Q1 2016 Conference Call Transcript

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Conference call replay: http://player.companywebcast.com/abnamro/20160511_1/en/Player

Kees van Dijkhuizen: Thank you very much, good morning and welcome to the analyst call on ABN AMRO's first quarter. Wietze Reehoorn and I will share our views on these results and after that, we will open up for questions and answers. We will use the short presentation, which is published on our website this morning. The full version of this presentation will be published later today.

I will start with slides 2 and 3, the Dutch economic indicators.

As you can see on those slides, while the year started with turmoil in the financial markets, especially in January and February, and concerns on the global economy, the Dutch economic growth is expected to be slightly better in Q1 than the last quarter of 2015.

On this slide you can see that the net result for the first quarter was EUR 475 million, 13% lower compared to the first quarter of last year. Earnings per share were EUR 0.49. This result was achieved on the back of volatile and subdued markets, which suppressed other income and fees and higher regulatory levies. Net interest income was resilient and remained stable. Net impairments were negligible.

If we look at the next slide we see the CET1 targets. It shows that our ratio has further improved from 15.5% at year-end to 15.8%. The recent Basel proposals are especially harsh for a large number of our corporate clients who do not have an external credit rating and for whom non-financial collaterals in general will not result in lower RWAs. The recent Basel proposal could also have a significant impact on the bank's regulatory capital position and pricing of certain specialised lending activities. Hence, we will continue to grow our capital position above our 2017 target range of 11.5% and 13.5% until there is more clarity on Basel IV.

The fully-loaded leverage ratio is currently at 3.7%. Basel recently proposed a new method for computing the exposure measure for cleared derivatives, exposures which could reduce the total exposure measure by approximately EUR 42 billion. Upon publication of this consultation paper it became also clear that credit conversion factors of some off-balance sheet exposures would be aligned with those proposed under the revised standardised approach for credit risk. These new developments will partly offset the positive benefit of the cleared derivatives. Our expected dividend pay-out over this year is 45%.

On slide 6, you see that the ROE declined to 11.1% from 14.1% in the same quarter last year. If regulatory costs in 2016 would have been equally divided over the quarters, ROE would have been 11.5%, which is in the middle of our target range of 10% to 13% and the 14.1% in Q1 last year would have been 12.9%.

If we look at our CI-targets, you can see that the cost/income ratio for this quarter came to 67% from 56% last year. Last year, no regulatory levies were charged in the first quarter, while in the first quarter of 2016 regulatory levies were EUR 98 million.

In 2015, all regulatory levies were recorded in the fourth quarter. In 2016, we need to pay three levies, the single resolution fund, the Dutch deposit guarantee scheme, and the Dutch banking tax.

The single resolution fund is charged in the first quarter, which is different from what we anticipated. The deposit guarantee scheme charge will be booked on a quarterly basis and both the single resolution fund and the deposit guarantee scheme are tax deductible. The banking tax will be fully booked, as in previous years, in the fourth quarter and is not tax deductible.

For 2015, regulatory charges were approximately EUR 220 million and for 2016 we expect them to be approximately EUR 270 million. This includes a rebate of EUR 30 million we got over 2015. From 2017 onwards we expect them to be approximately EUR 300 million.

If regulatory levies had been divided equally over the quarters, the cost/income would have 65% versus 59% in the first quarter of 2015. The increase in the cost/income ratio results from lower income and higher regulatory levies. In 2017, the benefits from TOPS 2020 and Retail Digitalisation would increase and the investments will decline. This will lower the cost/income ratio in this year and we will take additional measures to reduce cost.

Slide 8 show the results in more detail and I will elaborate on them in the next slides. I will give some highlights.

On slide 9, we discuss the NIM, the net interest income and volumes. The net interest income was just above EUR 1.5 billion, equal to the first quarter of last year and slightly higher than in Q4. As you may recall, Q4 included negative one-offs of approximately EUR 50 million, including a provision for Euribor mortgages. NII on mortgages increased again. Margins are still better and we expect benefits of repricing to last towards the end of 2016.

The volumes of mortgages, consumer and corporate loans were slightly lower compared to the first quarter of last year.

The NIM increased to 151 bps from 148 bps one year ago, due to lower average total assets. The increase versus the fourth quarter is almost fully explained by the negative one-offs in that quarter.As discussed previously, we apply hedges to protect our NII income from fluctuations in interest rates and therefore our NII at risk is therefore low.

On slide 10 you can see that negative market sentiment in the first two months in this year had an impact on fee income, which was 7% lower year-on-year. Only our clearing business benefitted from the volatility in the market.

Other income showed a relatively large decline and was slightly negative, as CVA/DVA/FVA results declined, hedge-accounting related results were unfavourable and private equity results were also close to zero. Also sales and trading results were negative.

If we look at the expenses on slide 11, we see that expenses were 8% up compared to last year. Personnel expenses were more or less flat. Other expenses increased 17% and this was mainly the result of the regulatory levies, as we explained for.

The number of FTEs decreased slightly, though more external staff is hired for projects. The cost for external staff are booked in ‘other expenses’.

Slide 12 is on loan impairments. As you can see, net impairment charges were very low, only EUR 2 million. Wietze will further elaborate on impairments and risk developments.

Slide 13 show the results by segments. You can see that the result of the Retail bank declined by EUR 62 million to EUR 276 million and was impacted by lower operating income and regulatory levies. Compared to the very good first quarter results in 2015, the result of private banking halved mainly due to a positive one-off in Q1 2015, stock market conditions and higher expense and loan impairments.

Corporate banking saw very low loan impairments in commercial clients.

Wietze will now elaborate on the risk and loan portfolio developments.

Wietze Reehoorn: Thank you, Kees. Ladies and gentlemen, good morning.

Moving to slide 14, as Kees already mentioned, net impairment charges were very low this quarter. The overall cost of risk was nil. The year-to-year decrease in impairment charges was EUR 250 million and included was a EUR 50 million higher IBNI-release, compared with Q1 2015. The remaining decrease in impairment charges was largely attributable to corporate loans and is a reflection of the economic situation in the Netherlands. Please bear in mind here, that in Q1 2015 the impairment included a single large addition of approximately EUR 100 million in corporate banking.

The impaired ratio for the customer loan book was 2.5%. The coverage ratios are more or less stable. Impairment charges for mortgages were 7 basis points, in the range of estimated average through the cycle cost of risk that is 5 to 7 basis points.

For corporate loans impairment charges for the period were EUR 167 million lower compared to Q1 2015, while the write-backs were EUR 76 million higher.

Commercial clients saw a release in impairments provisions largely explained by a substantial IBNI-release. For all sectors, impaired exposures were down this quarter except in oil and gas and basic resources. I will further elaborate on our ECT-portfolio later in this presentation.

On slide 15, mortgages, It clearly shows the continuing improving trend observed in the Dutch housing market. Both the number of transactions and the house prices continue to increase. Our production of new mortgages was slightly lower than in the same period last year, as competition from new providers in the Netherlands increased. This competition is especially strong in the longer-rate fixings. However, we have been successful in raising 15-year funding ourselves in September of last year and just a few weeks ago, so we can also compete in the longer dated tenner's here. Our market share in new production improved to 17.4% compared to 15.3% in the last quarter of 2015.

If we look at the total redemptions, it amounted to EUR 2.8 billion, to be compared with the EUR 4 billion in Q4 last year and EUR 2.6 billion in Q1, last year. The reason, low deposit rates are still incentives for extra redemptions while contractual repayments gradually grow because the book is increasingly a redeemable mortgage book.

The risk-weighting of mortgages is currently 12.6%. The portion of mortgages with the loan-to-market value above 110% continued to decline.

Slide 16 is on our energy, commodities and transportation clients business. On balance, this portfolio grew by 1% compared to the end of the last year to EUR 25.3 billion at this moment, despite the weakening of the USD by 4.5%. The growth was mainly in energy and commodities. Commodities remained the largest sector of ECT-clients with around EUR 11 billion, transportation is nearly EUR 9 billion and energy clients is somewhat more than EUR 5 billion.

Impairments at ECT-clients in total amounted to EUR 48 million and that is higher than one year ago, when it was EUR 17 million. The increase reflects clearly the current challenging market circumstances.

In the last call we provided you with a prolonged low oil price sensitivity analysis of our ECT client books for energy, gas, and oil-related exposures. At the date of that Q4 call the oil price was around USD35 per barrel – we are talking Brent – and today it is around USD 44 to USD 45. Despite the recent improvement in the oil price, the sector is still top of mind. The sensitivity analysis covered the oil and gas related portfolio of our energy and commodities book, which is around EUR 12 billion to 13 billion, which you see on the slide. We stated that we expected impairments to rise to EUR 75 million in the mild scenario and EUR 125 million in the severe scenario. We also stated to believe that this manageable, especially in view of the size of the portfolio and the moderate risk profile we have.

The assessment also shows us that the reserve-base lending – or upstream portfolio, which is around EUR 1.2 billion – shows resilience. However, clients active in the offshore drilling and services – around EUR 2 billion in total – are more vulnerable in prolonged periods of low oil prices.

What we put this time is a scenario analysis on transportation. You may recall that in the last call I mentioned something about transportation already. This portfolio is nearly EUR 9 billion on the balance exposure and predominantly consists of shipping exposures. Certain segments of this shipping sector are not performing well, like dry bulk and containers. As part of our risk monitoring, we conducted a risk-sensitivity analysis on our transportation portfolio, more or less similar to the one conducted for oil and gas.

So, we also have applied mild and severe downturn assumptions. In the mild scenario we assumed global trade to remain below pre-crisis levels and oversupply in dry bulk containers does not decrease for a period of 18 months. We applied up to a three-notch downgrades on sub-portfolios and specific files were forced into default. Under this scenario, the modelled impairments came to approximately EUR 75 million over an 18 months period.

If we look at the severe scenario, we assumed global trade to stall and oversupply in dry bulk and containers to increase for the period of 24 months. Here, we applied up to a four-notch downgrade on the sub-portfolios and specific files were forced into default. Under this scenario, the modelled impairment came to approximately EUR 225 million over a 2-years period.

We consider however this scenario outcome to be manageable, especially in view of the size of our total portfolio and also in view of past experience, which tells us that risk measures and file restructurings, which have not been taken into account in those scenarios, typically result in significantly lower impairments than the static assumptions applied in this model approach.

Lastly, under these assumptions, these scenarios, the transportation portfolio still remains within our risk appetite limits for the sector.

Kees, over to you.

Kees van Dijkhuizen: Thanks, Wietze. I would like to conclude by saying that the first quarter was a quarter with mixed results, as discussed before. With respect to the SME-derivatives there is still uncertainty about scope and the magnitude of the required reassessment going forward. In March, a committee was appointed by the Minister of Finance and they will come up with a framework for compensation. The outcome is still unclear and although, the committee's advice is non-binding we cannot rule out that we need to take an unpredictable amount in additional provisions in due course.

As you know, we are already investing in digitalisation and innovation but we want to increase our efforts. In order to do so and also to invest in our business activities, we are looking into additional cost savings. In the second half of this year we expect to provide specific plans on how we will extend our strategy and financial targets towards 2020.

Thank you all for participating in this call and your attention. Operator, can we please open the call for questions?

Cor Kluis (Rabobank): Good morning. I have a few questions, first of all on private banking. You had some EUR 1.1 billion net outflow in the private bank and it seems that the Dutch part was even larger than that. Can you explain what the main reason was, apart from market circumstances? Last year, we also saw some outflows in the second half; is there a project you are working on to get that to pluses? What is the story behind that?

My second question is about the RWAs in capital market solutions, which went down by EUR 1.4 billion quarter on quarter. You had your approval for your internal model for market risk. Is everything fully at internal model now as you planned and highlighted earlier or is there still more to come this year and that RWAs in capital market solutions can come down by the application of the internal model or other model adjustments?

My last question is about the regulatory costs, which basically are stable at what you mentioned for next year. You had one competitor that had to come with an upward revision for regulatory costs and until now you have not done that. Have you looked into that? Are you sure and comfortable that this regulatory cost estimate is really the figure that is going to be the case for next year?

My next last question is about cost allocation in group functions. It seems that you allocate 95% of your cost to the commercial segments. Is that going to be the allocation program for the future? In the past it was around 84% to 85%.

Kees van Dijkhuizen: Let me start with the last question. Regarding cost allocation, we indeed try to allocate as many cost as we can and if that is exactly 95%, 90% or whatever, we try to allocate as much as possible and we refine our systems and our models. When there is clarity, we discuss it and then allocate it to the business. Sometimes, where is there is not yet clarity – which was the case in the past – with respect to certain cost, we do not allocate them yet and keep them in the centre. The idea is to allocate as much as possible. I cannot give you a percentage but that is what we do.

With respect to regulatory costs, to the best of my knowledge this is the result. In the first quarter we had to pay for the European Resolution Fund. That is done and there will be no bill in the rest of the year. Then we have the European Deposit Guarantee, which is a bit below EUR 90 million, divided over four quarters. Then we have the Dutch banking tax. We have paid that already for a couple of years, so we know the way that has to be computed. That is around EUR 100 million for us. That is indeed what we expect at this moment in time.

Wietze Reehoorn: Let me get into your question on the reduced risk weighted assets. It is in the trading books. In previous calls I mentioned that we were in the process of getting the approval for the internal model approach. We have the approval and as of January 1 we may apply internal models. That leads to the reduction of EUR 2.4 billion. You asked whether we may expect more. Everything is now being implemented except for a further refinement of the back testing of the VAR. That is actually in process. When we have completed that in the course of this year, we may expect a slight reduction again of risk weighted assets, but that is minor to what we have been showing.

Kees van Dijkhuizen: You asked about a decline in assets under management in private banks. Of course, we look into that. It still is a bit anecdoctical. We notice of course that some clients are annoyed by the amount of questions. Sometimes they move their money away but it is new legislation, so we have to do that. There is also some down streaming to retail as some people come below the threshold. We also said goodbye to some clients following reviews. But we presume there is also a market element in it. That is the analysis at this moment in time.

Cor Kluis: Very clear, thank you!

Farquhar Murray (Autonomous): Good morning, just two questions if I may. Firstly, the other income line was clearly weak this quarter. You have identified the CVA/DVA drag of EUR 49 million but could you just give a sense of the impact related to the hedge accounting that you refer to, to just give us a sense how that compared to a more normalised run rate?

Secondly, on the leverage ratio and the impact of the Basel proposals, when you say the credit conversion factors on off-balance sheet exposures would partly offset the EUR 42 billion benefit, could you just give a sense of the magnitude? For instance, does it offset the bulk of the EUR 42 billion or is it less than half?

Kees van Dijkhuizen: Let me start with the last question. No, unfortunately we do not know what the offset will be. We are analysing that at the moment, so I cannot answer that question. It can be significant, so it is not EUR 5 billion or EUR 10 billion. Of course, we hope that is not the case but I cannot give an answer to that yet.

With respect to the other income line, indeed we mention a few things. With respect to hedge accounting – that is in group functions – we say that other operating income decreased by EUR 49 million and that this decrease was mainly the result of lower hedge accounting results. Presumably it is in the range of EUR 20 million to EUR 30 million. In the first quarter of last year it was more or less close to zero

Farquhar Murray: Thanks very much indeed!

Andrew Coombs (Citibank): Good morning, three questions from me, please. Firstly, just on the stock of provisions, the EUR 3.7 billion allowance you now have. How much of that relate to IBNI?

My second questions is on the net interest margin outlook. Thank you for the details you provided on slide 19. In that slide you suggest that there is still room to lower the main savings rate. Why are you so confident?

My final question would be on SME-derivatives, misselling. You flagged a EUR 120 million provision thus far. Thank you for quantifying that. Could you just update us on the latest steps by the authorities in terms of determining a revised framework for compensation and what the potential implications are for ABN?

Kees van Dijkhuizen: With respect to IBNI, we have now around EUR 400 million in there. With respect to the NIM-outlook on slide 19: we have lowered the savings rate but of course we get now in a more difficult territory with 50 bps. We see in general we see 30 bps in Europe, 10 bps in Belgium. We think there is still a possibility to lower it further but of course this is a difficult area, especially when the ECB would lower the rates further. We hope it will not do that but of course we do not know. But there is some further room here. That is what we expect. But it is new territory for banks. This year we have already lowered it twice by 10 bps. That was serious in a short period. Hopefully, we will lower going forward.

Wietze Reehoorn: You asked where we are in the process regarding derivatives. This is a work in process at this moment. We are in good constructive talks with the committee. As you know, we did all our homework last year. We have contacted all clients that could be affected here. We have to redo some homework and we await the compensation scheme around summer. Then we will see what will be the situation. We do not have any idea about an additional provision at this moment. Currently it is around EUR 120 million. Again, we do not know what the outcome of the work in progress and the consultation round will be at this moment.

Andrew Coombs: And that review will impact all 6,000 swaps that you have previously reviewed or will it just be a handful of those swaps?

Wietze Reehoorn: It is part of that. Do not forget that we have already run a number of scenarios there, but part of that work has to be redone.

Andrew Coombs: Thank you.

Daniel Do-Thoi (JP Morgan): I have two questions. I apologise if you have already covered this point but the first question is on cost savings and the second is on the slide that you have provided on shipping.

On the first one, I just wanted to clarify these cost savings that you mentioned in your outlook statement, are those on top of the ones that you have already presented as part of top 2020 and the retail digitalisation program for the period up and till 2017 or are we talking about the period beyond that, i.e. part of your 2020 target that you will present later this year?

Secondly, on the transportation page on slide 17. You have mentioned dry bulk container and offshore support vessel as an area you are currently monitoring. Would you be able to provide us with the exposure in Euro-terms and also perhaps the associated NPLs, if you happen to have them at hand?

Relating to that scenario analysis that you present on the same slide I am trying to find a continuation of the current environment with freight rates in container and dry bulk roughly staying where they are at this moment for the next 18 months or so. Would that be broadly in line with what you model under these mild scenario or would that be better than a mild scenario?

Kees van Dijkhuizen: With respect to the cost savings you asked whether it is on top of 2017 or 2020. We do not know exactly yet. We have not taken the decision. The most important effect in 2017 will be on our existing programs we have in place, Tops 2020 and Spring in retail. Also, as we have communicated earlier, we expect savings next year to increase by over EUR 100 million compared to this year and investments to be lower than EUR 15 million compared to this year. So, there will be a significant improvement in those two programs affecting the year 2017. That is also the main reason why we still project to realise the 2017 cost/income ratio target of below 16.

Then the new strategy we are working on by looking also at 2020. In general, of course it can also mean that it will affect 2017 but the balance between the cost effects and the investments – we have to make the bank more agile and so on – is of not yet clear. So, I am a bit cautious there to mention a large effect of the program, but we will definitely start in that year and communicate on that in the second half of this year. I expect the main effects coming from the programs I mentioned earlier and the net effect of the new program still to be decided.

Daniel Do-Thoi: And just on that, these additional savings that you are looking into, is it fair to assume that they would be mainly centred around the Retailbank and maybe fine-tuning the size of the branch network?

Kees van Dijkhuizen: No, it is a much broader exercise, dealing with the whole bank.

Daniel Do-Thoi: Thank you.

Wietze Reehoorn: Let me answer your question on transportation scenario analysis on slide 17. We do not provide NPLs on the sub-portfolio level. I can provide you with a rough number on how the EUR 9 billion is composed of. Roughly 20% of that is dry bulk; 10% is containers and the offshore supply vessels is smaller than 5%. That gives you an idea.

Important to mention – I mentioned that in the last call as well – is that we have somewhat of a hedge in this transportation portfolio, because we have around 20% in tankers. At this moment, tankers are doing very, very well.

Your second question was whether the mild scenario actually is the base scenario, the current scenario, given where rates are today. The answer is 'no'. In the mild scenario, apart from the assumption that freight rates stay where they are today while you must have seen that the Baltic dry index showed already an uptick since we have drafted this scenario. But more importantly, in the scenario for the whole portfolio – which is very theoretical, we go up to three-notch downgrades – we also say that for all FR&R (Financial Restructuring & Recovery files) we assume they go bankrupt, which is totally theoretical. Our experience over the last ten to fifteen years has been that we are always able to restructure so that historically the losses in this portfolio are very low. Currently, to be transparent on that as well, in this quarter we took a provision of EUR 48 million for ECT. Of that, almost 7 was for transportation. That gives you an idea of the magnitude we are talking about.

Daniel Do-Thoi: So, you would need the situation in shipping to deteriorate from here in order to achieve a mild scenario of EUR 75 million …

Wietze Reehoorn: Absolutely. Again, because what we see happening in the market, is that restructuring cases require and are being provided with a lot of equity. There are a lot of private equity parties in the world at this moment who step in. That means that this scenario, where we assume not any management action from our side or not any restructuring action from our side, is very theoretical. The reason we have done that is because also in the oil and gas scenario we have taken out any management action from our side, just to give a kind of scenario analysis to you.

Daniel Do-Thoi: Thank you very much.

Bruce Hamilton (Morgan Stanley): Good morning. Some of my questions have been answered but I have two follow-ups. Just to check on the other income line, is there any reason why that number would be lower going forward i.e. is the private equity book on which you are generating gains a lot smaller and, if so, can you give us some sense of the size? Obviously, there are also moving parts in the other income line but in the last four years, you have averaged EUR 450 million per annum. Or should we assume that that is a reasonable guide?

Secondly, just in terms of regulatory clarity. Obviously, that is critical to your distribution planning but when do you think you will have sufficient clarity on the capital proposals that you could update?

Kees van Dijkhuizen: With respect to other income I think the best guide going forward is indeed what we have seen here in the past on average. So, a bit over EUR 100 million on average for a quarter, is a good indication for what would be the expectation around 'other income'.

With respect to distribution and Basel IV, I think there has been some movement in the right direction here. The proposals were more in favour of the internal models with respect to small SMEs and mortgages, however negative still on specialised lending, collateral not taken into account and the likes. So, there is still work in process. The most important is the output floor. As long as the output floors are in place, they can override all the internal model proposals, as they are on the table right now. So, our view is that with the constraint IRB, which is progress compared to proposals before, the output floor is not needed anymore with input floors in the internal models and with a leverage ratio. Our plea to regulators is that the output floor is not necessary. But as long as there is no certainty on this output floor – 60% to 90% -- and that will take the rest of the year, regulators will look seriously into that. Since the beginning of the year they have said that they don't want to increase capital significantly by these proposals. That is also the position of European regulators, so movements have been in the right direction but still, with the output floors on the table, it is not yet clear. We expect results in the fourth quarter. Basel always likes the Christmas period, is my experience from the past. And then, of course it depends if that is agreed by everybody at that moment in time, Europe will take it into account quickly. If it is still quite controversial with European regulators, there will be discussion in Brussels on the proposals. So, I think we will have to wait at least until Christmas, Q4, and then depending on the outcome it will take more or less time in Brussels. So, in the beginning of next year or in the first half of next year there should be more clarity.

Bruce Hamilton: Thank you.

Bénoît Pétrarque (Kepler Cheuvreux): Good morning. My first question will be on the NII. You continue to mention competition on the Dutch mortgage market, so where do you see front book margins versus the back book margins in the quarter? It seems that you have been getting back some market shares; was that at the expense of margins or are you still comfortable there? Linked to that, where do you see the NIM going forward? I think it was up 151 – you had a negative one off last quarter – and is that a good level for the coming quarters? What are your thoughts on NIM?

Then on fee and commission in the retail segments. I think it was a bit disappointing. You mentioned the stock market as being the reason of this weakness. On the other hand, I see fee and commission income in the private bank as quite resilient, so I was wondering why the retail segment is suffering so much this quarter. What is a kind of normalised level for you going forward? I know you have lowered your fees on payment services in the Netherlands in March, but what could be the recurring quarterly fee and commission line for retail?

Just to finalise on shipping and oil. What have you seen in terms of NPLs in the segment here in the quarter? Thank you.

Kees van Dijkhuizen: With respect to NII, indeed we see a more competitive market, especially at the longer end – 20 years-mortgages, where we see pension funds and insurance companies getting to the market. That of course puts pressure on margins. However, we are still able to keep our front book more in less in line with the back book, so we do not buy market share by lowering our margins to a level that we do not like.

With respect to guidance going forward, as mentioned before, in the past four to eight quarters we have seen around EUR 1.5 billion NII hoovering around the high 140's and sometimes in the 150's. We do not give clear guidance on that but you have seen what has happened in the last quarters. We see some room in deposits but the repricing in the back book of mortgages we expect to more or less end this year. So, we try to keep our NIM as much in place as possible.

Bénoit Pétrarque: Just to follow up on that one: it seems that you have been a bit more aggressive in lowering deposit rates in the past two quarters, so I was a bit surprised to see NII a kind of flat year-on-year and not going up a bit higher in the quarter.

Kees van Dijkhuizen: I think we have significantly lowered the rates in the last six months indeed. The last one was in March and the effect of that one will be in Q2. But of course, the countervailing pressure there is that the ECB lowered their rates as well. You have seen it with a lot of other European banks and we have seen the example with other European banks in keeping up your net income level. We are actually happy that we have been able to do that in this negative interest rate environment from central banks.

Bénoit Pétrarque: That is clear, thank you.

Wietze Reehoorn: I will answer the question on the shipping and energy. For the quarter, what we have seen, is that on the energy portfolio it behaves as we have described also in the mild scenario, albeit that we are below that scenario at this moment. We have seen a few more clients into financial restructuring recovery – NPLs, and bear in mind that of the EUR 48 million ECB provision we took this quarter, EUR 22 million is in the energy book, mainly one large client.

What we have seen in the transportation book I just described in answering another question. We see a very low impairment number at this moment, being only EUR 7 million but we did put a number of clients on watch as a precaution and some of them have gone to financial restructuring recovery, still also behaving in line with scenarios in the sense that it below the mild scenario at this moment.

Kees van Dijkhuizen: Coming back on your fee question: we believe that retail clients have been a bit more cautious than private banking clients in the economic turmoil, so they were in a kind of wait-and-see-approach in January and February, so we got less fees from that of course, much more market-driven we think. Secondly, we also think that we have seen less upstream to Private Banking in the Netherlands and they get a fee for that from Private Banking in the Netherlands when there is upstream from the retail to the private bank. I would say that the market environment and clients not doing business are the most important reasons.

Matthias de Witt – KBC Securities: Good morning, two questions left on my side. The first is on capital. Could you provide a bit more colour on the implications of the most recent Basel proposals for your ECT book? Where could risk weight for example go to if you would have to use the supervisory slotting or the revised standardised approach for the ECT exposures?

My second question is on the leverage ratio. You previously talked about optimisation measures you could implement and the potential impact thereof. I am just wondering if you could update us on these measures, both in terms of what you can do and their potential impact going forward.

Wietze Reehoorn: I will address the first question, which is difficult because your question is what the impact of the recent consultation would be. It starts with the explanation that Cees just gave that there are impacts from many issues. To take just two of them: the impact on specialised lending is depending again on input and output floors, whether or not you can take collateral with it and you can continue working with internal models. So, at this moment we will not provide you with any scenario there as to risk weight increases because that would be just speculation.

The other impact, which could be there, is the credit conversion factor impact, which is another way of looking at uncommitted facilities that we do have of course, which are not drawn and which should get a CCF. That could also mean an increased risk weight. There, we are still analysing what it means for the portfolio. We have the opinion that whether there will from one or the other side be an increase in risk weights, this portfolio is suitable of being priced through to the clients it operates in. So, that is a mitigant probably to increase risk weights. At this moment, it is too early to give any scenario about what will be the size of the increased risk weight.

Matthias de Witt: If these proposals would be implemented, do you believe there will be a transition period where the back book could for example be exempted or where the rules could be implemented in a phased manner?

Wietze Reehoorn: I think that will be phase 2. As Cees also said, phase 1 where there has been a successful lobby as to the leverage ratio impact of the clear derivatives, also in this particular field. This is world trade we are talking about, world GDP. This is internationally a very important type of trade business, which is collateralised. Most of the banks will provide that it is uncommitted. If that is being hit with these kinds of factors, the first phase is a successful lobby, which we are trying to do also with other bank. It may be that a transition period will be there that could be a mitigant for the back book, but also the other point I just made that in this particularly global market banks should be able to price it through to the client.

Kees van Dijkhuizen: With respect to your question on the leverage ratio, matched to optimise. We work on that continuously of course. For instance, if you take into account the balance sheet and the first quarter 2015 and the first quarter 2016, you can see that there is a decline of over EUR 20 billion balance sheet. Half of that is derivatives and half of that is securities finance. So, first, we try to optimise our balance sheet further. This is also taken into account in the strategic update where we look in all our portfolios how we want to work on them going forward. That is where we are. Then of course there are special things with respect to the CCFs and the cleared derivatives. We also still have outstanding net cash pulling, where we have to gross instead of net positions.

Matthias de Witt: In the previous call you provided some guidance on the potential optimisation initiatives. Is there anything on that you could share with us?

Kees van Dijkhuizen: No, not yet. Sorry.

Matthias de Witt: I understand. Thanks a lot!

Tarik El Mejjad – Bank of America: I have two questions, first on your new 2020 strategic plans. I understand you have to come with a new plan, given that the current strategic plan ends next year but I am a bit surprised that you will new allocation of capital, new pricing and new budget when you do not really know what the new regulation from Basel will be. So, can you please just share something around that? How do you think about allocating capital and so on, given that Basel IV is still uncertain? I doubt very much that you will get more clarity by then.

My second question is on your capital markets division. It looks like it is structurally a real loss-making division. Would you be considering something different, like a JV or downsizing it? Even cost optimisation does not really help in there.

Kees van Dijkhuizen: I think indeed Basel IV will not completely clear at that moment in time. Of course it is relevant for choices that we make. We take it into account as much as possible but perhaps some final decisions have to be made later if we are completely unsure about the result in Basel IV. However, we already take into account at this moment in time – so, without knowing – a clearly higher risk weight for instance for mortgages in our pricing. We already do that. So, it is not that we are going to wait for the results before we act in pricing, especially with long-term mortgages; you need to do that already right now. When there is uncertainty around risk weights, for instance in certain types of business, indeed you cannot take final decisions then. That is right.

Wietze Reehoorn: Let me answer the second question, which was related to the strategic update. CMS, Capital Market Solutions, of course it is composed of clearing, sales and trading. Clearing is profitable and sales and trading are indeed depressing the profitability. As you know, also in the IPO we have clearly stated that we accept that it is a sub-hurdle return because it is a utility for all the other client businesses we have. Nevertheless, this will be a subject in the upcoming strategic review to see how exactly to go about this. Features you mentioned I will not speculate on but be sure that we will look into all kinds of alternatives, which are there.

Tarik El Mejjad: Because you can have that as a hurdle without allocation EUR 1.5 billion of capital to it, I guess.

Wietze Reehoorn: Let's avoid workshopping at this moment but you may be right in that respect. We will look into all kinds of alternatives but it is very important to mention again what we also did in the IPO. We are a client-driven bank and we still believe it is important for our client businesses. Up till now we have accepted that it is a sub-hurdle return.

Tarik El Mejjad: And just one quick follow up on the first question. So, we should not expect that in a new plan any new dividend policy, any [capsuled] targets because that will not change, unless you want to give a hint on what your thoughts are about Basel IV by then.

Kees van Dijkhuizen: That is indeed one of the things that are difficult in the second half, unless we have more clarity on Basel. That indeed might be the case that we cannot give a lot of new indications there. Another example is of course a cost/income ratio 2017; there will be clear new guidance in the direction of 2020.

Tarik El Mejjad: Thank you very much.

Kiri Vijayarajah – Barclays: Good morning. Firstly, on the leverage exposure. You got the seasonal uptick in Q1, but for Q2 and Q3 does it hold steady at these levels or are there still things you are working on to bring that down? It sounds like from the previous question there is still stuff you are working on on the capital markets side.

Secondly, on the transportation scenarios. How sensitive is that part of the book to rising all prices and rising fuel costs? I am just wondering whether there is some sort of a partial hedge to your energy book there on the shipping exposures.

Kees van Dijkhuizen: With respect to the first question I think it is too early to tell if there will be results from capital markets as explained by Wietze. We do not know yet. We will communicate on that in the second half of the year.

Kiri Vijayarajah: Okay.

Kees van Dijkhuizen: Your second question was on a partial internal hedge again over a couple of books. It is a very good question. There is of course some hedging there, as well as some compensation. If oil prices go up, you may see an impact on the tanker bucket of course. You may also see an impact on the dry bulk but on the other hand, what we expect is in correlation with what we also see and that is that when GDP is improving the oil price is increasing. That could be a kind of hedge, which is helping then our transportation book.

Kiri Vijayarajah: Thank you.

Anke Reingen – RBC: I have three questions. The first is on mortgage risk weightings. You said you are already taken an assumption on higher risk weighting on the mortgages. I just wondered if you are willing to share where this is going on average.

Secondly, on costs. I was wondering about your outlook for cost excluding levies for the rest of the year. Also considering we are not quite clear on how TOPS savings and investments have impacted so far.

Lastly, on growth in the ECT portfolio in the first quarter. I am just wondering in which areas you see opportunities for growth. Obviously, there are concerns about the asset quality yet you are continuing to grow, so I am just wondering about the motivation or the drivers.

Kees van Dijkhuizen: With respect to mortgage risk weights the competition authorities would not like us to be too explicit on these kinds of things we put in our pricing, so we cannot communicate on that what we take into account.

With respect to cost excluding levies, your question was related to the tops and the retail digitalisation effects. I would refer to slide 7, where you can see that what I mentioned on 2017 – increase of savings over EUR 100 million and a decline in investments of EUR 50 million – that this year we also an increase in savings of around EUR 15 million but also an increase of investments with EUR 35 million. So, in that respect the balance between the two is not significantly improving this year yet, only by EUR 15 million. Next year it will improve by over EUR 150 million.

Wietze Reehoorn: Regarding ECT, of course as a result of the depreciation of the dollar it is more or less stable in euro terms, although there is a slight increase in the commodities book. On balance we went from EUR 11.1 billion to EUR 11.2 billion. That is not a lot. It is somewhat of an increase of the commodity prices, which you see as a reflection in the borrowings. There is a small increase in the energy book, clearly with the reserve-based lending. It is actually our most resilient book and you must have picked that up as well if you see these severe scenarios we have pictured there. It is very resilient because of the position we take there. We are never the equity parties, so we are not loss absorbing there. We have a very low advance rate as to proven reserves. What you see here as a result of somewhat higher brand prices is somewhat more volume of lending. This is mainly the reason for the growth and it is not as such that we are picking up new clients at this moment, because there we take a cautious approach.

Anke Reingen: Thank you. Just on the cost, should we expect costs underlying to be flat versus Q1 excluding the levies for the rest of the year?

Kees van Dijkhuizen: We do not guide on our income line and cost line.

Anke Reingen: Thank you.

Alicia Chung – Exane BNP Paribas: Good morning. Thank you for these stress test illustrations on transportation. Given that you have now shown these stress tests for energy and transportation can you give us any colour on what you might expect from the commodities portfolio?

Secondly, is there any chance that the scope of the derivatives review that is currently underway could extend further back than 2010 and so the scope of the cases could increase beyond 6,000? Finally, could you just give a version update on fees for Q2? Has performance been recovering to date?

Kees van Dijkhuizen: Shall I start with your first question, which is of course a marvellous question. I can imagine that you are out for even more disclosure and I understand that. The reason why we have not been providing a sensitivity analysis on the commodities book at this moment is because we are less concerned there. The impact of the lower commodity prices is not so much risk or issues around clients, it simply deals with lower volumes that we can lend. It is still a trend in the commodities financing world – again, we are not trading commodities; we are financing clients who trade commodities – is that once in a while you have fraud cases. You have a lumpy road then of some larger impairments. That has been the case in history and that will be the case in history. Of course, we have on certain sub-portfolios of our commodity book very regular in our central […] committee deep dives, which are informing us about risk profiles and client behaviour, but again at this moment there was no reason for us to provide a scenario analysis to the outside world, given what I have just been saying.

Wietze Reehoorn: With respect to derivatives, indeed the number of derivatives which are in scope depend of course on the date, which is taken into account.

Guidance on fees in Q2, as said we do not give forward guidance here in the sense that, as mentioned, fees were negatively influenced in the first quarter due to market circumstances compared to Q1 last year.

Alicia Chung: Thank you.

Patrick Lee – Santander: Good morning, just a couple of questions from me on revenues. Firstly, on the net interest margin where we saw an improvement this quarter. You mentioned before that you saw mortgage margins improving in Q1 but you also mentioned that the repricing benefit is levelling off. When should we expect this inflection to happen when the mortgage margin actually stops improving? Is it going to be close to the end of the year or in Q2 or is it going to be 2017 thing? When that happens, should we expect that to just level off or would it actually fall in absolute terms? I think you have mentioned before that the front book equals the back book, so I guess we should expect stability from hereon?

Secondly, on [inaudible] in the Dutch economy and what it has done for asset quality but if I look at your client loan volume, would you expect to see better volumes sometimes in 2016 or is that again a 2017 thing?

Kees van Dijkhuizen: With respect to the back book we expect also the rest of this year a positive effect of that, margin wise. With respect to the front book, as said, that depends very much on competition during the rest of the year. So, that is hard to predict at this moment in time. But at the moment we are more or less in line with the back book. As said, there is some repricing we expect this year. Volume depends also on market share we can get and the market performance itself.

Wietze Reehoorn: If you look at the commercial loan book, as a whole it has grown very slightly, from EUR 77.8 billion to EUR 78.2 billion. In the Netherlands, there still is a lot of amortisation in our commercial loan book, clients paying back though we see some new applications. The expectation will be that in the run off to 2017 we may expect that the commercial loan book will grow book in line with the Dutch GDP but that depends on the continuing recovery of the Dutch economy.

Patrick Lee: Thanks.

Robin van den Broek – Mediobanca: Good morning, I have a couple of questions left. I think you implied with your IPO that you expect growth on the mortgage market basically flattish. The deposit rate is moving further from well tax levels, do you expect growth to turn more negatively going forward?

My second question relates to another consultation paper we have seen on operational risk where internal losses seem to have a fairly big magnitude potentially on operational RWAs, with SMEs and some tax and legal claims you have on the balance sheet of EUR 675 million. Could you shed some light on potential impacts on that consultation paper?

Kees van Dijkhuizen: With respect to the mortgage market, indeed with lower deposit rates there is a higher risk for people to start to prepay their mortgage. On the other hand, the market is also very buoyant, very growing at this moment in time, so the balance between the two we expect still to be more or less levelling off. Our aim is still to keep the mortgage book flat this year.

Wietze Reehoorn: Your last question was on operational risk. Currently, we carry around EUR 1.7 billion of risk weighted assets there. As you know, we are still in the process of getting the approval of the ECB for our AMA, our Advanced Measurement Approach, which we have been working on during the last couple of years. That is somewhat of a situation, as indeed, as you mentioned, a result of new consultation papers will probably change the capital calculation of AMA. It is too early to say anything about that but one thing is clear. Compared to where we would end up in AMA, it would not reduce risk weighted assets but it would increase them. On the other hand, if you look at revenue and losses – that is one of the things they are going to look into – then this bank has been quite modest in terms of operational losses. So, there we see paying back the way we have been installing the program over the last couple of years for AMA. But again, it will be very precise here.

Robin van den Broek: But the amounts you have in your balance sheet for tax and legal claims, I presume those will be classified as internal losses in that consultation paper, right, including the SME file?

Wietze Reehoorn: For me it is too early to say anything wise on this at this moment because it also depends on the way and what kind of factor you should apply there. I do not want to speculate on that. I was more referring to the operational losses historically, apart from provisions you have taken on the balance sheet. In that sense, if you look at the operational loss track record of the new ABN AMRO you see it has been very limited, very modest.

Robin van den Broek: Yes, but these numbers you have provided in your balance sheet, when you are actually going to pay them out, how should we look at that from that perspective?

Kees van Dijkhuizen: I do not know, Robin.

Robin van den Broek: Thank you.

Brajesh Kumar – Société Générale: Good morning, I have three quick questions on bond issuance. What was the mood music that you are getting from the regulator around the use of your holding company and what is it that your understanding that they are waiting for before they give you a sign as to whether you are going to use it? Do they still expect insolvency law change across the EU in the same way that Germany has undertaken?

The second question is on TLTRO 2. I do not know if you have mentioned it so far, but just a sense of whether you think it has any value to you.

The third is on AT1. You did one last year. You said at the time that you were interested in filling up your 1.5% of risk weighted assets and you have something like EUR 700 million left to achieve that. Is the pricing interesting for you at the moment? Is it something that you are looking to do?

Kees van Dijkhuizen: With respect to discussions on German, French, Italian, and Spanish proposals, indeed there is not yet certainty from our regulator and ministry together. Hopefully, that will be the case soon but we will have to see. We will discuss it with them.

With respect to TLTRO I think, if I understood your question correctly, we expect to early repay and make use of the new program for a significant amount.

With respect to the 1.5% AT1: no, we are not in a hurry there. Last year we have done an AT1 at good pricing. We might await further clarity around leverage, TLAC and alike.

Brajesh Kumar: Thank you.

Marcel Houben – SNS Securities: Good morning. I just have one question left, on the cost of risk. The last couple of quarters have been structurally below your guidance of 25 bps to 30 bps through the cycle. It seems to me more conservative. I was just wondering if you would stick to that guidance and why you would stick to that guidance.

Wietze Reehoorn: We will stick to that guidance, as it is a through-the-cycle-guidance of 25 bps to 30 bps. If you look at last year and at this quarter, bear in mind that in the first quarter of 2015 there was an impairment of EUR 100 million of a large client. Secondly, the amount of IBNI-releases over last year to 20, we do not expect that to get back. The only point I would like to make is that, whilst we maintain the guidance for the cycle of 25 bps to 30 bps. predominantly our loan book is geared to the Dutch economy, which is still in recovery mode. So, you may expect that in this year the cost of risk will be below the through-the-cycle-number.

Marcel Houben: Thank you very much.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Good morning. I have three questions. The first is regarding slide 19, which you provide with the impact of the negative interest rate policy. You indicate an impact of 2.4% and that is for the full year. I was wondering what the cliff effect is if you are at the end of the period.

Secondly, could you provide your average CCF for corporates? I could not find it in the report.

The third question is what kind of number of derivative contracts were outstanding in the period before 1st April 2014? We know it was 6,000 at that date. How materially above that amount was the number of contracts before that date?

Kees van Dijkhuizen: I missed your second question?

Jean-Pierre Lambert: It has to do with the CCF, the credit conversion factor. What is the average CCF for your corporate exposure? Can you provide that?

Wietze Reehoorn: We have not provided that, so I leave it with that.

Kees van Dijkhuizen: With respect to the first question, indeed on slide 19 you see the effect of a twelve month period of a 2% decline or rise. We only give the first year because these effects are not taking any action into account. So, with respect to later years, we think they are less relevant because we will take action of course when there are movements in interest rates, especially when we are talking about 200 bps. We of course will not sit on our hands. That is the reason why we only give the first year, because then you can only have less reaction time there.

Before the 1 April of 2014, of course derivatives will increase but we have no figures there. It depends very much on how far. We have not disclosed them at this moment in time.

Jean-Pierre Lambert: Thank you very much.

Kees van Dijkhuizen: If there are no more questions, I would like to thank everybody in the call for your participations. Thank you for your questions and your patience.

Operator, thank you very much for helping us.

End of call.