Q4 2016 Conference Call Transcript

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Participants: Kees van Dijkhuizen, CEO; Wietze Reehoorn, CRO; Alexander Rahusen, interim CFO; Dies Donker, Head of Investor Relations; Erik Bosmans, Treasurer

Conference call replay: http://player.companywebcast.com/abnamro/20170215_1/en/Player

Kees van Dijkhuizen: Good morning everybody, welcome to the analyst and investor call of ABN AMRO 2016 fourth quarter results. I am here together with Wietze Reehoorn and Alexander Rahusen, who is our ad-interim CFO. We will share our views on the results and after we will open the call to Q & A.

On slide 2 you can see that our underlying net profit for the fourth quarter was EUR 333 million, after net restructuring costs of EUR 153 million, up 23% year on year. Over 2016 we achieved an underlying profit of EUR 2.1 billion, after EUR 261 million net of tax restructuring provisions, up 8% compared to 2015.

Loan impairments were exceptionally low, at EUR 114 million over the year, held by releases.

A final dividend of EUR 0.44 per share is proposed, bringing the total 2016 dividend to EUR 0.84 per share, which is an increase of EUR 0.03 compared to last year. Alexander will discuss the fourth quarter results in more detail later during the call.

As of January 1, I have taken over the helm at ABN AMRO and I have inherited from my predecessor Gerrit Zalm a stable and profitable bank. In November, the Board updated our strategic priorities, which I will execute during the coming years while remaining ever alert to new developments.

Setting to the horizon to the year 2020, we will realise a number of cost savings which we will partly invest in innovation and international business growth. We remain committed to a moderate risk profile, so I also want to stress that our growth ambitions will be achievable, sensible and without taking undue risk.

Sustainability remains a key element of our strategy and as part of our core business processes. We use our position with our clients to actively discuss sustainability issues within that sector.

Noteworthy achievements this year were the publication of a human rights report, being the first financial institution to do so. Also, we issued five social impact bonds and our sustainable investment product is showing good interest from clients.

Recently, I announced a number of changes to the management structure of the Board. Going forward, we will have an Executive Board consisting of CEO, CFO, and CRO. In addition, there will be an Executive Committee, which consists of the Executive Board members as well as the CEOs of Retail Banking, Private Banking, Commercial Banking, and Corporate and Institutional Banking, and also a Chief Technology and Innovation officer and a Chief HR and Transformation officer. With this new structure, the number of commercial business lines, represented within the Executive Committee, will be doubled from two to four which reflects the importance we attach to client and business. However, at the same time I felt it was necessary to reduce the size of the management layers. As the new Executive Committee effectively replaces the former Managing Board of seven persons and twelve senior Managing Director, the number of top executive positions in fact drops from nineteen to nine. In addition, the management layer below the Executive Committee will be reduced significantly. Currently, this group consists of approximately 100 positions and in the new situation there will be a leadership group of forty.

With these changes I believe we have created a much more effective management structure. The distance between management and our staff will be shortened, which is necessary for a customer focussed, flexible and efficient organisation. This reduction is also in line with the overall streamlining of the bank, where we are working on bringing down staff from 31,000 in 2010 to 23,000 by 2020.

Looking at where we stand today in terms of our financial targets, you can see that ABN AMRO demonstrated a strong financial performance and has made clear progress on most targets in recent years. Over 2016, the ROE amounted to 11.8%, more or less the same as in 2015, which was 12%. This is in line with our target range of 10% to 13%.

The cost/income ratio in 2016 was at 65.9%. That is still too high. However, it includes restructuring provisions. Excluding these provisions, the cost/income ratio would have been 61.8%, the same as over 2015. Our target range is 56% to 58% in 2020. There are a number of cost programmes underway and our growth initiatives are also on schedule, so our cost/income ratio will decline from this year onwards.

Our CET 1 ratio is strong, at 17%, up from 15.5% one year ago and 14% two years ago. I had hoped that we would have more clarity on Basel IV by now, but unfortunately this is not the case. We hope we will get this clarity in the coming months, the sooner the better. In any case, we have prepositioned ourselves by ourselves a significant capital buffer on top of current regulatory requirements. Given the SREP-requirement for 2017, we currently assume a fully-loaded target of 13.5%, which includes the Pillar 2 guidance and a management buffer.

With that, I now give the floor to Alexander who will discuss our results over this quarter.

Alexander Rahusen: Thank you, Cees.

On slide 4, the underlying result for Q4, 2016 is EUR 333 million.

Looking at the profit development of the business segments versus the fourth quarter of last year, retail banking saw higher operating income and lower expenses while impairments remained low. Private banking benefited from higher margins on deposits and Corporate Banking profited from higher operating income and significantly lower impairments.

On slide 5 we can see that NNI has been around or above EUR 1.5 billion for ten quarters in a row. Note that the fourth quarter in 2016 as well in 2015 were impacted by provisions of a similar size, booked as interests expenses. This quarter it was due to EUR 47 million provision for ICS and last year's provision related to Euribor-linked mortgages at EUR 46 million.

All commercial segments showed an improvement in NII. New production from mortgages has shown a significant rise during the year with the fourth quarter showing an especially strong market. In the fourth quarter, our market share for new production was around 26% and around 22% for the full year, making us the market leader for the second year in a row. Normally, we see net outflow in the mortgage book towards the end of the year, due to significant additional prepayments for tax reasons, but this year was the first time that despite these repayments we saw a net increase in the mortgage book in the fourth quarter.

Margins on mortgages showed a gradual rise during the year, helped by re-pricing the tail of pre-crisis mortgages at current higher front-book margins. Virtually all pre-crisis mortgages are now fully re-priced, so going forward this will no longer drive margins up.

Margins on deposits increased somewhat, volumes increased in Retail banking. However, the volume decreased in Private banking.

Pending the sale of our Private banking activities in Asia, the Asian deposits are recorded on a held-for-sale basis.

At the end of the quarter, we again lowered the deposit rate with 5 basis points to 25 basis points for our main savings products. In the beginning of 2016, the rate stood at 70 basis points.

NII for corporate loans increased mainly due to higher volumes and ECT, also helped by a stronger Dollar and a higher oil price. The volume of loans for commercial clients for the first time in years showed an increase from 2016.

On slide 6 you can see that fee income was a bit lower compared to last year, as fees charged for payment packages in Retail were lowered.

The financial markets improved in the fourth quarter, which resulted in higher transaction volumes.

Other income was a mixed bag. The EUR 79 million improvement was driven by an increase in hedge-accounting results, lower provisions versus the fourth quarter last year, SME derivatives, partly offset by lower equity participation results. Note that SME derivatives also show up on the other expenses line item, as can be seen on the next slide.

On slide 7 expenses increased by 12% versus the fourth quarter in 2015, mainly driven by the restructuring provision of EUR 204 million, related to cost savings plans announced with the Q3 results, of which EUR 177 million relates to staff redundancy provisions. Excluding this provision, personnel expenses would have been flat.

Other expenses increased. This was driven by provisions taken for SME derivatives and ICS, partly offset by lower regulatory expenses. Regulatory expenses are now spread out more evenly over the quarters, whereas in 2015 all levies were collected in the fourth quarter.

With that, I would like to hand over to Wietze.

Wietze Reehoorn: Alexander, thank you. Ladies and gentlemen, good morning. Let me take you through the asset quality impairments and some on the ECT book.

Slide 8 shows that impairment charges remained low, at EUR 35 million for the fourth quarter, down by 72% compared to last year and mainly on the back of higher impairment releases. The overall cost of risk was 6 basis points, well below that through-the-cycle cost of risk levels between 25 and 30 basis points for the whole bank.

This quarter we recorded EUR 49 million in IBNI releases, as the overall trend of loan impairment is still declining. Over the full year, corporate banking showed limited impairments with the higher charges for ECT, offset by releases in our domestic loan book.

On slide 9 you can see from the trend in the impaired ratios that the improvement of the Dutch economy is feeding through our numbers. Impaired mortgages declined further, down to EUR 1.26 billion due to a high level of outflow thanks to the improved housing market in the Netherlands. The average loan-to-market value continued to decrease and is now at 76%, due to rising house prices.

Redemptions are also increasing with the gradual shift – we see that in our mortgage portfolio – towards amortising mortgages.

The impaired ratio increased for consumer lending. The absolute amount of impaired loans decreased from EUR 0.8 billion at the end of Q3 to EUR 0.7 billion and the outstanding loans decreased even stronger, mainly as a result of the sale of our Asian private bank.

Impaired corporate loans dropped to EUR 6.7 billion during the last quarter, down from EUR 7 billion, mainly due to releases in commercial clients.

Impaired loans increased however for ECT clients due to a number of individual files. I will elaborate on ECT clients on the next slide.

During 2016, ECT business was operating in the downturn phase of the business cycle. We had the good fortune however, that our domestic SME and mid-size corporates more than compensated for the provisions we took in ECT. Over Q4 impairments for ECT clients were modest – EUR 35 million – close to the levels seen in the last quarter as well as in Q4, 2015. Most of the Q4 impairment charges were taken in commodities and mainly related to one individual file.

The total impairments for the full year amounted to almost EUR 210 million, of which energy accounted for of about half and the remainder roughly splits between commodities and transportation.

The actual provision is at or below the values expected from the mild provisions scenario analysis of the energy and transportation sector, we gave to you last year.

The ECT client portfolio grew balanced by EUR 3.8 billion during the final quarter. More than half of the growth in Q4 was due to a stronger dollar and a higher oil price.

Oil prices rose by around 50% during the year and this spurred a higher utilisation of credit lines in the energy commodity business, especially during the last quarter.

When we see sensible growth possibilities, we pursue these, for example within utilities renewables as well as metals and minerals. Around EUR 700 million of new deals were closed in the final quarter.

Looking ahead, after two years of oversupply in the oil and gas market, a rebalancing of supply and demand is expected in 2017. A deal between OPEC-countries to reduce global production with 2% is expected to put a floor under the oil price, though implementing OPEC-agreements has proved to be difficult in the past.

Capex in the US is expected to increase as soon as this becomes economically viable again. In other regions where exploration is more expensive the recovery will take somewhat longer.

The sentiment in the shipping markets remains weak in a number of sectors, such as dry boat and container shipping, exerting financial pressure on owners and operators, with surplus capacity and subdued demand remaining the key themes in the shipping markets.

Increasingly stringent environmental regulations also put pressure on de-commissioning of all their non-compliant vessels.

In 2016 we have witnessed and co-operated in a number of recapitalisations in the sector that enable our clients to weather the storm proactively.

Looking forward, I still see ECT operating in the lower half of the business cycle in the coming years. Even though there are a number of factors showing improvement, it is still too early to call the bottom of the cycle.

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

Kees van Dijkhuizen: Thank you very much, Wietze and Alexander. With that, I would like to ask the operator to open the call for questions.

Anton Kryachok (UBS): Good morning, just two questions please. The first is on net interest income. You have highlighted the positive development quarter on quarter in your mortgage book. Can you give us some sense why you expect the Dutch mortgage market to develop in 2017? Is it realistic to expect growth at the market level to actually emerge in 2017? Is it useful to have an ambition to increase your market share in that growing market?

The second question is on capital. Clearly, in your opening remarks you have alluded that you did not get clarity on Basel IV and that probably prevents you from making forward-looking capital planning. But if we just assume that you do get clarity and then you find yourselves with excess capital, what would be the preferred way of distributing that back to the shareholders? Would it be elevated dividend pay-out ratios or would you think about a buy-back program?

Alexander Rahusen: With respect to your question on the mortgage market, we expect the mortgage market to remain healthy in 2017. We expect house prices to not significantly increase, maybe a small increase but I would say a more or less positive momentum as we have seen also in 2016. Within that market, we continue to strive for a market share of 20% or slightly above. That does not entail that we are aggressively looking to increase our market share. We have seen a very high market share in the last quarter, but a market share of 20% - or something above - is the market share that we are aiming at.

Kees van Dijkhuizen: Your second question was about if there would be excess capital after clarity around Basel IV: what would be our preferred way to give it back to shareholders. You mentioned two options and there is even a third one and that is that you would do a one-off dividend. There are all three possibilities at the moment, a buy-back, dividend percentage increase and a one-off dividend. We have not decided on that yet, so all the options are open and on the table at the moment.

Anton Kryachok: And just to elaborate very briefly on this last point: would buying back shares from the government directly be one of the options that you can consider?

Kees van Dijkhuizen: That is also an option.

Anton Kryachok: Thank you.

Benjamin Goy (Deutsche Bank): Maybe one on net interest income, a bit more detail. Private banking moved up nicely, which you attribute to deposit margins. It is mainly driven by Asia and the Middle East or do you have other deposits? Or, the other way around, could you give us the NII run rate for this segment, excluding the businesses you are going to sell?

The second question is on the leverage ratio. You should see an uplift at some point in time from the reduction in leverage exposure. Do you have any sense of timing when you get roundabout 40 basis points uplift?

Alexander Rahusen: An important driver of the margin improvement within Private banking is also with respect to the rate cuts that we have executed in the Dutch Private banking market in 2016. I am not able to comment on the run rate going forward.

Kees van Dijkhuizen: With respect to leverage, indeed we are already waiting for a long time to get back to 30 or 40 basis points with respect to exposure measures and reduction and in the field of Clearing. We had hoped that this would be combined with clarity on Basel IV and we are still hoping that we will hear this one as well if there would be an agreement in the coming months but the postponement of Basel also has influenced this one. So yes, we are still waiting but as you know, the consultation was positive and we are not negative about the result. It is just that we would like to have the clarity as well.

Benjamin Goy: Maybe one quick follow-up? Once you have clarity or this Basel IV is sorted out, do you expect you can already report the new leverage ratio then or is it more than driven by the implementation of CRD V, which might take a while?

Kees van Dijkhuizen: Yes, I think it will be a pro-forma way of showing it because it will take one or two years before it is in legislation. In the end I think it is not a big thing.

Benjamin Goy: Fair enough! Thank you!

Bruce Hamilton (Morgan Stanley): Good morning. Just coming back to the capital point. I understand that clarity on Basel IV is important but I am trying to understand. Your buffer at the moment is at 350 basis points to the top of your target range. Is there a level where even without Basel clarity you would have sufficient comfort on the size of the buffer that you think that retaining 50% of earnings might be too much?

Secondly, just thinking through the Retail NII: clearly, the second half it looks like you have had a bit of a pick-up in NIMs. Obviously, the volume dynamics in Q4 a bit more encouraging. Do you think in 2017 you could NII a kind of stable across the Retail division? That EUR 1.5 billion for the group is still maybe a little bit conservative? Could you help us if there is a flat or up outcome possible in Retail NII, that would be helpful to understand.

Kees van Dijkhuizen: Regarding capital: when do we feel comfortable? With what has been on the table I do not feel comfortable as long as it is on the table. The divergence between what we would like and countries like Germany and France would like and the difference with what the US would like – output floors of 75% or 80% – is a big, big difference between the two positions. Just to give you an example – I mentioned it before – is that the Swedish floor for mortgages means a significant increase. That is a 25% risk weight for mortgages. We have 12%. But even a Swedish floor would mean a significant increase and you would easily lose 200 to 300 basis points, only by that. That means that we want to keep the buffer as long as we do not know. This is only mortgages but there are also other proposals on the table, as you know. So it is really too early to tell. We really need to have clarity on Basel IV before we will release capital. That is our position right now.

Alexander Rahusen: With respect to your question on the NIM-development within Retail banking, maybe a couple of remarks on that end. First of all, it will be partly depending on the margins on the mortgage book. As noted earlier, the re-pricing effect of pre-crisis mortgages has more or less levelled off, so we expect that effect to be no longer present in 2017. Nevertheless, it is also not entirely clear how competitive pressure will have an effect on the pricing of the front book in 2017. That is one effect that we need to look at.

We have been able indeed to manage our NIM by reducing our savings coupons. There is still room for that in 2017. Nevertheless, the mortgage book is also funded partly by our Wholesale funding and therefore less prone to the effects of the cuts on Retail deposits. These are more or less the elements and it is not entirely clear how these will all develop in 2017.

Bruce Hamilton: Could I have one follow-up? Just look at asset quality, I see that the trends are benign and I take it that IBNI-releases maybe cannot match what you have been running at, but if I remove IBNI you have EUR 300 million impairment charge in e2016. If I take these still benign underlying trends in in the core Dutch business versus maybe a bit of risk on the ECT book, does it feel as though that this number ex-IBNI is a reasonable starting point or is that too optimistic and would it still be running well below your cross cycle levels, if I think about ‘17?

Wietze Reehoorn: It is always difficult. We do not have a crystal ball here. But the current thinking indeed is if you look to the substantial amount of releases of impairments last year, we want to see that going forward. The IBNI-releases are the same counts, so we will not see the same type of release. On the other hand, the asset quality is quite good in the domestic book. If you look at the ECT-book, you see in the second half somewhat lower impairments compared to the first half. Do not indicate this year only on the basis of the last second half. Our current thinking is here that the impairments in the ECT book are within the bandwidth of our scenarios. The current thinking is that for this year we will be seeing the same level or even somewhat below that. But then again, this is difficult to say because as you know it is a lumpy business. In the commodity business we have seen some incidentals on individual clients but again, current thinking is that the ECT impairment levels of last year will probably be the level of this year or even somewhat below that.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Good morning to you. I have three questions. The first is again on capital. You have 17% versus 13.5% requirement. If you assume IFRS 50 basis points, that brings you to 16.5%, so you could cope with 20% risk-weighted asset inflation. However, the constraint for returning excess capital seems to be the leverage ratio. How do you see that evolving over time? There was a question about what is in the pipeline; how much can you improve the leverage ratio, you reckon?

My second question is on the Dutch SMEs, the loan growth? Could you provide some indication on the momentum? Where is it coming from? Is it treasury, is it investments, are there particular sectors, export-oriented, so to have a feel for that?

The last question is about timing for an investor day. I suppose it depends on two elements, the Basel IV clarification but also your internal process with the new management team. Can you give an indication of the timing of a potential investor day?

Kees van Dijkhuizen: Jean-Pierre, I think with respect to capital you mentioned 17 and you take out 50 basis points IFRS. We have not communicated our exact figure but that is indeed the average which is in the market, so I leave that to you. Then the 16.5% and the 300 basis points difference still: as I mentioned, when risk-weights for mortgages go up, double, you almost lose the complete 300 basis points. It is not so much only a leverage ratio constraint – I will come back to that – but it is also really the capital ratio, the Basel IV itself, de CET 1 ratio. Of course, we hope that the Dutch Central Bank will look at the add-on and so on, but that is what we hope. We have to see the result of that. We do not know.

With respect to the leverage ratio: as said, we are now 3.9%. We have for the 30 to 40 basis points clearing at some moment in time. Then we also have of course the bucket of AT1. We have now 0.8-0.9bn in the bucket and in the end, we want to have at least 1.5%. that means that we have room for another 500 million to 1 billion AT1 at some moment in time. It is expensive, so that is why we do not do it today but we will tap that market at some moment in time. That of course also helps the leverage ratio to be not the constraint you mentioned.

Finally, around the leverage ratio there is still discussion in the market, also in Basel committees, about where it should be for very large banks, for a bit less larger banks, so also the exact percentage of 4% is still in the domain of discussion.

Wietze Reehoorn: Regarding Dutch SME: the picture is that Dutch SME is actually benefitting from increased domestic consumer spending, so companies that are geared to that are benefitting i.e. we see some loan growth in that area. The same goes for SME focused on international businesses and industrial businesses. It all helps to turning the point. In the last couple of years we always had to say to you that the SME book is not really growing. It was actually shrinking but now for the first time we see some growth there and we expect that this growth, though very limited, will be continued.

Kees van Dijkhuizen: Your last question was about an investor day. We have not decided on that. Indeed, as you mentioned, there is the question of Basel IV. We will look into that but we have not decided yet.

Daniel Do-Thoi (JP Morgan): Good morning, I just have two questions relating to the mortgage book. The first is on volumes, which I guess are very strong in the quarter. If you were to adjust for the seasonality and redemptions that you mentioned earlier, can you give us a sense of what the underlying levels of loan growth would have looked like?

Secondly, on margins. I think you mentioned last quarter that you are now writing 15-year mortgages on the assumption of around 30% risk weights. It has clearly been very good for volumes but does that shift out in duration also result in a positive mix effect on the back book margin?

Alexander Rahusen: On your first question: we generally always see in Q4 somewhat higher redemptions. What I can say is that in Q4 we had a very healthy inflow of new mortgages of EUR 5.1 billion, so that is probably a good answer to your first question.

Your second question was about the level of NHG that is reducing. That has generally a lower risk-weighting. On the other hand, it also has a lower margin, so it has a positive effect on the margin development of the book.

Daniel Do-Thoi: What was the level of redemptions in Q4, please?

Kees van Dijkhuizen: Around EUR 4 billion, I think, of which EUR 1 billion is early repayments.

Wietze Reehoorn: EUR 4.1 billion is correct.

Kees van Dijkhuizen: For the whole year it was EUR 13.3 billion. That gives you an idea in terms of new redemption.

Daniel Do-Thoi: And then on the second point, what you are saying is that you are gaining a positive margin effect due to the fact that you are writing less guaranteed mortgages?

Wietze Reehoorn: Correct.

Daniel Do-Thoi: Thank you.

Anke Reingen (RBC): I have two follow-up questions. The first is on the net interest income in the Retail banking division which was very strong in Q4. When we are looking into 2017, is that like a base? Can we look from Q4 2016 into next year? Could you run through the moving parts?

And then coming back on the capital again. I know there is a lot of uncertainty but would you consider going below the 4% leverage ratio in defining your excess capital or is there too much uncertainty to answer that question?

Then you are talking about the 30 to 40 basis points benefit from the Clearing activities, but in the past you said this could be partially offset by off-balance sheet exposure. Sorry if I missed it, but did something change there?

Alexander Rahusen: On your first question I already more or less highlighted earlier in the call what the moving parts are. So just to summarise, what competitive developments do we see with respect to the pricing of the front end mortgage book in 2017? That is one. Secondly, the deposit pricing effect will level off in 2017. Thirdly, our pricing developments on the Retail book. One element I could add to this is also the margin development of our somewhat smaller consumer book. Again there we have seen it stable and maybe slightly increasing. That is also an element to take into account when you are talking about the NIM developments in Retail.

Kees van Dijkhuizen: With respect to the leverage ratio below 4%, it is too early. I just mentioned that there is discussion but it is too early to take into account a figure below 4% at the moment.

You did not miss anything with respect to the off-balance sheet exposure. It is related to the 30-40 bps. That is correct. We mentioned that in the past. What I forgot to mention is that we are a bit more positive, a bit more optimistic about this credit conversion factor issue because in the latest Basel proposals we have seen that this one is not as putative any longer as we were afraid of. So, that is the reason why I do not mention it. There still can be a minus of course but not to the effect we were worried about in the past.

Anke Reingen: Thank you. And then just on the net interest income. Would you think it is overly optimistic to look in 2017 at the net interest income compared to Q4?

Alexander Rahusen: I do not know, to be honest. For me, it is very difficult to give an exact bearing of these elements that I have given. Too hard to call!

Anke Reingen: Okay, thank you!

Alicia Chung (Exane BNP Paribas): Good morning, just a couple of quick questions on the RWAs. Now that you have regulatory approval to use the advanced measurement approach for operational risk RWAs, can you give us a bit of colour as to the impact you expect that this will have on your total level?

Secondly, just in terms of the strong improvement that we have seen in capital: a lot of that was due to rising collateral values and improve credit quality. Can we expect further improvements in that over the near term, given where the housing market is going? Perhaps a further reduction in RWAs going forward?

Wietze Reehoorn: Let me start with the last question, the question on further reduction of the RWAs on the mortgage book. Given the credit quality we write there, our current thinking is that we if we look at the credit quality of that book which is improving and given the fact that we see rising house prices – which are still on the rise actually – so with indexation it means that indeed risk-weighted assets at current levels could even be somewhat lower there, but again that is a very modest movement.

A somewhat more substantial movement is related to your first question, which is on operational risk. Indeed, we have approval for AMA, Advanced Measurement Approach of operational risk, which is replacing TSA as you know. Assuming we would not have AMA, then going forward also capital related to TSA would be somewhat higher, let's say EUR 1 billion or EUR 2 billion. If we now look at AMA implications for the first half year, we expect an additional EUR 2 billion to EUR 3 billion or RWAs on the current basis of operational risk at year-end. However, that will disappear again in the second half because we have to fulfil certain conditions. So yes, we will see some rise in RWAs as a result of AMA operational risk - between EUR 2 billion to EUR 3 billion - in the first half but in the second half that will disappear.

Alicia Chung: Thank you very much.

Geoff Dawes (Société Générale): Good morning. Two questions from myself. Sorry to come back to it, to Basel IV and everything but it is a slightly question but we have talked a lot about the raw impact but have you done any work on how you can mitigate against something like an outflow, for example by re-classifying things between standardised and advanced approach? Any kind of idea around how much impact that could have on a potential Basel IV announcement?

The second question is again on net interest income but with a slightly different approach, on the overall level of base rates. There is of course always a possibility that the ECB moves back away from negative rate policy and back to the zero. What kind of impact would that have. Would it have a much more important and significant that the small impact that we have been discussing so far.

Kees van Dijkhuizen: With respect to Basel IV the outlook is not easy but that is really an override of models. It is quite difficult to mitigate that one. Having said that, we are in proposals now also looking at a kind of loan splitting with respect to mortgages. That might be helpful in some respect. So, we are looking into this element but the outlook as such is quite an override of models.

With respect to the ECB it would of course be helpful when the ECB rates go up again, because it is a drain for us. We pay 25 bps to a saver, we bring it to the ECB and we pay another 40 bps. That is not really a good business model. So, we would be very happy with these minus 40 bps some moment in time going to zero or to a positive area again, like a normalisation of interest curves in general. For banks it would be better than where we are right now. In the short run it does not mean a lot because we have hedged ourselves especially for the longer term but for the short term it would definitely help us when the ECB rates would go up again.

Geoff Dawes: And any idea of how happy you would be in financial terms, in numbers?

Kees van Dijkhuizen: I am never outrageous in happiness in financial terms!

Geoff Dawes: We can hope! Thank you very much.

Kees van Dijkhuizen: Let's hope together.

Kiri Vijayarajah (Barclays): Good morning, just a couple of questions on growth. If the Dutch SMEs and Dutch mortgages really start to grow again, should we see you lowering your risk appetite to grow the international corporate business or is that plan you talked about last year kind of ring-fenced in your mind?

How do you think about the relative profitability of domestic SMEs versus the international corporates, when you look at front book pricing at the moment, just a sort relative profitability of the different strands of growth?

Kees van Dijkhuizen: Your first question was whether there is some relation there between the growth in SME and the mortgage book, particularly in the Netherlands and how that would impact our international growth ambition. It does not, actually. You were talking about lowering the risk appetite for international growth. As you know, as a whole we work within the modest risk profile approach, which we have been working with already for seven years within ABN AMRO. So, that is also the situation within our international growth agenda. But we will continue with executing that growth agenda in adjacent countries around us and also ECT growth.

Alexander Rahusen: On the profitability side I can say that the SME segment is a profitable segment in the Netherlands. The numbers as presented are clearly showing that. With respect to growth, foreign growth and ECT specifically, also there we see that this is a profitable business. We also expect it to be profitable when growing it going forward.

Kiri Vijayarajah: It was partly the ECT but also the Western European large corporate growth plan that you talked about as well?

Wietze Reehoorn: Yes, and that is indeed an important element of our corporate bank growth plan if you subtract it from the ECT global growth plan. Those are global business lines. We leverage on the capabilities and sectors we have in the Netherlands. We leverage on our experience with the mid- and larger corporates. That is indeed what we are doing in Germany, in France, in Belgium and to a very extent in the UK. We are hardly there but again, we are leveraging our sector expertise. We are targeting the somewhat larger corporates with a full wallet of products.

Your other question had to do with asset quality compared to SME and international corporates. We target the kind of corporates in countries abroad with very healthy financial ratios on the basis of partly clean financing and partly collateralised.

Kiri Vijayarajah: Great, thanks!

Matthew Clark (MainFirst Bank): Good morning, I have a couple of questions, please. Firstly on the Private banking division loan balance, which has been steadily declining. Could you just give us a bit more information on what type of loans these are? Is this unsecured consumer, it is Lombard-lending secured against securities, just a bit more detail about the trends there and what type of loan that is.

A second question, just revisiting the Dutch mortgage margins: you said you see a levelling off. Should we infer from that you do not see any material headwind in the coming years from the front book versus back book margin on the mortgage side?

Wietze Reehoorn: Let me start with your first question. Apart from the impact from the sale of our Private banking Asian business, which does have an impact of course of the loan and receivables amount you see in the figures, the trend here is that we are increasingly into the Lombard-type, the collateralised financing and less into the consumer lending and certainly less into specific real estate-type of financing, which we originally did in the Netherlands as one of our business which we are not continuing anymore, let alone that in countries outside the Netherlands we are not in real estate financing at all.

Matthew Clark: Could you break down the non-mortgage loan book in the Private banking division and the Lombard versus consumer or real estate that does not get captured by mortgage …

Kees van Dijkhuizen: I understand the question but I do not have it at hand. Probably Investor Relations could follow up there.

Alexander Rahusen: On your second question it is difficult to see whether there is going to be any severe headwind on the longer term. An element to factor in is of course the effect of possible Basel IV because that could to a certain extent have an effect on the pricing of mortgages. It is difficult to say whether on the longer end margins significantly change because of significant changes in regulations. It is too early to give a clear indication on that.

Matthew Clark: So in terms of the front and back book trend as of where your pricing mortgage is today you see a levelling off rather than a headwind?

Alexander Rahusen: That is correct.

Matthew Clark: Perfect. Thank you very much.

Albert Ploegh (ING Bank): Good morning. I have two questions. I first want to come back on the mortgage book. Clearly, with the prepayments in the low interest rate environments and also with the wealth tax situation your interest-only component has been declining over the last year, quite a lot. At the same time also you are redeeming mortgages, the annuity mortgage book is still growing, so that basically the profile of your loan book changes. I would like to get a little bit of a feeling to what kind of growth you organically need in terms of new production to keep the book flat. How enthusiastic should we be on pencilling in a couple of percentage points growth on the Dutch mortgage book? Is that something you contemplate yourself as well or is it still quite hard to grow the book meaningfully?

My next question is on the SME-swaps. Where the settlement has been you have taken some extra cost as well in the fourth quarter. Yesterday I saw there was a kind of a court ruling – difficult to say in what phase that ruling was; I think it still an early one – on a large corporate file where also the court ruled in favour of the large corporate client to be compensated. Can you talk a little bit about that potential risk and whether that was an ABN AMRO client and the number of contracts you have in the books with large clients on the interest rate swaps?

Wietze Reehoorn: Let me try to address the two. To start with the first one, which is a very difficult question, boiling down to somewhat of a prediction you would like us to give you. That is not possible but I can give you some other indication that is important, which is in the Q-report because it shows how in the increasingly share of redeeming mortgages is happening. To have an idea, year-end 2015 it was 13% redeeming mortgages and at the end of 2016 it was 18%. However – and that gives you some picture – the decline of interest-only for example is much smaller. It goes from 22% towards 20%. So, it shows you a little bit the interest-only, not redeemable part that is levelling off slower compared to the increase of the redeeming part. That gives you some background there.

Then to your question as to what has been in the newspaper. You know it is always very difficult to comment on newspapers. We have some experience with that, so I would rather not; the only thing I can mention there is that we are very into the execution now of the agreement we have with the AFM to repair certain situations with clients that are under the mandate of that repairment scheme.

Albert Ploegh: Thank you.

Bénoît Pétrarque (Kepler Cheuvreux): Good morning, two questions from my side. The first will be on the operating expenses, excluding restructuring or one-offs. You were pretty flat on a clean basis, also excluding the bank tax in 2016 versus 2015. Could you recap how much cost savings we will see in 2017 and 2018? Do you feel you will be able to decrease a bit the underlying cost base already in 2017? Also looking at pension cost, which were a bit of a drag this year. Also could it mean that pension cost will be a bit lower. Do you share this view? How do you see that?

And then a question on the dividend. It will be at 50% in 2017. You have a cap gain as well, so we will probably see a pretty large increase of the DPS. How do you see the calculation of your DPS? Is it still based on the reported profit versus the underlying? Are you planning to change that?

Alexander Rahusen: We had not disclosed the effects of our cost savings operations for 2017 and 2018. We only gave some targets with respect to the effects in 2020. If we look at 2017, we will not look at a decline of cost compared to 2016 on a clean basis. We will probably be somewhere around or maybe slightly higher compared to 2016 on a clean basis.

I do not expect pension cost to be lower because they are directly linked to the interest rate environment and that has not materially changed. It is still very low compared to 2015, so I do not expect that these will be lower in 2017.

Kees van Dijkhuizen: And also the reason for that is of course that we will do investments in 2017, so that will also be partly invested if we have savings, as mentioned.

With respect to dividend, that will indeed be 50% on a reported basis, as we have always communicated.

Bénoît Pétrarque: So no change there.

Kees van Dijkhuizen: No change there. Of course, after Basel we will look into the dividend policy again but until Basel IV clarity it is 50% reported.

Bénoît Pétrarque: Thank you very much.

Bart Horsten (Kempen & Co): Good morning, a few questions from my side. First on your growth expectations in the Corporate and the SME segment in the Netherlands. You talked about gaining market share in new production in mortgages. Could you say that looking at the competitive environment in the Netherlands you would also gain market share in the SME and corporate loan market there? Could you elaborate a bit on the pricing environment in the corporate loan book?

My second question relates to the LTV-development. You flagged a further decline of the LTV. Could you indicate to what extent that was driven by rising house prices and to what extent it was driven by the redemption of loans?

My final question relates to the ICS provision. Could you say how you came about the amount of provisions you took? Can we assume that this is enough to settle these potential claims?

Wietze Reehoorn: Let me start with your first question as to the competition arena in the Netherlands in the corporate and SME world. I think it is fair to say that you see the three main constituents in different shapes. There is of course always room for some expansion in our corporate and SME franchise. That is what we are doing by increasing our propositions to what clients having a full proposition are ready for whatever corporate or SME. But let's not also overwhelm here the growth ambitions. We see modest growth, given where we are today.

Your question on decline LTV: it is a mix of the redemptions and rising house prices.

Kees van Dijkhuizen: Your third question was on the provision for our credit card clients. We have three million credit card clients in the Netherlands. We have overcredited around 30,000, so that is around 1% of the 3 million. We have now provisioned for the interest on this over crediting for the last five years. To give an indication: because the overcrediting was often not more than EUR 1,000 or EUR 1,500 we compensated. We did not have complaints; we just discovered it ourselves. We went to the regulator and said that we were going to compensate. It was not because of clients complaining but it was just not in line with the regulations. We expect to pay back around a couple of hundred euros per person, perhaps 600 maximum. So, that is the basis of the calculations. We think that of course with the provision we have taken right now that this is enough to compensate our clients.

Bart Horsten: Thank you.

Marcel Houben (Credit Suisse): Good morning, I just have two or three questions. First, just to come back on mortgages and NII, I know that you have been benefitting from the re-pricing cycle, but how do you see that in 2017 given the fact that a lot of mortgages post-crisis were higher margin? How do you see that developing in 2017, those margins being re-priced?

My second question is on the Dutch elections coming up. What are the risks that you see so far, potentially higher capital requirements of certain parties or anything else?

My last question is on asset quality in the commercial clients business. We saw a lot of releases in 2016 and how do you see that in 2017 so far?

Alexander Rahusen: On your first question: we expect that the margin of our outflow and inflow on the book will be more or less levelled and therefore, we also expect that the margin of the book will be level. That is basically the outlook for the mortgage book margin development.

Kees van Dijkhuizen: The Dutch elections: the expectation is that there will be a coalition agreement of four or five parties and we hope that they will come up as soon as possible of course with a program. What we see right now with respect to our customers is that they are positive about taking up loans, be it SME or be it mortgages. So, we actually expect a broad coalition which will come up with a program that is beneficial to the Dutch economy.

Marcel Houben: Thank you.

Wietze Reehoorn: You last question was on the commercial clients loan book and the releases of impaired allowances. Last year that was quite a substantial amount. We reported that also in the Q4-report. We do not expect of course that that amount will happen again in this year.

Tarik El Mejjad (Bank of America Merrill Lynch): Just one quick question. The deputy governor of the Riksbank, who is already part of the Basel Committee, is really very keen on output flows. She did a speech and she gave as an example 75% output floor. However, to be fair to her on the other hand, she was very much defending the fact and implying that the domestic buffer in Sweden will come down much earlier to offset that effect. I know we discussed it many times, but do you have any sense that the Dutch regulator would go in the same direction?

Kees van Dijkhuizen: As said before we have quite a significant add-on in The Netherlands, 3%, for our bank. We know that the Central Bank has said in the past that, when there is clarity about regulation, especially Basel IV, they will look into this add-on, but they have not given any clear indication on what the outcome of that decision would be. We hope of course that they will lower the add-on, but I cannot say that there are any indications from our Central Bank at this moment in time that they will really be lower. They have said that they will look into it, they did not really mention that they will lower it. It is too early to tell.

Daniel Do-Thoi (JP Morgan): Just to follow up on the point of politics. I guess the election season in Europe is quite a bit beyond the Dutch elections. Have you made any operational changes ahead of this? Secondly, on the other side of the Atlantic there is a change in rhetoric around trade protectionism and the environment, et cetera. Could you comment on how that affects your appetite and also your ability to grow with an ECT particularly in an area such as straight finance?

Kees van Dijkhuizen: To start with your last question, I think it is too early to already comment on that, that it would for example be a limitation on our growth ambition. That is simply too early. Of course we have a very good look into what is happening over there. Your question as to the situation in The Netherlands but also in countries around us is if that has lead us to take certain operational measures. In essence it has, but is more or less standardized in our operations how we work. We monitor on a regular basis, monthly actually, also in our credit committees, the developments in the countries, The Netherlands and countries around us. We take a view on the basis of certain scenarios whether we should change certain limits or whatever. It is good to say actually that the profile of this bank is predominantly Dutch. The businesses we have abroad in France, in Germany, are rather limited. That is not to say of course that things could not change and have an impact, but again, we are on a regular basis monitoring that in our country risk management approach.

Daniel Do-Thoi: Your appetite to grow in Germany, France is then affected by that?

Kees van Dijkhuizen: That is correct. It is also good to mention – I mentioned it also last time when we discussed Brexit – that in the UK we have actually very limited businesses, so the impact of the Brexit, depending of course a little bit on how it plays out, could have a certain impact on the SME and exporting businesses we have in our portfolio who do export to the UK. We have to carefully look into that as well.

Daniel Do-Thoi: Okay, but so far no changes. And capital allocation?

Kees van Dijkhuizen: No.

Stefan Nedialkov (Citi group): Good morning. Two questions on my side. Given that issuing AT1 would quite clearly resolve your leverage ratio constraint in the absence of the 40 bps and also given that you currently have an addition to the SREP-requirement because of the AT1 shortfall, can you share with us a specific timeline? Is it 2017 for issuing theAT1 or are we looking more towards 2018 and 2019?

My second question is on the regulatory approvals for a potential placement by the Dutch government. You have been obtaining some approvals, I believe a number of such approvals before any further placements are done. Is there any update on that in terms of what has been done already and what is left?

Kees van Dijkhuizen: When we communicated the 13.5% we have taken into account no shortfall for AT1. So that is not included in the 13.5%. Of course when you would have a figure for this year, 2017, that shortfall would be there: 70 basis points. We do not give guidance on AT1.

With respect to your question on DNO, we have indeed filed for a DNO application with ECB and we are working on approval processes in different jurisdictions at the moment. We have not obtained approval yet and that of course is a prerequisite for a placing. In the end of course the shareholders decide on a placing.

Anke Reingen (RBC): Thank you very much. I have a question about the TRIM process. Could you elaborate how material it is going to be, also for your capital planning? Could uncertainty on TRIM mean that you are not more cautious on capital, even if you know the outcome of Basel IV?

Wietze Reehoorn: We are at the point of embarking on the TRIM process. Other banks are as well, as you are well aware. It is very difficult to come to any conclusion yet, because the onsite need to start. We have recently undergone a number of scrutiny by the regulator in terms of our models, for example the operational risk model, the market risk model and also recently the credit risk models. That is not to say that in TRIM nothing will be at stage, but again, we are into the onsite right now. We follow also very much the instructions by the regulator.

Kees van Dijkhuizen: I am happy you took this question. I thought I heard the Trump process and I thought: where to start?

Anton Kryachok (UBS): Thank you. Just one follow up question on NIM. I noticed that you had a very strong volume growth in the ECT book, I guess this is partially explained by the currency move. We have not really seen a similar pickup in NIM quarter-on-quarter in the international clients division. Can you please comment on that? Shall we expect a catch-up in NII, because volume growth came towards the end of the quarter or is there some rotation into lower margin business?

Wietze Reehoorn: What you have seen in Q4 is somewhat of an increased growth as a result of quite severe FX-effects and oil price increases. If you deduct that on a year basis from the EUR 6.5 million there will only remain 2 point something. I think it is fair to say that given the volume growth on a net basis in Q4 you may see some of that coming back in the next quarters in terms of net interest income. Also, having said that, we are not into lower margin business there. That is important to mention. As we are spreading our wallet between what we call the traditional trade and commodity finance business as well as somewhat more corporate lending towards the better classified corporates. As a result of that of course you may see somewhat of a lower margin. It is kind of a mix there.

Kees van Dijkhuizen: As there are no more questions, thank you all very much for a lot of questions that were raised. Hopefully our answers were clear. If not, of course you can contact Investor Relations. Thank you very much, hope to speak to you soon.

End of call.