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Q2 2015 Conference Call Transcript

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Participants: Gerrit Zalm, Chairman; Kees van Dijkhuizen, CFO; Wietze Reehoorn, CRO & head of Strategy & Business development; Erik Bosmans, Treasurer; Dies Donker, Head of Investor Relations

Dies Donker: Good afternoon everybody and welcome to the call. With me in the room are Gerrit Zalm, Chairman of the bank, Kees van Dijkhuizen, CFO and Wietze Reehoorn, Chief Risk Officer and Head of Strategy and Corporate Development, as well as Erik Bosmans, our Treasurer.

We would like to start with the call.

Gerrit Zalm: Good afternoon and welcome to this presentation on the second quarter and half year results of 2015. We will use a short presentation, which was published on our website this morning. The full version of this presentation will be published later today. Given that we are currently preparing for an IPO, we are subject to certain legal requirements and that may restrict us in our answers on your questions but that is all in the game. This relates especially to forward-looking questions and forward-looking answers.

If you look at the Dutch economy, there are a lot of signals that the Dutch economy continues to recover. Dutch growth is above the Eurozone average and the ABN AMRO Group Economics department expects GDP to grow by more than 2% this year and also next year.

The consumer spending and Purchase Managers Index both are increasing and the ongoing revival of the housing market, lower unemployment, improved confidence of consumers are characterising the Dutch economy.

So, we are quite positive on the economic developments of the Dutch economy and as 80% of our revenues is coming from the Dutch economy, this is also important for the bank.

When we look at the financial results of the bank, the positive development of the last few quarters has continued. If we look at the underlying result year-to-date, we can note an amount of EUR 1,144 million net profit, 63% higher compared to the first half year of 2014. That is quite a good result. Especially the second quarter benefitted from a sharp decline in impairments. We are pleased with that result and you can understand that probably. Also our shareholder is probably pleased, because we intend to pay a 40% cash dividend over the full year 2015 and we will pay out EUR 350 million as interim dividend.

Looking at our financial targets, we can also see progress. The fully loaded core CET 1 ratio was 14% at the end of June, which is 1.3% higher than the year before when it was still at 12.7%. It is also well above our 2017 target range of 11.5% to 12.5%.

At the same time, we realise that a range of regulatory developments is coming our way. For one, the Basel-proposal with respect to risk-weightings, especially for mortgages and corporate loans. The discussion is still going on and consultation is still going on, so we do not know where it will end up but this may influence the calculation of the Core 1 ratio. But also

increasing buffer requirements set by regulators could have a significant impact on our capital position going forward. That is why we continue to focus on capital efficiency and we will further strengthen our capital position.

Return on Equity improved further. For the first half of 2015 Return on Equity was 14.7%. Of course, we know that in the second half we will get some extra regulatory levies that will be around EUR 250 million gross: the bank tax, the European Resolution Fund and the European Deposit Guarantee Scheme. If we include these levies and spread them over all the quarters, the Return of Equity for the first six months would have been 13%, which is still above our target range of 9% to 12%.

Looking at the cost/income ratio in the first half of 2015 we realised 57%, which is 2 percentage points lower than one year ago. Also here, if we spread out the regulatory costs for the year the cost/income ratio for the first six months would have been around 60%, which is at the top end of our range of 56% to 60% in 2017.

Kees will now lead you through the financial results in more detail with the focus on the second quarter.

Kees van Dijkhuizen: Thank you very much, Gerrit.

On slide 8 you can see a brief overview of the second quarter and first half year results. As already mentioned, the profit in the second quarter was EUR 600 million, up 86% from the second quarter last year. The profit for the first half year was EUR 1.144 million, up 63% from the first half last year.

If we go to the main line items, first of course the interest income, which is around 75% of our operating income. You can see that net interest income in the second quarter is benefitting from continued higher asset margins and to a lesser extent to an increase in asset volumes. Compared to the first quarter of 2015, NII is 2% lower due to two non-recurring interest provisions. Excluding these non-recurring items, NII continued to grow and the NIM would not have declined.

Fees – around 20% of our operating income – were 8% higher than the second quarter of last year. This increase was primarily recorded in Private Banking. If we compare it to the first quarter, fee income was 3% lower and that was mainly because corporate finance came down from the high levels in the beginning of the year.

Other operating income increased primarily due to higher CVA, DVA and FVA income.

Expenses are up 7% compared to the second quarter last year. 4% rise in personnel expense, mainly due to higher pension costs following the low interest rates. Pension expenses are EUR 18 million higher in the second quarter than in the second quarter of 2014.

The increase in other expenses also reflects higher project costs for IT and internal optimisation projects.

Impairment charges for the second quarter totaled only EUR 34 million. This was exceptionally low and Wietze will further elaborate on that.

On slide 13 we see the results of the business units. You can see that Retail Banking further increased and particularly benefitted from a decline in impairments to only EUR 3 million. The underlying profitability improved by 23% compared to the second quarter of last year and it improved to EUR 342 million. Compared to the second quarter of last year, mortgage margins improved.

The underlying profit in Private Banking improved by 64% to EUR 72 million compared to the second quarter of last year, reflecting higher operating income on the back of improved stock market conditions. Impairments showed a release.

Corporate Banking had a strong quarter as you can see with EUR 249 million compared to EUR 32 million last year. We are of course very happy that now also Corporate Banking makes these good results. Impairments came down sharply and operating income increased by 21%.

The number of loan applications for small enterprises with a turnover of EUR 1 million to EUR 30 million are part of our segment of Commercial Clients. Commercial Clients has a turnover of EUR 1 million to EUR 250 million. They continue to show a slow increase. Especially the level of acceptance is now improving. We get better proposals these days.

In recent years we have seen a decline in our Commercial Clients loan book. This year, year-to-date we see a stabilisation more or less of the book.

The fully loaded leverage ratio decreased to 3.1%. Guarantees provided by ABN AMRO clearing bank to clients need to be included in the exposure measure as a derivative exposure. As a result, the exposure measure increased with EUR 53 billion and this resulted in a decline of the leverage ratio. We will of course comply with the regulatory guidance. The current guidance set by the regulator for the leverage ratio is 4% in 2018 and we want to reach this by retained earnings, possible AT1-issuances and reducing the exposure measure.

Based on our current understanding of the MREL rules, we will aim to reach 8% by 2018. We can reach this through capital retention and issuance of subordinated debt. Of course, we will actively monitor regulatory capital developments, also on TLAC, during this process.

Wietze will now elaborate on impairment costs and risk developments.

Wietze Reehoorn: Kees, thank you. Ladies and gentlemen, good morning or good afternoon.

Let me quickly go back to slide 12, the improved economic conditions in the Netherlands combined with an intensive monitoring of clients and a balanced portfolio intake. This all resulted in a substantial decline in impairments to EUR 34 million this quarter. This is an exceptionally low number, also because the impairment charge includes a sizeable release from the so-called incurred but not identified provisions. That is an IFRS-based provision. This provision is re-assessed quarterly, based upon losses recorded in the previous twelve months. This quarter, EUR 107 million was released, mainly within Retail Banking and Commercial Clients. In Q2, 2014, we saw an IBNI-release of EUR 1 million.

Given the considerable IBNI-release this quarter, we do not expect the current level of impairments to be representative for the remainder of the year.

The cost of risk came down to 5 basis points, the lowest level since the legal merger in 2010. This trend is also seen in the impaired ratio for the customer loan book, which declined to 2.6% from 2.8% at the end of the last quarter.

Lower inflow and continued higher outflow resulted in a further decrease in the impaired ratio for residential mortgages to 0.8%.

The higher outflow is a result of an increased outflow of clients to the performing portfolio as well as higher demand for houses, which enabled us faster settlement of files in the long-term arrears.

The impaired ratio for consumer loans remained unchanged, while for Corporate Loans it decreased to 5.4%. All sub-portfolios within Corporate Loans showed a downward trend, except for medium-sized commercial clients, where the level of impaired files remained stable.

In absolute terms, the level of impaired loans for the client loan portfolio declined by EUR 372 million compared to Q1. The total coverage ratio increased to 57.3%.

Not all sectors benefit from the recovery of the Dutch economy. Retail and Commercial Real Estate, and Transport and Logistics still struggle.

Stricter income calculations in the acceptance criteria of mortgages and a further lowering of the NHG-limit as per 1st July resulted in high new production. The number of houses sold was up 19.5% versus Q2 last year. Towards the end of the second quarter, house prices were 0.8% higher compared to the last quarter.

For ABN AMRO mortgage production, volume increased by 51% compared to the same period last year. Our market share in the second quarter was 23%. By that, we were market leader in new production. Reflecting the change in the Dutch fiscal mortgage regime contractual repayments continue to grow gradually. Extra redemptions are returning to normalised levels. Past due and impaired mortgages exposures trend down. The annual cost of risk came to a release this quarter of 6 basis points. This includes an IBNI-release. The average loan-to-market value of the portfolio was stable compared to last quarter, at 82%. The average loan-to-market value excluding NHG-guaranteed mortgages remained at 78%.

The mortgage loans with a loan-to-market value higher than 100% declined by EUR 3.4 billion since year end 2014, of which EUR 2.4 billion in the last quarter. The portion of mortgage loans with a loan-to-value market above 110% continued to decline, also because there is no more inflow in the highest bucket as a consequence of the new mortgage regulations.

The mortgage book consists of around a quarter of NHG-guaranteed mortgages. NHG is still good for approximately 46% of the new production.

Let me give some information on ECT clients, as we received many questions on the ECT segment. We provide some information this time here. The ECT client portfolio slightly decreased by 0.9% this quarter, because of the depreciation of the US dollar with 4% in this quarter. Excluding the depreciation, the loan book increased. Impairments for ECT remained low relative to the portfolio size, at EUR 18 million over a total loan portfolio of EUR 25.2 billion in Q2. Annualised this means 28 basis points costs of risk.

Now, I would like to hand over to Gerrit for a wrap-up.

Gerrit Zalm: Thank you, Wietze. There is not so much I can say about the IPO other than that we are busy with internal preparations. They are well on track.

I would like to conclude by saying that we are pleased with the results. It was the most profitable half year since the bank was created. Operating profit further improved and the improvement of the Dutch economy in combination with active management of our loan portfolio is paying off in lower impairments in almost all portfolios. So, our financial performance gives me confidence in the future.

Thank you for participating in this call and I hope we can now open the floor to questions. As I said, we will be restricted in our answering because of the IPO preparation.

Cor Kluis (Rabobank): Good afternoon. I have a few questions, first of all on the risk-weighted assets. We saw there an increase of EUR 1.75 billion on the credit side for model changes. It seems that it is really in Commercial Banking, International Clients: Commercial Banking total field. Can you explain what this exactly was? What changed and is this a one-off or is this a total model that will be adjusted forward and that we can expect further model changes going forward?

My second question is a little bit more operational. IT costs, due to higher project costs as you mentioned, were somewhat higher. You also showed a lot of innovations et cetera in the press release that you are working on. Can you explain why that is? Is the project a one-quarter project, a one-year or a multi-year project? To what extent is this recurring and where are you basically investing in?

My last question is about ECT. Thanks for the additional disclosure on that subject. On the EUR 25 billion can you maybe highlight which part you are really focusing on, given the clear decline in oil and commodity prices? If there would be extra

impairments of defaults that will probably only be on a very small part of that book. Can you give me some clarity on your way of thinking from a risk point of view?

Gerrit Zalm: Shall I start with IT? And then Wietze will take the model changes. IT costs relate to digitalisation in order to improve the accessibility for consumers and also our business clients at our bank. At the same time, it also relates renewal of our internal infrastructure, so to say, or our banking system. This is a multi-annual program. We expect in 2016 that the highest level of investment will be reached. It will be a bit higher than this year. Then it will gradually go down.

Wietze Reehoorn: Let me comment on the question on the model changes. The change in risk-weighted is indeed mainly coming from a change in credit risk and is the result of an increase in Corporate Banking of around EUR 5.4 billion and a decrease in Retail Banking. It mainly deals with the fact that from time to time, on a very regular basis, and also in good consultation with the regulator we are updating models. So, we are reviewing PD and LGD and back testing what we have seen in the previous 6 to 12 months. That of course is a continuous improvement that we are making.

Then on your question on the ECT book. Again, the portfolio was down versus last quarter but if you compare it to the year end it was up with almost 30.5%. It is roughly 95% in dollars, so it shows the exposure also to the currency impact there. What we mainly see in terms of risk is that the drop in oil prices only have an effect on our energy portfolio, which is 4.5 billion outstanding on the whole 25. Again, there you have around 25% of that 4.5 billion is in what we call the 'upstream segment'. There we are monitoring the clients quite well. I am not concerned there because we have a semi-annual re-determination of the price deck, the securities that are protecting us as a lender against the downward prices. The outlook in the sense that oil prices are still volatile is that we have a close watch on that portfolio. You have seen the impairments over the last quarter, which were 18 million, in basis points annualised 28 basis points. If you compare that with what we have shown you in an earlier investor presentation you see that over a 10-year period we have produced an ECT, a very low impairment number of around 10 basis points. Again, that is a client book off and on balance sheet. I would like to leave it at that.

Cor Kluis: Wonderful. Thank you!

Albert Ploeg (ING): Good afternoon. I have a couple of questions.

The first is on the net interest income and the net interest margin. Can you maybe give a little bit of insight in the impact from the current mortgage refinancing and prepayment on the NII in the first half and potentially going forward, like the amortisation of some hedges that might have been broken?

Secondly, you already mentioned in the presentation on the leverage ratio that the definition has been changed a little bit in terms of calculation. You also mentioned – and not for the first time – some new targets based on 2018. Can you maybe give somewhat colour on the line to manage the exposure measure, so maybe changing the composition of the balance sheet a little bit to reach also the leverage ratio. What do you mean by that comment?

Finally, I have a question on regulation in general and also the dividend. The dividend pay-out has been 40%. Given the uncertainties outstanding, is this basically the kind of pay-out ratio you feel now most comfortable with, looking ahead? I can understand that you maybe cannot comment on this specific question.

Gerrit Zalm: Kees, net interest income?

Kees van Dijkhuizen: Thank you. With respect to the net interest income and the margin, as mentioned we have seen a further increase of the back book because a large part of our mortgages in our mortgage book are 10-years mortgages. Spreads and margins ten years ago, in 2005 and by the way also in 2006 and the years before were much lower than they are today, so there is still re-pricing in that book but of course that will fade out some moment in time going forward. There are no issues with broken hedges or something like that.

With respect to the leverage ratio, the EUR 53 billion, that is a conservative approach from our side. So, we will discuss this further with EBA and the regulators but from a conservative point of view we have taken it on board. It actually means that we have now taken on board the guarantees from our clearing clients to the central clearing institute, while those guarantees are well collateralised. We think this is not a right approach, the right interpretation. However, as long as we are not certain about that we have taken a conservative stance here.

With respect to dividend, Gerrit, I would like to hand over to you.

Gerrit Zalm: Dividend is expected to be a 40% pay-out, which means that 60% of profit is retained. So, we can combine this 40% dividend with increasing equity and also strengthening our balance sheet. We think this is a reasonable division between retained profit and paid out profit, also because our balance sheet is expected to grow modestly. The mortgage portfolio, which is quite dominant on our balance sheet, is around stabilisation and maybe small growth and that means the total balance sheet will also show a reasonable modest growth. In our opinion, this is quite compatible with strengthening the balance sheet.

Albert Ploegh: Thank you, maybe one small follow-up on the net interest margin. In the presentation it was mentioned that if you adjust for non-recurring items like some provisions that were taken, the absolute level is actually a little bit up and the NIM underlying was basically flat compared to Q1. Can you maybe give a bit more colour on what the NIM drivers are, especially in Retail and Corporate? It seems that on both divisions the NIMs looked to be flat quarter on quarter. Is that a correct conclusion?

Kees van Dijkhuizen: I think your assessment is right indeed. If you correct for the non-recurring provisions the decline in the NIM compared to the first quarter and compared to the second quarter of last year would not appear. With respect to Retail, the drivers are, as mentioned, margins and not so much volumes. That was more or less a stabilisation, as Gerrit referred to. With respect to the Corporate book there is still some re-pricing there but also a little volume growth. So, those are the main drivers.

Albert Ploegh: Clear. Thank you.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Hello, I have a few questions. The first one is on the nature of the non-recurring interest provisions in Retail Banking. I guess it is around EUR 60 million and it is about the mismatch or a different way of calculating the net interest income versus your counterpart.

My second question is related to the clearing business. Are you considering taking mitigation measures for some activities in light of the potential impact on the leverage ratio?

Thirdly, the NII in Private Banking has seen a quarter-on-quarter decline of 8%. I presume there must be a one-off element there.

Kees van Dijkhuizen: Let me start with interest in Retail. Indeed, we mentioned there that there is a decline in the Retail business due to a non-recurring provision. We do not disclose the amount but we mentioned already that this decline from a net interest of EUR 20 million would not be there when this provision would not have been taken. So, in that sense there is no decline in interest in Retail Banking in that respect.

Wietze Reehoorn: Shall I comment on the clearing, Kees? Your question was whether we are taking mitigation actions at this moment. At this moment, the only action we are taking there is a discussion with the ECB whether to clear this discussion and whether the quite legal interpretation that has led to the situation that the leverage ratio will be upheld. So, we are in the midst of that discussion.

Jean-Pierre Lambert: Very good! And then the decline in NII in Private Banking quarter on quarter, if there is a one-off element?

Wietze Reehoorn: There definitely is a one-off element, so we do not see it as a new trend of something.

Jean-Pierre Lambert: Thank you.

Bénoît Pétrarque (Kepler Cheuvreux): Good afternoon, I have a couple of questions. First of all, to come back on the leverage ratio. I was trying to understand whether you are the initiator of this review or whether the regulator came with this proposal. In the current discussion with the ECB how much total exposure could potentially become lower if you are getting where you want to get? Are you expecting to go back to the 3.5% leverage ratio where you were the previous quarter or have you made more adjustments in your leverage ratio?

Going on with that subject, that is 4%. It is a EUR 4.6 billion shortfall of equity now. I think you can probably put close to EUR 2 billion additional Tier 1 at some point. Could you tell us a bit what you think in terms of where your equity base will go going forward? To come back to the dividend question and the pay-out questions: are you structuring in a way to pay more than 40% because of this leverage ratio?

My second question is on the NIM going forward, or actually not going forward because I want you to answer the question but more on – let's say – ALM policy. I think you have a EUR 40 billion bond portfolio and I just want to understand a little bit how much of this portfolio will mature each year going forward, just to give us a bit of an idea of the duration of your bond portfolio.

Finally, on the ECT exposure. Could you just tell us how much is really short-term high-trade finance related stuff which will mature in six months and what is more a kind of a long-term exposure?

Gerrit Zalm: Let me start with the regulator and the discussion on the definition of the leverage ratio and on what the impact of that could be. Ideally, the impact would be that these EUR 55 billion we now added to the denominator will be skipped again. I think there are also good arguments to discuss the issue because in general terms, everybody is promoting that instead of over-the-counter we should do more clearing through clearing platforms. This relates to clients of us using clearing platforms. So, this would be quite a setback for the idea that more and more should go through open public clearing platforms. I hope this argument will also be taken into account but we do not know the outcome of that discussion. As Kees said, conservatively we added these EUR 55 billion on our exposure measure.

As regards the 4%, there are of course several routes to that. The first is to look at the off-balance sheet elements of the denominator. That will be a priority. Also, this discussion with the regulator is part of this. The second is the retained profit and the third is Alternate Tier 1. These are the three elements that can be brought to play in order to gradually reach the 4%. As I said earlier, a pay-out ratio of 40% still means that we retain 60% of our profit, so we aim also to grow our Core 1 ratio in the coming period.

Bénoît Pétrarque: When do you expect the regulator to come back to you on this issue?

Gerrit Zalm: I do not know. We are not the only institution of course that would be handicapped by this approach. There are also other banks with clearing activities. This will probably be part of a more general discussion.

Erik Bosmans: Then the policy on the liquidity buffer, which contains EUR 40 billion in investments, of which around EUR 30 billion is long and EUR 10 billion is short. The duration of the long-term portfolio is slightly below seven years and this portfolio is asset swapped, so basically we only run a credit spread risk in this portfolio. The EUR 10 billion is short-term invested. There we aim for better returns than the minus 20 we have at the ECB and we are successfully doing this so far, but you can imagine that this is increasingly difficult since we are not the only ones looking for yield better than minus 20. Is that a sufficient answer to your question?

Bénoît Pétrarque: Yes, thank you very much!

Kees van Dijkhuizen: You last question was on ECT and the tenures of the financing. That is not what we disclose. I can give you a steer only in that sense, that half of that portfolio of EUR 25 billion is commodity financing. Predominantly, that is a short term, so either 6 to 12 months, self-liquidating type of commodity financing, letters of credit, et cetera. The energy part of the portfolio, which is around EUR 4.4 billion, has somewhat more of a medium-term nature. The remaining part, which is transportation – shipping, for example – is also of a more medium-term nature.

Bénoît Pétrarque: So, in a cycle where prices are going down significantly, will you expect your volumes to become much more challenging in the short term?

Kees van Dijkhuizen: Not challenging but if by 'challenging' you mean lower, then the answer is probably yes on the basis of the current client basis in terms of the commodity clients, because if prices are lower their working capital requirements

are lower, so the financing volumes are indeed lower. That is correct. But that is not the situation today for the transportation portfolio as well as for the energy portfolio.

Bénoît Pétrarque: Thank you very much.

Lee Street (Citigroup): Good afternoon. I have three questions. The first is quite specific. After the announcements last week from Tier 2 could you confirm whether you believe a regulatory event has actually occurred for those Tier 2 bonds and if it has, do you think you could use substitution and variation language to make them requalify as Tier 2?

Secondly, could you give us an update in terms of what you are thinking with regards to issuance for both senior and subordinated debt for the remainder of the year?

Finally, a bigger pitch question. We obviously had the Tier 2 announcement last week. The increase in leverage exposure today. Is this just coincidental again, these things happening together or is there a specific review of ABN going on? I suppose I am asking how these matters come to light with everything just be impacting you at the moment?

Erik Bosmans: The answer to your first question, on the regulatory part of the call, is that we are still looking into it. What we again would like to stress is that we will not exercise the reg. call.

Secondly, as Gerrit Zalm already stated in the very beginning of this call, I cannot give any forward-looking statements, so also on funding I cannot. I had difficulty understanding your last question about Tier 2, so could you please rephrase what this was exactly about?

Lee Street: We had the announcement last week on Tier 2. We have had an increase in leverage exposure today. Both of these things are driven by the regulator. So, I was wondering whether there was a review of ABN that is ongoing or if not, just how these matters came to the regulator's attention and how they got brought up. I was trying to understand whether there is anything else that we might be expecting.

Kees van Dijkhuizen: Alright. That is clear. No, this is pure coincidence. The Tier 2 discussion started with a Supreme Court ruling in March and that was the reason for regulators to look into the 403 at ABN AMRO and other banks. By the way, the Supreme Court ruling was an SNS-ruling, so it was on SNS and not on us. The discussion on leverage ratio is actually quite a recent; new interpretation. To be honest, every month you more or less get new guidance from EBA on how to interpret all new LCRs, NSFRs, LRs, you name it. So, then we look at this new guidance and take that into account, best-effort. When we do it, we do it conservatively.

Lee Street: That is very clear. Thank you very much!

Matthias de Witt (KBC Securities): Good afternoon. I have a question on the net interest margins and mortgage margins in particular. I noticed that there were some press comments on eroding front book spreads. I am just wondering

what you have witnessed during the quarter and more recently and how big a difference there still is between the margins on the front book compared to the average margin on the outstanding mortgage loans.

Then on capital. During the call you mentioned that on top of the Basel proposals requirements are increasing. Could you be a bit more specific in this respect? Is it mainly TLAC leverage you were referring to or is it also on CET 1 requirements?

Lastly, on mortgage LTVs. I noticed that the proportion of loans with the loan to value above 100% is coming down quite quickly. How fast do you expect this part of the book to decline further, considering that there is no new production and that people prepay and that house prices recover? Maybe there is an internal forecast you made, which you could share with us on this topic.

Kees van Dijkhuizen: With respect to the mortgages, indeed there has been discussion in a newspaper here last week, I think a study from the University of Amsterdam where it said that margins were down compared to the beginning of the year. That is correct, we think. That is what we see due to a decline of the interest rate. However, that does not mean that when an old 10-year mortgage comes up for renewal that we do not make a good margin on that, and then at least clearly a better margin than ten years ago. So, there is still re-pricing but I cannot inform you on how far the back book is from the new re-pricing. That is too much guidance for the future.

With respect to capital and the Basel proposals, the mentioning we do of this regulatory uncertainty is by the way related to a lot of things, to the Basel IV papers, in consultation on risk weights and standardised approach but also on MREL there is further guidance from regulators, on TLAC we expect that soon. So, it is actually everything. It relates to Core Tier 1, to leverage ratios, to MREL and TLAC; it relates to almost all the indices at this moment in time and that is the reason why that uncertainty is there that we have a buffer that is higher. We are at 14% Core Tier 1 at the moment as an example. This is above our target and we think that this is good, given all this uncertainty. As Gerrit already referred to, we are not going to dividend out; we retain money in the bank and that means that we also increase our Core Tier 1.

Wietze Reehoorn: Your last question is to loan-to-market value of the mortgage book. Let me answer that by explaining to you what is the trend today. What you have seen in the book is increasingly redeeming of mortgages are replacing other mortgages. At this moment it is 10% of the book, whilst a couple of years ago it was 5% of the book. Today, that is caused of course by the new fiscal regime. Another effect today is the rise in house prices, which of course also has an effect on the current loan-to-market value of the portfolio.

Matthias de Witt: Thank you!

Anke Reingen (Royal Bank of Canada): Good afternoon. I just have two small questions. The first is on your deposit base and mid-cap banking. You saw quite a nice increase and I just wondered whether this was driven by any one-off or whether it is a trend.

Secondly, when you mentioned your higher risk-weightings in International Banking and within Corporate Banking, was the driver of the model review a particular portfolio or was it across the board?

Gerrit Zalm: Maybe on Retail Savings there is a seasonal pattern. In the Netherlands we have a holiday allowance in our wage system and that is paying out in May. So, in the second quarter there always tends to be a peak in new savings that gradually runs out later in the year.

Kees van Dijkhuizen: The second question was as to the model change. We never go into detail as to what kind of exact types of models and what changes there are, but again, this is a regular model change that we have been implementing.

Anke Reingen: Thank you.

Andreas van Embden (Peel Hunt): Good afternoon. I have two questions about the Dutch Retail Banking business. The first is on your branch network. You mentioned that there was a further reduction in your branches in the Netherlands. Could you maybe discuss your strategy around the branch network in the Netherlands and how you are dealing with direct banking?

The second question is coming back to your loan portfolio and your LTVs. They are above 110%. Have you done any stress testing on the impact of the significant rise in interest rates and whether this materially affect the impairment ratios on your mortgage book?

Gerrit Zalm: Let me answer the first question. We are still gradually reducing the number of branches and that is also because digitalisation leads to less and less people coming to the bank. We have ample opportunities for direct banking and we are increasing those opportunities also by for example advice on distance through WebEx, which is very successful in also mortgage advice. We will extend that also in other areas. So, the people who have a phobia to visit a branch will be completely served also through other means than visiting a branch. We do not exactly know where it will end up but gradually the tendency to reduce the number of branches is not over yet.

Andreas van Embden: And have your earmarked in your current plans any savings from a further reduction of that branch network?

Gerit Zalm: Yes.

Andreas van Embden: And how material would they be, maybe in percentage terms of your cost/income ratio? How material is that development?

Gerrit Zalm: It is not extremely material because the smaller branches are closed.

Andreas van Embden: Thank you very much!

Kees van Dijkhuizen: Your other question was on the stress testing of the mortgage book. On a regular basis, we run internal stress tests but I can also mention the stress test of the ECB last year, which was made public, where quite severe parameters were being put into the models as a whole, so the books including the mortgage book. We came out quite

good, at a level of Core Equity Tier 1 9.5% while the hurdle was 5.5%. That gives you an indication of where we are in terms of stress testing our books and in particular our mortgage book.

Andreas van Embden: Thank you very much!

Arturo de Frias (Santander): Good afternoon. I wanted to discuss the dividend dynamics, if possible. You have mentioned that you think 40% pay out is a good equilibrium for the medium term in terms of generating capital and also funding growth. However – and obviously, this is always risky – if we consider that mid-teens RWA is going to be the norm in the medium term, let's say below low-teens not to be too aggressive, retaining 60% of that would imply funding 7% or 8% risk weighted assets growth in the medium term, which I thinks looks too high. Maybe the other possibility is that you want to be prudent in the short term because of regulatory concerns, risk weighted inflation, changes in the leverage exposure, et cetera but at the same time you mention that your current Core Tier 1 of around 14 is already protecting you from regulatory change. So, is your 40% pay out driven by regulatory concern or by your view that in the medium term you will be able to grow RWAs by 6% to 7%?

Gerrit Zalm: The 40% pay out is already agreed some years ago with the present shareholder. For the future I will have to refer you to our prospectus.

Arturo de Frias: Alright, that makes sense. Thank you!

Srinivas Narayanan (Royal Bank of Scotland): Good afternoon. I have a follow-up question on the recent announcement regarding the Tier 2 instruments that were excluded from the capital ratio. It was clear in the statement that they affect the capital ratio but do not appear to affect the TLAC or MREL-requirement. But could you give us some more clarity on the differences and why they would not affect the TLAC requirement it would be very helpful.

Erik Bosmans: It concerns a few different instruments. There are three instrument issued prior to CRR; December 31st in 2011. Those instruments, which are stated in the press release are now due or up for amortisation. Second, that is instruments issued in 2012. Because of the 403 declaration, as was already explained in this call, which is no longer valid, these instruments are no longer valid as Tier 2 capital. Those two effects combined have caused a loss of EUR 3.4 billion in our total capital position. But all those instruments, inclusive the part that is now amortising, are still MREL and TLAC eligible. All the instruments, the two issued after we have withdrawn our 403 declaration as of June 1 this year, are fully eligible for Tier 2 capital instruments as well as MREL and TLAC eligible. That is in a nutshell, I think, what you would like to hear.

Srinivas Narayanan: That is very helpful. I just have one follow-up question on that. Given that the total capital ratio has reduced because of this, can we expect any liability management? Is it possible for these instruments to be amended to be made eligible again?

Erik Bosmans: We are not giving any forward-looking statements. This is one of them, so unfortunately I cannot comment on this. We never comment on liability management transactions because this is obviously sensitive market information. So, unfortunately this is the only answer I can give.

Srinivas Narayanan: Thank you.

Aditya Bhagat (HSBC): Good afternoon, just a follow-up on your guidance on the leverage ratio, which you mentioned. Part of that will be met by retained earnings but again, you are well above your Core Equity Tier 1 target. I just want to understand how to look at your Core Equity Tier 1 ratios in respect of also building your leverage with retail earnings.

Gerrit Zalm: If you look at the Core 1 equity target, we are above our target for 2017. Here, we are waiting also for the outcome of the consultation on the Basel IV proposals, so that is a reason to be conservative in that respect, too.

Aditya Bhagat: Very helpful. Thank you!

Gerrit Zalm: If there are no further questions, I would like to thank you all for your attention and for your questions. We hope to see you in the near future.

End of call.