# Q3 2016 Conference Call Transcript

ABN AMRO Investor Relations
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## Participants: Gerrit Zalm, Chairman; Kees van Dijkhuizen, CFO; Wietze Reehoorn, CRO; Dies Donker, Head of Investor Relations; Erik Bosmans, Treasurer

**Conference call replay:** http://player.companywebcast.com/abnamro/20161116_1/en/Player

**Gerrit Zalm:** Good morning and welcome to this analyst call. We are talking about the strategic update and also the third quarter results. After me you will hear Kees van Dijkhuizen and then Wietze Reehoorn, as usual.

In May, we already indicated that we would review on our strategy we earlier set out and I would like to update you on that.

I will refer to the slides which are in your pack or on your screen and I am now on slide 4.

In the past years, we have built a stable and profitable bank, which is an attractive combination of strong and complementary businesses. We have a strong position in various segments of the Dutch market, complemented by international activities in private banking, asset-based lending, ECT and clearing.

We want to maintain our leading positions for example in the Dutch markets and of course also seize opportunities for growth. Changing client behaviour by technological developments offers challenges but also brings opportunities to better serve our clients.

Monetary and regulatory developments are a constant challenge and we need to respond quickly. We want to stay ahead of new players entering the market. That needs us to step up our game and become more agile. Though challenging it is part of our doing business.

To create guidance in this fast-changing landscape we emphasized our purpose: to create space for dreams and ambitions of our clients, driven by passion and guided by expertise. That connects closely to the core values we have formulated to earlier: trusted, professional and ambitious.

The strategic priorities we have set in 2013 are still valid today. We are a client-driven organisation, maintaining a moderate risk profile and continued to invest in the future. Our ambitions to pursue international growth and to improve profitability have been combined now in our commitment to achieve sustainable growth.

To achieve these strategic long-term targets we have determined four ways of how to realise that. These are our medium-term strategic priorities: deliver expertise, enhance client experience, grow and innovate and deliver fast.

Our strategy underlines that our clients remain at the heart of everything that we do. We also commit to the promises to all our stakeholders. As underpinned by our financial targets, we aim to offer our shareholders sustainable growth and attractive returns within a moderate risk profile.

Looking at our medium-term strategic priorities I would first like to focus on 'deliver expertise'. Expertise is part of the DNA of ABN AMRO and it is the distinguishing factor in the way we serve our clients.

We want to continue offering our in-depth knowledge to clients. That is at the core of everything we do every day. Going forward, we will continue to invest in sharing insights with our clients, provide personalised solutions and open up our network for the benefit of our clients.

The second way to realise our strategic priorities is enhancing client experience. Banking is now perceived by most of the clients as a mobile service. We want clients to be able to conduct their banking affairs anytime, anywhere, anyway and on any device they want to. To be able to do so we need a fleixble and secure IT-landscape with high availability.

In the TOPS 2020 program we have made good progress in building a standardised IT landscape with standardised solutions. That allows us to provide clients with new services based on new technologies at an increasing pace. The Private Cloud is up and running and a significant and increasing amount of applications is running stable in this Cloud environment. Cloud technology increases flexibility and time to market but it also allow us for example to more rapidly implement new regulations. This all lead to improved customer journeys with top-notch customer interfaces.

Our innovation focus is on fulfilling customer expectations, strengthening customer relationships and tapping into new revenue pools. We unleash innovation within the core of the organisation, whereby we try to think and work like a Fintech.

In addition, we innovate with external parties by means of innovator entities to truly innovate and disrupt ahead of customer expectations.

This includes working together and investing in Fintechs, as for example in the development of our Grip-app, a financial planning tool with the Swedish fintech Tink.

Our Blockchain team works closely together with private parties such as R3 and the newly announced cooperation with the University of Delft, with whom we work to experiment with Blockchain solutions for our clients.

The trade finance process is one example where Blockchain technology can improve customer experience, when the flow of physical documents can be eliminated. As recently announced, ABN AMRO is working with 15 partners, which is the first large-scale project in a logistical chain.

We also experiment with new technologies, such as Robotics. Robotics can be used to improve and speed up the analysis of data, for example checking historic payment data in the client onboarding process, whereby employees can focus on interpretation and process improvements. We believe this will improve speed, reduce the risk of errors and will reduce cost.

We accelerate digital initiatives that show promise. An example is Gradefix, whereby we deliver our risk model capability as a service. Gradefix makes independent risk assessments for consumers and SMEs based on personal payment data. Gradefix is currently being validated in experiments inside and outside our bank.

In all our business areas we have developed plans to grow the business fitting their ambitions. I will elaborate further on these after addressing the theme 'Deliver fast', which is on slide 12.

ABN AMRO started adopting the agile method in our TOPS-organisation a few years ago and has used it, amongst others, to develop the mobile banking app. We now adopt this approach for all major IT change processes, involving many more internal staff and staff-numbers at our vendors. This approach will ensure higher responsiveness to client and business needs by increased iterations. This will accelerate our time to market.

Another way to deliver fast is the plan we announced in the previous quarter to simplify the bank's support and control activities by eliminating duplicate work, reducing the number of layers in the organisation and merging subsidiaries into the bank. We expect these initiatives to produce cost savings of around EUR 200 million.

What does this mean for the business? In Retail banking we want to enhance client experience by focusing on leveraging our omni-channel advisory capabilities, enhancing our digital offering and remote advisory services.

We will further accelerate digitalisation and innovation, also through our digital platform MoneYou. MoneYou will be transformed into a full digital retail bank. Interaction with clients will make use of the most modern technologies and client experience should become even more seamless, mobile, attractive, relevant and techy, what we call ‘smart banking’.

We intend to roll out this digital offering throughout North-West Europe and we will start in the countries where MoneYou is already active.

The private bank, already focused on growth in North-West Europe, provides an avenue for profitable growth and allows geographical diversification. In the Netherlands, since October private banking has opened up its services to a broader group of clients by lowering the private banking threshold.

We seek to really rejuvenate our client base and reach out to active entrepreneurs and the younger generation. We can reduce cost and increase efficiency by harmonising processes and reducing the number of IT platforms internationally.

The corporate bank will continue to deepen its expertise and offer sector knowledge, networks and relevant solutions to our clients. In the Netherlands, the corporate bank will pursue its sector-based growth strategy further.

As communicated last quarter, additional business opportunities are explored in North-Western Europe, in sectors where we are already active in our domestic markets.

Also communicated last quarter is the expansion of activities to adjacent sectors in ECT-clients, natural resources, renewable energy, utilities and food. That will be done globally. In addition, the corporate bank will continue the asset-based growth strategy in North-Western Europe and controlled growth of ECT-clients and aims to maintain its global top 3 position in clearing.

Now Kees will talk you through the financial implications of the strategic update and then the third quarter results. Kees?

**Kees van Dijkhuizen:** Thank you very much, Gerrit. Good morning everybody. Let’s go to slide 18.

As you can see on this slide, in the last six years we have demonstrated a strong financial performance and have also made clear progress on our targets. Our ROE improved from 8.9% in 2010 to 13.4% year to date. Our Core Tier one is strong at 16.6% coming from 8.6% in 2010, clearly above our target and that is of course in anticipation of Basel 4. Over the years we have grown a dividend from zero in 2010 to a pay-out ratio of 45% this year.

Slide 19, you can see that we want to maintain this performance while improving our C/I ratio. It has improved significantly since 2010, despite additional regulatory levies and also despite the difficult environment interest-wise. But we are now more ambitious.

Towards 2020 we sharpened our cost/income ratio from 56-60% in 2017 to 56-58% by 2020, despite, as said, the challenging climate and the increases in levies.

All other targets – CET, ROE, and dividend – will remain unchanged for now and the upcoming Basel-proposals could of course have a material impact on our risk weights. Therefore, it is not possible to set targets that are related to capital right now. Once we know the impact of new regulations – hopefully in the beginning of next year – new targets can be communicated.

On slide 20, by 2020 we expect costs for growth, innovation and digitalisation to increase compared to 2015 by EUR 400 million and cost inflation and levies to be approximate EUR 0.5 billion higher than the 2015 cost base. In total therefore, we expect the cost base 2020 to increase by approximately EUR 900 million compared to 2015.

We want to compensate this and we do that by target cost savings of approximately EUR 900 million. This includes existing cost savings programmes – TOPS2020, Retail Digitalisation – which account for approximately EUR 300 million and the cost savings in the support and control functions that we announced in the second quarter of this year, of around EUR 200 million, all by 2020.

As promised in August, we have now identified new cost savings of approximately EUR 400 million, which we expect to realise by process optimisation, more digitalisation and operational efficiencies throughout the bank. For example, working agile will reduce IT coordination and IT projects support activities. Also, lead and throughput time of projects will be reduced significantly, resulting in sizeable cost savings. Continued digitalisation of end-to-end process will continue amongst others in the mortgage chain. To create more oversight and transparency for our clients we will also rationalise further our product offering, for example by simplifying the number of client propositions.

Other cost savings initiatives include a review of the governance structures for affiliates, for example the merger of lease and commercial finance. Also, we are looking into opportunities to harmonise IT platforms of foreign entities and further cluster and outsource IT-activities both for affiliates and foreign entities.

When we go to slide 21, on this slide you can see that the new cost savings of EUR 400 million will have consequences for approximately 1,500 internal employees, own staff. The total work force, internal and external, is expected to decline by 13% from 26,500 in 2015 to 23,000 by 2020. This includes the effect of previously disclosed programmes but also of new initiatives.

External staff was 4,500 in 2015 and will be reduced by 25% to 30%. Internal staff will go down on balance by approximately 10%.

In the third quarter a restructuring provision of EUR 144 million was taken and in the fourth quarter we expect to take an additional provision of EUR 150 million to EUR 175 million.

This concludes the strategic update. I would now like to move on to the quarterly results.

Slide 23 shows you some financial highlights.

The underlying net result in Q3 was EUR 607 million, up 19% compared to Q3 last year, a solid performance. The earnings were driven by improved NII, low impairments and a one-off gain in Equens which was partly offset by a restructuring provision.

I would also like to mention a non-financial highlight, which is not on the slide. We are very pleased with regards to our sustainability performance. ABN AMRO made a steep climb in the globally renowned Dow Jones Sustainability Index and ended up in the top 15% of the banking industry. The Dow Jones Sustainability Index is our overall indicator on progress on our sustainability metrics.

On slide 24 you can see that the underlying result, as mentioned, is EUR 607 million. In Retail banking underlying profit improved on the back of lower impairments. The private bank benefitted from a settlement of an insurance claim and the corporate bank predominantly profited from higher operating income and lower impairments.

As already mentioned, we have been able to keep our NII robust, around or a bit above EUR 1.5 billion for nine quarters in a row. Improved pricing on deposits and asset growth, as ECT clients contributed to 3% increase of NII versus last year.

In Retail banking, the pick-up in mortgages NII was offset by lower NII and consumer loans.

At the end of the third quarter, we again lowered deposit rates with 10 bps to 30 basis points.

Looking at fee and other income, slide 26, we see that the market environment improved somewhat in the third quarter but compared to last year stock markets were still lower. This resulted also in lower fee income.

Other income benefitted from the positive revaluation of ABN AMRO's stake in Equens of EUR 52 million.

On slide 27 you can see that expenses increased by 11% due to a restructuring provision of EUR 144 million. Excluding this provision, operating expenses would have been flat. The number of FTEs continued to decrease slowly. Compared to last quarter, the number of external FTEs was also slightly down.

Wietze will now elaborate on risk and loan portfolio developments.

**Wietze Reehoorn**: Thank you Kees and good morning everyone. Impairment charges remained low this quarter, EUR 23 million. Compared to last year impairments were lower in all segments and all businesses. The overall cost of risk was 3 basis points.

On slide 29 we see impairments were down by 75% compared to last year, mainly on the back of an increase of impairment releases. To improve comparability and simplify reporting, the definition of 'defaulted' and 'impaired' loans were aligned. Defaulted clients, without an impairment are now also considered to be impaired. This led to an increase in the total impaired exposure of EUR 2 billion at the end of Q3. The past/due portfolio declined as a result of this alignment. The total impairment allowances remained unchanged.

The decrease in impairment charges compared to last year was attributable to all segments. International clients had lower impairments despite IBNI additions. Impairments for ECT clients were lower than last year and also lower than Q1 and Q2 this year. I will elaborate on ECT further on.

Impairment charges for mortgages were low, at 4 basis points, this quarter and the mortgage portfolio grew marginally. The average loan-to-market value continued to decrease to 78% due to the increase in house prices and extra redemptions. Particularly the mortgages with an LTV above 100% continue to decline sharply in volume.

Slide 30, the portfolio on ECT this quarter grew on balance by 2.5% compared to Q2 to EUR 27 billion, despite the weakening of the dollar of 0.7%. We have seen growth in all three segments of ECT.

The total impairments for ECT clients were EUR 33 million, down from EUR 62 million in Q2 last year and also significantly down compared to Q1 and Q2 this year.

The oil price had been hovering between USD 45 and USD 50 a barrel. This price level and the lack of new investments continues to impact certain segments in our energy book. Impairments in energy were low this quarter, EUR 10 million, slightly lower than Q3 last year and about one sixth of what we had to write in Q2 this year.

Circumstances in shipping remained challenging, given the structural overcapacity and increased demand. Impairments were EUR 19 million this quarter.

This quarter, we also reassessed the transportation downturn scenario. Market conditions for dry bulk improved somewhat but on the other hand, container markets remained weak. The tanker and the LPG market became more challenging.

All in all, our view on the modelled impairments from this assessment did not change much and with around EUR 57 million of year-to-date impairments we expect to end up somewhere between the mild and the severe scenario, which we elaborated earlier on in another quarter.

We are pleased to see a positive development in the number of completed of recaps and restructurings of our transportation clients.

On slide 31 we see the preliminary SREP-outcome for 2017. The preliminary SREP for 2017 is a corrected CET 1 of 9%, which is 1.25% below the SREP-requirement for this year. This SREP-requirement is still subject to formal regulatory approval. New this year is the split of the former Pillar 2 into Pillar 2 requirements – P2R – and Pillar 2 Guidance, P2G. P2R is part of the 9% SREP requirement and is public, whereas the P2G is not public. It means that the MDA trigger for ABN AMRO bank is expected to be set at a CET 1 of 9.7% and includes some 0.7% AT1 shortfall at September 2016.

A last remark on the regulatory front and the discussions in the Single Resolution Board: following those discussions we expect confirmation shortly on ABN AMRO bank becoming our designated resolution entity.

Gerrit, over to you.

**Gerrit Zalm:** Thank you, Wietze. Just before I hand over to the operator, let me make a few closing remarks.

This strategy will be implemented under the new leadership of Kees van Dijkhuizen, which I congratulate with his coming appointment.

**Kees van Dijkhuizen:** Thank you very much!

**Pawel Dziedzic (Goldman Sachs):** Good morning and thank you very much for the presentation. I have two questions. The first one is on your cost guidance. In your presentation you very helpfully show that an aggregate increase in cost would be more or less compensated with savings but could you give us a sense of timing of these investments and savings? I think you might expect that some of the costs will be frontloaded while benefits will be back loaded. So, would you be able to keep your cost base more or less flat throughout the period until 2020 or are you rather expecting inflation and then decline in the outer years?

My second question is on your cost income and the implication for your revenue line. If we take a decline from 62% in last year to around 56-58%and we combine with a flattish cost base on a five year view, then it also means that your revenues, at least the implied growth rate for your revenues, could be as much as or maybe even above 10%. So, would you be able to confirm that this is more or less accurate? Secondly, can you give us a sense of what would drive this increase, perhaps given still relatively weak volumes, pressure on margins and some of your comments that you made at the beginning of the presentation about competition?

It would be helpful to understand, in particular again in the context of your updated strategy, if you believe that growth rates can be achieved by all your business lines. Or is there any particular driver being expansion of digital offering or expansion of the corporate loan book, that will drive the increase?

**Kees van Dijkhuizen:** Thank you Pawel, for your questions. The cost guidance that we give right now is a 2020 cost guidance. We cannot guide for the years in between but your remark that sometimes some cost go before they have revenues is a fair one.

It is true, if you make your calculations for C/I 56-58% coming from 62% that revenues have to increase. That is clear. Year to date the operating income is zero. Of course we do not guide for the quarter but you can make calculations that if around zero would continue this year you would need around 2% operating income growth on average in the coming years, from 2017 to 2020, to get into somewhere in the middle of the range.

Margins were cautious because of competition and because of where deposit rates are and mortgage refinancing will no longer have a higher margin next year. So, predominantly volume will be important here. There, we think we are well positioned because for instance in the mortgage area we are a market leader with 23% in the third quarter and we are open for business in the mortgage business. We have financed ourselves with longer-term – 15 years – covered bonds. So, we feel comfortable here. We see the market grow significantly. So, I think that is well paced and that is EUR 150 billion so it is by far the largest part of our portfolio.

In ECT we grow, already for years. We will continue to do that. SME has been down for years volume wise, 5% and this year is more or less bottoming out. Hopefully we see a bit of growth in the coming years. So yes, revenue growth and how we are going to do it, by volume growth. I think I gave an answer to your question by business line as well.

**Pawel Dziedzic:** Thank you very much.

**Jean-Pierre Lambert (Keefe Bruyette & Woods):** Good morning. My first question is whether you can give some indications on the divisional allocation of the saving investments. Is it dominated by this division or this particular area? How do you plan to allocate the restructuring charges over time by division?

My second question is how to square the leverage ratio target of 4% and the CET 1 target of 13.5%. If you link the numbers it seems to imply that you may have to reduce your leverage asset by an extra 10%, excluding the one-off gains you may have in the future on the reduction related to clearing. Could you comment on the link between those two targets?

**Kees van Dijkhuizen:** We cannot give a cost division at this moment in time. We are looking into the division at the moment. It is in the Netherlands and outside the Netherlands and it is across all the business lines. So, it is too early to tell. Hopefully we can be clearer on that in the coming quarters, also on how we are going to have the restructuring provision over the business lines. That is not yet cast in stone and of course, we also to communicate to employees in the bank.

With respect to the leverage ratio, we are at 3.7% at the moment. As you know, it is mentioned, when clearing – and that looks positive – would go in our direction we would be above 4% again. There is also a possible minus over there, so we have to await that with the Basel 4 disclosures going forward, uncommitted lines outside the balance sheet. Wietze mentioned the shortfall of 0.7% related to our SREP, our MDA. That means that we are able to do another 0.7% AT1, and we will do that at some convenient moment in time. We will fill the basket of 1.5%. And then we also, if necessary, have possibilities to optimise the balance sheet.

**Jean-Pierre Lambert:** Thank you very much.

**Bruce Hamilton (Morgan Stanley):** Firstly, I realise it is still quite uncertain and there are quite still quite a wide jaws between the rhetoric of no significant increase and some of the bottom-up calculations but how do you see that being resolved and what is the risk of delay at this point? How does the US election result play into the whole process, if at all?

Secondly, on the numbers. If I look at the international book, there is a sharp NIM improvement of about 2.2% in Q3 up from 1.6% through the first half of the year. What is driving that and is it sustainable?

**Gerrit Zalm:** Let me go into your remark on Basel. We do not have preferred knowledge about what is happening in Basel. We hope they will come to a decent compromise in December or January. I do not think there is a direct influence on the Basel discussions from the election of Mr. Trump because it is the central bankers and the supervisors who are represented in Basel. That will not change before January, in my expectation.

Kees or Wietze?

**Wietze Reehoorn**: Let me answer your last question on the NIM-increase international and that is the growth in the ECT book.

**Bruce Hamilton:** Thanks.

**Daniel Do-Thoi (JP Morgan):** Good morning. I have two questions, one is related to costs and the other to mortgages. On the cost side or rather on the investment side, you have earmarked about EUR 200 million for investments in digital over the next four years. One of your peers recently came out with a digital budget of around four times that size. I know these figures are not exactly comparable but that still is a very significant difference. So, I am just wondering if there is any obvious explanation for that and then also have confidence that you will not need to revise that number later down the lines.

Secondly, on mortgages. To what extent is the growth in the quarter driven by your ability or maybe your willingness to provide longer dated mortgages? Earlier in the call you mentioned 15-year covered bonds. Related to that, is there any difference in profitability or lending spreads for these longer-dated mortgages? If I understand correctly you are entering into territory where the insurance companies are also more active.

**Gerrit Zalm:** What you should understand is that these EUR 200 million is the increase compared to 2015. So probably, ING has a different definition when they are talking about their 800. Of course, also in 2015 we already invested money in digitalisation.

On mortgages, Kees?

**Kees van Dijkhuizen:** From what I understood, ING is accumulative over a couple of years. So, that is indeed a different way of presenting than what we do.

Mortgages long term: we are in that area as well. That is correct. But we do that in a cautious way. As said, we do a couple of things. First, we want to have funding available, 15 years funding, so that we are long in the liquidity spread. By the way, we do that on a portfolio basis. We also lock in the interest, so that we are not open for interest changes in the mortgages. Actually, we lock in the margin for a mortgage of 15 or 20 years. We are able to compete in that area, even while we have told the business that they should not use the 12% risk weight we have right now, but because it is 15- or 20-years mortgages you cannot change it in one or two years when Basel would be negative. So, we have given the business quite a negative scenario. I think it is even a 30+ risk weight, which of course we do not hope to happen. So, they do business with hurdles, which are based on a very negative outcome of Basel 4. We lock the interest margins. They are good and we have our liquidity in the same position. So, we do it cautiously.

**Daniel Do-Thoi**: If I understand correctly, these are very attractive margins and they are still risk weighting in excess of 30% on these longer-dates mortgages.

**Kees van Dijkhuizen:** Correct. Then they make a hurdle in the business case.

**Daniel Do-Thoi:** Thank you very much.

**Alicia Chung (Exane BNP Paribas):** Good morning, just a couple of questions. Firstly, you disclose the restructuring charges for Q3 and Q4 this year. I just wanted to confirm whether we can expect any further restructuring charges going into 2017.

The second question is on the AFS reserves. Given the recent move in the bond yields, what movements have you seen in the AFS gains in this quarter and what impact would you expect that to have on capital?

Can I have one more question just in terms of NIM guidance for the next half year? One of your peers has given some more guidance already around what they expect for the margin for the next 12 to 18 months. They expect it to be relatively resilient. Can you give some colour as to what you would expect from here on the margins?

**Gerrit Zalm:** As far as restructuring charges are concerned, we hope to take all the charges in the fourth quarter. Of course, that will have to be in accordance with IFRS and the accountant has to sign for it. So, we need to be concrete enough in order to be able to take the charge and then we would not expect any new charges next year.

**Erik Bosmans**: Coming back to your question on the AFS reserves: before we swap everything back, assets swapped to 6m EURIBOR so the interest rate risk is taken out. The question is whether you expect credit spreads to further widen on the back of the interest rate increase. So far, credit spreads have been quite stable and if so, then yes it would be in our mark to market changes will go through the special component of equity but at this very moment we do not see any substantial influence from out of our AFS reserves.

**Kees van Dijkhuizen:** With respect to NIM guidance I think that for the fourth quarter we are relatively sure of what will happen then, so we can guide for around EUR 1.5 billion. With respect to next year we are a bit more cautious of course because as said, margin improvements as we have seen in the last couple of years we do not expect any longer. Depending on competition it would lead to a margin depression or a margin stabilisation. That has to be seen of course next year. Volume wise, we have seen declining volumes for a couple of years and as I mentioned, the mortgage market is doing better. It is bottoming out and we see SME and ECT growing. We hope – and that is more ambition than real guidance – of course that we are able to at least stabilise the book next year and hopefully also grow it a bit.

**Alicia Chung:** Thank you very much.

**Stefan Nedialkov (Citi):** Good morning, I have two quick questions. On the Dutch mortgages risk weight, you mentioned it is now at 12%. What was it in 2Q 2016?

My second question: when you spoke about 2% revenue growth through 2020 in order to achieve this 56-58% cost/income ratio target, what is embedded in your assumptions in terms of loan book growth, in line with the industry or gaining a bit of market share through 2020 or maybe even underperforming in terms of market share growth?

**Kees van Dijkhuizen:** With respect to Dutch risk weight it is 12.1% in Q2 and Q3 was 11.9%. It did not change a lot. It declined a little bit.

With respect to revenue growth, we do not yet exactly know what will be the result of the volume growth in all those books in Europe, the Netherlands or worldwide, so we have not made that comparison but of course if you want to have volume growth you have to grow the book. How that compares with the market is not known.

**Stefan Nedialkov:** Thank you.

**Anke Reingen (RBC):** Good morning. I have a question on cost and I am coming back to your cost comment. I was wondering whether if I think you cannot make a 2% revenue goal per annum and could I assume that you could do better than flat cost out in 2020 because there is some flexibility from performance-related compensation for example or is that really as good as it gets?

Secondly, on capital. Your 13.5% CET 1 target or your potential target, does that already include a buffer for Basel 4 or would you always anticipate a 1.7% buffer over the collateral requirement post the Basel 4 update?

Sorry to be cheeky but I' m surprised you consider a risk weighting of residential mortgages of 30% as is likely to model for your return on the residential mortgages. Do you really think 30% is a reasonable assumption or are you just very conservative on the potential increase in risk weightings?

**Kees van Dijkhuizen:** Your first question relates to what will happen to cost if you are not able to realise a 2% increase. If we look at consensus by analysts on average, you indeed would not expect much growth in operating income. Actually, it is quite flat at EUR 8.4 billion this year and EUR 8.3 billion next year and EUR 8.4 billion in 2018. Although we do not give figures for the years in between, as said we on average want to grow revenues. If we are not able to do that because we gave this target now for 2020 it would mean indeed that we have to look at our cost level again.

Secondly, the buffer. If I understood you well you asked whether these 13.5% include a buffer for Basel 4. It does not. The original one. Both do not include a buffer. The 13.5%, the SREP we now have in the investor presentation is on the basis of Basel 3 figures. The target we have put in the market one year ago was actually after Basel 4. But we do not know Basel 4. When Basel 4 is known, we expect a couple things might happen. First, the 16.- something at that moment in time will go down. We do not know how much but it will go down, presumably gradually by the way, phase in. Secondly, regulators might look at levels of systemic risk of 3% going forward – the Dutch regulator – and the ECB perhaps at a SREP-kind of guidance or buffers that are now included in the SREP. They might look into that as well, depending on the severity of Basel 4.

**Anke Reingen:** Okay. And is 30% risk weighting on the residential …

**Kees van Dijkhuizen:** Excuse me. I forgot your last question.

**Gerrit Zalm:** It is indeed conservative.

**Anke Reingen:** Okay

**Albert Ploegh (ING):** Good morning. Most questions have been answered. I have another question on your ECT book. You have reconfirmed or have not changed the stress test scenarios for oil and gas and shipping but could you maybe go over the trends you see in NPLs in oil and gas and on shipping and, if possible, the split between dry bulk and container? I think the trends are clearly are somewhat different in both portfolios.

**Wietze Reehoorn**: The trend in the energy book is currently being reflected by the redetermination of the price deck. Twice a year we are revaluating that. Currently, there is the autumn round and what we see actually is that for the first time – if you compare it with the three last rounds – since 1.5 year we can more or less confirm the borrowing base, which have been set earlier this year, which in itself is a good sign. What you do not do is decrease the borrowing base but to keep it as it is. So, the headroom is still okay and that also shows the resilience in the reserve-based lending portfolio i.e. indeed we are within the bandwidth of the scenario on oil, which we communicated earlier.

In terms of shipping we do not disclose that very deep level of bulk, tanker and whatever. If we look at the inflow in our financial restructuring department, we see there are still some serious issues in the shipping portfolio but again, also there, as I said we are within and somewhat between the 'mild' and the 'severe' scenario, as earlier indicated with the year to date EUR 57 million of impairments in the shipping book.

**Albert Ploegh:** Thank you very much.

**Bénoît Pétrarque (Kepler Cheuvreux):** Good morning. My first question is on cost again. I assume the consensus is right on operating income, so basically relatively flattish. What type of cost/income ratio are we going to see in 2020? Can we still hope for 56-58% or will that be higher in such a scenario?

My second question will be on the volumes. I am a bit surprised by the comment that the mortgage book will grow. We still expect quite some repayments for example in Q4. What type of long-term growth can we expect on the mortgage portfolio for the Netherlands?

The last question will be on the interesting strategy with MoneYou. I think you are in the Netherlands, Belgium and Germany but are you going to expand MoneYou in more countries? If yes, which ones and what type of product offering are you going to put on the shelf at MoneYou going forward? It is probably part of the strategy to grow the income side.

**Gerrit Zalm:** Let me start with MoneYou. It will be a full-fledged digital bank. It will offer not only savings products but also lending products and also payments and investments. We will start in the countries where we are already present, Germany, Austria, Belgium and the Netherlands and then look at other countries, too.

As far as the mortgage portfolio is concerned, if you take a bit of a longer view our best guess is that the total Dutch mortgage portfolio will be around stable. It is now increasing because of the cyclical upturn of the housing market but that is something we benefit from but is not expected to continue for a very long period of time. The mortgage market in the Netherlands has been a bit inflated and with all the measures which are now taking place, our best guess is that it will be more or less stable in nominal terms. Of course, then it will depend on market share whether our mortgage book can grow or not. At this moment it is growing a bit but we expect in December some extra repayments, which is a usual pattern. So, it is still a bit of a bet whether at the end of the year we will conclude that our book has grown or whether it is still flat.

Maybe on cost, Kees?

**Kees van Dijkhuizen:** I already reacted to that question in the sense that indeed, when there would be a more flattish operating income development going forward that we have to look again at our cost level and that we have put forward now, this 56 – 58%, which we did not make dependent on an income growth development.

**Bénoît Pétrarque:** But just to come back on this, on page 20, it looks like your 500 million of inflation – wage inflation and price inflation – will be here anyway, whatever the income is doing. Regarding digitalisation you will do the investment anyway as well. So, can I assume that there is probably EUR 200 million room to cut a bit the cost base if your growth initiatives are getting less than expected?

**Kees van Dijkhuizen:** Of course, everything is not completely certain. When there would be a very bad situation for banks, then for instance wages will not increase as much as they would increase with a good development. So, these EUR 500 million is not a given; it is just a forecast we have right now.

With respect to the cost base: we have a cost base of over EUR 5 billion. As we have shown recently, is that we are able to lower that by EUR 900 million in the period 15 – 20. That means that if it is necessary you have to look again at your cost base and come up with measures.

**Bénoît Pétrarque:** Thank you very much.

**Kiri Vijayarajah (Barclays**): Good morning, a couple of questions, firstly on your mortgage margins and sensitivity to movements in the long rate. If long rates continue to rise from here do you think you can hold on to the gains you have made on the mortgage margins that have been pretty decent over the last few years or is it relatively insensitive and has it more to do with competitive pressure, what the insurance companies are up to?

Secondly, on the leverage exposure. You have let it kind of drift up in the course of this year. When I look at last year, from 3Q to 4Q, natural seasonality took a good EUR 37 billion out of the leverage exposure in 4Q last year. Could we expect something similar heading into 4Q this year on the leverage exposure? Thank you.

**Gerrit Zalm:** Maybe on margins from my side: what we have been able to do when long-term interest rates went down we saw that reflected in lower mortgage rates. The same will happen if long-term interest rates go up. The cost price of mortgages will go up for everybody, so we should be able to price that through to our clients, not on a daily basis but on a structural basis.

Kees, on leverage?

**Kees van Dijkhuizen:** Yes, on page 77 of the Q3 report you can see that we expect a decrease of our exposure measure again of between EUR 40 billion to EUR 50 billion when the revised calculation method for derivatives on clearing will be changed. That is related to clearing guarantees at this moment in time, being 30 bps to 40 bps fully loaded. As already mentioned, we also expect – we do not know how much – an adjustment in the credit conversion factors for off-balance sheet exposures. That of course would partly offset this potential improvement.

**Kiri Vijayarajah**: So, excluding those two items you just mentioned there is not that much seasonality on the organic leverage exposure?.

**Kees van Dijkhuizen:** Well, the things I mentioned – AT1 – and manage your balance sheet – you can of course do.

**Kiri Vijayarajah**: Okay. Thank you.

**Kees van Dijkhuizen:** As you know, especially at the end of the year we bring back security finance from 30-40 to 10-20. That is also a possibility to manage also the balance sheet.

**Tarik El Mejjad (Bank of America ML):** Just a couple of questions, first of all on leverage again. Thank you for the comments on the new regulation on derivatives and also the fact that you can optimise the balance and issue AT1 but that will just take you to a touch above 4%. If we want to rationalise that with the excess capital that actually market and we are expecting to see being releases, it does not work. So, on some sort of leverage, what are really the actions you can do? Would you consider selling some leverage-intensive business to some banks that actually are more other RWA constrained than leverage and free that hurdle for you to distribute the excess capital once we get there? Is that something you would consider?

My second question is on the excess capital. I understand we have to wait for Basel 4 and all that, but let's assume you have some cash and you want to return it, what are the options you would consider? Would that be a sustainable higher pay-out over time or a one-off capital return or even a buy-back from government for your own shares?

**Kees van Dijkhuizen:** To answer your second question: yes, those three options are there and we might use them all or some of them.

With respect to the leverage ratio and the balance sheet: of course we do that internally but it is too early now to get into that discussion. First of all we want to know how these regulatory developments end, not only for Basel 4 but also for the leverage ratio. We expect there to be more clarity about the leverage ratio also in the coming months together with Basel 4. There is a lot of discussion on the leverage ratio: it is 3 at starting point to be a bucketing from 3 onwards. Larger banks, the very systemic ones, 4 and what would happen to the others? So, even the target of 4 is still not certain. Secondly, as I mentioned before, we will look into the options we have when we have more clarity on what the optimal position for our capital is, going forward.

**Tarik El Mejjad:** Thank you.

**Natacha Blackman (Société Générale):** Hi, I have two questions, the first on AT1 and Tier Two funding plans. How quickly do you aim to sell that 0.7% shortfall on the AT1 bucket and should we expect sub debt from you before the end of this year?

Secondly, can you make any comments on how you may meet MREL-requirements? Are there any updates on the plans for a new bail-inable senior, a kind of what the French are doing or will you still be able to meet this for the sub debt please?

**Erik Bosmans:** That is a good question. First of all, AT1. As Kees already outlined, yes, we will use the opportunity to fill out the 1.5% with AT1 but we do not give any time lines. Sooner rather than later I would not expect it. We would be thinking it should be the other way around. Other than that, we also are of the opinion that we will get the situation that ABN AMRO will continue to issue our Opco. If that is going to be the case and this is confirmed by the SRB then obviously, we will continue to issue debt out of the Opco. This means, that the issuance of Tier Two might no longer be necessary depending on the new rules and regulations with respect to potential Tier Three issuance. If that is going to be the case, we would opt for the latter. This is not clear yet. We think that in November the French parliament will ratify a possible solution and then the question is whether this will be taken over by the Dutch NRA, the Resolution Authority and the Ministry of Finance. If so, then we will stick to what I just said. Hopefully, if so, this would pretty much tighten our unsecured curve which I think is very good for investors, especially on the debt side.

**Natacha Blackman:** Thank you.

**Marcel Houben (Crédit Suisse):** Good morning. Just to come back on mortgages if I may. Can you comment a little bit on the mortgages post-2007? You are now benefitting from refinancing of low-margin mortgages before 2007 but can you say anything about after 2007 and say whether this will be a drag on the NIM going forward?

Could you also disclose perhaps for the third quarter the mortgage growth production as well as the redemptions? I believe net was EUR 0.5 billion up but could you disclose the break-down?

The last question is on the management buffer. Could you disclose it?

**Kees van Dijkhuizen:** Let me start with the post-2007 margins. These were much better. By the way, from next year onwards we do not only see 2007 mortgages; we will also get back a 2012 5-years mortgage, to give an example. It is a complete portfolio, which of course we are refinancing.

With respect to the refinancing of the complete portfolio: including the ten years we think that it might be stable going forward, depending on pressure from competition. I cannot say anything more on that. We do not expect to have improvements of the NIM from that angle.

With respect to the mortgages: the balance you mentioned of EUR 500 million increase is correct. We might have a figure. It is 3.4bn redemptions and that means that new production is around 4bn.

Then with respect to the management buffer: no, we do not disclose that. When we would disclose that, we would then also immediately disclose the P2G and regulators are not so fond of that.

**Marcel Houben:** Thank you.

**Jain Vardhman (Macquarie):** Just a couple of questions, a follow-up on the SREP and the target of 13.5%. That basically is 175 basis points over the SREP-requirement. Is that mostly coming out of the P2G? I remember that the EBA stress test was a bit difficult on ABN.

My second question is on international growth. Last quarter you mentioned that you planned to diversify and grow the international market from 20% to 25%. Could you give us a flavour as to how that is going? That means about 7% loan volume growth, a rough calculation. When do you foresee that sort of net loan volume growth coming on?

**Gerrit Zalm:** Shall I take the last one? We did not state that our international revenues still grow from 20% to 25% but it will be between 20 and 25%. So, you should not calculate in the way you are doing.

Let me take the first question, too. The 175 is a combination of management buffer and the guidance. We do not split it up.

**Lee Street (Citi):** Hello, two questions from me. You stated that your Opco will be your resolution entity. Are you willing to give comments around why that is? Obviously, that is a different approach from one of your large domestic peers.

Secondly, when might we expect the SRB to confirm your approach to that being a resolution? What is the timing on that, please?

**Erik Bosmans:** I did not really get the first part of your question but if it is about ING now using a holdco, also they are awaiting the confirmation of the SRB but they decided to go for a holdco but it is to be confirmed. The same applies to us. There has been a meeting with the SRB just recently and in this meeting they handed us a letter in which they have given us a number of recommendations. We are awaiting a confirmation of all the statements in the letter. That is basically it and we did not get any timelines. Normally, in the beginning of next year, so in Q1, we might expect some further clarity.

**Lee Street:** Thank you very much.

**Jean-Pierre Lambert:** I have two follow-up questions. The global expansion in sectors adjacent to ECT, will that be US, Europe, Asia? That is the first question.

My second question is related to the regulatory expenses, which increased from 2% to 3%. There are some rounding, so I doubt the increase is 50% over the period but what are the drivers of the increase in the regulatory expenses in your plan?

**Wietze Reehoorn:** The growth initiatives in terms of the corporate bank growth, ECT, indeed is in the US, in Canada, in Europe and in Asia. It is broadly also reflecting the global lines of business we have there but also building on what we are already doing in our global line of business, controlled growth. That is what we are now expanding.

**Kees van Dijkhuizen:** Levies we expect this year to 20...

**Dies Donker:** 2015 was 220m. By 2020 we expect them to go to about EUR 300 million

**Kees van Dijkhuizen:** Right.

**Jean-Pierre Lambert:** Thank you.

**Robin van den Broek (Mediobanca):** I have one outstanding question relating to your dividend policy. So far, it has been reported DPS and 45%. I was wondering if there is a delay or if regulatory clarity comes in by January. Can you revise that or is that very unlikely? Maybe to get some colour on a higher DPS for 2016.

**Kees van Dijkhuizen:** I think we have to await Basel 4 and then presumably it will take some time to look in all the consequences. If depends a bit of course of how severe or not severe the outcome is. We take it from there.

**Robin van den Broek:** So, if there is a delay in the regulatory environment it is very unlikely that you change your dividend policy?

**Kees van Dijkhuizen:** Yes.

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

**Gerrit Zalm:** If there are no more questions, thank you very much for all your very good questions. It will probably my last conference and you will have to do it with some other people next time. Thank you! Bye.

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End of call.