Q2 2021 Analyst Call Transcript

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Participants: Robert Swaak (CEO); Lars Kramer (CFO); Tanja Cuppen (CRO)

Conference call replay:
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Robert Swaak: Thank you very much and good morning, everyone. Welcome to ABN AMRO Q2 results. I am delighted to be joined for the first time by Lars. He is in the room next to me, our new CFO and Tanja Cuppen our CRO.

Just getting back to Lars for a minute, he has extensive experience in the banking sector. He joined us from the Hellenic Bank where he was group CFO and member of the managing board. Prior to that he held various CFO functions within ING.

We will now run through our Q2 results and update you on the progress on our strategic agenda. Lars will go through our second quarter results in more detail, and Tanja, as always, will update you on impairment developments in our loan portfolio.

It is very clear that Covid-19 has impacted all of us in some way or another but the outlook is slowly but surely improving. Besides these gradually opening up, the vaccination programs across Europe are steadily progressing and restrictions are easing.

We expect the economy to rebound in the second half of the year.

The more optimistic outlook on the economy allowed us to release impairments this quarter. So, I am pleased with the results over Q2 of EUR 563 million, excluding CIB non-core.

We indeed made a big step in the wind-down of the CIB non-core portfolio this quarter, thanks to a number of portfolio sales. The wind-down is one of the reasons why interest income was lower this quarter as well as the negative interest rate environment, which continues to put pressure on our deposit margins. Cost saving programs are on track and yet at the same time, we are investing to lay the foundation for the future of the bank. We continue to work towards the cost base of EUR 5.3 billion for the full year. So given the good progress on the wind-down and the optimistic outlook on the macroeconomic environment, we now expect the cost of risk for the whole bank to remain well below the through-the-cycle level of the year.

The ECB stated they will not extend the dividend recommendation, and this allows us to pay the final 2019 dividend in October.

So let us turn to strategy on slide 3.

Just a brief reminder of the outcome of the strategic review we undertook in November. We have a strong foundation with leading market positions across all customer segments, retail, private and corporate banking. We have strong digital capabilities which have helped us to adapt rapidly to the Covid pandemic. The Dutch economy, which is our home market, is healthy and resilient. Lars will update you on this later on. And for our clients we want to be a personal bank in the digital age. We choose to serve those clients where we can achieve scale in the Netherlands and in Northwest Europe. We will continue to lead in sustainability whilst we are also building a future-proof bank which is digital-first with simple processes and products. We set ourselves an ambitious program. On the next slide I will highlight the continued good progress we have made on our strategic agenda so far.

Starting with the first pillar, customer experience. We are leveraging our video banking platform and starting this quarter, mortgage clients can now be connected live with a specialist without prior appointments. Staying with mortgages, we have launched a new price competitive label, Moneyou, which will serve the important intermediary market.

Moving to sustainability. We aim to be the first choice of our clients in sustainability addressing a clear need and attracting to target clients. This quarter we have launched a EUR 425 million sustainable impact fund and we have closed the first in its kind green IPO.

The AML remediation is well on track, and I expect completion in 2022. At the same time the pace of branch closures has picked up this quarter, with the closure of a further of 17 branches, bringing the total down to 79, as most clients now do all their business with us through digital channels and call centres.

Turning to slide 5, let me update you on the progress of the CIB non-core wind-down. I am very pleased with the significant asset sales we achieved this quarter. These transactions significantly reduced our exposures in the US, especially in the oil & gas sector, intermodal and shipping. The overall discount we took on these transactions were modest, given the size of these transactions.

Looking at the overall wind-down, we are now over 80% done in one year. Clearly this is well ahead of schedule and the remaining non-core portfolio could end up below the EUR 2 billion mark by year end. This brings us in to the tail end of the wind-down. Looking ahead, costs will start to come down materially in 2022 as we start to hand in foreign licences and wind-down mid-office and back-office operations.

So, we have materially delivered on the non-core wind-down ahead of schedule and this is improving the overall risk profile of the bank. Tanja will discuss the risk profile of the remaining non-core portfolio as well as for the bank overall. But first let me hand over to Lars who will take you through the financial results of the quarter. Lars, go ahead.

Lars Kramer: Thank you, Robert, good morning all. I am delighted that this is my first quarter as CFO of ABN and to have joined this great institution. I also look forward to meeting you guys as well as the investors in the coming months.

Let me highlight a few of the main pro-forma results of the core bank, so this will be excluding the CIB non-core. We have showed a net profit of EUR 563 million and this was helped by impairment releases. The operating income held up as the NII declined, due to the low-rate environment but this was offset by some higher other income.

Operating expenses were down due to the seasonally lower regulatory levies while there was some cost increase on the AML front. We again, released impairments this quarter as our macroeconomic outlook turned more positive and new additions to impairment were very limited.

I will run through the developments we see in the Dutch economy on page 7. While the Dutch economy is feeling the impact of Covid, the extensive government support measures have been very effective over here. The success of the support measures is evidenced by the exceptionally low level of bankruptcies, and we can also see unemployment decreasing to pre-pandemic levels.

Consistent with these developments is the rebound we observe in consumer and corporate confidence. While Covid cases rose strongly following easing of many restrictions, we see cases coming down quickly as a number of the measures were reinstated. And the willingness to vaccinate is high in the Netherlands, with over 85% of adults now vaccinated at least once.

Given these developments we are optimistic about the economic outlook for the second half of the year as restrictions are lifted further.

Now turning to slide 8 I will discuss how this affects our business.

Mortgage volume is up again for the quarter as the number of housing transactions remained strong. With the launch of Moneyou as a low-price label, we have another tool in our chest to increase our market share.

Corporate lending volumes of the core bank stabilised, and demand is still muted by the extensive government support measures. We expect volumes to pick up however in the second half of the year which will help us in achieving the TLTRO threshold.

The NII of the core bank came down compared to Q1, reflecting deposit margin pressure and the wind-down of CIB non-core. Higher prepayment penalties for mortgages were more than offset by 30 million of incidentals. Mortgage margins will be low back book margins due to the ongoing strong competition in the markets. However, the effect of NII was partly offset by growth in volume. Looking ahead we do face deposit margin pressure of around 20 million per quarter. Which will be mitigated partly as we lower the threshold to 150 thousand for negative pricing - which started already on July the first. The wind-down of CIB non-core leads to NII declining by 10 million per quarter during the remainder of the year. And together with all of this I expect that NII will be between 5.3-5.4 billion for the year. And the range reflects whether we achieve the TLTRO threshold or not. We were optimistic on the outcome that we do have some work to do to reach this threshold.

Now moving to slide 10 for fees and other income.

Fee income for the core bank was stable. The positive stock market developments supported the results in private banking. We saw another strong quarter from global markets. Fee income for Clearing is still strong, however slightly below Q1 as markets have settled down. The second half of the year I expect fee income around 400 million per quarter. And while the strong markets related income may not hold up. We are seeing credit card usage improving as restrictions are lifted. Moving to other income. Positive equity participation revaluations boosted the results of the core bank this quarter. And other income from CIB non-core was negative due to a 121 million haircut on asset disposal.

Turning to slide 11 on costs. Expenses where slightly up this quarter. Mainly from rising AML costs. Impacting both personnel as other expenses. AML, I expected to peak this year at around 425 million as we are ramping up FTEs. Expenses also rose due to the investments we have made in our strategic agenda. And Robert already highlighted a number of our products and services which we have brought to the market recently. For this year we expect costs to peak at 5.3 billion, also reflecting some additional regulatory levies and general cost inflation. Costs saving are on track to reach our target in 2024 of 0.7 billion of absolute cost base being no higher than 4.7 billion.

Now turning to capital on slide 12. We will pay the full year 2019 dividend in October. As the ECB has announced the dividend recommendation will not be extended past September. As we have announced previously, we will not pay an interim dividend this year, only a full year dividend. We are committed to resuming dividend payouts amounting to 50% of net profits as stated in our dividend policy. And capital ratio has increased further reflecting the Q2 net profits and lower RWA. Specifically driven by the non-core wind-down. In addition, Basel III operational risk-weighted assets decreased following AML settlements. Basel III RWAs are expected to converge towards Basel IV in the coming quarters as we shift some portfolios towards the foundation and standardized approach and as well as the DNB mortgage floor kicking in sometime around the first of January. Our leverage ratio is also strong. And as SA-CCR has now been implemented these numbers are no longer pro-forma. With that I would like to hand over to Tanja.

Tanja Cuppen: Thank you, Lars and good morning everyone.

This quarter we released impairments again as the macroeconomic outlook has improved and we have made significant progress on the non-core wind-down due to portfolio sales. The improved macroeconomic outlook led to significant releases in stage one and stage two in total of 99 million. We have increased the management overlay by 12 million, reflecting the current unprecedented economic circumstances, not fully captured by our models. The total management overlay now amounts to EUR 343 million. With the stage 3 ratio improving from 3.3 to 3.0%, Stage 2 ratio improving as well to 9% and an adequate Stage 3 coverage ratio of 64% in non-core covering some of the tail risk, the outlook for credit risk is positive. For the bank overall I am therefore confident our cost of risk for this year will be well below through-the-cycle cost of risk level of 25-30 basis points. With that I would like to hand back to Robert.

Robert Swaak: Thank you, Tanja.

Let's turn to slide 14, which shows our financial targets and strategic KPIs. Our net promotor score is well on track for mortgages, but we have work to do on SMEs. The current score on SMEs is very much influenced by the negative sentiment of the AML settlement, closing of branches, fee increases and some operational changes as we are transforming our client-service model. I am pleased with how our mortgage business is doing. Despite strong competition we have managed to grow our loan portfolio. The launch of our new mortgage label should help to increase market share going forward. And as economic growth resumes, we aim to capture our fair share of the business in the SME sector. I am pleased with the progress we continue to make on our sustainability KPIs. We see clients further increasing their investments in the ESG and impact related investments. As interest remains high in these products. Our costs are under control. And I am confident we can achieve our 2024 target as said by Lars just now.

With a large part of our non-core assets now wound down, the risk profile of the bank continues to improve. This year we expect our cost of risk to remain well below the through-the-cycle level. Our capital position is strong, and with our Q4 results we will update you on the threshold, on share buybacks and dividends.

So, to wrap it up. We have shown a good net result over the second quarter helped by releases from impairments. We feel the impact of the low interest rate environment in our deposit margins and competition in long dated mortgages. We expect an economic rebound in the second half of the year which will return some growth in corporate lending volumes. We have made a significant step in the winding down of the CIB non-core portfolio this quarter. Costs saving programs are on track and at the same time we are making investments, laying the foundations for the future of this bank. And last but by no means least. The final 2019 dividend will be paid in October.

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

QUESTIONS AND ANSWERS

Benoit Pétrarque (Kepler Cheuvreux): Good morning everybody and welcome, Lars, to this call. A few questions from my side. The first one will be on the cost. Your guidance is clear on EUR 5.3 billion for this year but given the good progress on the run-off what do you see developing in 2022? I think you are targeting EUR 4.7 billion for 2024, which is quite far away. Could we trend towards EUR 4.7 billion earlier than expected?

My second question is on capital. You have 16% CET1 ratio under Basel IV, which is extremely strong. How do you think about share buybacks in this context and are you currently in discussion with the ECB? I am just wondering how the discussion on the potential additional distribution on top of the one you announced for the fourth quarter is going on.

Finally, any update on the legal side you want to provide on the variable interest for consumer loans? Rabobank announced a settlement; how much provision would be taken on your side on the basis of this settlement? Any thoughts on the new ruling around the variable mortgages as well, which came lately?

Robert Swaak: I am counting four questions, so I will take them in order. I think you are absolutely right. The run-off has accelerated. We talked about this before; we will look at the cost base in 2022 as indeed we are handing back licenses and offices will close. We will see how much we can bring forward. We will still maintain our guidance of EUR 4.7 billion but by the time we completed the overall analysis I would expect we will come back to you on the effect of accelerating further costs related to the wind-down.

In terms of your question on the share buyback, I think I have been very consistent in stating that: A) we will pay our 2019 dividend this year when restrictions ease and B) that we will look at potential share buybacks in the first quarter of 2022 on the basis of the results of 2021. That is a conversation we will then have with the JST clearly as we need to continue to engage on constructive dialogue with our supervisors. We expect to do so as we begin to firm up our positioning on buybacks. Keep in mind, as I said before, this will be done on the basis of the full year results 2021.

In terms of the legal files on Kifid, your specific question, that is indeed an issue which we have flagged before. We continue to be in constructive dialogue with the Dutch Consumer Agency in order to determine an overall position, whilst taking note of the earlier announcements in the Kifid-cases. We provided what we can provide for at this stage what we know and we will continue to have a constructive dialogue with the consumer agency in order to reach some conclusions. As soon as we have those conclusions clearly, we will communicate them.

On mortgages, remind me again of your question?

Benoit Pétrarque: : We have seen this Kifid case on mortgages as well, going in the same direction as the consumer loans and viable loans. Any thoughts on that? Could that be a potential risk for you or are you confident that you can take legal actions?

Robert Swaak: As far as I know at this point that is not a risk for us.

Benoit Pétrarque: : Okay. Thank you very much for that.

Stefan Nedialkov (Citigroup): Hi, a couple of questions from my side. The first one is on NII. Just to confirm that the EUR 30 million of NII is a one-off from the German dividend tax withholding issue, a proper one-off, there is no repeat going forward? Similarly, the EUR 22 million of funding cost breakage in non-core CIB, is that also a one-off? Just more broadly on NII, you have made comments that your front book spreads are below your back book spreads and that you are repositioning your Moneyou offering to be a price competitive product. I just want to understand here what the valid proposition for the customer is and what the valid proposition is for you. Are we talking sacrificing margins going forward at the expense of higher volume?

So, a couple of different parts to the NII question. Apologies for that but there is a fair amount going on here.

My second question is on fees, the EUR 400 million of guidance that you have per quarter, how much of that relative improvement versus your previous guidance is driven by your confidence in core CIB lending? Those fees have evolved this quarter and I guess that is also keys to meeting your TLTRO-target. Thank you.

Robert Swaak: Thank you for the questions. Lars, could I ask you to comment?

Lars Kramer: Yes, Stefan on the NII. Definitely the EUR 30 million is a one off. And then on the 22 million break funding costs in terms of the non-core is also one off. These things happen as you unwind funding, selling off positions. In terms of the uniqueness of the Moneyou offer. I would say that from a customer point of view this is really a channel that is focussed on the intermediaries firstly. And for us it is a straight through channel. So, in a way what we get there is an improvement of efficiency and therefore one of the steps for us at least in terms of our cost saving and digitalisation efforts and straight through processing effort. This is probably the biggest benefit. Therefore, some of that benefit we do pass on to the customer.

In terms of fees, I would say the EUR 400 million level. We have two impacts. We have had a positive impact in the first half really coming from more volatility in the markets as well as a strengthening of the share markets which obviously helped the private banking fees. Now we do expect that volatility and we are already seeing it calming down a bit. So maybe that will not carry through so much in the second half of the year. But on the flipside we are seeing a pickup in terms of our credit and debit cards usage. That should more than compensate anything that happens in terms of the market. The fee pickup in terms of CIB lending definitely we are seeing in terms of at least stabilization in volumes of CIB. And in terms of pipeline there is definitely something happening in terms of a more positive pipeline which is also what we would expect to see in terms of our economic outlook as well for the second half of the year. We definitely should be getting some good tail wind there. That could be a supporting factor as well in terms of fees.

Stefan Nedialkov: Thank you.

Omar Fall (Barclays): Hi there, just a couple of questions. Firstly if I take CB and core CIB as proxies for the TLTRO benchmark it looks like you may need 4% volume growth for the rest of the year to meet the threshold. That seems awfully ambitious. Even if corporate loan demand picks up and the pipeline you have mentioned crystallises so just some more colour on that would be helpful?

And then one for Tanja, I think I want to revisit the 25 bps to 30 bps through-the-cycle cost at risk target that you have presented at the last investor day which continues to make, frankly, very little sense to me when it is the same as it was in the last cycle when non-core made up a small proportion of the overall group but drove more than half the loan losses. So what is the real through-the-cycle cost of risks of ABN when non-core is almost gone because based on history it looks like barely 10 basis points? Thanks.

Robert Swaak: Thanks, I will ask Lars to comment on TLTRO and Tanja on the cost-risk.

Lars Kramer: Yes, Omar, in terms of the growth expectation. Clearly, you have to take from the background. The first half of the year was still very much impacted by Covid and therefore, loan demand and working capital demand were still muted. We also in the Netherlands have the government measures going directly to companies. These government measures we expect to be lifted in Q3 and therefore, there is quite a bit of pent up demand here that we are seeing that is built up. So, 4% in a half year? I agree with you in a normal year this would seem very ambitious but in a period where we are really out of Covid and certainly every sort forward-looking that we are doing at the moment is skewing towards the positive, it is doable.

The other thing you have to take into account that in CIB you are looking at much bigger tickets, so you can actually move the dial and not having to wait for a lot of smaller tickets. So, we do not think you are depending on this coming from consumer lending. We are very much seeing CIB as the driver and then flowing through into the commercial bank.

Tanja Cuppen: Omar, on your question on cost of risk, indeed, you are right, our risk profile for the core bank is a clear improvement once non-core has been wound down. Indeed, we did not update our cost of risk guidance during the investor day because non-core would be part of the bank for quite a bit of time, up till 2023 and beyond. Right now, we see this quarter that we made significant steps in winding down non-core, which fits into the guidance for this year as well, well below the through-the-cycle cost of risk. We have not updated our guidance yet but that is something we will look into at some stage.

Omar Fall: : Thank you very much.

Giulia Miotto (Morgan Stanley): Good morning. I have two questions. For the first I want to go back to the question on capital distribution. At the moment, CET 1 is at 16% if I look at Basel IV and the target for buybacks is basically about 15%. So, on this basis could we assume that the whole 1% excess could come back in terms of buybacks or that is too high in terms of pay-out based on the 2021 results? Given all this excess capital is there a chance that you might consider having further restructuring or some further actions to improve the profitability structurally, given that revenues especially in NII are a bit weak?

My second question is a bit of a technicality on NII. If I look at the trend in the key divisions quarter on quarter, especially in Retail and Commercial banking they are down quite a bit but then the corporate center, especially once I remove the EUR 30 million one-off, NII actually went from minus EUR 30 million in Q1 to plus EUR 52 million in Q2. What drove that big change and what is a realistic level of NII for the corporate centre?

Robert Swaak: Thank you for your questions. Let me take the first two and Lars will maybe take the second.

So, let's go back to the around 16% of Basel IV CET1 that we have got into. We have said that we would consider the discussions on buybacks, as I said to the previous question, in the first part of next year. So, I do not want to get ahead of that conversation but at the same time, I will say that what we will also engage in during that discussion is a recalibration also of the thresholds that we have considered in terms of buybacks. Without really getting into the details of what that conversation will entail, I will confirm again – as I have done consistently – that we will have those conversations both within the bank and then subsequently get to a decision on that based on our full year results in 2022.

As to your question on further restructuring, at this point we continue to execute against the strategy. That has been designed an anticipated ROE in 2024 with a cost base of around EUR 4.7 billion or lower. That is what we clearly guided towards as we talked about our expected cost basis. So, we will always look at the potential to accelerate our cost decreases. We just talked about non-core and the potential there for an acceleration of costs, so we will continue to evaluate this as the year continues.

Lars Kramer: Yes, an on the technical question around the Corporate Centre, it relates a bit back to the earlier question about the break funding costs. The break funding cost is a one-off but in terms of the organisation as a whole we have a EUR 21 million prepayment pick-up as well against that. Overall in the organisation it is neutral, so it has to be looked at in that light.

Giulia Miotto: : Thank you.

Anke Reingen (Royal Bank of Canada): Good morning. Thank you for taking my question, apologies for coming back on the capital, just one thing. In terms of the speed of running down the excess capital are you considering special dividends as well, or is it mainly ordinary dividends plus the buyback you have in mind?

And then, secondly, on the private bank, I am just [anticipating just gave you a] strategic update. It was in that one of the growth engines and one of the momentum areas. I just wonder how happy you are here with respect to the performance. They seem to be impacted by the charging of deposits. And could you maybe just talk about how you think it is positioned? And if M&A is still one area that you think you could consider, strengthen that business performance. Thank you very much.

Robert Swaak: Thanks for your question. On your question on dividends, just let me reiterate. So the 2019 dividend will be paid in October 2021. And then, any other considerations in terms of buybacks, we will have during the first quarter of 2022, based on those full year results. At this point, we are thinking about the potential for buybacks. We will discuss, as I have said before with calibration of thresholds and when we have decided, we will then communicate what the outcome is.

On the private bank, I have been quite pleased with the performance over the second quarter. Net-net, although, we have seen a significant cash outflow, which is a direct result of the negative interest that we began charging pushing out cash, as we intended to do.

We have also seen an increase of core securities NNA of about EUR 1.9 billion, for the six months. That implies, that we have indeed received also new customers. We have seen an increase on the back of market conditions of fees as well. And at the same time, we continue, as I considered a Northwest European strategy around our private bank, we continue to expand on our strategy to serve entrepreneurs and their enterprises.

Now, we are uniquely positioned for that particular segment because we carry the sectorial knowledge of our corporate bank, making it available to entrepreneurs as we serve them around their own private needs.

So, strategically, that makes a lot of sense, in terms of the uniqueness of the proposition and therefore, when we consider M&A, as I have said before, a bolt-on M&A could well be in that direction as well.

So strategically, I am happy with the performance of the Private Bank. Clearly, we will continue to ensure that that performance will continue to benefit from the economies further opening up and we will consider M&A as and when appropriate.

Anke Reingen: Thank you very much.

Guillaume Tiberghien (Exane BNP): Yes, good morning. Thanks for taking the question. I have a question on the corporate center whether you could give us a guidance of what to expect maybe a PBT level maybe this year and going forward please?

Robert Swaak: I think that is going to be a short answer. We are not going to give any specific guidance in that sense.

Guillaume Tiberghien: That is a very short answer. Maybe then if I try to rephrase it a little bit. Do you think your revenues can be around 0 in the corporate center?

Robert Swaak: You were rephrasing your question, but I guess the essences are still the same. We are not going to get into those specifics.

Guillaume Tiberghien: Alright. Thank you.

Robin van den Broek (Mediobanca): Good morning. Could you specify how you deal with your private equity investments in your other income line? Some gains came through. This time I think was related to the Tink sale, but that asset has seen quite a few refinancings over the last few quarters. So you would expect basically that you capture those gains when those events happen. So I was just wondering if you could comment on that. And also if there's more gains in the pipeline.

Secondly, also in relation to Omar's question on TLTRO, did you confirm that the core CIB and the CB divisions are a good proxy for where you stand on getting through that benchmark? With Q1 you sounded pretty optimistic on making that benchmark. Do I understand correctly from your narrative today that you are a little bit more cautious now?

And maybe lastly, and sorry to come back on this on the buyback levels. If you were to lower your threshold based on the AML settlement, 1.5 percentage points is quite a bit of a potential buyback, especially given your average daily volume with a shareholder that still has 56%. To what extent is this limitation driven by the liquidity for stock consideration in settling a buyback off those levels?

Robert Swaak: Thanks for the questions. Lars would you mind taking the first two? Then I will take the buyback.

Lars Kramer: Our accounting treatment here for the private equity is very much a mark-to-market treatment. So, we are continuously every month looking at what the best fair value is. For the Tink one there was basically new information. So this is going to be a volatile item. This tends to be the nature of all these investments that we hold in a mark-to-market portfolio. So I cannot give you an outlook on that. This quarter it was a positive outlook.

In terms of the TLTRO, I do not think we are changing our views. In fact we are supporting the view that we really believe that we can make this threshold and that we are working extremely hard to get there. For sure the CIB and the CB are going to be the primary engines that are going to get us there.

Robert Swaak: Yes. In that sense our outlook has not changed versus Q1.

So, to your question on any potential buyback and the resulting role of the stockholder, the majority shareholder, we are going to get to our own assessments around the potential for buybacks. It will then go through the usual governance that you should expect from us and that what we will then do and the results of that will be communicated.

Robin van den Broek: : Thank you for those answers.

Stefan Nedialkov: Just a follow-up on the number of questions that have been asked on the buyback. If you will can you give us a targeted buyback one on one, so to say? Are they feasible in the Netherlands? How quickly can they be implemented under your governance structure, if at all? And is this something you will consider?

Robert Swaak: As we consider the structure of the buyback, we will have ongoing conversations clearly on how to best execute a buyback. There is a number of options you consider on buybacks. I appreciate the need to know and the type of scenarios that we would like to run but I really do not want to get ahead of that discussion before we have had a clear indication of what the buyback will actually entail. And then, as I said before – I appreciate there is a need to know and there is desire to know – we need to go through our own governance before I give any further details about how we would potentially structure a buyback. Now, rest assured, if that is applicable in the very well understood questions on buybacks, I have been very clear about returning 2019 dividend. I have also been very consistent and clear around when and how we would consider buybacks. As soon as we have any details as to how we intend to structure, if and when we consider the buybacks, I will come back to this audience post haste.

Stefan Nedialkov: So, just to make sure I understood you right. My question was whether there is anything legally preventing a targeted buyback for any bank in the Netherlands? Is there anything in your governance that currently prevents you trying to buy back?

Robert Swaak: There is nothing in there what would keep us back, no.

Stefan Nedialkov: : Thank you.

Tarik El Mejjad (Bank of America Merrill Lynch): Good morning. I have one question on capital. The […] was driven by [….] great risk. I wanted to know if there is anything in these RWAs […] reverse in the coming quarters [….]

Robert Swaak: Could I ask you to speak a bit more clearly into the microphone. Your line is breaking up a bit!

Tarik El Mejjad: Sorry. Is this better?

Robert Swaak: Yes, that is much better. Thank you.

Tarik El Mejjad: Your CET1 ratio build was mainly driven by [cyclical] control in your […] risk. Is there anything in this that could reverse or increase in the next quarters due to technicalities? Or is it there to stay?

The second question on capital, does the 16% CET1 ratio in Basel IV that you kindly give us as an indication includes all Basel IV impacts, like further [implementation] and everything or is it just a part of it?

Tanja Cuppen: On your first question, on RWAs, it was already mentioned previously in the call what we still expect in the coming period. It is one related to reverse and to different approaches, standardised and foundational approaches. That will lead to some increases in credit risk RWAs. Also, the DNB add-on is expected in the first quarter of next year. So yes, there will be some ongoing developments in RWAs under Basel III.

What was your second question? Sorry, I forgot.

Robert Swaak: Could you repeat your second question?

Tarik El Mejjad: Of course. The same question was for a number you give us of 16%. Does that incorporate all the Basel IV impact or only part of it?

Tanja Cuppen: I could not hear the question, or the first part of your question. You are breaking up a little bit.

Robert Swaak: 16% under Basel IV incorporates …

Lars Kramer: Tarik, could you maybe just repeat because again, you are breaking up.

Tarik El Mejjad: Yes. Can you hear me now? I am on a landline, so I am not sure what is happening.

So my question was: the 16% CET1 ratio in Basel IV, does that include all Basel IV impact or only a partial impact of Basel IV?

Tanja Cuppen: Well, that is the Basel IV number based on how we interpret Basel IV at this stage. As you are aware of, the Basel IV regulations are not yet final, so this is based on what we know today. Everything we know is incorporated there.

Tarik El Mejjad: Okay. Thank you very much.

Benjamin Goy (Deutsche Bank): Good morning. Just some follow-ups from my side. Maybe you can give us a bit of context on how important free payment fees for the net interest income normally. In Q2, it was good and in Q4 it was also seasonally strong. I am just trying to understand how important this is to your quarterly NII, generally.

Lars Kramer: Prepayment fees in the second fees were particularly strong. There is some seasonality attached to this and it basically has to do with this Covid-period as well. People having saved a lot; they have used that additional cash to pay off. The seasonality here would normally be probably Q2 and Q4. Is it important? Well, it is important that we get some payback for prepayments because clearly, this is lost income for the future. But I do not think it is going to be at these sorts of levels carrying through. When we are giving our projection of the 5.3 to 5.4, we are not building in there that it is 20 million a month or a quarter.

Benjamin Goy: Thank you.

Benoit Pétrarque: On the head office disposal, could you update us on that one? In terms of timing, do you select to be happening in the second part of the year?

And then just on the capital. Leaving aside the question on the excess capital versus your threshold of 14.5% or 15%, you are going to pay 50% pay-out ratio while arguably you could actually push it to almost 100% in a year where your CET1 ratio under Basel IV is 16%. So, what are your thoughts on the adequacy, on the long term of your 50%?

Robert Swaak: On the disposal of our headquarters I would say that the transaction is proceeding. It is continuing. We targeted completion for the end of the year and when we have announcements to make we will make announcements.

In terms of our dividend policy, we have just recalibrated our dividend policy last year. At this point, I do not see any reason to change the policy as is. So, we will stick to the policy of 50%, as we communicated in November last year.

Benoit Pétrarque: Great. Thank you.

Giulia Miotto: Thank you for taking my follow-up question. It is on the Net Promoter Score. I understand why it has decreased by you highlighted a number of things like fees and the AML settlement. How do you plan to turn around those in light of targeting market share growth, both in mortgages and in SMEs?

Robert Swaak: Thanks for your question, Giulia, I am glad you reference that because these are important indicators to us as we continue to execute our strategy. On mortgages, I am actually quite pleased with where we are in terms of our ultimate goal set on NPS for mortgages and all the initiatives we talked about during this call, particularly as we work very closely with our intermediaries allowing opening up of digital channels, particularly speed of offering with the relevant pricing levels that go with these types of offerings. That will continue to help impact our mortgages NPS.

On SME, clearly, the reasons that we have indicated are the reasons why the NPS scores decreased. It is never good that it happens, yet again, on the back of negative publicity as of late to the settlement as it related to some of these offices that we were closing, it was to be expected. The way we are offsetting this is to continue to ensure that our digital capability to the SMEs continues to improve. That is actually why we have launched the various initiatives that we have all highlighted in our quarterly report. The first indications are quite positive and I can speak from my own personal experience in talking to many of these SMEs about the digital packages that we are making available to them and at the same time starting to combine some of our expertise around private banking in a service offering to SMEs actually does do very well for the NPS. Clearly, as you know, for NPS scores to begin to change it will take a few months before you actually see the effects thereof. But we will continue to monitor and we will continue to adjust as necessary.

Giulia Miotto: : Thanks.

Anke Reingen: Thank you for taking my additional question and apologies to follow up because you might just as well say that I have to wait till February. I am just trying to understand this payout ratio of the dividend of 50% and the buyback above 100%. Is that possible or do you see 100% is basically as much as you can go, obviously aside of the 2019 extra payments you are going to do this year.

Robert Swaak: Again, I appreciate the question but I am just not going to get into the details of what the potential buyback in relation to payout ratios will look like. I think we have been very clear that we need to get our facts on the table as it relates to the full year results 2021. That will be the time that we will then consider buybacks, as we said all along. As soon as we have the details on how we expect to structure a buy back we will provide those details.

Anke Reingen: Okay. Understood. Thank you very much and I am sorry for asking again.

Robert Swaak: No worries.

Omar Fall: Hi there, I just wanted to ask bout M&A. Historically, there has been disappointment on capital return at the group, prior to your time here because of the spreadsheet maths have been attractive in terms of excess capital but then were surprised by unforeseen usage of that capital. So, what confidence should shareholders have that the same might not happen now in terms of M&A i.e. that any transactions are truly bolt-on? I guess a lot of the confusion around capital stems from the fact that unless we are talking about paying more than 100% the math suggests that your high starting point is just going to keep growing at infinitum, even with a reasonable pay-out.

Robert Swaak: I cannot really talk about the M&A that has happened before at the bank. Hopefully, the track record is telling you right now that in a year’s time we have made some very conscientious choices and we have executed consistently against it. That means that any time I will consider M&A, it has to be accretive in terms of the strategic choices that we have made, keeping in mind the dynamics of any transaction that we would have to do. Obviously, it is keeping the strategic priority for the bank front and centre but it is also keeping any potential consideration for shareholders front and centre, in the way we would start any deal. So, the only way I can show that to you is by actually concluding a transaction and let the record then speak for itself. We will only consider transactions when and if they are accretive to our overall strategy. That will consume some capital. Hence, we said in our 13% - 15% calibrations of 200 bps, that there is something in there that is allocated to M&A, but we will be very consistent as we have been all along around the execution of M&A.

Omar Fall: : Thank you.

Robert Swaak: As there are no more questions, then that just wraps up the call for today. Again, thank you for all your questions. I know we will be speaking soon again, so I am sure we will have a follow-up with some of the questions that we were talking about today. For now, see you later!

End of call