Q4 2015 Conference Call Transcript

ABN AMRO Investor Relations
Wednesday, 17 February 2016
14:00 CET

Q4 2015 results conference call, 17 February 2016, 14:00 CET

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

Conference call replay: http://player.companywebcast.com/abnamro/20160217_1/en/player

Gerrit Zalm: Good afternoon! We are here with Wietze Reehoorn, Kees Dijkhuizen, Dies Donker, our Head of Investor Relations and Erik Bosmans, Head of Treasury. We will share our views on our results and then we of course are open for questions and answers.

There is a short presentation published on our website this morning and the full version will be published later today.

Looking at the Dutch economy last year, you see that Dutch GDP-growth remained above Eurozone average, despite the negative impact of lower production of natural gas, which is of course bringing the total GDP-growth a bit lower. We saw an ongoing revival of the housing market, lower unemployment and also positive consumer confidence. That all contributed to positive development of the Dutch economy.

If you look at slide 4 you can see the full year highlights of ABN AMRO. The underlying result was a net profit of EUR 1.9 billion, 24% higher than last year, especially on the back of lower impairment and despite higher operating expenses, which were heavily influenced by higher levies. If you look at slide 5 there is a short update on the progress on our targets. We made good progress with the fully loaded core Tier 1 ratio. It was at 15.5%, well above the target range of 11.5% to 13.5%. As you know and has been mentioned before we continue to strengthen our capital position as long as the uncertainty around regulatory developments prevails and once the impact of the risk-weight harmonization is more clear we will reassess our capital position and if we conclude at that time, that we have excess capital, we will return that to shareholders.

We intend to pay a 40% cash dividend over the full year, as was also already announced. That will lead to dividend payment of EUR 764 million or EUR 0.81 per share. As you know, we intend to increase our pay-out ratio to 45% this year and to 50% over 2017.

On slide 6 you can see that our return on equity for the full year was 12%, which is nicely within our target range of 10% to 13%.

On slide 7 you can see that cost/income ratio for the full year was 61.8%. We aimed to get below 60% by 2017. Last year, investments in TOPS2020 and Retail Digitalisation were high and they are expected to peak this year. Regulatory levies increased quite substantially last year to about EUR 220 million. This year we expect them to go to EUR 300 million. So, there are still some elevating elements in play. The same we expect for pension premiums. They went up this year and we expect them to go up further next year, but they are close to the cap. Therefore, we expect the cost/income ratio to be above 60% also this year but in 2017 we will be below 60% because cost savings are increasing, pension premiums are at their maximum and the same goes for regulatory levies.

Kees?

Kees van Dijkhuizen: Thank you very much, Gerrit. Good morning, good afternoon everybody.

If we turn to slide 8, the results, the full year result, as already mentioned, improved by 24% to EUR 1.9 billion. The Q4 result was EUR 272 million, which was EUR 128m lower than Q4 2014. The most important reasons for that were the higher regulatory levies – net EUR 99 million – a provision for a Euribor mortgage legal claim and an extra provision for SME derivatives related to an AFM – financial markets authority – announcement on 4th December, stating that a substantial part of the reassessment by the banks had to be redone. As the current situation poses uncertainty about scope and magnitude of the required reassessment going forward, we continue to consult with the AFM to determine how the latest changes will affect ABN AMRO's review process in 2016.

Then slide 9 on interest income. You can see that our NII in the last four quarters was more or less stable around EUR 1.5 billion. It benefitted this year from continued higher asset margins, both from mortgages and corporate loans. That was offset by declining loan volumes from mortgages and consumer lending.

The NIM in the fourth quarter was 147 and for the full year 146.

One question which has been asked frequently lately is how we manage interest risk on the balance sheet. In essence, after netting the interest rate risk from assets and liabilities, we hedge most of the netted positions to floating rates. This hedging can be either through macro hedges for portfolios or micro hedges for specific assets and liabilities. The resulting interest rate position is managed depending on our strategy and within of course our risk appetite.

If you go to slide 10, you can see that fee income in 2015 was 8% higher from last year and increased throughout the year. The increase was primarily in private banking due to stock market performance and in corporate banking on higher volumes at Clearing.

Other operating income is more volatile, due to CVA/DVA/FVA results and this quarter it also includes a provision for derivatives sold to SMEs.

Slide 11 on expenses were up 8% compared to last year, due to higher regulatory levies of EUR 129 million – the gross amount – in expenses, higher project costs (several projects), and higher pension costs, as already mentioned by Gerrit.

Slide 12 on loan impairments, you can see positive risk decline in 2015 substantially to 19 bps, around EUR 0.5 billion, which was also helped by EUR 221 million IBNI release in 2015. The improvement is a result of an improving economy and also an improving housing market.

With respect to the segment results, slide 13, you can see that for the full year the underlying profit for the retail bank further improved to EUR 1.2 billion, mainly due to lower impairments for mortgages and consumer loans. The margins on residential mortgages improved, due to continued gradually pricing though this effect is gradually levelling off. Private banking's underlying profit for the full year improved by 34% to EUR 0.2 billion in 2015, mainly due to higher operating performance and lower impairments. The corporate bank doubled its profit from EUR 0.3 billion to EUR 0.6 billion.

If you go to our capital ambitions, slide 14, you can see that our fully loaded leverage ratio improved from 3.5% from 3.8%, Q3 to Q4, due to retained earnings and a lower exposure measure at year end.

Implications for leverage: MREL and TLAC are manageable, Basel IV implications remain uncertain.

Slide 15 is also capital, you can see that our fully loaded CET1 is 15.5% at year end, well above the 10.25% 2016 regulatory requirements, which includes a 0.75% phase-in systemic risk buffer. This systemic risk buffer grows to 3% in 2019, as you know.

Our current capital position provides a strong buffer before MDA restrictions apply.

Wietze will now elaborate on impairments and risk developments.

Wietze Reehoorn: Thank you, Kees. The cost of risk for the fiscal year but also for the last quarter was 19 bps. The impaired ratio for the customer loan book remained stable quarter on quarter at 2.7% and improved year on year. The increase of EUR 39 million in impairment charges in corporate loans was largely concentrated in the retail sector and international clients. In absolute terms, the level of impaired loans for the client loan portfolio declined by EUR 148 million compared to Q3. The inflow in our financial restructuring and recovery department continues to decline and new inflow is usually in a better share and easier to restructure than clients who have been in restructuring for a long time. Bear in mind here, of course, there are still sectors with more structural issues, for example Agri and Retail.

Moving to slide 17, mortgages, the momentum in the Dutch housing market is positive on the back of the improving economy, the relatively low house prices and the low interest rate. The number of housing transactions went up 2.2% from the high level in Q4 2014.

Mortgage production volume was equal compared to the same period last year but 30% lower than the last quarter as a result of fierce competition from pension funds and other new entrants on the longer interest rate periods. Our market share in in the fourth quarter was 16%. This is lower than the rest of the year.

Redemptions increased further compared to the last quarter to EUR 4 billion. We have seen an increase of re-financing existing mortgage loans due to the low long-term mortgage interest rates. The loan to market value improved to 80% or, excluding NHG, to 76%. Past due and impaired mortgage exposures continued to trend down. The annualized cost of risk for mortgages came to 2 bps this quarter.

The mortgage loans with a loan to market value more than 100% declined this year by EUR 11.3 billion in 2015, of which EUR 5.7 billion in the last quarter.

Something on ECT, I move to slide 18, the ECT clients on the balance portfolio was EUR 25.1 billion at year end 2015, which is about 9% of our total loans and receivables portfolio. If we include the off-balance sheet items such drawn letters of credit and guarantees the portfolio was EUR 31.4bn. Impairments were relatively low this quarter at EUR 31 million versus EUR 37 million Q4 2014.

Some of the industries covered by ECT clients, particularly oil and gas, are nowadays top of mind. A lot has been written and discussed about the oil price developments and the possible implications the significant price drop could have on financing activities to this sector.

For this reason, I would like to make some additional comments on the exposure we have in our ECT portfolio. These comments are in addition to the usual disclosures you are familiar with from our investor presentations.

Im going to slide 19, ECT clients is exposed to oil and gas markets either through energy clients or commodity clients active in energy markets. This slide actually is a combined exposure of around EUR 30 billion, of which EUR 7.7 billion is the energy commodity's part and EUR 5.3 billion is the energy clients' part.

Our energy commodities activities concern mainly short-term and self-liquidating trade financing exposure, generally for larger trading companies. The sensitivity to low oil and gas prices is generally limited. In general, these clients even benefit from price volatility.

The exposure to energy clients, as said, is around EUR 5.3 billion. The sensitivity to low oil and gas prices varies across the value chain that ranges from upstream to downstream.

Our oil and gas price sensitivity analysis covering the full energy clients' portfolio shows that especially clients active in offshore drilling and services i.e. the early part of the cycle, are more vulnerable in a prolonged period of low oil prices.

Our reserve-based lending, our upstream portfolio, however, demonstrated much more resilience for reasons like specific structures of the reserve-based lending and the ability of producers to reduce their cost base.

The combined exposure of those two energy portfolios amounts to approximately 1.1% of our loan receivables and is in total around EUR 3.2 billion. Given the current market circumstances, we expect impairments in the energy portfolio as a whole to rise. We believe this is manageable, especially in view of the size of the portfolio.

Our oil and gas price sensitivity analysis for the full energy portfolio, which is the EUR 5.3 billion, indicates that for a different prolonged low oil price scenarios the impairment increases will be around EUR 75 million for the mild scenario and around EUR 125 million for the more severe scenario.

Let me make a couple of remarks on the different portfolios. The reserve-based lending, which is the lowest part of slide 19, and to give you some more details there, talks about roughly 5% of ECT clients, but it is more around 4%. So it is about EUR 1.2 billion. It is a portfolio of approximately 0.4% of our total loan receivables with 42 clients. Approximately three quarters is in the US, which is mainly in gas, and one quarter is in the North Sea. In US reserve-based lending, we are typically exposed to senior secured credit facilities. These clients have so far been able to weather the storm and currently, less than a handful of clients are managed in our FR&R department. Please note that this does not automatically mean that these exposures are non-performing or impaired.

Our stress tests show that if oil prices were to remain at low levels, we would expect some clients to transfer to FR&R either for restructuring or intensive risk management and monitoring.

The other part of the exposed-to-oil-price buckets, which is the combination of other offshore companies and offshore drilling companies – the light green on the sheet – it is more in the area of 6% of ECT clients. That is around EUR 2 billion. This is a portfolio of approximately 0.7% of our total bank loan and receivables book and this offshore drilling services book has approximately 27 client groups. It is a portfolio of modern drilling rigs and offshore services, such as seismic sub-sea infrastructure and construction, and oilfield services.

The cost cutting and Capex reductions by upstream clients is especially impacting businesses active in offshore drilling and services. So far, most clients have a good operational track record, which is crucial for the continuation of their existing contracts. Under the conservative assumption that no new contracts will be obtained, only a limited number of clients are at risk during 2016.

So far on ECT. Gerrit, back to you!

Gerrit Zalm: Thank you, Wietze. I would like to conclude by saying that the underlying profitability of ABN AMRO remains good, though the Q4 results were impacted by higher regulatory levies and some provisioning.

ROE was, as I mentioned, at 12%, the CET1 at 15.5% and the improved leverage ratio to 3.8%. All segments had a higher profit for the year. Corporate banking even doubled underlying profit.

We continue to actively monitor credit risk of our clients and focus on a balanced loan intake. We are well on track to meet our strategic ambitions and targets and we are confident that the bank is able to take on the challenges that will inevitably come our way. Our capital position is strong and we anticipate Basel IV. We will bide to our target to grow the dividend pay-out to 50% as from and over full year 2017.

Thank you for participating in this call and your attention. Now, we can open the call for questions.

Cor Kluis (Rabobank): Good afternoon. I have a few questions, first of all on mortgages. In the press release you mentioned that the re-pricing effect is levelling off. Earlier you mentioned that in 2016 there would still be a positive effect from the re-pricing of mortgages. Could you explain what you expect for 2016 still for mortgage re-pricing?

My second question is about SME-derivatives. You indicated with some figures that you provisioned for that but could you indicate how you determine that? What kind of additional, maximum or what kind of losses could come from that file?

My third question is on ‘Other expenses’. If you lift out the levies in the fourth quarter, we have seen in retail and private banking that the expense level was around EUR 50 million to EUR 60 million higher in the quarter – EUR 30 million to EUR 40 million in retail and EUR 15 million to EUR 20 million in private banking due to projects, of which you mentioned some – but to what extent is that recurring for 2016?

Gerrit Zalm: Let me start with the mortgages and the re-pricing. As Kees said, it is levelling off but we still see some possibilities for further improvement in 2016 because the cost of redemption of our contractual renewal of our mortgages originated in 2006, which was a year with very low margins.

Then the derivatives, Kees?

Kees van Dijkhuizen: With respect to derivatives we have not disclosed the figure. It is not an insignificant amount that we have taken in Q4, in addition to the provision we took in Q2. We are still in discussions with the financial markets authority at this moment in time, so it is very difficult to explain what the exact calculation around this provision is. As said, we expect further clarity during the year but at the moment we cannot guide you more than what I mentioned when saying it is not an insignificant amount we have taken here.

With respect to other expenses, there are indeed a lot of special projects both in the retail bank and in the private bank related to compliance issues. We are now looking in all the files to further update them and make them completely compliance-fit. That is an operation, which costs money. By the way, we expect that to continue also in this year, so those expenses will be there this year, too but we hope that during this year they will diminish.

As we have mentioned before, guidance on cost/income ratio is that we still expect to stay above the target range we have for 2017, due also to the increase of the levies, as Gerrit mentioned. In 2017, we have the TOPS2020 program initiative and in the retail bank we have the digitalisation two large projects. The investments last year and this year are higher than the savings but from 2017 onwards that will be the opposite. That is the reason why from 2017 onwards we expect to get into the range of 56% to 60%.

Cor Kluis: OK wonderful, very clear, thanks!

Robin van den Broek (Mediobanca): Good afternoon. Also on ‘other expenses’ I would like to ask how your pension premiums move. I thought you moved fully to defined contribution accounting, which should mean that your cash is equal to what you book in your P&L, but maybe I am mistaken there.

I was also wondering if you could give a clearer number on where the regulatory levies will move. You booked 220 in 2015 and the DGS charge will probably happen twice in 2016, so I guess we are going to see a move more closer to EUR 300 million. Maybe you can confirm that.

Apart from the question that also Cor asked, can you maybe touch upon other drivers that will impact your operational expenses? You recently negotiated a zero wage increase for 2016, so that is not going to be there. Are there any other drivers driving your cost expenses?

My second question is on ECT …

Gerrit Zalm: You are making an accounting error; I already noted three questions!

Robin van den Broek: I thought this was all on the bucket of the Opex.

On ECT you give guidance for your energy-related impairments. Can you also give some colour on transport and commodities or do you see no risk at all in those parts of ECT?

That is a very short question!

Gerrit Zalm: Let me say something on pensions. We do not have pension assets on the balance sheet anymore, so it is indeed a defined contribution. Nevertheless, the pension premium is yearly calculated, based on the cost price of a 1-year tranche. So, the interest rate still has an influence on the pension premiums we pay. We expect pension premiums to go up further this year but we are now very close to the maximum limit we agreed with the trade unions.

As far as the levies are concerned, you rightly said that this year it is 220 and next year it will be at 300 and that should be it.

Kees van Dijkhuizen: Perhaps I can add to that last one that the EUR 300 million is roughly three times EUR 100 million. The timing moments of those amounts will be that the banking tax stays, as in the past, in October. That is the Dutch banking tax of around EUR 100 million in October, also this year. Then there is roughly EUR 100 million we expect this year on ultimately the European Resolution Fund. That is expected to be paid in the second quarter of this year, so not like last year in the last quarter but in the second quarter of this year. The final one, the European deposit guarantee will be split into four quarters, so every quarter we expect around gross EUR 25 million. The banking tax is not tax exempt; the other two are.

Dies Donker: Banking tax is not taxable!

Kees van Dijkhuizen: Yes, excuse me, the wrong word.

Then with respect to the operational expenses you mentioned the zero-wage agreement we have for this year. That is correct, we are happy with that of course, but for the rest we will still have a lot of projects in the bank and also investments that start to really pay off in 2017.

Robin van den Broek: So the moving elements are still basically your pension costs and your regulatory levies? Those are your main drivers for Opex in 2016?

Gerrit Zalm: And investments in digitalisation will peak.

Robin van den Broek: But your aggregated savings are also going up.

Kees van Dijkhuizen: Correct! Those figures have been mentioned during the IPO. Those figures are still the same.

Wietze Reehoorn: I will add some colour to the question on ECT. The guidance we gave is on the energy books, again, that is guidance for a long period of low prices for 18 months. As to commodities there is no specific guidance to give. As to the transportation portfolio, one fifth is dry bulk – around 2 billion – and we do expect somewhat higher impairments there. That could probably be offset by a much better performing portfolio there, the tankers portfolio in the transportation portfolio. So, it is kind of a mix but again, we do expect some higher impairments on the dry bulk portfolio.

Robin van den Broek: And your energy-related impairment in 2015 was?

Kees van Dijkhuizen: We have not disclosed that. What I can give you is that if you look at the Q-impairment number of ECT, which was actually a relatively low number also compared year-on-year. Almost half of that was energy-related.

Robin van den Broek: Thank you!

David Lock (Deutsche Bank): Hi, three from me. The first one is on margins. I appreciate the commentary around the 2016 margin outlook and how you think it can be a little bit better for mortgages. I am interested to hear what you think beyond that. If I look at where margins were in 2007, there was an increase in margins in 2007 so it strikes me that we may get pressure coming through in 2017, as the components of the 2006 cohort moved through]. So, I wondered if you have any thoughts on that.

The second question is around deposit costs. In the Netherlands, it looks like there has been continued reduction in deposit costs, around 12 bps in the last quarter on average in the Netherlands. What potential do you see for that going and continuing through the quarters this year and what you have baked in into your margin guidance and plans for this year?

The third question on ECT is that I am wondering what dates or what quarters you typically review for the value of oil reserves for your clients?

Gerrit Zalm: Maybe first on mortgage margins. As said before, it is levelling off but still a bit increasing this year. The best guess for 2017 – which is still a bit far away – is that it will not increase. It will probably stabilise. As far as the rate on deposits is concerned, we have seen a gradual decrease in the quarters behind us. I am not allowed to make any statement on what I expect for the rest of the year because according to the competition authorities that may inspire competition to act in a certain way. In January, we went to 0.6% on direct available deposits, so that it the situation right at this moment.

On ECT, Wietze?

Wietze Reehoorn: The question was how often we re-determine the borrowing base and the price deck. The normal course is twice a year, around spring and around autumn. Those are the periods in which we re-determine the borrowing base. It is also good to mention for you to understand that in this lending we are always the senior part of the lending structure. The advance rate we typically have is around 60% to 65% at the max, which also means that this portfolio – a reserve-based portfolio, we are talking about 1.2 billion – has been quite resilient in the past. Given the stress test we are conducting and that we have conducted, we think the exposures and impairments are manageable.

David Lock: Thanks very much!

Anton Kryachok (UBS): Good afternoon. Just two questions from me, please. Firstly, on capital. You are up to 100 bps above the top end of your capital target and I understand that there is some uncertainty around Basel IV but I was wondering what might prompt you to re-think your dividend policy maybe speed up the increase in the pay-out ratios.

Second, in the corporate international business unit the loan book seems to have flattened out in the last quarter. What is the outlook going further? Do you think we might even see shrinking lending volumes in corporate international, probably driven by ECT?

Finally, on the leverage ratio relaxation, you mention this on the slide. Can you give us an update on when you would expect to get final clarity on this and how significant the benefit will be?

Gerrit Zalm: Let me take the first question on our capital position. We will wait until there is clarity from Basel and then there must be clarity from the European Commission. There also must be clarity on whether the Dutch Central Bank sticks to its add-on on the SREP-demand from the ECB. As you know, our SREP-demand is now 9.5% and they have imposed a 3% extra on this in the medium term. In our view, there should be a relationship with this add-on on the one hand and what Basel is doing on the other hand. If Basel is already forcing us to have a far higher risk rate, you can question whether this high add-on from the Dutch Central Bank should be in place. So, we will have to wait. As soon as there is clarity we will make up our mind on the capital position. We may also re-define our dividend policy. Up till now we promised a gradual increase from 40% over 2015 to 50% over 2017 and we are quite confident that we can keep that promise. At this stage, we do not want to promise more than that.

Wietze Reehoorn: Your question was to the international part, so that is the ECT book. On slide 18 you can see that last year it was somewhat stable in euro and dollar terms. In the years before that we grew that book quite rapidly to a size, which we think fits the strategy of the bank and the modest risk profile of the bank. Going forward, we expect this book to grow, generally in line with world trade. When we look at the mix in this book we see somewhat lower on the commodity volume size and somewhat more on transportation and energy. But having said that, we expect the book to grow in line with world trade.

Kees van Dijkhuizen: With respect to the leverage ratio, indeed, as you know, we have sent a letter to the Basel Committee. They said that they would come up with a new consultation in this area related to EUR 40 to 50 billion, depending on the moment, of guarantees we give to CCPs on behalf of our clients. We hope that in the second quarter they come up with a new consultation paper. If that would give the relief, at least the direction we are hoping for – of course that will take time – that can give a relief of 20 to 30 bps. with respect to the leverage ratio going forward. That is not a guarantee of course, but we are hopeful with the first reaction they gave to our letter.

Anton Kryachok: Thank you. That is very clear.

Andrew Coombs (Citibank): Good morning. My first question is on the 8% q on q decline in the leverage exposure. You state that this is largely due to seasonal factors, positions being unwound into the year-end but could you give us an idea of how much you would expect that to rebound there for in Q1?

Secondly, could you please quantify the Euribor mortgage legal claims or if you cannot, could you at least tell us whether the NIM excluding those claims would have been flat, down or up quarter-on quarter?

The third question would be with regards with the stress assumptions you have applied both in your mild and severe scenarios that you mentioned. What is backing those assumptions?

Kees van Dijkhuizen: With respect to the seasonal effect, it is very much related to the securities finance business we have on balance sheet. The effect can be around 10 to 20 bps on a quarterly basis. So, the leverage ratio might decline in the first quarter, as we have seen also in the first quarter of last year. That might happen this quarter, due to this effect.

With respect to your second question, some guidance on the Euribor. Indeed, we did not disclose this but I can give you some guidance here, which perhaps will also give you some guidance for NIM. What we have mentioned in the quarterly report on page 18, related to the retail banking, is that the net interest income Q4-Q4 declined by EUR 80 million in the retail bank. Then we say that this was largely driven by provisions taken related to legal claims, including Euribor, in Q4 2015 and a positive one-off item in Q4 2014. The positive item in Q4 2014 is mentioned on page 11 for the group and there we mention a EUR 37 million positive one-off. More than half of that amount is in the retail bank; the other part is in the private bank. So, if you take that into account and see that is largely driven by those provisions, you have an indication of those legal claims including Euribor. With respect to NIM, the NIM in Q3 was 149 and in Q4 147. Compared to the 149 it would presumably be a bit up, if you take out those two elements.

Andrew Coombs: Very clear. And on the ECT book?

Wietze Reehoorn: A couple of assumptions? Under the stress test, the first scenario, the mild one, is the assumption that the oil price remains at an average of 30 US Dollar per barrel for at least 18 months. The second assumption is that in the whole energy portfolio we apply a portfolio-wide UCR downgrade, so credit rating downgrade, of quite a severe couple of notches. Bear in mind that we stress the whole portfolio of 5.3 billion in all sectors. We also take as an assumption that we let default all our current clients within the FR&R department. That leads to the EUR 75 million, our best estimation of course.

The second scenario is the more severe one: oil price drops to an average of 20 US Dollar for at least six months and then 30 for the remaining period. The same way of dealing with the notching down of the credit ratings but in the severe scenario we even go one step further and all clients on watch are also being assumed to default. Again, this is a theoretical scenario but this is quite a severe assumption. That severe scenario then leads to the EUR 125 million.

Andrew Coombs: Thanks very much.

Farquhar Murray (Autonomous): Good morning, I just have two questions. Firstly, just a follow-on on the loss-scenario of EUR 75 million to EUR 125 million. That seems a remarkably resilient outcome. Could you explain which characteristics within the lending portfolio really drive that ability to kick out that kind of loss outcome?

Secondly, just on the SME derivatives and the charge you have taken in the fourth quarter. Should we take as being your best estimate of the review exercise you are going to make in 2016 or should we expect further charges that you work through that exercise next year? I appreciate there are no guarantees but I am just trying to understand how you made a best estimate of what is going to come.

Gerrit Zalm: Let me start with your last question. This is best estimate but no guarantee that this will be the outcome.

Wietze, on the stress testing?

Wietze Reehoorn: You asked what is actually driving this somewhat positive outcome. I do not know if these are the words the used but at least let me give some colour here. Part of this EUR 5.3 billion, which is primarily exposed to the lower oil prices that we indicated on the slide 19, is the combination of reserve-based and onshore drilling and offshore. If you at the reserve-based lending portfolio we have you see we have quite a resilient portfolio there. We are stress testing on PDs, probability of default, notching down credit ratings. Important is then what is the LGD, the loss-giving default. It happens to be – as I explained in an earlier answer – that the security position we have in that reserve-based lending is quite good. It is either the situation we are not at all part of the loss-absorbing lenders, mezzanine let alone equity, and the other issue of course is the re-determination, semi-annually, of the borrowing base as well as the on average low advance rates. Also the choice of clients we have been selectively on boarding over the last couple of years, has been important here. The majority of the portfolio US is geared to gas and not to oil. The last comment on the offshore drilling part of the portfolio. Very important there is of course also collateral. We do have a portfolio of quite modern rigs, also financed at relatively conservative advance rates – the remaining life around 20 to 25 years – where probably 40-50% of the global drilling fleet, which is not only in our portfolio, is probably 25+ years old. So also there, from an LGD-perspective, there is some advantage. Nevertheless, we should be cautious about what happens in the market.

Farquhar Murray: Thanks very much.

Bénoît Pétrarque (Kepler Cheuvreux): Good afternoon. Just to start with a small remark. Could you give us a slide with all the detailed information you have been giving us on this call on oil? I think you can give a lot and we have been getting a lot of information today, but could you just maybe summarise that in a couple of slides? That would be very useful.

My first question is on cost of risk. Then are many moving parts but if I listen correctly, basically what you expect on the energy exposure – EUR 75-125 million – is probably not moving up much year-on-year in 2016 versus 2015. On the other hand, you still see a very nice trend on the Dutch mortgages. The loan losses on mortgages are much lower, also on the corporate side. What is your outlook for 2016? Where do you see cost of risk going into 2016? If I listen correctly, I have the impression that it will trend down in 2016 despite the energy issues there.

My second question on that is that I know you have mentioned some problematic files on the retail side in the Netherlands, so large corporates retail. How many files have you seen problematic there and is that related to V&D, your ex-client? Is that relating to this file specifically?

My last question will be on the loan growth. Loan growth on mortgages was slightly down quarter-on-quarter. What do you expect for 2016? Are we still going to see this downward trend? On the commercial clients' side I was a bit surprised to see a quarter-on-quarter decrease on the clean basis, before this transfer of public loans. Do you actually see a pick-up in loan growth and loan demand in the Netherlands? Is that something we can expect for 2016?

Wietze Reehoorn: Let me at least address the first two question and your preliminary remark was a request for a nice summary. We thought that we had a nice summary in the current slide deck, being 18 and 19. In the more extensive presentation you will probably see the same.

You asked for guidance going forward for cost of risk of the bank as a whole. If we look back, we see that part of the much larger – more than a half – impairments is also caused by quite a substantial IBNI release of EUR 221 million. We do not expect an IBNI release in that size to be back again.

In terms of guidance, we have given guidance of the cost of risk through the cycle of 25 – 30 bps. which is still valid of course.

Regarding Q4 I thought your question was about large client files. The whole trend of asset quality of all business lines has been trending down, especially also for all cost of risk numbers with the exception of international clients in Q4. The impairment number was EUR 109 million. In that number – international clients – it more specifically was EUR 103 million. ECT was EUR 31 million. There has been an addition to the IBNI of EUR 20 million, which is dealing with the ECT file. So, the remaining part, which is around 50, dealt with a couple of larger files mostly in the retail sector. As you know – as I am telling you each time in the call – in the large corporate world you may from time to time suffer somewhat of a larger hit, which is quite usual in this segment. It is a lumpy trend.

If you look at the economy improvements in the Netherlands, of course you may expect that also the corporates active in the Netherlands benefit from that.

Gerrit Zalm: Looking at our commercial clients' loans, we see that fewer go to FR&R and many are returning from FR&R to the regular business, so the situation of smaller and medium-sized companies is really improving. What we do not see yet is an extension of the loan book. Redemptions for new loans are even bigger than new loans, probably because they want to improve their balance sheet position. In the past, they used to work with rather little equity and that was also a reason why such a large part of the commercial clients went into FR&R. So, probably before they start to ask for extra loans on their balance sheet, they first want to improve their equity position. That is the best explanation I can give. On average, the situation of these clients is improving but not at this stage in such a way that our loan portfolio is growing. For the rest of the year we do not know. Maybe it will pick up during the year but up till now we do not see loan growth there.

Bénoît Pétrarque: Thank you very much.

Bruce Hamilton (Morgan Stanley): Good afternoon and thanks for the presentation. I have three fairly quick questions, firstly on the deposit costs. Obviously you come down to around 60 bps. Where do you feel the lower bound is on where the Dutch market can go on that?

Secondly, I do not really understand why you could not split out the explicit cost of the two provisions. I know you have helped us to try and understand but is this the only reason why you cannot just give us the numbers? Linked to that, if I look at the provision related to SME-derivatives, in the capital markets solutions other income line there is about a EUR 50 million delta quarter-on-quarter. Did that roughly approximated the impact in Q4?

Finally, on the leverage ratio which was improved nicely: what do you still have in terms of self-help that you can do? I know you have talked about reducing further derivative balance sheet positions, which came down in Q3, but how much more is there to go for there?

Gerrit Zalm: Let me start by not answering your first question. Of course I can theorise a bit about where it could end. We have thought for a long time that interest rates could not be negative but the ECB has beaten that expectation. So, I cannot give an answer to where the end of interest rates and savings deposits may be.

The second issue is why we do not make provisions explicit. That is because they are both still on either court or may come under court. We have a position that if there is still a legal debate about whether it is justified or not that we do not disclose it, because then you give firearms to the enemy, so to say.

Kees van Dijkhuizen: I think the most important leverage ratio is of course the Clearing. That is the most serious one we can do. Secondly, that is off balance sheet at the moment: for the leverage ratio, we have to gross up our net cash pooling product and we are looking into that as well to see how we can solve that one going forward. We think that will take at least the rest of the year but we think it will be helpful. Although not for the short future but we have mentioned before that we will look into optimizing our capital stack going forward and may issue an AT1 again. That also helps the leverage ratio. Furthermore, we will of course also look on balance sheet to optimise further where possible.

Bruce Hamilton: Thank you. And just going back to the second question – thanks for the answer on why you have not disclosed explicitly – but is there anything else going on in the oven on the interest income line in capital market solutions other than that provision impact, which would otherwise imply about 50 million?

Kees van Dijkhuizen: No, the one you mentioned is by far the most important.

Bruce Hamilton: Thank you.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Good afternoon, thank you for the presentation. My first question is regarding the mark-to-market of house prices. As the house prices are going up, I am wondering how quickly you adjust the house price to calculate the loan to value. Is it index-based, is it automatic and is there a lag? That's the first question.

My second question is regarding the exposure to commodity traders. Can we assume that the 19 billion commodity clients' exposure is exposure to commodity traders? Related to this, what is the size of the single exposure within that group?

Gerrit Zalm: If we calculate the loan to value, we indeed index according price indices with a rather short time lag.

Wietze, can you go into the commodity trading?

Wietze Reehoorn: I was not fully aware of the question you asked about the commodity trading part.

Jean-Pierre Lambert : Can we assume that the 19 billion exposure, which you indicate under the commodities category, is equal to your exposure to commodity traders? Within that 19 billion, could you quantify the larger single exposure?

Wietze Reehoorn: I cannot reconcile 19 but we will look into that. We have not disclosed the split of commodities, transportation and shipping. We have done that in the IPO disclosure at the time, so that might give you a sense of where we are in the commodities trading book of whole ECT, which was originally somewhat above 50% and which is now approximately 45% to 46%.

Your question as to the larger single obligor: we are not disclosing that but of course in our portfolio we have a number of top-10 one obligors, who still fit in what we call our moderate risk profile in terms of largest sector and largest single-client exposure.

Gerrit Zalm: I think we can confirm that commodities are commodity traders

Wietze Reehoorn: Of course, but I thought the question was asked to the part of the portfolio but of course those are traders. As a bank, we are never trading ourselves in commodities. We only finance commodity traders.

Jean-Pierre Lambert : Very good. Thank you.

Anke Reingen (Royal Bank of Canada): [sound fading]

Good afternoon, I just have two follow-up questions. Firstly on the dividend, where you talk about the growing of the dividend pay-out ratio from 40% to 45%. I just wondered what your view is on absolute growth and dividends. Obviously, what happens in 2016 might not lead to an absolute increase in the absolute dividend or are you basically thinking of at time the financial year 2016 there might be more clarity on a number of fronts, so that it is irrelevant?

Secondly, on the mortgage margins. You were indicating that you are pricing longer mortgages to reflecting regulatory uncertainty. Is this actually successful at the moment or are the insurers too aggressive on the pricing on the longer-term mortgages that you do not really see the benefit?

Gerrit Zalm: You first question on absolute dividend is more or less a question for a profit forecast and we do not give a profit forecast. Looking at the mortgages, the pension funds and the insurers are the strongest in the longer segment, so the 20-years segment. We are also active in that segment but our market share there is lower than in the 10-years segment, so our priority is to have a strong position in the 5-years to 10-years segment and to cautiously also be active in the longer term. So, they have a very strong position in the longer-term mortgages but nevertheless, for the year as a whole we were able to have a 20% market share. We are still the biggest mortgage provider in the Netherlands and we aim to at least stabilise our portfolio also for the years to come.

Anke Reingen: I actually was not trying to get a profit indication for the year; I was just wondering your dividend policy remains a pay-out ratio rather than talking about dividends and absolute levels.

Gerrit Zalm: Up till now our policy is formulated in terms of pay-out ratios. Maybe at a later stage we will re-think that, but for the time being this is the way we formulate our dividend policy.

Anke Reingen: Thank you.

Alicia Chung – Exane: Hi, just a couple of quick questions from me. Firstly, on the net interest margin. You said that there was an increase in cash levels in the liquidity buffer. I am just wondering what the impact of that was on the group net interest margin. Do you expect to continue to increase your cash levels and the liquidity buffer from here?

Secondly, just on the private banking division. Can you give any colour in terms of near-term outlook around AUM flows and also market performance.

Kees van Dijkhuizen: With respect to NIM, I think we indeed have a very high cash level at the moment, related to LCR, not so much the requirements, but the goals we have formulated for ourselves to stay above 100%. We are looking into that. That is also related to the net cash pooling I mentioned before. Hopefully we are able to lower those cash levels going forward at some moment in time, but at the moment that is still not possible. But we are trying to optimise that further because we agree that it is a costly affair, especially when the ECB would go further with lowering rates. So, we look into that carefully at the moment.

With respect to the private bank it is very difficult after the last six weeks to do a forecast here on AuM, so I am hesitant to say anything on that. Our performance in private bank, as guidance in general, is that we perform in line with market performance but these days, the market is a bit volatile.

Alicia Chung – Exane: Thank you very much.

Kiri Vijayarajah (Barclays): Good afternoon, just a couple of questions on the Dutch mortgage market. Are you happy with your current level of market share on new origination? At what point do you and some of the bank mortgage providers end up being a bit more responsive in terms of pricing? Collectively, if you look at the non-bank mortgage providers' market share, do you think we are at a high watermark for them or do you worry they are going to continue making inroads into the Dutch mortgage market? I appreciate a lot of it is probably contingent on a Basel IV outcome and where bank regulated mortgage risk rates go, but just your views strategically on the market strategically would be useful.

Gerrit Zalm: As far as the mortgages are concerned, we do not formulate a market share. We want to stabilise our portfolio. At this moment, there is a bit of a cyclical revival of the total mortgage market, so probably the total market is growing we think that keeping our total portfolio as it is, is a sensible thing to do. As far as pricing is concerned, of course we sharply watch what is happening in the market. Up till now, our margin on the total portfolio did not suffer from the competitive battle that is going on.

It is not easy to predict what the non-banks will do with their mortgage portfolio. For us, originating mortgages is a daily business so to say, but for pension funds and insurance companies it is an allocation, it is a balance sheet allocation issue. So, what we have seen is that sometimes an insurance company may come in with a big market share in the year and next year it is completely gone. That is because we have a system of intermediaries, which are dealing with the mortgage demands and decide where to put the mortgage. So, it is rather easy to penetrate the market if you have the money and the capital behind you. But as I said, it is a bit of an allocation. At this moment in time, they think they have too few mortgages on their balance sheet, where they may come a moment when they say that enough is enough. Then the competition situation may drastically change again. Up till now, we are confident that we can be competitive in this market, as we have shown also in the past year. The targeting for a more or less stable mortgage portfolio is still realistic, at decent margins.

Daniel Do-Thoi (JP Morgan): Good afternoon, I have one question left. You mentioned previously that you have managed to keep your net interest income broadly flat for the last four quarters. If you put together your outlook for asset margins, deposit cost, lending volumes and also your expectations that you mentioned earlier on likely lower ECB-rates in the near future, is that a trend that you believe can also be maintained in this year?

Kees van Dijkhuizen: That means guidance on NII for this year. As said, we can give you the elements but we cannot give you the total effect of that. It is also partly unclear but last year we have managed to do it. As you have seen, our most important portfolio is mortgages, as we are still positive about being able to keep volumes in place this year and at good pricing. For deposits there is some margin there. You have seen what we have done last year but I cannot really give you more guidance than that.

Daniel Do-Thoi: But you feel comfortable about the different mitigation tools available to you?

Kees van Dijkhuizen: We have them, yes.

Daniel Do-Thoi: Thank you very much.

Gerrit Zalm: If there are no more questions, I thank all analysts and investors for joining us in this call. We hope to speak to you next quarter.

End of call.