# ABN AMRO Q3 2023 Results Transcript

ABN AMRO Investor Relations
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**Participants: Robert Swaak (CEO); Ferdinand Vaandrager (CFO); Tanja Cuppen (CRO);**

**Operator:** Good day, and welcome to today's ABN AMRO Third Quarter 2023 Analyst and Investor Call. This meeting is being recorded. At this time, I'd like to hand the call over to Robert Swaak, CEO. Please go ahead, sir.

**Robert Swaak:** Thank you very much, and good morning and welcome to ABN AMRO's Q3 results. I am joined by Ferdinand Vaandrager and Tanja Cuppen. And I will update you on the main topics for this quarter before we start the Q&A session.

So let me first take you through the highlights on slide two.

We showed a strong result with a net profit of €759 million. This result is supported by high other income and impairment releases. Compared to previous quarter, NII was lower, and we saw this in all business segments, though the drivers were different for each segment. We see clients continue to transfer cash into interest-bearing accounts, while our overall deposit volume increased.

Both our mortgage portfolio as well as our corporate loan book increased despite a challenging environment. We have lowered our full year 2023 cost outlook to between €5.1 billion and €5.2 billion as a result of a delay we experienced in certain investments. Our result was once again supported by impairment releases. This quarter the net impact was a release of €21 million.

We maintain a solid capital position with a fully loaded Basel III CET1 ratio of 15% and a Basel IV ratio of around 16%.

Turning to slide three, let me say a few words on the progress we're making on the execution of our strategy.

Following quite a successful campaign targeting minors and students, we saw an improvement in our market share for new accounts. To support our elderly clients, we now have over 100 specialised financial care coaches helping these clients with their daily banking needs, whilst our Wealth business is helping our clients to make their investments more sustainable.

Currently, around 47% of our client assets has an ESG label or is an Impact investment. Our Entrepreneur and Enterprise proposition is now up and running in all countries with our inaugural transaction actually taking place in Belgium. Our Corporate Bank was the first to issue a digital green bond on public blockchain for one of our clients. This type of bond fills a gap between traditional bonds and crowdfunding. Thanks to the blockchain, it is highly efficient and very client friendly.

We are making steady progress on the execution of our climate strategy, and we will communicate additional carbon reduction targets in our next annual report.

Turning to the Dutch economy on slide four.

Overall, the Dutch economy continues to perform relatively well. Unemployment remained low, house prices are showing signs of improvement, and consumer spending is holding up. Not all indicators are positive. The Dutch purchasing managers index remains negative as firms are reducing their output. We do expect the PMI to remain weak in the short term, but this should also lead to lower inflation.

House prices are starting to rise again slowly, and our Economic Bureau has revised their house price forecast upward from -3% to +2.5% in 2024. Stable mortgage interest rates and higher wages has helped sentiment among house buyers. Supply remains limited, however, also given limited new construction, so we expect transaction levels to remain subdued for a while.

Now moving to our third quarter performance, starting with NII on slide five.

NII, excluding incidentals, increased almost 17% year-on-year, largely driven by improved deposit margins. Compared to Q2, NII was around €70 million lower when excluding incidentals. There is not one major factor driving this decline, but rather several smaller negative factors.

Around €20 million decline is related to a reclass to other income with Corporate – within Corporate Banking, so that does not impact our bottom line. During Q3, we saw €7 billion of current accounts migrating to higher yielding deposits products, mainly time deposits. And this deposit migration mainly impacted NII within Wealth, which declined by around €20 million.

The remainder of the decline is largely explained by some asset margin pressure and lower results in trading activities. While our Treasury result is generally somewhat volatile, it was actually flat during Q3. The benefit from higher rates is coming through slower than we initially anticipated.

Now looking ahead to next year, I expect the Treasury result to increase during 2024. Our replicating portfolio continues to benefit NII, given current market rates, and we expect the current pace of deposit migration to come down during next year, as we expect most of the migration to occur this year.

Although we cannot predict how our margins will develop, our current view is that NII may recover a good part of this quarter’s decline during 2024.

So let's turn to slide six for balance sheet developments.

We again managed to show growth in our loan book despite a challenging environment. Business volume in Northwest Europe increased further as we continue to add new clients in our focus segments, including New

Energies, Digital and Mobility. Our market share in the Dutch mortgage market rose to 15%, leading to further growth in the mortgage portfolio despite again the slow housing market.

Our non-core wind-down is largely completed, with now only €400 million of loans remaining. Consumer lending continued to decline, a trend which has been ongoing for a while. Total deposits increased this quarter, with sizeable flow between the various deposit types, which I highlighted earlier.

Since the beginning of the year, we have seen almost €24 billion of current accounts moved into interest-bearing accounts. We have seen this flow mainly finding its way into time deposits, while saving accounts have remained stable over this period. The outflow to other banks has been very limited while overall our deposits have increased again during the year.

Turning to fee income. Fee income remained stable compared to previous quarter. Retail Banking fees did increase, mostly due to higher payment volumes during the summer holiday, which also led to higher credit card fees. Fees at Wealth Management were more or less stable, and lower financial markets led to a decline of assets under management.

Other income was very strong at €237 million. We booked gains on a number of disposal of assets, including buildings and our stake in a digital payment business. Hedge-related income within Treasury also was a positive contributor to other income this quarter. And I mentioned the €20 million reclass from NII to other income within Corporate Banking. Now, this effect is quite stable and will persist in the quarters ahead.

Turning to slide eight on costs.

Our underlying cost, so excluding regulatory levies and incidentals, increased during the year. This is partly related to the 2.5% increase in wages which was agreed in the collective labour agreement, which runs until July next year. External staff expenses also rose with these cost increases – were – while these – sorry, while these cost increases were partly offset by further cost savings.

We achieved a total of around €450 million of cost savings so far under the strategic plan we formulated back in November 2020. So we are keeping cost under control, and for this year we expect cost to land between €5.1 billion and €5.2 billion.

The further downward revision reflects delays in the investments we are making in our data capabilities, further digitisation of processes and Sustainable Finance Regulation. We are now starting to make good progress hiring additional staff and hence these costs are rising and will lead to higher investment cost in the coming year.

Turning to impairments on slide nine.

This quarter we had again a release in impairments, mainly in stage 2 and stage 3 for corporate loans due to recoveries and repayments. These were partly offset by an increase in the management overlay for interest-only mortgages as we took a more prudent risk approach.  Over the past years, we have seen a significant decrease in our interest-only portfolio, and we expect this to continue.

The overlays related to the war in Ukraine and the nitrogen crisis, they were kept in place.  In line with last quarter, we saw some provisions related to inflow in stage 3, however, this was more than offset by releases on individual corporate files.  The impact of the economic slowdown on our loan portfolio so far has been limited and our non-performing corporate loan exposures decreased further.

So we do not expect to see the effect in Q4 already, so the cost of risk for next quarter will remain below our through-the-cycle cost of risk of 20 basis points.

Move to slide 10 on capital.

Our Basel III capital ratio stands at 15% and we remain well capitalised.  The increase in capital from the 50% addition of our net profit was partly offset by higher RWAs.  RWAs increased, reflecting model add-ons, partially offset by business developments.  These add-ons were taken in relation to our ongoing review of our credit models and simplification of the model landscape.

Our current MDA trigger is 10.6%, and this will increase to 11.2% in the course of next year.  This mainly reflects an increase of the countercyclical buffer to 2% and the proposed increase of 25 basis points for our Pillar 2 requirement.  Our capital position remains strong and is well above the future MDA trigger level.

So to round-off with our financial targets.  We're heading towards a good year with our year-to-date ROE well above our 10% ambition.  Our NII has fully recovered from the negative interest rate environment.  And we have more or less completed the de-risking of our balance sheet with the wind-down of our non-core portfolio.

Our solid risk profile and a resilient Dutch economy have led to impairment releases over the nine months of the year, which has further boosted our result.  As I mentioned last quarter, our cost target for 2024 is no longer achievable as we are faced with higher inflation and additional investments.

We remain committed to cost discipline and will update our financial targets and our capital framework next quarter.

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

## Questions and Answers

**Operator:** Thank you, sir. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. And please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. If you wish to cancel your request, please press star two. Again, please press star one to ask a question. And our first question comes from Benjamin Goy from Deutsche Bank. Please go ahead. Your line is open.

**Benjamin Goy (Deutsche Bank):** Yes. Hi, good morning. Two questions, please. One on net interest income and the other on cost. Can you maybe talk a little bit more about the impact from the mix shift you're seeing, so from – so what's the drag actually when you see outflows? Is it 2.5% roughly? Or what's, kind of, the impact from current accounts to time deposits, and I guess, to savings at 1.5%? But maybe you can give a bit more colour.

And then secondly, on costs. So you essentially keep on upgrading your near-term guidance, but it's mainly due to delay in investments. I mean, I think we're talking more than €100 million. So just maybe if you can give us a bit more colour what massive investments, significant hiring you plan to do? Or is there also some underlying improvements in these upgrades included? Thank you.

**Robert Swaak:** Yeah. Thanks, Benjamin. I'll ask Ferdinand to take the NII. I'll take costs.

**Ferdinand Vaandrager:** Yes. Hi, Benjamin. As said already, if you look at the underlying levers, you mentioned two of them. One is the reclass effect. Well, what this means, the reclass, effect that's why we're transferring existing contracts from markets on trading into hedge accounting in the banking book. So this is really related to a transfer of existing receiver swaps with lower rates to the banking book.

And as said, the effect might persist for a while, but we can also take steps to avoid further reclass effects. So we do not expect this to increase over the coming quarter.

Then the other element in the quarter-on-quarter bridge specifically towards deposit migration. We've basically seen the same trend as the previous quarter, specifically an outflow from current accounts into time deposits, mainly in our Wealth department.

So the year looking forward, we see year-to-date roughly €24 billion outflow from current accounts, which is just over 20%. And if you would combine that with the current interest rate outlook and also historically through-the-cycle what our base of current accounts, we expect that to – that migration to slow down. So the biggest part of that will have taken effect this year.

**Robert Swaak:** And maybe on the – on cost, Benjamin, we did lower it to €5.1 billion, €5.2 billion range. This is, in a sense, consistent with the explanations we were giving last quarter. Ultimately, we were faced with the delay of hiring additional staff. These are predominantly staff that we hire in the areas of data capabilities, continued digitisation of the bank, but also SFR regulations, the expertise that we need within the bank.

So we see a delay of the hiring. That is predominantly due to tight labour markets. We do see now an increased progress in hiring. So for the full year 2023, we expect the €5.1 billion, €5.2 billion. We will expect the hiring to continue into 2024.

And to your second part of the question, yes, we have realised cost savings since 2020. But as we've also talked about, the inflationary pressure that we were faced with, including some of the CLA effects, have partly offset the cost savings that we had realised when we started this back in 2020.

So I think in sum total, we will remain to that very same cost discipline, and we will then update. And that's why we're only giving the guidance now for the full year 2023 as we expect to give a full update in – at Q4.

**Benjamin Goy:** Understood. Thank you. Maybe a short follow-up. I think it makes sense to comment on Wealth Management. Just wondering how concerned are you about moving excess liquidity from retail clients? Or is not – or isn't there much on average? Thank you.

**Ferdinand Vaandrager:** Can you repeat that question, Benjamin? We mentioned the migration effect, specifically the shift on the Wealth side. What's your question now related to what we see on the Retail side.

**Benjamin Goy:** Yeah, indeed, it's about a risk in Retail or whether it is just the excess liquidity is – or there isn't much, so there's not much to shift into time deposits? Thank you.

**Ferdinand Vaandrager:** Well, as I said, Wealth is specifically looking for time deposits. If you look at the shift into savings accounts, what we've seen earlier this year, that has actually been kept stable as you look at the overall demand deposits, which were roughly flat at around €100 billion. So it's also always a question of what will competition do? And what are the different interest rate scenarios? But I go back to my earlier comments. If you look overall at the migration effect of – we do expect this to slow down going forward.

**Benjamin Goy:** Understood. Thank you.

**Robert Swaak:** Thanks, Benjamin.

**Operator:** And our next question comes from Giulia Miotto from Morgan Stanley. Please go ahead.

**Giulia Aurora Miotto (Morgan Stanley):** Yes. Hi, good morning. Thank you for taking my questions. Just going back on the NII discussion. So where do you expect the mix ultimately to land? So should we look back at history? Or any comments on your expectation on the mix and, ideally, the deposit beta that you see in your base case? That's my first question.

Then secondly, going back to capital, I think you mentioned that there are some further methodology changes leading to RWA inflation. Can you quantify those? And also, I'm curious on the Basel IV capital ratio, why doesn't it move? Because it is always around 16%. But in theory, you should be building capital, and you shouldn't have much RWA inflation other than the organic business growth? Thank you.

**Robert Swaak:** Thanks, Giulia. Ferdi, if you take the NII and Tanja the RWA.

**Ferdinand Vaandrager:** Yeah, Giulia, on NII. Also there, we try to say overall for NII as we see support into 2024 of the overall interest rate backdrop. So that is on one hand, on our replicating portfolio; and on the other hand, also on the overall treasury results, which can be more volatile on a quarter by quarter basis. But if you look throughout the medium term, this should be a support.

Coming back to your question in terms of overall predictions on beta, I think what we've seen so far in the Netherlands, the pass-through has been higher than some of our surrounding countries. Overall, we have not seen any outflow in our total deposit base year-to-date. Actually, inflow, liquidity position is extremely strong with loan to deposit of around 95%.

So from that perspective, there are no reasons to expect a significantly higher pass-through. But at the end of the day, it will be all driven by market circumstances and competition. So it's very difficult to give an exact prediction on that to you.

**Robert Swaak:** Tanja?

**Tanja Cuppen:** Yeah. On the RWA development, so maybe first on the Basel III. And you see our overall RWAs have been up with €2.1 billion. For operational risk and market risk, it's actually stable. And operational risk, it's good to know as well is that we have already moved there to standardised approach, also anticipating Basel IV.

And the main increase is therefore in credit risk, so that's also €2.1 billion, largely from methodology changes and model redevelopments. And there are some smaller releases in RWAs due to the fact that our portfolio improved in credit quality, and that led to some releases. So the actual impact of methodology changes and model reviews is somewhat higher than the €2.1 billion.

And these model updates, of course, also translate into Basel IV, although on the Basel IV, the impact is smaller, given that floors are being used in Basel IV. And the fact that you still see the 16% as the Basel IV number for CET1 is related to the fact that – well, Basel IV regulations are still not final. We are working to all the technical details. And once we have all the technical details clarified, we are expecting to give a more accurate number with – well, not around that number like we have today.

So the number is indeed fluctuating in our own calculations, but we round it to 16%. And it has moved over time from a rounding down to – rounding up to 16%. And so there are fluctuations there, but as the regulation is also still in development, it's hard to publish the numbers with more accuracy.

**Giulia Aurora Miotto:** Thanks.

**Robert Swaak:** Thanks, Giulia.

**Operator:** Our next question comes from Raul Sinha from JP Morgan. Please go ahead.

**Raul Sinha (JP Morgan):** Good morning. Thank you for taking my questions. Just the first one on NII, just to follow up on the discussion so far. Can I just check, how much of the NII actually relates to trading activity?

Because on slide five, you're obviously indicating that this quarter, there were lower results in trading activities. So I guess the question is, just to understand the volatility within the NII line, how much of this is trading, how much of it is Treasury?

And then just piecing together your comments so far, it sounds like you expect the net impact of the negative from deposit migration and the positive from the replicating portfolio to become a net positive into 2024. I was wondering if you might be able to shed a little bit more colour on the timing of that. Is that the first half 2024, second half 2024? It just would obviously have quite a big impact in terms of where we end up modelling NII for 2024.

And then just to follow-up supplementary, if you don't mind. Regulatory costs, it looks like they will be down in 2024. Could you give us some guidance for 2023 and 2024, please? Thank you.

**Robert Swaak:** Ferdi?

**Ferdinand Vaandrager:** Yes. Raul, thank you. Let me start with your question on trading activities. We try to provide some drivers of NII this quarter. So there are also many smaller elements. Lower results and trading activities are mainly related to, for example, increase in funding costs at trading desk, higher collateral costs, etc.

So in the bigger scheme of things, these are not enormous deltas, but worth mentioning in trying to, sort of, explain what the gap is. And the other smaller element next to the sort of, shift in NII to other income and deposit migration is some asset margin pressure of several portfolios.

Then going to your next question, what is the outlook on NII? I think the most important one here, that is – can be a bit more volatile on the shorter term, that's the overall Treasury results. If you look over the medium term, the biggest element here is our invested equity position, and this is not a ring-fenced portfolio of swap contracts. It's really the result of all on- and off-balance sheet interest risk exposure we have, which is dynamically hedged.

But over time, it should be similar, the return to a duration portfolio of up to four years. But on a shorter term, hedging the interest rate risk is always a dynamic process. So other elements in the Treasury results are also mortgage prepayment penalties, re-hedging cost if you need to lengthen the duration of your mortgages, but also mortgage options premium and as well as now the tiering effects, which will come into here as of Q4.

So can you then really say, is the first half higher than the second half? Last quarter, we expected a faster rebound in the Treasury results. So we still do see a recovery of the negative bridge we are seeing this quarter, but as all swap positions are [inaudible] booked, it's not always that easy to extract all swaps related to interest steering.

So positive steer here into next year. But no specific guidance if it is coming early in the year or later in the year. So, Raul, a little bit of a long answer.

**Raul Sinha:** No, thank you. That's helpful.

**Ferdinand Vaandrager:** And then going to the regulatory costs. Overall, the expectation is €340 million for this year. And as we said already in the overall cost outlook towards 2024, we do expect this to come down to €200 million. We have seen already in the previous quarter, a lower Single Resolution Fund. So part of that effect has already been seen.

**Raul Sinha:** Thank you. That's really helpful.

**Robert Swaak:** Thank you, Raul.

**Operator:** And our next question comes from Kiri Vijayarajah from HSBC.

**Kiri Vijayarajah (HSBC):** Yes. Good morning, everyone. A couple of questions around NII again. So firstly, I appreciate it's early days, but how worried should we be about this ACM investigation into pricing competition in the Dutch savings market? Is there any timeline that we should have in mind? And could we see banks pre-emptively bumping up savings rates in advance of any conclusions or findings from that investigation?

And then secondly, on your slides, more on the asset side, you mentioned limited asset margin pressure. But I wonder if you could tell us a bit more specifically on mortgage pricing, where are you on the front book versus back book pricing? Because I think in previous calls, you mentioned that that was moving in the right direction. And I just wondered where we are today and should that mortgage front book/back book dynamic remain, kind of, a headwind into 2024? Or is it, kind of, more neutral thinking about next year? Thank you.

**Robert Swaak:** Thanks for the question. I'll take the one on the – on ACM and Ferdi will take the follow-up questions.

Now on ACM, we've had questions that were raised by – initially also by the Ministry of Finance around how pricing was determined in the Dutch market, and that was building on a sentiment in the Dutch environment. And that sentiment was based on the steep increase in the ECB rates and then clearly the way the rates were developing in the Netherlands – deposit rates developing in the Netherlands.

I think it's good when these questions do arise that there is an independent investigation into the questions that are being queried. We don't have timing of the investigation. Suffice to say that if we were to participate, we will clearly cooperate fully. And so we'll just await the results of the outcome. I think it's – we're getting a little ahead of ourselves if we start to talk about outcome.

At this point, from our point of view, we've always said there is a transparent market. There's different product combinations possible in the market. And so we'll have to wait and see what the authorities, the ACM actually will come up with.

**Ferdinand Vaandrager:** Yes, Kiri, and then going to the asset side and mortgages, indeed, what we said the previous quarter, if you look at the new production inflow, that it is around the level of the overall mortgage book. And that is still the case, despite quite a competitive environment in a lower production market. So that is one. But we do see – still see outflow of the book of higher margin mortgages. So that is dampening the effect a little bit.

The second one is the current mortgage market is up to 10 years, but it's also the level of the state-guaranteed mortgages, where the average barrier was at €355,000 in 2022. It will be – it was increased already by €50,000 this year and another €30,000 next year. So that means that roughly one-third of the new production is within the NHG guarantee. It's good for RWA. Of course, your capital next to that is lower, but these mortgages are also clearly at a little bit lower margin. So this is overall the effect you're seeing on mortgages.

The other effect is specifically on consumer loan, it's a relatively small portfolio of roughly €10 billion. But there you do see the effect of duty of care of crediting in the Netherlands, which has become more strict, and there is also a statutory maximum interest rate you can charge off – on those accounts. So those are the two elements, if I talk about asset margin pressure that you see that effect.

**Kiri Vijayarajah:** Perfect. Thank you. Thank you for that.

**Operator:** And our next question comes from Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

**Benoît Pétrarque (Kepler Cheuvreux):** Yes. Good morning. Thank you for the time. So I was trying to, again, understand the net – the underlying net interest income thinking about 2024. Yeah, so we have €1,533 million now as a starting point. We have this €23 million from MRR. So let's assume we have kind of clean at €1,510 million. How much recovery from Treasury do you expect – do you still think you can recover the €50 million roughly you've been losing in Q2? And the question is when you think that could recover?

And then thinking about Q4, we've seen a savings deposit pricing. So rates going up to 1.5%. I think the pass-through rate delta on average in Q4 is relatively high actually versus the previous quarters. So do you think the net between replicating portfolio and your, kind of, repricing effect on deposits will be, kind of, negative again in Q4? Or you think it could be neutral or positive? That's the question number one.

And then coming back on the term deposits, how much is a realistic level for next year in terms of inflows? Because so far, I think we've seen about €29 billion for the first nine months of term deposit inflows. What do you see in the fourth quarter? We're already in November. Do you still see inflows? And I appreciate your comment that that will slow down, but are we going to get €10 billion, €20 billion, €25 billion next year? I mean, those are big figures potentially. So could you help us to model also the kind of, the term deposit mix effect? Thank you.

**Robert Swaak:** Ferdinand?

**Ferdinand Vaandrager:** Yes, Benoît. Hi. Let me start. Quite a few questions. I thought I addressed a few of them already. So if you look at the delta of €50 million in Treasury results, what is the confidence that we will recoup that in 2024? As said there, we still expect that, but the effect there will be later than earlier anticipated for all the elements I mentioned earlier.  So yes, we think the negative effect we've seen will rebound in 2024.

Then on your question on deposit pricing, and overall the deposit beta that we expect there.  Do we expect an acceleration?  No.  We always look clearly at interest rate increases.  If they go faster than the overall replicating yields, then it will be negative.  But as said earlier, there are no indications or no needs.  We don't see any deposit outflow.  Loan to deposit is very low.  But clearly, I do not have a crystal ball, but it depends very much on market developments and competition.  But from our perspective, there is no need to be more competitive than what we currently are.

**Benoît Pétrarque:** So what I mean here is that your pricing was at 1% on deposits, end of June.  Now you're at 1.5%.  So what I mean is more like the Q4 effect of the repricing will be quite negative, I will assume – or this is not something you see?  And that could be more negative this effect than the positive you might get from the replicating portfolio in the fourth quarter.

**Ferdinand Vaandrager:** Yes, but –

**Benoît Pétrarque:** Assuming rates stay at 1.5%, yeah.

**Ferdinand Vaandrager:** Yeah.  If you stay and act equal, then still, as I said earlier, the replicated portfolio, if you stay as is, it will still be a tailwind for the overall NII.

Then to deposit inflow, if you mean for inflow or migration, I think we addressed that question as well.  It was mainly time deposits coming from Wealth, but – yeah.

**Benoît Pétrarque:** What I was referring to is the €7.8 billion inflow in term deposits in the third quarter, which was €4.6 billion in Q2.  So there's an acceleration actually on the inflows, on term deposits.  And I was wondering if you could maybe guide us a bit just specifically in the fourth quarter because we've seen term deposit pricing going up recently.  So I will assume more clients will move money into term deposits also in the fourth quarter.  So you can help us on that?

**Ferdinand Vaandrager:** No – and it's also here what we did say is what we've seen so far.  And the trends we're seeing in these €7 billion now.  But if you look at the overall outflow from current accounts we've seen in our client deposits, which is just over 20%, that we expect that most of the deposit migration happens this year.  And there might be some residual flow next year, but we expected the trend to slow down versus what we've seen so far.

And also, I mentioned already, it's also looking back at the sort of, stable base of current accounts is what we've seen of a previous cycle.  So our expectation is that the rate of migration is slowing down.

**Benoît Pétrarque:** Great.  Thank you very much.

**Robert Swaak:** Thank you.

**Operator:** Our next question comes from Amit Goel from Barclays. Please go ahead.

**Amit Goel (Barclays):** Hi. Thank you. Two questions for me. One, just in terms of your capital and thresholds on a Basel IV basis. So I appreciate we'll get the new thresholds with the Q4 results. Just wondering if you think you'll be able to guide more precisely on the Basel IV CET1 ratio by then or whether we should still think about it with a kind of, plus/minus 50 bps range?

And then secondly, I just wanted to follow up on the €120 million potential additional SRF charge, which you have provisioned for or haven’t provisioned for. Just wondering whether we should expect a final conclusion on that case before the end of the year, and/or if it's a kind of, a risk to your OPEX guide? Thank you.

**Robert Swaak:** Okay. Tanja, on Basel IV, and Ferdi, you may expand on the SRF.

**Tanja Cuppen:** Yeah, so on Basel IV, as I mentioned, the discussions on the final regulations are still continuing. And well, we had expected already that they would be finalised, but that's not the case. And dependent on when they will be finalised, it will take us time to make sure that we capture everything in our systems. So we will do our utmost to be as accurate as possible, but it depends very much on the final regulations and the time it requires us to get that into our system. So no promises there yet.

**Ferdinand Vaandrager:** Yeah. Amit, then coming back to the overall reg levies. As we said earlier that we are in disagreement with Single Resolution Board specifically regarding the calculation and method for our mortgages. So this is for the period as of 2016. And what we have done, we have paid €120 million, but the overall claim is under protest. So this has been booked as other assets, so no P&L impact for now. And we are challenging this in court but we do not expect, in a short period from now, any sort of conclusions from this.

So most likely, this will be possibly a lengthy process because I think we might not be the only bank in the proceedings against the Single Resolution Board. And we consider it clearly more likely than not the challenge will be successful.

**Robert Swaak:** Did it answer your question, Amit?

**Amit Goel:** Yes, thank you.

**Robert Swaak:** Okay.

**Operator:** Tarik El Mejjad from Bank of America. Please go ahead. Your line is open.

**Tarik El Mejjad (Bank of America):** Yes, hi. Good morning. One observation and two questions, please. First of all, I'm still really amazed how the guidance on NII, it looks like difficult for you to provide something more clear. I mean, I understand the volatility in Treasury results. But I mean, you look like you have a very good view on each of the moving parts of NII, but we can't put it together and have some – at least some slightly – I mean, the miss this quarter shows really how the market is struggling to capture that.

So what, in Q4 and full year results, you will have more information to give us a guidance for the revenues and NII for the year in the medium term?

So then my question is on costs. I think you suggested that some of the costs will be delayed into next year. Should we see that as higher costs in 2024 versus the new guidance 2023? Or it's just some delayed cost that will actually divert you away from the €4.7 billion that you walked away from in Q2?

And lastly, on capital. Why did your Pillar 2R actually went up 25 basis points? Can you clarify what's the point? And on capital return, what actually will make you think that now is the time to distribute more excess capital to shareholders in Q4? What are actually the driver that will make you more comfortable? Thank you.

**Robert Swaak:** Okay. Thanks for the questions. NII, maybe Ferdi, to explain?

**Ferdinand Vaandrager:** Yes, Tarik, I understand your observations. So I will not repeat this. Is it the difficulty or not? We try to provide a good underlying, sort of, explanation on the different moving parts. But going into next year, we just reiterate that there is more upside than downside from current levels. But clearly, we cannot predict all factors and mainly how much it will develop.

And I will not repeat what I explained earlier overall on the Treasury results and what the underlying elements, are these also observations for us, how to deal with you and be more explicit and what the expectations are. But as I said, we will come back to you with an update of our financial targets. So we will take this into consideration.

**Robert Swaak:** And maybe, Tarik, on costs. Clearly, there is a cost spillover into 2024 as a result of some of the delays that we've had to do. I think it's too early to begin to guide toward where 2024 cost levels will be. That is the process that we're in the midst of now and that we expect to conclude on – at the – at Q4. So we can give you more guidance on where we think 2024 cost levels and subsequent cost levels will move to.

The – your question on P2R, it really is an outcome of a process that has been concluded – that P2R requirement has now been included in our capital as we disclosed. It doesn't really impact our minimum capital. The 13% is still far away, significantly away from our MDA. So we've absorbed the P2R.

In terms of capital return, again, I would – we will update this at Q4. We will then look at the entire capital framework and that would include considerations on potential capital return. So I would wait until Q4, so we can give you more details on that.

**Tarik El Mejjad:** No, I understand you have to wait for Q4, but really, here, [inaudible], we're trying to understand your thinking here in terms of what are the constraints? What's actually make you change? I mean, capital framework is a wide term, I mean, to talk about your capital management. But what are the areas that's really concerned? Two years ago, you were transparent saying there is an M&A component, uncertainty about the macro, so we understood basically why you were reluctant. But now we don't know really what are the drivers for you to distribute or not.

**Robert Swaak:** For sure, we'll clear that up in Q4. What I can tell you is that we've moved on from 2020. That is one of the reasons why we want to reconsider the framework, the capital framework. Now we'd be getting ahead of the actual considerations. But I do think it's fair to say that since 2020, we have had – we've executed parts of the strategy that led to coming up with the 200 basis point thresholds that we talked about.

So that is why now at this time, we are reconsidering all those factors in order to come up with an updated capital framework. So it is taking very much into consideration the effects of our strategic choices over the last, what is it, 2.5 years.

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

**Robert Swaak:** All right. Thank you.

**Operator:** Anke Reingen from RBC. Please go ahead.

**Anke Reingen (RBC Capital Markets):** Yeah. Thank you. I just have two follow-up questions, please. Firstly, apologies if I missed it, but did you actually give us, like, the deposit beta for, like, latest Q3 and Q2? And then in terms of the delayed investments, I mean, they are quite sizable in absolute amounts. What is, sort of, like, the implication in terms of the revenue outlook? Or are they – were they just fine-tuning? Or are they more material in terms of your direction? Thank you very much.

**Robert Swaak:** Maybe, Ferdi, on the NII. I'll take cost.

**Ferdinand Vaandrager:** Yeah. We didn't say anything about expectations on deposit beta, Anke. As said earlier, we don't steer on beta. We look at the overall replication yield vis-à-vis, the overall saving rate. But we did say that if you look at the Netherlands, the overall deposit beta is relatively high versus other countries.

And if you look at our overall liquidity profile and still increasing deposits, for us, there is no need to be more aggressive on that front. So that's all we said there Anke.

**Robert Swaak:** Yeah, so implied beta. And in terms of your question on cost, actually the reason why we're investing so heavily in both digitisation and further upgrading of our own infrastructure is because it allows us to accelerate our revenue growth. We have taken some very clear decisions in terms of how we want to transform the bank.

It means that we are increasingly – as we begin to close down our offices, we only now have 25 branches left, we are accelerating our digital propositions. And at the same time, we also saw this quarter, we are starting to grow in some of the target segments we've identified for ourselves and that includes the younger side of the population, if I can call it that, and that means that we do have higher requirements for our digital infrastructure. So it will allow us to not only serve these clients better, but also allow for revenue growth. That's why we're investing.

**Anke Reingen:** Okay. Thank you.

**Operator:** As a reminder, to ask a question, please signal by pressing star one.  The next question comes from Flora Bocahut from Jefferies.  Please go ahead.

**Flora Bocahut (Jefferies):** Yes.  Thank you.  Good morning.  The first question is actually on the replicating portfolio.  It seems that the benefit from higher rates on your replicating portfolio is continuing to level off.  Can you maybe remind us the size and the duration of that portfolio?  And I don't know, any comments you want to make specifically on the replicating portfolio here?

Then a question on the model reviews.  Obviously, quite some impact on Basel III RWA this quarter again.  I guess, again, in Q4.  What about 2024?  Is this something that you think will continue into next year?  Or do you consider the bulk is behind you and it will slow from here?  And just a follow-up on the regulatory levy guidance.  Because – do I understand correctly that you continue with the same guidance of €200 million decline next year despite the recent change in the Dutch Bank levy?  Thank you.

**Robert Swaak:** Yeah.  So on that last question, we do – we maintain the guidance that we have on reg levies.  On the replicating portfolio, Ferdi?

**Ferdinand Vaandrager:** Yeah, because on the reg levies, also Flora, it is – if you look at overall the banking taxes here, it's an increase for us of roughly €30 million annually.  So it's a 30% increase, still needs to pass Senate, but it's in our base assumption that it will be approved there.

Then going to your replicating portfolio, is it levelling off? Well, clearly, deposit margins recovered from negative rates.  So replication portfolio is no longer the main driver of NII development, but we still expect it to be a tailwind into 2024 for our overall NII.  Size of the replicated portfolio is now around €170 billion, because normally, if you see deposit migration to time deposits, time deposits are clearly not part of the replicating portfolio.

And what we have disclosed earlier, roughly 45% of the replicating portfolio reprices within one year, and the overall portfolio has roughly – it's more invested in a barbell structure.  But the overall duration is roughly three years.

**Robert Swaak:** Tanja, maybe on expected model reviews?

**Tanja Cuppen:** Yeah.  So the model reviews will continue.  That is – that's what we continue to do.  And actually, a model review takes also quite some throughput time given that regulatory approvals are required on our IRB models.  So I expect that that will continue.

But clearly, we have taken – well, quite some additional RWAs from the model – RWA migration from model review, sorry.  And so we have the majority there behind us.  And then maybe as a part on the upside pressure that we see, we will also see that once Basel IV comes in, there will be a reduction in RWA on some of our portfolios, given that floors are lower under Basel IV than under Basel III.

So still upside pressure, but also some corrections.

**Flora Bocahut:** Thank you. That is useful. Can you – can I just ask you for the number? How much RWA increase you saw from model reviews year-to-date?

**Tanja Cuppen:** I would have to… So as I said earlier in this call, this quarter, it was somewhat higher than the 2.1 net increase, but I would really have to look it up for the full year because that's not the number that we track. You can imagine there are a lot of things going into RWA development, so also portfolio development.

So it's always hard to compare that like-for-like, given that portfolio changes during the year as well.

**Flora Bocahut:** Okay. Thank you.

**Robert Swaak:** Thank you.

**Operator:** And we have a follow-up question from Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

**Benoît Pétrarque:** Yeah. Just a short one on the capital framework. Do you think you will be able to base your capital framework on the Basel IV CET1 ratio of 16%? Or what do you think, for the time being, given all the uncertainty, you will be using like the Basel III capital? That's my question. Thank you.

**Robert Swaak:** Yeah. I think it's indicative, it would be Basel IV, but we need to complete our analysis coming into Q4. So I think it is early days to make those final calls, but indicative, we would be thinking about Basel IV.

**Benoît Pétrarque:** Thank you.

**Operator:** Thank you. That's all questions we have for today. And with this, I'd like to hand the call back over to Robert Swaak for any additional or closing remarks. Over to you, sir.

**Robert Swaak:** Well, thanks, everyone, again, for joining on the call, and I look forward to the continued conversations. Thank you.

**Operator:** Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.