Q4 2018 Analyst Call Transcript

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Conference call replay:
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Kees van Dijkhuizen: Good morning everybody. Welcome to the investor and analyst call for ABN AMRO's Q4 results. I am joined by Clifford Abrahams, our CFO, and Tanja Cuppen, our CRO. I will take you through the progress we are making on the execution of our strategy and financial targets, our guidance as well as customer due diligence. Clifford will then go through the details of our fourth quarter results. After that, Tanja will give you an update on developments in our loan portfolio.

I am now turning to slide 2 and I will highlight the main points of the fourth quarter.

The headline profit figure is EUR 316 million for Q4. Overall, I am pleased with our solid operational delivery with the net result impacted by higher provisions and impairments. Specifically, we took a cost provision related to the speeding up of two client due diligence remediation programs. While impairments were elevated this quarter, we ended the year below the through-the-cycle cost of risk as expected.

Our full-year result was good, as reflected by our ROE of 11.4% and cost/income ratio of 58.8%, just above our 2020 target. Cost are trending down and we are on track to deliver on cost, as laid out in our 'Banking-for-better' purpose. Capital generation is strong with our CET1 increasing from 17.7% to 18.4% this year. Our solid capital position allows us to increase the pay-out ratio to 62, as we propose a full-year dividend of EUR 1.45 p.s.

While the economic environment has weakened somewhat since Q3, we are reconfirming our target and financial guidance given at the Investor Day.Our strategy execution is well on track and I will update you here on slide 3. You will recognise our strategic pillars we presented at the Investor Day: support our clients transition to sustainability, reinvent the customer experience and build a future-proof bank.

I am convinced that sustainability can drive our business results. Clients are embracing our initiatives, for example by putting their money into our sustainable funds. Our employees also are very positive. We are making further progress on enhancing the customer experience. Last quarter, we introduced Wearables as a new payment option. Tikkie has been fully embraced by the Dutch and we are now expanding its functionality into online purchases. I am pleased with the progress Private Banking and CIB are showing, adapting their business for the future. Last but not least, the migration of our IT application to the Cloud is nearing completion and all identified applications have been decommissioned.

We take our role as financial gatekeeper very seriously and we have laid a good foundation. Since 2013, the number of employees involved in client due diligence has tripled to around 1,000 FTEs. However, we can do better. We have decided to accelerate two client due diligence remediation programs. For Private Banking and high-risk retail clients our review is largely completed. Our efforts will be stepped up at ICS, our credit card issuer, and Commercial Banking. We will also centralise remediation activities to ensure a coherent approach. Christian Bornfeld and I will oversee this project at Board level.

We are also raising the bar to deal with increasingly sophisticated financial crime, as well as increasing regulatory requirements and scrutiny. We are investing in new systems, new scales and increasing the use of artificial intelligence.

We have demonstrated a solid return on equity over the years and, as you know, we are committed to delivering strong capital generation. We will do this by diligent focusing on profitability. You know our capital targets. Our new SREP is almost unchanged from last year, except for the last year of the phasing in of buffers. So, we maintain our capital target range of 17.5% - 18.5% for 2019. Our fully-loaded Basel IV ratio increased to around 13.5% and above 14% if mitigating actions are taken into consideration. So, our capital position is strong and we are in a position to distribute additional dividends on top of our 50% target pay-out range. We proposed a dividend of EUR 1.45 per share for the year, in line with the cash dividend paid last year. This corresponds to a pay-out of 62%, up from 50% last year. We will continue to take a prudent approach to additional distributions, also taken into account regulatory and other developments.

Now, I would like to turn to the Dutch economy on slide 6.

The guidance for ABN AMRO, which we gave at our Investor Day, assumed a healthy Dutch economy and housing market, leading to growth in Commercial Banking and impairment levels below the through-the-cycle rate. I currently see no reason to modify our guidance or our targets. It is true that the sentiment on the macro-outlook of the European economy has softened somewhat, however, looking at the Netherlands confidence indicators are still very positive, although they have come down from peak levels.

We see the housing market cooling, which is not a bad development. A continuation of recent years would inevitably have led to problems down the line. Although prices are still increasing, the pace has slowed and transaction volumes are coming down.

All in all, we now forecast a growth of the Dutch economy at around 2% for this year, outperforming the 1% of the Eurozone, with 2020 lower but also positive. We have pushed out our expectation for the first ECB rate hike to early 2020. However, the impact is not material in 2019.

Our guidance is of course subject to no hard Brexit. We have the infrastructure and contingency plan in place for a no-deal Brexit and we have limited direct UK exposure. However, the macro-economic impact is difficult to assess.

Now, I would like to hand over to Clifford to take us through our fourth quarter results.

Clifford Abrahams: Thank you, Kees. When we look at slide 7, our fourth-quarter net profit was EUR 316 million and included a cost provision and elevated impairments. However, I consider our full-year results of EUR 2.3 billion to be good and more representative.

Net interest income was good, both for Q4 as well as over the full year. Expenses are down, reflecting cost savings and lower FTEs. Kees explained the customer due diligence provision.

Impairments were up again in the fourth quarter and Tanja will give you background on these numbers later. I will now go through these results in more detail, starting with developments in our loan portfolios on slide 8.

You know we focus on profitability rather than volumes at ABN AMRO. The Dutch mortgage market remains very competitive. We saw a number of banks increasing their market share and we remain disciplined in our pricing. This explains our modestly lower mortgage volumes.

CIB's loan book decreased during the quarter, showing good progress on the business refocus. The trade and commodity finance portfolio declined by EUR 1 billion during the quarter, as planned, while the decline in Clearing is more seasonal in nature.

I am pleased by our consistent growth at good margins that Commercial Banking is delivering, reflecting the strong Dutch economy. We expect loan growth in Commercial Banking to continue this year – 2019 – offsetting developments in the Corporate Bank and Retail. So, we expect total volumes for the group to remain around their current levels for 2019 but there may be some seasonal effects through the year.

Let me turn to net interest income on slide 9.

Net interest income remained strong during Q4. Our focus on maintaining lending margins offset the impact of low rates, which is leading to declining margins on deposits and lower income on our duration position. As you know, we expect these factors to put pressure on our NII during 2019, easing once rates start to rise again, now expected in early 2020.

Funding spreads picked up for the banking sector as a whole recently and we are looking for the business to pass on these cost to our clients.

Net interest margin rose on the back of stronger NII, supported by a decline of the balance sheet into year-end, reflecting active management and seasonal effects.

Let me now move to fee income on the next slide.

Fee income was up from Q3 and flat versus last year. Financial markets were volatile last quarter and this kept many Private Banking clients side-lined. In fact, equity market performance knocked off more than 5% from assets under management during the fourth quarter. Markets have recovered from year-end levels subsequently and with markets stay at lower levels compared to 2018 this would clearly impact fee income from Private Banking going forward. Clearing on the other hand, has benefitted from recent market volatility. So, we expect total fees to remain broadly stable in the short term, growing thereafter once growth initiatives start to pick up.

Other operating income was below the EUR 125 million guidance with some volatile items negative this quarter, namely hedge accounting in XVA (CVA/DVA/FVA). But for the year, we are well above our guidance driven by strong private equity results.

Now moving to cost on slide 11.

I am pleased with our cost development. As you can see from the left-hand chart, personnel expenses continued to trend out as FTEs have decreased 6% since year-end 2017. The decline is visible across all commercial segments, as our restructuring efforts continue to deliver. As flagged, we took a restructuring provision at Q4 and further digitalisation and optimisation measures amounted to EUR 69 million. Kees discussed the work we have planned to further strengthen our client due diligence where we took an EUR 85 million cost provision.

Other expenses are down when excluding incidentals and levies, branch reductions and divestments contributed to lower expenses. On the other hand, from time to time we do need to recruit external staff for example for projects. We expect this to be temporary. On the right-hand chart you will see we have increased cost savings from EUR 65 million last year. This brings total cost savings delivered since 2015 to just under EUR 700 million.

You can also see we are bringing down the seasonal fourth quarter ‘cost bump’ through better cost discipline. As you know, we are targeting EUR 1 billion cost savings including Corporate Banking, so we are well on track to reach a cost base of around EUR 5 billion by 2020.

I will now hand over to Tanja to pick up on impairments on slide 12.

Tanja Cuppen: Thank you, Clifford. The fourth quarter impairments were elevated, despite the generally sound economic environment. At the beginning of the year, we highlights the need to take impairments for specific clients in specific sectors and that this would continue during the year. The fourth-quarter impairments are predominantly taken in the same sectors. Full-year impairments ended below the through-the-cycle level, as guided.

Looking at the fourth quarter, I will run through the sectors individually. For Dutch SMEs around half of the impairments are from a limited number of clients in various sectors. The other half are model-related increases.

Impairments in natural resources were predominantly in offshore services, as this sector did not improve during Q4 and the remainder in oil and gas. Our base scenario is now a lower offshore market for a longer period of time. We have increased provisioning, assuming 2019 and 2020 will be weak in terms of new contracts. For 2019, we expect lower impairments given we exited weak players and increased our coverage.

The diamond industry is going through a transition and this is visible in our impairments. This could continue into 2019. We reduced our exposure by around 20% this year, as we are closing our Dubai activities. At the Investor Day I guided that impairments for 2019 are expected to remain below the through-the-cycle cost of risk of 25 to 30 basis points, assuming no hard Brexit.

I will hand over to Clifford.

Clifford Abrahams: Thank you, Tanja. Our CET1 ratio ended the year strong, at 18.4%, down slightly from Q3 and towards the top of our target range. RWAs were up during the quarter, reflecting around 5 billion impacted TRIM and model reviews, partly offset by lower business volumes, CIB and mortgages into year end. Our Basel IV CET1 ratio is around 13.5%, up nicely form 13.1% in Q3, being unaffected by the TRIM and model reviews and already strong well ahead of the phasing period. Going forward, I expect further TRIM and model review impacts as well NPE guidance coming in, mainly affecting Basel III. We see underlying business volumes to be broadly stable although we expect some unwinding of year-end seasonal effects increasing RWA short term for both Basel III and IV. Our leverage ratio rose to 4.2% during Q4. This was driven by a decline in the exposure measure, helped by seasonal affects.

I am pleased now to announce that we tend to go ahead with the merger of our holding company and the bank. We plan to obtain shareholder approval in April, alongside the regulatory approval process. On completion, the merger will add around 20 bps. to the leverage ratio and so, we will no longer constraining for our capital.

In summary, we continue to have a strong capital position and we are taking steps to improve our leverage ratio.

I would now like to hand back to Kees.

Kees van Dijkhuizen: Thank you, Clifford.

As you can see, we are well on our way to achieving our financial targets. ROE remains firmly within our target range. The cost/income ratio is just above our 2020 target, even after the provision for accelerating client due diligence programmes. We have a good view on when and where further cost reductions will materialise. I am confident we will meet this target. We are also gearing up for further cost reductions to reach a cost/income ratio below 55% by 2022. Our capital position and capital generation are strong and these allow us to increase our pay out to 62% over 2018. Though the economic environment has weakened somewhat since Q3, we are reconfirming our targets and financial guidance.

Before we go into Q&A, I would like to briefly recap the highlights on slide 15.

The fourth quarter headline results impacted by cost provisions and impairments but a strong operational delivery and a good overall result of the year. I laid out our plans with regards to client due diligence and Tanja gave some colour on the fourth quarter loan impairments.

Our guidance from the Investor Day is unchanged as the Dutch economy continues to perform. We proposed an additional amount on top of our target dividend pay-out and our strong capital ratio puts us in a good position to consider additional distributions for 2019. In particular, I am pleased with the progress and operational delivery of our ‘Banking for better strategy’, which will underpin our future financial results.

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

Farquhar Murray (Autonomous): Good morning, just two questions both on capital. The first is on TRIM. You are indicating an impact on the final quarter and an expectation of further headwind to come. On the 4Q impact I just wondered if you could split the 5 billion RWA increase between the TRIM component and the model update component. And then looking forward, what exactly has changed that is prompting you to now expect headwinds over 2019 and is it possible to give a range of outcomes in terms of what you might foresee?

Secondly, on Basel IV. We seem to have gone through about 13.0% to 13.5% and on my number that is about 5 billion RWA decrease under Basel IV. I just wondered if you could give us a sense of what drove that? Is it seasonality, could it reverse and is this volatility in the fourth quarter something we should get used to?

Clifford Abrahams: Farquhar, I will be pleased to pick that up. As you say, TRIM and model reviews together was around 5 billion for Basel III. In fact, TRIM was quite a small proportion of that at around 1 billion. That was in respect of our mortgage portfolio. So, we are through that process there. There were some other offsetting factors, which meant that retail banking and RWAs were pretty flat. As said, the bulk of it reflects model reviews in our Corporate Bank and Clearing. The corporate portfolio extends to both Commercial Banking and the Corporate Bank, roughly 50-50. So, you can see in the Commercial Bank RWAs are up about 2 billion and that pretty much reflects the model updates. These model updates are effectively ahead of TRIM. We do our own model reviews and we are clearly working closely with the ECB ahead of TRIM. We felt it was appropriate to update at Q4 on that. I think that deals with the first part of your question.

In terms of headwinds into 2019, I think we were clear at our Investor Day that we did see headwinds on Basel III. On TRIM we also identified NPE guidance but TRIM model reviews would no flow directly through to Basel IV, because we are constrained by the standardised approach, so it would not impact there. So, I think the headwinds that we are flagging today, are not new. We are just a few months on and we are looking further into 2019 and we see quite the possibility of TRIM of model effects coming through the year. But it will not affect Basel IV directly.

So turning now to Basel IV, I think we are pleased to see the fully-loaded figure of around 13.5%. So, at our target of early in the phasing period but four years ahead, we said in November that our Q3 number was around 13% but it was in fact a little over 13%, at 13.1%. So your figure of around 5 billion is right. Most of that reflects business developments, so volume impacts. We do expect some of that to unwind into Q1, perhaps around half, so you see the Corporate Bank being the principal driver of that. We have a long-term plan that we set out in August, to refocus and reduce that but we have seen in Q4 the effect of two things: that refocus as well as some seasonal effects that will bounce back.

I do not think Basel IV is particularly volatile in Q4 but we do expect, quarter on quarter, some movements as our methodology gets refined and as business developments flow through to those numbers. So, get used to it but I think the big picture that we are strong on capital, both for Basel III and Basel IV.

Farquhar Murray: Thanks very much.

Robin Van Den Broek (Mediobanca): Good morning. My question is also on capital and mainly why your Basel III target zone has not moved. I was under the impression that you basically had a fully-loaded Basel IV target range level of 13.5% and that getting to 17.5% to 18.5% Basel III target zone is basically a reflection of the RWA inflation under Basel IV. Now, I think you are telling us that this gap has materially decreased also on the back of this model-related RWA inflation you report, so why with a flat SREP-ratio for 2019 have you not adjusted this building block in your Basel III target range?

My second question is on the Know-Your-Client process cost provisioning. I think at the Capital Markets Day we talked about how you are positioned in this. Back then, you indicated that you were very comfortable with where things were standing but now all of a sudden we have this charge coming through. What kind of step changes do you see at the regulator? Is ING being used as a scape goat basically to up the game for others in the industry? How should we look at that? I am also struggling a little bit with how to see this is just a one-off, so maybe some comforting talk would be very helpful.

Clifford Abrahams: I will pick up the first question. We set the target in capital range annually, for consistency and predictability although we reserve our position to change it if there are material developments. So, we have kept it constant. You can see that we are well set under both metrics but note that in Q3, you saw RWA inflation going up from 35% to 43%. It has come back down again to 36, so that buffer of 4% to 5% we want to keep that fairly stable. But if there are material developments, for example significant further TRIM coming through in 2019, we will clearly look at it. But frankly, you should comfort from the fact that we are well placed within our Basel III target range and we are comfortable regarding Basel IV capital, as I said earlier.

Kees van Dijkhuizen: With respect to KYC, three months ago at the Investor Day we said that we already invested a lot in that area. As we mentioned today, that actually means that in the last five years we have tripled the amount of money and the people, so 1,000 people these days and over EUR 100 million of spending. However, what we also see of course in the last period is that the scrutiny of regulators across the banking sectors has increased. So, we feel now that it is good to do this acceleration of two of our programmes. We decided on that in December and that is on top of our ‘regular’ budgets, which is over EUR 100 million last year and even higher this year. We think it basically should be a one-off but of course we do not know. As said three months ago, we did not flag this one so down the road we might have other provisions but it is not in the plans. If that was the case, we would have done it now. But basically, it is on top and we feel comfortable doing that. Indeed, we were not foreseeing that three months ago.

Robin Van Den Broek: I have a follow-up on that. I think you mentioned somewhere that you temporarily take on 400 FTEs, so you can let them go after a two-year period to get things where you want them to be and then you do not need those people anymore?

Kees van Dijkhuizen: Absolutely. Indeed, it is exactly as you say with those programmes both in the world of ICS – credit cards and of course a lot of people – and in Commercial Banking a lot of clients are involved. These programmes often are two years.

Robin Van Den Broek: Thank you very much.

Adrian Cighi (RBC Capital Markets): Thank you very much. I have two follow-up questions, one on capital and one on impairments. On capital: you are above your target Basel IV ratio three years early or many more if you include the phase-in of the output floor. You are probably one of the very few banks in Europe in this position and while the 62% pay out is generous in normal times, it is less so in the context of a declining loan book. What are you seeing that we are not that justifies this level of cautiousness?

And then on impairments: what components have the increase in impairments come from the IFRS9 pro-cyclicality from the softening economic outlook you talked about. Maybe can you provide us with some sensitivities from a potential further decline in GDP-outlook?

Clifford Abrahams: Thanks Adrian, I will pick up the first question and Tanja the second. We gave a full account of our approach to capital management in November and we stated clearly that we will distribute surplus capital over and above our needs. We expect underlying business and business volumes to be sort of flattish, so we expect to continue to strongly generate capital. You have seen that during the course of 2018.

In terms of what are we seeing that you are not: we have flagged both in November and here what we call ‘headwinds’ around TRIM and NPE-guidance. We also need to reflect to where we are in the economic cycle. So, we clearly had an economic upswing over the last eight years or so. It looks like it is unwinding a little bit – further to your second question – and we just want to remain prudent at this point of the cycle. So, the 62% represents our first additional distribution over and above our targeted pay-out of 50%. That remains our policy through 2019. We are well placed to consider additional distribution in respect of 2019 but we will continue to be prudent about how we apply that judgment.

Adrian Cighi: Thank you.

Tanja Cuppen: And then your question on impairments. IFRS9 is of course a stage 2 provisioning and actually there you see very little movement, based on the economic outlook. What I referred to was especially the outlook also on the oil price. That has the most significant effect on a small part of our portfolio, especially in stage 3 files around individual provisions. So, the majority is in individual provisioning and there is a part of the increase in stage 3 – modelled provisions, but that very much has to do with the model update. So, so far a limited impact of the new scenarios.

Adrian Cighi: Thank you very much.

Benjamin Goy (Deutsche Bank): Good morning, two questions from my side, one on costs and one on capital. On costs: another year with a significant number of non-recurring items, again several hundred million and relatively consistent since the IPO. I am also just wondering how comfortable you are that we will finally see also the progress you are making on underlying costs, more in reported terms.

Secondly, you mentioned that the housing market is slightly cooling. Does it mean that you do not see a risk to any macro-potential measures by the Dutch Central Bank on the mortgage book and that of course impacting your capital?

Clifford Abrahams: I think you really identified one-off costs and there are really two chunks, restructuring provisions in respect of cost-reduction programmes and what I call ‘compliance-related’ over the last few years. In terms of restructuring provisions, we have now very largely taken the restructuring provisions in respect of cost saving programmes that we announced in 2016. You will remember the 900 and the 900. We also announced further cost reduction programmes last year in respect of the Corporate Bank and in particular IT in November. So, I do not expect material further restructuring costs that need to be taken in respect of for example staff reductions for those particular programmes.

I think around ‘compliance-related’ there was clearly a big chunk in relation to our SME derivatives programme. That is not completed although you see very little movement in the provision there in Q4, as our progress on that file has become a lot more confident and certain. Although there is further work to do, I think the provision is pretty solid. Kees commented on the KYC or client due diligence provision that we took in Q4.

Kees van Dijkhuizen: Thanks Clifford. With respect to the housing markets, as already mentioned by Clifford, the TRIM exercise is done. It is a large portfolio of EUR 150 billion. So, we are through that process. Despite what I said around the housing market we do not expect something special to happen there from the Central Bank at this moment in time.

Benjamin Goy: Thank you.

Bruce Hamilton (Morgan Stanley): Good morning and thank you for the presentation. I have two questions, first just on the provision and the provision guidance. In terms of thinking through the IFRS9 impacts and how those will flow through, how confident are you? You are giving us guidance of sub 25 to 30 bps. again but if Dutch GDP drops by 10 bps., what is the kind of sensitivity around provisions and how should we think through that? And just to clarify you are saying that the IFRS9 impact in Q4 is really related to a select part of the offshore oil bulk rather than more broadly.

Secondly, just on TRIM impacts in 2019 and just to clarify, too: are you saying that you have taken upfront the expected TRIM impacts in Q4 or can you remind us how much in basis points, how much headwind you expect in 2019? It sounds like you are saying that distribution is based more on the Basel IV capital outcome and not the Basel III capital outcome. Just to clarify that correctly.

Tanja Cuppen: Thank you. I will take the first question on IFRS9 and the impact of GDP. Unfortunately, it is not so simple to say en express it as for example a multiplier on basis points GDP growth, so the impact of IFRS9 comes through the scenarios that we apply, the amount of assets that we have in the different stages, so the transition from one stage to another which of course takes time. Even in a deteriorating economy it takes time before you see it in the credit and then it has an impact on the underlying collaterals. So, there are several elements in there. In our guidance, we include of course also the stage 2 provisioning and we do not expect a significant impact from stage 2 in 2019.

Then you had a question on the offshore oil book but I was not sure exactly what your question was.

Bruce Hamilton: Sorry, your comments on IFRS9 impacting Q4, it sounds like those principally relate to a select few energy exposures rather than to a broader impact on the book.

Tanja Cuppen: Yes. I guided at the beginning of the year that we are quite cautious in our outlook on the offshore book. In the meantime, we have reduced the exposure in this book quite considerably, 20% overall exposure and then especially on the drilling segment. Where we were most negative we have even reduced it by 50%, so we also feel a lot more comfortable on our exposure in this book, given that we have exited the weak clients here.

Clifford Abrahams: Bruce, a follow-up on the provision. One thing to know is that we expect to take an expense provision in respect of our Belgian acquisition, which is pretty modest, but I just wanted for completeness wanted to mention that.

On TRIM, I think it is quite possible that we have material further TRIM over and above the model review figures that we took in Q4. I think we have been flagging TRIM consistently. We have now booked it in Q4 and we are clearly flagging the possibility of material TRIM this year for Basel III and that is likely to be in the corporate space. I think we need to be clear on that.

As you indicated that would be a Basel III matter and would not flow through to Basel IV in terms of TRIM and model reviews. In thinking about our capital target range and our ability to pay dividends, I think you are quite right that from a capital point of view it is Basel IV that is the primary ‘constraint’ and then we have a very large buffer over and above our SREP on Basel III, and that reflects Basel IV. So currently, we continue to think giving a Basel III target range is the right way to think about things, but it is very much informed by our Basel IV RWA inflation. I would further point out that the leverage ratio remains our tightest constraint. We indicated that in November. We are really pleased that we are getting on with the legal merger, because that will would substantially relieve that constraint.

Around dividends, we are in a transition period and while we would all like a mechanical approach the fact is that we are going through what might be an inflection point in the economy as well as a transition in terms of the capital rules. We want to put that all together and arrive at a judgment as to what our surplus capital is. We made that judgment in respect of 2018, hence the further 12% pay-out ratio. So, we remain capital generative and we remain well positioned in 2019 to consider additional distributions for the year 2019 and we will finalise that judgment this time next year.

Bruce Hamilton: Thank you. And just to follow up very quickly, the leverage impact from the structure change. How long will it take for that to come into effect? Is that something that you should be in position by this time next year when you pay the next dividend?

Clifford Abrahams: Yes, we expect the legal merger to be executed during 2019. We are looking for approvals from our shareholders during Q2 and the regulatory process will run along in parallel with that. So, we are not calling out a date but it is very much a calendar year 2019 matter.

Bruce Hamilton: Great, thank you.

Stefan Nedialkov (Citi): I have a couple of questions. Sorry to come back on Basel IV but I am still quite a bit unclear on your guidance. When I look at slide 5 of the deck you basically say in footnote 2 ‘implication of mitigations to reduce Basel IV RWA inflation by one fifth. That seems to be implying around 100 basis points of mitigation. At the Investor Day you were talking about 50 bps. or so. So, there are 50 bps. more here and therefore, what you say on slide 5 – Basel IV should be more than 14% above mitigation – is more like 14.5%. Can you please confirm whether my reading is correct? Secondly, what are these extra mitigation activities that you are thinking about?

A related second question is whether you can explain a little bit more the underlying growth Basel IV impact, going from 43% inflation to 36%. How exactly does the corporate volume effect play into that? Do you have better calculations now on the impact of Basel IV on corporates or is it something else?

Clifford Abrahams: This is a challenge for all of us, given the transition and it is not a formal reporting basis at this point. So, the one fifth that you flagged is entirely consistent with what we said in November. We said we could mitigate approximately 20% of the RWA inflation and you are right, it is about 100 bps. That was true in November and it is still true today. Those mitigations we expect to implement over time and to be in place by the phasing period. Some of that, our formal estimate of Basel IV, you would expect to see dripping through that period. In fact, we have booked some of that already in Q4. So, there is no change in there. The 13.5% – I explained earlier – has gone up reflecting the decline in our underlying business volumes, in particular in the Corporate Bank, some of which is seasonal. So, we will see some unwinding of that but not all of that 0.4%-0.5% difference. The big explanation in terms of 43% to 36% reflects the TRIM and model reviews that we have booked in Q4. So, our CET1 ratio for Basel III is lower because we booked 5 billion of TRIM and model reviews. Frankly, that figure was not in consensus. There is no reason why it would be. That accounts for the somewhat lower Basel III CET1 ratio. TRIM and model reviews do not flow through Basel IV, so the gap between the two is narrowed to 36%. So, that inflation would then decline further in respect of mitigations, but those mitigations will be delivered over time. I hope that has given some clarity to your questions. I am happy to pick it up afterwards.

Stefan Nedialkov: Sure. Just to follow up: so, you have always guided implicitly to 100 bps. of mitigations?

Clifford Abrahams: No, we have guided to 20% and always we gave that guidance in November. So, since November we have guided to around 20%.

Stefan Nedialkov: Great, because I thought that in November you were guiding a little bit above 13% pre-mitigations and 13.5% after mitigations.

Clifford Abrahams: We have tended to give rough figures, you can see on page 5. We said around 13.5% and above 14%. 20% is around 100 bps. But we wanted to convey comfort that we are well place to Basel IV four years ahead of phasing. We do not want to report specifically on mitigations on a capital regime, which is yet to be implemented.

Stefan Nedialkov: Sure. I understand. It is just that when you say 'more than 13.5% …' most of us would automatically assume 13.5%. I personally never came across the 20%-number before. It is good to know that at the end of the day you have 50 bps. up your sleeve.

Clifford Abrahams: Other banks chose to report the way they see fit. We know others do it. We think the right way is to report our best estimate of Basel IV based on today's balance sheet. And be really clear on that and also be clear on the mitigations that we see possible and that we are working on. That is how we see the right way to report these things.

Stefan Nedialkov: Thanks, Clifford.

Kirishanthan Vijayarajah (HSBC): Hello there. Firstly, can I go back to the shrinkage in the Dutch mortgage book? I appreciate there are some seasonal impacts there but I wondered if the pricing environment got a bit more challenging for you there and with the slower Dutch housing market that Kees was mentioning earlier, could that shrinkage in the Dutch mortgage book probably get a little bit worse from here?

Secondly, could we have an update on where you are in terms of reducing your exposure to private equity? There is no mention of it in the slides. Is it still a priority for you and how difficult are you finding it to get outside investors for that book? Importantly, should we see any movement on the capital from the private equity side before the end of 2019, please?

Kees van Dijkhuizen: With respect to the mortgages, indeed a decline of the book of EUR 1.8 billion on the EUR 150 billion portfolio last year. That is indeed due to the fact that we have been cautious. If we have to choose between market share or volume and profitability, we chose for the last. That was the reason why it went down a bit, also together with that it is more and 20- and 30-years interest rate mortgage, which is more the sweet spot of insurance companies and pension funds in the Netherlands. We are looking into that area as well to make up funds which we can originate to distribute in that area but we are also looking at market share that should not go down too far. We are looking in that area where in the mortgage area we can perhaps make some inroads where possible.

With respect to the exposure of private equity that is done in Q4, so that is no longer in our figures.

Kirishanthan Vijayarajah: Could you quantify the benefit there, because it is not mentioned?

Clifford Abrahams: It is part of the reason for the decline in RWA pre-TRIM and model reviews. It is not a big figure because we have sold a minority in existing funds but also made a commitment to further funds. So, we have deconsolidated that business. It is done, as Kees said, it is closed. We see some modest RWA benefits of that in the figures. You see that in the Corporate Bank, so going forward do not expect a further step change there.

Kirishanthan Vijayarajah: Understood. Thank you.

Jean-Pierre Lambert (KBW): Good morning. I have a general question about the impairments. Could you give some colour on what you see as impairments, as cyclical or structure? By that I mean, was there an issue in the origination of your loans in the past and are you going through the cleaning up or is it realty cyclical due to the change in economic environment or sector conditions? Is there any change in your origination policy, which you have in the pipeline or implemented?

Tanja Cuppen: This is of course a very broad question. If you see what has happened this year you will definitely see that the issues that we have are related to certain sectors and also very much the conditions in these sectors. So, I would not call it 'general economic circumstances'. Again, the diamond sector is different from energy and specifically offshore. Should I repeat it? Could you hear me?

Jean-Pierre Lambert: I understood. I could hear you.

Tanja Cuppen: Thank you. So, those were the sector conditions. In certain segments we definitely have adjusted our underwriting standards, specifically in the energy sector where we clearly look at the structural developments in this segment. More in general I can say that we follow the developments in the industry, so leverage lending for example has our attention.

Jean-Pierre Lambert: And if we look at the Dutch SME, you mentioned various sectors. Can you specify them? Is it transportation?

Tanja Cuppen: In the Dutch economy in very different segments we see provisions. There is really no line to say but I can mention that in certain sectors we see a bit more stress. Transportation is one of them but also retail. I have mentioned hospitals before and also in the agri-sector we see in some specific segments some pressure. But you cannot say there is really a trend.

Jean-Pierre Lambert: There is no common factor to those?

Tanja Cuppen: No, I think they are very specific. We all read about the pressure in retail; there is a structural change in this segment and the issues we see in the healthcare sector are again related to other developments. I would say there is no general trend. The economic development in the Netherlands is sound and there is not an underlying economic reason that we see these issues.

Jean-Pierre Lambert: Thank you very much.

Clifford Abrahams: Just to add further. On the Commercial Bank – SME – around half of that reflects a portfolio model type of review rather than sector-specific. I do not know if that qualifies as structural cyclical. I think around the Corporate side we have downsized or continue to downsize our exposure to some of the sectors that have been challenged last year. So, I think that goes to the sort of secular versus the cyclical nature, the question you have asked.

Jean-Pierre Lambert: Thank you very much.

Albert Ploegh (ING): Good morning. I know already a lot has been said on the Basel IV and Basel III capital range target but should I take from all statements that keeping that target unchanged is more a question of timing in the light of things you reflect to or is it meaning that at year-end all things being equal you could indeed lower this, as most of the impacts are not Basel IV-related? Or should we also take a bit caution there, as you pointed out, given where we currently are in the economic cycle to better understand this and maybe manage expectations there a bit?

The second part of the question is again on the risk costs. Looking at 2018, the diamond sector had in Q1 – if I am not mistaken – and also in Q4 quite elevated impairment charges and also quite sector-specific. In the previous question healthcare was also reflected as quite a specific element in 2018 but together they are quite a big material amount of the total EUR 650 million charge you have taken over the whole year 2018. So, it feels that you have built in some headroom in your guidance, being below 25-30 bps. across the cycle and that is the best guidance you can give for 2019. Is that a fair reflection or am I missing something?

My final question is more on the P&L on the NII. It was a pretty good quarter in terms of NII and I was wondering whether you can share some comments on what is happening on the mortgage market. It feels that some of your peers are telling that the new underwriting, on the new production the margin is actually starting to improve from the second half of the fourth quarter onwards. Is that something you see as well?

Clifford Abrahams: Shall we take in order? I think you had a good handle on how I think about the target capital. If we see very material TRIM and model reviews coming through in 2019, that will squeeze the RWA inflation in respect of Basel IV and will trigger us to relook at the target capital range under Basel III. We do not want to keep moving it every quarter and we will reflect on where we are in the economic cycle but fundamentally the Basel III reported range is driven by our view of Basel IV. I think at some point we will move to a more formal Basel IV target but we think now is not the time to do that. It is still a bit early given the uncertainty about that particular regulation.

Tanja Cuppen: On the guidance of risk cost: you outlined already the provisions for 2018, the specific sectors. In some of the sectors we reduced our exposure, so indeed, we feel better positioned for 2019 given the reduction measures we have taken in these segments. But it is early in the year and it is also early in the year to give guidance for the full year. We feel confident with the guidance that we provide but we see also uncertainty in 2019, especially if you look at Brexit that is coming up. Dependant on how that will pan out, there will be an impact on the Dutch economy. It is very hard to judge how that will exactly pan out.

Kees van Dijkhuizen: With respect to the mortgage market you referred to, I would say that there has indeed been some change in market shares in the market. I think especially ING …

Albert Ploegh: It is a bit more on the margins. It seems that some peers are saying that the margins are improving a bit in the late part of Q4, so a bit of a change compared to the first nine months of 2018.

Kees van Dijkhuizen: I think it depends a bit on the interest rate period. I do not think it is across the board actually.

Clifford Abrahams: I noted those remarks. It depends where you are coming from. We focus on delivering our hurdle rates, on mortgages and having seen material change in share from Q3 to Q4 we will continue to manage that book for profitability. We will see where conditions develop. But nothing new beyond what Kees said. You will have to ask those other banks what they are seeing.

Albert Ploegh: Thank you, I will do again.

Alicia Chung (Exane): Good morning. Sorry to just go back on the capital one more time, but it is very clear now that you have said that Basel IV is the primary constraint. It now looks like you are at 13.5% pre-mitigation and 14% post-mitigations. Looking forward in terms of the potential headwinds, obviously we only care about the ones related to the Basel IV equity Tier 1 ratio. In a lot of ways TRIM is a bit of a red herring and it sounds like IFRS 16 should not substantially impact you either. The main other regulatory headwind is the NPE regulation. I am just wondering what exactly is it that concerns you about this regulation. Is it simply because your peers have not really brought this up, which makes me think that you think it could potentially more substantive impact for you? Are you able to give any guidance as to what the potential impact could be or how we should think about it?

I have a couple of smaller questions. First of all, you mentioned in your press release that you have a 60 bps. AT1 shortfall. What are your plans to fill this? Will you look to issue this year?

Finally, on the leverage ratio. Do you have any better view as to when CCR2 will be in place? I know you said previously that there were some discussions underway at the regulatory level about possible early adoption; is that still up for debate or is it just 2020 – 2021?

Kees van Dijkhuizen: Alicia, we love to talk about capital, so perhaps Tanja, can you say something on NPE?

Tanja Cuppen: On the NPE – the non-performing exposure – and the prudential backstop – that is what it is really about – there is regulation that will have an impact in the future, where we as banks will need to manage towards but we see regulators and also the European Commission looking into this as well and looking into an early phase-in. It is a bit uncertain how that exactly will pan out and that is why we are cautious and mentioning this, because it is on the existing stock of non-performing exposures. Our non-performing exposure is quite decent, with 2.2% impaired ratio but still we feel that we should prepare for that. That is why we have mentioned this.

Alicia Chung: So wat exactly can be the issue? Is it that they could increase the risk weights on your NPEs?

Tanja Cuppen: On the NPEs we take a provision and then they say if your non-performing exposure is for a certain period non-performing you need to provision, regardless of your position. For uncollateralised exposure it is 100% after three years and for collateralised exposure it steps up over time and it is 100% after seven years, if I am correct. That means that regardless of your collateral position, if you have exposure that has been on-performing for quite a bit of time – restructuring taking time – it has an impact on provisioning and you need to take it as a prudential provision.

Alicia Chung: So, your provisioning guidance for 2019 of less than the through-the-cycle level of 25 bps. does that include some impact from NPE guidance or should we consider that on top of?

Tanja Cuppen: It is prudential, so it is not the same as – to make it complex – an IFRS9 provision, so it will probably flow through the way we calculate our capital ratios, so Pillar 2. It is also not expected that it will have an impact in 2019 but in the years to come, to phase in over the next seven years because that is the horizon in the guidance that was issued in 2018 on non-performing exposure.

Clifford Abrahams: But that will impact all measures of all capital ratios, leverage ratio, Basel IV, Basel III, so I think you put your finger on something there, Alicia!

In terms of the AT1 shortfall, that is the function of the Q&A guidance we had 18 months ago and will be resolved when we execute the legal merger.

Kees van Dijkhuizen: Your third question was related to leverage. That is still planned for 2021. We hope it is earlier but that is the date.

Alicia Chung: There still is a debate of some sort.

Kees van Dijkhuizen: Not yet, no.

Alicia Chung: Okay.

Kees van Dijkhuizen: Brussels!

Alicia Chung: Thank you.

Benoit Pétrarque (Kepler Cheuvreux): Good morning. To come back on the non-performing exposure, for sure you book extremely well. You know how much still non-performing is after two years and you probably know as well how much impact this will have on your book over time. So, could you provide a little bit more guidance in terms of impact on your Basel IV CET1 from this NPE guidance? That would be very useful because it looks like one of the main constraints under Basel IV because you have already reached the 13.5%.

Then on the resize. Coming back to the reduction of non-core and cyclical clients you were aiming for, how much have you executed so far in 2018, especially looking at the oil and gas book and also the offshore books. How much de-risking have you implemented?

Generally, it looks like you have been increasing your NPL coverage-ratio on Corporate exposures of several quarters now. It seems that you are happy to bring it further up. Could you give a bit of direction for next year in terms of the NPL coverage ratio? Are you happy with the current level or do we need to expect a small uptick in 2019?

Tanja Cuppen: So maybe first on the non-performing exposure guidance. The guidance is for new exposure that becomes non-performing as of – I think – 1 March 2018. Of course, it comes in after two years or gradually in a period of seven years. So, we will manage towards it. There is no immediate impact there and we will take it into consideration in our restructuring activities.

The other piece is the phase-in for the stock that we have currently and that is something we are working on. I cannot provide you guidance. Of course we have a number of what the impact would be if it would be introduced today but that is not happening. There will be a phase in and of course we will not just wait and see but also manage our portfolio towards this. So yes, it is very hard to give an exact number at this point in time but I do not expect this will impact the number for 2019 as guided for provisioning. It is a multi-year activity that we embark upon.

With respect to the offshore market, as said, we have reduced quite a bit for example our offshore drilling portfolio where we have reduced most. It has been reduced by EUR 500 million during 2018 and that is a combination of sale of assets, repayments and some write-offs. So, that is a significant reduction but also in other segments we have made some smaller reductions.

Benoit Pétrarque: On this point, how many losses did you take on this kind of clean-up in 2018? Do you have a figure?

Tanja Cuppen: No, I do not have that at hand. You have seen the provisioning level; on some of them indeed we have taken write-offs and some we still sit on the provision and we can recover the amounts as well.

Then on the NPL coverage ratio. Yes, we do not have a target. You have seen that it is increasing a bit and that has very much to do with the scenarios that we use for future cash flows and the valuation of collaterals. If these become more negative it has an impact as well on our recovery rates and therefore our coverage ratio.

Benoit Pétrarque: Thank you very much.

Marcell Houben (Crédit Suisse): Good morning. Sorry to keep hammering on the loan loss provisions there. Just on the diamond sector for 2019, what is your visibility on this portfolio? Is the provision taken in 2018 the best guess for 2019 or do you expect it to be lower or higher?

My second question is on the assets under management in Private Banking. We have seen an outflow of EUR 3.2 billion. Is there a particular drive for that? Is that seasonality?

My third question is on the NII in the Corporate Centre. It has turned positive. Is that sort of the run rate going forward or is there a one-off in there which we should take into account?

Tanja Cuppen: On the diamond sector: we follow that sector very closely. We know all individual clients and the provision that we have taken is based on all the information that we have today. It is a sector with risks, so we continue to watch it closely. 2019 will be a year in which we pay a lot of attention to this segment again. It is very hard for me to put a specific number on this portfolio but I think the good thing is that we are reducing exposure quite a bit and therefore also our downsize risk.

Clifford Abrahams: I will pick up the other two questions. So, on NII you are right. In Group Functions that was a positive EUR 14 million. About that amount was, as I would call it, a one-off catch up that we do not expect to recur but if you look at the figures quarterly, they bounce around small negative – small positive. So, the guidance is roughly zero there but there is a big swing between Q3 and Q4.

In terms of Private Banking, we saw EUR 3 billion. They were fairly low-margin custody type of assets primarily in the Netherlands. What I would point out to that business is that certainly Q4 was a challenging environment for that business. The equity market is down and during that sort of environment you see clients thinking about how they position. Some clients are looking to step up, others are more nervous. We have seen some migration from discretionary to advisory to self-executing in that portfolio during that period. Mark it is a come-back again but I think volatility combined with secular trends means we see a sort of secular margin pressure, which is why we are looking to grow that business to deliver on scale benefits in what is still a very strong ROE business.

Marcell Houben: Thank you.

Raul Sinha (JP Morgan): Good morning. I just like to come back to and follow up on a few things that you probably already have discussed on the call. I think the first one, Tanja, unfortunately on the coverage ratio: when we look at your corporate NPL book, the coverage ratio on that on the sort of mid-thirties level does not seem very high from the outside. I was wondering if you might be able to share the amount of collateral you have and what the coverage ratio might be, adjusted for collateral. I guess that is probably going to be a source of impairment going forward, so I am trying to understand how much comfort you might have there.

The second question is on dividends. You guys have been very clear in terms of the various moving parts but consensus does have a mid-seventies pay-out ratio here. So, when we think about the various issues you have to keep in mind, regulatory as well other developments when it comes to dividend pay-out. So I was wondering if apart from regulatory development there is something else you would also look at and obviously put the leverage ratio in the regulatory development or on the dividend.

Tanja Cuppen: On your first question with respect to the coverage ratio, we are comfortable with the coverage ratio that we have today, indeed around the mid-thirties. It is not that we correct for collateral or whatsoever; it is an integral part of our analysis and valuations of collateral we take of course into consideration. So, that is all I can say about it.

Kees van Dijkhuizen: With respect to dividend, as you know, we have always been cautious with respect to guidance of percentages. We have said 50 plus additional and with respect to additional indeed commercial, depending on the growth and/or decline in portfolios and indeed, the leverage ratio but also NPEs and other developments in the area, TRIM, add-ons and alike. So yes, it is a mixture and, as said, we are not going to discuss that every quarter. That is not the idea. We do that at the end of the year and try to guide you in between as good as possible every quarter, as we do today.

Raul Sinha: Thank you.

Johan Ekblom (UBS): Just two questions to follow up. First, in terms of the legal merger, do you expect any upfront cost to execute that? You also mentioned that it should give cost savings in the longer term. Can you give us an indication of roughly what size?

Secondly, just coming back to the CIB restructuring: we have seen a big drop in both loan volumes and RWAs and I think you highlighted some of this as seasonal but if you look at the revenues at least NII is holding up very well. How should we think about where you are in the process of exiting the exposure you want to there? Should we still be looking at this EUR 34 billion RWA in 2020, what kind of revenue impact should we expect and why is it not more visible in Q4, given the large reduction in the loan book?

Clifford Abrahams: On legal merger, it is a technical process. It is legal, so there are lawyers' fees but that is not material to the group. The cost savings and simplification again are not material but we produce two annual reports for example, one for the group and one for the bank. We will only need to do one going forward. It is that sort of thing. So, it is a helpful simplification but the primary driver is to deal with our capital ratios.

In terms of the Corporate Bank, what you have seen, as you would expect, is decline in the short-term business. We called out the Trade and Commodity Finance business where we have seen that business make good progress. That business is by definition shorter-term, it is also somewhat of a lower-margin business, which is why you have seen limited effect on NII. Some of the seasonal effects are really quite late in the year in Clearing and alike, so that will have a limited impact on income. I would summarise, as Kees did earlier, we are making good progress on the Corporate Bank. The RWAs are EUR 35 billion, even including TRIM and model reviews, and that is materially down on EUR 39 billion in Q1 last year. We retain the targets we set out but RWAs but also NII, where we gave some indications of the impact on revenue and cost as well. So, we are very much on track but do not expect further material RWA declines from here. What you would expect is more of a rebalancing as we shrink the portfolios that we are less keen on. Tanja indicated the progress we are doing there. We continue to grow the portfolios where we have a long-term interest. So hopefully, that gives you the sort of balanced guidance you are looking for on CIB restructuring.

Johan Ekblom (UBS): Thank you.

Bart Jooris (Degroof Petercam): Hi, a lot of my questions have already been answered. I am sorry, I had some noise here and maybe this question has been answered. Could you give us an update on where you are exactly in reducing the diamonds portfolio after this quarter, when would this be finished and how much would that be?

Then on the CCD measures: do you believe that this will have any commercial consequences? Could you give us an idea on what those will be?

Finally, a small update on the SME derivatives case? Do you expect that to close in the first quarter or the first half of this year?

Tanja Cuppen: First your question on the diamonds segment. You are aware of the fact that we have closed our office in Dubai and that is where we are reducing our portfolio. This is a multi-year process. We are making significant process but I do expect that this will take the coming two years at least to achieve the reductions that we focus on.

Bart Jooris: And if I may follow up on that? The impairments that you took there, are there also possibilities that those closings lead to additional impairments?

Tanja Cuppen: Of course, I mentioned before that we monitor this portfolio very closely and I cannot exclude that this will happen. We provide to the best of our knowledge at this stage.

Kees van Dijkhuizen: With respect to client due diligence, we actually do not expect any material commercial effect there. RHD indeed, Q1 is on planning.

Bart Jooris: Okay, thank you very much.

Nick Davey (Redburn): Good morning. I have two questions. The first is on the dividend. I know you have said a lot about this already but the short version of my question is: why not have announced some sort of progression in the ordinary. I understand we have talked a lot about Basel III and Basel IV and the pay-out ratio going up and all of this, but I suppose when it is all said and done it is stable and ordinary for the full year and then in the year you become incrementally positive about Basel III mitigation, about Basel IV, about leverage, your underlying earnings power has improved. So, was there some discussion at the board level about just the progressing the dividend in absolute terms? Could you give us any sense as to why not have shifted it on at all? Some of your peers in a less luxurious position on capital are at least showing some sort of ordinary dividend progression.

Clifford, you mentioned funding spreads going up and we expect our customers to pay. Can you give us some more detail on that? Are there segments of the market where you are beginning to see repricing or are there divisions where you are putting though higher intragroup funding costs and are you expecting them to compensate? Just to give us a sense of where to look if we are going to see a loan book repricing.

Kees van Dijkhuizen: Thank you very much for your two questions. With respect to the first one, regarding dividend, I think what you should take in mind as well is that last year of course there were a lot of incidentals influencing actually the figure. The EUR 2.8 billion, as you know, included the sale of Private Bank Asia and it included actually negative impairments, 63m instead of any other 'normal' figure. So, last year in a way with the 50% and the 1.45 was actually high compared to what the underlying situation was. Issue increase to 62% and we gave a new percentage for this year. As said, we will look into it later this year. Everything you said with respect to developments are appreciated; those are the developments we also see.

Clifford Abrahams: I think around funding spreads: I would not highlight any business in particular but we have quite a mechanical approach to funds transfer pricing, so when spreads go up in terms of our funding costs, that gets passed through the transfer pricing and the businesses are very focused on delivering hurdle rates. So, those businesses will seek to earn those spreads and will trade through in terms of margin volume in order to deliver that over time.

Nick Davey: Thanks Clifford. And then just to get a sense then, do you change the fund transfer pricing based on the experienced funding costs? You have to be issuing a refinancing debt on the high rates for that or is reflecting market rates pushed through at the front book?

Clifford Abrahams: It is a bit of both. We also take a view on how frequently. We do not want to do it all the time because we are in the market with clients but when you see material moves, both up or down, we think it is important to pass that on in the benchmark that our front office staff are dealing with. Then it is their judgment to see what they can get in the market place, knowing they need to deliver on their hurdle rates over time. They need to trade through that sort of volatility. That is how we do it.

Nick Davey: Interesting. Thank you. And the fact that you say that you do not do this all the time, how has that been? Has that been reset in Q4?

Clifford Abrahams: I think it is clear that spreads have gone up in the last few months …

Nick Davey: And the FTP has responded.

Clifford Abrahams: Yes, but we do not do it mechanically to clients. That is the job of our front office teams to just sort of trade through that. Over time, we expect them to deliver the hurdle rates.

Nick Davey: Thank you.

Omar Fall (Barclays): Hi there, just two questions, please. Firstly, just coming back to the guidance for a potential impact from NPE and the update from the SSN. The EBA had an impact study last year, showing an accumulative negative impact of 56 bps for the average European bank over seven years. I am not sure how updated it is. The latest guidance, given the average bank include Southern European banks with significantly greater stock of NPLs than you I struggle to understand how this is a meaningful impact, unless your books are modelled at an extremely generous level, which is possible. So, what is it about your loan book that makes you more susceptible to this regulation relative to anyone else?

Secondly, there is obviously a lot of uncertainty around waiting for potential regulatory impacts and the volatility around the capital ratio but it is something that you as management can act on and that is to more aggressively address the loan book. If you take the RWA volatility, the asset quality issues, why is it right for shareholders that you do not do more than the 5 billion of RWAs that you have guided to?

Tanja Cuppen: Your first question on the NPE guidance: you are concluding that we would be susceptible to the impact of this new guidance. That is not what we believe is the case but we want to make sure that we are well prepared. As said, it is a bit unclear how the impact on existing stock will pan out. I do expect that in the coming quarters that will become clearer and that we can provide some more insight here. As said, for new non-performing loans we will manage that actively.

Omar Fall: I guess the broader point is that you seem to be painting it the last meaningful impediment to returning more capital to shareholders. I am just thinking that if we are talking about some 50bps over several years why that is even part of the debate.

Clifford Abrahams: You have given all sort of implications regarding NPEs. We are flagging NPEs. I will just be direct: we appear to be very well capitalised under Basel III and we are having a discussion about capital return. We are being open about the regulatory headwinds. You have other banks where they are being less open about those regulatory headwinds and they are not in this discussion. They have lower capital ratios and the prospect of material dividend increases are perhaps more academic. So, we do see headwinds. If they were immaterial, we would not have flagged it in our reports. We need to manage the transition of a challenging Basel III to Basel IV environment in a prudent way. We are not overly negative regarding the economy. You have seen our positive statement regarding guidance, but it is possible. The economy is perhaps weaker than we all expected six months ago, so this is the background. You can all it prudent but we think 62% reflects a material uplift in pay-out for the reasons that Kees set out. Was there a second part of the question? I think we have probably dealt with it.

Omar Fall: Thank you.

Ibrahim Said (Deutsche Bank): Hi, just a little bit more clarity. Let me come back to the AT1. You talk about the legal merger impacting the deduction but when you talk about the 60 bps. shortfall, is that on a pro-forma basis? I am just trying to think about what quantum you are talking about because the current RWAs you get a 630 million shortfall. Are you saying that if you merge them that requirement will go down? Did I understand that correctly?

Clifford Abrahams: Yes. When we did our inaugural AT1 issue, that substantially dealt with the shortfall. Then the Q&A meant that we could not include the element of surplus associated with the AT1 issue. Hence, the 60 bps. So, the legal merger substantially addresses that.

Ibrahim Said: So just the merger itself will close the gap, so it is not incremental issuance?

Clifford Abrahams: That is right.

Ibrahim Said: Understood. Okay, thank you very much.

Stefan Nedialkov (Citi): Just two quick follow-ups, please. On the dividend accrual for 2019, given your target is 50% + is special dividend, do we model the accrual at 50% in 2019 or do we assume the actual 62% paid out in 2018?

Secondly, just to cut through all this Basel IV and mitigation noise, could you just very simply tell us what is the input versus the output floor impact of Basel IV inflation? So, of the 400 to 500 bps. impact before mitigations, could you tell us what percentage input floors and therefore phased in by 2022 and how much is output floors and therefore phased in by 2027?

Kees van Dijkhuizen: Regarding your first question, we will accrue 62% this year. Input output floor, Clifford?

Clifford Abrahams: We are constrained by the output floor and that is the dominant driver. The input floor gives an RWA that is meaningfully less than the standardised approach, so we expect a more gradual phased-in approach to Basel IV though the phase-in period. We have not disclosed the delta between those two. The rules are not entirely clear. I think it is quite possible that TRIM impacts the RWA input floors, so we think it is premature to give that guidance.

Stefan Nedialkov: Thank you.

Kees van Dijkhuizen: Operator, I think we do not have any further questions. Is that the case or did new questions come up? It is 12:30 so we have to close the call.

Operator: There are two more additional questions coming up, sir.

Kees van Dijkhuizen: If they are new questions, then please add. If it is already discussed, then I would like to ask to connect with Dies Donker, if possible.

Jose Coll (Santander): Good morning. Very quickly, because I think we already touched upon this. It is about the stake the NLFI still has past that 56% stake. I just wanted to hear you say this, I guess. In your capital targets is there any sort of guidance from the NLFI on how much capital you have to have?

As you have made comments on the press regarding that you would expect that in 2019 the NLFI kept reducing their stake, is there any update that you can give there?

Kees van Dijkhuizen: That is indeed a new question, so thank you. No, we cannot guide you on that. That is really a decision taken by the Ministry of Finance around the stake. They have not sold it since September 2017, so some time is gone between now and then. Indeed, I have expressed my hope and perhaps even my expectation that with a full new year and market permitting of course that there might be some further sell-downs this year. But I cannot guide because I do not know and it is up to the Ministry.

Jose Coll: Just to be clear, so there is no sort of discussion with the NLFI regarding your capital targets?

Kees van Dijkhuizen: No.

Jose Coll: Thank you.

Kees van Dijkhuizen: Thank you very much and thank you all very much for all your questions. Operator, we are also thanking you for handling that. I would like to say again that this concludes our Q4 results update. Good bye and see you on a roadshow or next quarter.

Thank you very much!

---End of call