Q3 2020 Analyst Call Transcript

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Participants: Robert Swaak, CEO; Clifford Abrahams, CFO; Tanja Cuppen, CRO

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Robert Swaak: Thank you very much, and good morning, and welcome to ABN AMRO's Q3 results. As always, I am joined by Clifford Abrahams, our CFO, and Tanja Cuppen, our CRO. This time is different as each of us is dialling in from different locations, which reflects the re-imposed lockdowns here in the Netherlands and also the UK. It should not impact our results call though, but please bear with us during the Q & A session.

You will understand that our focus today is in our Q3 financials. I will share Q3 highlights, update you on economic developments and our good progress on my priorities, including the wind-down of CIB non-core. We will present on strategy and longer-term plans and outlook at our Investor Update at the end of November.

Clifford will go through the details of the third quarter results and run you through capital, and Tanja will then update you on developments in our loan portfolio, including Q3 impairments and our latest guidance on full year 2020 cost of risks.

So, turning to the highlights. The Dutch economy has proven to be resilient as society adapted to limit the spread of COVID-19. The Dutch government has the financial clout to sustain large-scale support measures, and these measures indeed have been effective.

We are very happy to see that our impairments this quarter are moderating, and the bank is returning to profit. Over the full year, we now expect impairments to be below the EUR 3 billion guidance we gave last quarter and closer to our Q1 guidance of EUR 2.5 billion. We remain cautious, however, looking forward. Interest rates remain low, our NII is under pressure despite further action we are taking on charging negative rates. Our capital position is robust despite significant further TRIM add-ons this quarter. I now expect Basel III to convert to Basel IV largely by the end of 2021 and during this period, we will continue to face capital headwinds and uncertainties. COVID-19 is a big example of this. So, I do remain cautious in coming quarters. Recent news on the development of a vaccine is very much encouraging but it is, in all honestly, too early to assess the full impact.

We are progressing well on the strategic priorities I have set, especially to non-core wind-down, and I will come back to that later.

I will now update you on the Dutch economy on slide 3. As I mentioned, the Dutch economy has been resilient. Two key metrics I would like to highlight are the low unemployment rate and the bankruptcies are the lowest in 21 years. These metrics do demonstrate the strength of the Dutch economy as well as the effectiveness of support measures by both governments and banks. Payment holidays have ended, and we have resumed servicing our clients via regular processes. In the coming months, we will provide more insight in the payment behaviour of our clients. Government support measures have been extended, the scope and eligibility are gradually being brought down and we feel the impact of low rates, which we can only partially mitigate through negative deposit pricing. So, I remain cautious looking forward.

Also, let me give you some details on the Dutch housing market. I feel confident about the Dutch housing market, which has remained strong throughout the year. Low rates underpin the rise in our house prices and transaction volumes. The credit quality of our mortgages is very strong, as loan to values continue to decline and unemployment remains low. Only a small part of our clients may use the payment holiday and most have resumed regular payments. Our market share is stable, and we now also offer competitive 30-year mortgages, which we originate to distribute. Looking ahead, based on the current pipeline of applications, I expect the market to remain strong and our market share to increase in the coming quarter.

Let me now update you on the progress on our priorities on slide 5. I am pleased that the progress continues around these priorities. Let me highlight recent developments and how we are dealing with COVID-19. On COVID-19, our primary focus is the well-being of our clients and staff. Our video banking capabilities are proving their worth, and we are taking extra care for special-need groups.

We are in an ongoing dialogue with all of our corporate and commercial clients and are closely monitoring developments of their businesses. I personally have been involved in quite a few conversations with clients myself to ensure service of the bank in these exceptional times.

I briefly want to touch on our investor update, which we are finalising. At the start of our strategy review, we decided to bring focus to CIB through exiting all non-European activities, and I will discuss progress in a minute. In order to ensure a clear navigation of any crisis, we need to be explicit about the vision of the bank post crisis, and this is why we continued and are now finalising our strategy review. Yet we are in the middle of a global pandemic, and that is why we also need to be realistic about the formulation of targets.

Turning to slide 6, I want to highlight our progress on the wind-down. Progress on the wind-down of our non-core activities is orderly and good. I am pleased our clients are able to find sources of funding elsewhere without difficulty, notwithstanding the current environment. This has allowed us to make good progress, reducing loan volumes by around 20% or almost EUR 4 billion of loan volume.

We are also driving down undrawn commitments. We aim to accelerate the natural rundown through loan disposals where value accretive. So, provisions have been strengthened further for the added risk of the wind-down. Overall, we maintained our loan loss reserves at EUR 1.4 billion, while loans declined by 20% until provision coverage has increased materially.

I will now hand over to Clifford to take you through the third quarter results in more detail.

Clifford?

Clifford Abrahams: Thank you, Robert.

As you said, we returned to a solid profit this quarter. As Robert explained, the Dutch economy showed resilience, and this is reflected in moderating impairments for the third quarter. Interest income is down due to continued pressure on deposit margins. I am pleased with the gain on sale of our Paris office, which was a major real estate deal earlier this year.

At the same time, impairments improved significantly from the last two quarters. Tanja will run you through these developments later on. Robert described the good progress we are making on winding down our non-core portfolio. However, from a P&L perspective this quarter, CIB non-core has contributed not only to lower NII and fees, but also materially to expenses through restructuring provisions as well as impairments, being mostly non-core, as well as taxes through the write-off of DTA. We show the pro forma group P&L, excluding CIB non-core in the appendix on page 25. Overall pro forma Q3 profit is EUR 691 million, equivalent to an ROE of around 9%, excluding incidentals.

I will run through the details of CIB non-core on slide 8. On the right-hand chart, you can see a good decline in trade and commodity finance of EUR 1.6 billion. Natural resources declined, reflecting quarterly reserve rebasing on current low oil prices. So, these could go up in the short term, if prices revert. The other category is mainly financial institutions, which have recently drawn on commitments, but we expect these to reduce in coming quarters. The consequence of the good initial reduction is lower income. Fee income almost halved driven by the strong reduction in undrawn commitments and off-balance sheet products within TCF. Net interest income decline is somewhat slower than the reduction in loans as margins are lower on the short-dated secured and hedged TCF loans.

Non-core Q3 results included the one-off cost of restructuring and the tax asset write-off. The restructuring cost of EUR 144 million is lower than we indicated in the previous quarter as we no longer reserve retention costs, but rather book these each quarter as they are incurred.

In Q2 we showed the natural wind out profile of non-core in our analyst presentation, and we expect the portfolio to roughly halve from the first half of 2020 to the end of 2021. You can see we are running a little faster than this today, but it remains early days. So, we expect NII to broadly follow in line with the declining portfolio, while fees will be lower from 2021.

Overall, the reduction in RWAs was partly offset by a pre-TRIM add-on in respect to non-core at EUR 0.7 billion. And there may be a further TRIM impact ahead as we are awaiting the TRIM-letter on commodity financing.

I am pleased the lending volume of the core bank held up in challenging markets. Mortgage volume held up well, given the strong housing market and higher transaction volumes, as Robert described. Commercial banking volumes were slightly lower, as clients currently had limited funding needs reflecting the current economic circumstances. We also see this in the limited intake in the various government guaranteed schemes, reflecting support measures from the government.

Overall client lending is expected to stabilise into next year for the core bank, driven by the phasing out of the support measures.

As you can see, NII declined for the core bank reflecting margin pressure on deposits. The decline in our NIM, our net interest margin, is mainly a reflection of the increase of our balance sheet from participating in TLTRO III and the corresponding increasing cash and liquid assets.

Looking ahead, we face further deposit margin pressure of around EUR 20 million per quarter at current rates, and which we can mitigate to a certain extent to negative deposit pricing. As you know, the threshold for negative deposit pricing will be lowered from EUR 2.5 million per client to EUR 500,000 per client from 1 January next year.

The wind-down of CIB non-core leads to NII declining by around EUR 10 million per quarter and slowing down from here into next year. We expect NII to be around EUR 1.4 billion for the coming quarter Q4 and looking into 2021. This is based on end-of-October rates, so before the recent market reaction to vaccine developments. So far, these movements are not material to our guidance.

Overall, we are cautious on being able to achieve the threshold for the low TLTRO rate, given COVID-19 and the appetite from our clients. Therefore, no benefit for this is currently included in both our numbers and our guidance going forward. Also, we have not included in the guidance I have just given you the one-off charge that we expect in Q4 due to an expected change in accounting estimates for amortisation and penalty interest on mortgages, relating to recent client behaviour.

Our other income this quarter was very strong, due to a large gain from the sale of our Paris office of EUR 263 million before tax. We will move to a more energy-efficient office building in due course, which is also smaller as employees will be increasingly working from home.

Looking ahead, fee income in coming quarters is expected to remain low while COVID-19 continues to impact credit card usage and asset management fees. I see this decline as mostly temporary, as these are linked to the duration of restrictions. I expect fees to recover in due course.

To support our fee income, we recently increased package fees and fees on current accounts, for which new pricing started on 1 October.

Fees for CIB non-core, which declined around EUR 14 million for Q3, will run off significantly into 2021.

Cost reductions will remain a priority for us going forward and we will update you further at our November update on costs programs in the future.

During this period, we have absorbed considerable increases in AML-costs this year, given our cost-saving programs and good cost control we have delivered. AML costs are running at around EUR 100 million per quarter, excluding provisions, and are expected to land around EUR 400 million this year, as we guided previously. However, we do see some upward pressure into next year.

We have achieved EUR 1 billion of cost savings to date and are well on track to reach our EUR 5.1 billion cost target by the end of this year.

With that, I would like to hand over to Tanja to discuss asset quality developments.

Tanja Cuppen: Thank you, Clifford. This quarter, we saw impairments moderating, as we had limited individual impairments and no exceptional files. Most impairments were within CIB non-core, in total EUR 171 million. This mainly consisted of a management overlay of EUR 106 million on the CIB non-core portfolio to capture incremental wind-down risk for performing loans. The remainder were additions to existing Stage 3 files in Offshore, Oil and Gas and food sectors.

Within Commercial Banking, EUR 61 million out of total impairments of EUR 102 million were related to the more negative outlook following stricter COVID-19 measures recently imposed by the Dutch government. Overall, our Stage 3 exposure remains stable, as limited inflow offsets write-offs. Stage 2 declined, as clients in impacted sub-sectors and classified as Stage 2 have now been individually assessed, moving many clients back to Stage 1. For Retail and Private banking, very limited change on a net basis this quarter, as a consequence of lower consumer spending, adding to a drop in past-due rates.

Let me discuss the outlook for impairments for 2020. As mentioned by Robert, the support measures of the Dutch government have been very effective, leading to low bankruptcy numbers. Q3 cost of risk was 42 basis points and lower than prior guidance, reflecting support measures and following an economic recovery during the summer. For the full year, I now expect impairments to end below earlier guidance of EUR 3 billion and closer to our Q1 guidance of EUR 2.5 billion.

The banks' payment holidays have mostly ended and regular payment schedules have been reinstalled. Based on conversations with our clients, we do not expect a cliff-effect. I remain cautious for next year, as the impact of the second lock-down in the Netherlands is uncertain and it is too early to assess the impact of recent vaccine developments. I expect impairments for impacted sectors to carry over into 2021.

The outlook for 2021 is uncertain and I do not want to give a precise forecast at this point, though our base-case scenario expects impairments to remain below the 2020-levels.

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

Clifford Abrahams: Thank you, Tanja. As you can see, our capital position remains strong with a CET1-ratio of 17.2% under Basel III and around 15% for Basel IV. Please bear in mind this ratio excludes the 2019 full-year dividend that we reserved and which equates to some 56 basis points of capital.

Basel III RWAs increased during the quarter, reflecting the EUR 6 billion TRIM add-on, partly offset by the implementation of the SME support factor and the wind-down of CIB non-core.

The leverage ratio is strong and currently benefits from a temporary exemption, allowing exclusion of Central Bank reserves from the exposure measure.

CRR2 will be implemented next year, greatly reducing the clearing exposure measure around the same time the exemption ends. These effects more or less offset each other, so our leverage ratio remains strong going forward.

I will now go into more detail on TRIM and Basel IV.

Now that I have updated you on our Q3 results, I would like to talk you through our capital outlook for next year. I want to give you this detail as it represents important background to our approach to capital management going forward and which we will set out set at the Investor Update end of November.

So, first, let's look back to the announcement of the Basel IV framework at the end of 2017 and the CRD and RWA inflation we were faced with was over 35%.

On the chart on the left, you see this gap has closed considerably, largely the result of TRIM and model reduce and to a lesser extent due to Basel IV mitigations. We have currently taken a total of around EUR 20 billion of RWA add-ons for Basel III and are still awaiting two additional letters, as the TRIM process finalises during 2021.

Also, next year, the deferred DNB mortgage add-on may well be implemented, which could add another EUR 6 billion of RWAs. In addition, we intend to switch some portfolios to the Basel III foundation approach, leading to another EUR 5 billion increase in RWAs. These developments will largely close the gap between Basel III and Basel IV by the end of 2021.

Against this backdrop, we expect headwinds and uncertainties on both capital position and capital generation. Low rates put pressure on NII and we expect further impairments from COVID-19. In addition, we are facing the AML investigation.

Our full-year 2019 dividends are currently reserved and payment will be prudently considered, following our Q4 results, taking into account the status of the ECB dividend recommendations as well as conditions and prospects at that time.

Now, handing back to Robert for the highlights.

Robert Swaak: Thank you, Clifford.

To summarise, it is indeed good us to see us returning to profit for the quarter. The bank is resilient, showing a good performance, especially including non-core financials.

We have made good progress on our non-core portfolio wind-down, although this has also impacted our P&L this quarter.

We continue to be strongly capitalised with a Basel IV ratio of around 15%. Nonetheless, we remain cautious on the short-term future, given current circumstances.

Looking ahead, it is indeed essential to have a clear vision on the bank we want to be, and this will be part of the Investor Update on 30 November.

With that, I would like to ask the operator to open the call for questions. As we are in different locations, I will be a bit more disciplined about directing the questions as usual.

QUESTIONS AND ANSWERS

Omar Fall (Barclays): Hi, I have a few questions. Firstly, on NII where I want to understand the drivers a bit divisionally. If I look at NII for Retail, it is flat, sequentially. It is also flat sequentially for Commercial Banking. But when I look at the chart on the right on slide 10, you have the EUR 34 million or so of core NII headwinds, which would presumably relate to those businesses. Yet, the decline in NII this quarter is really coming from non-core in the corporate centre. So, could you explain what is happening there?

Secondly, sorry to be pedantic but when you say that NII should see a EUR 10 million decline here, it makes a material difference for our 2021 NII estimates, like over EUR 200 million. Is the base we start with exactly EUR 1.4 billion in Q4 or is it the Q3 level minus EUR 10 million? If you could give u slightly more precise indication of how we should think about that, so there is no confusion?

If I take slide 14 and I take out a ruler and I look at the chart on the right, it seems that you are suggesting something around a EUR 2 billion impairment charge next year. I know your guidance is below 2020 but is that the message that you are trying to give us? That would be helpful.

Robert Swaak: Thank you for your question. I will ask Clifford the take the NII and maybe Tanja can take the impairments.

Clifford Abrahams: Happy to take that. I think you are quite right regarding the segment accounting. Most of the reduction this quarter has been in group functions and our approach to group functions is to pass on a lot of the funding costs to the businesses. This quarter, we have had the benefit of TLTRO, and we passed on that funding cost. So, for this quarter, that has flattered the segments. I would draw your attention to the bridge that you referred to on slide 10 to give the underlying movements.

In terms of NII, I will not be drawn on a second decimal point for our Q4 guidance. I was clear that it was around 1.4, so you know the rules around rounding. I will not be more precise than that. The headwinds into Q4 are the ones I referred to, which was the low rate and the rate guidance I gave at the end of October interest rates and also for non-core I gave an indication of that. But also, during Q4 – and we are halfway through Q4 – we see balance sheet developments pretty muted, reflecting the powerful lockdown that we are in. That should give us some caution into Q4, which is why it is around 1.4. That should be the platform going into next year.

Robert Swaak: Thank you, Clifford. Tanja, if you could take the question related to impairments?

Tanja Cuppen: Thank you. We have included a chart on this page 14 but it was not intended to give any further guidance beyond what I have said. The guidance I can share is indeed below the 2020 level but still elevated impairments, so above the through-the-cycle cost of risk. I understand it is a very wide range but it is also early days, so at this point in time I am not able to provide a more precise guidance.

Omar Fall: Thanks.

Tarik El Mejjad (Bank of America Merrill Lynch): Hi, good morning, I have a couple of questions. First, more on top down on your strategy. I was a bit confused why you would pre-empt your Investor Day by managing expectations. When I look at consensus ROE and my numbers, we see quite a low ROE in 2021 and 2022. So, where do you think we should manage our expectations? Probably on costs, where we think that is due to something material?

That links to the second question on costs. You mentioned that there is an upward pressure on AML costs in 2021. Can you maybe give us more colour on that? Where do you see this pressure coming from? When do you expect costs to plateau actually?

Robert Swaak: Thanks for your questions. I will take the question on on strategy and Clifford, if you could take the AML costs?

What we are reflecting here is caution. That is what you are hearing in our disclosures around Q3. I think that is very reflective of the situation we are all in, in a COVID-19 period where there is a number of unknowns. That is what you see coming through in the disclosures that we are utilising today. I do not want to get ahead of what we are going to talk about on 30 November, I would leave it to say that we will give an update on our targets. We will give an update on our capital as well and I am actually looking very much forward to it, as it will also entail an update on the overall strategy of the bank.

With that, Clifford, do you want to take costs?

Clifford Abrahams: Yes, on AML. We gave some guidance on AML costs a few quarters ago and we expected them to be plateauing round about now. The guidance that I refer to is that we do see a little bit of upward pressure, in the low tens of millions, but it is material in the context of those AML costs. So, we just wanted to guide on that. On the other hand, we feel good about the cost saving programs that we have had in place. You can see those delivering. They were on track for the EUR 1.1 billion overall, despite some of the lockdown challenges of 2020. Clearly, you would expect cost to feature in our Investor Update at the end of November, particularly going forward. We think that is the best time to talk about longer-term plans and guidance.

Tarik El Mejjad: Can I just follow up on the strategy question? I will rephrase the question. The plan was supposed to give us a view over the next three to four years, since 2021 is a transition year probably. That is why I am a bit confused why we would not see through the uncertainty of the next 18 months. With your business model basically, that will be a positive. I understand we leave it here and maybe we will reconvene at the end of the month.

Robert Swaak: I suggest we do that and then let's follow up on your questions when we have given you full insight into the strategy with the update.

Tarik El Mejjad: Thank you very much.

Albert Ploegh (ING): Good morning. I have two questions. Maybe first to back to the CIB non-core wind-down. It was clear it was a positive surprise in a way and I think also ahead of your own expectations as well set out at the Q2 results. How should I think about this looking at the fourth quarter and your recent plan to wind-down the 80% by 2023? How much acceleration can we see as clients apparently were able to find financing elsewhere more quickly?

Also, how should I square that also into the NII guidance for next year as well? Can we get some insight in what sort of NII drop you have in terms of size in mind for 2021 compared to 2020 to also understand that a little better?

Robert Swaak: Indeed, we are pleased with the progress we make around the CIB non-core wind-down. Let me ask Clifford to comment on the effects of NII and any related issues on that.

Clifford Abrahams: Yes. Just picking that up, we have not changed the overall profile of the CIB non-core, so, the 80% by 2023 remains. That profile reflected the natural wind-down, but we are pleased that we are running a little bit ahead of that. But it is early days, and that reflects largely the short-dated portfolio and success there.

In terms of NII guidance. I gave a few angles, and I will just comment on those. I talked about EUR 10 million per quarter, sequential. We also gave a breakdown of non-core numbers at the back of the presentation, and we gave that last presentation. I think you can figure out that the portfolio will be roughly halving from the first half of 2020 to the end of 2021 and so that would mean, all things being equal, NII would shrink by a little less than 50%. You work through the numbers and that is more like 60%. The reason we obviously made that point is the shrinkage of non-core, which is a good thing, obscures the underlying trends in core and while we are cautious in the short term, we clearly see upside potential. That will be something we will talk about at the end of November.

Albert Ploegh: Okay. Maybe one smaller follow-up on the alternatives to potentially accelerate or sale of the portfolio. I know that this was also mentioned in Q2, but many things are in flux in the world as well, but you mentioned it especially on the slide again. So, has there been already some dialogue on that or interest expressed in potential parts of the book?

Clifford Abrahams: The liquidity generally, has been maybe better than we thought in Q2 for all assets we see it in the equity market. But during the quarter we sold a handful of loans at good value. So, where we can safeguard value, we will free the capital up in the short term, but we are not looking to trade on value for an accelerated time frame. We do not think it is in our interest to do so. We do not think we need to do so actually. We will update you quarter on quarter. But so far, so good; I think we are doing a good job and I give credit to the teams that are hard focused on that right now.

Albert Ploegh: Thank you very much for that.

Benjamin Goy (Deutsche Bank): Two questions, please, from my side, first, on fee income. Looking at the Q-on-Q, but also at the year-on-year performance at a group level, but also when we look at Retail I think it is disappointing also as compared to peers. So just wondering, are you overly reliant on credit card fees as compared to your competitors or what else do you see as a reason? And what measures do you plan to address that?

Secondly, on net interest income and passing on of negative rates to deposits, now above EUR 0.5 million. Theoretically, the repricing of those would be EUR 150 million on an annual impact. Now you say you only partially mitigate the EUR 20 million quarterly impact from lower for longer. So, are there any behavioural effects factored in or why is it a comparatively modest impact from charging negative rate to almost EUR 30 billion of deposits?

Robert Swaak: Clifford, do you want to take that?

Clifford Abrahams: Yes, I will pick up both of those. On fees, you are quite right. We have seen a decline in Retail. We are the largest credit card operator in the Netherlands. And credit cards in the Netherlands are used primarily for travel purposes. It is a behaviour than in other markets. So, we have seen fees really sharply down in that business. We support credit cards, not just for ABN AMRO, but for third party issuers as well, retailers. Naturally that is sharply down as well. I expect that to rebound in due course and you have as good a view as me on the timing of that.

On the negative deposit pricing, the EUR 20 million per quarter, sequential, based on current rates reflects all the deposits not subject to negative deposit pricing. So those from zero up. We have lowered the threshold of EUR 500,000, and that will apply to roughly EUR 30 billion of deposits. It is possible there is some flow-out as clients spread their deposits across multiple banks. That would absorb 1.5 quarters of headwind. So, if you think about the reason we said into 2021 is it that it will not be a stable decline. So, you will see those headwinds coming in. We will see some volume impacts. Currently, we are cautious that could pick up next year, depending on the economy. You will see a benefit in Q1 of the negative deposit pricing and then, all things being equal, come down further. If we do not charge below EUR 500,000.

In the case of fees, I said also that we have raised package fees. So that kicks in, in Q4. It is a pretty modest amount, but it is double digits on an annualized basis. You will see that come through the retail banking fee line as well.

Giulia Miotto (Morgan Stanley): A couple of questions from me as well. The first is on capital. I am just asking for a clarification. Between the EUR 6 billion of potential mortgage add-on and the EUR 5 billion of further TRIM, you are almost done with Basel IV. There is a difference of less than 10%. Do I understand this correctly? I assume yes.

Clifford Abrahams: The answer is yes.

Giulia Miotto: Perfect. So, then the real question comes. A competitor of yours has announced a target of 12.5% CET1 and they will also use that for pricing purposes. Would it not be rational to expect ABN to move to a similar level?

Robert Swaak: I will take the one on capital. I do not want to, at this point, talk about any capital ratios. It is important to realise that we want to give an overall picture at our strategy review because it will allow us to give you the full scope of what we have been working on. So, if you do not mind, I would like to take that question when we discuss our strategy review and the outcome thereof.

Giulia Miotto: Okay. Thank you.

Anke Reingen (Royal Bank of Canada): I just have one question on the NII. Your comment was that the NII decline should have like tracked the decline in volume. In Q3, does it already reflect most of the wind-down in the volume or is the hit to NII yet to be seen given the difference in decline?

Then on the provision guidance. You said 2021 will be down versus 2020. I guess that is also true for the core bank rather than just a function of the non-core coming down. And given your overall cautious comments on provisions, would there not have been any possibility to maybe stick to the EUR 3 billion and be a bit more positive for the next years or next year?

Robert Swaak: Clifford, you take NII and Tanja, do you want to comment on the provisions?

Clifford Abrahams: So, on NII on page 8 of the presentation, you can see between Q2 and Q3, non-core NII down, so it rounds up to EUR 14 million. So, you could see that is slightly less than the 20% decline of loan and advances. You get some averaging during the quarter. It is primarily the low-margin TCF business that is running down. We expect roughly EUR 10 million, but slowing from here, so you get a sort of a geometric effect. It is declining, but that rate of decline is slowing. And I refer you to the guidance I gave earlier looking at the annualised rate.

Robert Swaak: Thank you, Clifford. Tanja?

Tanja Cuppen: Yes. Two questions on provisioning. First, on our guidance for 2021 although that was related to the core bank versus the non-core bank. We expect indeed also for the core bank, as a total, to be below the levels in 2020. We see that across the board.

Then your second question on the guidance for 2020. Indeed, our guidance had been, at Q2, EUR 3 billion for the full year. We then expected to see more impairments for commercial banking in the Netherlands because we expected government support measures to mature after the summer and also the payment holidays provided by banks. Since then we have seen that the governments have extended their support and also that the impact of the measures has been positive. A limited number of clients run into problems. You have seen our individual impairments for commercial banking have been around EUR 50 million, which is more or less a normal quarter. But the outlook is still negative also on the basis of the second wave that we are seeing. So especially for commercial banking, we expect to see some impact in 2021. And we cannot go ahead of the game and front-load this. We follow the IFRS rules for taking impairments and that means that some of it will fall in 2021 once the companies run into problems.

Anke Reingen: Thank you. Did you say that most of your payment holidays have expired now?

Tanja Cuppen: Yes. We have two schedules. We had an opt-in approach for three months and some clients were given a second three months and some of these have not matured yet. But for the opt-in approach that was provided to the corporate clients, they ran from April 1 until September 30. All of them have been reinstalled and the first collections took place in October. Short-term days past due are actually in line with what we saw pre-COVID, so we do not see any immediate problems or any well kind of cliff-effect because of that.

Daphne Tsang (Redburn): I have two questions, the first on cost. You mentioned that KYC cost is now expected to stay slightly upward next year, while previously, you guided it to be peaking this year. What does it mean for your cost target for next year, previously guided under the EUR 5 billion cost? Do you expect you have incremental cost saves from probably lockdown measures to offset the higher business as usual KYC costs for next year?

Secondly, on NII. I understand that on volume you are impacted by the CIB wind-down of EUR 3.5 billion this quarter. However, even if I exclude that, quarter-on-quarter, you are still down 2%. So, I think there are two parts to it. One, can you please give some colour on the underlying dynamic and do you see some improvement closer to the end of the quarter or post quarter? Secondly, in terms of meeting the TLTRO requirements, it seems that you are 5% short compared to your 1Q level, excluding the non-core wind-down and mortgages. Is it your strategy in the coming quarters to try to bridge that gap by lowering potentially lending rates in order to help volume and potentially achieve the TLTRO III bonus? Or do you see this as not commercially or economically meaningful to do?

Robert Swaak: Let me take the TLTRO questions and on NII and cost, maybe Clifford. So, on TLTRO, it is clear, we are not yet at our thresholds. We are taking measures, and we are being responsible about getting to those thresholds. We will continue to do so over the course of the next period.

So, on cost and NII, Clifford?

Clifford Abrahams: I think maybe just a comment. I think it is going to be hard of the whole sector to deliver on the TLTRO given the economic circumstances. Whilst we want to support our clients, we are cautious about sort of squeezing margins in the short term that we are going to have to live with over the term of the loans for that short-term benefit. So that is how we are managing through.

I gave some guidance on AML because we wanted to be open, given the guidance we have given in the past. So, as extra costs they are quite small in the context of the group. That will increase as we go into next year. There have been some benefits from lockdown measures, travel and alike. We do not pay huge bonuses at

ABN AMRO, so, we are not in a position to cut bonuses in the same way as other banks, given our business profile. I think I would also say that it is very hard to start new cost programs in lockdown. That is, if you like, a headwind that we are facing. We have also been clear on regulatory pressure and not just AML, that all the trends that we talked about also cost money to address. So, it is my portion. We do see scope for further cost savings over time, for example in digital. It will be a feature of our update at the end of November.

Daphne Tsang: So overall you are still comfortable with the 2021 cost being under?

Clifford Abrahams: No, I did not say that. I did not say that. I did not say that at all actually. I refer you to my previous comments. And I think, frankly, that was at a different time; under Robert's leadership, we have the opportunity, the strategy review across the bank and we will update fully on that at the end of November.

On NII, I am looking at page 10 in the chart in the slide deck. You can see on the right-hand chart that it looks like CIB non-core wind-down contributes considerably less than half of the decline. The deposit margin pressure is around EUR 20 million down, which I referred to. Asset volumes and margins, so you can see aside from CIB non-core during Q3 we have seen volumes down somewhat in CIB and the corporate bank, down marginally in mortgages. That is one quarter. Whilst the Dutch economy is resilient, and has recovered nicely during Q3, given the support measures that the banks and the government have been able to provide, funding needs have been fairly muted. So in a perverse way, as those support measures phase out, obviously, gives us some worries about impairment, but it will help loan volumes and that was behind our view that we expect the core bank volumes to stabilise, grow modestly from here before any sort of strategic thinking that we might present to you at the end of November.

Daphne Tsang: So, you are less cautious on mortgage but remain conservative on the corporate loan bank. Can I say that?

Clifford Abrahams: Yes, on mortgages, you see we are at 15% market share. We see that rising into the end of the year. Margin conditions are okay. Robert talked a lot about the robust housing market. So, we feel good about the retail sector, the mortgage sector, personal clients. I think the commercial banking and corporate have different drivers. And there, you have both Robert and Tanja, I think quite cautious about, particularly the SME sector as support measures phase out.

Daphne Tsang: Thank you.

Benoit Pétrarque (Kepler Cheuvreux): Good morning, a couple of questions on my side. The first one is on the accrued dividend for 2019. I think you put a bullet on your presentation, mentioning that the pay-out or the release of this amount is subject to a couple of events, especially obviously, the ECB but also conditions and prospects. I wanted to get your brain on a situation where ECB will give a green light on dividends. Looking at the current lockdown and the fact that we have a vaccine now – or the vaccine is quite efficient – and also looking at your current macro assumptions, if ECB will give a green light on dividends, can we expect this accrued to be paid? That would be the first question.

The second one is on NII. The EUR 20 million drag you have mentioned for Q4 and Q1, I was trying to understand it also going into 2021. I had the impression that looking at the shape of the curve that the pressure from low rates was definitely less than EUR 20 million a quarter. I am talking about Q2, Q3 and probably Q4 next year. Could you confirm that? Or is the EUR 20 million drag per quarter the run rate for the full year 2021?

And then just following up on the moratoria. How much do you have basically as of today in terms of outstanding, please?

Robert Swaak: I will take the dividend and then maybe, Clifford, you can take the question on NII and Tanja, on moratoria.

So, on dividend. I appreciate that you are staying away from the ECB ban because clearly that is precluding us from doing anything. You have noticed us using the words 'caution' and 'prudent', and that is for a reason. I appreciate your comment about the vaccine. I think we all did, and we all do. We saw the reactions just the last two days on the movement in financial markets. I would caution us because we are still in the midst of a pandemic. And I have said this before, in the Netherlands, we are now in a second lockdown, so, the reason why we are exercising caution on paying out dividends is because we want to take an assessment at that time when that is relevant, which will be after our Q4 and for the reasons that I have talked about. We are in a period of uncertainty. We have COVID-19 still around us. We have talked about some of the expectations around Q4, Q1 and 2. Clifford has highlighted in his discussion on results, some of the capital headwinds that we are, at this time, dealing with and working our way through. So, I think it is only reasonable to make a fair assumption, a prudent assumption, at the time when that is relevant, which will be after our Q4. Clifford?

Clifford Abrahams: On NII, I think the EUR 20 million is really a proxy. I think it is quite hard to calculate from the outside. We have given some guidance around the replicating portfolio, the shape of it, the size of it. As I look at our internal forecast, it seems to me that the guidance I gave of around EUR 20 million is pretty good. And as we have discussed, we expect negative pricing on that other tranche of deposits to kick in from January. There is always going to be a little bit of noise in these numbers. So even EUR 20 million is 1% or 2% of the quarterly number. So, we are talking about the differences are quite small numbers, but that should give you a feel. We had expected early this year that the negative drag would abate. But then, as we all know, rates took another step down for reasons we are fully aware of and so, that drag now continues. So, I think it looks like we are not alone. Interest rates do not just apply to us by the looks of things, looking at the peer group this quarter.

Robert Swaak: Thank you, Clifford. Tanja, do you want to take a question on moratoria?

Tanja Cuppen: Yes, of course. Maybe to remind people, we provided payment moratoria to a total exposure of EUR 23 billion. So, around these schemes of opt-in and opt-out. As of 30 September, there was still EUR 19 billion outstanding but as of the 1st of October, all the payment moratoria that we provided to commercial banking clients in the Netherlands expired and that is around EUR 17 billion in total. So if you ask as of today

– I do not have the end of October numbers at hand – it would be around EUR 2 billion, which is still outstanding and which will mature in the coming three to six months.

Benoit Pétrarque: Thank you.

Robin van den Broek (Mediobanca): Good morning. I would like to start with a suggestion, because the consensus polling is focused on the group P&L, but I was wondering if you could maybe just focus on the core instead, because now you have a speedy rundown at the CIB, which is also leading to impacts on NII and fees, which makes the comparison compared to consensus very much in your disadvantage and it is also distracting from the 9% return on equity that you actually delivered on the core bank. Is that an option for you to consider going forward?

My first question is on your real estate deal in Paris. To me, it seems like you can utilise the benefits from working from home in that transaction. You take a gain on real estate and then basically downsize the office space, which hopefully will also lead to lower costs. Can you replicate that transaction in other parts of your business? Could you specify that?

My second question is on volumes. I appreciate the wording you used on mortgages and commercial banking already. In the last years, you have had sizable tailwinds for your mortgage book from housing prices. You expect 7.5% this year, but next year it will be zero. We have not really seen the positive effect from the housing prices going up in the size of your mortgages, which is also a reflection of people prepaying and the annuity framework basically giving pressure on the size of that book. Should we also expect more pressure on the size of your mortgage book during 2021 on the back of flat housing prices?

Robert Swaak: Let me take the first two questions and maybe Clifford, you can talk to the volumes in our housing markets.

So yes, thanks for the suggestion. Clearly, we are going to look at how we report out because we do not want to mix non-core and core, and we are reporting this quarter on a group. We have included a pro forma at the back of our slide deck. We will consider our reporting requirements going forward, for sure.

In terms of the deal in Paris, that was a deal that we were in the process of concluding, and it has now been concluded. I think more generically, we can say, and I think as everyone is now facing the same kind of discussion, that as we have all gone through a lockdown, and some of us now in a second lockdown, we are finding actually the bank's ability to be able to work off-site is actually working very well based on the digital infrastructure that this bank has. And therefore, as a part of any analysis that we do around ways of working, there are always considerations on how you can improve. And that is a consideration that we are currently looking at as we have always done.

Clifford, maybe to talk about the volume?

Clifford Abrahams: I am happy to talk about mortgages. You are quite right that we expect some moderation of the mortgage business into next year. I think we have all been pleased with how robust the housing market has been, but we expect that to moderate and maybe unemployment picks up. What you see in market share terms of 15%, is okay but what it represents is 20% plus in the areas where we are highly competitive in the shorter maturity mortgages, but substantially lower than that in the 20-year plus segment. We have only recently introduced a 30-year product, which enables us to compete more effectively in that area. So, we do see the mortgage market as attractive, and we are building our capability and skills to make sure we tap the whole market. I am sure we will talk about that at the end of November.

Robin van den Broek: Okay. And then the ability to replicate the Paris deal elsewhere is also something for the end of November?

Robert Swaak: I apologise. I was using my phone while I was still on mute. We will give you an overall view on our strategy in November. So, let me now get ahead of that.

Robin van den Broek: Okay. Thank you.

Thomas Dewasmes (Goldman Sachs): Thank you and good morning. I want to ask my first question on the non-core CIB. Last quarter, you said that you would try and preserve shareholder value and you reiterated that today. But what has changed is that you are opening the door to potential disposals, as opposed to an amortisation of your books. Would you be open to give more detail on the type of assets that clients or investors might have appetite for? And those are rather longer maturity or short-term maturities?

My second question is on the redeployment of capital of this non-core CIB wind-down. Your main competitor has lowered their capital target and therefore, as indicated, they would be able to compete a bit more in European CIB. You have key competitors that have lower capital requirement than yours. So, are you concerned at all about your ability to actually redeploy that capital efficiently if you are elsewhere, for instance in mortgage, trying to preserve the margins? If you could develop a bit on that as well?

Robert Swaak: Yes, let me take that last question, and I will ask Clifford to talk about non-core.

What we have talked about is that the transactions that we are undertaking and the wind-down of non-core CIB will be capital-accretive. That is going to happen over time. We will see how that plays out, how the capital accretion actually takes place. And then we will take a responsible view on how we then redeploy that capital based on the strategic decisions that we are making. And then clearly, we need to be aware of any potential excess capital, but that is a discussion for the future. Let's first execute on the wind-down and we will see how capital accretive it is. We will redeploy capital in a responsible manner and take any further decisions as necessary. Clifford, do you want to take the other one?

Clifford Abrahams: That is a good summary. I do not think we have changed our approach. We said that on non-core, we showed you the natural wind-down that we would take sort of capital-accretive. So, if we can sell alone very close to our wind-down value, why not get the money upfront, why not get the money now rather than wait. That is the approach we have taken. So, there is no change in strategy. But we are not in a rush because we have capital as an organisation. We do not want to encourage people to call us up and give us big discounts on things that we are quite happy to run off. That is not where we are.

Robert Swaak: 'Orderly' was the word we used and 'orderly' will be the word we continue to use. That is the approach we are taking.

Johann Scholtz (Morningstar): Good morning. Two questions, actually. The first is a sort of top-down question. I am just battling to reconcile what I am seeing in terms of provisioning coming through from the banks and some comments that we have seen from some of the regulators. Last month there was a comment from the ECB that there is a severe but plausible scenario that NPLs could reach EUR 1.4 trillion in the Eurozone. And today, there was another kind of bearish comment coming through from the Single Resolution Fund. And I just battle to reconcile those two. I know I am looking at provisions and NPLs, but especially under an IFRS 9 situation, one would actually think that those two would be more closely aligned.

Secondly, just quickly on fees. Some of your competitors have indicated that they are increasing daily fees, introducing new fees, account fees and behavioural fees to offset pressure on NII. Is that a feasible strategy going forward?

Robert Swaak: Let me take both questions. We always review the appropriate fee level at a given point in time, take into consideration the circumstances that we are in and then we will make appropriate adjustments when and if necessary. On the overall provisioning, what you are now seeing is a Q3 provisioning that is very reflective and indicative of the economic situations we find ourselves in, provisioning consistent with IFRS 9. There are overall assessments very much aware of what overall provisioning indeed can do in the Eurozone. I think what that points to is an uncertainty, and I think we have highlighted that on this call a number of times, around what is going to happen in Q4, Q1 and Q2 of next year. Whilst there are all kinds of projections around it, it is an uncertain time. So, we really do need to see what happens in the markets now and some of these government measures begin to recede and then see what the actual effects in the economies are. And I think it is on the institutions to be consistent about provisioning whilst, at the same time, recognising what might play out in the markets over the next three quarters.

Johann Scholtz: Thank you.

Stefan Nedialkov (Citigroup): Good morning. A couple of questions on my side as well. So NII, just to wrap up the big discussion we have all been having, is that you are including in your guidance the deposit margin pressure, obviously. You are not including the TLTRO and you are including the benefit from the negative deposit rate. Just to probe a little bit here, on the TLTRO III, could you give us where you are in terms of your Eurozone benchmark lending as of today? And a bit more colour on your expectations of whether you will meet the 0% target by the end of March? Just a bit more colour around that would be very helpful because, obviously, this does make a big difference.

And also connected to NII, what are you seeing in terms of pricing when it comes to Dutch retail lending as well as commercial banking lending, in light of Basel III/Basel IV? You are obviously very close to absorbing most of the Basel IV impact and so are some of your peers. Are you seeing a change in how banks are approaching pricing on Basel III versus Basel IV basis on mortgages as well as commercial banking?

Robert Swaak: Let me just say your assumptions are correct. But Clifford, could you expand on it?

Clifford Abrahams: That is right. I think you talked about three assumptions. That is correct and the guidance reflects the negative deposit pricing that we have announced, above EUR 500,000. Clearly, there is still some headroom there and we have sized the deposits, but I am not indicating any action on this call.

In terms of meeting the threshold, I do not want to give a figure. The perimeter or the scope of those assets excludes mortgages and it is Eurozone commercial. We have talked about, call it, the caution and then you see the balances that we have given. So non-core is primarily outside the Eurozone. So, it is primarily core non-mortgages. So, I have seen some other banks. I think we are not a million miles away from where they are. I would note that the deadline is quite soon, to the end of next quarter, Q1, and so we will safeguard the quality of our portfolio over the medium-term rather than sacrifice it to hit a hurdle in the short-term that we will have to live with. So, you have heard us make cautious noises around that. I think the key driver is not pricing, so much as where the economy is and where the support measures are. And you are seeing the Dutch government continues to support the real economy, so hence, our caution.

We have been clear on pricing. We have been pricing in Basel IV in mortgages for some time and are able to achieve actually good share based on our target segments and our good service. And in times like these, when borrowers want quotes and turnarounds quickly, our excellent service to the brokers is really worth something. So, we see that really helping in terms of market share.

I think in terms of pricing in the other non-mortgage sectors, my view is that Basel IV has not been fully priced in yet, but that TRIM is effectively anticipating Basel IV for banks in Europe. We have been talking about it publicly for some time but I have noted the statements about TRIM made by the peer group and many, many banks actually this quarter. So not so much has been written, but they are listening to the calls. So that is encouraging that there is a level playing field, and that playing field is increasing a Basel IV one.

Stefan Nedialkov: Thank you.

Kiri Vijayarajah (HSBC): Good morning, a couple of questions from my side. First, coming back to CIB non-core, I am just trying to understand the revenue dynamics there. As you notify clients that you will not be renewing the credit when it comes up to maturity in one or two years' time, does that mean that clients are taking their fee business elsewhere right now, so timing-wise, you seem to be losing fees faster than you are losing the NII, certainly this quarter? I am just trying to sort of understand the revenue attrition in the CIB non-core, so between fees and NII.

And then on the ongoing CIB business, particularly on the Clearing business, would you say that is running above or below trend? I know we have had a bit of volatility this year but in Q3 is that the normal run rate?

If you look out to some of the market volatility in the fourth quarter, to what extent do you think that has been a good environment for your clearing business, please?

Robert Swaak: Clifford, do you want to take those?

Clifford Abrahams: Yes. On fees, these are quite small numbers now in a group context, but the fees have fallen faster than NII in non-core. We are doing much less new business, negligible, because we are winding that business down and often new business comes with fees. We have also shrunk our kind of guaranteed off-balance sheet business, which you will see come through fees and in our NII. So that is on fees. I am just trying to recall the second question. Just remind me of that.

Kiri Vijayarajah: The Clearing business from 3Q, is that kind of sort of the normal run rate?

Clifford Abrahams: There are a few things going on in Clearing. Q3 was a more normal quarter, so volatility returned. We have de-risked that business for obvious reasons. So, that will come at the expense of fees as the business is operating in a much tighter risk framework. But at the same time, we have seen some market repricing in that sector, maybe also not surprising given the challenges that the whole sector, including us had in Q1, so I think the market is behaving rationally. We will not chase volume in Clearing; we are managing it within a tight risk envelope. It is pleasing to see fees holding up.

Kiri Vijayarajah: Great. Thanks.

Robert Swaak: As there are no further questions, I would say that this concludes our analyst call. Thank you so much for all of your questions. And as I have referenced a couple of times during the course of this call, we really look forward to updating you on the strategy review and the associated investor update on November 30. So, for now, we will talk to you very soon. Thank you.

End of call