

ABN AMRO BANK NV, #4645259
Analysts Call
November 15, 2013, 8:00 AM ET
Chairperson: Kees van Dijkhuizen

Speaker: Good afternoon. This is the ABN AMRO conference call for analysts and investors. Today's hosts are Kees van Dijkhuizen, CFO, and Wietze Reehoorn, Chief Risk Officer and also handles strategy.

I'll hand over to Kees.

Kees van Dijkhuizen: Thank you very much for this. Good afternoon, everybody. Wietze and I will discuss with you the Q3 and the nine months figures.

Before starting, I would like to point out that we published a short presentation on the Website this morning, and, during this call, we will use this presentation. And there will also be a full investor presentation published later today.

I'll start with the first slide, which is called slide 2 because it's on page 2. So slide 2. There it shows the results for the third quarter 2013, a profit of EUR390 million, which is 3% lower compared to the second quarter of this year.

While both quarters saw, actually, sizeable impairment reversals related to Madoff and our Greek legacy loans, this quarter we sold the last remaining tranche of our Greek government guaranteed corporate loans, and this resulted in a recovery of EUR101 million net of tax. The previous quarter included the recovery of EUR221 million net of tax, and that was related to the Madoff exposure.

If we exclude these two releases and also another special item in the second quarter, net profit would have been EUR289 million in the third quarter, compared with a profit of EUR220 million in the second of this year. And that would lead to an increase of 31% quarter on quarter.

The main driver was a sharp decrease in impairments in both commercial as well merchant banking.

We have a list of special items, by the way, included in our annex 3 of the press release.

If we go through the first nine months, we saw a profit of EUR1.2 billion. And, if we exclude special items here as well, we see a result of EUR0.8 billion, and that's compared with last year's same period EUR1.1 billion. It would lead to a decrease of 28%.

The return on equity, excluding special items, would have been 7.9% for the first nine months.

Capital ratios improved further, resulting in a core tier 1 of 13.7% and a fully loaded Basel III CET1 ratio of 11.8%.

In summary, actually, we see a mixed picture. If we look at year-to-date development, excluding special items, it's negative, growing higher impairments on the back of the weak Dutch economy and higher pension costs. On the other hand, net interest income and fees increased. If we look at the quarterly development, again excluding special items, that's a positive one, driven predominantly by lower impairments.

It's too early to say that the economic downturn has reached the bottom of the cycle, even though we have recently seen some green shoots in the housing markets, economic growth, and also lower impairments.

For Q4, we expect, by the way, higher loan impairments compared to Q3, as well, of course, the impact of our annual bank tax of around EUR100 million.

A comment on dividends. In August, we stated that we intended to pay an interim dividend following the Q3 results, and the interim dividend has been set now at EUR150 million and is scheduled to be paid shortly.

If we go to slide 3, operating income, we saw positive developments in year-to-date net interest income and net fees. But we saw a decline on a quarterly basis - quarter to quarter. The quarter-on-quarter decline-- we compare, by the way, quarter three with quarter two-- results in a correction-- results from a correction for historic interest accruals for mortgages. Even though the number is small, it distorts the Q-on-Q interest trend and year-to-date trend in retail banking results, and this is the reason why we mention it. Excluding this correction, net interest would have been more or less flat compared to the previous quarter. Our year-to-date increase is 6% and driven mainly by higher margins on loans.

Quarterly development in net fees and commissions was slightly negative due mainly to lower fees in merchant banking, and year-to-date net fees and commissions increased by 5% by higher client activity in private banking and higher fees in clearing.

If we look at other non-interest income, that development was disappointing. Excluding some special items for both periods, the decline is EUR154 million year to date and EUR20 million Q on Q. This is mainly due to lower sales in the trading and sales activities of almost all asset classes within the markets, which has suffered from, also, missed income from non-client-related equity derivative activities that we terminated.

The impact of CVA/DVA is limited for ABN AMRO. It amounted to around EUR25 million for the year and EUR8 million for the last quarter.

If we move to slide 4, quarterly operating expenses remained more or less flat. Year-to-date operating expenses, excluding special items, were up 9%. This increase is largely, almost fully, explained by higher pension costs. They're up with around EUR242 million in the first nine months.

The cost income ratio, excluding special items, was 61% both for the first nine months as for Q3. Our target cost income ratio, as you know, is in the range of 56% to 60% by 2017. This year, the cost income ratio improved, especially for retail, commercial, and private banking, reflecting the impact of ongoing cost savings and improved revenues. Cost income ratio of retail was around 50% and, for commercial banking, in the low 50s for a third quarter in a row, something we have not achieved before.

If you look at the graph on the right-hand side of slide 4, that shows the impairment developments. Quarter-on-quarter impairment charges, excluding Greek and Madoff releases, decreased quarter on quarter by 32%, and the decline was especially noticeable in commercial and merchant banking. We're on plan with almost half compared to the previous quarter. This decline in impairments was especially visible in business banking, SMEs, and, to a lesser extent, corporate clients and large corporates. In retail and private banking, impairments were slightly higher compared to Q2.

If we look at the year-to-date impairment charges, again excluding special items, they increased by EUR226 million, reflecting subdued economic conditions affecting, particularly, SMEs and, to a lesser extent, the mortgage book.

Cost of risk adjusted for special items remained elevated. It increased to 125 BPs compared with the 95 BPs in the first nine months of last year.

Annualized impairment charges of the total mortgage portfolio increased 23 BPs for the nine months, up from 13 BPs in the same period last year. In Q3, it remained more or less flat to the first half of the year.

Wietze will comment later on further developments in asset quality. By the way, the annualized impairments on mortgages here are on the total loan book and not on risk-weighted assets as cost of risk before.

If we then go to slide 5, it provides a short overview of the contributions of the different business segments to the results. And, as you can see, both commercial banking and merchant banking show significant lower results compared to the previous nine months. This was predominantly driven by higher impairments in commercial banking and lower revenues in the market activities of merchant banking. The reduced results in markets

were partly driven by special items. Retail banking shows a slightly lower net profit as a result of the correction made in net interest. Private banking almost doubled its net profit on the back of better operating result and lower impairments. Clearing and ECT are two areas of growth in merchant banking. They showed a stable to slightly higher contribution to the results.

Net profit increasing (INAUDIBLE) was the result of Greek and Madoff impairment releases.

If we then move to slide 6, I will only focus on main items. Compared to yearend, total assets more or less flat. Securities financing activities increased again, as they have a seasonal pattern. Excluding securities financing activities, loan portfolio declined compared to yearend, mainly visible in retail and commercial banking. The mortgage portfolio decreased by EUR1.9 billion as a result of additional voluntary redemptions and low new mortgage production. The decline of the loan portfolio in commercial banking of EUR1.4 billion was predominantly recorded in the third quarter. This was the first time that we saw a decline in the loan book in this segment.

Other side of the balance sheet, client deposits-- they declined by EUR2 billion compared to the previous quarter. However, year to date, total client deposits grew by EUR4.5 billion to EUR205 billion, primarily in retail banking.

Please note that the interim dividend of EUR150 million to be paid shortly is not yet accounted for in the equity shown.

Then we go to capital, slide 8. And, compared to yearend, both the core tier 1 and tier 1 ratios showed a considerable improvement due to the addition of net profit for the first nine months and an RWA decrease of around EUR7 billion, largely offset by a potential dividend payment of the year 2013.

Total capital ratio also improved to 19.5% despite the call from lower tier 2 instruments that were not going to be eligible under Basel III regulations.

On a fully loaded basis, the CET1 ratio would be 11.8%, already within our range of 11.5% to 12.5% that we target for 2017.

Leverage ratio based on tier 1 capital under Basel III phase-in rules was 3.7% for the end of September, and Basel III, fully loaded leverage was 3.1%.

Slide 9, liquidity and funding. There are a couple of positive developments here. Loan to deposit further improved to 122% compared to 125% yearend 2015. It was driven by an increase in retail deposits already

mentioned and a decline in mortgages and commercial loans. Q-on-Q loan to deposit was more or less stable.

During the first nine months, approximately EUR9 billion long-term funding was raised with an average issued maturity of 6.5 years. And this brings the average maturity of all outstanding, long-term funding at 4.5 years.

Wietze will now comment on asset quality.

Wietze Reehoorn: Okay. Thank you. Ladies and gentlemen, good afternoon. Appreciate that we can share again with you the results of the bank.

Before going into the slides, let me make a couple of general comments.

In Q3, the economic environment did not improve materially in The Netherlands. Having said that, green shoots hinting towards economic recovery do appear, and some of the official economic indicators also seem to point out a bottoming out of the economy.

According to the Dutch Central Bureau for Statistics, CBS, the consumer confidence index is modestly up, to minus 27, for October from minus 39 at yearend 2012. Yet it is still negative. A second example. At the end of Q3, the house price index was up to 85.3 from the recent lowest point in June, where it was 84.4. The industrial purchasing managers index is currently at the highest level in two years.

However, we also saw that saving volumes in The Netherlands grew for quite some time. The levels are up from yearend 2012. But, in Q3, we recorded a bit of an outflow there. And, also, in the whole year up 'til now, private consumption continues to decline.

As already mentioned by Kees, the trend in underlying impairments is up from last year by 25%, excluding the mentioned special items around Greece and Madoff.

If we look to slide 11, looking specifically as main risk parameters there, there is a slight increase in the total past due portfolio of the bank of around EUR150 million. Yet, the past due ratio remained stable at 1.2%.

If we look to the impaired portfolio for the loan book, we see a net decline of about EUR1 billion, mainly resulting from the sale of the Greek exposures and Madoff-related collateral. Excluding this, the development in commercial loans was flat. For consumer loans and mortgages, it was slightly up, bringing total impaired ratio in Q3 at 2.2% for the bank.

The subdued domestic spending has led to ongoing pressure on revenues for, particularly, the SMEs. The result of this development is clearly visible in the loan volume managed by our financial restructuring and

recovery department. Furthermore, the amount of loans that we turned to the regular business has also decreased. The deterioration of the portfolio is evident in nearly all sectors but particularly in retail, real estate, construction, transportation, and horticultural sectors in The Netherlands.

The write-offs were mostly visible in the sectors industrial, transportation, retail, and industrial engineering.

If we look to slide 12, a couple of remarks as to our mortgage portfolio. The Dutch housing markets continued to slow down over the first nine months. According to CBS, house prices declined 3.8% compared with yearend 2012. And the volume of houses sold was down 9.1% in the first nine months of this year compared to last year.

We do, however, see a couple of positive signals as well. For example, I already mentioned that CBS recorded an improvement in the house prices index in Q3. Furthermore, CBS registered the Q3 volume of houses sold was around 30% higher than the number of houses sold in Q2.

According to HDN, which is a mortgage (INAUDIBLE) network, there is an upward trend in the requests for mortgage financing since June this year. October was a record month, with 16,000 unique requests for mortgage financing, 40% than in the previous month and 20% more year on year than October 2012.

Voluntary mortgage repayments remained high in 2013. Year to date, it was up 10%. And, in Q3, we saw it was 16% higher than the previous quarter. These additional repayments are in result of higher risk awareness among clients and low interest rates offered on savings.

Despite this trend in redemptions, the decline in house prices has pushed the average loan to market value of residential mortgages up to 85% from 82% at yearend.

The part of the portfolio with a 100% or higher loan to market value rose further to 24%, which is up from 21% at yearend.

The part of the portfolio that has a full, 100%, interest-only mortgage was 24%. And, thereof, 2 percent points has a loan to market value of 100% or higher. And, please, note that, already for some time, these loans are no longer provided to clients, but the code of conduct and the new tax regime no longer allows clients to engage in these loans.

The mortgages past due increased slightly, by EUR120 million, compared to yearend. And this is the net increase from new clients arrears and the outflow of clients that are no longer in arrears; for example, following conversations with our mortgage care teams and budget coaches.

The effect of the economic conditions resulted in a rise of the impaired mortgage exposures of around EUR320 million since yearend 2012, increasing there with our impaired ratio up to 1.2% from 0.9% at yearend.

So far, we had to initiate a home sale process for 0.1% of our clients, of which only a quarter ended up in a forced sale.

A couple of remarks on slide 13, on the real estate portfolio. While the dynamics, actually, of real estate did not change materially in Q3, the real estate portfolio in Q3 amounted to EUR14.5 billion, and this includes EUR4.5 billion, which is an exposure at the default number-- EUR4.5 billion of social housing loans, of which 60% is guaranteed by government-backed parties.

If you look to vacancy levels in the office segment, it's stabilized around relatively high levels of 14.5%. Vacancy levels in retail segment remained at lower levels, but they are rising.

Impaired exposures represented around 5% of total portfolio, and EUR66 million of impairment charges were booked in the first nine months of this year.

Coverage ratio impaired real estate portfolio was 65% at the end of the quarter.

Before we switch to the operator, I will make a comment on our Q4 impairment outlook.

So far, the year-to-date impairments, excluding Greece and Madoff, were up 25% from last year. And, even though we see mixed economic signals, we remain cautious, and, therefore, we expect Q4 impairments to be at elevated levels, higher than Q3, excluding, of course, special items.

Thank you for the attention. I will hand over now to the operator for the Q&A session.

Operator: Thank you, sir. If any participant would like to ask a question, please, press the star, followed by the one on your telephone. If you wish to cancel this request, please, press the star, followed by the two. Your questions will be polled in the order they're received. There will be a short pause while participants register for questions.

Thank you. Our first question comes from Cor Kluis from Rabo Bank. Please, go ahead with your question.

Cor Kluis: Good afternoon. Cor Kluis at Rabo Bank. I've got a few questions; first of all, concerning the merchant bank, the half year figures. You have been mentioning that you are planning to increase the profitability of that business and increase the return on equity. Can you give an idea how that

process is going and then what has already been done in the last couple of months? That's my first question.

The second question is about assets under management. We've seen that, on a nine month basis, there was EUR400 million net outflow of net new assets. At the half year figure, it was EUR500 million inflow. So there was EUR900 million outflow in the third quarter. My question is: Where is that coming from, because you would normally assume that, with better equity markets, this private banking, et cetera, business should create some net inflow.

And my third question is about the ECT business, Kees, which is quite important and also growing going forward. Can you give us an idea what the return on equity of that business is? The loan losses have been quite low. Is this a 13%, 14%, 15% return on equity business, or can we even think about higher levels?

That were my questions.

Kees van Dijkhuizen: Thank you, Cor, for the questions. Let me start with merchant banking. Indeed, we are working also at this moment in time in this area on our policy going forward. I mentioned already last time the discussions we had on clients and the likes. We expect this to result in an updated strategy, which we also can communicate to the outside world. I think that will be in Q1 of this year. So this is ongoing at the moment.

And, in the meantime, we saw better results but still not yet good results at all. So we are not happy with these results, especially in the markets area.

With respect to ECT, we do not disclose ROEs of these particular business lines. We are looking, by the way, to improve ROE disclosure next year more on second levels. We're working on that; also looking at, then, results (INAUDIBLE) functions in the way, of course, to have a good calculation of ROEs when you, of course, go public with that. We expect that to do, I think, with respect to the first quarter of next year.

Assets under management? I do not have the exact figures at hand. I thought it was predominantly foreign exposures. But we can follow up on that and look into that. I don't have it available here at the moment.

Cor Kluis: Okay. Thank you.

Operator: Thank you. Our next question comes from Benoit Petrarque from Kepler. Please, go ahead with your question.

Benoit Petrarque: Yes. Good afternoon. A couple of questions on my side. The first one is on the AQR, asset quality review. Looking at this asset quality review, I was just curious how comfortable you are on NPL definition looking at the EBA definition we have seen so far. And how close is your NPL definition

from this new EBA definition, please; so, basically, taking into account restructured loans as well?

A second question will be on the cost of risk. You basically guide for a small increase in Q4. But what will be your kind of average growth cycle cost of risk? I just calculated that it's about 50 BPs of loans in the third quarter. But will be your kind of normalized average for ABN in the new setup? That's number two.

Number three will be on liquidity ratio. I think you've been talking about capital leverage. But could you just update us on the liquidity ratios, LTR, and SFR? And are you working actually still on lengthening the maturity profile of your liabilities? I think you mentioned 4.1 years. But is that still something which you'll kind of increase going forward?

And then the last question is just simply on the bank tax and the various taxes. What do you expect on this bank tax? Do you think that will kind of stay for some years? And what about the deposit scheme buildup? I think, next year, you will have a levy on S&S. But what about 2015? Do you expect some costs from the kind of building up of the deposit scheme going forward?

Thank you very much.

Wietze Reehoorn: Okay. This is Wietze. I'm trying to answer your first two questions.

As to the AQR and the EBA definitions, as far as we have been informed about those definitions-- a couple of them are still under discussion, understood. What I can say to you is that the EBA's definition of bad debt is, in broad lines, in alignment with our definitions. So that means, for example, on the basis of what we have seen right now, it means that, for example, our impaired ratio, for example, for mortgage would be in line with the EBA definition.

Your point as to the question through the cycle cost of risk-- I think you asked before-- up 'til now, we are not disclosing a through the cycle cost of risk. However, we do in each quarter-- we try to give you an outlook also for the quarter ahead and, in that sense, I'm told that we expect higher provisions in the fourth quarter.

Having said that, I'm looking to Kees, probably, for the question on--

Kees van Dijkhuizen: Liquidity ratios? This is-- Like first quarter, it was a trading up that actually-- where we do not have LCR and NSFR calculations at hand. However, also here, I would say we are going to improve (INAUDIBLE) as well next year. So I think, from Q1 on, we will also have these figures available going forward.

Target, by the way, with liquidity coverage ratio is 95% yearend; so, between 90% and 95%. The target is, I think, at least 90%, and 95% is, I think, the target. And then, from next year on, we will reach 100%-plus.

With respect to lengthening of funding, (INAUDIBLE), could you say anything on that?

Speaker: As you might have seen this year, we issued quite some debt with longer maturities. We did a ten-year euros in May. Recently, we did five years U.S. dollars. We expect some more benchmark activity not only this year and also in next year. The average maturity, as already outlined, was 6.5 years. So, by doing this, we also extended our average maturity to 4.2 years. And we will continue to term out. But respecting NSFR and LCR will be an important driver, and also the cost side of it will be taken into account. But, yes, terming out will continue to be one of our targets going forward.

Kees van Dijkhuizen: And then, with respect to the tax question, I'm afraid, for some time, this banking tax will stay with us. The cost of the deposit scheme-- guarantee scheme-- for next year, we have to pay, as banks in The Netherlands resolution, an amount for S&S as you know. And that, of course, is a temporary one next year. And then, I think, in 2015, the deposit guarantee scheme will phase in. And that will then replace, partly, what we have to pay for S&S. But we do not have any news on a banking tax exit in the near future.

Benoit Petrarque: (INAUDIBLE)?

Kees van Dijkhuizen: What will be roughly?

Benoit Petrarque: The amounts for you.

Kees van Dijkhuizen: S&S EUR200 million. Banking tax EUR100 million or a bit above EUR100 million this year in fourth quarter and also next year in fourth quarter. And then, in the first three quarters, the S&S resolution of EUR200 million for our bank. I think the deposit scheme is still being negotiated about timeframe and phasing in.

Benoit Petrarque: Okay. Thank you very much.

Operator: Thank you. Once again, as a reminder, if you would like to ask a question, please, press the star, followed by the one on your telephone. To cancel this request, please, press the star, followed by the two.

Thank you. We have a question from Anke Reingen from Royal Bank of Canada. Please, go ahead with your question.

Anke Reingen: Yeah. Good afternoon. I just had one question. I was following on the comments by the DMB about the review about the commercial real estate

exposures. And I was just wondering if you're willing to share us in terms of the risk weighting you currently apply to your commercial real estate exposure and if you think that's the current level that you feel comfortable with. Thank you.

Kees van Dijkhuizen: The current real estate investigation is ongoing. We have just come through phase one, which was a satisfactory result actually.

We are now in the midst of phase two, where, as you know, because it has been made public also-- companies like Blackrock are assisting in this investigation. And that will end-- targeted in December. So we cannot comment on any outcome of that yet.

Anke Reingen: And have you given an indication of what the average risk weighting you currently use on the commercial real estate? Or that would be maybe--?

Kees van Dijkhuizen: No. We have not disclosed that at this moment.

Anke Reingen: Okay. Thank you very much.

Kees van Dijkhuizen: You're welcome.

Operator: Thank you. Once again, as a reminder, if you'd like to ask a question, please, press the star, followed by the one on the telephone. To cancel this request, please, press the star, followed by the two.

Thank you. We have another question-- sorry-- from Benoit Patrarque. Please, go ahead, sir.

Benoit Patrarque: Just a follow-up on-- actually, a new question on net interest income. What do you see currently on depository pricing? I think you have done a lot in the (INAUDIBLE). But the question, obviously, is: Can you do more? So I was just curious to see your-- to get your view on deposit pricing. Thanks.

Kees van Dijkhuizen: Yes. I think, indeed, margins have improved on savings this year-- in the savings area. Of course, we've seen a ECB cut again last week. So that might perhaps also help to continue to have lower savings rates going forward. We do not have a particular timeframe for that. It very much depends on, of course, market. But we see the whole market going down already for some time.

So I think-- Perhaps, (INAUDIBLE), you would like to add something?

Speaker: If, let's say, interest rates, which are expected to go up in various scenarios we see, would materialize, then this obviously will hit us from a margin perspective. But, luckily, so far, we haven't seen that.

Benoit Patrarque: Okay. Thank you.

Operator: Thank you. Our next question comes from Lee Street from Morgan Stanley. Please, go ahead with your question.

Lee Street: Thank you very much for hosting the call. Two questions from me, if I may.

(INAUDIBLE) your clients earlier on the asset quality review. You didn't expect much impact in terms of your definition of nonperforming loans. Are you able to give any details in terms of loans that have been subject to forbearance-- how much you have-- how that might tie up with what's been described in the (INAUDIBLE) asset quality review?

And my second question is-- Obviously, there's been an ongoing, I think, reduction in risk-weighted assets. Part of that has been model driven. Is there much more to come or much capacity for that to continue?

They're my two questions. Thank you very much.

Kees van Dijkhuizen: Thank you for the question. If I look to the risk-weighted assets, your question, what will there be in the future, if I read it well, you have seen that the decrease is the result of some model changes and migration from standardized to advanced portfolios.

As to the risk-weighted assets for markets, we may expect-- we may expect some decrease in the future. At the moment, we will be there at an advanced level.

As to operational risk, we don't expect real changes there.

And, for the credit risk-weighted assets, I think we've seen the largest impact here of migration of portfolios from standardized to advanced, as we are more than 85% (INAUDIBLE) right now.

Your question as to the forborne loans and the definition of that in EBA. Again, there, we're still awaiting some details on the definition, as other banks do as well. At present, it is clear, of course, that some activities of ourselves in the financial restructuring and recovery department as to loans which are not yet impaired are part of forbearance.

However, as you know that forborne loans should be put at an impairment test, run through-- look into all kind of cash flows there. While those analyses are being run currently, and we are looking into the analysis of that. And, as you know, we have to report in the 2013 annual report forbearance results.

And, at this moment, I cannot give you any indication of what that should mean at this moment.

In addition to that, we have some very small forbearance activities in the retail part. It's a very small activity as to forbearance for some of our mortgage clients. But this is, at this moment, also not to be mentioned in terms of materiality.

But, once again, when we will report in our 2013 annual report forbearance, we can have, I think, a discussion at that moment. Thank you.

Benoit Patrarque: Okay. Thank you very much for your comment.

Operator: Thank you. Our next question comes from Tiago Parente from Fidelity. Please, go ahead with your question.

Tiago Parente: Hi. Good afternoon. Thanks for hosting the call. And just two things.

One, your shipping book. Can you comment on how that has been evolving and whether--? Is there any scrutiny from or any potential impact from the AQR? Or is this something that will be-- will only be looked at by the ECB for the stress test next year?

And the second question is regarding the capital structure. Could you just update us on the issue of tax deductibility for alternative tier 1 in The Netherlands and any sort of plans regarding future issuance once that is resolved, please?

Wietze Reehoorn: Should I start with the first question, Kees? And then you'll probably go into the second one.

As to shipping, your point as to the AQR or whatever the focus will be, we don't know. I mean, we have not been informed on that. Yes, we've heard in the market that probably (INAUDIBLE) or the ECB, the AQR will focus on shipping portfolios.

Well, as you know, probably we have also a shipping portfolio; however, relatively, a very small one. Our total ECT book, which is in the press release, is around EUR1.4 billion. Of that, one-third is transportation, and a large part of that one-third is shipping. And, as we have explained in earlier calls, as we have built up our shipping book, quite recently, actually, as a result of the, as you know, collapse of Fortis and the bank being emerged Fortis and ABN together. It happens to be that we, let's say, have in our loan book quite a decent loan to values ships which are rather new, et cetera, et cetera.

But, again, to your question, what will the AQR bring, we don't know because we have not had yet the questions or templates whatsoever.

So, perhaps, Kees, to you for the first question.

Kees van Dijkhuizen: Yeah. With respect to the capital structure and the tax deductibility of the ultimate tier 1, we expect the Ministry of Finance to come up with a positive decision here with respect to the tax deduction in near future. And, of course, when that is realized, people might go to the market also in The Netherlands with this structure. We might do that as well because, as you know, we have a large core tier 1. But our ultimate tier 1 is only EUR1 billion is relevant for the leverage ratio, which is fully loaded, above 3. But we'd like to improve that. So, yes, we might use this instrument going forward.

Tiago Parente: Thanks. Just specifically on the decision, what is missing? Is it just purely the finance minister's decision, or are there any further steps in terms of the tax authorities, et cetera, to go through? And would you expect a decision before yearend?

Kees van Dijkhuizen: I do not know where my answer was-- where you could no longer hear my answer. It was on tax deductibility. I think you asked what do you exactly want to know. And then we said, clear, not only decision by the Ministry of Finance but also very clear communication to the market about that.

Tiago Parente: I don't know if you-- Can you still hear me?

Kees van Dijkhuizen: Yes.

Tiago Parente: Yes. It was just about the timing. Obviously, it's on the government's camp. But would you expect a decision before yearend?

Kees van Dijkhuizen: I don't know. I hope. I hope.

Tiago Parente: Okay. Thank you.

Operator: Thank you. We have a follow-up question from Cor Kluis from Rabo Bank. Please, go ahead.

Cor Kluis: One follow-up question on the leverage ratio. You mentioned in the press release 3.1% is the leverage ratio in the Basel III fully loaded, a target of, I think, that government or that regulators more the 4%. Can you give an idea how to reach that, because it's not going to happen only with capital extension of course. So something has to happen on the asset side. Can you give in broad lines the way to reach the 4%? That's my question.

Kees van Dijkhuizen: Yes. I think, as you also know, we are at the moment at 3.7%. And, of course, gradually, we'll go down, in 2018, to this 3.1%. First of all, we are still in a bandwidth between 11.5% and 12.5% core tier 1. So I think I expect us to grow further in this bandwidth at a higher capital level, which will also be positive for the leverage ratio with respect to core tier 1.

Secondly, as I mentioned, we have EUR1 billion tier 1-- ultimate tier 1 capital and around EUR5 billion to EUR6 billion tier 2. We might exchange that, as well, a bit more to ultimate tier 1 and less to tier 2.

And, thirdly, indeed, we will look, of course, at balance sheet items going forward.

But those are actually all the things we look at at the moment.

Cor Kluis: Okay. Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please, press the star, followed by the one on your telephone. To cancel this request, please, press the star, followed by the two.

Thank you, sir. We appear to have no further questions at this time. Please, continue with any further points you wish to raise.

Kees van Dijkhuizen: Well, if there are no further questions, then we would like to thank you very much for joining us on this call.

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