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Q1 2018 Analyst Call Transcript

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

Conference call replay:
https://www.abnamro.com/en/images/Documents/050_Investor_Relations/Financial_Disclosures/2018/ABN_AMRO_Analyst_and_Investor_Conference_Call_Replay_2018_Q1.mp3

Kees van Dijkhuizen: : Good morning and welcome to the analyst and investor call for ABN AMRO's first quarter results. I am joined by Clifford Abrahams, our CFO and Tanja Cuppen, our CRO. I will briefly highlight the main points. I am pleased with our financial results in the first quarter with a net profit of EUR 595 million.

NII remained strong, reflecting growth in corporate and commercial banking lending at stable margins.
Our capital position is strong, and we are well prepared for Basel IV. I am disappointed with impairments this quarter. These were booked predominantly in specific international sectors. Our domestic business continues to perform strongly.

We are progressing well on our strategic agenda. Our new Chief Innovation and Technology Officer Christian Bornfeld joined in March and is making a good start.

I am pleased with cost savings coming through and we are on track to achieve our 2020 financial targets. Our IT transformation is progressing well. I will elaborate on this later. I will also detail our transformation at private banking.

We recognise the CIB is facing both cyclical and long-term challenges. All our businesses need to deliver adequate returns and we are taking action here. Going for, CIB will have more focus from a geographical client and product point of view.

Related to this, we booked a restructuring provision for our markets division and are closing our Dubai office for example. We have more work to do and we will update you at Q2.

Now I want to discuss the progress we have made on our cost savings programs. At the end of 2016, we announced our cost savings program with a 2020 horizon. Working to a flat cost base from 2015 to 2020 we are lowering operational costs while at the same time investing in digitalisation, innovation and growth initiatives.

1.5 years down the line and we have delivered over 50% of target of cost savings of EUR 900 million. If I include Q1, total savings delivered amount to EUR 512 million since year-end 2015. A broad range of activities are contributing to this. We have lowered our IT run costs and there is more to come. Head office functions have been scaled back as we simplify our operations and this agile way of working is now implemented throughout the organisation.
FTEs are currently 10% below year end 2015-levels or 9%, if we exclude the sale of PB Asia, out of our total target of 13% reduction. As clients increasingly use our digital channels, we closed more than 30% of our branches over the last nine quarters.

Looking ahead, the remaining cost reductions will mainly come from lower IT run costs, further FTE-reductions and reaching full benefit of the agile way of working. We have good visibility on how we will accomplish this. I am confident we will reach our target of 56-58% by 2020.

Now, I will discuss where we are heading with our IT infrastructure. Following Christian's arrival, I am confident we are delivering the transformation we have set out to achieve by 2020. I am pleased with our progress so far, but we have more to do. We have increased the efficiency through our IT transformation, adopting the agile way of working, rationalising applications and Cloud-adoption. Future focus will be on cost discipline and deploying the next round of efficiency levers, such as artificial intelligence and automation. The agile way of working will be extended further. We will continue to modernise our existing core banking system and see no benefit in changing to another system.

Digitalisation has allowed us to enhance client experience. We have launched a number of award-winning apps. Our main mobile banking app, as well as Tikkie and Grip. Overall, 59% of all retail products and services are now handled online, up from 35% year end 2015. We will increase our innovation efforts, focusing on getting our services and expertise immediately at hand the moment our clients need them.

Let me highlight some recent programs on digital innovation. We are ready for open banking and PSD2. The Dutch PSD2 law is expected sometime this year, this summer. Nonetheless, we are already gaining experience with our developer portal, which hosts a number of APIs.

Tikkie, our peer-to-peer payment product, continues to grow rapidly and currently has now almost 3 million users. We reached record use during the last week of April with on average 1 payment request per second. There is also a lot of interest from our business clients to integrate Tikkie into their own processes. Business clients onboarding is accelerating, and some recent examples are KLM and Spar University Supermarkets. Grip is our tool for clients to analyse personal spending, which was co-developed with a fintech. With 450,000 users we have the largest user base in the Netherlands. We have plans to expand the functionality, in part related to PSD2 but also to add targeted propositions.

Let me now turn to the transformation that is taking place in private banking. In recent years, we move from a dispersed foot print to a focused core with strong local brands in North West Europe. With 200 billion of assets under management, we have significant scale. However, outside our efficient domestic franchise we need to improve to deliver acceptable returns in each country. We are focused now on delivering operational transformation, which will allow us to grow this franchise profitably, which may include bolt-on acquisitions. So far, we have moved to functional management and are progressing towards common client segmentation, product offering and IT-platform.

At the same time, we are investing in automating processes and a new client portal. Overall, we can achieve a substantial improvement to the cost/income ratio of the private bank, which is already embedded in our cost/income ratio target for 2020. Our cost/income already declined to 72% compared to 80% for Q1 2017 and profit is up 23%. The transformation will strengthen our proposition for clients using our open architecture investment platform.

Now, I would like to highlight some recent sustainability activities. In recent years, our sustainability efforts have significantly broadened. Most of our time is spent on delivering on our client sustainability goals. We are building a franchise around this and we want to become the go-bank for sustainability. I am proud that we were rewarded the Green bond lead manager of the year for our consistent commitment to the green bond market. We advise corporates as well as banks on how to structure green bonds and arrange the issue of these bonds. We also issued our own third green bond recently.
Another area on which we are gaining traction is circularity. We help our clients to make a step change towards a circular business model. Our ambition is to finance one billion circular corporate assets by 2020.
I will now hand over to Clifford to go into more detail in our Q1 results.

Clifford Abrahams: Thank you. As Kees mentioned, we had a solid first quarter with net profit of EUR 559 million. Operating income was up 4%, drawn by strong NII and good private equity results while operating expenses were flat. The impact of incidentals is limited this quarter with similar amounts as to Q1 last year. Impairments are up, reflecting challenges in a number of specific sectors. Tanja will discuss these in more detail later.

I will describe individual line items on the next slides, but first I will show the trend in our client lending. The left-hand chart shows the development of our mortgage loan book. Mortgage volumes in Q1 were flat with new production compensating for increasing repayments. House prices continued to rise. However, transaction volumes are coming down. We saw competition increase somewhat, mainly from other banks, and for Q2 we expect a modest drop in our market share. All this leads us to expect a flat mortgage loan book going forward, as we look to maintain our pricing discipline.

At commercial banking, I am pleased with our broad-based lending growth of good margins during Q1. We expect further growth, given the strength of the Dutch economy.

Loans in corporate banking picked up, reflecting solid underlying growth together with the reclassification of 1.8 billion from professional lending as well as some short-term positions in financial institutions, which unwound in April.

Corporate banking is growing in areas where we can achieve profitable growth, while we are scaling back in other activities. We are growing in neighbouring countries by leveraging our infrastructure in Amsterdam. We started this initiative in 2017 and currently have around 1 billion of outstanding loans in near-Netherlands Europe.

Turning now to net interest income on slide 10. Our reported net interest income for the quarter was up EUR 75 million versus the first quarter last year. Due to an accounting change, fees related to mortgaged term renewals will now be amortised over a short timeframe. This resulted in a one-off impact of EUR 25 million this quarter, related to 2017. In addition, this leads to a recurring uplift to net interest income of around EUR 30 million each quarter over the next few years, which will decrease thereafter. Underlying growth in net interest income reflects a number of developments. We saw volume growth in corporate loans, both in commercial banking and corporate banking, at good margins. Further lowering the deposit rates and the bonus rate on retail savings allowed us to protect margins on deposits.

As you know, we manage our interest rate sensitivity, limiting the impact on net interest income of rising or falling rates. Nonetheless, as our deposit rates are within a whisker of being zero across the board, margin pressure on deposits will build up as interest rates stay low.

For our loan book, the outlook is broadly stable margins with modest volume growth on the corporate side. Together with margin pressure on deposits, we expect NII to remain flat from here, excluding the one-off impact of EUR 25 million this quarter.

Let me move to fee income. This quarter is a fair reflection of our current underlying fee income run rate, given that there were no incidental items. The higher fee income in Q4 last year was due to a reclassification from NII to fees in commercial banking. We see fee income has stabilised now, following the divestment of private banking Asia and reduction in payment package fees within Retail and SMEs last year. Looking ahead, we aim to gradually increase fee income from here. We recently announced increases for a number of package fees. We are also planning fee increases for a number of other products during the remainder of the year.

Other income was above our general guidance as this quarter we had good private equity as well as a revaluation of an equity stake.

Let me now move to costs. Our operating expenses are moving down. As you can see on the left-hand chart on slide 12, personnel expenses are trending down reflecting steady FTE-reductions. We took a restructuring provision this quarter for further reducing our support and control activities and also for markets.
The right-hand chart shows how we are progressing in relation to our cost guidance. You see we delivered 76 million of savings over the past year, mainly from lower IT cost and staff reductions. We are also driving down external staff levels and we see these costs are coming down, too.

As Kees mentioned, cost savings allow us to mitigate higher levies and inflation but also to invest in digitisation, leading to a lower cost/income ratio going forward.

I will now hand over to Tanja, for an update on impairments.

Tanja Cuppen: Thank you, Clifford. Our Q1 impairments were high, at 208 million. First, let me say that the high level is not related to IFRS9 but related to several clients facing difficulty. Our domestic commercial banking book faces generally positive economic conditions. However, we provisioned 44 million mainly in healthcare. Within the former ECT-sectors we took 97 million of impairments, mainly related to the offshore sector, both in transportation and energy.

2018 looks to become a transition year for shipping. For some segments, for example offshore, new contracts are urgently needed. We may need a second round of restructuring for some clients. It takes time before the higher oil price will feed into new contracts. On the other hand, we see other segments improving, for example the dry bulk and container sector. During Q1 we were able to book releases here, so both these developments will be relevant this year. In addition, 48 million of the provisions were taken for a handful of clients in the diamond and jewellery business, where our loan book has been declining over a number of years.

The challenging market circumstances in the sectors I mentioned, will likely require some additional impairments in the coming quarters. Nonetheless, the timing of impairments was largely co-incidental. So, for the full year we expect impairments below the through-the-cycle cost of risk range of 25 to 30 bps.
I will now hand back to Clifford.

Clifford Abrahams: As you can see on slide 14, the CET1 ratio amounted to 17.5% in Q1. As we indicated, IFRS9 adoption led to a small impact of 12 bps. Retained earnings net of 50% pay-out added 0.3% to the CET1 ratio. During Q1, this was offset by higher RWAs, an increase of 1.8 billion, reflecting principally business growth in commercial banking and in corporate banking, both of around 0.7 billion each.

The positive revaluation of our equity stake in Equens led to higher RWAs in group functions. Furthermore, credit deterioration in specific sectors also led to higher RWAs. So, we see some quarter-on-quarter volatility in our RWAs but are looking to deliver a moderate growth in RWAs and volume growth over time. Our leverage ratio is stable at 4%. As you are aware, there is new relation in the pipeline. It will fix the excessive exposure measure attributed to the clearing business. This will improve the leverage ratio of between 50 bps. to 60 bps. though we expect it may still take two years before legal adoption.

Finally, the MREL framework is now based on RWAs. We are currently at 27.8% of RWAs and we aim to be above 29.3% by year end 2019.

Now I would like to say a few words on capital management on slide 15. At the top, I have set out the key point of the capital update we gave you last quarter, showing our capital target, dividend pay-out policy and our approach to additional distributions. We are focused on both Basel III – our current reporting basis – as well as preparing for the transition to Basel IV.

Basel III remains our primary framework. We expect moderate growth in Risk Weighted Assets on the Basel III basis from underlying business growth. However, in any quarter RWAs may be affected by a number of regulatory and other factors, for example TRIM, credit, modelled developments. These may lead to volatility and risk weighting in the coming quarters.

Regarding Basel IV we are waiting important regulatory decisions over the coming years, as we move to implementation. In the meantime, we are working through the consequences and examining where we need to update our business. We will update you later in the year on our plans here.

I will now hand back to Kees.

Kees van Dijkhuizen: : Thank you, Clifford. Slide 16 sets out our current targets. Over the first quarter of 2018, our ROE was 11.5%, which is within our target range of 10% - 13%. Our cost/income ratio at just below 58% this quarter is pleasing. However, this was a strong income quarter, so we need to continue to work hard to get the cost/income structurally within our target range. As you are aware, we will be focusing on delivering cost savings and moderate business growth to achieve this target.

Our CET1 ratio is strong, at 17.5%. We intend to pay out 50% of sustainable profit over 2018 and we will consider additional distributions if we are within or above our target capital range of 17.5 to 18.5%, so combined at least 50%.

Before I open up the call for questions, I will briefly summarise. I am pleased with our results for the quarter. Our strategic initiatives are on track, leading to better services to our clients at lower cost. The Dutch economy continues to perform well, and we see a good amount for new corporate loans across all sectors. Our margins are holding up well. Impairments were disappointing this quarter, but I expect we will end up below the through-the-cycle level for the year. Our capital is strong at 17.5%, now including the effects of IFRS9. They are progressing well on our strategic agenda and our IT transformation is taking shape. We are improving our existing franchises such as private banking and are building new franchises, for example in the area of sustainability. We are taking steps to focus CIB and we will update you on this at the half year. All in all, we are on track to achieve our 2020 financial targets.

With that, 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. The first question I wanted to ask you is just a follow up on your impairment guidance below 25 to 30 bps. Can you give us any sensitivity around what would need to happen for you to be at this level currently? Are there any sensitivities around the development in the shipping segment and so on? Also, could you help us understand the slightly elevated costs in Dutch SMEs? What are your expectations there going forward?

My second question is on costs. In the past, you always reiterated your 5.2 billion guidance for 2020 but you are reluctant to give us milestones of how to get there. You only mention that you would expect to see higher expenses in 2018 and 2019. Now, you said during your opening remarks that you have a much better visibility on how you get to the target and also that expenses are moving down. Should we understand that you are passed the peak in costs and we should see a steady decline going forward?

Tanja Cuppen: Let me answer your questions with respect to impairments. Your first question was related to the sensitivity of impairments, especially around the shipping sector and our guidance of COR below the through-the-cycle of 25 to 30 bps. There is actually not a lot more I can say in this area, as you aware that provisioning in impairments in these CIB-segments are quite lumpy. We see certain segments definitely improving while other segments continue to be under pressure. So, we expect that there will still be some uncertainty for the remainder of the year. With respect to the Dutch market, we see the improvement and the strong economy in the Dutch market feeding through into impairment levels, but especially the healthcare sector is under pressure both at the cure and care segment of the healthcare sector. That is related to the changes in regulations that we have seen over the years. Some clients have been less successful in absorbing these changes.

Kees van Dijkhuizen: With respect to costs I mentioned in the past indeed several times that it was 5.2bn in 2015 and 5.2bn in 2020 and that we would not increase in 2016, 2017, 2018, 2019 and then in the final year get to the 5.2bn. We have always been cautious with guiding in the intermediate years, like today because there is always a possibility of some extra costs. So, you are right that we are progressing well during the first quarter and as we have guided, we think we have seen most of the largest restructurings in the past. If you look at the 2017 cost figure you see it was clearly higher than 5.2bn but we expect this year to be clearly lower. Having said that, a clear guidance that we will already be at 5.2bn is not something we want to guide at this moment in time.

Sophie Petersen (JP Morgan): Hi, just coming back to asset quality. The provisions we saw were quite lumpy and in a number of different industries. I am just wondering what you are doing differently compared to peers, given that most of the European banks that we have seen reporting so far have actually been in the same beat on the provisioning line. So, are you more prudent in your provisioning? What do you think is the difference between ABN and your peers?

Secondly, in the beginning of the call you mentioned that you would potentially consider bolt-on acquisitions in private banking. How should we think about this in terms of what market, what size and also timing?

My third question would be around RWAs. You mentioned that you could be impacted by TRIM and other regulatory measures in the coming quarters. Do you have any visibility on the potential impact from TRIM or other regulatory changes in the coming quarters that we should be aware of? Could you also give an update on TRIM?

Tanja Cuppen: First your question with respect to asset quality and how we compare to other banks. Of course, it is always hard to comment on other banks as we do not have a detailed insight in their portfolios. Of course, we have a prudent way of provisioning. What we see in this quarter especially is that certain clients in the offshore segment have run into problems and that is related to the fact that especially in this segment market circumstances have not recovered, regardless of the fact that the oil price has increased. So, it is a limited number of clients that have lumpy provisioning. The diamond segment is very specific for ABN AMRO. That it about asset quality.

With respect to the impact of TRIM, so far we have seen the reviews of our mortgage models and our market risk models. For market risk models we actually have received the final results and there was no material impact on our RWA. For mortgages that is still in progress. We expect final feedback later this year with also indication that there would be a material RWA-impact at this point in time. Later this year, the ECB will start its review on the low default portfolios. That will be in Q4, so we do not expect any impact from that in 2018 but we expect to receive the feedback in 2019.

Kees van Dijkhuizen: With respect to your question on bolt-on acquisitions in private banking: market wise as said in the past North West Europe, so France, Germany and Belgium; size bolt-on so what we did in Germany in the last couple of years ago, two times; around 5 billion to 10 billion. As far as timing is concerned, since the IPO we have stated this, so we have been open to that already for some time.

Sophie Petersen: Thank you.

Farquhar Murray (Autonomous Research): Good morning, I have two questions, firstly on the presentation. You mentioned giving an update on TIB in the second quarter, but I just wondered if you could run through the nature of the review exercises you are undertaking as part of that and perhaps what options and scenarios you might be exploring and also, ideally, the criteria you will be using to drive the decisions there.

Secondly, just on the point of detail: you mentioned compensating lower interest from mismatch results from the group function. Could you explain that a little bit more and maybe the offsetting magnitude? Is that going to need repairing or is that essentially a one-off?

Clifford Abrahams: Farquhar, on corporate banking we talked about focus on this call, so focus around geography, markets, and products. I think now is a good time to be thinking that through, not in the least because of Basel IV that has come in. As Kees mentioned, a number of those businesses are experiencing cyclical developments, so we are not calling out a kneejerk response to a cycle; it is more a timely review of that business as it has developed reflecting how that business has developed over time, where we see opportunities for profitable growth and not in the least the impact of Basel IV. So, we look forward to updating you later in the year. But I would caution about a ‘once and done’ approach because Basel IV in particular will take a number of years to implement. We think it is appropriate that we update on a big part of our business in the near future, hence Q2.

Around the interest mismatch: that was low tens of millions. We called out in group functions the effect of the revaluation of an equity holding. That was a material amount but that positive effect is mitigated by this interest mismatch, hence a more muted overall impact. In terms of interest mismatch, effectively that is the income related the term or duration that we take on our capital of 20 billon, so it reflects interest rates but also how long that duration is. Clearly, interest rates have come down over the last few years so that has reduced it, but we have also reduced the duration of our equity. We have shortened our exposure interest rates in anticipation of an environment where interest rates are more likely to go up than down. We see that as a sort of permanent or sustainable tactical position that we have taken, which we think is wise in the current interest rate environment.

Farquhar Murray: Great! Thanks much.

Bénoît Pétrarque (Kepler Cheuvreux) : Good morning. I have a couple of questions. the first will be on the risk cost which has been a drag on the capital generation in Q1. Could you talk a bit more specifically on the coming quarters? I know the 25 bps level of the risk cost guidance implies roughly 650 million loan loss provision on a full year basis but is that a figure you have in mind when you guide us towards or just below the across-the-cycle leverage or could you guide a bit more specific, like ‘well below the average’ for example? Could you a bit more specific, because that could imply a relatively high figure. Also, if I look at the stage 3 loans, I think you have 6.8 billion. On the corporate side we see an improvement of the quality, so can we conclude that Q1 was a bit of clean-up quarter? There is no new non-performing exposure in the pipe.

My final question will be on the NII. You say that you expect a slight increase NII. Can we conclude that you kind of offset the impact of low rates with some loan growth? What do you expect the impact of loan interest rates to become less relevant i.e. the loan growth being more visible on NII?

Tanja Cuppen: Thank you for your questions. On the risk costs, yes, in our guidance we expect it to be below the 25 to 30 bps. range but we cannot provide any further guidance. I cannot be more specific.
With your comment on the existing non-performing loan portfolio in the corporate segment, indeed you are right that we have seen very limited inflow in our restructuring department and that indeed existing clients were not able to recover or have seen unsuccessful restructurings. We see some limited inflow in the area of commercial banking with respect to healthcare. I have mentioned that as well. We have seen some provisioning there but also some new inflow from the business.

Bénoît Pétrarque: So, from your perspective it has been a clean-up quarter, if I understand correctly? It is not linked to the fundamental development of the macro and what you see around, which could explain the difference we see with peers?

Tanja Cuppen: It is related to specific developments in these specific segments and then also with specific clients.

Kees van Dijkhuizen: NII, Clifford?

Clifford Abrahams: Bénoît, your summary was pretty good. We have seen a pick-up year on year, 2017 to 2018 that principally relates to the accounting change but also good growth in corporate and commercial banking. For this year, if you annualise Q1 and you strip out that incidental, that is broadly flattish from here. As you say, we are looking for growth in lending to mitigate margin compression in deposits. So, that is based on a couple of assumptions that may prove not to be the case, picking up your point. So, we are seeing modest lending growth in corporate and commercial. So, if we underperform or outperform, it will affect the flattish outlook I indicated.

Around deposit margins we expect short-term rates to pick up towards the end of next year. that underpins a gentle reduction in margins on deposits. Clearly, if rates stay lower for longer, it would be a negative but if rates picked up, it would be helpful. We have reached pretty much the end of our ability to lower rates to customers and we have seen the benefit of that in Q1 and maybe in the next few quarters, but we do not see any further step change there. Hopefully, that gives you some colour on how we are thinking about NII going forward.

Bénoît Pétrarque: Thank you very much!

Benjamin Goy (Deutsche Bank): Good morning, I have two questions. First, coming back on asset quality and loan losses. Can you give a bit more colour from which time basically these originate from? Is it pre-2015 or are they more recent exposures in 2016 and 2017 when you started to re-grow or to grow your book again? Secondly, on private banking. Inflows were quite significant this quarter. How sustainable are these, do you think? And also on net interest income in private banking: quite an increase quarter on quarter and from an underlying basis, how sustainable is that run rate in your view?

Tanja Cuppen: On your first question on asset quality and from when these files originated: these are all long-term clients. I do not have any detailed information on when exactly individual exposures originate given the fact that I have not been part of this history, so I do not have all the details there. But we would happy to come back on that with a bit more detail. What I can say is that in general we finance these clients over a longer period of the cycle, so these are long-term clients and not recently acquired clients.

Clifford Abrahams: I will comment on private banking. As we said, we are pleased with the performance in private banking. We have seen a strong NNA, or net new asset performance, in Q1 at around 3.6 billion. Some of that was transfers but really a modest part. It is pleasing because of the operational transformation that businesses are going through. The team have been doing a lot of work in rightsizing the cost base and we have been quite sensitive to ensuring that we offer our clients continuity of service. We really focus on that. So, it is quite pleasing to see strong net new assets for the quarter. It is only one quarter. For example, we have seen Germany is being a big contributor to that, so it is helpful.

From a deposit perspective, deposits' margins or net interest income which is largely deposits in that business, were strong. That reflects the cautious nature of asset allocation through the quarter, so a bit more deposit allocation but also the further benefitting of the lower rates I talked about. We think it is sustainable but clearly, as I mentioned earlier, in an environment where rates stay very low, that will come under pressure in due course. But in total, we are feeling quite positive about private banking and see the potential for both organic and modest inorganic growth going forward to build that business further.

Benjamin Goy: Thank you.

Bart Jooris (Degroof Petercam): Good morning. If I can come back again on your impairments, did these come as a sudden surprise to you? You saw some breeches but did they all suddenly occur in the first quarter? How severe are those breeches? Could you give us some more detail on that? Will that also have an impact on your CIB-restructuring or is that more purely Basel IV based?

Then a small question on the CLA-impact. It is described as a one-off in the first quarter. Could that reoccur annually or is that again a new negotiation starting next year?

Tanja Cuppen: I will comment on impairments and whether this came as a surprise. I think I can say it is an accumulation of impairments that was higher than expected. As said, it was related to individual files but it all accumulated in Q1. The result is an elevated number.

Clifford Abrahams: I will make the link to the corporate banking update. It is important that we get Q1's impairments in proportion. We have been open that it has been disappointing, at 32 bps. but it is one quarter and within that roughly half focused in the cyclical offshore services and vessels sector. So, we have seen good costs of risk over the cycle. We think we have a good franchise and clearly, no one likes impairments, but it reflects a sector where you really need to know what you are doing, and we think we do know what we are doing in that sector. So, we will have quarters where we see impairments but over time we think we earned returns over the cost of capital in that sector. We have seen other areas like diamonds, where we have reduced our exposure consistently over time to that sector. So, that is about recognising both long term and short term where we should be playing.

Finally, on healthcare. You saw releases in commercial banking last year. I think we were clear that we do not expect consistent releases from commercial banking. We have seen generally benign circumstances that our healthcare clients are going through difficulties. So, I think we have been open about that. I do not feel that impairments are cause for triggering reviews. I have set out the reasons why we are undertaking the review. You can see we are starting to take action around focus and we will update further in Q2 in that respect.

As far as the CLA is concerned, there were a couple of elements to the CLA. It is an agreement with our staff regarding wages for two years. So, we agreed 2% for 2018 and 2019. It also had an element of a one-off payment of around EUR 16 million in total, which we made in Q1. That is a one-off payment that we do not expect to repeat for the next two years.

Bart Jooris: Thank you very much.

Stefan Nedialkov (Citigroup): Hi guys, I have two questions. In terms of the fee growth you mentioned that you are anticipating raising prices on certain packages. I do not know if you gave specific guidance on fees. From what I heard, you are basically guiding to growth in 2018 versus 2017. Anything more specific than that, please?

Secondly, you mentioned 1 billion commercial lending book in near-Netherlands. What is the potential for that? How much appetite do you have for that type of growth? Why do you think that is the right fit for you and why is that something that you would do better compared to other domestic peers or near-Netherlands peers?

Clifford Abrahams: Answering to the fee growth: we expected fee income to gradually increase, so we are not looking for a dramatic acceleration in fees, but we do feel we have stabilised fees at a low level and looking to grow that gradually from here.

In terms of growth outside the Netherlands: we feel we have the ability to build a profitable modest book to add to our overall franchise in terms of diversification but also profitable growth, so we see the potential to grow that further from the 1 billion at low single digits, at least to start with. Why do we feel that? We are leveraging sector expertise that we have in Amsterdam, so we have sector teams in corporate banking that really know particular sector. In many cases our clients and their competitors are cross-border traders. We know those clients and those sectors well. We are targeting the mid-large client base that is not overbanked at the top end but where we can really add to the syndicates of our clients. We have seen, following the crisis, some retrenchment in banking opportunities that our clients have available to them in these markets, so we are following our trade roots and are really being quite selective about which sectors and which clients we support. We are pleased with the results in terms of our ability to grow a modest but attractive portfolio from a margin perspective in these markets over the next few years.

Stefan Nedialkov: Thank you.

Alicia Chung (Exane BNP Paribas): Good morning, just a few questions from me. Firstly, on Basel IV, you mentioned that the private banks' RWAs are Basel IV neutral, but can you also tell us how much of the 35% expected RWA inflation is driven by CIB and the commercial bank? Do you have any early-stage plans of how much of this impact could be mitigated away by repricing or otherwise?

Secondly, on capital distribution. You stated before and again in these results that you consider additional capital distribution when capital is within or above the target range. Consensus currently estimates that at 18.1% for end 2018. If for whatever reason you do not feel comfortable to make additional distributions at that point, then when would be the next point that you would consider making further distributions? Would that be at the interim point or at the full year 2019?

Finally, just on provisions. Can you tell us what your provision charge would have been under the previous standard IAS39 versus IFRS9?

Clifford Abrahams: On Basel IV, we indicated in February an overall uplift of 35% and neutral for private banking. We expect the Retail bank to be broadly in that range, at 35%, and commercial banking similarly and somewhat higher in respect of corporate banking than the average of 35%. As I mentioned, we are working through mitigations and they comprise working through the rules for mediation, pricing – as you said – but also looking at our business model and mix. I think it is too early to draw conclusions. However, as Kees mentioned, it is important that all businesses earn adequate returns. We have a target of 10 to 13% ROE for the group as a whole. That is the case for each of our businesses over time.

In terms of capital distribution, we do not want to get into a speculation of what happens after this year. We have indicated that the natural time for us to consider these distributions is towards the end of this year and we will update you at that point. No doubt, we will give further guidance in respect of 2019 at that time.

Finally, on provisions: essentially, the effect of the accounting change has no material impact on the impairments that we announced in Q1. The impairments we indicate in Q1 are very largely stage 3, which is called 'defaulted positions' and the effect under the previous rules would have been very similar.

Alicia Chung: Thank you very much.

Nick Davey (Redburn): Good morning, I have a couple of questions. First, do you know by any chance how much of your offshore book is in the stage 2 and stage 3 bucket? I think of the other big offshore lenders in Europe is getting some write backs from that book now and claims that nearly all of it is already stage 2 & 3. Any kind of comparison would be helpful.

My second question is also IFR9-related. You commented earlier that some of these files may still be restructured a second time later this year. You get the sense that you are warning us that there might be elevated positions in the coming quarters. Under IFRS9 why would those not have been booked as provisions this quarter already if you consider or see danger coming down the pipe already?

My third question is about the high level, back to 56-58% cost/income. It does feel that the shape of the revenue and cost guidance that you gave originally is slightly year end, below it is on revenue slightly better than on cost, so when might you come back and give us more on how the business is adapting for those targets and whether you need to update the component parts of that?

Tanja Cuppen: First on your question with respect to offshore. We do not distinguish offshore as a separate segment. We have offshore in energy and transportation and we do not provide any further disclosure. What you can see there is that non-performing loans have not increased, and it was on existing clients in the restructuring department that we have written additional provisioning. Also, no significant movements into stage 2 here. With respect to future quarters, we feel that we are rightly provisioned for all the information that we have today. Of course, we provide an outlook as well, based on what we see developing in the different sectors, but this is still is still uncertain and the question is how it develops. That is why we cannot take any provisions for that at this point in time.

Clifford Abrahams: Just commenting on our cost/income ratio target: I think we felt we gave an update today. We are pleased with our track record of a little over half of our target in cost savings and you have seen we have reported a cost/income ratio of 57.9% in Q1. I know it is only one quarter, but that should demonstrate that we are on track and as a management team we are committed to delivery of our 56 to 58% target. Clearly, back in 2016 the team were not in a position to forecast with precision income growth but what we can say is that we are very much on track in terms of the delivery. You can see, as we have shown today, visibility in the delivery of those cost savings as well as the FTE-reductions. We remain confident in the delivery of those targets, as set out for 2020.

Nick Davey: Thank you.

Bruce Hamilton (Morgan Stanley): Good morning, two questions from me. First, just on the NII. It sounds like you are saying that for the next few years we should expect that sort of 30-ish million due to the accounting change to be sustainable. I just wanted to confirm. Do you really think that the end of your 2020 plan, even if there are no further renegotiations that is what the impact should be? I just want to make sure that I completely understood that.

Secondly, for Q2 we had an update on the footprint in the corporate bank. Should we also expect an update from the new Head of Technology around what other possibilities might exist under AI or robotics? You have indicated those are areas where you see some potential savings. You have also indicated you are not planning anything radical in terms of a new platform shift. So, will we get a bit more colour? It sounds as if you are guessing there could be some more opportunities within the area of technology and the improvement linked to that.

Kees van Dijkhuizen: Clifford, could you take NII and then I will take the second question.

Clifford Abrahams: On NII, you had it broadly right. We expect that 30 million to crystallise per quarter for the next few years, so 2018 and 2019 and it start to tail off after that. Our estimates are based on a view of interest rates, so reflect our anticipated behaviour around clients renewing and how they renew. We think it is helpful to guide on that basis.

Kees van Dijkhuizen: Then on technology. I think indeed we will update on CIB. As we already mentioned today, there are no new big bangs or overhauls of the total system here. That has been evaluated already. I think we will give an update at some moment in the second half of next year. I do not exactly know whether that will be the second quarter, but definitely in the second half of the year.

Bruce Hamilton: Thank you.

Matthew Clark (MainFirst): Good morning. First, can you give us an update on mortgage margins, where they are versus the back book and how the front book has developed year to date, given the moves you have seen in the longer-term swap rate?

Secondly, just on your ECT book and I guess the commodities and commodities trade finance. I would seem that the rising commodity prices are an opportunity to maybe be a bit more aggressive there, that you have held back from. Could you just talk about why that was?

And then also on your clearing bank. Could you talk about and maybe give a bit more granularity on what the fees did there? Again, I just thought that would have been a pretty lucrative environment in the first quarter for the clearing fees. You mentioned it being a positive versus the quarter, but it does not look to have had that big an impact versus some of the movements we have seen there historically.

Kees van Dijkhuizen: Mortgage margins: I think we had a very good position in the first quarter of the year. Margins held up well. There is more competition at this moment in time, seen the more recent weeks or months. So we always are disciplined with respect to margins. If in the end we had to choose between margin and market share, we would definitely look at margins. We would take a bit lower market share at some moment in time. If margins get a bit depressed, we will do that. But having said that, in the beginning of the year margins were good.

Clifford Abrahams: TCF: we are looking to trade profitably through the cycle of all our industries. You have seen rising commodities and you have also seen the dollar weakening a little bit. So, I think that reflects a focus on profitable business. We did not call out commodities as a particular growth area in Q1. We have seen natural resources growing quite strongly in Q1, so we are growing and maintaining discipline where we see profitable opportunities.

I think in terms generally it is always a challenge comparing year on year. Clearing did have a strong Q1. The global markets' business, which is in that business, had a less strong Q1 against a very strong Q1 last year. I actually think it reflects a diversity of our business, both within CIB and for the group as a whole, that we are trading through and you can see fees broadly flat for the group as a whole this quarter.

Matthew Clark: Thank you. Could I just follow up on the mortgage margins? You said that they held up well despite competition. That sounds a bit counterintuitive. Are you able to elaborate a bit more because competition is still focused on certain areas or product types? Are there any mix effects there that are leading the margins to hold up well or is it holding up well across the product lines?

Kees van Dijkhuizen: It also indeed has to do with maturity levels. In the 15-20 years mortgage areas where more clients go these days, of course our insurance competitors and pension funds are better equipped to go into that market. We are more at then 5-10 years part of the market. The market is going a bit more to the 20 years at this moment in time, so we see those developments indeed. There is more competition there from insurance companies and pension funds.

Matthew Clark: Thank you.

Jose Coll (Santander): Good morning, I have three questions. The first is on NII. It appears that risk weighted asset growth driven by lending growth in CIB and commercial banking is taking a toll on capital generation. I suppose that these new loans also come with a higher yield, above the average of the current loan portfolio. So, when you guide for a flat NII for the year, are we to understand that the pricing pressure on the current loan portfolio is offsetting the higher loan yield coming from this new business?

Also, are you seeing some sort of repricing upwards in the CIB and commercial lending? Maybe banks are trying to prepare a potential between TRIM impacts, which are likely to be before Basel IV even starts phasing in. There are a couple more questions. Can you give us guidance on capital generation after dividends for the year? Could you please quantify what would be the impact – if any – of the weaker dollar in the quarter? Why were non-controlling interests so high in the quarter? We saw 21 million versus an average of 1 million to 4 million in past quarters.

Clifford Abrahams: Those were about five questions and I will answer a few. In terms of NII you might be overanalysing things a little bit. We have grown in commercial banking and corporate banking as you say. We are achieving our target returns in that space. Margins remain sound and it is pleasing in particular to see that in commercial banking.

In terms of pricing, it is too early to say anything about Basel IV. I expect that to be a kind of medium-term phenomenon. I think it is helpful that Basel IV will have forced on all banks a greater focus on capital discipline. You see that in the announcements our peers have made over the past week or two.

Capital generation of dividend: we have not got much further to add than we said in February, which is 50% sustainable profits and we expect moderate growth in RWAs from underlying business. As Tanja mentioned, there are factors that drive RWAs and it is possible to get some volatility quarter on quarter. So, while TRIM might end up in 2018 and 2019, there are other factors that could affect capital generation in any one quarter.

In terms of non-controlling interest: part of our revenue growth this quarter was through private equity participations and we have the usual carried interest arrangements around that, so that together with the issue of our Tier 1, last year in Q4 we explained the interest in non-controlling interest compared to a Q1 comparative last year.

Jose Coll: Thank you

Albert Ploegh (ING): I still have a question around NII in relation to the prepayments; the recurring element of the 32 million. This is basically the stock of people that have already refinanced. I understand probably most already did but I guess that this refinancing going forward it will add to the 32 million in a positive sense. That is my first question. Can this number still grow and is this is also in the expectations you have? You were guiding clearly for 2018-19 this kind of run rate to be sustainable per quarter. Is there any logic or any reason to think that after 2019 – where you said it might be phasing out – that is might at some point also become a headwind? How does that exactly work with the offsetting swap? That is probably a negative drag on this going forward as well. So, maybe a little bit better understanding on those two elements to this recurring element.

Clifford Abrahams: The uplift reflects versus our previous position and expectation. The way the accounting rules change means that we are shortening the period in which we amortise this benefit. So, there is a one-off benefit associated with that, which we have now booked in Q4 last year and Q1 this year. The 32 million per quarter then reflects a revision relative to our previous expectations. Now, our anticipation of how long that will last is a function of interest rates and clearly, our clients have an incentive to refinance given the current very low interest rate environment and have interest rates move up. That may well change. As you say, at some point it will become a headwind because it is a change in the amortisation period. It is a headwind versus our previous expectations. As I indicated, I think we expect it to remain at 2018 -19 or similar levels to come down thereafter and then beyond 2021 it would be a headwind versus our current ‘projection’.

Albert Ploegh: Okay.

Kiri Vijayarajah (HSBC): Good morning, a couple of questions, firstly just a clarification on your guidance for flat Dutch mortgage volumes. Does that apply just for this year? Would you be more optimistic going into next year?

Secondly, on the leverage exposure: the seasonal increase looks quite muted compared to the previous year. In CIB and some of the effects of the rationalisation are already a little bit in there. Or is it more that to amount your balance sheet in areas such as clearing have been a bit more muted than the usual kind of 1Q uptick that we have seen in previous years?

Kees van Dijkhuizen: Flat volumes in mortgages is indeed a difficult one to guide because it is a balance of quite a few billion of new production and a few billion of re- and prepayments. But for this year, that is what we expect. We see other large banks in the Netherlands have lower volumes on balance. We have been able in the last couple of years to keep it more or less stable or even grow it a bit by 1 or 2 billion, but as I said also before, if there would be a discussion around margins of volumes we would we disciplined with respect to the margins. If that would lead to a bit lower volumes we would accept that also.

Clifford Abrahams: I'll just comment on the leverage ratio. As you know, we have an ambition to deliver at 4% leverage ratio and we are managing within that. So, we are looking to serve our clients and deliver profitable business whilst maintaining with our various capital and leverage metrics.

Kiri Vijayarajah: Great. Thanks.

Robin van den Broek (Mediobanca): Good morning. Sorry to circle back to the 32 million of NII but I was always under the impression that you are basically asking a compensation for the negative value of the swap that is related to the mortgage. Of course, you do that on the balance level, so not on the product level. But should these things basically not have a sum zero impact over a longer period of time? You just said that from 2021 onwards you are expecting it to turn into a headwind but if you take the sum of the next ten years should that effectively not be a zero? And if not, how would that be in relation to the mortgage directive where you are supposed to ask a normal penalty from your clients that compensates the cost of the bank? It feels that somehow you are making a profit on these refinancing if it is not like that.

Secondly, last year you had an uplift in your operational RWAs and I think you indicated back in the day that you would see that reversed in the second quarter of this year. I think it was around 2 billion. Is that still valid?

The third question is on M&A. Given the fact that you are currently at the low end of your target range, what does that imply for the opportunity on shorter-term M&A?

Clifford Abrahams: On NII: the short answer is 'yes, you are right'. Over a long period of time it will net out to zero because it is a change in amortisation period. So, I agree with your statement.

Tanja Cuppen: Then RWAs with respect to operational risk: indeed, the model is being reviewed by the ECB as we speak, so we do not expect that to be finalised before the end of Q2. Depending on the outcomes there will be an adjustment on the add-ons.

Kees van Dijkhuizen: And with respect to M&A, we will look at those opportunities when they occur. We do not have a special amount reserved for it, like some other banks but as said in private banking before, if there would occur something we will look into it at that moment in time.

Adrian Cighi (RBC): Hi, I have two very quick questions, one on capital and one on deposits. As we have noted earlier, Q1 saw the organic capital generation being consumed by RWA growth. In line with the capital target you are now at the very bottom of that range. Would you still be comfortable if you remained there for the rest of the year or would you feel the need to restrict loan growth to remain within that range? Also, can you clarify if the target assumes a kind of cyclical buffer of zero or if an increase in that would change your target range?

Then just one follow-up question on deposits. There seems to be a relatively large reallocation between time deposits and savings this quarter. Can you provide any colour as to what is driving this? Is there any impact on margins from this?

Clifford Abrahams: Just commenting on capital generation: we want to grow the business profitably and then it is important that we retain that as a mission. You see we have done that this quarter in a couple of our businesses. We do have a target for capital, the 17.5 to 18.5%, and we would like to see the business within that target. We will manage the business to try and walk and chew gum at the same time. I did make the point that RWAs can be volatile. We talked about TRIM, operational risk, add-ons that may or may not come on. We do not want to be managing the business in a ‘kneejerk’- way, reflecting what might be volatility in the capital metrics. So, we need to find a balance there. A big driver of that range was our view of Basel IV and that view is developing all the time and we will update later in the year. The underlying numbers – I agree with what you have said – reflect our overall position of SREP plus the buffer, which includes the components that you have outlined.

Around deposits I do not want to comment specifically there on time versus savings, but we have managed to maintain deposit margins through this period largely through the lever of rates that I mentioned earlier. We reached the end of that process very much now.

Adrian Cighi: Perfect. Thank you.

Marcell Houben (Credit Suisse): Good morning, thank you for the presentation. I just want to come back to the loan loss provisions. The scenarios for the oil and gas in shipping for 2017, do they still apply, or can you give an update on those, please?

The second question is on the Op risk reversal add-on. Clifford, you were a little bit uncertain whether you are going to see the 2.5 or 2 billion RWA back. Has something changed? I was pretty certain that you were going to see those back. Has anything changed at all?

Clifford Abrahams: Shall I tackle the second? On operating risk I am being realistic. We feel we have done a good job around that but clearly, we have the review from the regulator. I think we have seen sometimes that a regulatory response can be unpredictable. There are developments around Basel IV, we see TRIM as something like a glide path into Basel IV and frankly, we are not working through how operational risk might change Basel III to Basel IV. So, that is the context behind my caution around risk weighted assets generally and the volatility that that can give rise. We have seen some of that this quarter in respect of credit developments. So, we are managing the business and the capital position for the long term. I wanted to be transparent on that.

Tanja Cuppen: With respect to the scenario analysis that we updated at the end of 2017: with the current provisions we now see that they are within these scenarios, within the moderate and severe scenario that we apply. At the energy side we are towards the severe scenario and what we call shipping and transportation we are closer to the moderate scenario at this point in time.

Marcell Houben: Do these scenarios still apply for 2018?

Tanja Cuppen: We updated them at the end of 2017 and scenarios are not a prediction of the future. They are meant to analyse the sensitivity for certain developments. From that point of view we still use these scenarios to analyse sensitivity to certain developments.

Marcell Houben: Thank you.

Paul Fenner-Leitao (Société Générale): Good morning. You have been very clear about not needing to issue NPS until 2019. I just wondered if you had any plans for either AT1 in particular or T2 to cover your shortfall for the remainder of the year.

Kees van Dijkhuizen: No plans for this year.

Paul Fenner-Leitao: Very clear. Thank you!

Stefan Nedialkov (Citigroup): Just two follow-up questions. Can you tell us a little bit about your assumptions on how higher rates will impact from bank competition potentially going forward? Are you assuming anything with that in mind when you come up with your estimates for margins, volume growth etc. especially from 2019 onwards? And do you know, given Clifford was previously at an insurer maybe we can have a little bit head-to-head between the CEO and CFO to the bank and the non-bank perspective. That would be very useful.

Secondly in terms of the private bank, are you seeing competition by the private bank of operations of bigger established competitors in France, Germany, et cetera, on margins or clients service or technology? Do you feel that you do need to transform the private banking franchise quite substantially in order to compete effectively and maybe grow net new money more going forward?

Kees van Dijkhuizen: Shall I start with the last one? I think in the private bank international, as we have mentioned also last year, is that we indeed want to further harmonise both the products – Germany, France, Belgium – and IT systems. So indeed we want to further harmonise systems there, which we by the way sometimes also see by the bigger companies in that market. So that is definitely an area where we are working on. That will take this year and also presumably next year.

Clifford Abrahams: With respect to higher rates it is an interesting question and maybe tough to answer in a minute. We are really basing our projections on where the swap curve is, with maybe some scenarios around that. So that does not reflect a dramatic increase in rates. I do think as you say as a former CFO of an insurance company a low-rate environment is one where clients have real appetite for long-term mortgages, which is a natural asset opportunity for insurers and pension funds. You have seen that in the last few years. You have seen us and other banks also engaging in long-term mortgages, but there is a limit over time to how much of the balance sheet in those sorts of assets, as it being relied on shorter-term funding. I think in a very different rate environment we would probably be in a different competitive environment. We are seeing adequate returns on mortgages currently in Basel IV terms and that is the basis on which we plan.

Stefan Nedialkov: Thank you.

Lee Street (Citigroup): Can I have a couple of questions about stage 2 loans, please? I was just trying to reconcile, you got I think EUR 16.4 billion of stage 2 loans on page 36, but that compares to only about EUR 3.7 billion of past due loans. So I was just trying to reconcile why the difference was quite big.

Secondly, just on the same topic: if I look at your corporate bank book, you have about 16% in stage 2 and stage 3 loans in total. If feels quite high given where we are in the cycle as what comfort can you give us on the loans here?

Finally, allowances corporate loans: you have about EUR 127 million allowance versus EUR 10.3 billion as stage 3 loans in the corporate and it just feels quite light. I am wondering how that works and what is supposed to be determined from that.

Tanja Cuppen: You were very fast, so maybe we will ask you reiterate some of your questions. So on the difference stage 3 and days past due: stage 2 loans that have seen a material deterioration in their credit worthiness, [inaudible]. I think your second question was related to corporate loans.

Lee Street: Yes.

Tanja Cuppen: And 16% in stage 2 and stage 3 that reflects the number of clients, the so called watch list in our restructuring department. These are across the board. So we do not have the experience here how stage 2 will develop over time. I think in due course we will be able to give some more background. And, as I said. in stage 3 there has been very little inflow in this segment. Your last question, maybe can you repeat the question.

Lee Street: Yes, it was bit hard to hear three answers, actually.

Tanja Cuppen: Okay, sorry. I think my microphone was far away, so let me reiterate my response to your first two questions and then I will ask you to reiterate your third question.

So with respect to your first question, stage 2 loans include loans that have significantly deteriorated in credit quality, so that does not equal to defaulted loans. That explains the difference. With respect to the 16% in stage 2 of corporate loans, I think that was your second question.

Lee Street: Yes.

Tanja Cuppen: In stage 3 we actually did not see any new development, so the same loans and segments that were in this stage and impaired as previously. Stage 2 is actually a new segment and we are building up experience there. We see that is very much aligns with the watch list that we used previously. In terms of percentages, I think we will be able to give you some more flavour over time to see how this develops. Maybe you could reiterate your last question.

Lee Street: It is the last question. In stage 2 corporate loans you have EUR 10.3 billion of carrying amount of stage 2 corporate loans, but you have an allowance of credit losses of EUR 127 million. I was just saying the EUR 127 million looks remarkably low versus the EUR 10.3 billion in terms like the bulk space due to a significant deterioration in credit quality. So I am just trying to understand here how such a large provision be enough relative to that size of stage 2 corporate loans.

Tanja Cuppen: Yes and that has to do with the fact that we have a lot of well-collateralised loans. Although the probability of default has increased, the collateral has still value, especially under the current economic circumstances. That means there is still a low level of lifetime expected loss.

Lee Street: Okay, all right. Thank you very much and thanks for repeating.

Kees van Dijkhuizen: As there are no further questions, thank you very much for your questions. This concludes our Q1 results update and I hope to talk to you again next quarter or perhaps at an earlier occasion. Thank you. Good bye.
---End of call