Q3 2019 Analyst Call Transcript

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Conference call replay:
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Kees van Dijkhuizen: Good morning everybody and welcome to the investor and analyst call for ABN AMRO's Q3 results. I am joined here by Clifford Abrahams, our CFO, and Tanja Cuppen, our CRO.
I will take you through the key developments in the last quarter, including the investigation by the Dutch prosecutor. Clifford will go through the details of our third quarter results and run through capital. Tanja will update you on the developments in our loan portfolio.

I will update you now on the third quarter. The last quarter for us was mixed. Operationally, the bank is doing well, delivering a ROE of 11%. I am pleased with the robust financial results and solid operational delivery during the quarter.

Net interest income remained strong, also on the back of the profitable growth of the mortgage book. Excluding divestments, net fee income increased this quarter. Excluding detecting financial crime or DFC-related costs, cost continued to trend down due to our strict cost discipline.

Impairments continued to be moderate, at 16 bps. We are making good progress on the CIB refocus, as demonstrated by the ROE of 9% for this quarter.

We are well capitalised and well positioned to manage the transition through TRIM and Basel IV.

Meanwhile, we also face challenges. As you are well aware, the bank is currently subject to an investigation relating to requirements under the Dutch Act on prevention of money laundering and financing of terrorism. More about that later.

A major sector challenge is the continuing low interest rate environment. Hence, our strong focus on operational performance.

We continue to execute our strategy and purpose "banking for better for generations to come". I am very proud to have personally signed the United Nationals principles for responsible banking on behalf of ABN AMRO as one of the 130 founding banks. We believe that responsible relations with our clients, investors, employees and society as a whole give us an advantage in building trust, supporting sustainable development and creating positive impact through banking. This year, we have once again been ranked among the world's most sustainable banks in the annual RobecoSAM Assessment, achieving 79 out of 100 points, putting us in the top 10% of most sustainable banks.

Let me now update you on some developments in the mortgage market on slide 3, as this is one of the drivers of our solid operational performance.

I am really pleased that in this third quarter our market share in mortgages increased to 22% from 17% last quarter. We currently see good margins in the market, so we let our market share move up. Our strength in the mortgage market is supported by new products, such as the mortgage solutions for seniors to cash out on home equity as well as the 30-years fixed mortgage offer we do now as part of our mortgage originate-to-distribute platform. We also benefit from our strong operational capabilities. We have a speedy turnaround time for new mortgage loans applications. This is important for clients in the current housing market. Also, more than two thirds of our mortgage meetings are done via video banking, enabling a fast, flexible and personal service. As the Dutch economy is expected to grow by around 1% next year, overall the outlook for the mortgage book remains positive.

To update you on the interest rate environment and our actions I take you to slide 4.

As I said before, NII was strong this quarter, despite the challenging interest rate environment. Our asset margins have remained resilient, as we are focused on margins over volume. We also remain focused on asset quality in this part of the cycle. Even so, we continue to expect further pressure on NII going forward of around EUR 20 million sequential, quarterly, impacting 2020 through lower deposit margins.

As you are aware, we already charge negative rates to CIB clients and the largest clients in commercial and private banking. We have followed a step-by-step approach. We have decided that we will not charge negative rates on deposits below EUR 100,000. This commitment means that around 95% of our clients will be safeguarded from negative rates, representing approximately 40% of our deposit base. In addition, around 40% of deposits are above the EUR 100,000 threshold and are currently not subject to negative rates.

Of course, we are also focused on developing more fee propositions as well as opportunities to increase fees where we can. For example, in commercial banking, cyber security and bookkeeping propositions. In retail banking greater focus on investments and insurance and in CIB our increasing focus on originate-to-distribute.

Let me update you on the investigation of the Dutch prosecutor and our DFC activities. In September, we were informed by the Dutch public prosecutor that we are subject of an investigation relating to requirements under the Dutch Act on the prevention of money laundering and financing of terrorism. The investigation follows our announcement last August that we are to review all our retail clients in the Netherlands and that sanctions, such as an instruction, fines, may be imposed by the authorities. The investigation focuses on whether we have complied with requirements to having client files in good order, a timely reporting of unusual transactions and a prompt discontinuation of client relationships.

For us, it is a key priority that we fulfil our duties and responsibilities as a gatekeeper of the financial system in detecting financial crime. While the timing of the investigation is uncertain, we are getting on with ensuring we are fully compliant and future fit.

We have already centralised our DFC activities, enabling further specialisation, consistency and leverage knowledge across the bank. As you know, we have remediation programs running at ICS, commercial banking and retail banking. Due to these programs, we have now taken EUR 226 million in provisions for external expenses alongside significantly increasing BaU-spend on DFC. We expect this step-up in spending to continue. We have completed a comprehensive independent review of our organisation to ensure full compliance with legislation. We have incorporated recommendations arising from this into a new delivery plan in collaboration with the regulator. We will further update you on this in Q4.

We are also in dialogue with public parties to investigate further cooperation to fight financial crime and will explore possibilities of setting up a joined organisation to monitor payment transactions with other Dutch banks.

We are pleased with the Dutch cabinet’s plan to clamp down on money laundering, improving cooperation between the government and banks and among banks. Strict compliance is a license to operate. So, we remain vigilant in detecting financial crime and we will continue to make the necessary investments.

I would now like to hand over to Clifford to take you through our third quarter results.

Clifford Abrahams: Thank you, Kees.

As Kees mentioned, we are pleased with our robust third quarter results with a net profit of EUR 558 million. Net interest income remains strong and fees are higher when you exclude the sale of Stater. Other income was low this quarter, mainly due to low private equity gains which can be volatile. Operating expenses are well controlled and I am pleased that impairments are moderate again this quarter, at 16 bps. Tanja will give you more background on this.

I will guide you through the individual line items on the next slides but first our client lending on slide 7.

Kees updated you on developments in the mortgage market. I am pleased that our mortgage volumes are somewhat higher again this quarter, reflecting our strong market share of new production of 22%. We continue to deliver on our CIB refocus and the more capital-efficient business model is shaping up, so total CIB volumes are down somewhat this quarter.

We have reduced our exposures specifically in TCF – Trade and Commodity Finance – including diamonds and global transport and logistics. SME lending saw a slight decline, reflecting our focus on margins.

Turning now to NII on slide 8. NII remained strong this quarter. Let me remind you that last quarter included EUR 45 million in one-offs, largely related to DSB. As you can see on the right, lower liquidity management costs largely offset the around EUR 20 million decrease in NII due to low interest rates. Liquidity management costs were lower again this quarter, largely due to the role of some larger FX-positions. The EUR 20 million decrease due to low interest rates is in line with our guidance from last quarter of around EUR 20 million sequentially in 2020, excluding mitigations.

It is possible that interest rates have recovered somewhat in the last few weeks, after first declining materially following our Q2 results and looking through the recent volatility, our outlook on deposit margins has not changed materially from Q2. Hence, our guidance remains the same.

Following the announcement by the ECB, we expect a positive net impact of the ECB deposit tiering of approximately EUR 60 million per year and this will mitigate some of the impact.

In addition, we continue to work on mitigating the impact of the low interest rate environment. As discussed by Kees, we are developing new products, selectively charging negative interest rates to clients and continue to work on our cost initiatives.

As we have said before, we expect NII to be around EUR 1.6 billion next quarter.

Let me now turn to fees and other income on slide 8.

I am pleased that excluding divestments of Stater and Channel Islands, fees are higher somewhat compared to last quarter, due to the acquisition of private banking activities in Belgium and a strong quarter by Clearing. As you know, in CIB the business model is becoming less capital intensive and is starting to generate more fees from distribution. We are also working hard to grow income with initiatives on investments and insurance in retail. Other operating income was low, as I said previously.
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In general, last year all volatile items were relatively high while this quarter more as every item was low. So truly, some volatility there. This is especially the case for private equity gains, which were EUR 107 million in Q3 last year compared to only EUR 20 million this quarter.

XVA was actually negative this quarter, driven by low interest rates and increasing derivative exposures. We maintain our long-term guidance for other income of around EUR 125 million per quarter, although it can be volatile in any one quarter, as you have seen.

Now moving to costs on the next slide.

I am pleased with our performance on costs, which have continued to steadily trend down for a number of years now as a result of our strict cost discipline. As you can see here in the left-hand chart, personnel expenses continued to decline, reflecting lower FTEs. However, other expenses increased this quarter due to higher DFC costs, including an additional provision at commercial banking of EUR 27 million.

In the right-hand chart you see we have realised further cost savings of EUR 53 million versus Q3 last year, bringing the total to a run rate of almost EUR 850 million and on track for the EUR 1 billion target in 2020. Year to date we are running at a cost level of around EUR 5 billion annualised, excluding remediation provisions.

In going forward, we expect further material cost pressure for DFC and ongoing wage inflation but we see some offsetting movements in respective of cost programs. We do not expect major cost programs in the near future but we will continue our proven approach of executing ongoing cost initiatives, for example a greater use of Cloud-based services, the introduction of DevOps in our IT teams. We also continue the product rationalisation and process improvement across the business lines and support functions. So, continuing steady progress on costs which will balance the cost inflation that we see from DFC and ongoing wage inflation.

I will now hand over to Tanja.

Tanja Cuppen: Thank you, Clifford.

We had a good quarter. Impairments were moderate, at EUR 112 million. This amounts to 16 basis points cost of risk for the quarter and year to date and well below the through-the-cycle cost of risk. We are pleased with our progress in de-risking CIB and we are happy to see that this is paying off.

Impairments in CIB were modest and are mainly in energy, offshore services and up- and mid-stream and in diamonds. Impairments in commercial banking were due to the offshore support vessel sectors and a new file in the utility sector.

We expect an uplift in impairments in Q4, reflecting in particular in offshore services and in retail banking, predominantly from model refinements. We reconfirm our full-year expectation of below the through-the-cycle cost of risk of 25 to 30 basis points.

I now hand back to Clifford to discuss capital.

Clifford Abrahams: Thank you, Tanja. Let’s now turn to slide 12.

You can see our Basel III capital position remains strong with a CET1 ratio of 18.2%, well within our target range. The small uplift reflects the divestment of our share in equensWorldline and the Channel Islands.
No additional TRIM or model review add-ons were recorded in Q3 2019. Looking forward, we expect a serious impact on Basel III RWAs from TRIM, model reviews, definition of default and the announced risk weight floor

in mortgages by DNB taking place in 2020. From our perspective, all [most] of this is frontloading of Basel IV, for which we are already well positioned.

We have a strong Basel IV capital position at around 13.5%, again excluding our year-to-date profit. Our leverage ratio was also stable at 4.2%.

Our prudent capital management reflects the context of commercial and economic circumstances, including lower-for-longer as well as the tough regulatory outlook. We will decide on our dividend at full year.

I now hand back to Kees to update on our targets.

Kees van Dijkhuizen: Thank you, Clifford.

Operationally, the bank is doing well and I am pleased, as I said, with our ROE of 11% this quarter, well being within our target range. However, we need to recognise that the sector is going to face major challenges, including the continuing low interest rate environment.

We are under investigation by the Dutch prosecutor. Strict compliance is our license to operate and we will continue to make the necessary investments.

Given the lower-for-longer interest rate environment, it will take longer to reach our cost/income target of 56% to 58%.

Our capital position and capital generation remain strong and with a Basel III CET1 ratio of over 18% we are well positioned to manage the transition through TRIM and Basel IV.

As Clifford indicated, dividend is a year-end decision.

Before we go into Q & A, I would like to briefly recap the highlights on slide 14.

As said, the last quarter was mixed but I am pleased with our robust financial results and solid operational delivery during the quarter, given challenges across the sector. While dealing with these challenges we continue to take the necessary action and focus on our operational delivery.

Now, I would like to ask the operator to open the call for questions.

QUESTIONS AND ANSWERS

Pawel Dziedzic (Goldman Sachs): Good morning and thank you for the presentation. I have two questions. The first one is on costs. You highlighted that you will no longer be able to reach your cost/income target. You made some remarks on your absolute cost base but I was wondering if you could dive a little bit deeper into that. Are you still confident that you can get to around EUR 5 billion cost base next year? Can you give us a little bit more of a sense and at least the scale of cost inflation that relates to the step-up in those cost related to financial crime that you mentioned in your opening remarks? That would be very useful.

My second question is on your pricing of deposits. You are again clear that you will not charge negative rates to deposits below EUR 100,000 but you also highlighted that 40% of balances would not fall under this restriction and are currently not charged negative rates. So, can you help us understand what exactly the strategy is there going forward? How does it differ between retail, private banking and corporate clients? Essentially, what prevented you – as you see it now – from charging the negative rates to those clients in the past and do you think it can change going forward?

Kees van Dijkhuizen: Thank you. I will take the second question and Clifford, you can then take the first.

With respect to the pricing of deposits, you are correct. Indeed, around 40% of our deposit base, which is around EUR 100 billion, does not have negative rates at this moment in time. As I said, in the past we charged our CIB clients and our largest CB and private banking clients. We started with thresholds of above EUR 25 million and went down to EUR 10 million. We see lower amounts in the market right now. We are not allowed to guide on that at this moment in time. You will have to await our action and then we will communicate. That is the way we have done it in the past and if we take action in the future, we will do the same. But you are right, there is a EUR 100 billion territory where we can apply negative rates going forward.

Clifford Abrahams: Pawel, on costs. I am looking at page 5 in the slide deck. As I said, we are travelling at around EUR 5 billion costs already. That is our base position and that is consistent with our planning. That already includes the step-up in DFC costs that you see on page 5. Year to date Business as Asual detecting financial crime costs that are well ahead of the total spend for last year, so annualised a step up. We expect that step-up to continue significantly in relation to an amount of around a little over EUR 100 million for the first nine months. We have taken provisions in the past and that will shield some of the incremental costs going forward. You can see the significant provisions we take on page 5. We do expect DFC Business as Usual costs to step up further. In due course, they may well come down but for the time being it is an increase. What I would highlight – I used the word 'balance' in the presentation – is that you should see those incremental DFC cost balanced by our further cost saving programmes. We are pleased with the progress of 850 [million] but that means we have another EUR 150 million of cost savings further to go through next year. So quite some potential and that would give us a balance. I note the consensus that you indicated but I will leave it at that and we will give further guidance next year as we are closer to the results.

On the cost/income ratio a final comment there. As Kees indicated, we think the cost/income ratio target will be delivered later, primarily as a result of income coming down and not cost. I talked about factors balancing out on the cost front but it is really the income movement that has caused us to defer that. I do not think that should come as much of a surprise, so we reconfirm the EUR 20 million sequential reduction and that gives rise to hundreds of millions of NII pressure, which we cannot mitigate over a period of one year. So, it is really that that has prompted us to indicate today that the target will take longer to achieve.

Adrian Cighi (RBC): A few questions from my side, one on capital and one on NII. The first is on capital. Your target capital ratio of 17.5-18.5%, how confident are you that it captures the latest uncertainty under Dutch prosecutor investigator? To put it differently, are you still aiming for additional distribution above the 18.5% range while the AML investigation is ongoing?

And then on NII. You mentioned that you maintained the EUR 20 million quarterly headwind while it is understandable given the volatility of the swap rates. It has been showing quite a material improvement versus 7th August – almost 23 basis points to now 27 basis points negative. Can you give us an indication of what the EUR 20 million figure would translate into assuming the current run rate on the swap?

Kees van Dijkhuizen: Thank you for your questions. I will take the first one and Clifford, can you take the second?

On capital, our guidance has not changed as a result of the investigation. At the end of the year we will take everything into account, so also that, but the 17.5 – 18.5% and where we are at this moment in time has not changed.

Clifford Abrahams: On NII and sensitivities, we are one of the few banks that give very clear indications of the financial impact. The sensitivities would be a further best practice in this respect. I am looking at the rates in Q1 and Q2 and Q3 and we have given guidance. In Q1 we said EUR 10 million, in Q2 we said EUR 20 million and now we are saying roughly EUR 20 million. The rate picked up relatively recently, really at the tail end of Q3, in October and November. It looks to me like it is somewhere in between but given those data points that I have set out you can form your own views. When we give guidance, we do not mark to market every quarter; we reflect on our own views of interest rates as well. So, it is a judgment rather than a specific estimate reflecting forward rates. We see the benefit of rates having picked up and if they change we will update our guidance again in Q4. But let's see how sustainable these rate increases are.

Adrian Cighi: Perfect. Thank you very much.

Stefan Nedialkov (Citigroup): Good morning. Two questions from me as well. Just coming back on the provisions for KYC, DFC, et cetera. These amount to EUR 226 million. Could you provide us with a break down of what those provisions were for? Was it extra external cost for consultants, is it IT, hardware, software, et cetera? Some colour on that would be extremely useful. Related to that, in your report you talk about 200-240 FTEs being hired for this compliance initiative. Are these FTEs here to stay? Are they hired for a period of twelve months? Could you give us a breakdown of how many people work on these initiatives? How many of them are internal employees, how many are external and when are they likely to leave? I would just like to get a bit more of a grip on this escalation in the compliance spend.

My second question is hopefully quicker. Any update on the CEO succession? Thank you.

Kees van Dijkhuizen: I will take the second question. There is no update on the CEO succession. The process is going well. When we can say something of course the Supervisory Board will do that.

Clifford Abrahams: Let me give some colour regarding your first question but we also guided to Q4 where we will give more detail. On provisions you are right; it is external expenses. In particular where we have remediation programs where we are upgrading our KYC files, we take on external staff which we can ramp up quickly. Those are the bulk of the current increases in FTE. For those specific costs we can book a provision. Those remediation programs also incur internal cost and you see those come through the P&L later.
In terms of FTE, over the last six to twelve months a lot of the FTE increases have been around these remediation programs. Going forward, we expect to see some change in mix of that as those remediation programs get going, you will see those numbers flatten off and eventually come down. We will build up further our business as usual FTEs in relation to detecting financial crime. Those folks will be engaged in transaction monitoring and ongoing file reviews. In the medium term, when we see more opportunity to automate and get efficient at these activities we would expect to see costs and FTEs coming down. But that is a little bit far on. That gives you a flavour for the ramp-up and the ongoing developments. Obviously, we will update you going forward.

Stefan Nedialkov: Clifford, just to follow up on this. Do you have around1,500 people working on KYC? I have something like that in the back of my mind from previous updates.

Clifford Abrahams: Yes.

Stefan Nedialkov: And of that amount 200 to 250 would be external people?

Clifford Abrahams: We will not give a breakdown on that. It is just under 10% of our total staff, so we are trying to give an indication of the resource commitment in this area. It is a mix but the external are primarily engaged in remediation. We use external or short-term staff so we can ramp that quickly and then in due course bring it down cost effectively when those programmes have been completed.

Stefan Nedialkov: Okay, but the 1,500 include internal people who have been moved from other roles to help with KYC, permanent KYC plus external?

Clifford Abrahams: If you think about the ramp up of our costs, we already have a significant commitment. It is in the numbers that were in the slide that we talked about and it is also in the EUR 5 billion run rate. So, when you think about DFC inflation, we have already absorbed quite a lot of that, although we do expect further inflation going forward albeit balanced by the cost saving programmes I indicated.

Stefan Nedialkov: Okay. Thank you so much!

Robin van den Broek (Mediobanca): Good morning everybody. My first question is on NII. If I take your underlying run rate for Q3 of EUR 1.61 billion and I am factoring the EUR 20 million sequential headwind from the replicating portfolio and I add EUR 60 million for deposit tiering next year, I basically get to consensus for next year. Could you talk a little bit about loan growth perspectives, better loan margin repricing and the prospects of negative deposit rates. Presumably, those should still be positively driving NII next year. In the CIB you are still aiming to go up to quality curve, so that probably leaves some NII on the table but some comments around that would be quite helpful.

I am sorry to come back on this but my second comment is on capital. The fact that your capital ratio on last year's pay-out ratio is at 18.8% should imply that probably your pay-out ratio year on year should go up, assuming that you will adhere to the 17.5% - 18.5% target range, as you seem to indicate. Or is there any risk that you are going to frontload some of the headwinds you see coming in next year, amongst others the more sizable mortgage density risk increase, which is imposed by the Dutch Central Bank?

And then a small follow-up on capital. Your Basel IV position is still flat year to date, while also in Q3 you sold some assets. So why is that not reflecting your Basel IV position?

Kees van Dijkhuizen: Portfolio-wise we are doing good as a bank and we also expect that to continue next year. As said, mortgages we're well placed and we are making good margins and the portfolio has grown in the third quarter by EUR 800 million. So, that is good. The Dutch economy is performing well, so also on the back of that we expect to continue SME's to finance themselves, also via the bank of course. So, that is good. We see growth in that portfolio as well.

CIB has delivered a year earlier than expected on the EUR 5 billion reduction risk-weighted assets, so they did a great job there. As said, the third quarter had 9% ROE result, so that is actually very good. We are happy with that. Indeed, we are looking for better-quality deals, more fee-driven, originate-to-distribute opportunities and alike. So, from that side we are positive about that development. On the asset side it is a development we are positive about NII.

With respect to the deposits, Clifford already mentioned the EUR 20 million sequential and I talked about the EUR 100 billion deposits not having negative rates. So, that is the position over there. You have to make your calculation there.

With respect to capital I cannot guide you anything new. Your figure is right – 18.8% – and Basel IV is 13.5%, indeed excluding profit but including profit it is close to 14%.

Clifford will answer your question on why assets have not further improved.

Clifford Abrahams: Yes, I will pick that up. We need to recognise these are quite modest movements. There are actually a couple of things and it is going to be a bit technical. Basel III was a little stronger than Basel IV and in respect to the disposals the risk weighting for these sold assets was higher under Basel III than Basel IV, because under Basel IV we have the benefit of the output floor. So, that benefit was lower in Basel IV and we also shifted some of our sovereign exposures. The Basel III regime is actually a bit more favourable risk weight for these assets in the target credit weightings than they are under Basel IV. So some very specific explanations but you can see that the regimes are slightly different and the margin effect are a little bit different. The big picture excluding accrued profit of Basel III is pretty flat and our Basel IV is pretty flat. That gives us confidence given the strength of the business and the more challenging market environment.

Robin van den Broek: Maybe one follow-up on the NII question. Kees, I appreciate what you said that you are positive on the asset side of the balance sheet but if I would take a similar rationale from the Q2 starting point of EUR 1.64 billion your underlying seems to have dropped by more than EUR 20 million. Are there any specifics on why that is the case?

Clifford Abrahams: I highlighted the incidentals. You see our bridge on page 8. So again, these are quite small movements. There are always a few things going on in the numbers but we see underlying around 1.6[bn], hence our guidance for Q4. Kees has run through the developments for next year.

Robin van den Broek: Cheers! Thanks, guys!

Benoit Pétrarque (Kepler Cheuvreux): Good morning, a few questions on my side. The first is on the money laundering part. Could you update us on the main outcome from the review you have done of DFC? In your presentation you said you put recommendations in the new delivery plan submitted to the regulators. Could you give us the main colour or highlights of this plan? Are there any serious issues reported to the regulators?

My second question is on other income. You still maintain your EUR 125 million per quarter guidance but I think the underlying is much weaker than that. Why are you confident to maintain the EUR 125 million? Do you expect higher private equity gains next year? What makes you confident on this guidance?

My last question is on the negative rates opportunity. I do not think many banks are putting a threshold at EUR 100,000, so could you give us a few more details, for example in putting a threshold at EUR 1 million instead of at EUR 100,000 how many deposit will actually be in scope for a deposit cut?

Kees van Dijkhuizen: I will take the first and the last question and Clifford will take the second. With respect to money laundering I think it is best practice that you hire also an external party in these cases to also check if you have done everything well, to best practises in the market. That is what we have done. We had a plan already sent to the Central Bank and we have commented that further after the benchmarking we also had from the external party. So, I think that is best practise. We used improvements from their side and incorporated them in our plans and sent that at the regulator. So, that is there.

With respect to negative rates, we can further breakdown. We have all the figures. To give you one indication: it is a bit over EUR 30 billion. You see some amounts in the market of around EUR 2.5 million. This actually is for us a bit over EUR 30 billion, to give you an indication, which is above 2.5 million for us.

Clifford Abrahams: And then on other income. If you look at the chart I concur with your view that other income has been at the low end of the range or lower than our guidance in the last few quarters but with a materially higher price at that. When we looked at the volatile items we cannot see a structural change but we know there has clearly been volatility. If we do see a structural change we would update our guidance. The nature of that bucket is that you always get volatile items and just to exclude them all and look at underlying I don’t think is the right way of doing it. We looked at it over time and then considered whether there are structural changes to it, which we do not think is the case. We have been disappointed on relatively few private equity gains this year and we have meaningful capital still committed and expect a return on that, which will come through the other income line going forward.

Benoit Pétrarque: Thank you for the answers. Could you update us on the size of the private equity portfolio?

Clifford Abrahams: It is around EUR 600 million.

Benoit Pétrarque: Thanks.

Albert Ploegh (ING): Good morning. My first question is to come back to the negative rates. Basically, today 20% of the deposit base is already subject to negative pricing. Can you maybe help us a little bit with how much that is in terms of NII on an annualised basis and what kind of level is currently being charged? You mentioned earlier that 40% of the deposit base is not yet subject to negative pricing but could potentially.

Current clients already have negative raising and apparently they have accepted this. What kind of headroom do you have on the existing deposit base that is subject to negative pricing?

My second question is on the capital. I am sorry to come back to previous questions on the RWA outlook, also for Q4 and so also the dividend. I know there are a lot of known unknowns in that respect on RWA headwinds but are there already some that you think you already know and that will come in Q4 or do you very much expect to get some feeling on what the RWAs may end up for the full year at least? Q3 was a positive surprise in that respect.

Clifford Abrahams: I will tackle those two and Tanja will help me if I lose my way.

The bulk of negative rates is in CIB that we charge currently. So, I would just look at the CIB segment disclosure. Effectively, we are passing on the market rate in those areas. So we are not making material margins on CIB deposits but neither are we losing money because those are not part of our replicating portfolio typically. So, the margin pressure really reflects the two buckets of 40% that Kees talked about. He gave you some guidance around pricing in that context.

Regarding RWAs I talked about inflation. We see all those regulatory headwinds largely in 2020. It is possible that some of that comes before Q4, so TRIM is possible but we think more likely next year. Clearly, as you would expect, the dividend is not on mechanical calculation. If we do not get the inflation in Q4 but we would expect it in Q1 we are not going to ignore that in our judgment around dividends. That capital target is the zone in which we would consider additional distributions and not a mechanical framework.

Albert Ploegh: I know your dividend policy in a way is formulated quite mechanical and we all know the environment banks operate in. You have been paying EUR 1.45 in the last two year and consensus was always way above those levels and in the meantime you [consensus] have gone for 2019 and also for 2020 on the EUR 1.45, so how important is it for ABN AMRO to have at least a stable dividend or is that not sacred?

Kees van Dijkhuizen: We do not guide on that right now, Albert. That is a Q4 decision.

Clifford Abrahams: But nice try!

Tarik El Mejjad (Bank of America Merrill Lynch): Just one question on the costs. On slide 10 you mentioned that year to date the annualised run rate is around EUR 5 billion but that is excluding the remediation provisions. So, how confident are you to still reiterate the EUR 5 billion despite actually mentioning that this remediation and DFC cost and compliance will continue to ramp up? I understand that there are still some cost savings to come to get to 150 million but these were already factored in in the initial EUR 5 billion guidance. So I am trying to understand here the different moving parts.

And then maybe a quick follow-up on the previous questions on the dividend. Do you have progressiveness of dividend on your mind or just sustainability in a sense that you will want to be able to pay a decent dividend over time?

Kees van Dijkhuizen: I will take the second one. We do not have a progressive dividend and the guidance is, as mentioned before, that in Q4 we will look at the target range and all our expectations around that at that moment in time.

Clifford Abrahams: Regarding the cost, we have not reconfirmed the EUR 5 billion for next year. We are careful in choosing our words. You are right, when we indicate the run rate of EUR 5 billion it does exclude the remediation provisions of EUR 200 million or so. However, the EUR 5 billion does include the step-up in detecting financial crime cost in Business as Asual to date. I am pleased we have managed the absorb that meaningful inflation and still be today at around EUR 5 billion and still have EUR 150 million of cost savings.

That gives you a feel for our buffer or headroom in our ability to absorb further detecting financial crime costs going for forward or the Business as Usual nature. As Kees said, we will make the necessary investments.

Ensuring that we are fully compliant is money well spent and we will spend the money to do that but we are doing that cost efficiently and we need to make the necessary investments. Outside that the business is very focused on continuing our track record of consistent cost discipline which you have seen quarter on quarter over the last few years. That will continue.

Tarik El Mejjad: So you are not confirming the guidance. You are doing your best to achieve it but at this stage, given the compliance costs and so on, it is still difficult to get to the EUR 5 billion.

Clifford Abrahams: What we are saying is that we are currently at around EUR 5 billion. There are cost headwinds, which we flagged but there are also further cost savings. So precisely where that balance lands we are not calling today but given the quantum's you can form your own view.

Tarik El Mejjad: And in terms of these extra investments, in your previous answer in the call you mentioned that some of them might decrease over time. Fair enough, you said it is not soon but later. The experience shows that in other banks that were involved in money laundering in the past these become quite sticky and structural costs. Probably you need a new savings programme to absorb these. So, if I understand this is not something you are contemplating at the moment to put in place savings programmes to offset these costs?

Clifford Abrahams: We are thinking about it but I think it is early days in terms of how we communicate externally. The key message is that we expect the ramp-up to continue. I do think big picture: the Business as Usual costs on AML will be higher in the future than the past. I do not think this comes as any surprise to you, even after the benefits of automation. These costs are meaningful for the margin of our cost base but in terms of our overall spend it is still a relatively small proportion. But it is clear that the banking sector as a whole will need to put material resource commitments to this going forward, even if we can automate a lot of these activities.

Tarik El Mejjad: Thank you very much.

Bart Jooris (Degroof Petercam): Sorry to come back on the dividend policy. You are now already on target and if you include profits above target regarding your Basel IV ratio. Your Basel III ratio was set so high because of the Basel IV impact and the regulatory pressure you expect in 2020 is only having an effect on the Basel III impact. So, I was wondering, when you decide about the dividend will you also look at what the Basel IV is at that time or are you simply keeping a look at the Basel III ratio including what you foresee as regulatory pressures? By the way, do you already have any idea on the quantified impact of those pressures?

My second question is relating to NII. How much do you plan or have you decided already to put into TLTRO?

Also, there was a speech by Benoit Coeure saying that even also Dutch banks are starting to lend money to Italian banks in order to offset further their cash surplus. Are you participating in that?

Kees van Dijkhuizen: At year end we will also look at Basel IV and not only at Basel III. We will look at both. Any indication about the regulatory pressures? I do not think so.

Clifford Abrahams: No. On the other elements. We do not have current plans to take advantage of new TLTROs given our funding alternatives. Our exposure to Italy generally is pretty modest.

Bart Jooris: And has not increased in the last month?

Clifford Abrahams: No.

Bart Jooris: Thank you.

Jean-Pierre Lambert (KBW): Good morning. I have two questions. The first is regarding the risk of a fine. As you are in discussions with the authorities, at what point would you consider it prudent to take provisions for such a fine, to build up a buffer if you want?

The second is regarding the cost. I am sorry to come back to the EUR 5 billion cost base. You have about EUR 133 million already included, if you annualise. That is the green part of the stack of slide 5. Then, if you do calculations with cost inflation and the savings of potentially EUR 150 million you are indicating, you could afford about EUR 207 million. So, the total you could afford, to have the EUR 5 billion, would be for DFC around 320 [million]. So, what are the chances of your cost of DFC going to 240 [million]? What are the chances of the cost base for DFC next year to be above 340 [million]?

Kees van Dijkhuizen: Regarding your first question, we can only take that into account when we have a clear indication about a fine. We cannot do that just randomly.

Clifford Abrahams: IFRS tests would apply. I think your calculation sounded pretty good to me in terms of measuring the bar and thinking through the ability to absorb further inflation on DFC. That sounded pretty good. I am not going to give a likelihood on above or below. If you work through that approach, which I thought was good, the delta is pretty small in relation to EUR 5 billion. That should give you a feel for the balances involved. We are not calling above or below but as an order of magnitude it feels like you have the right approach to me.

Jean-Pierre Lambert: Thank you. You mentioned you have a plan, a new delivery plan. So you must have some idea of the potential cost into 2020.

Clifford Abrahams: Yes, we do. As you would expect we are very much on top of these matters. We are not giving a specific forecast for the total cost base and we are not going to give forecasts for individual items. Where our caution is in some parts of the plan things will go well and sometimes in some areas things will go less well and we will adapt plans to reflect that. We recognise this is an area of focus and we will be happy to update on Q4 and we will have more to talk about that point.

Jean-Pierre Lambert: Great. Thank you very much for your help.

Kiri Vijayarajah (HSBC): Good morning. My first question is on the Dutch mortgage volumes. Usually, you get a spike in repayments at year end. Do you expect that to be a bit more severe this year? You have increased the incentive for people to run down their deposits and then simultaneously pay down their mortgages. In other words, does the push into negative rates further encourage household deleveraging, particularly if the other big banks in the Netherlands follow your push today?

Secondly, just a follow-up on your guidance for a model updates and an increase in Q4 cost of risk. Is that primarily just IFRS9 stage 1 and stage 2 provisions we are talking about or is there something else going on that we should expect in the fourth quarter?

Kees van Dijkhuizen: Tanja, will you take the second question? I will take the first.

Indeed, Q4 is always a quarter when people look into opportunities to pay back some extra mortgage because January 1 is always a taxable moment. We do not expect it to be more severe because of what we have communicated today. We do not know of course; this is the first quarter and we will see but we have no expectations yet that it will be more severe. The portfolio will go down in the fourth quarter. That is what we have seen in the last couple of years.

Tanja Cuppen: Thank you for your question. On the model update, indeed we are reviewing the IFRS9 models and actually all models, stage 1, 2 and 3. It will probably mean some changes in the model provisions in all these three stages.

Kiri Vijayarajah: Thanks.

Alicia Chung (Exane BNP Paribas): I have a couple of questions. First of all, you highlighted to us not so long ago that the definition of default would be one of the headwinds for ABN in terms of capital. Is this something that you can now come back to us and give us some sense of the quantification of that headwind, at least a kind of a ballpark view? Also, can you give us an update on how we should be thinking about the risk-weighting of NHG mortgages under Basel IV, which may or may not be another 90 bps headwind? Secondly, on provisions. Your coverage ratio now stands at 28% on a group level and the coverage ratio on corporate loans has been falling every quarter now for the last four quarters while stage 3 have been picking up. Can you explain what is driving this? Also, given the ongoing challenges in CIB and the very low coverage ratio there, how should we think about the provision outlook for next year? Is it fair to expect it to move within your through-the-cycle range now?

Kees van Dijkhuizen: Tanja, can you answer those questions?

Tanja Cuppen: Yes. On your question with respect to the definition of default, there is not a lot we can say at this stage. We are in the midst of implementing this into our systems and we are looking at the impact and also to the regulatory feedback. We expect that to come either this quarter [Q4] or in Q1, so hopefully we can update more on that in the next quarter.

On NHG, there have been no developments there. We continue to include it in our Basel IV guidance as we did before.

With respect to the coverage ratio on our stage 3, you have seen that indeed over the past year coming down somewhat. In the last quarter that had to do with the fact that we changed our definition of default and unlikely to pay figures for mortgages. That led to an increase in stage 3 loans and a drop in the coverage ratio given the low coverage on these assets. This quarter we had some inflow from CIB assets that are covered by collateral and therefore have a low coverage ratio as well. So, those are the reasons. Regarding next year, you already mentioned the fact that the economy is doing okay. We expect 1% GDP growth in the Netherlands, so we need to consider that in our outlook. You can expect that our provisions will move somewhat towards the average cost of risk that we guide.

Alicia Chung: Thank you. I am sorry, just to clarify on the NHG mortgages you said that that is within our Basel IV guidance. So in your Basel IV guidance, what risk-weighting do you give to NHG mortgages?

Tanja Cuppen: It is 0% weighting.

Alicia Chung: Okay. Thanks.

Robin van den Broek (Mediobanca): Just one question on the remediation provisioning. I was just wondering what is driving the forward-looking guidance potentially here. Is it simply the temporary FTEs, the external FTEs and the speed of their file handling that could make you provision more or less going forward? What are the drivers there?

Secondly, on the IT investments. I think you have been hinting that they can come down. That is not part of the EUR 150 million remaining cost savings programme if I understand correctly. Is that correct?

Clifford Abrahams: I will pick up those. You are right. On the remediation provision we make a series of assumptions about the number of files we need to remediate how long it takes and the cost of doing that. So, a key driver is the velocity and quality of our file reviews. I would highlight that as a key factor. What you see typically is when you start, it takes a while for these files to be reviewed to quality, but as you get going you are getting the machine working, the quality improves, velocity improves, so there is more uncertainty in the beginning. That is generally how these things work.

In terms of IT investments you are right that we had a series of costs programmes. We had the original cost programme that was announced in 2016. We had further cost savings identified in respect of the corporate bank, so [in total] around EUR 1 billion. And then we set out a set of further cost savings in respect of IT and moving towards the sweet spot in IT but that was always expected to take place over a period of years but we are expecting some of that into next year. So, we feel good about our cost saving programmes alongside the necessary build-up in detecting financial crime resources.

Robin van den Broek (Mediobanca): That is clear. Then one silly follow-up but the fact that we are moving into Christmas does that affect the speed of file handling for the remediation provisioning in Q1?

Clifford Abrahams: We plan for Christmas!

Robin van den Broek: Okay. That is great!

Bart Jooris (Degroof Petercam): Sorry, but I also have two follow-up questions. You state that the fees in private banking were up thanks to the acquisition. Could you give us some underlying flavour of what fees were doing without the acquisition?

You also took a very small provision for SME derivatives. Could you confirm that this is now completely behind us and that this is now completely finished?

Clifford Abrahams: On private banking fees we saw the benefit also this quarter of the recovered equity markets. So, our fees in the private bank reflect all sorts of things but in particular the quarter start valuation levels. We are pleased to see that equity markets have moved up this year and that is also supported by fees coming through the private bank.

Bart Jooris: So, there is some underlying growth also there.

Clifford Abrahams: Yes. There are structural changes and developments going on in the industry year on year. We are pleased with the developments in NII. It was positive in that business and that was one reason for my confidence around fees earlier.

Regarding your second question I can say the SME derivatives are done.

Bart Jooris: Thank you very much.

Kees van Dijkhuizen: As there are no more questions I would like to thank you all for your questions. This concludes our Q3 results update. Thank you very much and goodbye.

End of call