# Q1 2017 Conference Call Transcript

ABN AMRO Investor Relations
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## Participants: Kees van Dijkhuizen, CEO; Wietze Reehoorn, CRO; Alexander Rahusen, CFO ad interim; Dies Donker, Head of Investor Relations; Erik Bosmans, Treasurer

**Conference call replay:** http://player.companywebcast.com/abnamro/20170517_1/en/Player

**Kees van Dijkhuizen:**

Good morning and welcome to the analyst and investor call of ABN AMRO Q1 results. Together with Wietze Reehoorn and Alexander Rahusen, our CFO a.i. we will share our views on the results and thereafter we will be open for Q&A.

Slide 2, our underlying net profit for the first quarter was EUR 650 million, up 30% year on year. NII improved on the back of further growth of the loan book where we saw growth in all important products and lower deposit rates. Loan impairments remained low, showing cost of risk of 9 basis points over the first quarter. Alexander will discuss the result in more detail later during the call.

On slide 3 you can see our priorities. I would like to take the opportunity to share with you some of these priorities as new CEO of ABN AMRO.

ABN AMRO is a relationship-driven bank and at the same time ranks amongst the best on the digital front. In executing our strategic goals we need a culture and management structure that it designed to make our bank more client-focused, agile and efficient.

Senior management will need to dedicate more time to improve their business, delivering more convenience to our clients but offering innovative products by bringing them expertise and new insights.

I announced early February a new top management structure consisting of a statutory effective board and an executive committee with much more business responsibility. The former managing board consisted of seven people and the layer of just below that consisted of twelve senior management group members. Together nineteen people have been merged into an executive committee of nine people, of which three – CFO, CRO and myself – have also a statutory responsibility as executive board members.

This top level of the bank has therefore been reduced by over 50%. In addition, the management layer below the executive committee has also been reduced significantly from 90 to 63 managers reporting directly to the Exco. This is a reduction of 30%.

At the same time, we improved gender diversity with women now making up for 40% of the top positions, up from 23%. A streamlined top of the bank aligns much better with a bank that become much more efficient in general, between 2017 and 2020 internal and external staff will decline from 31,000 to 23,000 – as we already communicated last year – a reduction of almost 25%.

This is also reflected in the targeted cost/income ratio, which should come down from 70% in 2010 to between 56% and 58% by 2020, despite a 3 percent point headwind from higher regulatory levies.

Next to the changes made in the top of the bank we also created a challenger-40 group, consisting of employees from across the organisation. Their role will be to challenge and support the executive committee, solicited and unsolicited on

strategically relevant issues, new developments and culture. All these initiatives will lead to a faster response time of our organisation to the developments around us, in close contact with our clients.

Another priority I want to set is to firmly embed sustainability within the organisation. We are committed to creating sustainable value for our clients, for society and for shareholders. Next to strategy, also sustainability is now under my direct responsibility. A large number of initiatives are ongoing within a bank. In the past year, we redeveloped more than 20,000 square metres of unused commercial real estate into sustainable real estate. We introduced a discount on mortgages for newly built and energy-efficient homes at the end of 2016.

During Q1, we were again market leader in mortgages with 26% market share in new production and this of course, sustainability initiative contributes to our market position.

We also aim to be climate neutral ourselves by 2020. This has implications for the existing real estate that we utilise. Our Dutch branches are now all certified green. For the development of our new property we take a step further, where we are now constructing a new premise based on circular economic principles. We have set up also a sustainable finance desk, focusing on financing investments in power generation from wind and solar sources into the Dutch mid-market segments, specifically for investment between EUR 2.5 million and EUR 2.5 million. These are just a few examples.

I briefly want to discuss our financial targets and we are today. As you can see, ABN AMRO has demonstrated a strong financial performance and has made clear progress on its targets in recent years but also over the last quarter.

The cost/income ratio improved from 67% to 60% in the first quarter, year on year.

The return on equity in the first quarter amounted to 13.2%, above our target range of 10% to 13%.

The capital position remained strong, with a fully loaded CET1 of 16.9%.

Wietze will explain why this CET1 declined in Q1, despite our profit of EUR 650 million.

We still see a possibility of a Basel 4 compromise, which makes it necessary to hold a capital buffer on top of the current regulatory requirements.

With that, I will give the floor to Alexander, who will discuss our results over this quarter.

**Alexander Rahusen:** Thank you, Kees.

Here, we show the results of Q1 2017 of EUR 650 million. Looking at the business segments, this is the first quarter where we reported under the new business structure. For retail, the first quarter result saw an operating income higher and expenses lower, while remaining impairments at a low end.

Private banking benefitted from higher operating income and impairment releases.

Commercial banking showed a stable operating result. Profit decreased however. This was due to significant impairment releases in Q1 of last year, whereas this quarter releases amounted to EUR 8 million only.

The business segment Corporate and Institutional Banking is the combination of the ‘old’ International Clients and Capital Markets Solutions. Their results improved largely, due to favourable other operating income but also higher NII, increasing by 10%.

Impairments increased to EUR 77 million and were largely ECT-related.

On slide 7 you can see that NII rose to EUR 1.6 billion, a 3% increase year on year, and 1% increase compared to the previous quarter. The increase is volume driven.

Total outstanding mortgages now stand at EUR 150.7 billion during Q1. The volume increased by EUR 1.4 billion, thanks to our market share of 26% for new production. We retained our market leader position during this quarter.

Margins on mortgages are somewhat higher compared to last year, helped by repricing of some remaining pre-crisis mortgages during 2016, having the full benefit in 2017.

Virtually all pre-crisis mortgages are now fully repriced, so going forward this will no longer drive at margins.

The rates paid on the retail savings stood at 20 basis points at the end of this quarter, compared to 30 basis points at the start of the quarter.

Margins on deposits in commercial banking declined somewhat. Client rates are zero for most clients with negative rates, only charged to a selective group of professional clients.

The volume of loans for commercial clients for the second quarter in a row showed an increase.

Finally, ECT also recorded increased client lending.

On slide 8 you can see that fee income remained flat over all. Looking a bit deeper, we see that retail fees were a bit lower compared to last year, as fees charged for payment packages were lowered.

Positive market sentiments during Q1 helped fee income within private banking. However, the lower volatility lead to a decrease within Clearing.

Other income amounted to EUR 215 million. This was, amongst others, driven by favourable CVA/DVA/FVA results, positive hedge accounting-related income, and better results for private equity.

Looking back at the last couple of years and cleaning operating income for incidentals, the average is around EUR 125 million per quarter, which is the assumption going forward. Quarter on quarter, the result will remain volatile however.

On slide 9 you can see that expenses increased by 3% compared to last year, due to higher regulatory levies. Personal expenses increased, which was due to a severance payment of EUR 12 million for our senior management. Other expenses increased due to higher levies. For the full year, approximately EUR 295 million of levies are expected, of which EUR 127 million were booked in Q1 so far.

With that, I would like to hand over to Wietze.

**Wietze Reehoorn:** Thank you, Alexander. Good morning, ladies and gentlemen. Before I go into the slides, I want to briefly discuss the movement in our fully-loaded CET1 ratio.

This ratio declined to 16.9% down from 17% at year end, driven by an increase in risk-weighted assets for operational risk. The implementation of the advanced measurement approach in this quarter has led to a number of temporary add-ons imposed by the regulator. You will recall that in the Q4 numbers analysts call I already mentioned the temporary increase with a bandwidth of EUR 2 billion to EUR 3 billion. We expect that most of these add-ons amounting to EUR 2.3 billion risk-weighted assets will be reversed, likely between the second half of 2017 and early 2018. On the basis of the current CET1 capital, this reversal equates to approximately 30 to 50 basis points of CET1 ratio.

The implementation of AMA also led to some changes in the operational risk-weighted assets per segment most notably in decrease versus year end 2016 for group functions and increases for Private, Commercial and Corporate & Institutional Banking. The impact of the AMA implementation per segment was partially offset by developments in credit risk and market risk.

Slide 10 shows that impairment charges were low, at EUR 63 million, for this quarter. Q1 last year showed virtually no impairments, amounting to only EUR 2 million. That was partly due to an IBNI-release of EUR 81 million. For this quarter IBNI plays much less of a role with only EUR 5 million of IBNI additions for this quarter.

The overall cost of risk was 9 basis points, well below the through-the-cycle cost of risk level of between 25 and 30 basis points for the bank as a whole.

On slide 11 you can see from the trend in impairment ratios that the improvement of the Dutch economy continues to feed through in our numbers. Impaired exposures and allowances for impairments continued to decline. The impaired corporate loans decreased to EUR 6.6 billion due to releases, some write-offs but also many clients returning to the performing portfolio within Commercial Banking.

Within Corporate & Institutional Banking we saw an increase in the impaired portfolio in ECT.

Here, you can find some more detail on the ECT portfolio.

The portfolio increased by almost 1% in the first quarter of 2017. This was the result of growth in commodity clients, slightly offset by a weakening of the US Dollar and a decrease in energy due to repayments. Impairment charges for this quarter amounted to EUR 59 million, somewhat higher compared to Q1 last year.

EUR 25 million of impairment charges were taken in Transportation clients, approximately EUR 25 million in Commodities clients and EUR 11 million in Energy Clients.

With EUR 11 million impairments within the Energy sector over Q1 and EUR 12 million over the second half of 2016, the cumulative impairment charges are still below our mild oil and gas scenario that we communicated earlier to you.

For Transportation we also work with a mild and severe scenario, which we also communicated to you – and cumulative impairments, so adding the EUR 59 million of impairments for Transportation over fiscal 2017 are now slightly above the mild scenario but still clearly blow the severe scenario.

With that, I would like to hand over to Kees.

**Kees Van Dijkhuizen:** Thank you very much Wietze and Alexander. With that, I would like to as the operator to open the call for questions.

**Bénoît Pétrarque (Kepler Cheuvreux):** Good morning. My first question will be on Basel 4 leverage ratio. Could you update us on Basel 4 and also on the impact of the different output scenarios we are talking about? Also on leverage, do you have a better idea on the timing of the benefits on the leverage? You are talking about EUR 45 billion to EUR 55 billion of lower leverage exposure and before you were talking about EUR 40 billion to EUR 50 billion. But in terms of timing, what can we expect and do you also see the necessity of issuing additional Tier 1?

My second question will be on the outflow in Private Banking. Could you give us a reason for the decline? I know the seasonality in the wealth tax but I was wondering if there was any specific reason for an outflow in a pretty good quarter on the market side.

The last question will be on the NII sensitivity to higher interest rates. I think you provide guidance on year one but most importantly what will be the impact of high interest rates on years two and three for your business?

**Kees Van Dijkhuizen:** With respect to your first question on the Basel 4 and leverage ratio, we have communicated already consistently for a long time that we still expect a compromise in the Basel Committee. Of course, nothing is known there and the messages are unclear. Sometimes you hear that the US does not want yet and another moment you hear that they are talking with each other. So, I do not know but it has a serious risk that there will be an outcome that has a negative result on our capital ratios when there is an output floor, especially for Dutch banks. Of course, we know that Basel 4 will presumably start in 2020 or 2021 and fully loaded 2025 but nevertheless, we also know that the market often

looks at fully-loaded figures. That is the reason why we have the buffer of 17% we have right now. We have also read analyst reports on the effects of the Santiago-proposals for instance, which sometimes were 300/400 basis points or even higher in a fully-loaded situation. Of course, we hope for a sensible compromise where the special position of Dutch mortgages is taken into account but nobody knows.

The decline in the leverage ratio this quarter is a seasonal one. Always at the end of the year the leverage ratio is a bit higher – EUR 10 billion to EUR 20 billion securities finance business, balance position I should say. So, that is a normal reaction.

With respect to AT1 we have always communicated that this is a possible solution for us to decide, depending on the market and especially our view on the market.

For Private Banking I would like you, Alexander.

**Alexander Rahusen:** Thank you, Kees. The most important reasons for your observations are that firstly we announced the sale of PDI Asia. One can expect somewhat of attrition when you sell off your activities. I think we have seen a relatively low attrition compared to the usual market transactions but nevertheless, some attrition has taken place due to our sale. Secondly, indeed we saw quite some outflow due to taxes paid by our clients in the first quarter, which indeed is a seasonal pattern and quite severe in this first quarter of the year.

**Kees Van Dijkhuizen:** I forgot the timing of the benefit with respect to the leverage ratio. I am sorry for that. We do not know actually. We know that since Q4 last year there is a positive draft legislation in place in Europe. It has to be discussed in parliament but then there should be timelines. We do not know yet what this exactly means. There are now proposals in place, which say that it might take some time there. That is something we have to look into. Then of course it also depends on the fact that from that moment onwards a certain percentage for our bank becomes a rule for our bank. That is also not yet decided. By the way, we hear and we think that it is linked to the Basel proposals as well.

You asked for NII sensitivities in the second and the third year. We are looking into that but of course important here is that these effects are of course bigger than the first-year effect. The point here is that the assumption in those scenarios is that you do not do anything for two or three years. So, we think it is also important to guide you when we provide you with figures like that what we might do in the future. We are looking into at the moment. It is also important to guide you that this is under the assumptions that we do not do anything. We sit on our hands for three years; what might we do and what would the effect of that be. That is the exercise we are looking into right now.

**Bénoît Pétrarque:** I assume you will update us in Q2 on NII sensitivity?

**Kees Van Dijkhuizen:** I do not know yet but as soon as possible.

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

**Daniel Do-Thoi (JP Morgan):** Good morning. Can I just ask three questions, please? The first is on NII in Dutch retail. If I adjust for last quarter's one-off on NII, NII was broadly flat quarter on quarter, despite a higher loan balance, as you mentioned, and also the fact there has been a reduction in the savings rate. Why did NII not pick up this quarter? Are you seeing any kind of lending margin pressure, a mix shift or is it maybe just a timing issue that would explain this?

Secondly, again on Dutch retail, the EUR 105 million in fee income. This quarter it was down around 10% quarter on quarter. I think it is the lowest that you have reported in many years. Are there any seasonal effects in that number? I think you also mentioned some changes in pricing to SMEs, so if you could just quantify that? I am trying to understand what the run rate on that line is going forward.

My final question is if you could update us on the status of the DNOs that you are requesting from the various regulators relating to a further sell down.

**Alexander Rahusen:** Your first question was on the NII. On the one hand we see the income from mortgages increasing further, which is volume and market-driven. On the other hand we see that income is slightly lower with respect to consumer lending. Over the last quarters we have witnessed that our consumer lending portfolio is slightly increasing, actually also in line with the market albeit we see that the pace of the decrease is reducing and that it is slowly levelling off in the consumer loan portfolio. On the other hand, the impact of rate cuts on the deposit side can depend a bit between quarters also depending on when you actually execute a rate reduction. You see the benefit coming back in your NII line. In the fourth quarter last year we had somewhat earlier rate cuts with Health in the margin on the retail side.

With respect to retail payments the important difference is indeed related to a reduction in the payment packages, which commenced by 1st April last year. That I think is the most important driver and also by the way the most important element of the fee and commission income within retail. I do not have any indications or views on further payment adjustments going forward at this moment, so that entails that we would not see a quarter-on-quarter decline in the next quarter based on pricing decisions.

**Daniel Do-Thoi:** Can I just follow up on that point? The reason I was asking that was because when I look at the previous quarters the run rate on that line was probably closer to 120 or so and it felt to about 105 in Q1. I understand there were a few pricing decisions, both in 2016 and 2017. But assuming no further pricing changes from here on forward, is the 105 the right run rate going forward?

**Alexander Rahusen:** If we compare Q1 to Q1 it is correct. If you compare the run rate with Q4, we have adjusted also some payment packages for our small business lines in Q4. You will also see that running through the run rate in Q1. I am not aware of any other changes and payment packages at this moment.

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

**Alexander Rahusen:** It is also important to note that we are in the process of transferring our top retail clients to the private bank. That in itself also has a revenue effect, shifting from retail to private banking and that is an effect that is starting to dripple in and that will also continue to move on the income line on retail in the next quarters.

**Kees Van Dijkhuizen:** With respect to DNO an application has been filed with the ECB the approval process has started in different jurisdictions. I can give no comment on when approval is given and it is up to the shareholders to decide on placing.

**Daniel Do-Thoi:** I guess that means we should not expect any kind of announcements when those actually come through.

**Kees Van Dijkhuizen:** I can give no comment.

**Daniel Do-Thoi:** Okay. That is clear. Thank you.

**Pawel Dziedzic (Goldman Sachs):** Good morning and thank you for the presentation. Two questions from my side. The first is a follow-up on fee income and perhaps a bit broader question for you. You mentioned in your presentation that fees were stable over the last five quarters for the group as a whole. Now you just highlighted that they should be stable in the retail division going forward. So, could you perhaps comment on the decline in fees in Corporate or Commercial Banking this quarter? I think they were down 5% year on year as well.

Could you give us a little bit more outlook on the good performance in Private Banking? Is it in any way seasonal or is it perhaps more sustainable going forward? I guess the bottom line here is whether we should expect improvement or perhaps stable fees in the quarters to come?

Then I have a short question on capital. You mentioned that part of the risk-weighted inflation this quarter was around EUR 2 billion to EUR 3 billion that comes on the back of temporary items on operating risk. Can you perhaps explain why these are temporary and whether there are any pre- conditions to reverse? If you expect this to unwind in a single quarter over the course of next year or would this be a more gradual process?

**Alexander Rahusen:** Let me start me with the fee income development in Commercial Banking. You noted that it is somewhat lower than we have seen earlier but it is important to note that this is related to an incidental fee expense in the first quarter of this year which explains the decline compared to the first quarter and the fourth quarter of last year. The fee income relates to transactions that we conducted in the domain of commercial banking.

With respect to Private Banking is difficult to predict. We see continuously that fee and commission income relates partly to volatility and also appetite from our Private Banking clients. I remain cautious with respect to how this will develop further. It is very difficult to give guidance on. What is important to note is that clearly because of the sale of PBI Asia income will reduce as of May because of that part of the business being sold off. So, one can expect a somewhat lower fee and commission income related to the sale of PBI Asia.

On Retail, my remark was related to the pricing of payment packages and less related to the total fee and commission income. The fee income is a very important driver with respect to the fee and commission income in the payments domain of Retail.

**Wietze Reehoorn:** I will take the question on the temporary increase of risk-weighted assets, indeed the EUR 2.3 billion. Is that because we have an increased operational risk in the bank? That is not exactly what we are talking about. It is a condition of the ECB. Once we are given approval to implement AMA, which we have been doing as of this quarter. There are a couple of conditions and let me give you an example. We work on updated scenarios. We need to fulfil certain conditions as to IT input for calculations and we expect that will take us a couple of months or even somewhat longer. For that reason we indicated that we expect a large part of those EUR 2.3 billion to be released in the second half of this year and Q1 next year. So, I am not indicating that this could place in one single quarter; I am only indicating that in the coming second half or in Q1 of 2018 we will see the reversal of temporary addition of EUR 2.3 billion.

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

**Bruce Hamilton (Morgan Stanley):** Good morning. First, just going back to the questions around Basel 4 and capital clarity. Assuming we do not get clarity and compromise and this rolls on and on because the US do not get their act together or for whatever reason, at what point would you consider returning excess capital? Would you only do that once we have clarity on Basel 4 or would you consider returning capital early next year or through 2018 because you are generating a lot of capital and you are well above the minimum? That could build into any raised requirements.

Secondly, any comments you have on project TRIM in terms of timing, initial thoughts on impact?

Similarly, on IFRS 9 if you have any? I think you said you would be averagely impacted but if you have any more specific guidance around the impact to CET1 from IFRS 9 it would be helpful.

**Kees Van Dijkhuizen:** With respect to your first question, we have not decided yet what would be our point from which moment on we might do something different as we are doing right now. At the moment, given all the uncertainty, we do not feel it is possible to do something. As I mentioned, we take this scenario serious that this year – third quarter perhaps – there might be a decision on this. You asked how long we will wait to accumulate capital if this is not the case. It is a fair question and we are thinking about it but I cannot tell you right now. I cannot promise you that I can tell you in Q2 or after Q2 but it is a fair question. We will consider it but at this moment in time I cannot give you any indications there.

**Wietze Reehoorn:** As ABN AMRO we support TRIM, the harmonisation efforts of the ECB on the use of internal models by means of TRIM. The process started in 2016 already and will continue to 2019. At this moment, there are two internal model investigations to on-sites are announced. They are up and running now within the bank. One is for credit risk and there the focus is on the mortgage portfolio and for market risk the focus is on incremental risk charges, value at risks and stress VAR It is too early to indicate at this moment any impact of TRIM.

With respect to IFRS, I thought at the moment that we will include them in our Q2 figures. Yes, of course an indication.

**Bruce Hamilton:** Thank you.

**Anke Reingen (RBC Capital Markets):** Good morning. First on the division allocation of costs. You mentioned a couple of times that in the divisions there was a lower allocation of costs from the group functions and I just wondered if this is a trend that is going to continue.

Secondly, on the mortgage book you said that there is no longer a repricing benefit low-margin business in the past. Could you talk a bit about the front book and the back book spreads? I was wondering whether the front book spreads are benefitting from your writing mortgages at longer maturities.

**Alexander Rahusen:** Yes indeed we see that the allocated costs from group functions have reduced. They are the result of the various savings initiatives that we have conducted over the last years so inter alia we discussed the impact of the TOPS 2020. You now see the benefits of these programmes now being reaped thereby reducing the IT cost from a TOPS 2020 perspective. Therefore, you see lower internal expenses within the business lines.

The same holds to the expenses for support and control functions. We had an announcement in the second quarter of last year with respect to reducing our cost control and the effects of those are now also recognised in the internal costs attributed to the business lines. We have not finalised these programmes. They are still in progress. We expect further reductions from these programmes. You have probably noticed that also the number of FTEs has reduced by approximately 670 compared to the first quarter of last year. It is our expectation that the reduction will further increase in line with our earlier comments with respect to cost reducing activities. Therefore, one could expect that the internal expenses specifically related to support and control functions will further decline.

On your question about mortgages, the development of the margin on the front book and also the margin outflow on our back book: we see that margins especially on the short interest rate periods are somewhat higher and the margins on the longer mortgages are somewhat lower. They are more under pressure because of more competition from other parties in that end. That is also the reason why we constantly make a conscious choice between volume and margin. For us, margin conservation and managing the margin of our mortgage book is a very important driver next to our volume ambitions. That does entail, as also signalled to you earlier, that we might have volatile market shares if we are confronted in certain quarters with more or less competition. That also means that the 26% market share we saw in the first quarter could be somewhat lower in the second or third quarter, depending on market circumstances that we in those specific quarters encounter. It is also important to note that not only the interest rate period is an important driver of the margin but also the loan to value that we issue. Clearly, margins on somewhat higher loan to values are higher than margins on lower loan to values, the NHG. It is the blend of these elements that determine that margin on our front book. So, both the interest rate period but also the mix of higher and low LTV.

**Anke Reingen:** That means you are writing new mortgages at the same margins as the back book?

**Alexander Rahusen:** Well, until now we have seen that the margin on our book has increased also in the first quarter. So yes, until now our margin on the front book is higher than on the back book. But going forward, as mentioned and as also said in our starting presentation, we expect that to level off.

**Anke Reingen:** Thank you.

**Alicia Chung (Exane Paribas):** Good morning, just a couple of questions. Firstly, going back to the cost line. Do you have a bit more colour at this stage on how the cost savings break down will be split by year and also by division going forward? Obviously, we have the lump sum of what we are trying to get here but we do not have much more colour apart from that and clearly, we are starting to see some of those cost savings coming through already. Also, how should we think about cost growth in CIB, which obviously is coming up mainly due to ambitions for growth here, particularly related to foreign branches? How should we think about cost growth there and what are you trying there?

Secondly, just in terms of your NII sensitivity: obviously, it looks very low for year one but does that include the impact of the ECB deposit rates moving up? Clearly, if you have a situation that the ECB deposit rates move to zero and you are paying 20 bps. on deposits and place them at the ECB for 40 bps. then surely that provides quite a nice boost to NII.

**Alexander Rahusen:** I will take your first question. We have not given any specific guidance on the timing of the savings from programmes that we have announced last year. We expect them to be across the board, inter alia because of significant parts of these savings being savings from group functions and therefore being allocated in the group results of most of the business lines.

Secondly, yes, one can expect the cost line of Corporate & Institutional Banking to grow because of the growth plans that we have in that particular segment. It is also for that reason that we have looked for additional cost savings from the group level to be able to finance these additional expenses to fuel growth initiatives going forward.

**Alicia Chung:** Just to follow up on that, would you say it is probably realistic to assume that this year-on-year growth that we are seeing in CIB cost this quarter will continue along a similar run rate? Also, do you have any guidance that you can give us just generally around cost for this year on a group level?

**Alexander Rahusen:** I am not sure whether I can say that it will be the same as we have seen now. It could be a bit more but it could also be a bit less, also depending a bit on how savings in that particular segment drip through. I do not have that picture entirely clear now.

**Kees van Dijkhuizen:** With respect to total cost I think we always communicated that we have EUR 5.2 billion at the moment, the EUR 5.2 billion in 2015 and the EUR 5.2 billion we want to realise in 2020. Last year it was clearly higher of course but that included 350 restructuring. If you take it out it was 5.3. It is not the idea that we grow the 5.2, 5.3, 5.4, and 5.5 and then in the last year go back to 5.2. What we will try to do of course is to get in the direction of the 5.2 some moment in time from now on but that does not mean that for the intermediate years we have not promised this. It depends on when investments have to be organised and when cost cuts come into the figures. What we try to manage as much as possible is as much increase as possible going forward and preferably of course decline.

With respect to the NII question: Erik Bosmans, treasurer, is also here.

**Erik Bosmans:** There is indeed the connection between NII and the liquidity buffer in this particular case. If the ECB were to elevate the minus 40 bps. to whatever level they can take, then this obviously increases our NII because there is a substantial amount of cash within the liquidity buffer, which currently is within the ECB at minus 40 bps. So assuming this would go back to zero and assuming that this amount of cash would be EUR 30 million you can do the math yourself. That would cost ABN AMRO at this very moment EUR 10 million per month. So, there is substantial money involved in having this buffer in Frankfurt.

**Alicia Chung:** Thank you. Can I assume that this is over and on top of your disclosure around the NII sensitivity?

**Erik Bosmans:** At the moment this is not taken into account. We do not have the assumptions that the ECB would lower this to zero.

*Correction: Cash and deposits at the central bank (ECB) are taken into account in the NII-at-risk analysis, which estimate the impact of a parallel shift of interest rates up or down 200 bps*

**Alicia Chung:** Thank you.

**Marcell Houben (Crédit Suisse):** Good morning. I have two questions, first on the ECT business and impairments. I am a little bit surprised that the impairments grew in the first quarter. Wietze alluded to the scenario analysis that you gave earlier but it seems to be at the higher end of that analysis. Do you still feel comfortable with the scenario analysis? What happened there particularly, given the fact that oil prices remained relatively stable and shipping even increased somewhat. Can you give a little bit more colour on that?

My second question is on the external staffing. Can you disclose the amount that you had at the end of last and at the end of this quarter, please?

**Wietze Reehoorn:** I will answer your first question. We are still comfortable with that scenario. Bear in mind that the impairment level we reported in Q1 contains quite a large file, actually commodities. If you extract from that and the picture is different, indeed we are still comfortable with the scenario being issues if we see some improvements in the ECT market as a result of current oil prices, in reserve-based lending, and midstream. There is of course still a lot going on into the offshore and drilling but we have taken all that in account in our scenarios and we are still comfortable with those scenarios. We issued a scenario on transportation and we are still comfortable there as well. We do see some improvement in for example bulk and we see more fresh money coming in to restructuring cases there. So there again, we are comfortable with the transportation scenario.

**Alexander Rahusen:** With respect to your question on agency staff, we do not disclose the agency staff in our results. The only think I can say is that compared to the first quarter of last year the number of external staff has reduced.

**Marcell Houben:** Thank you.

**Stefan Nedialkov (Citigroup):** Good morning. I have two questions, the first on margins. Can you give us some colour on the trajectory of new SME margins, commercial margins and margins within your wholesale book, ECT, I guess anything that is non-mortgage? Can you give some colour on how those are progressing, the level of competition, et cetera?

My second question is on capital. At what level do you actually think you have excess capital? Is it once you reach 4% leverage ratio or is it more when you reach 4.5% leverage ratio? This question does not assume anything on Basel 4. I assume there is no Basel 4 impact; are you in an excess capital position at 4.5% or something lower or higher than that?

**Alexander Rahusen:** On your question on margins, one important topic to mention is that if you look at our ECT or growth initiative within the Corporate & Institutional Bank and also with respect to the adjacent sectors that we are now targeting, we already mentioned earlier that we are looking towards somewhat higher investment grades clients in which we want to expand our business, which has a somewhat different credit profile than the straight finance clients within our old ECT book. That entails that we do expect margins to be slightly lower for that particular new segment that we are on boarding now. I do not have any further guidance on the margins.

**Kees Van Dijkhuizen:** With respect to your capital question, we do not think actually that the leverage ratio is the most intelligent capital ratio, so we have to think about what exactly the level will be when there is a final position in Basel on the leverage ratio. I am inclined to say that at 4.5% I do not think at this moment we anticipate as necessary but it depends of course on whether 4% will be the floor or whatever, or as something we have to realise. Then we will stay above but with a very small margin.

**Stefan Nedialkov:** Thank you very much.

**Bart Horsten (Kempen & Co):** Good morning. My first question is regarding the loan growth, especially in your corporate lending book. I think the run rate in Q1 would be on an annualised basis around 10% growth. Is it fair to assume that this growth rate in Q1 will continue in the coming quarters and could you more specify from which sectors growth came from?

My second question relates to your dividend policy. If I remember correctly you are aiming for a pay-out this year of 50%. That was based on the underlying net profit; would that then also include the book profit you report in Q2? That will give an uplift to your dividend if that is the case; are you aiming for progressive dividends on an absolute level? So, would that imply also higher dividends in 2018 and 2019?

**Alexander Rahusen:** I will take your question on loan growth. Your remark is correct. It is important to note that the loan growth is inter alia determined by the development of FX and commodity prices, which in itself have a volatile character attached. So, it is very difficult to assume that the composition of the growth that we are seeing in the first quarter will continue for the quarters going forward. Therefore, I would be a bit more cautious about that, given that I just do not know how these two factors will develop. We have already seen the Dollar weakening a bit over the last couple of months, so it is unclear how that develops.

**Kees Van Dijkhuizen:** We have always communicated that we would do the dividend over reported, so last year when we took out 270 SME as an example shareholders got less dividend. So, when there is now a good profit, even if it is seen as special or whatever, it is still about reported. That will be taken into account for the dividend that we pay.

Progressive? No comments yet on positions after Basel with respect to dividend policy.

**Bart Horsten:** Thank you.

**Kiri Vijayarajah (Barclays Capital Securities):** Good morning. Could I come back to the fee and commission price cuts on the payment packages? Are you following the market or leading the market on that? I am trying to understand the rationale of your pricing behaviour there. Is there any link at all to rolling out digital payments in the retail spaces forcing you to put through the price cuts?

My second question is on the other revenues, the private equity gains this quarter. Could you just remind us how big your private equity portfolio is now and the stock of unrealised gains you have on that portfolio?

**Alexander Rahusen:** Your first question is a very difficult question to answer, to be honest. I do not exactly recall at this moment whether we were the first or whether we were following. The only thing that I can say is that the three major payment packages providers in the Netherlands have made similar moves last year, implying that the equilibrium in terms of market and pricing has remained the same. That is all I can say.

The size of our private equity portfolio is approximately EUR 1.5 billion.

**Kiri Vijayarajah:** Thank you.

**Alexander Rahusen:** I am not going to give any comments on the unrealised gains on that portfolio.

**Kiri Vijayarajah:** Fine. Thank you.

**Stefan Nedialkov (Citigroup):** I might have missed a little bit from your comment on a potential placement. In terms of the regulatory approvals you have lodged an application with the ECB. Have you lodged additional local jurisdiction applications and at what stage are you? Are they being considered or have they been accepted or refused?

**Kees Van Dijkhuizen:** It is not only ECB but also some countries like France, Germany and some other countries. We do not communicate on when approval is there. That is what I just communicated.

**Stefan Nedialkov:** So, you are in the application stage basically.

**Kees Van Dijkhuizen:** I have told you that the application has been filed with the ECB and in different jurisdictions as well. No comment on when approval is given.

**Stefan Nedialkov:** Thank you.

**Jose Coll (Santander):** Just a follow up on the leverage ratio. Could you please give us a bit of colour on the evolution of leverage exposure? It has grown 100% year on year and 18% quarter on quarter and it is the biggest delta to the fall in the leverage ratio. I just wanted to get a bit more colour on that.

**Kees van Dijkhuizen:** I do not fully understand your question. The effect of minus 20 bps. of the leverage ratio in Q1? I think that was more or less the same as last year.

**Jose Coll:** I apologise because I have a small delay on the line but let me just repeat the question very quickly. I was wondering if you could give us a bit more colour on the evolution of the derivative exposure for the exposure measure of the leverage ratio. You ended up this quarter with EUR 59 billion of derivative exposure and you began the year with around EUR 30 billion. The delta there is pretty big. I was just wondering what we can expect on that line going forward.

**Kees Van Dijkhuizen:** Erik, can you say something on derivatives.

**Dies Donker:** I do not think that the delta is as big as you mention because if we look at the derivatives exposure it is on page 43 of the quarterly report. It goes from EUR 50 billion to EUR 59 billion and that to a large part is related also to clearing. But it is not as significant an increase as you have in mind, unless we are not interpreting your question well.

**Jose Coll:** I am just looking at your factsheet on the leverage ratio gap. It comes from EUR 50 billion and it goes up to EUR 59 billion. That is 18% increase and it is EUR 9 billion and due to the change in the exposure measure it is the biggest delta there in my opinion. I was just wondering if you could explain those EUR 9 billion of increase in derivative exposure and what we can expect going forward.

**Alexander Rahusen:** It is related to our clearing activities, where we have a seasonal pattern which is there every year and also this year. We try to give the clearing business the space to conduct their activities and that was also the case for Q1. The pattern that you might expect is that it will remain probably a bit around this level in the second and third quarter but it will then again reduce significantly to the level that we have seen in the beginning of the year and in 2016.

**Jose Coll:** Thank you very much. Very clear.

**Farquhar Murray (Autonomous):** Good morning, just one brief question hopefully. On the other income line you seem to have increased the guidance from EUR 100 million to EUR 125 million for the quarter. What is driving that? I can appreciate it has been running probably a bit higher than the original indication but is this just a mechanical outcome? Do you want a clean average or can we attribute it to any particular business driver?

**Alexander Rahusen:** I think it is more attributable to a mechanical outcome, to be honest. We have looked at the development of the cleaned other income over the last quarters and years and what we noticed is that it is just slightly going up. Maybe that is partly related to our activities in the capital markets solutions, which are normalising and maybe a bit more of a positive view towards the private equity portfolio. We felt that the EUR 100 million that we used to guide was just a bit on the low side, so that is why we slightly increased it.

**Farquhar Murray:** Thanks.

**Daniel Do-Thoi:** Could I just ask two follow-up question? The first is on the driver of the net interest margin. I just want to summarise it. You have talked about mortgage lending margins stabilising from here. On the liabilities side, given where savings rates are today, there is not really too much more room to reprice there. So, assuming that rates stay where they are today what is the underlying driver on your net interest margin from elsewhere in the book, so the reinvestment of the bond portfolio for example? I think there is consensus with respect NIM to decline by a couple of basis points going forward, so I am just wondering whether you think that fairly reflects the headwinds in a low-rate environment.

Secondly, just a follow up on the answer that you gave on the ECB deposit rate question. The sensitivity that you provided, so the 40 bps and the EUR 30 billion on deposits with the ECB, do we need to consider the liability side of the equation here or is that a straight pass-through that you would see on net interest income straight away if the deposit rate were to increase this year?

**Alexander Rahusen:** I will take your first question. I think it is good to be aware that the NIM that we saw in the first quarter of 156 is also slightly elevated because of the low start of the balance sheet at the beginning of the year. Therefore, it is slightly elevated compared to a somewhat higher total balance sheet. Secondly, as we also mentioned in the previous call, we indeed have to see how we can deal or will deal with the fact that our deposit rates are going down. I think it is fair to assume that you will see a bit of a lower NIM going forward, partly because of the effect of the higher balance sheet and partly also because of the effect that you mentioned i.e. stabilising mortgage margins and book. That is room to manoeuvre on the deposit side.

**Erik Bosmans:** Could you rephrase your question on the ECB? I did not really get it.

**Daniel Do-Thoi:** It was your response to the previous question on the potential NII uplift if the ECB were to raise the deposit rate from negative 40 to zero. I think you mentioned 40 basis points mathematically on EUR 30 billion.

**Erik Bosmans:** As an example and this is in the NII line i.e. in the liabilities.

**Daniel Do-Thoi:** I just assume that you would also see an increase in funding cost if that were to happen. Does that need to be taken into account or does that pass through straight on to NII if the deposit rate were to be increased?

**Erik Bosmans:** Indirect funding cost which are the charge i.e. the liquidity buffer cost would be lower indeed if the ECB were to leverage the deposit rates. So, there is an indirect effect on funding costs.

**Daniel Do-Thoi:** Funding costs would go up presumably?

**Erik Bosmans:** That is depending on the way you look at it because funding costs are driven by the FTP, the Fund Transfer Price, and the liquidity buffer costs are indirect funding costs charged to the business on the fact of the costs we have running the liquidity buffer. So, on the FTP-side, if the short end rate would go up because deposit rates at the ECB not necessarily are directly related to FTP costs and the other part of the equation is that the indirect costs we charge to the business again for maintaining the liquidity buffer. These are the considerations you should make.

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

**Kees Van Dijkhuizen:** If there are no further questions, I would like to thank you all for participating in this call. Meet you next time! Thank you very much!

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End of call.