penalties, this is another quite unpredictable area because definitely mortgage refinancing continues and with lower rates for longer that seems to be a bit open ended at the moment. So, we do see seasonality in that, at least in Q1 we expect that you have the normal lower prepayments levels.

Then the negative pricing is the other one. We have been able to get quite some positive impact on the negative pricing, from the EUR 150K already this quarter. That will obviously continue into next quarter and then having already signalled the drop to EUR 100K, which will be effective as of Q1, that will give a little bit of positive tailwind. Again, what we do not know is how much deposit outflow there will be as a result of this when it takes effect, because we are actually being the most penal on our customers because we charge as such on an aggregated basis. My understanding is that other banks do this at account level so this could mean that there is some shift in deposits away from us to the other banks.

Robert Swaak: Does that answer your question?

Giulia Miotto: Thank you.

Johann Scholtz (Morningstar): Good morning, thank you very much for taking my questions. Two from my side. Firstly, in terms of the management overlay on the provisioning side, does that indicate that there is a slight expansion in the management overlay? Could you give a little bit more colour? Is that structural in nature, a trend that you are seeing or is it a more of a technical change?

Secondly, Just on capital return. Would you say that the dialogue that you are having with the regulators is really the only impediment that remains before you are in a position to return capital and that there is no internal impediment in the sense that you want to preserve capital for a potential worsening of Covid or anything like that?

Robert Swaak: Let me take the one on capital and Tanja, I will ask you to comment on the management overlays.

Just to reiterate, we go through a governance process in the bank and deciding on share buybacks. One of the steps is of course approval from the regulator. That is known around share buybacks. Let me just reiterate that the conversation with the regulator is constructive on that end.

In terms of your other questions, we have very much highlighted the various components that went into the 200-bps threshold, from 13% to the 15%. We signalled that we are now north of that 15%, hence our dialogue and hence our conversations around share buybacks. Part of that conversation, as I answered to an earlier question, is about recalibration of that 15%. So both on the outcome of the share buyback and the recalibration on that 15% we expect to come back to all of you at full year.

Tanja Cuppen: Then I will take the question on the management overlays. Indeed, a net addition. There are some smaller releases related to the management overlays that we took for Covid and the additions are related mainly to two aspects. One is an update of the ‘definition of default’ that we will implement in Q4 and that we already have included in our provisioning calculations. So, that will disappear again next quarter. The other part is related to a wind down portfolio in Commercial Banking. Getting more to the tail we have concluded that our models not fully capture the developments there and therefore, the management overlay. This one of course will also disappear over time but it will take a bit longer, dependent on the speed of run-off of this portfolio. So, nothing structural I would say and mostly technical.

Johann Scholtz: Perfect. Thank you very much.

Anke Reingen (Royal Bank of Canada): Good morning, thank you very much for taking my questions. Can you go back to your commentary about the NII and the EUR 20 million headwind and the EUR 10 million non-core? I am just a bit surprised given long rates have moved up and as well the non-core has come down in absolute volumes. So why would that not look better?

Then on capital. You indicated there would be some headwinds in the next quarter. Can you give us a bit more detail on the RWA inflation? If I am not wrong, this is also a Q4 headwind to capital but maybe I have the quarter wrong here. Thank you.

Robert Swaak: Lars, do you want to expand on NII?

Lars Kramer: In terms of the EUR 20 million, if you see this quarter we were at about EUR 23 million, so there is definitely a bit of an improvement expected next quarter to just below EUR 20 million. The long end of the curve increasing pricing is also quite volatile. It has been up before and it has come all the way back down again but in terms of our investment positioning it is pretty much across the curve, so it is not as if the bulk of it is that the long end is immediately sensitised to rate increases. So, we really need to see the short end coming up to have a material impact in terms of where our investments are positions in terms of replication.

You are right on the non-core. Clearly, this is coming off faster and the EUR 10 million is substantially around EUR 8 million next quarter, so there is going to be a reduction but it is not an improvement. Again, on average we are still looking at the EUR 20 million and EUR 10 million over a period of time.

Tanja Cuppen: Shall I take the question on capital? It is indeed related to the credit risk RWAs. In this quarter we have seen credit risk RWAs going up. It is also, apart from business developments and business growth we have been talking about, related to a model update. The impact is EUR 2.4 billion. This is in line with what we guided before. We guided EUR 5 billion for the year, so we do expect an additional step in the next quarter and this has to do with the fact that we are updating our models and bring them all in line with the guidelines for internal rating base models by the end of this year. Then also into next year, we expect that there will be some further inflation into credit risk RWAs because ahead of Basel IV we will move some models to less advanced approaches. That will increase RWAs a bit but of course will reduce the difference between Basel III and Basel IV RWAs.

Anke Reingen: Thank you. May I just follow up on your comment on the interest rate sensitivity the short term would need to go up to really make a difference. How sensitive do you think your deposit charging is to a rise in short rates?

Lars Kramer: In terms of a rise in short rates up to zero there is quite some sensitivity. Beyond zero that is where we are able to manage it probably a bit better in terms of timing but the fact that we are pricing it below zero and if those short rates really do start improving back to zero and above, we would have to track reasonably quickly on that front.

Anke Reingen: Thank you.

Robin van den Broek (Mediobanca): Good morning. I would like to dwell a little bit deeper into the credit risk RWAs because I think at the beginning of the year you indicated you were expecting roughly EUR 9 billion of RWA impact, which probably is EUR 5 billion you just mentioned and the EUR 4 billion coming from the mortgage floor from the Dutch Central Bank. So, if I take the EUR 2.4 billion out that basically leaves another EUR 6.5 billion to come in Q4, which would raise your RWAs towards to EUR 117 billion. In previous presentations you have shown that your Basel III RWAs per year end 2021 would be less than 10% off your Basel IV level. Of course, less than 10% gives you a very wide range but am I right in assuming that the residual Basel IV inflation is more likely to be around 5%, given the building blocks I have just mentioned? That is my first question.

The second question is more about the political situation in The Netherlands. I guess you would prefer to do a direct placement with the government when it comes to buybacks. There is no Dutch government at the moment, only a 'demissionary' one and the formation process does not seem to be speedy enough to have something in place even when you come out with the Q4 results. How could this affect your thinking? If the Dutch government cannot make a decision on participating directly in a buyback the liquidity of your stock is not that great to do a very large buyback programme that would be suggested by if your 15% threshold would go to 14.5% on the back of the AML settlement that would imply quite a hefty buyback potential, but doing such a thing, given your liquidity, might constrain you in a different way. I was just wondering if you could give your thinking around that.

Robert Swaak: Thanks for the questions. Let me take the political situation in The Netherlands and the associated consequences for buybacks. Tanja, maybe if you could comment on the first part of the question?

We are discussing right now our thoughts on our buyback programme, so we are identifying and debating the various components of the buyback programme. We do that within the bank and clearly, we do that with the regulator. We are in conversation – as I also said – with NLFI, as a direct representative. So, I cannot really talk for the government whether they are missionary or not; what I can say is that the conversations that we are having, also with NLFI, are constructive. We first have to decide which direction of travel we chose and then we will get to the next steps in the conversations. But we are keeping both the regulator and the NLFI very close in our conversations. Let me just leave it at that. Again, for any questions as to how the government reacts, is really up to the government. Tanja?

Tanja Cuppen: Your question was on the credit risk RWAs. Indeed, you are right on the different components. I did not mention in my previous response the mortgage floor. The mortgage floor is now final. DNB has announced it and this will kick in in January 2022. It is indeed estimated to be around EUR 5 billion. So, the difference between Basel III and Basel IV we have guided is less than 10%. Of course, we will update the guidance for the new information that has come in on Basel IV and which will be marginally positive for us. That will reduce the difference as well. But what the exact difference will be is to be determined and of course, we will continue to work to refine our guidance in that respect. I cannot give a new number today.

Robin van den Broek: Okay. And then maybe on Q4. Should we still expect an impact from the sale/leaseback of the headquarters?

Robert Swaak: We are working hard to complete that transaction before year end.

Lars Kramer: And it is key to note that if we do book something, please factor in into your models that this would be a taxable event as well as that under IFRS16 we have to book some lease liabilities as well. So, that would come off any sort of book profit. Please factor that in as well.

Robin van den Broek: I am sorry. The capital gain itself is also subject to taxes?

Lars Kramer: Yes.

Robin van den Broek: And why is that? I thought that normally in the Netherlands capital gains are not subject to taxes.

Lars Kramer: On this transaction it would be.

Robin van den Broek: Okay. Thanks. That is clear.

Benoit Pétrarque: I have just two follow-ups, the first on the charging of negative rates. The discussion on charging between on an aggregate basis or on a per-account basis, what are your thoughts on that? Do you think you could move towards a per-account charging?

On the inflation we see in several countries, is your EUR 4.7 billion properly capturing the current inflation we see or do you see maybe headwinds from inflation on your EUR 4.7 billion figure?

Robert Swaak: On your first question, the aggregate is what we apply and that is what we will continue to apply. We think that is better. An on EUR 4.7 billion, the guidance we have given, stands.

Benoit Pétrarque: : Great. Thank you.

Stefan Nedialkov: I also have a quick follow up. On the Basel IV RWA inflation being less than 10% as of yearend, is that before or after the DNB floor? It looks like DNB is in place from 1 January but I just want to be sure whether you are going to book it officially in 4Q or in 1Q.

Robert Swaak: Tanja?

Tanja Cuppen: I would have to look at the numbers. It is probably around that number but I will have to come back to you on that one, whether it is just above or just below 10% by yearend. I need to check. We previously anticipated that the DNB floor would come in this year but it is now as of January and we have not decided yet when we will book it. It also depends a little bit on the guidance there. I do not have the exact response for you here.

Stefan Nedialkov: But based on the previous assumption of the DNB floor coming in in 2021, you were always going to be at 10%?

Tanja Cuppen: Yes.

Stefan Nedialkov: Okay. Thank you.

Operator: There are no further questions. Please, continue.

Robert Swaak: Well then, thank you all for your questions, as always. This will then conclude the analyst call. We really look forward to speaking to many of you over the next few weeks. For now, see you later! Thank you.

End of call