Q3 2017 Conference Call Transcript

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Participants: Kees van Dijkhuizen, CEO; Clifford Abrahams, CFO; Tanja Cuppen, CRO ; Dies Donker, Head of Investor Relations

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Kees van Dijkhuizen: Good morning and welcome to this analyst and investor call for ABN AMRO's third quarter results. I am delighted to be joined for the first time by Clifford Abrahams, our new CFO and Tanja Cuppen, our new CRO. Tanja joined us from Rabobank, where she was Chief Risk Officer North America, and Clifford joined us from Delta Lloyd, where he was the group CFO. Before that he worked for Aviva and Morgan Stanley. We will now run through our Q3 results and respond to your questions.

Turning to slide 2, I will briefly highlight the main points. We had a good third quarter with net profit of EUR 673 million, up 11%. Mortgage and corporate loan books are all up in constant currencies. Our net interest income is resilient, despite low rates. I am pleased that our cost continued to trend down, as our cost savings programs deliver. Loan impairments remain low, benefitting from the strong Dutch economy. ROE for Q3 2017 was 13.8% and our cost/income ratio was 56.9%. So, we are on track to achieve our financial targets. Our new leadership team is completed with the announcement of Christian Bornfeld and Chief Innovation and Technology officer. Our fully loaded CET1 ratio is strong, at 17.6% and our leverage ratio is now 4.0% if you incorporate the recent AT1 and EBA guidelines.

I will now briefly discuss the macro economy of our home market on slide 3. On the left, you can see that Dutch GDP is forecast to grow above the Eurozone average at 3.1% this year and 2.4% next year. The housing market performed strongly with higher prices and transaction volumes remaining high. The new plans from the coalition government should be positive for the Dutch economy, a view supported by rating agencies. We are well positioned to benefit from the strong Dutch economy and we are also moving ahead with our strategic agenda. I will update you now on our areas of focus, cost, customer experience, digital innovation, and sustainability.

As you know, to realise the same cost level in 2020 compared to 2015, we have targeted EUR 900 million in cost savings. We expect around EUR 300 million of these from lower IT cost. We started in 2014 by cleaning up legacy systems and have so far decommissioned 1,400 applications. We are delivering on our milestones to achieve contractual savings, for example, porting 1,400 applications to the Private cloud environment. We have ported over 300 applications already and expect to do the remaining 450 by year end 2018.

We have also simplified our organisation and changed the way we work. Developers now work in multidisciplinary agile teams. This lowers the cost to develop new and innovative services. We have also simplified our head office functions. Looking at staff levels in the right-hand chart, you see a clear declining trend. We have previously announced we will reduce FTEs by 13% by 2020, compared to the year 2015, so in five years' time. In one year and nine months, we have already achieved a reduction of 8%. So, we are showing good progress on our cost reductions progress. On the next slide, I will update you on clients' developments.

The left chart shows the decline in branches as a result of the growth in the digital bank. We have been quick to close branches, from 654 after the merger to 206 today. This number will go down further. We do this because our clients use and value our digital services.

On the right chart you see that of all sales and services in retail, 50% are fully digital, so not requiring any human intervention. This is a big increase from 30% at the end of 2015. We will of course not be able to digitalise every process, so this number will not go up to 100%. We see clients are quick to adopt new digital services. Already 50% of mortgage advise is through webcam. So, we are putting a lot of effort into digitalising our services. However, we must also think out of the box and innovate.

On this slide, we show some examples of ideas which have made it to the commercial space. The first example is award-winning Tikkie, which now has 1.4 million users. Tikkie is simple, effective and our clients are really using this service. 50% of payment requests are paid within 30 minutes with 80% paid on the same day. This is a key attraction, also for business clients and we are onboarding new corporates and institutions. We have a long list of interested prospects.

Recently, we announced two new digital platforms. In September, we launched a digital SME lending platform in the Netherlands called New10. Within 15 minutes, new clients know if they are able to obtain a loan anywhere between EUR 20.000 and EUR 1 million.
Today, we announce Prospery, which will go live in Germany shortly. Prospery is a digital wealth manager, targeting clients with a net worth starting at 250K. It is a fully digital platform for wealth planning and investments, combined with a personnel financial expert and a fixed fee. That makes it unique.
I have been impressed by the short time frame, in which both Prospery and New10 have been built from scratch in between six to ten months. To achieve this, we collaborated with IT and fintech partners. This type of rapid development will become more and more important in the future.

Turning now to sustainability. Today, we announce our ambition to double sustainable invested assets within Private banking from EUR 8 billion to EUR 16 billion in the next three years. We see that clients increasingly take sustainablity into account when investing. We will publish impact reports, starting in 2018, which will raise clients' awareness of their investments. Clients with traditional investment portfolios, will also receive these reports. In this way, we hope to encourage them to switch from traditional to sustainable investments. This sustainable initiative leverages our relationships with our clients to achieve a much bigger impact than we can achieve on our own.
I am also proud of the improvements we made in the RobecoSAM annual sustainability assessment. With a score of 91 points out of 100 ABN AMRO is one of the best performing banks worldwide. This score serves as the basis for the Dow Jones Sustainability Index, which will be published in January. Hopefully, we will be in the best 5% category.

Now, we will update you on how we are performing on our financial targets. Our cost/income ratio amounted to 57.3% year to date. Excluding the gain of the sale of the Private bank in Asia this become 58.6%, showing our progress on cost reductions I mentioned earlier.
Our return on equity amounted to 15.7% year to date and excluding the impact of the Private bank Asia divestment and model releases this was 13.6%.
With regards to our capital position, you all know our strategy here. Thanks to our profitability and pay-out of 50%, we have been building up a large buffer for the potential impact of Basel IV. During the first quarter of next year, we will give you an update on capital.

So in summary, we are making good progress on our strategic agenda and this is showing up in our financial results.
I will now hand over to Clifford to go into more detail on our Q3 results.

Clifford Abrahams:: Thank you, Kees. This is my first quarter as CFO of ABN AMRO. I am delighted to work with this fine institution with its tremendous heritage, with a great domestic franchise, a clean balance sheet and a lot of potential.
I will highlight here the main points of our Q3 results.

Our net profit is up 11%, driven by lower costs, partly offset by lower non-interest income. Our net interest income is resilient, while low impairments remain exceptionally low. All in all, this quarter was relatively clean in terms of few incidental items.

Moving to the next slide, I would describe the trends in loan volumes. The left-hand chart shows the steady growth in our mortgages. Our market share declined somewhat to 19.2% during Q3, as competition from banks increased while we maintained our pricing discipline. Commercial banking is continuing its growth while corporate banking is showing underlying growth when you look through US dollar movements. Finally, in consumer loans the decline has stopped with the loan book stabilising. Overall, I am pleased with the development in our volumes.

During the quarter, our net interest income was modestly up year on year, excluding effects of the sale of Private banking Asia. Mortgages and commercial banking are driving up net interest income as margins were stable and volumes up. This was partly offset by group functions, which suffered from high liquidity buffer costs. Corporate banking showed lower interest income, reflected elevated global market results last year.

The main retail client rate was further reduced down to 10 bps in Q3 and currently stands at 5 bps. Overall deposits had a limited impact on net interest income during the quarter. So, net interest income, our main source of income, remains resilient through the year and we see stable margins and continued steady growth in our main portfolios in the short term.

Let's move to fee income. Fee income is lower by EUR 24 million, excluding the impact of the sale of Private banking Asia. As you know, we lowered the payment package fees in retail banking last year. Also global markets had a softer quarter and clearing suffered from low volumes as a result of low volatility in financial markets. Partly offsetting these developments was the effect of increased client assets at our Private bank, due to improved stock market valuations.
Other operating income amounted to EUR 160 million. The only incidental item this quarter was the release of a EUR 27 million provision. Excluding this, other operating income this quarter is in line with our general indication of around EUR 125 million per quarter.

Let's move on to cost. Personnel expenses include a number of restructuring provisions: EUR 29 million this quarter and EUR 144 million in Q3, last year. Excluding these, costs are trending down due to lower FTEs, partly offset by wage inflation and higher pension costs.
Other expenses are also lower. Cost savings from our IT transformation are coming through and, as you know, Q3 has below-average regulatory levies. So, as Kees mentioned, costs are increasing benefiting from our cost reduction programmes delivery.
Our retail, Private and commercial banks are further reducing their work force. Consequently, I expect an additional restructuring provision of EUR 50 million to EUR 100 million in the fourth quarter of this year.

Moving to loan impairments you can see on this slide on the left that the strong Dutch economy means impairments are low. During Q3, we booked only EUR 5 million of impairments. Mortgages, consumer loans and Dutch corporate loans all showed release. We had another related to last quarter's mortgage model refinement.
On the right-hand chart you can see the corporate impairments were again lower this quarter. The EUR 12 million impairments of ECT in the quarter was one of the lowest levels in recent years, although still EUR 153 million year to date. ECT impairments continue to track well within our forecasted scenarios. Overall, the loan book continues to perform well below through-the-cycle cost of risk.

I know you are all interested in our capital update to take place in Q1 2018. For now, just focus on our current capital position. We have a strong CET1 ratio at 17.6% and as you can see over the last quarter, the increase in capital due to earnings was offset by higher risk-weighted assets. In particular, our credit risk risk-weighted assets increased by EUR 2.4 billion during the quarter. This was unusually high for any one quarter and I would highlight that only EUR 0.7 billion of the increase was due to volume growth in our loan books. The remaining increase of around EUR 1.7 billion, being unrelated to business growth and includes model revisions, for example.

In addition, during the first half of 2017, we took EUR 2 billion to EUR 3 billion add-ons to operational risk related to the implementation of the advanced approach. We have expected these would lastly be reversed by Q1 2018. In fact, the regulatory assessments are taking longer and we now expect any reversals to be delayed until later next year.
Finally, in Q3, our pro-forma fully-loaded leverage ratio was 4%. This reflects our recent AT1 issue and is stated after the adverse impact of last week's EBA Q&A on certain capital regulations.

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

Kees van Dijkhuizen: Thank you very much, Clifford. Let me recap.

We had a good third quarter. We are progressing on our strategic agenda. The Dutch economy is showing a good performance. The loan portfolios are showing growth and loan impairments remain very low. We are seeing cost coming down as the results of our cost reduction programmes are coming through. We launched finally a number of exciting new digital and sustainability initiatives. With that, I would like to ask the operator now to open the call for questions.

Pawel Dziedzic (Goldman Sachs): Good morning and thank you for the presentation. I have two questions. The first one is on costs. Throughout the presentation you made a number of positive remarks around your performance, particularly in this quarter but can you please clarify if the progress that you made changes in any way the scale of savings that you target under the restructuring program? I know you referred to this EUR 5.2 billion flat cost base in 2020 and I was wondering if this is still the best-case estimate that you have or perhaps the savings can be achieved earlier.

My second question is on slide 11 and the progress on margins. You maintained the flat NIM this quarter and we can see on the slide that it has steadily increased since the start of 2016, but also you made remarks today that point to pressure. You talked about high liquidity buffer costs, you talked about limited ability to cut savings rates that now are at 5 bps and you also mentioned competition for mortgages, and so on. With all that in mind, do you think you would be able to maintain the margin at the current levels as we are going to 2018, or should we expect to see a decline there?

Kees van Dijkhuizen: Thank you very much, Pavel. Let me start with costs. I think we are not going to update our EUR 5.2 billion guidance for 2020 but as you have noticed, we are making a lot of progress quickly at this moment in time. But the target still is the 5.2bn in 2020 and of course, the earlier we can realise that, the better. But that is our official target.
With respect to NII, I think indeed what you notice at this moment in the market is that volumes on the asset side are a bit up if we look at mortgages and if we look at SME. They are a bit down in the corporate book but that is due to the dollar, so underlying it is also up. That is a positive for NII, I would say. With respect to margins, there is indeed pressure already for some time in the SME world but also I would say in the mortgage world as we speak. Of course, as you mentioned, at the liability with deposits with a rate of 5 bps there is of course also pressure on NII. So on balance, our assessment at this moment in time is a flattish NII on balance of all those developments.

Pawel Dziedzic: Thank you. Very clear.

Farquhar Murray (Autonomous): Good morning, just two questions, if I may. Firstly, with regards to the EBA interpretation. Obviously, in your circumstances the economic rationale for minority haircuts kind of escapes me, but given the interpretation, please could you outline any practical impediments, material disadvantages or obvious regulatory objections, either legally merging the group holding into the bank or perhaps re-designating the resolution entity?

Secondly, on the interest income of the EUR 1,566 million in the quarter: it is a little bit light. Could you decompose the Q-on-Q4? It looks like some of the weakness is coming from group treasury. Is that just a reflection of elevated cash balances in the quarter that might reverse or is it something more than that?

Clifford Abrahams: As we stated on Friday regarding our announcement, we agree with you. There is no major change from an economic perspective regarding the EBA rules and we see our primary capital metrics as remaining unaffected. So whilst there may be possibilities from a restructuring perspective, which we have to give some consideration to, we see this as more of a complication rather than anything that would fundamentally affect the way we run the group from a capital perspective.

Moving on to net interest income, you are right: quarter on quarter net interest income is down around 2%. That is around EUR 30 million. There are really three effects, all of roughly equal size. So, we had the benefit of what we call unearned interest income relating to some improving loans in the commercial banking area. That was about one third. We also had the impact of US dollar depreciation on our US loan book. That was about a third. And then similarly, the remaining third was around what we call effectively shifts in the liquidity position between the group functions and the rest of the businesses. So, the increased costs of the liquidity buffer were more a year-on-year impact rather than a quarter-on-quarter impact.

Farquhar Murray: Just as a follow-on: I appreciate the kind of restructuring and you are looking into the complication but my question to a certain extent is whether there are any obvious complications from merging or legally merging the group holding?

Clifford Abrahams: We have been clear that we do not see this as a material issue, so I would be surprised if I updated in detail about practicalities resolving what we do not even think is a material issue. A legal entity restructuring is pretty common across the financial sector. Generally speaking, companies are able to do that but there is quite a lot of legal work involved. We have branches in different parts of the world and we have a state that owns our shares through a particular legal structure. So, all financials tend to be a bit complicated even one as focused as ABN AMRO and so, a legal entity restructures can be done but just may take time, hassle and money. We would rather be doing other things. We do not feel that the change affects our capital position and so, that is not something we are focused on in terms of legal entity restructuring.

Farquhar Murray: Okay. Thanks very much.

Benjamin Goy (Deutsche Bank): Good morning. I have two questions. the first is on costs. I appreciate your guidance around 2020 but maybe a bit nearer term. It sounds like you have still more FTE-reductions to come and you are further decommissioning your applications in the next four quarters. So, I am wondering whether for the near term the outlook remains rather positive on the cost development or should we be aware of any major investments you plan to do?

Secondly, on the ECT loan losses. They finally came down. Do you think now like the worst is over or should we expect more volatility going forward?

Clifford Abrahams: Regarding cost, I am pleased with our delivery around the cost saving programmes. You know these things take time, so have been in the works for some time and we are starting to see the benefits earning through. I expect to see the benefit of reductions in FTEs coming through earnings next year in addition. I think Kees was quite clear in the answer to the earlier question that we are really looking to manage cost flat over time, over a 5-year period, so frankly we expect cost inflation through wages but also incremental investments that we want to do, some of which we have announced today. We will compensate that by continuing to bear down on costs. So, in any one period you will see those two offsetting. So, we are not calling a continuous quarter-on-quarter cost reduction because we do have investments that we want to do to improve our service to customers and to realise cost benefits. We are seeing those benefits coming through and we are certainly committed to our target of managing to a flat cost base over time.

Tanja Cuppen: And on your question with respect to the ECT-sector and the loan losses: yes, we definitely see a stabilisation in the loan losses in this segment although we cannot say that it is all over. We are seeing sub-sectors till under pressure, like oil services. But we feel things are under control. If it comes to volatility in loan losses, it is typical for this segment. With large exposures we see some chunkiness in provisioning during the quarter.

Benjamin Goy: Thank you.

Bénoît Pétrarque (Kepler Cheuvreux): Good morning, Clifford and good luck as well for you! I just wanted to come back on the cost. I think you said in the past that the cost should remain flat but you had also revenue ambitions as well. Overall, the 56% - 58% cost/income-target was really a key target in the old thinking process. So, I was wondering if your revenue growth ambitions versus one year ago are on track. Based on Q3, it looks like revenues are a bit weaker than we had expected. So, I wanted to come back on the 5.2bn: is the 5.2bn really the right figure to look at or should we now focus more on the cost/income 56-58% target over time?

My second question is on NII, just on this liquidity buffer. Is that temporary or will we see that in the coming quarters? I just wanted to check if this will be an uptick in the coming quarter, just back to normal.

Then on the initiative of Prospery in Germany: are you also going to launch that in more countries? Could you tell a bit more about what kind of AuMs growth you are looking for on that side? On Tikkie as well. Tikkie is all for free and it is a very nice tool. You mentioned that you are in contact with corporates. Will that be a free package or could you get fees on that?

Kees van Dijkhuizen: I will take three out of the four questions and perhaps Clifford can elaborate on the NII. With respect to cost, indeed, it is fair to say that 56 to 58 is the real target that we have given. The guidance we gave on cost was the max 5.2 and by implication that means that revenues would grow on average by almost 2% in 15-20. But the 56-58 is the real thing, so if there is less revenue growth we have to cut more cost.

With respect to initiatives like Prospery in Germany in other countries, I think we start in Germany. You know it is Private banking, so you know our sweet spot outside the Netherlands is Germany and France, so we might go to other countries as well at some moment in time. But we start in Germany now. Tikkie is indeed free for clients and non-clients in retail but indeed, in the area of corporates they have to pay for the packages.

Clifford Abrahams: And then finally, on net interest income I think our position, as Kees said, is that net interest income will be flattish from here. Whilst we are seeing in adverse impact of the liquidity buffer, that was one of a number of impacts, which meant that Q3 to Q3 net interest income was roughly flat. You saw Q2 somewhat elevated this year. I would say that Q3, that we have just announced, is a sensible starting point for our flattish guidance. By the way, your good luck is appreciated!

Bénoît Pétrarque: Thank you!

Marcell Houben (Credit Suisse): Good morning and thank you for the presentation. I have two questions as well. The first is on Basel IV. You say that today on Basel IV that you do not believe that there will be a long phase-in period of Basel IV, like the market believes?

The second part of that question is that if we assume a hard output floor and a long 10-years phase-in period, how could this impact ABN's thinking about the dividend policy?

Finally, I was just wondering what makes you say the statement that you believe that there will be implementation in the short term? What kind of signals did you see in the market for this statement?

Kees van Dijkhuizen: Let me start with your last question. We as bank have consistently for a couple of years and also this year, when the market in the second quarter was not expecting Basel anymore, we were one of the only banks saying that we still expect it to happen. That is still our base case scenario. So, no special new signals in the market. It is just that we have always communicated that this was what we expected to happen at the end of this year or perhaps in January. There is a GHOS meeting in the first half of January, as you know. So, that is still our expectation and I would say there is no change of ideas about that.

With respect to Basel IV, Clifford has mentioned that analysts make calculations around 500 bps to 600 bps for ABN AMRO and we have said that this is possible. But the devil is in the detail; you should see of course all the communication if it is ready, but that is what we have said: it is possible. We think there will be a long phase-in, by the way. We do not know but it might become 2024, 2025, or 2026. We think there will be a long phase-in and then of course it depends very much on the market. We have to look at the market at that moment in time. In earlier processes around Basel the market demanded actually quite quickly to have a fully-loaded result. What you now hear in the market now and then, is that banks have doubled their capital so that perhaps they can take a bit more time this time with phasing in. That is to be seen; we do not know. We will look at the market at that moment in time and, as said and we have communicated, we will come back to you with a capital update in the first quarter of next year, which also then will include of course dividend policy.

Marcell Houben: Very clear. Thank you. Just a follow-up: regardless of what we are going to hear about Basel IV you will update us on the excess capital and dividend policy in the first quarter of 2018. Is that correct?

Kees van Dijkhuizen: Yes.

Marcell Houben: Excellent. Thank you.

Sofie Peterzens (JP Morgan): I also have two questions. My first question is on your Basel III fully loaded CET 1 and on the RWA increases that we saw this quarter. Some of the RWA increases are due to negative rating migration but you downgraded some credit files. Then you also said that next year we should see some positive impact from the addon for operational risk and then clearly IFRS 9 will have an impact. But taking three things together, how should we think about risk-weighted assets going forward? Do you expect more negative rating migration or is this really it? So, if you could comment on risk-weighted assets going forward?

The second question is on the tax changes in the Netherlands. You mentioned that overall it is positive but could you just give a little bit more details of how you think about the different tax changes, corporate tax, dividend tax, and the changes to the mortgages?

Tanja Cuppen: On your first question on RWA-increases and in the context of a negative rating migration: only a part of the increase in RWA is related to negative ratings' migration. It is mostly related to our FR&R portfolio and certain files going from restructuring to recovery. They are well provisioned and that is actually a very conservative approach in our modelling that causes this increase in RWA. I am not concerned about it that this would be a trend and also our outlook on RWA is very much in line with our outlook on the economy, which we feel is solid.

Kees van Dijkhuizen: Then with respect to tax changes: indeed, corporate tax of course is a clear positive for the bank. 25 to 21%, that of course you know is what we pay as tax amount, so you can see that effect. But then there is one other thing, which is negative also for banks and that has to do with the 'thin Cap Rule': 92% of your interest being deductible instead of 100%. That is something we have not yet seen the details of, so it depends of course on whether it is average interest, is there some netting allowed or whatever. So, that is too early to tell but on balance, we think it is positive for the bank at this moment in time, but we have to see of course the final proposals here.

Sofie Peterzens: Thank you very much.

Bruce Hamilton (Morgan Stanley): Good morning. I just want to circle back on the leverage ratio question. It sounds as though you are saying that you do not feel there is any need to fundamentally and legally restructure the group. Given that the ratio looks like the biggest constraints on capital distribution, how do you think about what are the levers you have under your control to improve that ratio from here? It looks like you should theoretically build 40 bps of leverage ratio per annum before any distribution but I am just thinking about what else you can do to try and accelerate that, given that is the binding constraint here.

Kees van Dijkhuizen: Thanks, Bruce. Two remarks here. First, as you know, in the Clearing area we still expect around 50 bps to recover at some moment in time in the coming period. That is one. Secondly, the new coalition agreement has mentioned that with respect to the leverage ratio the Netherlands should align with Europe than in the past. So, that of course, we do not know what the implication will be and what timeframe, but it shows you that at least the new government has a bit of a different opinion here. So, we will await that. But together with also the Clearing we feel comfortable.

Clifford Abrahams: I just want to add something, Bruce because of the premise of the question. Clearly, we keep an eye on the leverage ratio but as we have discussed on this call we are flagging the imminent prospect of Basel IV and its likely impact on our CET1-position. So, when we think about our overall position, we need to manage both those metrics. But clearly, the leverage ratio may have been perceived as the primary constraint in the Basel III world but we need to manage all our metrics going forward.

Bruce Hamilton (Morgan Stanley): Understood. Thank you.

Jean-Pierre Lambert (Keefe, Bruyette & Woods): Good morning, I have three questions. The first is on the cost base for this quarter. Is there a way to indicate what is the underlying cost base? We have some restructuring charges but is there any indication of investments ongoing, so that we have an idea of the underlying cost base?

The second question is regarding PSD 2. As you know, it is supposed to be implemented in January and there were indications that perhaps the Netherlands is delayed and perhaps not. Do you see PSD 2 as an opportunity or as a risk for your bank and what kind of actions are you taking?

The third question is on the cost of risk for the automatic robot or SME-lending. What makes you confident about the cost of risk and how do you see the cost of risk with such a product?

Kees van Dijkhuizen: Clifford, can you take the first question on the cost and I will do the PSD 2.

Clifford Abrahams: We issue details regarding what we see as ‘incidentals’, restructuring cost and alike. I think our IR team would be issuing the spread sheet today regarding that. Although the headline is ‘cost numbers have gone down quite materially’, a big part of that was that we also sold Private banking Asia during the period. So, on balance I would say that 2% to 3% expenses down, both Q3 to Q3, year-to-date year-to-date, something of that order. If you think about the wage inflation and pension costs we have, it is a decent contribution of cost reduction more than offsetting inherent cost pressures.

Kees van Dijkhuizen: PSD 2: indeed, some delay in the Netherlands, so it will later in the year. That is true. A couple of years ago we thought this is a risk but now we see it also as an opportunity. I mentioned Tikkie already but there are also other open-banking opportunities for us. So, we see it now also as an opportunity.

Can you repeat your third question?

Jean-Pierre Lambert: It is regarding the new product you have introduced, which is New10, the SME lending. I just want to understand how you tested the cost of risk and how you see the cost of risk with some form of remote lending.

Tanja Cuppen: The benefits of having an existing organisation is you can use the existing credit risk framework and credit risk experience with modelling and our [governance] framework on credit risk to support this initiative, so we are confident that we can manage the credit risks of this new initiative within our appetite.

Jean-Pierre Lambert: Thank you very much.

Alicia Chung (Exane BNP Paribas): Good morning, three questions from me. Firstly, just to look back on the capital position and just to clarify, exactly how much of the credit risk inflation was due to negative credit risk migration? Can we expect this to recur? Is it possible that we have reached the trough in terms of lower RWA from better credit risk?

Secondly, just on the mortgage lending. Your mortgage market share fell again this quarter. Do you see this as volatility or is it more structural? Is it driven by domestic peers? You seem to be holding the line on the net interest margin, which is of course important for the bottom line but I am just wondering at what point you sacrifice some of the mortgage spread to maintain market share.

Thirdly, just on the operational risk RWAs. It looks like the add-on that you expected to be removed at the end of this year or in Q1 2018. It now looks like that will be more like Q2. Is that likely to be the earliest date? Is it possible that this could be confirmed for longer if its just the ECB taking its time or do you expect it would definitely come in in Q2?

Tanja Cuppen: I will take the third and the first question. Your third question is on RWA deterioration with respect to credit deterioration. That is around EUR 0.5 billion. That is related to our FR&R portfolio, as I said. I do not expect that to happen consistently in the future; it is more an incidental development. Did I answer your full question?

Alicia Chung: Yes, that was great. Thank you.

Kees van Dijkhuizen: There was also a question on RWA Q2 earliest, the regulator taking more time.

Tanja Cuppen: That is something we of course do not have under control but that is what they have indicated to us. Afterwards we will evaluate the results. That can take some time as well. So, I cannot give any guidance on the specific timing of this.

Kees van Dijkhuizen: And then also not on the amount which we then are able to get back. We have to see what the regulator comes up with.
With respect to mortgage lending: we are cautious there, prudent. For instance, in the third quarter we had a market share of 19 while in the beginning of the year we had 25. So, if the market is good we take a bit more in the market but we are always prudent with respect to our margins. So, if necessary, we take a bit less market share as we did in the third quarter if that is necessary to keep up the margins we want to have.

Alicia Chung: Thank you very much.

Bart Horsten (Kempen): Good morning. My first question is on the commission income. You had another relatively weak quarter, I think one of the lowest in the last few years. I see some of your peers actually reporting quite decent growth in commission income. So, can you elaborate a bit on that and also on what you can do there to turn the corner?

Secondly, on loan growth. It is good to see that in all major client groups loan growth is kicking in. In Commercial banking it was EUR 0.1 billion. I was wondering, in the current market and economic environment, would you expect an acceleration of growth over there and what is the outlook?

My final question is on the first-time adoption impact of IFRS 9. In Q2 you said it would be lower than 45 bps, the average EBA-assessment and now report it as well below 45 bps. Would it be fair to assume a number of 5 to 10 bps as a fully-loaded impact of this?

Kees van Dijkhuizen: Let me start with your last question. It is well below. If we could have given more guidance we would have done that. So, that is it, I am afraid.

Loan growth and Commercial banking. I would say that the point one in the quarter was a bit low because our guidance with the commercial client loan book should be more on average related to the Dutch economic growth, which is more in line with 4.5% that we have seen in the first nine months, which is actually kind of 3% real economic growth and 1%-plus inflation.

Commission, Clifford?

Clifford Abrahams:: As I mentioned on the presentation, there are really two major impacts. We reduced our payment packages for SME and retail clients. We did that last year and January this year. So, we do not see that as an ongoing basis, so we think we re-based from a retail perspective there. More recently, Q2-Q3, we saw fees coming down reflecting Global Markets and Clearing, I think in common with our competitors reflecting the below-volatility environment. We are hopeful that things will have stabilised but I agree we have a challenge, which is that we need to grow it from here. I think that is really around serving our broader clients' needs. We are seeing a number of promising ideas. We talked about Prospery earlier but it is the hard work of delivering on our clients' need demonstrating value and getting paid for it.

Bart Horsten: And would you consider increasing fees throughout your Private banking or even your Retail banking activities or introduce new fees?

Clifford Abrahams: Yes, our principle is that we need to provide value and charge our clients fairly for that. There is ongoing pressure on fees for any one product, so we are looking to deliver value and to serve broader needs. That will drive ongoing fee improvements.

Bart Horsten: Thank you.

Tarik El Mejjad (Bank of America Merrill Lynch): Good morning. First of all, on NII. I just wanted to clarify when you say 'flat' from here or 'Q3 as a run rate'. Are you suggesting for 2017 or are you looking beyond that? Could you clarify that? The same on your guidance on costs. When you say 'flat cost' is that versus a 2016 base? That is for 2018 and 2019. I get the 2020 guidance.

And then just on leverage again. Thank you for updating the guidance on the benefit from the clearing but does that include the impact from the credit conversion factors or is that a gross amount that you gave?

And a very quick last question on SREP. In one of the footnotes you mentioned that the SREP 2019 is 11.75%, which would be flat year on year. Do you already an indication what your SREP is going to be or is that just your assumption at this stage?

Kees van Dijkhuizen: Let me start with your last question. No, we do not have an indication of 2019. That is too early so that is our own estimation.

The Clearing 50 bps is indeed gross, so only the Clearing advantage and not the credit conversion. We do not think that credit conversion, as we have heard recently, will mean a big negative but of course it is not a positive. It might be a small negative.

The official guidance for cost is the 2020 guidance, so that is the 5.2bn. As Clifford mentioned, we try not to grow it in the meantime of course. But that does not mean that in a quarter we cannot see some growth.

With respect to NII guidance flattish, I would say that is not for the whole year 2018. That is too early to mention because that depends on market developments. So, every quarter we more or less try to guide going forward for one or two quarters, but not for a longer period.

Tarik El Mejjad: Okay. That is very clear, Thank you very much.

Bart Jooris (Degroof Petercam): Good morning, just some follow-up questions left. Regarding the lower prices for payment packages, have you seen any market share effects of these or is your competition more or less in line now? Secondly, you talked about the guidance on IFRS 9 regarding the CET 1-impact. Do you also have an idea already on what it will mean for your cost of risk in 2018?

Kees van Dijkhuizen: No, no big changes in payment packages. I think we are more or less in line with the other banks now. IFRS and the cost of risk, Tanja?

Tanja Cuppen: So, under IFRS 9 our expectation is that the cost of risk will become more volatile but we cannot give any guidance on where we expect it to be in 2018.

Bart Jooris: Thank you.

Matthew Clark (MainFirst): Good morning, I have a few questions. firstly, on your savings deposit rate. Could you quantify what proportion of your savings deposits pay a bonus rate? You talked about the 5 basis points rate earlier, which I think is the base rate but some of your savings deposits are still giving relatively generous, at 25 bps bonus rate, so I am just trying to see what scope there is to cut those back going forward.

Secondly, on your Private equity gains. I just want to check that you see these as being a sustainable part of your EUR 125 million per quarter other revenue run rate going forward and not something that is a temporary legacy benefit, but that we should plan to have in there through to the 2020 cost/income horizon.

Finally, just to come back to this cost/income target and the comment that if revenues are not growing and you need to cut costs more. Revenues are not really growing at the moment and certainly the NII is not, in terms of your guidance, so why are you not guiding for more cost cuts and preparing for more cost cuts now?

And then a more strategic question: is it satisfactory for you to be a no-revenue-growth bank? Is that sustainable in the long run and how do you think about that?

Kees van Dijkhuizen: No, we definitely look for growth in revenues. That is a target, but of course profitable growth. As I already mentioned with respect to the mortgages: if it is not profitable, we will not go for market share and the like. It should be profitable revenue growth but our goal is to have profitable revenue growth going forward as a bank.

As we have promised with respect to cost, if revenues would grow less, which we have not seen since 2015 year-to-date, then of course we should be more stringent on cost. We will do that and of course we prepare ourselves for that.

Private equity gains: yes, on average we expect them to be there, of a magnitude more or less which we see right now. It can be lumpy of course and it is not the same all quarters, but on average.

With respect to savings, it is right. You mentioned this bonus rate. Indeed, we paid 20 bps and not 5 bps on certain accounts …

Clifford Abrahams:: Roughly 40% of our deposits are savings deposits and roughly a third in total are retail, so it would be some proportion of that. So, it is by no means the whole chunk of our deposits. For many of our of our corporate clients we are not paying interest at all on deposits for example.

Matthew Clark: But in terms of the savings deposits, which are 40% of your overall deposit base, what proportion of them pay a bonus rate?

Clifford Abrahams:: We will follow up on that.

Matthew Clark: Okay. Thank you very much.

Kees van Dijkhuizen: If there are no further questions, I would like to recap. First of all, I would like to thank you for all your questions and then conclude this result update. We hope to talk to you again next quarter and perhaps earlier on different occasions. Thank you very much and goodbye.

End of call.