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Q2 2016 results

analyst and investor call presentation

Investor Relations
17 August 2016

Q2 2016 results

Financial highlights

Q2 2016 vs. Q2 2015

- Underlying net profit up 10%, driven by NII, low impairments and a one-off gain on Visa Europe
- Reported net profit lower at EUR 391m includes a provision for SME derivatives

H1 2016 vs. H1 2015

- HY underlying net profit at EUR 1,136m (-1%), reported profit at EUR 866m (-24%)
- Dividend EUR 0.40 per share
- Financial targets[1]: ROE 13.1%, C/I 61.8%, fully loaded CET1 16.2%

Key developments

- Dutch economy outperformed the Eurozone, Brexit however causes uncertainty
- NII proved resilient over eight quarters despite the low interest rate environment
- Sustainability remains high on the agenda
- New EUR 200m cost savings plan and additional cost savings are currently being identified
- Increasing investments in innovation and technology with intensified fintech cooperation
- Areas for selective international growth going forward

Note(s):
1. If we would include the full year levies divided equally over the year ROE would be 12.8% and C/I 62.2% for 1H 2016. Total regulatory levies for FY2016: Dutch Single Resolution Funds (SRF) recorded in Q1, (European) Deposit Guarantee Scheme (DGS) recorded in each quarter and Bank tax to be recorded in Q4. The total for 2016 is estimated around EUR 250m pre-tax. Q2 Regulatory levies were EUR 12m (pre tax), EUR 22m related to the quarterly booking of the implemented DGS, a correction of EUR 14m for SRF booked in Q1 and several small SRF charges in foreign entities.

Financial targets

Return on Equity

10–13% in the coming years

13.1% over H1 2016

(12.8% incl. full year levies)[1]

FY2014: 10.9% | FY2015: 12.0% | Q2 2016: 15.1%

Cost/Income Ratio

56–60% target by 2017

61.8% over H1 2016

(62.2% incl. full year levies)[1]

FY2014: 60.2% | FY2015: 61.8% | Q2 2016: 57.2%

CET1 Ratio

11.5 – 13.5% fully loaded

16.2% at 30 Jun 2016

YE2014: 14.1% | YE2015: 15.5%

Dividend Pay-Out

50% as from and over 2017

45% over 2016 [2]

FY2014: 35% | FY2015: 40%

Note(s):

1. *Including the full year 2016 impact of levies (estimated around EUR 250m pre-tax) allocated equally over the year. These levies are the Dutch Single Resolution Funds (SRF) recorded in Q1, (European) Deposit Guarantee Scheme (DGS) recorded in each quarter and Bank tax to be recorded in Q4*
2. *Management discretion and subject to regulatory requirements. The envisaged dividend-pay-out ratio is based on the annual reported net profit after deduction of coupon payments on capital instruments that are treated as equity instruments for accounting purposes*

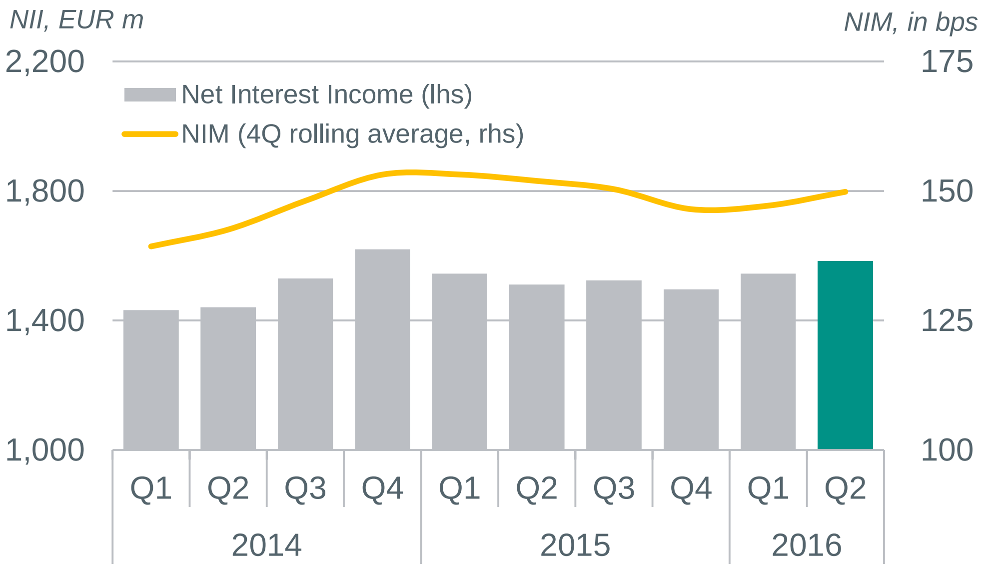
Result in Q2: low impairments and SME Derivatives provision

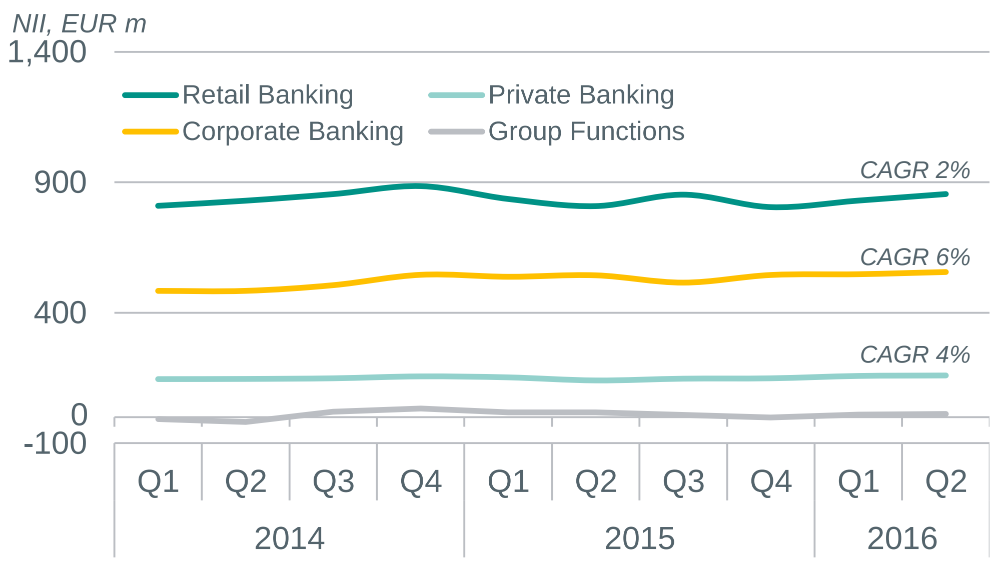
EUR m	Q2 2016	Q2 2015	Delta	H1 2016	H1 2015	Delta
Net interest income	1,582	1,511	5%	3,128	3,056	2%
Net fee and commission income	431	456	-6%	866	926	-6%
Other operating income	188	159	19%	178	312	-43%
Operating income	**2,201**	**2,126**	4%	4,172	4,294	-3%
Operating expenses	1,260	1,247	1%	2,579	2,465	5%
Operating result	941	879	7%	1,593	1,828	-13%
Impairment charges	54	34	58%	56	287	-80%
Income tax expenses	225	244	-8%	400	398	1%
Underlying profit	662	600	10%	1,136	1,144	-1%
Special items and divestments	-271			-271		
Reported profit	391	600	-35%	866	1,144	-24%
Retail Banking underlying profit	399	342	17%	674	680	-1%
Private Banking underlying profit	53	72	-27%	96	159	-40%
Corporate Banking underlying profit	263	249	6%	436	354	23%
Group Functions underlying profit	-52	-63	16%	-70	-49	-42%
Net interest margin (bps)	152	142		152	145	
Underlying cost of risk (bps)	9	5		4	21	
Underlying earnings per share[1] (EUR)	0.69	0.64		1.19	1.22	
Reported earnings per share[1] (EUR)	0.42	0.64		0.92	1.22	
Dividend per share[2] (EUR)	n/a	n/a		0.40	0.37	

Note(s):
1. *Earnings consist of underlying/reported net profit excluding reserved payments for AT 1 Capital securities and results attributable to non-controlling interests*
2. *Dividend is based on reported net profit excluding net reserved coupons for AT1 capital securities and results attributable to non-controlling interests*

Interest income

Interest income remained resilient

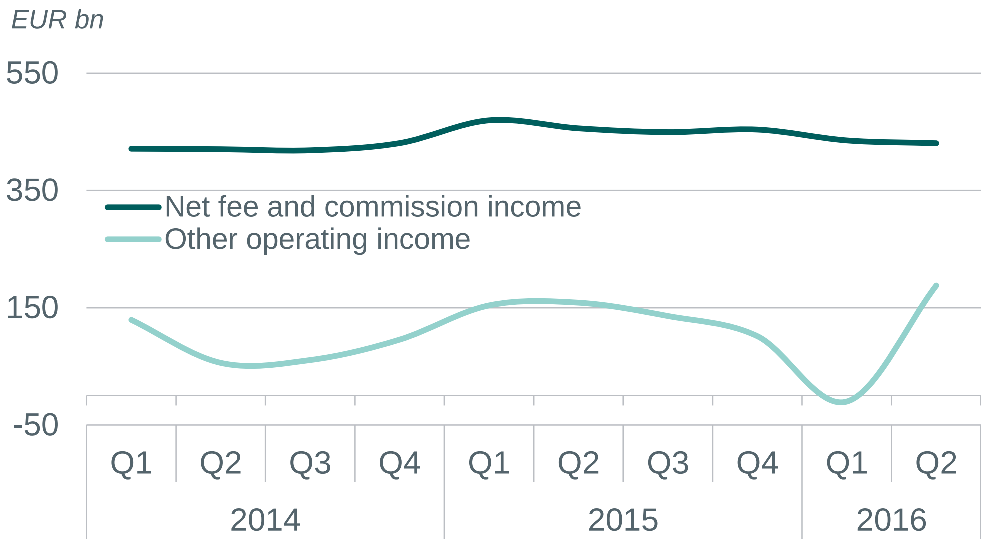




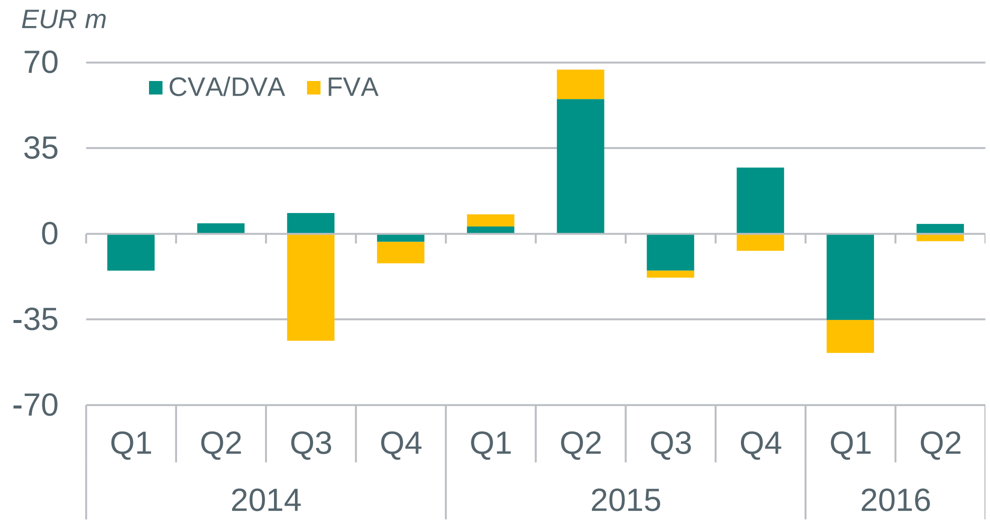
- NII was up 5% vs. Q2 2015 and increased 2% vs. Q1 2016
- NII proves resilient at or above EUR 1.5bn over the past eight quarters
- Mortgage and corporate loan margins improved, whereas average volumes decreased for most loan types vs. Q2 2015
- Both deposit margin and volume increased

Net Fee and Other operating income

Fee income slightly decreasing recently



Volatile CVA, DVA and FVA effects



- Fee income down vs. Q2 2015, primarily due to market volatility
- Fee income virtually flat compared to Q1 2016
- Underlying other operating income benefitted primarily from the sale of Visa Europe stake

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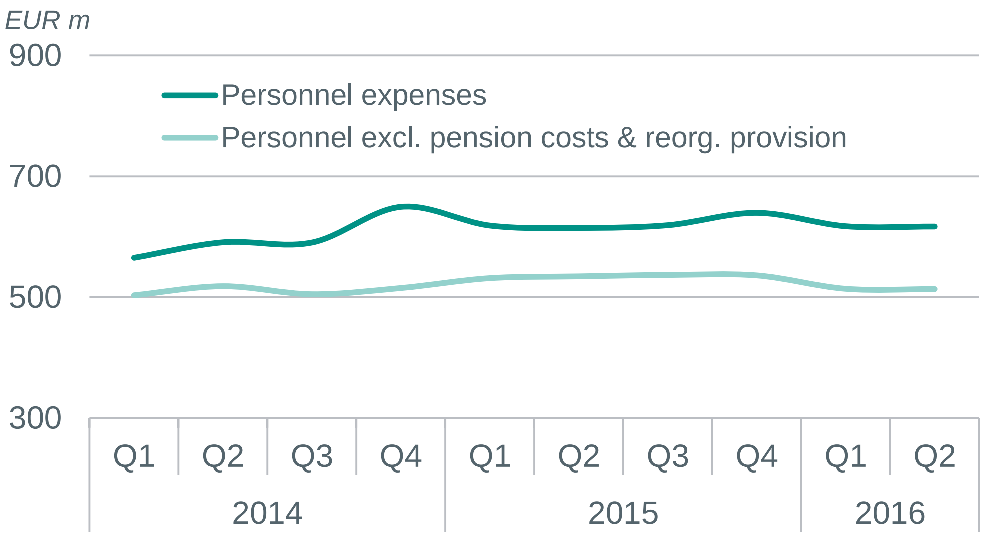
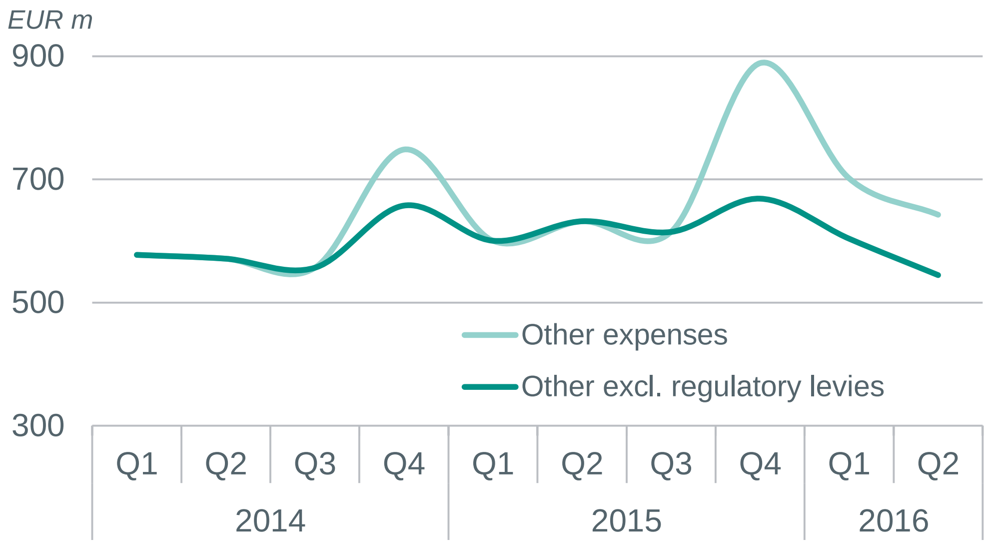
Expenses

Personnel expenses



Other expenses

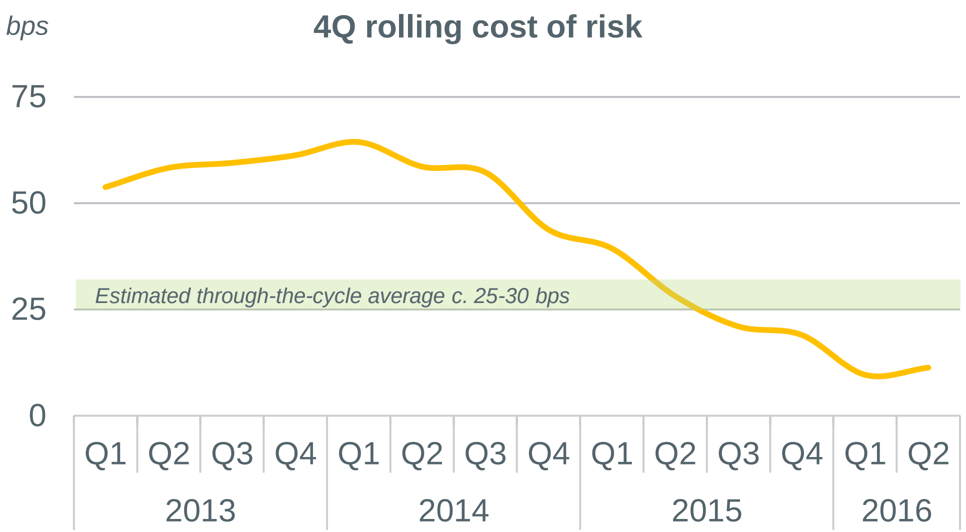


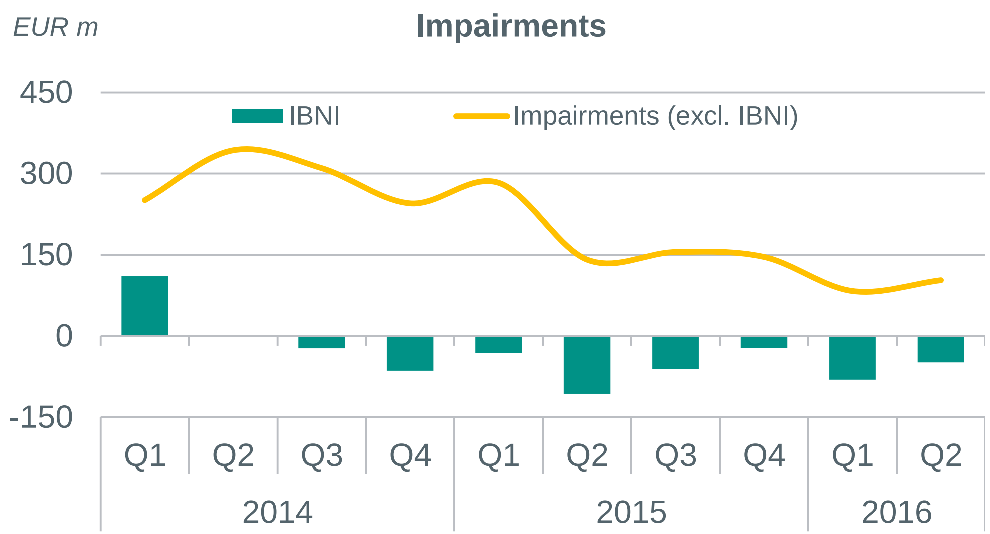
Expenses up 1% vs. Q2 2015

- Personnel expenses virtually flat at EUR 617m, in line with Q2 2015
- Other expenses slightly up, fully driven by regulatory levies

Loan impairments

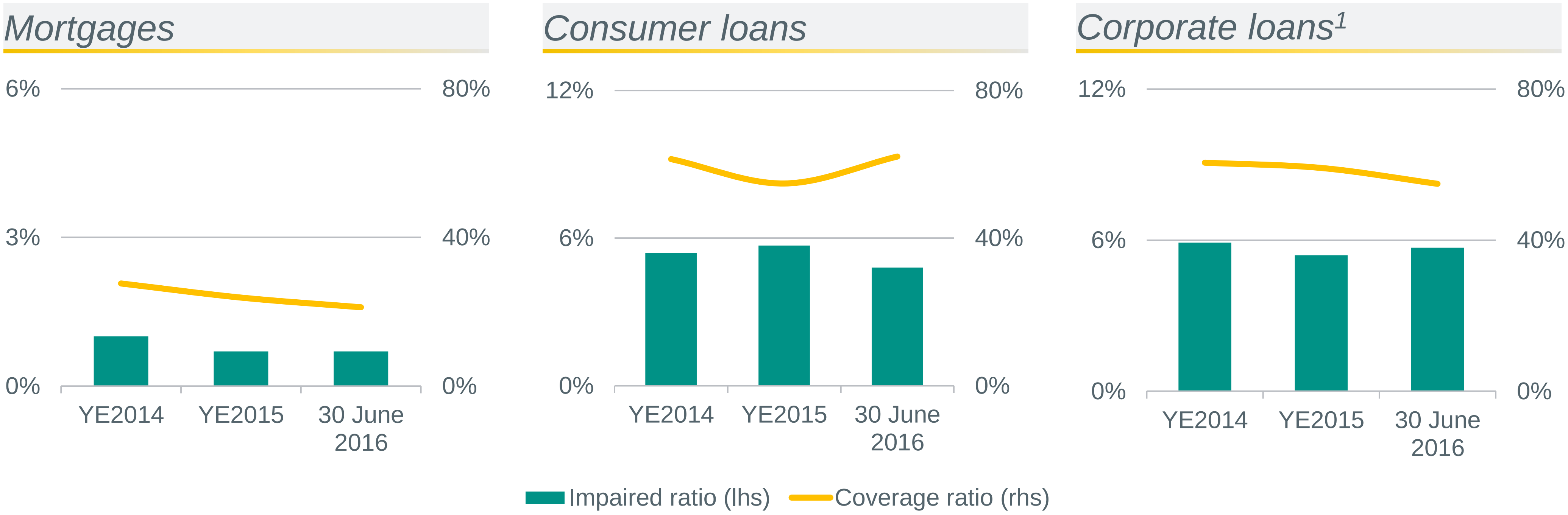
Continued low loan impairments





- Cost of risk started to decline since the start of 2014
- Cost of risk of 9bps in Q2 2016 (5bps Q2 2015), IBNI releases in Q2 2016 were EUR 49m and roughly halved vs. Q2 2015 (EUR 107m)
- Impairments increased in ECT, more than offset by a decrease in Commercial Clients

Risk ratios



- In Q2 2016 the impaired ratio on customer loan book remained stable at 2.7% vs. YE2015
  - Mortgage portfolio low at 0.7%
  - Consumer loans improved in line with the improved Dutch economy
  - Corporate loans increased mainly due to new ECT files
- Coverage ratio decreased to 50.8% at 30 June 2016 (vs. 53.0% at YE2015) driven by lower allowances for impairments

Note(s):
1. YE2014 data has not been adjusted for the implemented offsetting policy on notional cash pool balances

ECT Clients operates in typically cyclical sectors

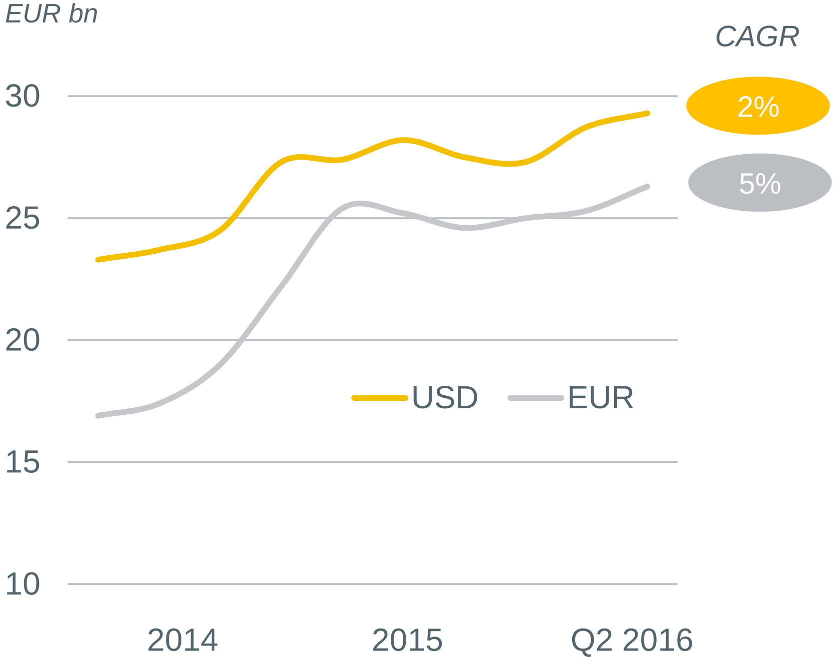
- Serving internationally active ECT Clients requires deep sector knowledge in underlying markets. These markets can show great cyclicality from time to time
- Market cyclicality is carefully considered when financing ECT Clients. Risk management and risk monitoring is intensified, especially in current challenging circumstances for Oil & Gas and Shipping
- The through-the-cycle (TTC) cost of risk in ECT is expected to be below the 40-60bps in Corporate Banking. In challenging markets the cost of risk is currently above the TTC levels

Exposures across selected clients active in ECT sectors

30 Jun 2016, EUR bn	Energy Clients	Commodities Clients	Transportation Clients	▶ ECT Clients
Clients Groups (#)	~120	~320	~190	~630
On balance exposure	**5.2**	**11.9**	**9.3**	**26.3**
% of Total L&R (of EUR 289bn)	2%	4%	3%	9%
Off B/S Issued LCs + Guarantees	0.7	6.0	0.2	6.9
Sub total	**5.8**	**17.8**	**9.5**	**33.2**
Off B/S Undrawn committed	2.1	2.2	1.1	5.4
Total	**8.0**	**20.1**	**10.6**	**38.6**

Risk data ECT Clients	**2013**	**2014**	**2015**	**2016YTD**
Impairment charges (EUR m)	41	54	128	141
Cost of risk (bps)[1]	29	29	52	110

On balance developments



Note(s):
1. Based on impairments over quarter-end on-balance exposure averages

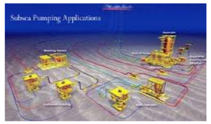
Update on oil & gas scenario confirms impairments to remain manageable

Scenario update: lower for longer oil prices and subdued oil investments

- Updated scenario until YE2017 and assumes no increase in capex by oil majors in combination with a prolonged low oil price
- Over the next 18 months, up to YE2017, impairment charges for the scenario are modelled to be EUR 125-200m
- We consider these impairments to be manageable in view of the size of our portfolio

ECT Activity[1]	Description of Oil & Gas related exposures in ECT Energy & Transportation	Estimated size	Estimated Sensitivity
FPSO *Energy Clients*	Floating Production Storage & Offloading vessels are developed for oil and gas production of offshore fields. Financing structures rely on long term contracts with investment grade major oil companies	Roughly 3bn of exposure	*Not directly exposed to oil price risk*
Corporate Lending *Energy Clients*	Corporate Loans in oil & gas sector: predominantly loans to investment grade integrated oil companies		
Midstream *Energy Clients*	E.g. pipelines, tank farms, LNG terminals, etc. Typically generating revenues from medium to long-term tariff based contracts, not directly affected by oil price movements		
Offshore Drilling *Energy Clients*	Loans to finance drilling rigs. Generally backed by charter contracts and corporate guaranteed	Roughly 2.5bn of exposure	*Exposed to oil price risk*
Offshore Support Vessels *Transportation Clients*	Loans to finance offshore support vessels. Vessels could be operating in the spot market as well as under charter contracts		
Other Offshore *Energy Clients*	Diversified portfolio of companies active in pipe laying, heavy lifting, subsea infra, seismic, accommodation platforms, wind park installation, etc. Corporate guaranteed		
Upstream *Energy Clients*	Financing based on borrower's oil & gas assets. Loans typically secured by proven developed reserves of oil & gas. Includes smaller independent oil & gas producers. Majority of clients is active in both oil and gas sector and has loss absorbing capital structures in place (junior debt, second lien, equity)	Roughly 1.5bn of exposure	*Exposure to oil price risk*
Total	**Total Oil & Gas related ECT Clients exposures (on- and off-balance)**	**Roughly 7bn**	


Offshore Drilling


Subsea Infra


Offshore Support Vessel


Seismic


Oilfields & Equipment


Upstream (Reserve Base Lending)


Accommodation Platforms


Floating Platforms


Midstream


LNG, Downstream, Renewables

Note(s):
1. The allocation of clients into Energy Clients sub-segment has been based on management views for managerial purposes. Clients can have activities that could be mapped in other sectors

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