Q2 2016 Conference Call Transcript

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

Conference call replay: http://player.companywebcast.com/abnamro/20160817_2/en/Player

Gerrit Zalm: Good morning. I am here accompanied by the CFO, Kees van Dijkhuizen, our CRO, Wietze Reehoorn, Head of Treasury Erik Bosmans and Dies Donker, Head of Investor Relations. We will give a short presentation of the results and then we will have the famous Q & A.

Looking at the financial highlights, we see that the underlying net result for Q2 was up 10% compared to Q2 last year. We think that is a solid performance. Earnings were driven by improved net interest income. We had low impairments and we had a one-off gain on the sale of Visa Europe.

We will pay an interim dividend of EUR 0.40 per share.

Looking at the key developments in the economic environment in the last quarter, the rather unexpected outcome of the Brexit-referendum is expected to affect the European economy through a lower rate of the British Pound but also through a continued lower interest rate environment.

Up till now, ABN AMRO has been able to cope quite well with the low interest rate environment. NII was at or above EUR 1.5 billion already for eight quarters in a row now. However, if the ECB decides to become even more aggressive in their negative interest rate policy this will impact the results going forward.

In the meantime, the Dutch economy is doing well. It continued to grow in the last two quarters by 0.6% each quarter and that is for ABN AMRO of course a positive economic environment.

Sustainability remains high on our agenda. We launched an online application that assists our commercial real estate clients determining energy savings measures. We have made available EUR 1 billion to provide in loans for investments in these kinds of measures.

Other initiatives include a second EUR 500 million green bond and the launch of a national social impact bond, as well as the fund allowing clients to co-invest in loans to private sector companies in emerging markets.

We will address our cost base, which we judge as too high. Significant cost savings are identified in support and control functions across the bank. We will simplify the operating model across the bank. If we look at the cost base for support and control functions, we see they are round about EUR 800 million and we intend to reduce these costs by 25% or EUR 200 million. These are both staff and non-staff related cost. A significant part of these cost savings will be realised here.

We are also identifying additional cost savings in other areas of the bank, not only to lower our cost/income ratio but also to free up resources for digitalisation and innovation. Once there is more clarity on the impact of Basel IV, we will update our financial and strategic targets beyond 2017.

We continue to provide innovative solutions for our clients. Clients are now able to arrange their investments on the stock exchange through our mobile app. We launched an app, which enables payment requests through WhatsApp. It is highly successful; this app has already been downloaded and used by 100,000 people.

Bringing together the world of fintechs and ABN AMRO, we opened Econic, a fintech-accelerator and fintechs and ABN AMRO staff meet to develop and test ideas.

Going forward, we also identified areas for control of growth. Within the corporate bank we will start to offer existing products and services to corporate clients in neighbouring countries with a limited number of FTEs on the ground, using the existing infrastructure of Amsterdam.

We will also extend our global ICT clients business in sectors such as natural resources and food in the coming years. For retail clients we will further focus on support in pensions and financial planning, while in the private bank we will focus more on demand-based segmentation.

Also, we will take further steps in digitalisation and straight-through processing of high-volume products.

On slide 3 you can see how we perform on our financial targets in the first six months. The fully loaded core tier 1 ratio improved by 40 basis points to 16.2% and we will continue to grow capital as long as Basel IV is not finalised.

The return on equity was 13.1%. That is above our target range of 10% to 13%. Of course there is a cyclical element in it because of the rather low impairments, which are below the through-the-cycle range.

The cost/income ratio was 61.8%.

Kees will now go further into the financial results.

Kees van Dijkhuizen: Thank you very much Gerrit and good morning everybody.

On slide 4 you can see that the underlying result for the second quarter of EUR 662 million was 10% higher compared to last year. As you of course are aware, we took an additional provision of EUR 271 million net of tax for the SME derivatives assessment, lowering our reported profit to EUR 391 million. Our regulatory levies were limited, only EUR 12 million this quarter.

In retail banking, the underlying profit improved on the back of a book profit for the sale of Visa Europe. NII increased further but fees and commissions were lower because of volatile markets. The underlying profit for private banking decreased due to increased expenses and higher loan impairments. Corporate banking profited from lower impairments.

On slide 5 you can see, as Gerrit already mentioned, that we have been able to keep NII around or above EUR 1.5 billion for eight quarters in a row. Compared to last year, both for mortgages and corporate loans margins improved although volumes decreased for most loan types. At the end of the quarter, we again lowered our deposit rate for retail clients to 40 bps.

Slide 6, on fee, similar to Q1, market uncertainty and volatility have negatively impacted fees. We see this especially in the retail and private bank. Our capital market solutions benefit somewhat from the volatility, especially in the clearing business.

Other income recovered from the result in Q1 and included a EUR 116 million book gain on Visa Europe.

CVA, DVA, and FVA were around zero.

Expenses, slide 7, were practically flat compared to the second quarter 2015 and 5% lower compared to the last quarter. The last quarter, regulatory levies were EUR 98 million whereas this quarter, as we have said, we recorded only EUR 12 million. The levies were zero in the second quarter of last year.

The number of FTEs decreased slightly compared to last year. However, more external staff was hired for projects.

With respect to loan impairments, slide 8, you can see that impairment charges remained low, at EUR 64 million. The overall cost of risk was 9 bps.

This quarter, the IBNI release was EUR 49 million. Both 2015 and 2016 saw IBNI releases, which partly explained the below-the-cycle cost of risk. If you strip out the benefit from the IBNI, impairment charges are lower year-on-year.

Wietze will now elaborate on the risk and loan portfolio developments.

Wietze Reehoorn: Thank you Kees. Ladies and gentlemen, good morning.

Move to slide 9, the decrease in impairment charges was largely attributable to commercial clients and that is a reflection of the continued benign economic situation in the Netherlands. This was offset by additions in International Clients. They are mainly related to our ECT client book and I will elaborate on ECT clients later in this presentation.

The impaired ratio for the total customer loan book was 2.7%, unchanged from year-end 2015.

Allowances for impairments decreased marginally in all portfolios, resulting in a total coverage ratio decreasing to 50.8%.

Impairment charges for residential mortgages remained low, as the Dutch housing market continued to improve. Prices rose in all regions and all price categories. The annualised cost of risk remains low at 2 bps for the quarter. If we look at the loan-to-market value we see a continued decrease and at this moment this is at 79%, also due to extra redemptions.

Let me say a few words on ECT, slide 10. The ECT client portfolio grew on balance by 4% compared to Q1, supported by the strengthening of the dollar by 2.5%. The growth we saw was in all three segments of ECT.

The oil price remained at low levels. This has an impact on the energy sector, especially for offshore service companies as oil majors postpone their investments. This has impacted the level of impairments for all ECT clients. Impairments were EUR 93 million for the quarter, up from EUR 18 million in Q2 2015. About two thirds of the impairments were in Energy and one third was in Transportation. Commodities was close to zero.

The cyclical nature of ECT clients is reflected in our lending policies, financing structure, advanced rates and risk management. As some clients currently face challenging market circumstances such as the price of oil, dry bulk, and container market, they are subject to stringent risk monitoring. In addition, sensitivity analyses and stress testing are regularly being conducted by ourselves.

The last quarter we updated you on the risk sensitivity analysis on our transportation portfolio. As expected, we see an increased inflow in offshore support vessels, containers, and dry bulk. Impairments incurred the first six months are however in line with the bandwidth of that risk sensitivity analysis.

Slide 11, the oil and gas related portfolio consists of the Energy clients portfolio and a small part of the Transportation clients portfolio; approximately EUR 7 billion, which is less than 3% of our total loan portfolio.

As market circumstances have deteriorated, we have updated our sensitivity scenario for the oil and gas related portfolio, anticipating a lower-for-longer oil price. We assume that reductions in capital expenditures at the oil majors continue for a longer period than we had envisaged in Q1 and that the oil price stays between USD 30 and 60. In the updated scenario, impairment charges in the coming six quarters – until year-end 2017 – could be in the range of 125 million to 200 million.

We note that the clients we serve are preparing for a prolonged downturn by requesting credit restructuring in a relatively early stage. We therefore also transfer files to a 'watch'-status as soon as we see signals that credit facilities are becoming subject to renegotiations, which is a relatively early phase. Overall, the ECT portfolio continues to remain within our risk appetite limits for this sector.

Gerrit, over to you.

Gerrit Zalm: Thank you, Wietze. Let me wrap up.

We are pleased that in the current rate environment net interest income continued to prove resilient. Going forward, this may become a bigger challenge if the ECB decided to further lower rates.

We will focus on reducing costs and optimising efficiency while at the same time investing in digitalisation, innovation and controlled growth initiatives.

Thank you very much.

Anton Kryachok (UBS): Good morning, just two questions, please. The first is on net interest income. Can you please talk us through the main moving parts that have helped your margins this quarter? I am particularly interested in the re-pricing of the mortgage back book. Do you think that this trend will continue in the coming quarters?

Secondly, on costs. You are guiding for EUR 200 million gross cost savings but how shall we think about the absolute cost development over the group going into 2017 and maybe even 2018? Is it fair to assume that if the revenues environment is difficult you will try to deliver an absolute reduction in costs or would that be too ambitious?

Kees van Dijkhuizen:

Thank you, Anton. With respect to NII and the margins, I think we improved further on mortgages in the first half of the year. As we already guided before, this is something we expect for the whole year, better margins on mortgages, because they are refinanced and ten years ago, mortgages were at low spread levels. However, that is coming to an end next year.

With respect to margins, we also improved the margin on deposits. We have lowered deposits from 90 bps in retail twelve months ago to 40 today. That of course also helps. In the corporate loan book, we have been able to also to reprice a bit better compared to last year. Having said that, if you look at volumes and compare for instance with twelve months ago, volumes of the total loan book are around 2% lower than twelve months ago. This year until now, there is a small increase in the loan book. These are more or less the drivers.

With respect to cost I understand your question on absolute levels and indeed, you see income growth more modest compared to the last couple of years. It is too early to give a reaction on your question with respect to the absolute level but as you can understand, we have had some increases in the last couple of years due to lower interest rates, which increases in the pension cost and also levies, that increased by around EUR 150 million in two to three years' time. With the measures we have taken right now, we want to curb our cost level as much as possible but we cannot guide yet on your specific question. That is too early.

Anton Kryachok: Thank you. And just as a follow up, when can we expect to hear more on the cost initiatives that you have identified and will there be any restructuring charges linked to those?

Kees van Dijkhuizen: I think so. In Q1 we guided that in the second half of this year we would come with measures. That is still our time frame.

Anton Kryachok: Thank you so much.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Thank you and good morning. My first question is related to the stress test. It seems like the ECT-portfolio performed well in the stress test, however there was more stress in terms of corporate SME and mortgages. Perhaps a few comments from your side on this. Do you think the stress test will have an impact on the potential dilution of the domestic surcharge?

My second question is related to the loan loss charges provided for ECT on a quarterly basis. We had an increase this quarter but it is probably seasonal. How do you see the quarterly profile until the end of the year?

Gerrit Zalm: Maybe some words on my part on the EBA stress test. If you look at the assumptions behind these stress tests, you see that especially the Dutch economy was heavily stressed with far more effects on growth, unemployment and also on housing prices than the countries around us. That means that we had a big hit compared to other banks, which are less dependent on the Netherlands. At the same time, also after stress, we ended up with a very decent capital ratio and from the three largest Dutch banks we ended up as the bank with still the highest capital ratio. So, we will of course see how the ECB will take this into account in their SREP.

With regards to your question on the Dutch additional capital demand, which is coming from DNB, they will probably not change their policy until there is further clarity on Basel IV.

Jean-Pierre Lambert: Thank you.

Wietze Reehoorn: Jean-Pierre, I will be happy to take your question on ECT. If we look roughly at what happens in the market and you take our book – slide 11 – we see some positives in the upstream part of the portfolio, as of course we presently are at somewhat higher oil price levels compared to the beginning of this year. We have ended the redetermination of the price-deck in spring, where we were able to lock in quite a low oil price on a borrowing basis. Still we see a lot of clients have sufficient headroom there. I am less concerned there. On the other hand, we see a more severe impact as a result of the lower oil price on the more offshore-type of services companies, offshore drilling, support vessels and that is exactly the reason why we have increased our sensitivity analysis there. Your question was for an outlook. We never give a real outlook. Some anticipation we can have here is that at least what we have seen in the first half, which was for the whole book including commodities, it is around EUR 140 million (impairments) what we expect, given how the market develops that the second half will not be lower. Again, I do not have the crystal ball so I cannot precisely guide you there. It is fair to say that we have a very stringent risk management monitoring on all clients, which we have put on watch or in FR&R.

Jean-Pierre Lambert: Just a follow-up. How did the ECT portfolio perform in the stress test? If I look at the specialised financing line and provisions and coverage, it seems to perform quite well in the stress test. Can you confirm that?

Wietze Reehoorn: The details on the sub-sectors were not being provided publicly but you are right. If you compare with the Dutch mortgage portfolio, there was a better behaviour of the ECT-portfolio in the stress test.

Jean-Pierre Lambert: Thank you.

Daniel Do-Thoi (JP Morgan): Hi, I just have three questions. The first is on mortgage volumes. In terms of new production and market share, 20%, while the stock of mortgages remains flat, you also mentioned that contractual redemption are on the rise but I am just wondering in that context how realistic it is to keep the book flat going forward.

The second question is on the cost bridge following up on Anton's earlier question, from 2016 to 2017. I just wanted to confirm here if I am thinking about that correctly, but when I look at 2020 and retail digitalisation, that yields net cost savings of just under EUR 200 million, based on your presentation of the quarter. On top of that, I guess you get a bit of cost inflation and if I say that this is around 2% that equates to about EUR 100 million year-on-year. On top of that, you today announced additional EUR 200 million of cost savings, of which a significant amount is to be realised in 2017. What is 'a significant amount' that we should expect to see in 2017? If I add that all together, does that not imply that you will see quite a material reduction in absolute cost in 2017 versus 2016?

My third question is on your growing in corporate banking in neighbouring countries like Germany, France, and Belgium. What is the rationale for doing so? Is that you following your clients abroad or is it just attractive ROEs that you see in those markets? Is it more a reflection of the organic growth opportunities in the Netherlands?

Gerrit Zalm: Looking at our mortgage book, it was stable in the first half year, so we were able to keep it flat. That is also our ambition for the future. Looking at the medium-term developments of the total mortgage market in the Netherlands, we also expect that to be flattish though price rises which are now occurring in the Netherlands may have a positive effect on the total mortgage book. So on balance, we still aim our mortgage book to be flat.

As far as the guidance you are asking for cost development year-on-year, from 2016 to 2017, we cannot give it to you. As you have seen we presented our intention to decrease substantially our overhead cost through supportive functions. We are still engaged in looking at cost-cutting possibilities elsewhere in the bank but at the same time we also want to invest more money in digitalisation, innovation and growth initiatives. It is too early to give guidance on the cost developments 2016-2017.

Looking at the corporate bank activities in neighbouring countries, we are already active in lease and factoring. What we are doing there is to broaden our product offering, also to other products of the bank. That can be seen as an extension of the Dutch experience and expertise that we already have and also use the infrastructure we already have in the Netherlands. That means that the marginal cost can be relatively low.

Daniel Do-Thoi: Can I just follow up on cost? When you talk about a significant portion of the EUR 200 million to be realised in 2017, is that more than half of that? How should we think about that?

Gerrit Zalm: You need to take some time in order to implement these things. If we say 'significant' it is more than a proportion of the coming four years.

Daniel Do-Thoi: I am sorry, I did not catch the last part.

Gerrit Zalm: We have a 4 years horizon, so if the amount we mention is for a 4 years period and it will be more than proportional in the first year.

Daniel Do-Thoi: More than EUR 50 million. Okay, I understand. Thank you.

Tarik El Mejjad – Bank of America ML: Good morning, I have a couple of questions, first on costs. Can you give a specification of what will be the restructuring charges for the EUR 200 million? I think that is very relevant.

My second question is on the ECT stress test, your own stress test. If I understand properly you but you estimate EUR 125 million to EUR 200 million in the next 18 months. If I look at what you have booked in the first half in your fact spread sheet, it is EUR 140 million already. So, is that the way to look at it and secondly, can you update us on the shipping part of the stress test? How can you update it post-Q1. In my scenario you get EUR 75 million in Q1 and it would be interesting to see how that has changed.

Kees van Dijkhuizen: Restructuring charges, unfortunately it is too early to mention because there we need not only the millions but also the headcount reduction. That is what we are working at and that we will first give to our works council. Then we know what we have to take as a restructuring charge. That will become clear in Q3.

With respect to cost in general, that also refers to the previous question. You mentioned TOPS and digitalisation and the cost operation. There are of course also other developments. Interest is still declining, which means that our pension costs next year will increase compared to this year, like they increased this year compared to last year. The same is still true also for levies. We do not have the full amount of levies this year. There will be some increase there as well. So, those elements are also part of the equation.

Wietze Reehoorn: Let me take the questions on ECT. You cannot compare the revisited scenario on the oil-impacted book with the 141 impairment charge. Let me explain that. On slide 10, the impairment charges year-to-date – half year – for whole ECT are EUR 140 million but that is including three books, the commodity clients book in which we do not see any severe impairments at this moment, the energy clients book of around EUR 5 billion to EUR 5.5 billion and some of the transportation clients. The way that you have to look into it is that the EUR 140 million is built up of impairments in energy, which is for the half year around 80, transportation – shipping – of around 40 and the remaining part – commodities – is 20. Part of that 140 is in the revisit sensitivity analysis for the oil price impacted book. As we have said, that book of roughly EUR 7 billion we needed to adjust the scenario somewhat in the first half year as a result of prolonged low oil prices. We gained more insight in the capex plans of the oil majors, who really cut their capex plans. What I said when I answered

Jean-Pierre's question on the outlook, was when I was dealing with the outlook for the whole ECT, so including this oil book.

Is that helpful?

Tarik El Mejjad: Partly. I don’t understand the part from ECT: How the 125-220 overlap with the 141?

Wietze Reehoorn: That is very simple. That is the part of energy, which accounted for the last half year of around EUR 80 million and it is a small part of transportation, which we call the offshore vessels and that dealt with an impairment of around EUR 10 million. That amount, and in total then EUR 90 million, gives you an idea about the EUR 125 million to EUR 200 million.

Tarik El Mejjad: Okay. Thank you.

Bruce Hamilton (Morgan Stanley): Good morning, I have a couple of questions. Firstly, just looking at your capital levels and the SREP-process. It sounds whether it is too early to tell whether the adverse shock in the EBA-test will have any impact on the SREP minimum requirement but maybe just looking at how you think about the management buffer, given the new split between guidance and required, we are assuming about 100 bps. in management buffer, so above the 12.5 minimum including the D-SIFI or does that sound too conservative? I am interested in that firstly.

Secondly, assuming we get some clarity in the final Basel proposals early next year – I would be keen to check if that’ squares with when you are expecting clarity – how quickly would you look to address the capital return plan? Could that happen in 2017 or do we need to look well beyond? What are the other hurdles to get through?

Thirdly and finally, just on the energy book, the new guidance you have given us: if I go back before you talked about of oil at around US$ 30 a barrel, it was not quite clear to me if we are now talking about oil between 30 and 60 but for a longer period why the increase? If you could just clarify that a bit it would be very helpful.

Kees van Dijkhuizen: With respect to the capital levels, indeed we get a new SREP-process where the Pillar II will be split in two parts, one part being disclosed and the other not, and one MDA-relevant and the other not. However, you have to cope with that as well.

With respect to the management buffer we have not yet decided what kind of level. In the market you see between 50 and 100 bps. but we have not decided yet what we will take. We will decide that when we know more about Basel IV.

When do we expect results regarding Basel IV? That is getting more and more clear. Everything is presented now, the CIS, the impact, etcetera. We are looking into that as we speak. The committee will start discussions again in September and in the next couple of months we hope to get a bit more clarity. Our experience of the last two years is that it is always Christmas Eve when they send the stuff. We will see, but December and perhaps the beginning of January, because then the heads of supervision will join in the second week. We hope that they will stick to that because it is necessary that there is more clarity in the market around Basel IV. It has taken long enough.

Right now we are looking into the capital return plan and of course, then you have to decide on first of all whether there is excess capital, secondly whether you do it in a dividend stream or in a one-off or do a buy-back. We have not yet decided that.

Wietze Reehoorn: I understand your question on energy. Indeed, the first analysis was made in January on 20-30 Brent. The reason why we increased our sensitivity while at this moment Brent is around 50 is a combination of prolonged lower oil prices – indeed in a range of 30-60 – but more importantly, we gained more insight in the fact that the big oil majors globally have cut quite dramatically their capex programs. That really hits the earlier-in-the-chain companies, the offshore-support type of companies. So, there is a lag in improvement there and that is exactly the reason we need to increase our sensitivity analysis in terms of models and impairments. It is good to mention also its modelled impairments because, as said also in Q1, we take as an assumption that there will not be any management action i.e. in a normal work-out scenario you are trying to get equity in or whatever, and you're restructuring. This modelled scenario does not take that into account.

Bruce Hamilton: Thank you.

Benjamin Goy (Deutsche Bank): Good morning. I have two questions. Could you update us on your IBNI-stock or, the other way around, do you expect more releases in H2 from your domestic corporates?

Secondly, is there any news on the leverage ratio? How do you view the US/European standards, in particular the position of the FDIC? Can you update us on the impact on your leverage ratio?

Wietze Reehoorn: Let's start with the IBNI Indeed, we are in subsequent seven or eight quarters showing a lot of IBNI releases. This half year it was 130 compared to the last half year 130. Your question was related to the commercial loan book. The largest release on the IBNI in this half year was on that book, around 100 – 108. We do not expect the same amount of IBNI release in the second half, but still we do expect as a result of the still improving Dutch economy, improving asset quality in the loan book, IBNI releases in that book. Those IBNI releases actually very well compensate somewhat of the increased impairments we envisage in the ECT book.

Kees van Dijkhuizen: Regarding your question on the leverage ratio, on the Clearing part we have seen a positive consultation paper in the first of the year. We already replied before 6th July. They are looking into it right now and they will come back somewhere in the second half of the year. We do not know when. The consultation paper was definitely in the right direction and hopefully they will conclude that also after consultation they can stick to that. For us that means around 40 bps. But it might take another year before this has become European legislation but it is good that we know it is going in the right direction.

In that consultation paper there was a part related to off-balance sheet requirements. That was new and that is actually a minus if we have to take part of the off-balance sheet commitment in our leverage ratio exposure measure. That is unclear. It can be significant, so a lot of push-back has been given by all the banks but nevertheless it is not clear what the result of that will be. Hopefully, we will have all this information together with Basel IV at the end of this year.

Benjamin Goy: Thank you.

Anke Reingen (RBC): Good morning, I have three questions as well, first as a follow-up to the leverage ratio question. There has not been any progress in the last quarter but aside from changes in regulation, how much more do you think you can improve the ratio organically?

Secondly, on the cost/income ratio, just a concern. This 56% to 60% cost/income ratio for 2017 still stands as a target?

Lastly, on asset quality trends in the second quarter. There was quite a big jump in impaired loans in the oil exposure. Is there some seasonality in there or is it really like the underlying trend? Obviously, you had higher ECT provisions but still, quite a big jump. In light of this, the coverage ratio of corporate loans dropped quite a bit versus year-end to 54.9% versus 59% at year-end. Is this a level you feel comfortable with?

Kees van Dijkhuizen: Thank you very much. With respect to the leverage ratio, indeed no progress. Organically means balance sheet developments. We of course try to optimise as much as possible. We see the balance sheet not really growing, so it is relatively static, I would say. Then of course there is profit retention, the part we do not dividend out is of course taken to account in the leverage ratio, which is positive. Finally, normally in the fourth quarter we see some lower balance sheet than during the year, so that helps a bit in that quarter but as said, that is not a full-year effect. That is what you have seen this year as well. I think it was a 3.8-start of the year and then 3.7, 3.7. So, it helps a bit. Where we saw clear improvement was related to AT1, when we did that one. When you do one billion, it immediately means 20 -25 bps. When we will go gradually into that direction of 4% we are not worried about that. By the way, these 4% is still being discussed in the Basel Committee. For large and very large banks there is 4% and perhaps they look at some bucketing there, but of course we know that in the Netherlands there is also a vision on it.

Finally – and that is also important – we have had new guidance on IFRS due to IFRIC, also net cash pooling inclusion in the balance sheet. We try to lower as much as possible the effects there for the balance sheet by sweeping those two positions or to change contracts.

C/I is still a target, 56% – 60% in 2017.

Wietze Reehoorn: Let me take the question on impaired exposures. The trend of the asset quality in the book is that in all the books, except for the corporate loan portfolio, we see a decreasing trend of impaired exposures. Somewhat increased is indeed the impaired exposure in the corporate loan portfolio, mainly driven by new impaired files in ECT-clients, mainly related to the oil and gas industry, as I explained earlier in the call, and due to the challenging market circumstances in this sector. The impacted exposures have a relatively low coverage ratio while reversals mainly related to commercial clients – the IBNI releases – are exposures with higher coverage ratios. So, it results net in a lower coverage ratio of the whole corporate loan book of around 55% compared with 59%. You asked whether we feel comfortable. We already felt comfortable with the 59% and we still feel comfortable with the 55%. On the whole of the bank – that is also important because you mentioned the number of 50%, which is the overall coverage ratio – you also see the same trend: a somewhat lower coverage ratio as a result of a somewhat higher impaired exposure and some lower stock-off provisions, but still a very prudent and comfortable coverage ratio figure.

Anke Reingen: Thank you.

Albert Ploegh (ING): Good morning. My first question is a bit strategic. On slide 2 you mentioned you have identified some areas for selective international growth. Is that basically organic and can it include some non-organic growth as well? Also in relation to the cost/income ratio outlook, I expect basically that first you have cost before you have benefit from that expansion, so you maybe can talk around that a little bit.

My second question is on the mortgage book in the Netherlands and the outlook for that. There are quite some new initiatives in the market in the first half and also increasing competition from insurance companies. What do you see happening in trends in terms of the margins on the front book and also what is the margin compared still to the back book? Do you see pressure coming on on the front book or not?

Gerrit Zalm: Your question on our strategy in the corporate bank in surrounding countries: we base that organic growth but there may be inorganic opportunities to look at. Then we will look at that but our basis is that it will be organically, using the Amsterdam infrastructure.

Kees van Dijkhuizen: Then on your question on mortgages: as mentioned, there is more competition in the market, no doubt. Indeed, pension funds, new entrants are in the market as well, insurance companies. Of course, this is an area where there is still yield for financial institutions so people go there. Half of the market or more is now going in a direction of not only 10 years mortgage but 15 and even 20 years. That part is increasing. We are also operating in that area and we make good margins there as well. That is one of the reasons that we have done two 15-years covered bonds in the last nine months. We had a couple of billion in there. As said, the margins still increase, they are better, with respect to the back book. But as said before, next year we do not expect that. The big uncertainty is always the December with respect to the book. We expect the book to be stable but December is always the month when we see large prepayments, where people look at their financial position and then sometimes use their savings to prepay the mortgage. Sometimes also the fiscal authorities make special arrangements that you can give money to your children for example, subsidised by the fiscal authorities. That of course is then also of relevance. So, that is always a big unknown at the end of the year. In the last couple of years we saw a minus in that period. As said, we are well placed at the moment. We were number one in the market last year and now we are in second position but very close to the first position. So, we feel very comfortable with this market, with the margins, and so on.

Albert Ploegh: And maybe one follow-up on the remark earlier that you basically foresee a stable mortgage book. Is that a remark on the absolute level or do you feel more comfortable to start, at least having the same kind of stable market share in the Netherlands, so that when the market grows you grow alongside with it?

Kees van Dijkhuizen: What we communicate about it is more about the notional value.

Albert Ploegh: Thank you.

Alicia Chung (Exane BNP Paribas): Good morning, just a couple of questions from me. Firstly, would you be able to give a bit of colour on what is driving the lower hedge accounting related results in the group functions?

Secondly, I see that you significantly reduced your cash balances. Is there something specific going on there? Are you managing down liquid assets or is this just some volatility?

Could you give any colour on your structural hedge position more broadly, for example around the notional hedge side yield, spread, maturity and how you expect to manage it in the current lower for longer rates environment?

Kees van Dijkhuizen: Regarding your first question, we have a lot of positions and books that we hedge differently, macro, micro, and sometimes we have ineffectiveness of a hedge. That is not easy to forecast. That of course only noticed afterwards. Sometimes we have positive results and sometimes negative. Last year we had a positive result and this year we saw negative results, both in the first and the second quarter. Ineffectiveness of hedges, where we cannot use the hedge and we then have to take a negative result there.

I will take the third question and then Erik will do the second on cash. With respect to our hedge policy in general, I think that is explained in our Investor presentation. It was not the last one but it will also be in the one we will put on the website. What we have said before is that the large portfolios, mortgages and savings are macro hedges. We swap most of it back to three months and then of course we have also large operations, like when we do a funding deal or our liquidity buffer. We also swap to floating but then we do that individually with respect to the wholesale funding. The liquidity buffer we do on 6 months. All in all, we take a position on our vision on interest. With the flat curve these days that is of course a cautious one. There is not much pick-up along the curves, so we do not take a significant duration. Then of course we also look several stress tests and the one that we communicate: if there is a 200 bps. decline or rise in interest rate what will happen in the next twelve months. Then you can see that when there is an increase of 200 bps. that our NII will increase in the first year by 3% if we do not do anything but of course, we might do something in those twelve months. But when it goes down by 200 bps. then there is a decrease of 2.3%. So, we try to keep our net interest income as stable as possible via our hedge policy and we do it in a cautious way this moment in time, due to the flat curve.

Erik Bosmans: Maybe to add on the cash part: we continue to search for yield because keeping a liquidity buffer is quite expensive. So, we have invested EUR 4 billion out of the cash and have put it into our long-term portfolio. Other than that, we paid back the TLTRO in June. Those are the two main contributors to the reduction of the cash position.

Kees van Dijkhuizen: I would like to add one thing. I mentioned ineffectiveness but that is an accounting ineffectiveness. That is important. I would like to mention that. It is not that the hedge itself is ineffective.

Alicia Chung: Thank you very much.

Kiri Vijayarajah (Barclays): Good morning. Just some follow-up questions on the large corporate expansion plan in Western Europe. What is your aspiration in terms of likely volumes or RWAs when that business reaches a steady state? When you are thinking about growing that business, is there some sort of thinking to maybe rebalance the overall portfolio away from your ECT-exposures, which are kind of relative to other banks? Your overall ECT-exposures are pretty large and perhaps some diversification there or is in your mind the growth in Western Europe kind of unrelated?

In terms of funding that business, do you think you will need to offer loss-making deposits that you are [collect] of the corporates on day one in order to generate the business? Just how you are taxing that particular issue would be helpful.

Gerrit Zalm: The expansion in Western Europe is not to compensate for the ECT book. It is of course to compensate a bit for the large concentration on the Dutch economy. You already stated before that we aim to grow our international revenues from below 20% to 20% - 25%. It serves that purpose. It will not be revolutionary; we will do that gradually, so it will take quite some time before we are in the steady state, so to say, because we do not want to attract all kinds of clients that cannot have an opportunity with other banks. They should chose for us because of the quality of our expertise and the quality of our services and not because they are un-bankable. That takes a careful approach and that takes time. Nevertheless, we set it in motion.

Regarding ECT: we are certainly not declining that book. On the contrary, our global activities are well appreciated and we should look a bit through the cycle also in that area. So, we will take pick up other financing possibilities for clients in fields like food and natural resources. Of course it helps to diversify our loan books, also from a risk point of view, growing our Western European corporate activities is also positive from a diversification point of view.

Kees van Dijkhuizen: Then your funding question: we do it with loss-making deposits. No, of course we will try to do as much with wholesale funding, which these days of course is cheap. So that is primarily the way we are going to finance it.

Kiri Vijayarajah: Understood. Thank you very much.

Brajesh Kumar (Société Générale): Just one follow-up question from me. Can you please provide some colour on issuance plans for the rest of 2016 and 2017, especially around sub-debt? Do you have any clarity on the resolution of strategy, which will impact your senior issuance eventually?

Erik Bosmans: A very good question. On the funding side, we already issued EUR 2.4 billion in Tier 2 this year. That is more or less the part that we needed to do. This is all focused on being MREL-compliant by 2018, so we will continue to issue sub-debt up until there is clarity on your second point, the resolution, the regime that will be implemented in Europe. There are all kinds of rumours that there is going to be a French proposal but as far as this is not finalised, we will again continue to issue sub-debt to meet the MREL-targets. That is a very clear and sound strategy and in our view that is the best way to protect also the senior and secured funding we have.

Your second question was on the funding plans we still have in 2016. We already issued close to EUR 9 billion in 2016. The second half will be quiet. Already in December we expected 2016 to be a bit of a volatile year because of the Brexit uncertainty and elections in the second half, so we moved the largest part of the funding to the first half of the year. With hindsight, I think we took the right decision. The second half will be very limited and if at all, we would issue some dollars.

Then on 2017, I cannot give any clarity yet because this is also related to what the next six months will show from a development perspective but in general you can say that what we have funded this year, somewhere between EUR 10 billion and EUR 15 billion when the year has finished, that this is more or less the range that you can expect us to continue to issue over the next couple of years.

Brajesh Kumar: That is very helpful. Thank you.

Robin van den Broek (Mediobanca): Good morning. Focusing on NII, I was wondering if you could give us some more clarity. Are there any one-offs in there? You mention a release in retail. Could you confirm that? That is less than EUR 10 million. I was also wondering what kind of TLTRO uptick you took and what rates you are using within NII going forward. I assume it is zero but maybe you can confirm that. Also going forward, how aggressive will ABN AMRO be in refinancing with TLTRO? Next to that, I was also wondering if you have any visibility on where deposit rates for retail can go in the Netherlands. Do you think 20 bps. is the absolute lower bound or do you actually think it can go zero and even negative?

My second question is on the stress test read-through. Are there any assumptions within the stress test for the mortgage book that could imply that the EBA is not very lenient to make a special situation of the quality of the Dutch mortgage book, which could also give some negative read-through on potential output floors in Basel IV?

My last question would be on the mortgage market in more general. I think we had a mortgage credit directive noise that people should be able to refinance at no cost. I think that has been brought down by the association of banks in the Netherlands, saying that what Dutch banks are doing is in line with this directive. Can you confirm that? Do you expect any changes to tax incentives imposed by the government? I think there is an increasing voice going on that given the fact that rates are low that the government should also enact on that by bringing down these tax incentives. I would be anxious to hear your feel there as well.

Gerrit Zalm: Thank you for your three times three questions. That reminds me of a joke: you have three kinds of bankers. You have bankers who can count and bankers who cannot count.

Kees van Dijkhuizen: I will take the NII question. The NII figure you see is a clean one.

We did not do a pick-up in the first tranche TLTRO but we might do that in the second and third tranche. We do not give guidance on deposits because that is seen by the competition authorities as collaboration between banks. What you can do is look backwards. It is clear that the closer you get to zero the more difficult it becomes.

Wietze Reehoorn: The question on the stress test is a difficult question. It is fair to say that given a couple of assumptions in the current EBA stress test, indeed banks with a larger mortgage book are hit worse. That is one thing remark to make. The assumption of the stress test in terms of performing to non-performing, a static balance sheet, et cetera, does not help of course. The only way I can answer your question is probably that it seems to be that EBA or whatever other organisation has been pretty harsh on the Netherlands in terms of the downturn compared to the uptick currently and the downturn in the GDP-figures in the stress test, as for all the three years there is a minus in the stress test.

Gerrit Zalm: Maybe to add on the mortgage book and the possibility that that will have implications for the Basel outcome. I do not think that is the case because in the stress test we used the modelling we already have. It is certainly not an argument to have a different approach than the present modelling. So, I do not think there is an impact from this EBA stress test towards the Basel conclusions.

Erik Bosmans: Your last question was on the TLTRO and whether we take the zero percent into account when calculating our NII. That is first of all depending on whether you will hedge this TLTRO, which we are of the opinion we should not do. If so, then obviously you take the 0% into account. But that is quite a simple one. All the rest on the TLTRO-side has been answered by Kees already.

Robin van den Broek: And the mortgage credit directives with an attempt to harmonise refinancing obligations of clients?

Gerrit Zalm: We do not see much impact from that.

Robin van den Broek: Thank you

Gerrit Zalm: As there are no more questions, thanks everybody for calling in. We hope to speak to you next time.

End of call.